



REPUBLIC OF CROATIA

MINISTRY OF FINANCE

ANNUAL REPORT
OF THE MINISTRY OF FINANCE
FOR 2004

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.....	A Word from the Minister of Finance	5
	The Application of the Methodology for the Government Finance Statistics GFS 2001	7
1.	Macroeconomic Developments in 2004	10
1.1.	International Environment	11
1.2.	Macroeconomic Developments	13
1.2.1.	Real Sector	13
1.2.2.	Financial Sector	18
1.2.3.	International sector	22
2.	Budgetary Central Government in 2004	26
2.1.	Budgetary Central Government Revenue	27
2.1.1.	Budgetary Central Government Revenue Plan	27
2.1.2.	Outturn of the Budgetary Central Government Revenue	27
2.1.2.1.	Tax Revenue	28
2.1.2.2.	Social Security Contributions	38
2.1.2.3.	Grants	39
2.1.2.4.	Property Income	39
2.1.2.5.	Sales of Goods and Services	41
2.1.2.6.	Fines, Penalties and Forfeits, Voluntary Transfers Other than Grants and Miscellaneous and Other Revenue	41
2.2.	Budgetary Central Government Expense	42
2.2.1.	Budgetary Central Government Expense Plan	42
2.2.2.	Outturn of the Budgetary Central Government Expense Plan	42
2.2.2.1.	Compensation of Employees	43
2.2.2.2.	Use of Goods and Services	45
2.2.2.3.	Interest	45
2.2.2.4.	Subsidies	46
2.2.2.5.	Grants	47
2.2.2.5.	Social Benefits	48
2.2.2.6.	Other Expense	51
2.2.3.	Budgetary Central Government Expense by Function	52
2.3.	Transactions in Nonfinancial Assets of the Budgetary Central Government	55
2.4.	Transactions in Financial Assets and Liabilities of the Budgetary Central Government	58
2.5.	Measures of Deficit/Surplus and Financing of the Budgetary Central Government	60
3.	Extrabudgetary Funds and Agencies in 2004	62
3.1.	Revenue, Expense and Transactions in Nonfinancial Assets of the Extrabudgetary Funds and Agencies	63
3.2.	Transactions in Financial Assets and Liabilities of the Extrabudgetary Funds and Agencies	64
3.3.	Measures of Deficit/Surplus and Financing of the Extrabudgetary Funds and Agencies	66
3.4.	The Croatian Institute for Pension Insurance	67
3.5.	The Croatian Health Insurance Institute	70
3.6.	The Croatian Employment Service	73
3.7.	The Croatian Waters	75
3.8.	The Environment Protection Fund	77
3.9.	The Croatian Motorways Ltd.	78
3.10.	The Croatian Roads Ltd.	80
3.11.	The State Agency for Deposit Insurance and Banks Rehabilitation	82
3.12.	The Croatian Privatization Fund	83
4.	Consolidated Central Government in 2004	84
4.1.	Consolidated Central Government by Economic Classification	85
4.1.1.	Consolidated Central Government Revenue	85
4.1.2.	Consolidated Central Government Expense	87



..... 4.1.3.	Transactions in Nonfinancial Assets of the Consolidated Central Government	.....	88
4.1.4.	Transactions in Financial Assets and Liabilities of the Consolidated Central Government	.....	89
4.1.5.	Measures of Deficit/Surplus and Financing of the Consolidated Central Government	.....	90
4.2.	Consolidated Central Government According to Government Level	.....	91
5.	Financing of Local and Regional Self-Government in 2004	.....	92
5.1.	Territorial Organization and Legal Base for Financing	.....	93
5.2.	Financing of Local and Regional Self-Government Units	.....	96
5.3.	Budget Revenues of Local and Regional Self-Government (53 units)	.....	98
5.3.1.	Taxes	.....	100
5.3.2.	Grants	.....	101
5.3.3.	Other Revenue	.....	101
5.4.	Budget Expenses of Local and Regional Self-Government (53 units)	.....	102
5.5.	Transactions in Nonfinancial Assets	.....	104
5.6.	Transactions in Financial Assets and Liabilities	.....	105
6.	Consolidated General Government in 2004	.....	106
6.1.	Significant Fiscal Policy Features in 2004	.....	107
6.2.	Consolidated General Government by Economic Classification	.....	108
6.2.1.	Consolidated General Government Revenues	.....	108
6.2.2.	Consolidated General Government Expense	.....	111
6.2.3.	Transactions in Nonfinancial Assets of the Consolidated General Government	.....	113
6.2.4.	Transactions in Financial Assets and Liabilities of the Consolidated General Government	.....	114
6.2.5.	Measures of Deficit/Surplus and Financing of the Consolidated General Government	.....	115
6.3.	Consolidated General Government According to Government Level	.....	116
6.4.	Deficit of the Consolidated General Government in 2004 According to Modified Accrual Principle	.....	117
7.	Public Debt of the Republic of Croatia in 2004	.....	120
7.1.	Credit Rating of the Republic of Croatia	.....	122
7.2.	Domestic State Budget Debt	.....	123
7.2.1.	Domestic Debt Categories	.....	123
7.2.2.	Treasury Bills	.....	127
7.3.	Foreign Debt of the Republic of Croatia	.....	129
7.3.1.	International Bonds of the Republic of Croatia	.....	129
8.	Relations of the Republic of Croatia with International Financial Institutions	.....	132
8.1.	International Bank for Reconstruction and Development (IBRD)	.....	133
8.2.	European Bank for Reconstruction and Development (EBRD)	.....	146
8.3.	Council of Europe Development Bank (CEB)	.....	154
8.4.	European Investment Bank (EIB)	.....	161
9.	Annual Report of the State-owned Companies' Activities in 2004	.....	168
9.1.	Basic Characteristics of Activities	.....	171
10.	Report on Work of Department for Financing EU Assistance Programmes and Projects	.....	176
11.	Report on the Work of the Department for the Harmonisation of Internal Audit and Financial Control for 2004	.....	180
12.	Internal Organization of the Ministry of Finance	.....	186
12.1.	Internal Organization of the Ministry of Finance in 2004	.....	187
12.2.	The Scope of the Internal Organizational Units of the Ministry of Finance	.....	188
13.	Appendix	.....	192



A Word from the Minister of Finance



When taking the leading role of the Republic of Croatia, in 2004 the new Government clearly defined priorities by which it would, in its term of office, conduct its policy of strengthening Croatian economy and ensuring better living standards for Croatian citizens. Achieving macroeconomic growth and stability by eliminating external imbalances and creating a transparent fiscal system which would, through fiscal consolidation, contribute to the improvement of the overall picture of the Croatian economy, were set as the key objectives. It is without doubt that a synergy of all economic policies is needed for the realization of those objectives whereas the fiscal policy has a leading role.

As the most significant accomplishment of the fiscal policy in the previous year I would like to point out the successful implementation of the fiscal consolidation which resulted in a decrease in the consolidated general government deficit to 4,9% of GDP. Let us remind ourselves of the fact that in 2003 the consolidated general government deficit reached the level of 6.3% of GDP due to the excessive government spending and inadequate budget management. Therefore, the Croatian Government has committed itself to resolving the question of inadequate fiscal policy which resulted in the reduction of the general government deficit and an increase in revenues. Current revenues increased by HRK 7.1 billion in 2004 which indicates an increased economic activity and good work of the tax administration. Although burdened with all the arrears from the previous period, budget execution in 2004 was characterized by the increased transparency and the control of government spending. In this context I would like to emphasize that, with the purpose of transparency and better budget management, all expenditure of Croatian Motorways, Croatian Roads and Croatian Railways, which were to a large extent directed to investment projects, were included in the budget. Also, social rights were given back to child-bearing women, veterans and pensioners by the last year's budget thus fulfilling its social role. Fiscal policy has also contributed to ensuring macroeconomic stability. Namely, 70.9% of new incurrence of liabilities, with a purpose of financing the deficit, was realized at the domestic market thus contributing to the slowing down of external debt growth. Therefore, we can conclude that the year 2004 witnessed the successfulness in conducting fiscal policy. Surely, further efforts are needed to resolve the burning question of external imbalances and to continue with decreasing the general government deficit to 3% of GDP which represents one of the conditions for entering the Economic and Monetary Union.

In this context, the importance of the year 2004 related to undoubted commitment of the Government to join the European Union should be remembered. Namely, as the confirmation of the progress and determination in implementing a program of further economic development, Croatia has received a positive opinion by the European Commission last year and gained a status of the candidate country for entering the European Union. This was a clear signal and affirmation of Croatia as a valuable actor in the European economic and political sphere and has, surely, put new challenges of adjusting the whole Croatian economic system to the standards of the European Union before us. Therefore, at the end of the last year, Croatia has submitted to the European Commission its first 2004 Pre-accession Economic Programme, for the period 2005-2007, which defined key economic objectives in the medium term and a program of the structural reforms which are planned to be implemented in the name of strengthening the market economy. Croatia has, once again, gained a confirmation by the European Commission which saluted the Programme as well as the efforts on the fiscal consolidation conducted in 2004.

The Government's commitment to fulfilling the economic goals has been noticed by the World Bank as well, whose cooperation with Croatia is drawn in the Country Assistance Strategy 2005-2008. This Strategy represents the first assistance strategy by one of the international institutions, of which the Programmatic Adjustment Loan approved for the purpose of improving the economic reform program represents the key pillar of the Strategy. According to the base scenario of the Strategy, the World Bank will appoint to Croatia around a billion dollars in four years.

Finally, an acknowledgement to Croatian economic development has come in a form of the increased Standard and Poor's credit rating from BBB- to BBB at the end of last year, enabling Croatia easier access and better financing conditions at the international financial market.

In the light of these developments which marked the Croatian economy last year, we have prepared an Annual Report by which we want to provide detailed information on the implementation of the fiscal policy in 2004, which, I hope, our distinguished readers will find useful and interesting.

At the end, I would like to thank all my co-workers and employees of the Ministry of Finance for their committed work on implementing and improving the fiscal policy of the Republic of Croatia.

Ivan Šuker

A handwritten signature in black ink, appearing to read 'Ivan Šuker', written over a faint horizontal line.

Minister of Finance

Zagreb, September 2005



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The Application of the Methodology for the Government Finance Statistics GFS 2001



The Annual Report of the Ministry of Finance for the year 2004 is for the first time using the methodology for the government finance statistics GFS 2001 laid down by the International Monetary Fund. Namely, the GFS 2001 methodology has been applied in the Ministry of Finance since June 2004. With the introduction of this methodology, the Ministry stopped with the presentation of the government finance according to the previously used GFS 1986 methodology which was, among other things, used in the Annual reports of the Ministry of Finance in the past years. In general, the application of the GFS methodologies of the International Monetary Fund in the presentation of the government finance is used so that the fiscal categories for different countries could be comparable. Namely, different countries use different national accounts and so the fiscal transactions are recorded according to the characteristics of those national accounts. In the Republic of Croatia, National account is used for the presentation of the government finance, while the reports, which are in line with the specific methodologies for the purpose of international comparison, are made on the basis of detailed links established between the National account and the categories of the specific methodology. According to the specific characteristics of different methodologies, there are significant differences present in the presentation of the government finance in line with some of the mentioned methodologies. In this sense, there are differences between the GFS 1986 methodology which was used in the previous Annual Reports of the Ministry of Finance and the GFS 2001 methodology used for the presentation of the government finance in this Annual Report.

The differences between GFS 1986 and GFS 2001 exist in the presentation of revenue, expense, nonfinancial and financial assets and liabilities. Also, there are differences in the measures of deficit and surplus between GFS 1986 and GFS 2001. The description of the mentioned categories is given below.

Beside the current revenue and grants, according to the GFS 1986 methodology, capital revenues were included in total revenue and grants, while according to the GFS 2001 methodology capital revenues are not included in total revenue, but are incorporated in the transactions in nonfinancial and financial assets. This means that the disposal of nonfinancial assets is no longer treated as revenue, which was the case in GFS 1986 methodology. According to GFS 2001, the receipts from the disposal of nonfinancial assets are included in the special category Transactions in Nonfinancial Assets where they are a deductible item within the total net acquisition of nonfinancial assets. Also, all receipts from the disposal of shares and other equity are no longer treated as revenue according to GFS 2001; they are included in special category Transactions in Financial Assets where they represent a deductible item within total net acquisition of shares and other equity.

According to GFS 1986, expense consisted of the current and capital expense as well as the category net lending minus repayments. According to GFS 2001 methodology total expenses do not include capital expense or lending minus repayments, as they were defined by the GFS 1986 methodology. Namely, a part of the expenses, which was considered as capital expense by the GFS 1986 and which consisted of the acquisition of nonfinancial assets, is included in the already mentioned special category Transactions in Nonfinancial Assets. According to the GFS 1986 methodology, the item net lending minus repayments represented the net value of the acquisition of loans, the disposal of loans and the disposal of shares and equity. According to the GFS 2001 methodology, these items are included in the category Transactions in Financial Assets.

In accordance with the GFS 1986 methodology, financing consisted of total domestic and foreign incurrence of liabilities, total domestic and foreign repayments and the change in currency and deposits. According to the new GFS 2001, total incurrence of liabilities and repayments are included in the category Transactions in Liabilities, while the change in currency and deposits is a part of the transactions in financial assets.

Therefore, apart from the categories revenue and expense, GFS 2001 is introducing categories transaction in nonfinancial assets, transactions in financial assets and transactions in liabilities.

Transactions in nonfinancial assets, according to GFS 2001, comprise total expenditures connected with the acquisition of nonfinancial assets and total receipts realized by the disposal of nonfinancial assets in a given time period. Total net nonfinancial assets represent the difference between the acquisition and the disposal of nonfinancial assets.

Transactions in financial assets, according to GFS 2001, include total expenditures for the acquisition of financial assets, total receipts from financial assets and the change in the currency and deposits balance. Therefore, total net financial assets represent the difference between the mentioned categories in the given period of time.

In accordance with the GFS 2001 methodology, transactions in liabilities represent the difference between total domestic and foreign incurrence in liabilities and total domestic and foreign repayments.

As already mentioned, new methodology GFS 2001, introduced new different measures of deficit/surplus. Namely, according to GFS 1986, total deficit/surplus was defined as the difference between total revenue



..... and grants and total expense and net lending minus repayments. The current deficit represented the difference between current revenue and expense, while the primary deficit was defined as the total deficit increased by the amount of interest payments.

In all the chapters of this Annual Report, the following measures of deficit/surplus are being used in line with the GFS 2001 methodology:

Net operating balance is the difference between revenue and expense defined by the GFS 2001 methodology. It represents a measure of total cost of public goods and services. Positive net operating balance increases the net worth of the public sector and indicates the surplus of resources realized as the result of the current operations which can be used for the acquisition of assets and/or reduction in liabilities. On the other hand, negative operating balance represents a shortage of resources due to the current operations which decreases the net worth of the public sector and leads to the increase in liabilities and/or the disposal of assets. Therefore, net operating balance is the indicator of the sustainability of the current government operations, but it is not necessary the indicator of the sustainability of the future government operations.

Primary operating balance represents net operating balance (difference between revenue and expense) increased by the amount of interest payments. It serves as the indicator of the current fiscal policy, since it excludes interest payments from the calculation and therefore also the effect of previous deficits and accumulated public debt.

Net lending/borrowing is defined by the net operating balance reduced by the net acquisition of nonfinancial assets. It is also equal to the net financial assets reduced by the net liabilities. In other words, the amount of net lending/borrowing is financed by the difference between net liabilities and total net financial assets. It can serve as the indicator of the financial effect of the government operations onto the rest of the economy: positive net lending/borrowing means that the government is placing financial resources within domestic sectors or abroad, while negative value of net lending/borrowing implies the incurrence of government liabilities on domestic or foreign markets.

Net worth is defined as the difference between assets and liabilities and it is the result of transactions in revenues, expenses and nonfinancial assets. The changes in net worth reflect the contribution of the public sector to the overall economic wealth of Croatia.

In the Ministry of Finance, the government finance for the years 2002 and 2003 have retrogradely been processed to be in line with the GFS 2001 methodology for the purpose of year-to-year comparison. Therefore, the government finance data, represented in line with the GFS 2001 methodology in a sequence of three years, is being compared and presented in this year's Annual Report of the Ministry of Finance.

Members of Editorial Board





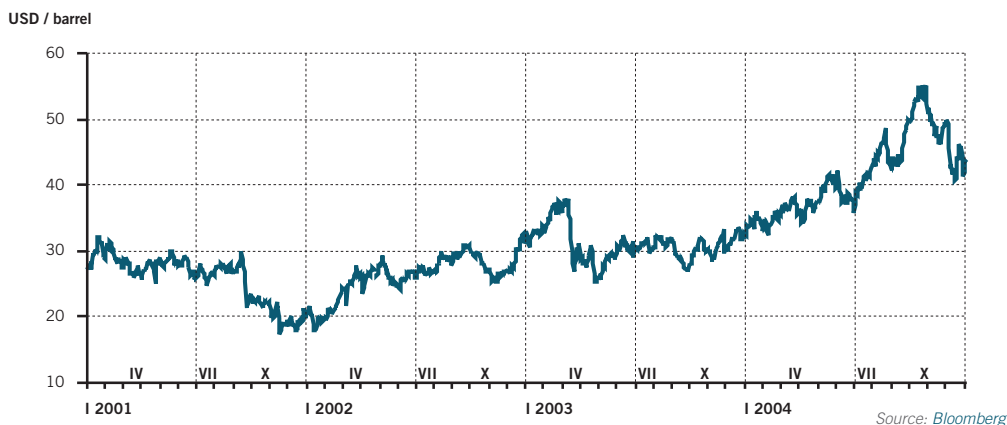
1.1. International Environment



According to the data published by European Commission, economic activity in the Eurozone and the whole European Union decelerated in the second half of the previous year. Supported by the growth of world economy and trade, real GDP grew on the year level in Eurozone by 2.1 percent and in the European Union 2.4 percent. Forecasts are implying that deceleration of economic activity which took place in the second half of previous year will be partly carried over into this year due to high oil prices and strong euro. Notwithstanding, it is expected that growth rate will converge to the potential growth in the next two years and reach 1.3 percent in the Eurozone and 1.5 percent in the whole European Union.

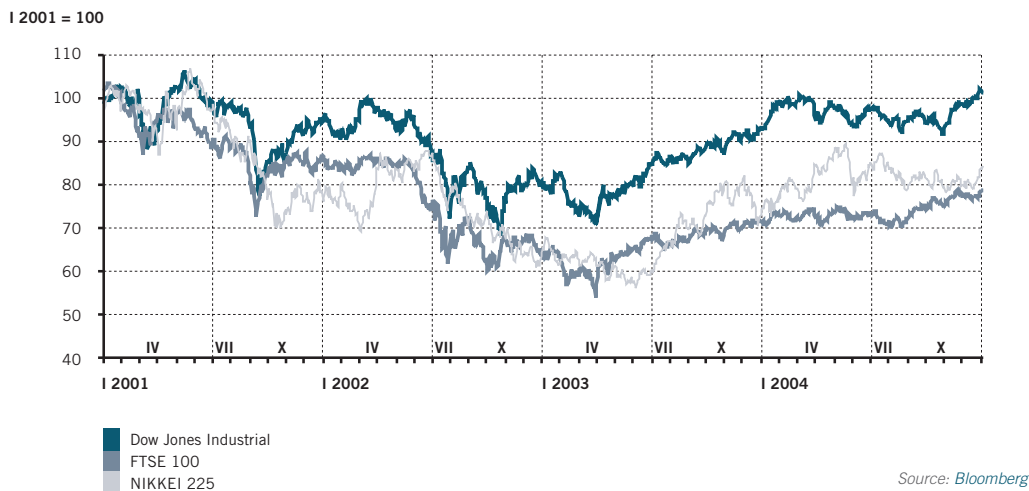
In the beginning of 2004 volatile developments of oil prices have been recorded so in March the oil prices expressed in American dollars reached the level 70 percent higher than in the same month of year 2003. Faster growth of oil prices is a result of high demand growth while production capacities remain on the low level. According to the data of International Energy Agency, daily demand for oil increased in 2004 by 3.4 percent which represents high growth even in the historic scope. According to the new projections oil demand in 2005 should increase at slower pace than in the previous year, but will stay on the high level which will predominantly be the consequence of demand in European oil importing countries, North America and China. As a result of such developments on oil markets, further increase in oil prices is expected in 2005, while growth of prices should decelerate in 2006.

Figure 1.1.: Oil Price Developments



The world financial markets were characterized by stable developments during 2004. Short term interest rates in USA increased while long term interest rates remained on the low levels in the same time. The main world stock market indices were stable and remained unchanged or even strengthened compared to the previous year. On the foreign exchange markets changes intensified at the end of previous year and in December of 2004 the historically highest euro versus dollar exchange rate have been recorded (1.36 EUR/USD). Further strengthening or weakening of dollar will be mainly influenced by narrowing of high USA current account deficit.

Figure 1.2.: Chosen World Stock Indices



..... According to the International Monetary Fund forecasts (“World Economic Outlook - September 2005”) and European Commission (“Economic forecasts -Autumn 2005”), in the year 2005 is expected further improvement in the world economy performance but at somewhat slower pace. After the high growth of 5 percent in previous year, it is expected that world economy will grow by somewhat higher rate of 4 percent in 2005 and 2006. Deceleration of economic growth will be followed by slower expansion of world trade which will decelerate from 10 percent in 2004 to 7 percent in 2005.

Despite the positive perspective of world growth there are some risks that should be considered. This can be seen from the fact of economic growth deceleration in the second half of year 2004 which could be more significant than firstly expected, especially when increase in oil prices is taken into consideration. As one of the highest risks it is important to mention imbalances in the USA economy. It is expected that USA current account deficit will remain on the high level. Significant narrowing of mentioned deficit would mean deceleration of USA economy which would through financial markets, decrease in consumer confidence and decrease of world trade surely have impact on the rest of the world.



1.2. Macroeconomic Developments



Economic situation in the year 2004 was characterized by growth of economic activity and at the same time decrease of the current account deficit, deceleration of external debt growth and price stability. Kuna versus euro exchange rate was stable and has fluctuated among narrow margins during the whole year. The significant fiscal adjustment resulted in decrease of general government deficit compared to the previous year and deceleration of external debt growth was recorded. In the year 2004 significant spread decrease of Croatian Eurobonds against referent German bonds was recorded and increase in Standard & Poor's credit rating to BBB took place.

Table 1.1.: Basic Macroeconomic Indicators of the Republic of Croatia

	2000	2001	2002	2003	2004
Gross domestic product, % annual change	2,9	4,4	5,2	4,3	3,8
Industrial production, % annual change	1,7	6	5,4	4,1	3,7
Consumer price index, % annual change	4,6	3,7	1,7	1,8	2,1
Retail trade, % annual change (real)	14,4	9,5	12,6	3,7	2,6
Labor force survey unemployment, year average	16,0	15,8	14,8	14,3	13,8
Average exchange rate EUR/HRK	7,64	7,47	7,41	7,56	7,5
Average exchange rate USD/HRK	8,28	8,34	7,87	6,7	6,04
Export of goods, % annual change	19,8	3	-1,3	7,6	16,9
Import of goods, % annual change	18	16,6	9,8	13,1	5,4
Current account balance, % of GDP	-2,5	-3,7	-8,7	-7,3	-5,2
External debt, EUR millions	12.109	13.458	15.055	19.811	22.675
External debt, % of GDP, end of period	60,6	60,7	62,2	77,6	82,1

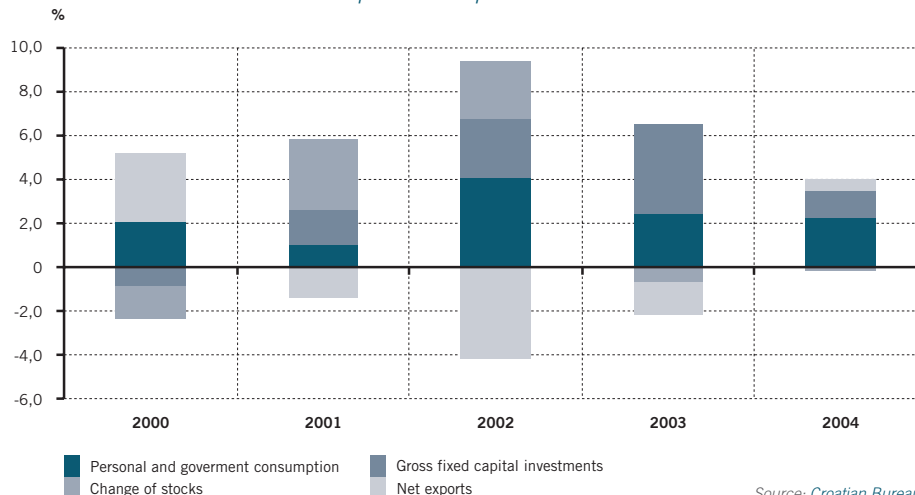
Source: Croatian Bureau of Statistics, Croatian National Bank and Ministry of Finance

1.2.1. Real Sector

Gross Domestic product

Real gross domestic product growth in the last quarter of 2004 amounted to 3.6 percent. When the whole year level is observed, real gross domestic product growth decelerated from 4.3 percent in 2003 to 3.8 percent in 2004 but favorable developments were recorded compared to the last quarter of 2003 when GDP grew really by 3.3 percent. Economic activity growth was mostly contributed by net exports, personal consumption and capital investments. On the year level, deceleration of capital investments real growth was recorded from 16.8 percent in 2003 to 4.4 percent in 2004 which is mainly the result of high base which was recorded in the year 2003. Personal consumption recorded real annual increase of 3.9 percent while government consumption recorded real decrease (-0.3 percent) for the fifth consecutive year. Favorable developments were recorded in the external sector were real growth of exports of goods and services (5.4 percent) exceeded growth of imports (3.5 percent). Real import growth of 3.5 percent was the lowest growth rate of import in the last five years.

Figure 1.3.: Contribution to Growth of Separate Components of GDP

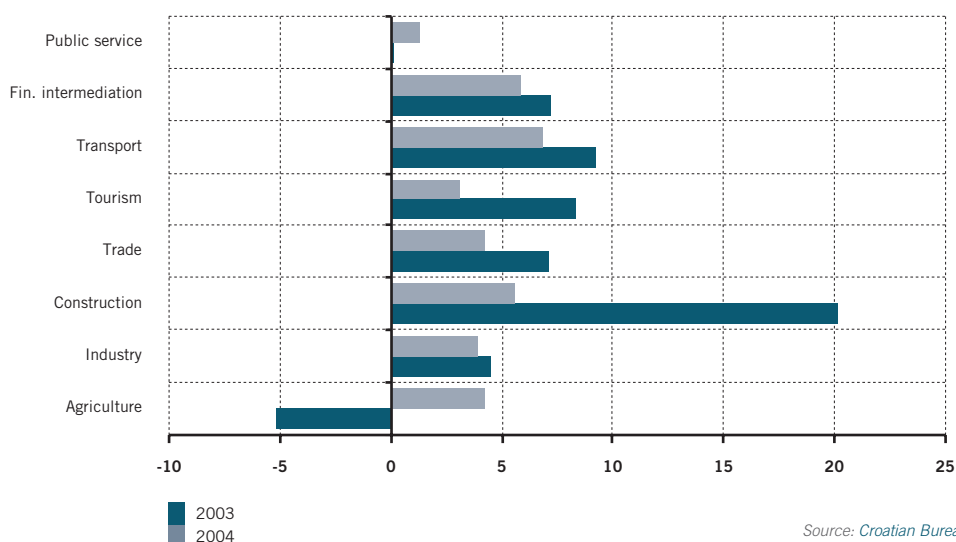


Source: Croatian Bureau of Statistics



In the year 2004 significant changes were recorded in the sources of gross domestic product growth. The most significant developments were recorded by net export of goods and services which gave positive contribution to the real gross domestic product growth in amount of 0.5 percent for the first time since the year 2000. The contribution of personal and government consumption decreased by 0.2 percentage points and amounted in 2004 to 2.3 percent. Change was also recorded in gross fixed capital investments which contribution to growth decreased from 4 percent in 2003 to 1.2 percent in the year 2004.

Figure 1.4.: Real Growth of Gross Value Added



Source: Croatian Bureau of Statistics

When individual components from the production side of gross domestic product are observed, positive developments can be seen in the sector of agriculture which recorded real growth of 4.4 percent in 2004 after the real decrease in 2003. Sector with the highest share in total gross value added, industry, decelerated slightly compared to 2003 and grew really in 2004 by 3.9 percent. After the growth rate of 20.2 percent in 2003 which was the highest since the year 1998, construction decelerated in 2004 and grew really by 5.6 percent. Gross value added of trade increased in 2004 by 4.2 percent and in hotels and restaurants by 3.1 percent. The highest growth rate in 2004 recorded the sector of transport, storage and communications which gross value added increased really in 2004 by 6.9 percent. Positive growth rates in 2004 were also recorded in public service (1.3 percent) and financial intermediation (5.9 percent).

Industrial production

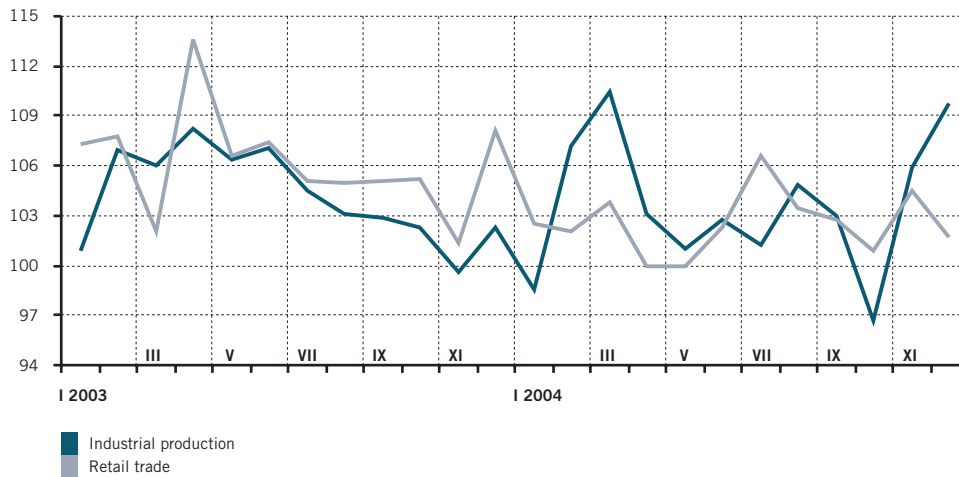
Total industrial production increased by 3.7 percent in the year 2004 compared to the year 2003. That was a result of unequal activity throughout the year. Higher industrial production growth from the first quarter was halted in April afterwards there was stagnation in the rest of the second and third quarter. In the fourth quarter, more precisely in November and December, industrial production recovered significantly.

Manufacturing which makes 82.5 percent of total industrial production recorded annual growth of 4.1 percent in 2004 and gave highest contribution to the total industrial production growth while mining and quarrying decreased by 3.2 percent and electricity, gas and water supply increased by 4.2 percent. The highest growth in the category of manufacturing recorded manufacture of basis metals (25.5 percent) and manufacture of motor vehicles, trailers and semi-trailers (21.3 percent). Manufacture of other transport equipment also grew by high rate of 16.6 percent while manufacture of machinery and equipment increased by 14.1 percent. It is also important to mention that dynamical growth of industrial production, especially in the third quarter, was contributed by developments in food, wood and chemical industry which take share of 40 percent of total industrial production. When export of goods data are analyzed, significant increase in mentioned sectors can be noticed which means that this products in significant part weren't aimed to domestic but to the foreign markets. Production of capital goods increased by 5.8 percent which is important due to the fact that this products are not produced to consume but to produce more.





Figure 1.5.: Annual Growth of Industrial Production and Real Retail Trade Turnover



Source: Croatian Bureau of Statistics

Retail trade

Nominal retail trade turnover has showed ascending trend since the April 2004 but with significant fluctuations which were mostly the consequence of motor vehicles sales. Thus seasonally adjusted data indicate very high level of activity in July and slower growth in the coming months. Nominal retail trade turnover growth amounted in the year 2004 to 4.4 percent compared to the previous year while real growth in the same time increased by 2.6 percent. The highest nominal annual growth rates were recorded in sales of motor fuels and lubricants (22 percent), sales of books, newspapers and paper goods (15.2 percent) and sales of food, beverages and tobacco products (13.5 percent).

Tourism

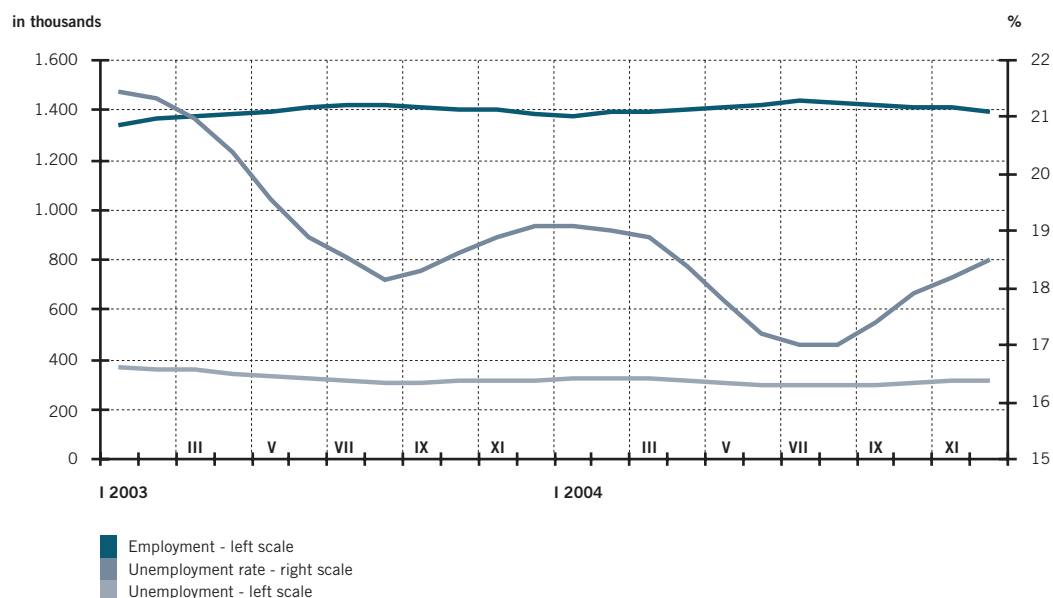
In the whole year period from January to December of 2004 there has been recorded an increase of 6 percent of tourist arrivals and 2 percent of tourist nights compared to the 2003. Domestic tourist arrivals increased by 2 percent and foreign tourist arrivals increased by 7 percent in the observed period while domestic tourist nights decreased by 1 percent and foreign tourist nights increased by 3 percent. In the structure of foreign tourist nights the main part was taken by tourists from Germany (25.6 percent), Italy (12.6 percent) and Slovenia (11.8 percent). Despite so high concentration of tourists from mentioned countries, the diversification trend of tourists' continues while in the same time there is an increase in share of tourists from countries which were represented by lower share in total tourist night structure. There has been an increase of tourists from richer countries like Great Britain and Netherlands in 2004 and if this trend continues it could have significant effect on increase of tourism revenues.

Employment and wages

According to the final data of Central Bureau of Statistics total number of persons employed amounted in December 2004 to 1.397.416 while total number of unemployed persons amounted to 317.577. When the year average is observed, total number of employed in 2004 amounted to 1.409.633 and increased compared to the previous year by 1.2 percent while average number of unemployed amounted to 309.875 which means that average unemployment decreased by 19.924 or 6 percent compared to the year 2003. The unemployment rate decreased by 1.5 percentage points in 2004 or from 19.5 percent in 2003 to 18 percent in 2004.



Figure 1.6.: *Employment and Unemployment*



Source: Croatian Bureau of Statistics

According to the internationally comparable labour force survey (ILO) results, total number of employed persons amounted in the second half of 2004 to 1.542.000 while number of unemployed persons amounted to 246.000. Although the number of employed persons decreased in the second compared to the first half of 2004, decrease of unemployed persons at the same time enabled unemployment rate to stay at the same level as in the first half of year or 13.8 percent. When the whole year level is observed, total number of employed persons increased by 26.000, total number of unemployed decreased by 6.500 while the unemployment rate decreased by 0.5 percentage points compared to the year 2003.

Average monthly gross wage amounted in December 2004 to 6.139 kuna and increased compared to December 2004 by 6 percent while average monthly gross wage for the whole year increased by 6.4 percent compared to the year before. Average monthly net wage amounted in December 2004 to 4.312 kuna and increased compared to December 2004 by 6.6 percent while average monthly net wage for the whole year increased by 5.9 percent compared to the year before. Real growth of gross wages (4.2 percent.) and net wages (3.7 percent) indicate that an increase in wages followed the growth of total economy.

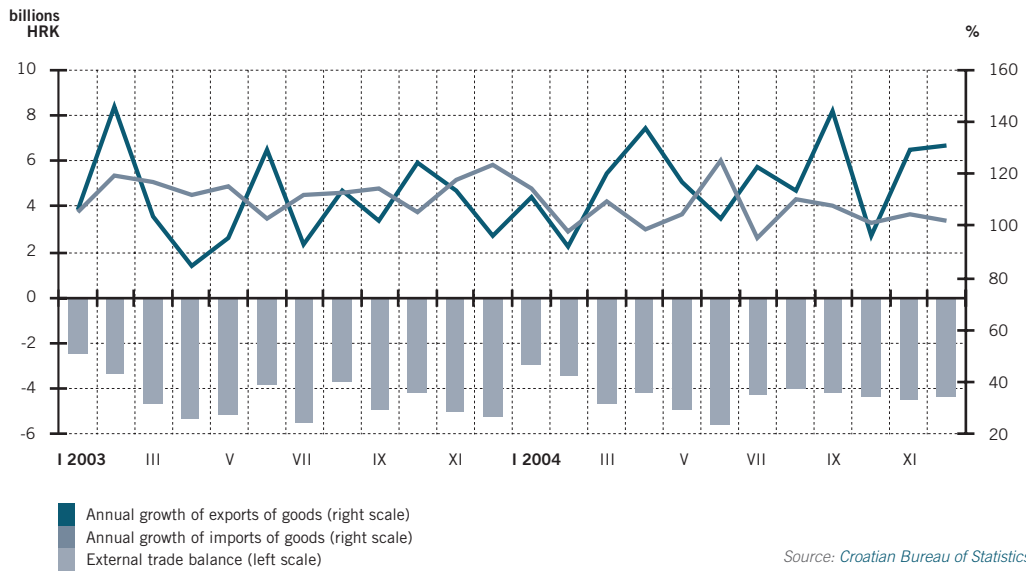
External trade

In the year 2004 the trend of export and import of goods is reversed compared to the previous years, so exports grew faster than imports which influenced slower growth of trade deficit. In the year 2004 export expressed in kuna increased by 16.9 percent compared to 2003 while imports decelerated compared to the year 2003 and grew by only 5.4 percent in 2004. The coverage of exports by imports amounted to 48.4 percent in 2004 while in the 2003 it was 4.9 percentage points lower and amounted to 43.5 percent. The growth of exports can partially be explained by export of ships but even independently of ships export, exports grew fast by the rate of around 15 percent. Among other sectors of manufacturing, the growth of exports was strong at metals (62 percent), radio, television and communication equipment and apparatus (42.8 percent), leather and leather products (34.6 percent) and manufacture of coke, refined petroleum products and nuclear fuel (36.6 percent). The higher levels of exports and imports growth when expressed in American dollars is a result of the fact that the highest share of Croatian foreign trade is conducted with European Union countries so depreciation of American dollar against euro has influence on statistical growth of exports and imports.





Figure 1.7.: Exports and Imports of Goods and External Trade Deficit



Source: Croatian Bureau of Statistics

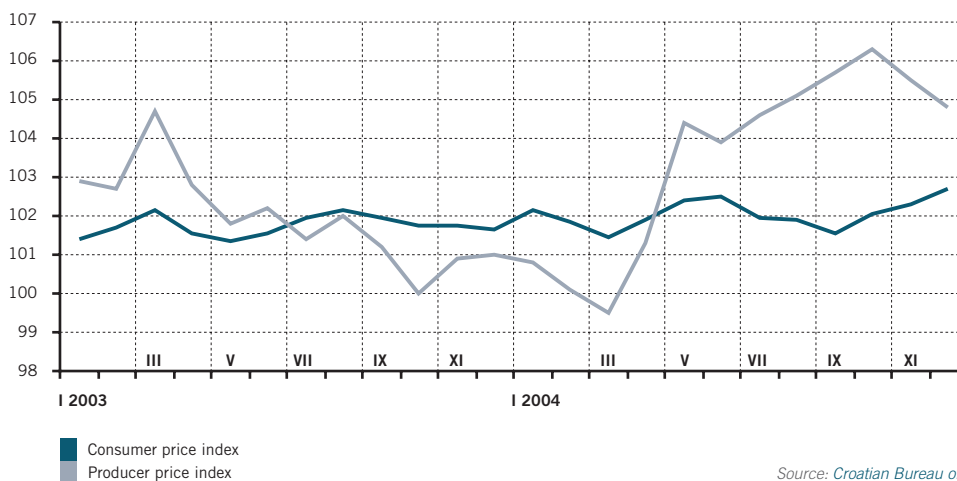
Prices

In spite of shocks on supply side which concern an increase of raw material prices, especially an increase of oil prices on world markets and increase of certain administratively regulated prices (gas, water for households and road tolls), but also excises on tobacco, inflation stayed at low level in 2004. Thus goods and services which are used for personal consumption and measured by consumer prices index, increased in 2004 by 2.1 percent when compared to 2003.

The highest price increases were recorded in categories of water supply and miscellaneous services related to dwelling (10.5 percent), alcoholic beverages and tobacco (5.2 percent), housing, water, electricity, gas and other fuels (3.9 percent) while the category of food and non-alcoholic beverages with the highest share in the consumer basket increased by 1.4 percent. On the other side, price decreases were recorded by clothing and footwear (0.5 percent), furnishing, household equipment and routine maintenance of the house (0.4 percent) and communications (0.3 percent). Annual increase of prices of services amounted to 3.3 percent while increase in prices of good amounted to 1.7 percent and trend of faster growth of prices of services than prices of goods was continued.

In the year 2004 somewhat higher growth of producer price index was recorded which grew by 3.5 percent. Such a growth of producer prices was a result of faster growth of oil prices during 2004 which also had impact on consumer prices at the end of the year.

Figure 1.8.: Consumer and Producer Price Index



Source: Croatian Bureau of Statistics

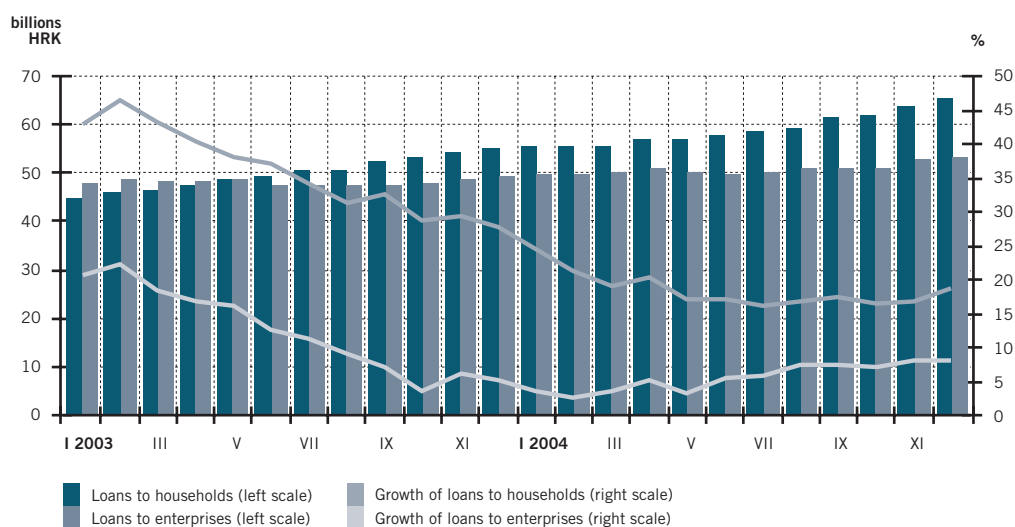


1.2.2. Financial Sector

Monetary developments

In the year 2004 monetary policy was conducted in low inflation environment. The exchange rate of kuna versus euro was stable which was contributed by foreign exchange interventions of Croatian National Bank which purchases of euros on domestic markets eased appreciation pressures on kuna. Appreciation intensity of kuna real effective exchange rate was slightly higher than nominal appreciation of exchange rate. Croatian National Bank also undertook measures in order to slow down foreign debt growth. The first sort of measures concern introducing of new instrument, marginal reserve requirement, which banks should allocate on differential of their foreign liabilities while second sort of measures concern the help to government to switch financing of budget deficit from foreign to domestic financial markets.

Figure 1.9.: Bank's Loans to Households and Enterprises



Source: Croatian National Bank

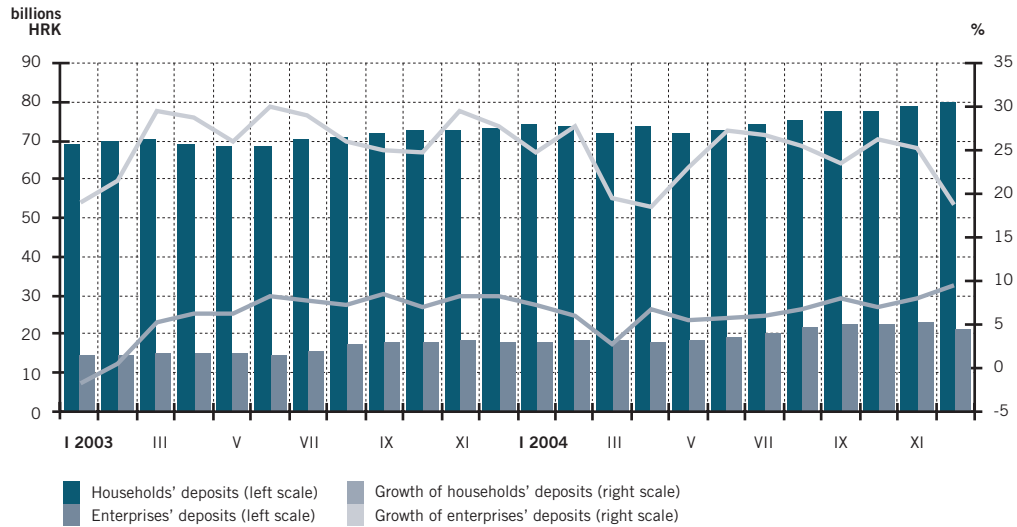
Total bank's loans reached the level of HRK 128.8 billion at the end of 2004 which represents an increase of 13.1 percent compared to the end of 2003 or nominal increase of HRK 14.9 billion. The sector of households also in 2004 absorbed the highest share of issued loans which reached the level of HRK 65.3 billion and increased by 18.7 percent compared to 2003 which represents significant deceleration compared to growth of 27.7 percent recorded in 2003. The total nominal increase of loans to households amounted to HRK 10.3 billion in 2004, of which HRK 4.5 billion were housing loans which recorded annual growth rate of 26.6 percent. Loans to enterprises growth accelerated from 5.1 percent in 2003 to 8 percent in 2004 and reached the level of HRK 53.4 billion at the end of the year. When nominal increase is observed, they increased by HRK 4 billion.

Total kuna time and savings account deposits with banks amounted at the end of December 2004 to HRK 104.2 billion which represents an increase of 10.4 percent or HRK 9.8 billion compared to the end of 2003. The highest contribution to such increase came from the sector of households which deposits increased by 9.4 percent or HRK 6.9 billion in the observed period. Deposits of enterprises were at HRK 3.4 billion higher level at the end of 2004 compared to the end of 2003. Although growth rate of enterprises' deposits amounted to 18.7 percent, its important to mention that during the year growth was even higher, and deceleration of growth in December was influenced by transaction of T-HT dividend which caused significant decrease of kuna deposits of enterprises.





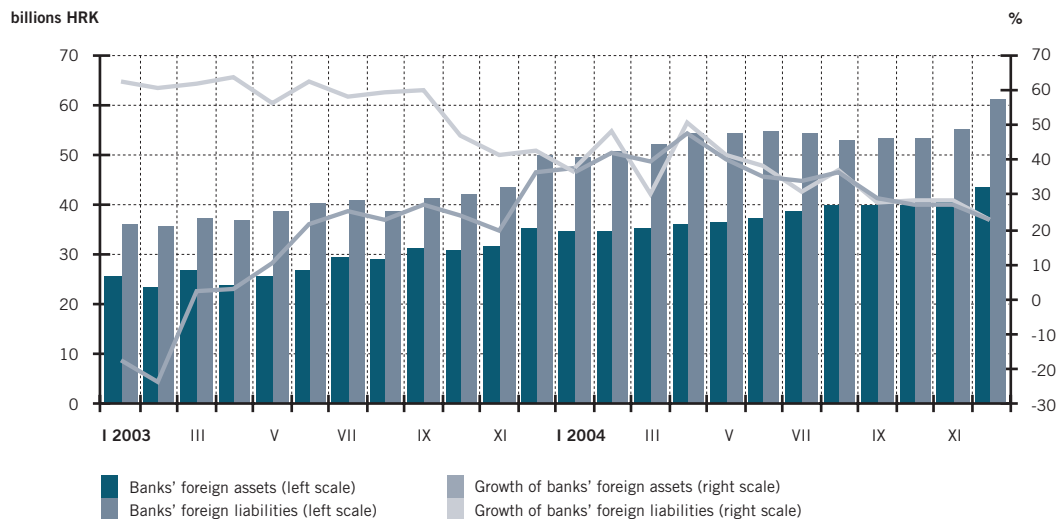
Figure 1.10.: HRK Time and Savings Account Deposits of Households and Enterprises



Source: Croatian National Bank

Foreign assets of commercial banks increased during year 2004 by HRK 8.2 billion or 23.1 percent and reached the level of HRK 43.6 billion at the end of 2004. Foreign liabilities growth decelerated from 42.6 percent in 2003 to 22.5 percent in 2004 and recorded nominal increase of HRK 11.2 billion. Such a development determined the difference between foreign assets and liabilities which amounted to HRK - 17.6 billion at the end of year 2004.

Figure 1.11.: Foreign Assets and Liabilities



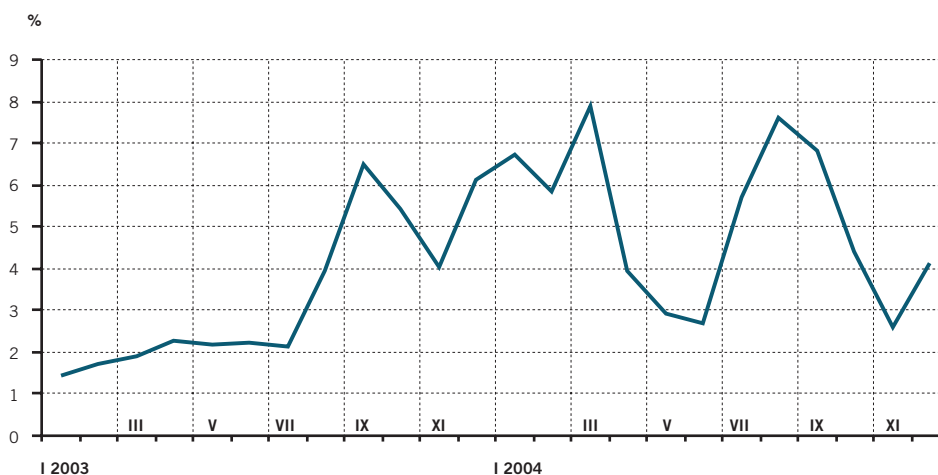
Source: Croatian National Bank



Money market

According to the data of Zagreb Money Market, total turnover increased from HRK 28.1 billion in 2003 to HRK 38.2 billion in 2004 while in the same time average interest rate increased from 3.32 to 5.11 percent. In the beginning of first quarter 2004 registered demand for loans decreased compared to the high levels at the end of year 2003 and interest started to decrease slightly. The reversal appeared in February when due to higher allocation of kuna obligatory reserves and subscription to the first tranche of government bond, demand for kuna increased what also influenced on increase of interest rates which decreased again at the end of March thanks to four interventions of Croatian National Bank. The period of good liquidity continued in May and till the end of June when demand for kuna increased due to beginning of main tourist season and issuance of new government bond. Owing to longer tourist season and third tranche of government bond issues at beginning of September, liquidity of financial system improved not earlier than the end of September. Although new government bond was issued at the end of November, that haven't influenced the high liquidity of banking system in the third quarter which deteriorated only in the second half of December due to temporal seasonal increase of demand for cash.

Figure 1.12.: Average Interest Rates on Zagreb Money Market



Source: Zagreb Money Market

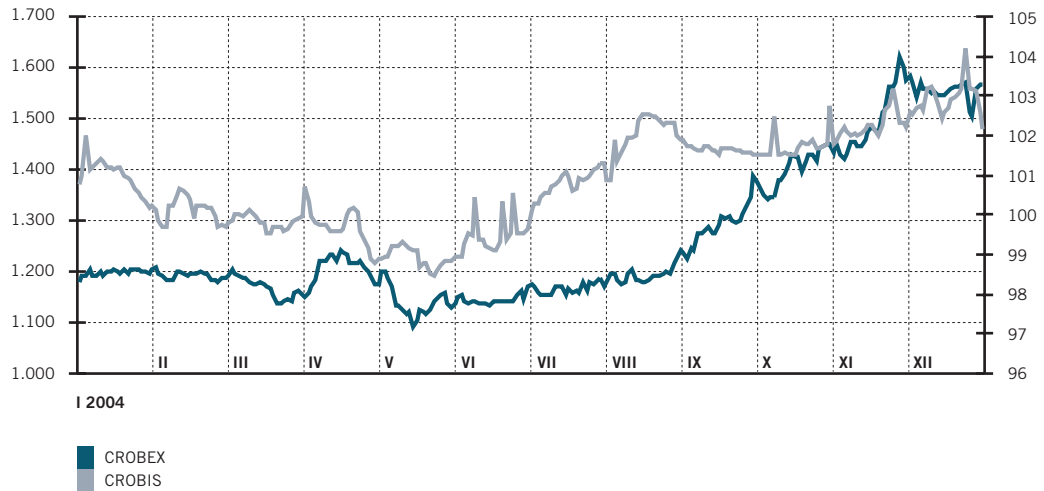
Capital market

At the end of December 2004 CROBEX index recorded 32.1 percent higher level than a year earlier while CROBIS increased by 1.1 percent in the same period. Total turnover on the Zagreb Stock Exchange increased in the observed period by 92 percent. Capital market in the first quarter of year 2004 and April was characterized by new issuances of bonds, one government and one corporate bond. High turnover was recorded in trade with shares, especially in April. In the second and beginning of third quarter three corporate, one government and one local government bond were issued. Despite the new issuances, turnover of trade with bonds was somewhat lower while high turnover was recorded in trade with shares. During the third quarter significant increase of shares turnover, Zagreb Stock Exchange index and turnover of bonds reached high level again. In the last quarter significant increase in turnover of shares was recorded which was followed by increase in prices of most of shares and increase of Zagreb Stock Exchange index. At the end of November new government bond was issued with the highest maturity period till now of 15 years.





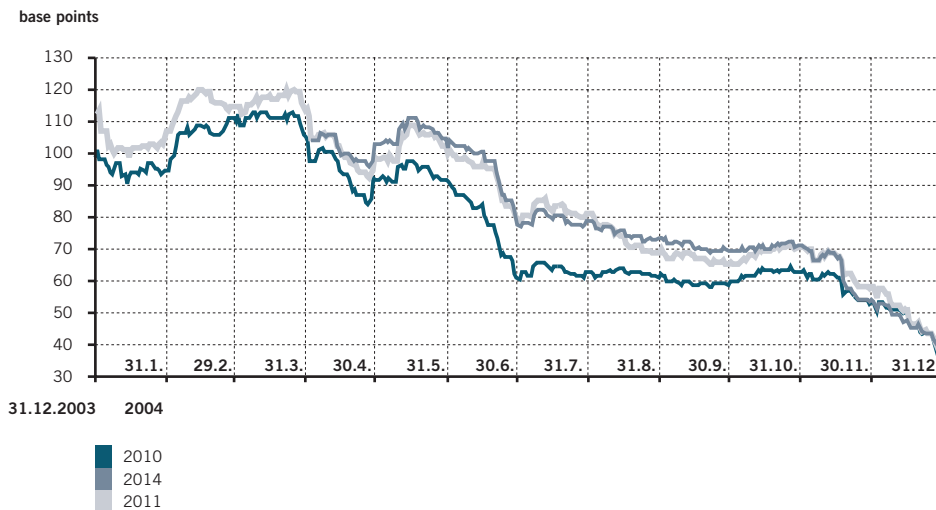
Figure 1.13.: Developments in CROBEX and CROBIS Indices of Zagreb Stock Exchange



Source: Zagreb Stock Exchange

During the year 2004 significant decrease of spreads was recorded between yields of Croatian Euro bonds and referent German bonds. The difference of yields of Croatian and referent German bonds have decreased since June 2004 when Croatia become candidate country for EU accession from 100 bases points at the end of 2003 to 40 bases points at the end of year 2004. It's also important to mention that in December 2004 Standard & Poor's agency increased Croatian credit rating from BBB- to BBB.

Figure 1.14.: Croatian and German Reference Bond Spreads



Source: Bloomberg

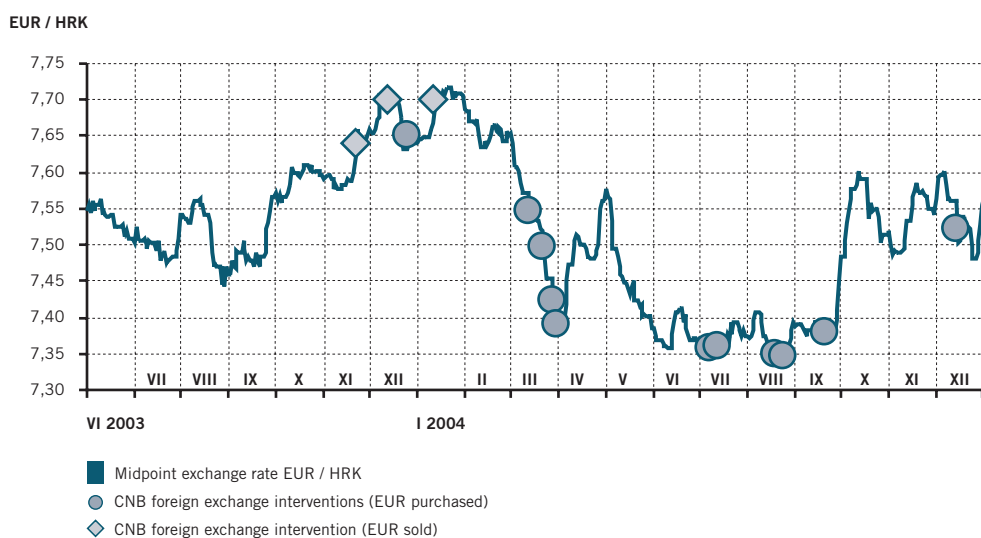


1.2.3. International Sector

Exchange rates

Midpoint kuna versus euro exchange rate of Croatian National Bank fluctuated during year 2004 among narrow margins from the strongest kuna exchange rate of 7.34 kuna for euro to the weakest of 7.72 kuna for euro. Average annual midpoint kuna exchange rate versus euro amounted to 7.50 EUR/HRK which means that it appreciated compared to the previous year by 0.9 percent while midpoint exchange rate at the end of 2004 amounted to 7.67 EUR/HRK and depreciated compared to the same period of year 2003 by 0.3 percent. USD dollar continued to weaken against euro during the year 2004 which was also reflected on kuna versus dollar exchange rate and average kuna exchange rate versus dollar appreciated in 2004 by 10 percent and amounted to 6.04 USD/HRK while at the end of 2004 decreased to 5.64 USD/HRK that was appreciation of 7.9 percent compared to the same period of year 2003.

Figure 1.15.: Midpoint Exchange Rates of Kuna against Euro and CNBs Foreign Exchange Interventions



Source: Croatian National Bank

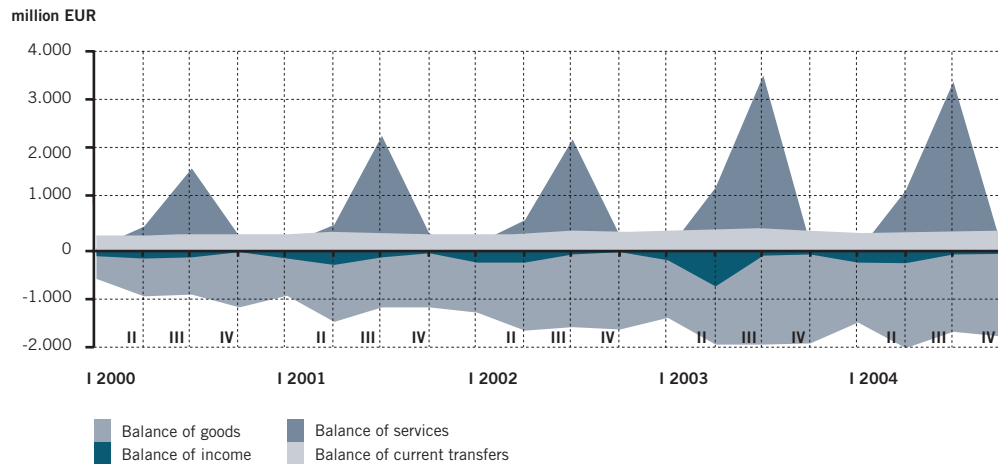
Croatian National Bank made eleven interventions on foreign exchange market during the year 2004. Of those eleven interventions only in one euro was sold in amount of EUR 33 million in January 2004 while in ten other interventions Croatian National Bank purchased euros. In March four foreign exchange interventions were carried out in which EUR 162.7 million was purchased from banks. During the third quarter five more foreign exchange interventions were carried out in which EUR 141 million was purchased while additional EUR 99.5 euro was purchased in December.

Balance of payments

The significant decrease in current account deficit, expressed in nominal terms as in terms of share of GDP, was recorded in the year 2004. When compared to the year 2003, deficit was decreased by EUR 420 million or from -7.3 to -5.2 percent of GDP. The significant contribution to deficit reduction came from trade in goods which deficit decreased by EUR 246 million as a result of increase in exports by EUR 1.03 billion and slower increase in imports which increased by EUR 785 million.



Figure 1.16.: Current Account Balance of the Republic of Croatia



Source: Croatian National Bank

Traditionally high positive balance of services account in the third quarter was also recorded in the year 2004. The high tourism revenues stayed on the same level as in the year 2003 (EUR 5.5 billion) which was in line with growth in total tourist arrivals of 6 percent and growth in total tourist nights of 2 percent. The total surplus on services account amounted to EUR 4.7 billion and decreased by EUR 218 million when compared to the year 2003. The highest contribution to decrease in current account deficit came from income account which negative balance was reduced in 2004 by EUR 444 million or 42 percent when compared to 2003. Decrease of income account deficit is predominantly a result of decrease in direct investment expenditures i.e. reinvested earnings category which decreased by EUR 296 million or 50 percent when compared to the year 2003. On the account of current transfers the surplus in amount of EUR 1.2 billion was recorded which represents in a decrease of EUR 53 million when compared to the year 2003.

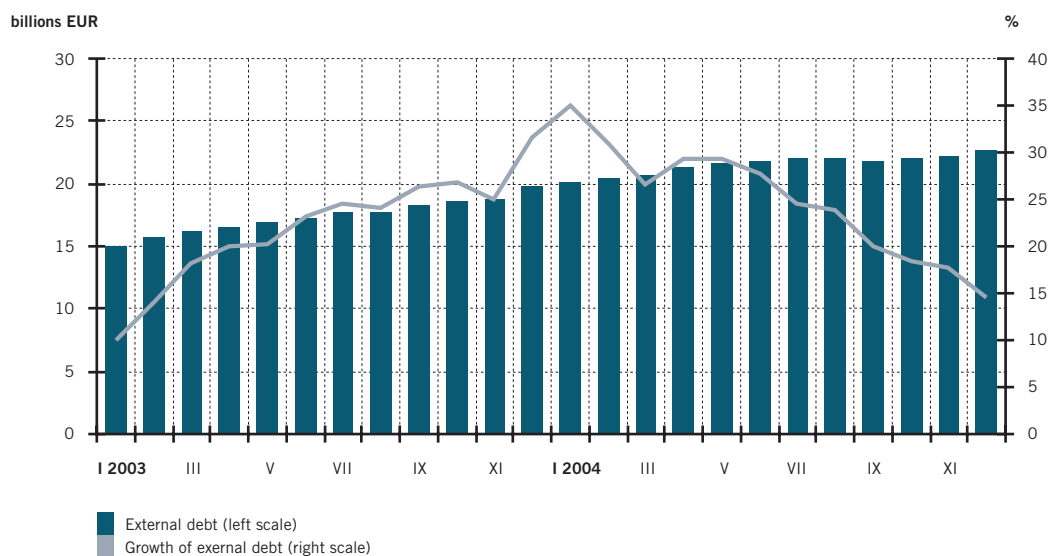
When compared to the year 2003 there were some changes in sources of financing transactions on current account. The most significant change concerns a decrease in foreign direct investments inflows in amount of EUR 997 million. It's important to notice that this is also result of higher base in the year 2003 when INA was privatized. Net portfolio investments also recorded a decrease compared to 2003 in amount of EUR 625 million while other investments decreased by EUR 250 million. In the year 2004 international reserves increased by EUR 43 million while net errors and omissions stayed on the high level of EUR 822 million.

External debt

Total external debt amounted at the end of December 2004 to USD 30.859 billion or EUR 22.675 billion which represents 82.1 percent of gross domestic product. When compared to the end of 2003 external debt increased by 14.5 percent or EUR 2.685 billion while in year 2003 it was recorded an increase of EUR 4.756 billion or 31.6 percent. This increase was mainly contributed by sector of banks which debt increased during year 2004 by EUR 1.531 billion while external debt of government increased by EUR 636 million euro in the same time. As a result of such developments, banks' external debt which at the end of 2004 made 33.7 percent of total external debt, for the first time exceeded external debt of government which made 31.9 percent of total external debt.



Figure 1.17.: External Debt of the Republic of Croatia



Source: Croatian National Bank

It is important to mention that there has been some changes in methodology of external debt statistics which through the adjustment of data from year 2002 to 2004 caused an increase of external debt and change in its structure. The change in methodology influenced increase of external debt for about half billion euro (in December 2004) while change in external debt structure meant decrease of government share in total external debt from 32.9 percent to 31.1 percent.





2.1. Budgetary Central Government Revenue



2.1.1. Budgetary Central Government Revenue Plan

Year 2004 started with temporary financing of the budget, which was effective for first three months of 2004, precisely was effective until approval of the State Budget of the Republic of Croatia and plans for extrabudgetary funds and agencies in March of the same year. According to the original plan, budgetary central government revenue was expected at HRK 79.445 billion, which compared to the collected amount of revenue of the previous year represented an increase of 6.4%.

In line with new expectations on both revenue and expenditure sides of the State Budget, in July of 2004 changes were done to the State Budget of the Republic of Croatia for 2004 by which total revenue was increased by HRK 2.820 billion making new revenue plan at HRK 82,265 billion, which compared to 2003 represented an increase of 10.2%.

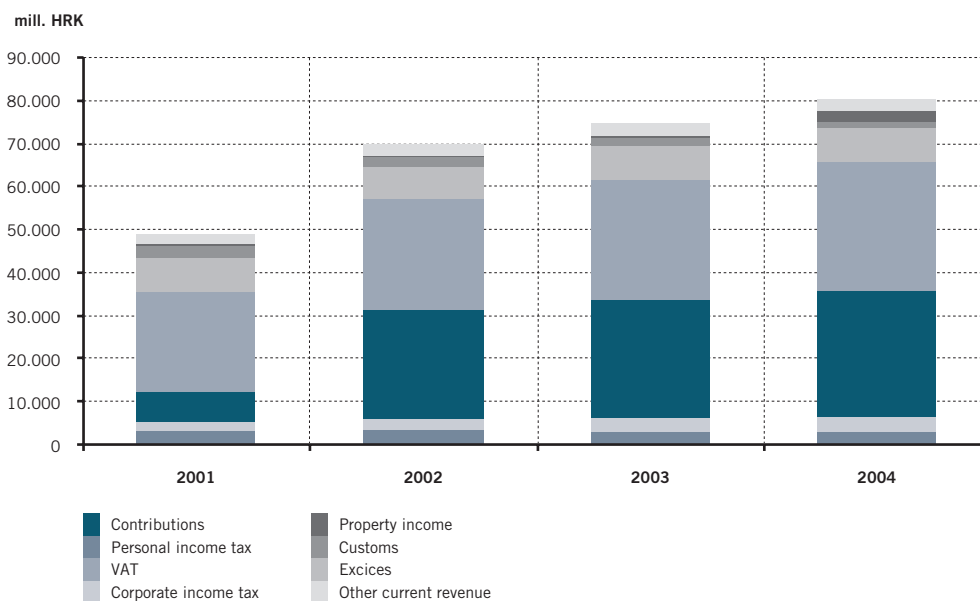
The reason behind the increase in the revenue plan were partly due to some legal changes, partly from performance of revenue in first six months of 2004 and finally due to a decision that the government would withdraw dividend from Croatian Telecom.

2.1.2. Outturn of the Budgetary Central Government Revenue

Total budgetary central government revenue was realized at HRK 80.464 billion. Such an outturn represents 97.8% of the plan for 2004 or HRK 1.8 billion less than planned. If 2004 revenue outturn is observed relative to 2003 outturn, revenue recorded an increase of 7.7%. This increase largely is the result of the increase in property income, which compared to 2003 recorded an annual increase of 539%. Social contributions recorded an increase of 7.5% in the same time while tax revenues increased by 4.1%.

If budgetary central government revenue is observed, as the share in GDP, than it can be seen, that the share of total revenue stays almost constant in 2002 - 2004 period. Namely, in 2002 this share amounted to 38.8%, 38.7% in 2003, while in 2004 it amounted to 38.8% of GDP. Compared to previous two years the share of tax revenue in GDP was moderately reduced. Namely, in 2004 this share amounted to 22.8%, while in 2003 it amounted to 23.5% or 23.9% in 2002. So, the trend of moderate decrease of the share of tax revenue in GDP is obvious. In the same time, social contributions recorded constant shares in GDP, while moderate increase were recorded in other revenue, especially in property income revenue.

Figure 2.1: The structure of the budgetary central government revenue



Source: Ministry of Finance



2.1.2.1. Tax Revenue

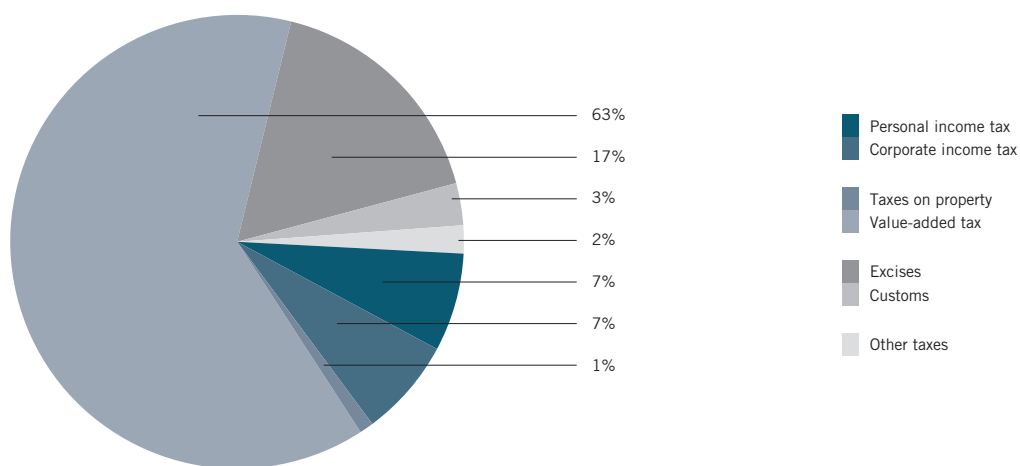
Tax revenue is the largest component of total revenue and in 2004 tax revenue grew by 7.7% compared to the previous year while its share in GDP decreased compared to 2003 by 0.7%. If compared to the plan, tax revenue in 2004 was realized at 97.5%, which represents HRK 1.2 billion less in revenue than planned. Total tax revenue amounted to HRK 47.150 billion, which represents an increase of 4.1% compared to 2003 when HRK 45.281 billion was collected. Although an increase of tax revenue can be observed in 2004, their share in GDP was reduced and so was their share in total revenue. The share of tax revenue in GDP amounted to 22.8% in 2004, while their share in total revenue amounted to 58.6%, which is by 2% less than in 2003. However, tax revenue still stays the most important component of budgetary central government revenue.

As it was previously mentioned, some legal changes affecting revenue took place in 2004. Changes were introduced to Law on excise tax on tobacco and Law on excise tax on cars, other motor vehicles, boats and airplanes, which directly produced some consequences to the revenue collection in 2004. In the end of 2004, new Law on corporate income tax was introduced as well as changes to the Law on personal income tax and Law on mandatory social contributions. However, these legal changes start to be effective as of January 1st of 2005 and they did not produce any effects in 2004.

In relation to legal changes associated to certain taxes, the fiscal importance of some of taxes changed. Tax revenue structure of 2004 shows, relative to 2003, the fiscal importance of personal income tax, corporate income tax, value-added tax, revenue from excise taxes and taxes on international trade changed. Almost all of tax revenues, except revenue from property tax, recorded a decrease as a share in total revenue in 2004. For illustration, the share of personal income tax amounted to 15% of total revenue in 1996, while in 2004 it amounted to 6.6%. Although the importance of some tax revenues was reduced it can be seen than in 2004 value-added tax continues to be the largest component of total revenue amounting to 37.1% of total revenue. Sales tax, property tax and other taxes kept the share in total revenue close to figures of the previous year.

Although observing shares of certain tax revenue to the total revenue some changes can be observed in 2004, in general no major changes took place comparing to the previous year.

Figure 2.2: The Structure of Tax Revenue in 2004



Source: Ministry of Finance



Personal Income Tax

Figure 2.3: Yearly Trend of Personal Income Tax



Source: Ministry of Finance

Total HRK 3.128 billion was collected from personal income tax in 2004, which is by 1.9% or 58 million above the planned amount while compared to 2003 an increase of 0.4% was recorded. The planned amount for 2004 was set at lower level than the amount actually collected in 2003 due to increase in exemptions which applied to 2004 as due to the number of tax return files in 2003.

The increase in revenue from personal income tax originates from an increase in employment during 2004, and thus from the increase in tax base. The largest part of collected revenue from personal income tax relates to income taxation of persons non-self-employed (HRK 3.098 billion). It is worth to mention that total returns of personal income tax amounted to HRK 799.1 million, which is three times more than the year before when it amounted to HRK 292 million. This additionally indicates how larger total collection of the personal income tax revenue was in 2004 compared to 2003, which shows that this revenue follows economic activity in 2004 namely increase in wages and employment.

Personal income tax, in 2004, applied 15% rate for income up to double amount of personal deduction, 25% rate for the amounts between double amount of personal deduction and five times the amount above which 35% rate and 45% rate was used. Personal deduction in 2004 amounted to HRK 1.5 thousand.

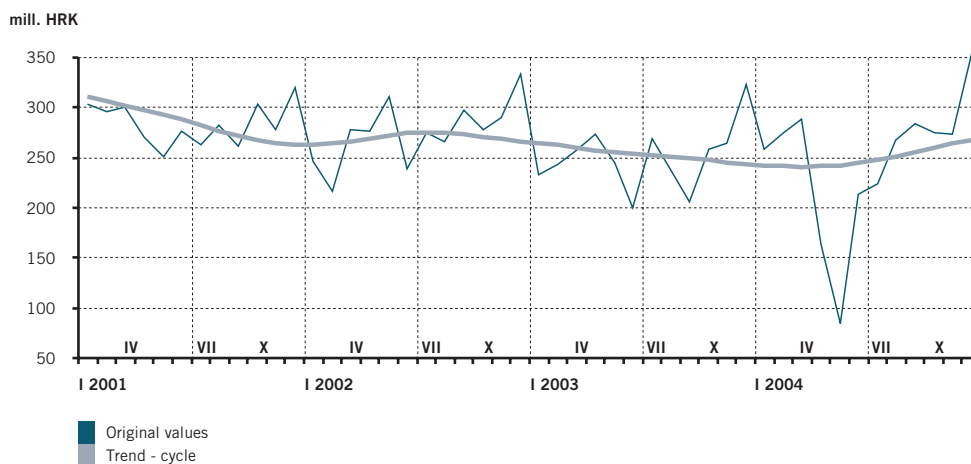
Personal income tax revenue is shared revenue between State Budget and local government units. Observing general government sharing does not deteriorate the picture of the entire amount collected. In National gazette No 147/03 published is the Law on Amendments to the Law on financing of local and regional self-government, which regulates the change in personal income tax distribution.

The Law on Amendments to the Law on personal income tax (National gazette, No 163/03) adopted by the Croatian Parliament on October 1st 2003 changes were introduced which outline exemptions regarding incentives for the research and development, education and constant improvement where expenses for research and development, education and professional improvement of the employees are recognized as the double amount.

Although due to trends of the previous years and whole year effect of the changes to the Law on personal income tax a reduction in personal income tax revenue was expected, this did not materialize. Namely, new plan for 2004 expected an increase from the original plan of HRK 2.959 billion of revenue from personal income tax to HRK 3.070 billion and yet it was collected in the amount even beyond the new plan, namely in the amount of HRK 3.128 billion. The reasons for the increase in expected revenue from this source within the new plan was the fact that in the first six months of 2004 46% of originally expected revenue was already collected and having in mind that most of returns took place in first half of the year and due to seasonal character of revenue collection from this source. Outturn of the personal income tax revenue for the 2004 turned out to be realized beyond all plans, which is the result of an increase in employment and gross wages in 2004.



Figure 2.4: Personal Income Tax Revenue Trends in Constant Prices (average 2001 = 100)



Source: Ministry of Finance

It can be expected that the upward trend of personal income tax revenue that started in 2004 will be continued throughout following years. This can be derived even from the fact that in the beginning of 2005 Law on Amendments to the Law on personal income tax came effective according to which personal deduction was raised to HRK 1.6 thousand, while cumulative exemptions were reduced to HRK 12 thousand. This reduction will result in lesser returns and thus larger revenue from this source.

Corporate Income Tax

At first, the planned amount of the corporate income tax was established in the amount of HRK 3.390 billion in 2004, which represented an increase of 10.3% compared to 2003. With the new plan, the expected amount was reduced to HRK 3.209 billion. Namely, in the first six months of 2004, 50% of the original plan was collected. However, due to extreme seasonal character of this revenue, which is by large realized in the first half of the year, the yearly plan for 2004 was revised downwards.

Corporate income revenue amounted to HRK 3.131 billion in 2004, which represents 97.% of the new plan or HRK 78 million below the new plan. Comparing this amount to the collection in 2003 an annual increase of 1.8% can be observed. The reasons behind worse than expected amount of revenue from this source arise from the fact that in the end of 2003 so called cleaning of balance sheets took place in numerous companies to reduce the profit and some large cancellations of receivables which also affected the revenue from corporate income tax in 2004.

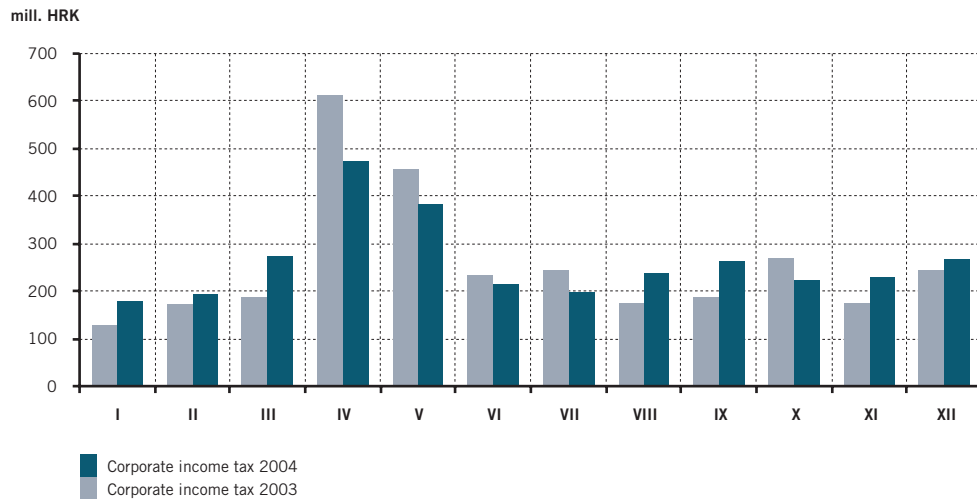
Revenue from this source performed poorly especially during the summer months when it is usual to see lower revenue from this source, but the amounts of collected revenue from this source during summer months represented a reduction even compared to the same period of the previous year and this affected the whole year collection considerably. The very beginning and the end of the year recorded fair collections of revenue from corporate income tax with high growth rates.

Within the Law on Amendments to the Law on corporate income tax (National Gazette, No 163/03) adopted by the Croatian Parliament on October 1st 2003, new exemptions were introduced regarding incentives for research and development, education and professional improvement of the employees. Based upon this Law, taxable amount can be reduced by the amount of costs incurred and presented for research and development, education and professional improvement of employees in 100% amount. The whole year effect of these changes also contributed to a lower than expected collection of the revenue from this source.





Figure 2.5: Corporate Income Tax Revenue Trends by Months in Period 2003 - 2004



Source: Ministry of Finance

In the end of 2004, additional changes were introduced within the Law on corporate income tax. With these changes, corporate income tax rate stays at 20%, which is among lowest in Europe, but some additional exemptions were introduced to bolster the entrepreneurial activity in Croatia. These changes did not affected revenue from this source in 2004 as they became effective only as of January 1st 2005.

Tax on Property

Revenue from tax on property was planned at HRK 316.8 million in 2004. Total collection in 2004 amounted to HRK 355.8 million, which represents an increase of 22.7% compared to 2003 collection. It is also collected 12.4% or HRK 39 million above the new plan for 2004. The reason for such good collection arises from an increase in real estate transactions. During last several years an increase in real estate transactions as well as an increase in real estate prices can be observed. Such trends are expected in the years to come as well. The experiences of countries in the precession period to European Union show a constant increase in real estate transactions and such trends are expected in Croatia as well.

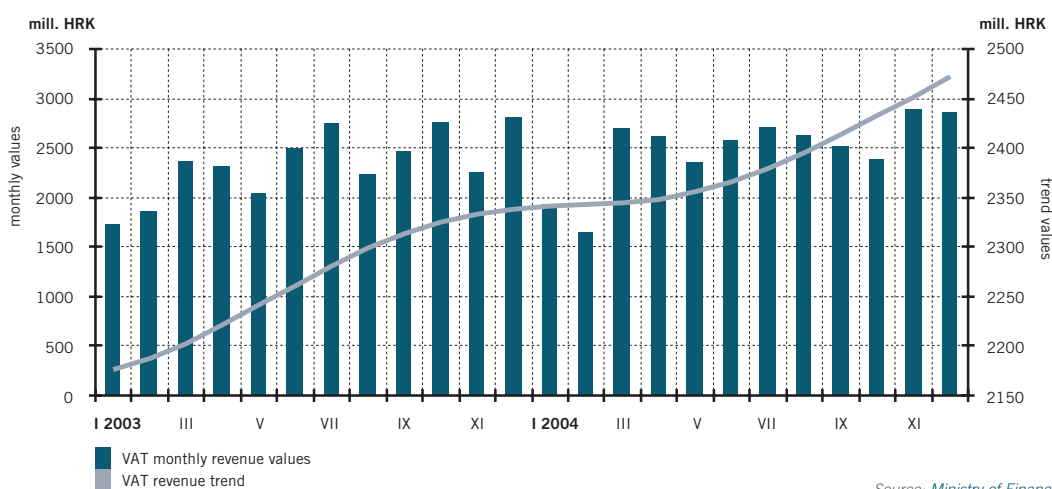
Value-added Tax

Value-added tax is the most important revenue of the State Budget. In 2004, from value-added tax total HRK 29.865 billion of revenue was collected, which represents an increase of 6.2% compared to 2003. Observing the structure of tax revenue in 2004, it can be seen that 63.3% of the total can be attributed to value-added tax, which additionally points out to the importance of this revenue source for the Budget. The planned amount of the value-added tax revenue for year 2004 represented 8.3% increase compared to year 2003. Compared to the planned amount, total yearly collection amounts to 98.1% or HRK 586 million less than originally planned. It is worth to mention that largely the planned amount was not reached to significant existence of grey economy. Hence, revenue from value-added tax did not follow overall economic trends. Namely, gross domestic product grew by 3.8%, industrial production grew by 3.7%, and trade grew by 2.6%, while imports grew by 5.4%. The cumulative effects of the mentioned are not reflected in the proper increase of the value-added tax revenue. Also, tourist season of 2004 was the best since end of war and this also should have been reflected in the increase of VAT revenue due to consumption growth. These further indicates the existence of significantly large grey economy in Croatia, which is the direct cause to the poorer than expected collection of the VAT revenue in 2004. Within the structure of value-added tax revenue the largest part relates to VAT collection connected with imports, which in 2004 grew by 8.8% compared to the previous year.



The biggest monthly collections of value-added tax revenue were recorded in July (HRK 2.714 billion) in November (HRK 2.897 billion) and in December (HRK 2.868 billion). To such dynamics of the VAT collection a contribution was given from those tax payers that pay for their VAT liability quarterly and those are tax payers whose goods and services outturns exceed HRK 85 thousand yearly. In 2003, a change to Ordinance of value-added tax took place. With this change of value-added tax Ordinance (National Gazette, No 58/03) from April 16th 2003 the practice of exemption from payment of value-added tax in case when entrepreneurs which conduct the delivery or transfer of imported goods additionally enriched in the process of internal production to the other domestic entrepreneur for further production is enabled. The whole year effect of this change also influenced and caused smaller than expected realization of value-added tax revenue.

Figure 2.6: Value-added Tax Revenue Monthly Trends



Source: Ministry of Finance

Excises

In 2004, total of HRK 7.942 billion was collected from excise taxes, which compared to the previous year represents an increase of 1.2%. The plan for 2004 anticipated an annual increase of 8.4%. At the end of 2004, actual revenue collected turned out to account to only 93.4% of the plan, or in other words HRK 556 million less.

The biggest decrease compared to the plan, was recorded in excise tax on beer (which was realized at 84.5% of the plan) and excise tax on cars (was realized at 90.4% of the plan). Planned amount was reached and exceeded only in excise tax on luxury goods and excise tax on coffee (8.7 and 2.7% respectively). Revenue from excise tax on oil derivatives accounted to 94.9% of the plan, revenue from excise tax on tobacco accounted to 94.5%, revenue from excise tax on alcohol accounted to 93.7% of the plan, while revenue from excise tax on nonalcoholic beverages accounted to 96.2% of the plan for 2004.

Table 2.2: Excise Taxes Revenues

(000 HRK)	Outturn 2003	Plan 2004	Outturn 2004	Index 2004/2003	Index Plan 04/03
Excises	7,850,993.07	8,507,502.52	7,941,553.74	101.15	93.35
- on cars, other motor vehicles, boats and airplanes	899,047.13	1,045,796.99	945,209.11	105.13	90.38
- on petroleum products	3,345,887.62	3,502,769.26	3,325,659.03	99.40	94.94
- on alcohol	234,125.01	246,299.01	230,795.68	98.58	93.71
- on beer	746,254.95	850,421.94	718,277.66	96.25	84.46
- on nonalcoholic beverages	131,376.52	138,208.60	132,983.99	101.22	96.22
- on tobacco	2,349,409.71	2,571,580.13	2,430,843.33	103.47	94.53
- on coffee	125,343.68	131,861.68	135,436.97	108.05	102.71
- on luxury products	19,548.45	20,564.91	22,347.97	114.32	108.67

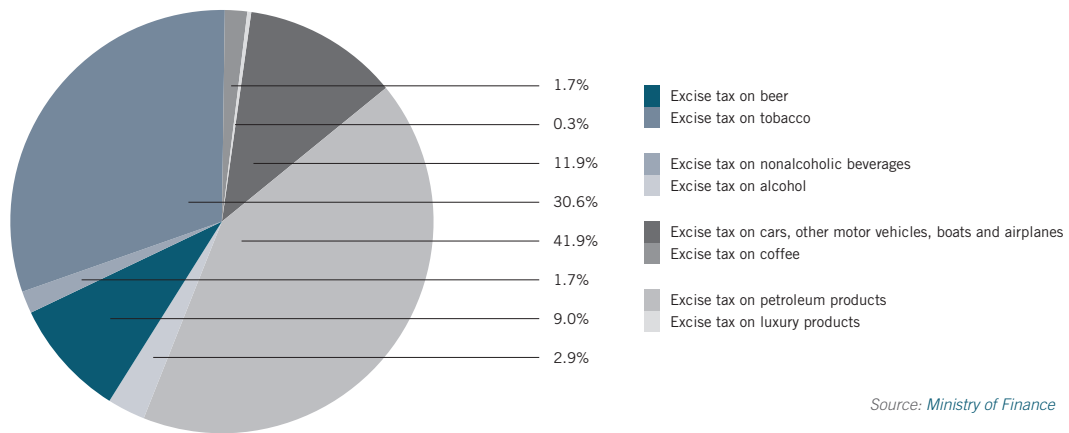
Source: Ministry of Finance



The reasons behind poor realization of revenue from excise taxes in 2004, originate largely from existence of significant grey economy factors and partly from some legal changes that took action in 2004 and directly influenced revenue collection of some excise taxes.

The share of excise taxes in total tax revenue was reduced from 17.3% in 2003 to 16.8% in 2004. Within the revenue from excises the most significant stay excise tax revenue form oil derivatives and excise tax revenue from tobacco. Observing revenue from excises in 2004 it can be noted that these revenue report a reduction even expressed as ratio to overall revenue, from 10.5% in 2003 to 9.9% in 2004. Although a temporary reduction of revenue from excises was recorded in 2004 and thus the importance of it for the state budget, thorough attention should be applied to better control of excise tax revenue collection primarily having in mind that these revenues are relatively easy to collect and that these revenues increase the progressivism of the tax system.

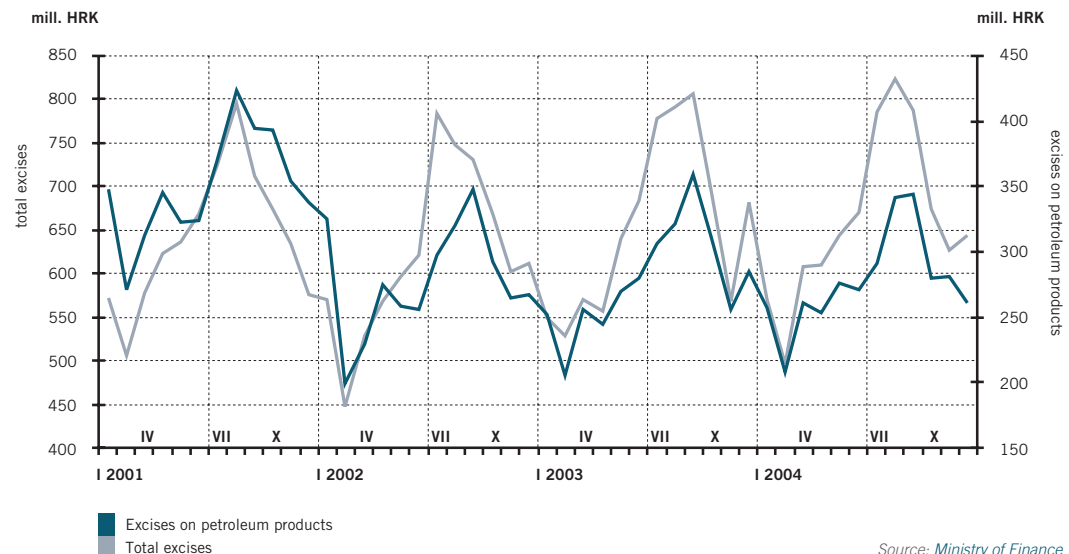
Figure 2.7: The Structure of Excise Tax Revenue in 2004



Source: Ministry of Finance

In 2004, from excise tax on oil derivatives totally was collected HRK 3.326 billion of revenue which amounts to 41.9% of total excise tax revenue collection. Although revenue from excise tax on oil derivatives is the largest excise revenue, its share in total excise revenues was reduced in 2004 compared to 2003 when it amounted to 42.6%. Revenue from excise tax on oil derivatives recorded an annual decrease of 0.6% in 2004. Compared to the plan, excise tax revenue from oil derivatives recorded a decrease and it was realized at 94.9% of the plan. Such an outturn clearly confirms the existence of significant grey economy effects, especially having in mind excellent tourist season. Efforts to reduce grey economy impacts could generate significant increases in revenue from this source and tax revenue in general.

Figure 2.8: Monthly Trends of Total Excise Tax Revenue and Revenue From Excise Tax on Oil Derivatives



Source: Ministry of Finance



..... If the delivered quantities of various types of fuel are observed which are subject of excise taxation, a reduction in delivered quantities can be observed in 2004 of motor gasoline MB-98. Namely, deliveries of this type of fuel were decreased by 47.1% in 2004 compared to the previous year. On the other hand an increase in deliveries of quantities of unleaded gasoline BMB of 6.9% was recorded, 8.5% increase of delivered quantities of diesel fuel and 26.1% of blue diesel.

Table 2.3: *Delivered Quantities of Oil Derivatives in 2003 and 2004*

litres	Gasoline - 98			Unleaded gasoline			DIESEL			BLUE DIESEL		
	2003	2004	Index 04/03	2003	2004	Index 04/03	2003	2004	Index 04/03	2003	2004	Index 04/03
january	11,766,138	8,163,777	69.4	51,619,562	59,491,972	115.3	69,089,409	72,462,465	104.9	4,233,652	7,568,538	178.8
february	11,119,615	7,404,415	66.6	51,211,903	57,356,782	112.0	74,719,107	79,554,220	106.5	4,266,157	9,734,541	228.2
march	11,764,506	6,988,891	59.4	57,813,426	66,869,661	115.7	88,067,595	100,421,173	114.0	7,128,168	10,385,990	145.7
april	11,923,033	6,667,658	55.9	63,766,765	73,197,271	114.8	95,549,470	99,650,881	104.3	8,283,961	11,094,257	133.9
may	11,388,601	6,062,052	53.2	68,386,349	70,263,295	102.7	101,185,206	103,742,632	102.5	8,188,488	13,920,191	170.0
june	11,283,885	5,791,918	51.3	76,414,828	77,194,385	101.0	102,784,640	115,187,440	112.1	8,973,753	11,614,406	129.4
july	12,186,904	5,960,443	48.9	92,251,425	95,677,163	103.7	117,209,100	120,643,800	102.9	8,824,862	15,263,437	173.0
august	11,013,102	5,533,246	50.2	95,129,641	102,507,626	107.8	112,479,655	119,736,465	106.5	11,247,819	14,430,272	128.3
september	10,323,542	4,892,459	47.4	72,535,078	75,471,618	104.0	100,565,242	115,305,359	114.7	16,685,427	15,262,642	91.5
october	10,378,647	4,524,783	43.6	69,823,910	69,707,513	99.8	102,186,816	108,759,841	106.4	21,273,012	19,058,904	89.6
november	8,932,728	3,931,365	44.0	58,707,833	64,009,300	109.0	87,816,565	100,451,828	114.4	15,875,153	16,735,441	105.4
december	9,872,085	3,835,512	38.9	67,756,458	70,727,088	104.4	88,992,947	101,421,247	114.0	10,535,871	13,246,647	125.7
TOTAL	131,952,786	69,756,519	52.9	825,417,178	882,473,674	106.9	1,140,645,752	1,237,337,351	108.5	125,516,323	158,315,266	126.1

Source: Ministry of Finance

Revenue from excise tax on tobacco accounted to 30.6% of total excise revenues in 2004 and this excise revenue represents second largest excise tax revenue after revenue from oil derivatives. Planned amount for this revenue type stood at HRK 2.572 billion.

Total collection of revenue from excise tax on tobacco amounted to HRK 2.431 billion in 2004, which represents an annual increase of 3.5%. The share of this excise tax revenue in total excise revenue was increased by 0.7% compared to 2003. In the same time, the collected amount of revenue from this source represents 94.5% of the planned amount for 2004. The annual increase of this revenue, previously mentioned, is primarily the result of introduction of new tariffs in mid 2004. Namely, in July of 2004 changes to the Law on excise tax on tobacco were introduced and started to be effective which stated new higher tariffs for various tobacco products. As a result, an increase in revenue from this source can be witnessed in the second half of 2004.





Table 2.4: Tobacco Tax Revenue Trends with Respect to Trade and Production Trends of Tobacco Products

Index (same month of the previous year)	Excise tax on tobacco revenue	Production of tobacco products	Tobacco products trade	Export of tobacco products	Import of tobacco products
01.2003	103.0	83.5	103.1	65.6	120.2
02.2003	131.7	106.1	104.1	96.8	96.4
03.2003	102.5	113.7	102.2	101.1	37.1
04.2003	104.2	103.3	105.2	91.4	112.9
05.2003	104.2	120.2	97.5	108.4	73.7
06.2003	107.6	118.7	99.8	131.1	120.9
07.2003	111.1	116.0	94.5	108.3	141.1
08.2003	105.3	130.2	97.6	168.0	22.7
09.2003	113.8	110.0	97.2	118.8	42.6
10.2003	99.4	81.8	95.5	69.6	182.4
11.2003	89.4	78.0	95.7	81.7	132.2
12.2003	116.9	109.3	98.7	112.4	30.3
Average 2003	107.1	105.9	99.3	104.4	92.7
01.2004	106.8	90.9	115.0	120.6	25.7
02.2004	84.0	97.5	119.6	80.1	94.2
03.2004	105.9	120.3	120.8	106.5	189.9
04.2004	113.0	125.8	120.5	131.3	96.6
05.2004	96.5	99.5	122.2	73.5	160.6
06.2004	100.1	109.7	136.5	94.6	111.0
07.2004	93.9	88.3	147.3	107.4	53.1
08.2004	96.9	103.9	145.8	100.1	85.5
09.2004	115.1	88.3	134.6	86.6	498.0
10.2004	111.9	100.7	122.2	122.7	54.1
11.2004	112.9	114.0	123.9	131.4	48.7
12.2004	109.0	121.8	124.3	117.5	343.4
Average 2004	103.8	105.1	127.7	106.0	146.7

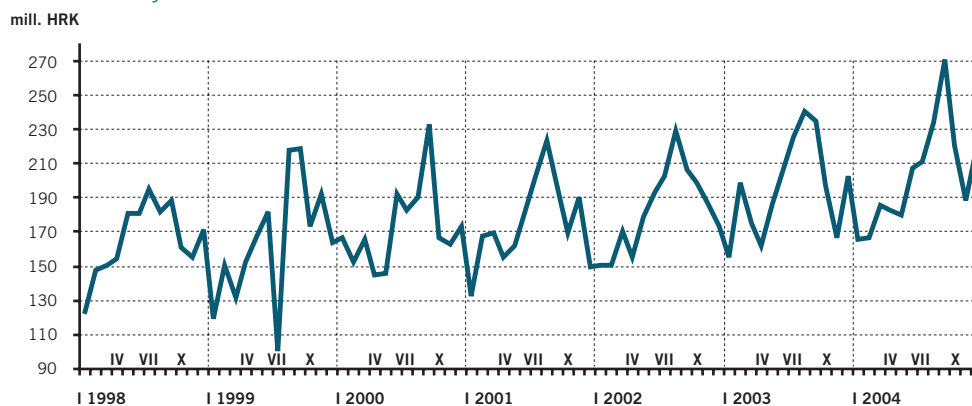
Source: Ministry of Finance

From the previous table, it can be seen that in 2004 the production of tobacco products was in constant increase as well as total trade and international exchange of these products. Namely, in 2004, trade of tobacco product increased by 27.7%, while production of these products was increased by 5.1%. Together with introduction of higher tariffs in mid 2004, cumulative effects of such trends should have resulted with higher rate of increase of revenue from this source.

As it was previously mentioned, higher collections of revenue from excise tax on tobacco were expected to take place in 2004, much higher than it was realized. The reason for the lower collections than originally planned arises directly from the existence of grey economy factors. The losses for the state budget associated with the existence of grey economy factors are substantial and thus it is necessary for various state organs to collaborate in the effort of the reduction of these negative trends.



Figure 2.9: Monthly Tobacco Tax Revenue Trends



Source: Ministry of Finance

In 2004, from other excise taxes was totally collected HRK 2.185 of revenue. The share of revenue from excise tax on nonalcoholic drinks in total excise tax revenues stood at the same level as in 2003 and it amounted to 1.7%. Revenue from excise tax on coffee recorded an increase compared to the planned amount of 2.7%, while revenue from excise tax on nonalcoholic drinks reported a decrease of 3.8% to the planned amount for 2004 revenue from excise tax on luxury products amounted to HRK 22.3 million which represents an annual increase of 8.7%.

Compared to the planned amounts, the biggest decreases were recorded in revenue from excise tax on beer, which were realized at the level of only 84.5% of the plan. Not only that this revenue was realized below the plan but also was realized below the amount collected from this source in the previous year, while annual plan anticipated an increase of 14%.

Partially, the reason for such poor realization of this revenue arises from the introduction of new Law on roads safety in 2004.

Table 2.5: Delivered Beer Quantities in 2003 and 2004 in Hectoliters

hectoliters	2003	2004	2004/2003
january	134,049.22	147,935.15	110.36
february	161,399.17	189,988.31	117.71
march	228,164.66	234,540.32	102.79
april	306,364.75	320,587.71	104.64
may	368,149.75	327,862.55	89.06
june	482,278.97	459,109.00	95.20
july	481,249.39	465,933.03	96.82
august	483,365.71	426,969.72	88.33
september	304,042.52	293,483.13	96.53
october	251,704.35	241,893.33	96.10
november	217,574.53	204,335.32	93.92
december	294,650.83	251,126.11	85.23
TOTAL	3,712,993.85	3,563,763.68	95.98

Source: Ministry of Finance

As it can be seen from the previous table, delivered quantities of beer recorded an annual decrease of 4% compared to 2003. The largest decreases were recorded in August and December.

Also, a decrease was recorded in revenue from excise tax on alcohol which was collected at 93.7% of the planned amount and in the same time this revenue recorded an annual decrease of 1.4%. Previously mentioned Law on roads safety contributed to such realization of this revenue. This Law introduced new rules according to which not even a small quantity of alcohol found in the blood can be tolerated.

Also, it is worth to notice that delivered quantities of alcoholic drinks recorded constant decreases throughout whole of 2004 compared to the same month's periods of 2003 except in summer tourist months. Total delivered quantities of alcoholic drinks recorded a decrease of 6.6% compared to 2003. This reduction is especially obvious in the second half of 2004.



Table 2.6: *Delivered Quantities of Alcoholic Drinks in 2003 and 2004 in Hectoliters*

hectolitres	2003	2004	2004/2003
january	237,816.04	240,223.51	101.01
february	262,327.76	240,900.20	91.83
march	271,155.42	249,945.59	92.18
april	301,473.80	301,528.30	100.02
may	317,118.80	312,800.03	98.64
june	316,247.57	328,021.57	103.72
july	355,673.61	378,067.70	106.30
august	337,425.31	358,541.28	106.26
september	316,325.63	284,656.72	89.99
october	299,651.09	252,797.74	84.36
november	308,164.86	266,250.14	86.40
december	463,599.69	324,707.61	70.04
TOTAL	3,786,979.58	3,538,440.39	93.44

Source: Ministry of Finance

The planned amount of revenue from excise tax on cars, other motor vehicles, boats and airplanes anticipated 16.3% increase in 2004 compared to 2003. The reason arises from change in Law on excise tax on cars, other motor vehicles, boats and airplanes from mid 2004 which introduced new tariffs. This revenue was realized at 90.4% of the plan for 2004, while annual increase amounted to 5.1%. Although changes of Law on excise tax on cars, other motor vehicles, boats and airplanes introduced new tariffs, started to be effective as of July of 2004 (National Gazette, No 95/04), these changes did not materialize in the anticipated increase in revenue from this source due to fact that car dealers, anticipating this change, built substantial stocks of cars, which they sold for some time afterwards with lower tariffs.

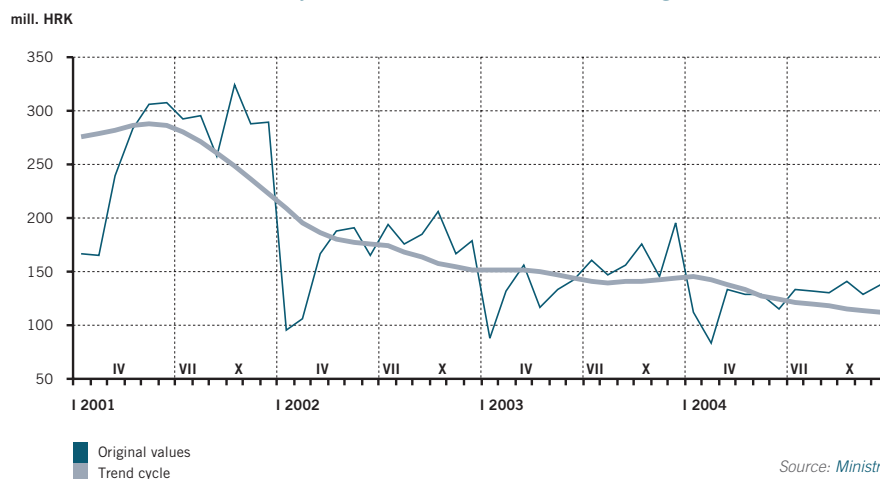
Revenue from Taxes on International Trade

During 2004, total HRK 1.591 billion was collected from taxes on international trade. The collection of this revenue in 2004 is in accordance with the plan while, compared to 2003, this revenue recorded an annual decrease of 12.2%. Such reduction compared to the previous year is in accordance with previous expectations based on process of liberalization of the foreign trade. The expectations were confirmed with abovementioned realization, which is by HRK 5.6 million above the planned amount, thus representing only a moderate increase above the plan.

With the effort of international cooperation, in the period between January of 2000 and December of 2004, negotiations took place and were concluded with ten countries regarding the agreements of abolishing the double taxation. Also, Croatia has signed numerous agreements on free trade, which provided better climate for both exports and imports, but in the same time resulted with less revenue from customs in the budget. The share of customs revenue in total tax revenue averaged at 4.8% in 2002, while in 2004 this share amounted to 3.4%, and similar trend of decreasing importance of this revenue for the budget can be expected in following years. However, although a further reduction in importance of this revenue can be expected in years to come, it is worth to mention that it is expect for this reduction to slow in pace due to fact that the largest part of liberalization process of Croatia with other countries has been completed.



Figure 2.10: Revenue from Customs by Months, in Constant Prices (average 2001 = 100)



Source: Ministry of Finance

Other Tax Revenue

Other tax revenue was realized at HRK 341.4 million in 2004, which represents a decrease of 34.6% compared to the plan. This underperformance of other revenue is the result of lower than expected collection of administrative and court charges. Namely, administrative and court charges have the largest share in total other tax revenue. In 2004, administrative and court charges collected HRK 342,9 million, while undistributed tax revenue accounted to -1.9 million in 2004.

2.1.1.2.2. Social Security Contributions

Social security contributions were planned to increase by 8% in 2004 compared to 2003. The analysis of first six months of 2004 pointed out to good collection of these revenues, namely an increase of 8% was recorded compared to the same period of the previous year.

In 2004, revenue from social security contributions was realized in the amount of HRK 29.478 billion, which represents an annual increase of 7.5%. Such an outcome of social security contributions is close to the planned amounts, namely social security contributions were realized at 99.5% of the plan for 2004. As the case with personal income tax revenue, revenue from social contributions point out to a high correlation of this revenue and economic indicators, wage growth and employment increase.

Within the structure of social security contributions, the largest part relates to employers contributions (53.4%) which in 2004 recorded an annual increase of 9.9% compared to the previous year, while in the same time were realized 7.4% above the plan. Employers contributions were realized at HRK 15.738 billion in 2004. In the same time, employee contributions recorded an annual increase of almost 6.5%, while their share in total social security contributions accounted to 44.6%. These contributions were realized at the level of HRK 13.139 billion in 2004. The smallest share in total contributions refers to contributions from unemployed or self-employed persons. These contributions amounted to HRK 600.6 million in 2004. The significant annual increase of social security contributions, aside from economic reasons, namely because of increase in wages and increase in employment, can also be attributed to the Law on changes and additions to the Law on mandatory social security insurance. The whole year effect of this legal change reflects to the amount of revenue collected. Croatian Government adopted the Ordinance on change and additions to the Law on mandatory social security insurance (National Gazette, No 175/2003) which stated:

1. Base for calculation of contribution was changed for persons that perform entrepreneurial activity, persons in free employment or persons that perform agricultural or forestry activity, when these activities are performed simultaneously with performance of other activities or work or use of assets, in the way that the base is income achieved by performance of those activities and based on business books according to personal income tax regulations (the difference between the receipts of the business activity and recognized expenses).
2. The base for calculation of contributions was expanded for persons with the status of self-supported artist according to the Law on rights of self-supported artists and incentives to cultural and artistic development according to which contributions are secured within the state budget, in the way that the base is the multiplication of average wage and coefficient of 1.2 replacing the coefficient of 0.36 (which was effective until December 31st of 2003).

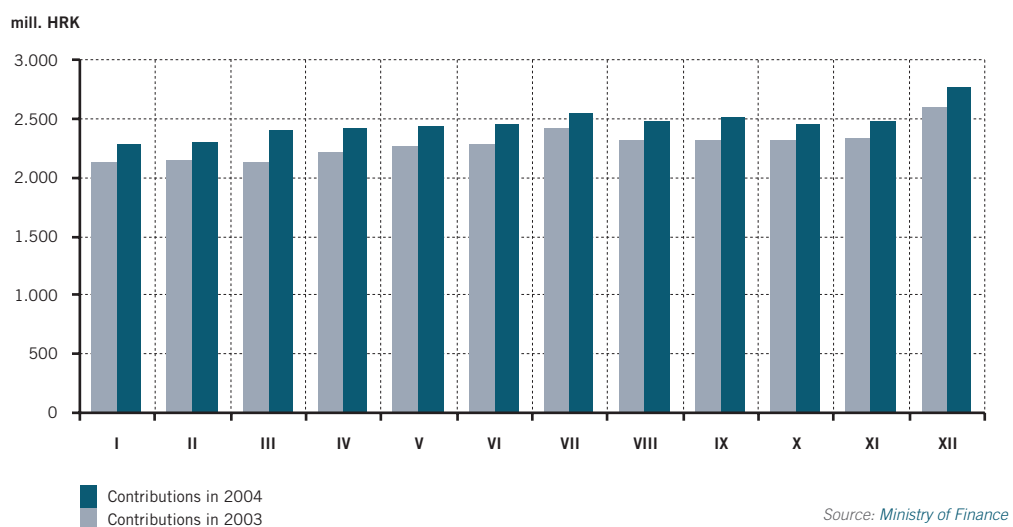




3. Regulations of the Law, which laid down certain exemptions in social security contributions were changed, such as:
- Compensation of students for practical work
 - Student scholarships paid regularly with condition that the payer of the scholarship is not employing the student
 - Sport scholarships paid regularly with condition that the payer of the scholarship is not employing the person receiving the scholarship
 - Compensation paid out to the families in case of death of the employee
 - Grant for school to children up to the age of 15

These changes are effective regardless the fact that it is possible that the part of these payouts that exceeds the nontaxable part, will in fact be taxed by the personal income tax.

Figure 2.11: Social Contributions in 2003 and 2004, by Months



2.1.2.3. Grants

Grants were planned in the amount of HRK 50 million in 2004, while actual collection represents only 31.5% of the plan, namely, grants were realized in the amount of HRK 15.8 million. Collected current grants in 2004 mostly originate from international organizations in the amount of HRK 9.4 million, while capital grants from international organizations were not realized. Beside abovementioned grants, HRK 5.6 million was collected as capital grants from other government levels, while grant from foreign governments amounted to HRK 684.2 thousand, out of which HRK 571 thousand is current and HRK 113.2 thousand is capital grant from foreign governments.

2.1.2.4. Property Income

Total property income (financial and nonfinancial) was planned in the amount of HRK 3.232 billion in 2004, while the final collection amounted to HRK 2.699 billion. The reason of this 17.5% shortfall of revenue results from two main sources, namely from shortfall in dividend and rent revenue.

Financial property income was planned in the amount of HRK 2.495 billion in 2004, while the final collection amounted to HRK 2.078 billion which represents a decrease of 16.7% to the plan for 2004. Financial property income in 2004 mostly originated from interest on loans, interest on securities, interest on time and savings deposits, dividends, income of government companies and banks and from other financial property. The largest share in financial property income belongs to dividends representing 89.9% of total financial property income and representing 69.2% of total property income.

The expected level of dividends in 2004 was at HRK 2.470 billion in 2004, while the final collection level was at HRK 1.869 billion or HRK 600 million below the plan. The reason of this significant shortfall is a delay of part of anticipated payout of dividend by Croatian Telecom. In the same time, some dividends were



..... realized from non public sector enterprises, but in significantly lower amount (HRK 14.8 million).

Withdrawals from income of quasi-corporations amounted to HRK 69 million in 2004. The largest part of this amount relates to corporations in the public sector with the amount of HRK 55.3 million. Income of Croatian National Bank with the amount of HRK 13.7 million follows. Other financial property income amounted to HRK 77.8 million.

Nonfinancial property income was planned in the amount of HRK 737.3 million in 2004, while the final collection turned out to be on the level of 83.6% of the planned amount. This revenue was realized in the amount of HRK 616.3 million. The reason for this shortfall arises from a delay of concession for third mobile network, which payment was postponed to 2005.

Within the structure of nonfinancial property income, concessions are the largest revenue source in 2004, accounting for 92.6% of total nonfinancial property income. Amid charges for concessions, the largest charges in 2004 relate to frequency concessions, or precisely concession for third mobile network. Concession amounted to HRK 486.3 million in 2004, while in the same time some smaller revenue amounts were realized from other concessions.

For an example, concession for use of maritime land, concessions for use of public waters, concessions on public roads, casino concessions, concessions for customs zones and other concessions.

In 2004, within the revenue from nonfinancial property income revenues from rent of property, other nonfinancial assets and road charges were recorded. From rent of property, total of HRK 20.2 million was collected. The largest part of that amount, namely 68.2% relates to rent of agricultural property, which amounted to HRK 13.8 million in 2004.

From rent of other real estate, total of HRK 1.3 million was collected, while HRK 2.6 million was collected from use of agricultural property belonging to the Republic of Croatia and HRK 1.1 million from use of agricultural land belonging to the Republic of Croatia, while from use of forest property, total of HRK 1.4 million was collected.

Other nonfinancial property income collected HRK 26 million of revenue the largest part of which relates to fishing permits totaling HRK 10.8 million (41.5% of other nonfinancial property income). Other components of this revenue category are hunting permits totaling to HRK 9.4 million, HRK 5.3 million from monumental fee and revenue from use of cultural goods.

Table 2.7: *Property Income Outturn*

(000 HRK)	2003	2004	Index 2004/2003
Property income	417,486	2,667,701	639.0
Interest	19,433	35,752	184.0
Dividends	108,123	1,868,841	1,728.4
Withdrawals from income of quasi-corporations	5	146,820	
Property income attrib. to insurance policyholders	0	0	
Rent	289,925	616,289	212.6

Source: Ministry of Finance





2.1.2.5. Sales of Goods and Services

Revenue from sales of goods and services amounted to HRK 677 million in 2004, which represents a decrease of 9.7% compared to 2003. Observing the realization of these revenues to the plan for 2004, an increase of 17.4% above the plan can be observed.

Sources of revenue from sales of goods and services are administrative fees and incidental sales by non-market establishments. Total of HRK 120.8 million was collected from administrative fees in 2004. Compared to 2003, administrative fee revenue recorded an increase of 2.5%, where the largest share relates to revenue of state authority. These revenues amounted to HRK 135.1 million in 2003, which accounts for 43.2% of all administrative fee revenue. Beside this revenue, other administrative fees were collected; other fees and other communal contributions, road charges and other fees under special regulations.

Incidental sales by non-market establishments were planned in the amount of HRK 455.9 million in 2004, while in 2004 were collected in the amount of HRK 364 million. Such realization represents a decrease to the plan of 2004, while in the same time a decrease of 18% compared to 2003 can be observed. The largest share in incidental sales by non-market establishments relates to conduct of other own activities (94.3%). This revenue was realized in the amount of HRK 343.15 million. Other incidental sales by non-market establishments are of smaller importance and refer to other conduct of own activities (HRK 20.2 million) and other own activity revenue transferred to the budget in the amount of HRK 593.7 thousand.

2.1.2.6. Fines, Penalties and Forfeits, Voluntary Transfers Other than Grants and Miscellaneous and Other Revenue

Fines, penalties and forfeits were planned in the amount of HRK 307.2 million in 2004, while the final collection stood at 11.5% above the plan. Compared to 2003, this revenue category recorded an increase of 11.5%. Namely, in 2004 fines, penalties and forfeits totally collected HRK 342.4 million of revenue. The largest part of this revenue category relates to traffic fines, which in 2004 were realized in the amount of HRK 160.8 million or 16.1% more than in 2003. Traffic fines account for 47% of total revenue from fines, penalties and forfeits in 2004. The amounts of other fines are less important. Custom fines amounted to HRK 41 million in 2004, tax fines amounted to HRK 24.8 million, business fines amounted to HRK 1.6 million, foreign currency fines amounted to HRK 4.9 million, while other fines amounted to HRK 91.1 million.

Voluntary transfers other than grants were not planned in 2004 but were realized in the amount of HRK 248.5 thousand, which refers to current donations of legal and fiscal entities outside the general government. Miscellaneous and other unidentified revenues were planned in the amount of HRK 109.7 million in 2004 and were realized at the level which is by 26.4% above the plan. Total of HRK 138.7 million was collected from this source in 2004. The largest part relates to other unidentified revenue. Total of HRK 26.3 million was realized from positive currency rate differences.

Table 2.8: *Fines, Penalties and Forfeits, Voluntary Transfers other than Grants and Miscellaneous and Other revenue in 2004*

	(000 HRK)	2003	2004	Index 2004/2003
142	Sales of goods and services	749,462.7	676,950.9	90.3
1421	Sales of market establishments	0.0	0.0	-
1422	Administrative fees	305,448.1	312,994.2	102.5
1423	Incidental sales by nonmarket establishments	444,014.6	363,956.7	82.0
1424	Imputed sales of goods and services	0.0	0.0	-
143	Fines, penalties, and forfeits	307,167.5	342,370.6	111.5
144	Voluntary transfers other than grants	1,522.6	248.5	16.3
1441	Current	1,522.6	248.5	16.3
1442	Capital	0.0	0.0	-
145	Miscellaneous and unidentified revenue	493,422.0	138,666.6	28.1

Source: Ministry of Finance



2.2. Budgetary Central Government Expense

2.2.1. Budgetary Central Government Expense Plan

Year 2004 started with temporary financing of the budget, which was effective for first three months of 2004, precisely was effective until approval of the State Budget of the Republic of Croatia and plans for extrabudgetary funds and agencies in March of the same year.

In line with new expectations, changes were done to the budget and supplementary budget was adopted in July of 2004. On expense side of the State budget of the Republic of Croatia, changes included the continuing process of fiscal consolidation. These changes also aimed at the elimination of quasi-fiscal activities performed out of the consolidated State budget (Croatian Railways, Croatian bank for reconstruction and development and Croatian Motorways). Also, additional resources were secured for certain social right such as for unemployment benefits, incentive for employment, disability rights and other. In the same time, a reduction in use of goods and services was suggested and a reduction of acquisition of nonfinancial assets, while acquisition of financial assets and repayment of loans were increased. In December of 2004, reallocation of budget resources was performed between different expenses categories in the way that total expense figure remained unchanged compared to supplementary budget.

The final expense plan of the State budget was set at HRK 83.452 billion, which compared to 2003 outturn represents an increase of 8.3%. The reason for quite significant increase in planned expense for year 2004 compared to 2003 comes from previously mentioned inclusion of quasi-fiscal activities that prior to 2004 were performed out of the budget.

The largest part of total expense relates to social benefits (47.8%), followed by compensation of employees (26.8% of total expense). Hence, these two expense categories account for 74.5% of the total amount of planned expense, while the reminder relates to use of goods and services (5.4%), interest (4.4%), subsidies (6.1%), grants (4.2%) and other expense (5.4%).

2.2.2. Outturn of the Budgetary Central Government Expense

According to final data for 2004, total budgetary central government expense was realized in the amount of HRK 83.131 billion. Such an outturn represents an increase of 7.9% compared to 2003 and in the same time represents 99.6% of the plan.

The final expense realization is by HRK 321 million below the plan for 2004, while observing the structure of expense it can be seen that all of the expense categories except interest were realized below the plan. Interest was realized by HRK 320 million above the plan for 2004. However, it is worth to mention that according to Budget Act interest payments are classified as priority payments and thus are not limited by the plan. Out of categories that reported a decrease to the planned amount, use of goods and services reported a decrease of HRK 142 million, followed by social benefits (HRK 125 million), grants (HRK 116 million), subsidies (HRK 106 million), other expense (HRK 84 million) and compensation of employees (HRK 66 Million).





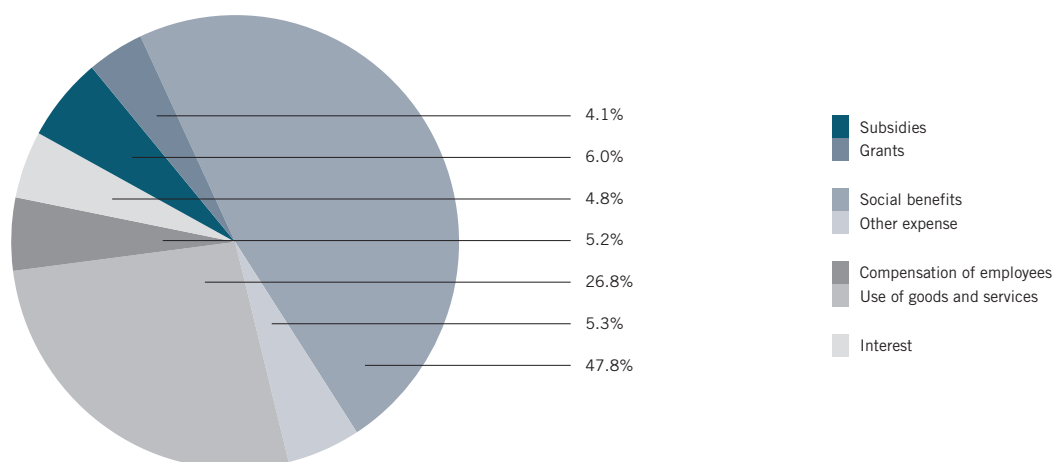
Table 2.9: Budgetary Central Government Expense in 2003 and 2004

	(000 HRK)	2003	Plan 2004	2004	Index 2004/2003	Index 2004 Plan 2004
2	EXPENSE	77,075,487.4	83,452,433.4	83,131,114.4	107.9	99.6
21	Compensation of employees	21,225,816.1	22,334,911.9	22,268,286.7	104.9	99.7
211	Wages and salaries	18,037,101.2	18,964,836.3	18,888,605.2	104.7	99.6
212	Social contributions	3,188,714.9	3,370,075.6	3,379,681.5	106.0	100.3
22	Use of goods and services	4,170,610.6	4,501,129.5	4,358,720.5	104.5	96.8
24	Interest	3,587,328.9	3,652,183.0	3,972,466.3	110.7	108.8
241	Foreign	1,879,419.9	1,906,941.2	1,976,502.3	105.2	103.6
242	Domestic	1,707,909.0	1,745,241.8	1,995,964.0	116.9	114.4
25	Subsidies	4,292,712.4	5,074,513.1	4,968,068.5	115.7	97.9
251	To public corporations	1,942,931.7	2,813,724.1	2,783,462.4	143.3	98.9
252	To private enterprises	2,349,780.7	2,260,789.0	2,184,606.1	93.0	98.6
26	Grants	3,746,958.2	3,536,893.6	3,420,326.9	91.3	96.7
261	To foreign governments	43,918.0	76,498.5	76,464.4	174.1	100.0
262	To international organizations	41,239.1	93,584.3	83,433.8	202.3	89.2
263	To other general government units	3,661,801.1	3,366,810.8	3,260,428.7	89.0	96.8
27	Social benefits	36,204,270.1	39,856,022.5	39,730,886.6	109.7	99.7
271	Social security benefits	28,917,771.5	28,380,583.2	28,189,471.6	97.5	99.3
272	Social assistance benefits	6,731,909.7	11,235,245.6	11,177,314.8	166.0	99.5
273	Employer social benefits	554,588.9	240,193.7	364,100.2	65.7	151.6
28	Other expense	3,847,791.1	4,496,779.8	4,412,358.9	114.7	98.1
282	Miscellaneous other expense	3,841,024.2	4,496,779.8	4,408,404.3	114.8	98.0
2821	Current	2,325,646.4	1,804,297.0	1,842,516.4	79.2	102.1
2822	Capital	1,515,377.8	2,692,482.8	2,565,887.9	169.3	95.3

Source: Ministry of Finance

Observing the structure of budgetary central government expense in 2004, it can be seen that the largest share relates to social benefits, which share in total expense amounted to 48%. Compensation of employees follows with a share of 27% in total expense. Hence, these two largest expense categories account for 75% of total budgetary central government expense in the observed period.

Figure 2.12: The Structure of Budgetary Central Government Expense in 2004



Source: Ministry of Finance



2.2.2.1. Compensation of Employees

With the reallocation of expense categories of budgetary central government in 2004, the final plan for compensation of employees was set at HRK 22.335 billion, which represented an increase of 376 million to the supplementary budget or 1.7%. The reason for the increase in the planned amount for compensation of employees in 2004 arises from the fact that some budgetary users did not have enough resources to meet the need of wages and salaries and from the fact of respecting some signed collective agreements regarding material rights of employees. Out of total amount planned for compensation of employees, 85% related to wages and salaries, while the remainder related to social contributions.

According to final data for 2004, total compensation of employees amounted to HRK 22.268 billion, which is by HRK 67 million below the plan for the observed period. In the same time, such realization represents an increase of this expense of 4.9% compared to the previous year. Within the structure of realized expense for compensation of employees 85% or HRK 18.888 billion relates to wages and salaries, while the remainder of 15% or HRK 3.380 billion relates to social contributions. Although an increase was recorded in this expense during 2004, this increase is significantly lower compared to the increase of this expense recorded in 2003.

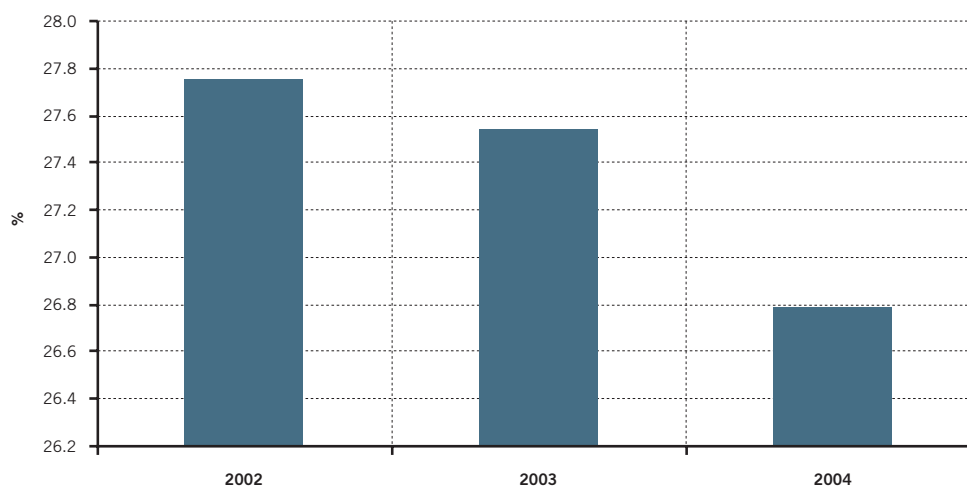
Table 2.10: Compensation of Employees in 2002, 2003 and 2004

	(000 HRK)	2002	2003	2004	Index 2003 / 2002	Index 2004 / 2003
21	Compensation of employees	19,534,161.7	21,225,816.1	22,268,286.7	114.0	104.9
211	Wages and salaries	16,677,053.8	18,037,101.2	18,888,605.2	113.3	104.7
212	Social contributions	2,857,107.9	3,188,714.9	3,379,681.5	118.3	106.0

Source: Ministry of Finance

Hence, a significant reduction in growth of compensation of employees can be observed in 2004 compared to 2003, while in the same time a moderate decrease of share of compensation of employees as the share of GDP can be seen in three years observed period.

Figure 2.13: The share of compensation of employees in total expense in 2002, 2003 and 2004



Source: Ministry of Finance





2.2.2.2. Use of Goods and Services

Total use of goods and services plan was set at HRK 4.737 billion according to supplementary budget, which according to the original plan for 2004 represented a decrease of HRK 128 million. According to the realization of this expense in 2004, this pointed out to possibility of significant savings within this expense category, budget reallocation from December of 2004 set the plan of this expense to HRK 4.501 million. Till the end of 2004, based on savings, his expense category was realized in the amount of HRK 4.359 billion, which represents a reduction of HRK 142 million to the plan or 3.2%. Such realization represents an annual increase of 4.5% in 2004.

Observing the structure of use of goods and services, it can be seen that only several of most important categories of use of goods and services account for more then half of total expense for use of goods and services in 2004. These categories are office equipment, energy, military equipment, telephone, postal expenses and expenses for transportation, intellectual, personal and other services and bank services and payment system services. It can be also observed that the largest savings within the expense for use of goods and services were achieved within abovementioned categories.

It can be further observed that the importance of use of goods and services was moderately decreasing in the period 2002-2004 expressed as the percent of total budgetary central government expense from 6.2% in 2002 to around 5.2% in 2004. Also, a reduction in importance of this expense category as the share of GDP can be observed in period 2002-2004. Namely, the share of use of goods and services in GDP was reduced from 2.4% of GDP in 2002 to 2.1% of GDP in 2004.

2.2.2.3. Interest

According to supplementary budget for 2004, interest expense plan was set at HRK 3.802 billion, while with the reallocation this plan was reduced by HRK 150 million. However, according to the final data for 2004, interest expense was realized in the amount of HRK 3.972 billion, which represents HRK 320 or 8.8% increase compared to the plan. As it was previously mentioned, interest expenses represent priority payments according to the Budget Act and as such are not limited by the plan.

Compared to 2003, interest expense recorded an annual increase of 10.7%. Observing domestic and foreign component of interest expense in 2004, it can be seen that domestic interest expense are realized above the expense for foreign interest. This information is quite significant if it is compared to the previous years in which the expense for foreign interest payments dominated in total interest expense. This clearly points out to positive effects regarding total foreign indebtedness.

Table 2.11: Interest Expense in 2002, 2003 and 2004

	(000 HRK)	2002	Structure	2003	Structure	2004	Structure
24	Interest	3,263,574.2	100.0	3,587,328.9	100.0	3,972,466.3	100.0
241	Foreign	1,887,009.3	57.8	1,879,419.9	52.4	1,976,502.3	49.8
242	Domestic	1,376,564.9	42.2	1,707,909.0	47.6	1,995,964.0	50.2

Source: Ministry of Finance

Observing the structure of interest expense in 2004, it can be seen that the largest part of this expense relates to the interest for issued bonds. Namely, total of HRK 2.671 billion or 67.2% of total interest expense in 2004 can be attributed to interest for issued bonds. Out of this amount, the largest part relates to interest for foreign issued bonds. The remainder of interest expense above the amount for foreign and domestically issued bonds relates to interest for domestic and foreign loans and domestic treasury bills.

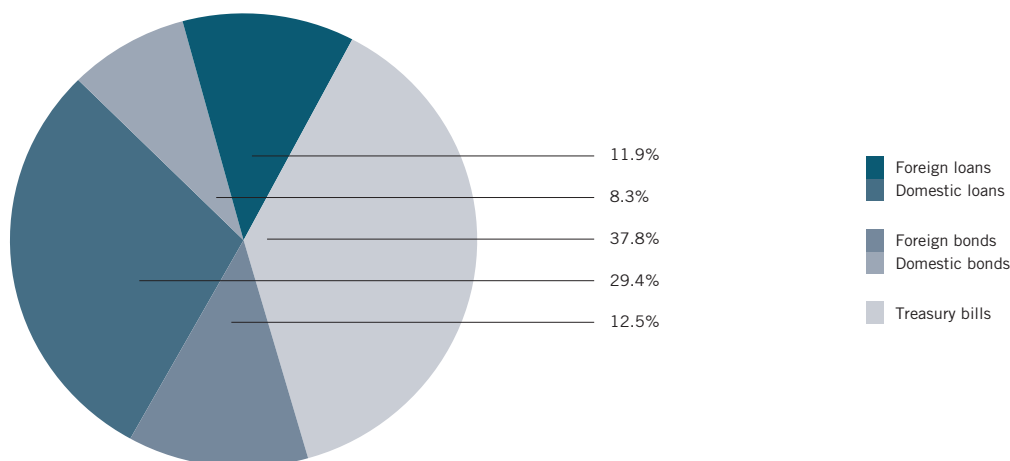
Table 2.12: The Structure of Interest Expense in 2004

(000 HRK)	2004
Interest	3,972,466.3
Foreign	1,976,502.3
Loans	474,378.2
Bonds	1,502,124.1
Domestic	1,995,964.0
Treasury bills	330,818.3
Loans	495,717.4
Bonds	1,169,428.3

Source: Ministry of Finance



Figure 2.14: The Structure of Interest Expense in 2004



Source: Ministry of Finance

2.2.2.4. Subsidies

The original plan for 2004 anticipated total expense for subsidies in the amount of HRK 3.842 billion. With the supplementary budget from July of 2004, total subsidy plan was expanded for HRK 1.248 billion where the main reason for such an increase in the plan was the fact that supplementary budget included additional resources for Croatian Railways for passenger and combined transportation and for the maintenance of the railway infrastructure based on amendments to the Law on Croatian Railways and financing of the railway infrastructure. In this way, quasi-fiscal activities that were previously performed out of the budget were eliminated. Namely, during 2002 and 2003, Croatian Railways used short-term borrowing with the guarantee of the state. Since such practice was not sustainable in the long run, it is decided to include Croatian Railways in the budget. By doing this, state has paid for guarantees, but in the same time terminated this type of financial malpractice.

Within the budget reallocation for 2004, total subsidies were decreased by HRK 15.8 million due to outturn trend up to the moment of reallocation and the final plan for 2004 was set at HRK 5.074 billion.

According to final data for 2004, total subsidies were realized in the amount of HRK 4.968 billion, which is by HRK 106 million below the plan or in other words, total subsidies amounted to 98% of the plan for 2004. In the same time, such realization represents an annual of 15.7%. The reason for such a significant increase arises from inclusion of certain quasi-fiscal activities to the budget that in preceding years were performed out of it, as it was previously explained.

Table 2.13: Subsidies in 2002, 2003 and 2004

	(000 HRK)	2002	2003	2004	Index 2003 / 2002	Index 2004 / 2003
25	Subsidies	2,104,974.5	4,292,712.4	4,968,068.5	203.9	115.7
251	To public corporations	657,422.2	1,942,931.7	2,783,462.4	295.5	143.3
252	To private enterprises	1,447,552.3	2,349,780.7	2,184,606.1	162.3	93.0

Source: Ministry of Finance

Observing the structure of subsidies in 2004, it can be seen that the subsidies to public corporations were realized above the subsidies to private enterprises. Namely, the share of subsidies to public corporations in total subsidy expense amounted to 56%. The largest part of subsidies to public corporations relates to Croatian Railways, while the largest part of subsidies to private enterprises relates to agricultural subsidies. Namely, subsidies to Croatian Railways accounted for 36.4% and subsidies to agriculture to 36.6% of total subsidy expense in 2004. Beside these main subsidy categories, other important categories of subsidies were subsidies to shipbuilding and subsidies for export financing.

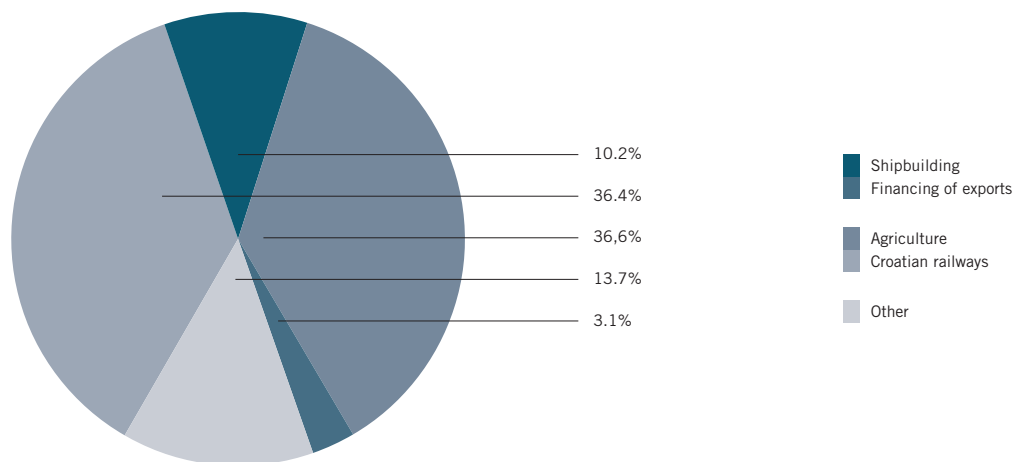


Table 2.14: The structure of Subsidies in 2004

(000 HRK)	2004
Subsidies	4,968,068.5
Croatian railways	1,807,571.0
Shipbuilding	506,681.1
Agriculture	1,816,820.2
Financing of exports	155,751.6
Other	681,244.6

Source: Ministry of Finance

Figure 2.15: The structure of Subsidies in 2004



Source: Ministry of Finance

2.2.2.5. Grants

Total grant, which relate to grants from foreign governments, grants from international organizations and grants within the general government were set at HRK 3.548 billion according to supplementary budget for 2004, while within the reallocation of the state budget were decreased by HRK 11 million. According to final data for 2004, grants were realized in the amount of HRK 3.420 billion, which is by HRK 116 million below the plan or in other words such an outturn represents 96.7% of the plan. Within the structure of grants, the largest part (95%) relates to grants within the general government, namely those grants which state budget secures to other levels of the general government (to extrabudgetary funds and agencies and to local governments). Within the consolidation on the level of consolidated central or general government, expenses for grants within the general government are consolidated (canceled).

Total grants amount of 2004 is by roughly 9% below the realization in 2003. The main reason for this reduction is the rerouting of grants within the general government mainly to areas of special government concern. With such development, the reduction of the importance of this expense category as the share of total expense of the budget and as share of GDP is continued. Namely, the share of grants in total expense was reduced from 5.9% in 2002 to 4.1% in 2004 and from 2.3% of GDP in 2002 to 1.7% in 2004.

Table 2.15: Grants in 2002, 2003 and 2004

(000 HRK)		2002	2003	2004	Index 2003 / 2002	Index 2004 / 2003
26	Grants	4,161,544.5	3,746,958.2	3,420,326.9	90.0	91.3
261	To foreign governments	66,004.3	43,918.0	76,464.4	66.5	174.1
262	To international organizations	38,682.7	41,239.1	83,433.8	106.6	202.3
263	To other general government units	4,056,857.5	3,661,801.1	3,260,428.7	90.3	89.0
2631	Current	3,956,782.1	3,198,504.5	2,498,597.5	80.8	78.1
2632	Capital	100,075.4	463,296.6	761,831.2	462.9	164.4

Source: Ministry of Finance



Observing the structure of grants within the general government as the largest part of total grants, it can be seen that the largest part (around 77%) relates to current grants within the general government where the largest share relates to expenses for decentralized functions, employment incentives, administrative and legal affairs and other.

2.2.2.5. Social Benefits

Social benefits account for the largest part of total budgetary central government expense. This expense category relates to social security benefits, social assistance benefits and employer social benefits. Supplementary budget for 2004 set the plan for social benefits at HRK 39.713 million, which compared to the original plan for 2004 represents an increase of HRK 634 million or 1.6%. The reason for the abovementioned increase in the plan of social benefits for 2004 comes from the necessity of conducting programs of social care and from an increase for pensions in accordance with the program of Croatian Government. Within the supplementary budget, additional resources for disability and family pensions of war veterans are secured, then resources for additional maternity leave in light of increasing allowances and the number of beneficiaries, resources for personal disability allowances were also secured. The reallocation from December of 2004 secured (reallocated) additional resources for social benefits in the amount of HRK 142.4 million making the final plan of the social benefits in the amount of HRK 39.856 billion.

According to the final data for 2004, social benefits were realized in the amount of HRK 39.730 million, which is by HRK 125 million or by 0.3% less than the planned amount for 2004. In the same time, such an outturn represents an annual increase of 9.7%, where tis increase can be elaborated by the conduction of the previously mentioned programs of social care and pensions.

Table 2.16: Social Benefits in 2002, 2003 and 2004

	(000 HRK)	2002	2003	2004	Index 2003 / 2002	Index 2004 / 2003
27	Social benefits	34,256,888.5	36,204,270.1	39,730,886.6	105.7	109.7
271	Social security benefits	17,950,808.8	28,917,771.5	28,189,471.6	161.1	97.5
272	Social assistance benefits	15,943,381.4	6,731,909.7	11,177,314.8	42.2	166.0
273	Employer social benefits	362,698.3	554,588.9	364,100.2	152.9	65.7

Source: Ministry of Finance

The largest part of total social benefit relates to social security benefits in 2004. This category of social benefits accounted for 71% of the total social benefits in the observed period. Such a large share in total social benefits can be expected since this item includes the largest part of pension expense.

Social assistance benefits follow with the share in total social benefits with their share of 28.1%, while the remaining part relates to employer social benefits. Within the social assistance benefits the largest part relates to the part of pensions (veteran pensions) not included in social security benefits. Beside the mentioned pension part, this item also includes numerous other expenses relating to various social rights of which permanent right of war veterans, child allowances, additional maternity leave and newborn equipment, care assistance and others need to be mentioned.

The significant impact to the overall expense for social benefits in recent years and hence to the overall expense of the budgetary central government arises from the fact that as of July 1st of 2001 the largest part of revenue and expense of the Croatian Pension Fund was included within the State Treasury system. After the inclusion of the largest part of revenue and expense of the Croatian Pension Fund, the largest part of revenue and expense of the Croatian Health Institute was also include in the State Treasury system and the largest part of revenue and expense of the Croatian Employment Service as of January 1st of 2002.

Hence, with this act social security funds terminated with the practice of collecting social contributions and with the practice of relating payouts, so that these functions were taken by the State budget. Since this inclusion relates to social funds, this act considerably affected the expense trend of social benefits of the State budget.

The largest impact for the state budget resulted from the inclusion of the largest part of revenue and expense of the Croatian Pension Fund in the State Treasury system. Hence, state budget collects contributions for the pension insurance and secures resources for the payment of pensions. There is a significant mismatch in the amounts of pension contributions and pension payouts, and ultimately this was of the main reason for the inclusion of the Funds largest part of revenue and expense within the State Treasury system as





previously explained, due to fact that this difference is covered from the budget. Namely, observing year 2004, it can be seen that the budget collected totally HRK 14.875 billion from pension contributions, while total pension outlays were realized at HRK 25.414 billion.

Such collection of the pension insurance contributions, represent an annual increase of 7% compared to the previous year, while the realization of the expense for pensions represents an annual increase of 4.3%. The reason for the unfavorable ratio of pension contributions to pension expense originates from the unfavorable ratio between the number of pensioners and the number of persons who pay contributions. In 2004, this ratio stood at 1.37 indicating that for each pensioner, totally 1.37 working persons were paying contributions.

This information can be addressed as even more serious if further ageing of population is taken into account and the resulting reduction in base of payers of contributions.

Table 2.17: Pension Insurance Contributions by months in 2002 and 2003

(000 HRK)	2002	2003	2004
Month			
January	1,101,621	1,033,585	1,150,349
February	991,464	1,087,249	1,165,041
March	957,517	1,074,748	1,206,750
April	1,029,772	1,118,349	1,221,999
May	1,021,555	1,144,207	1,225,166
June	1,025,473	1,158,653	1,233,768
July	1,071,110	1,224,616	1,284,870
August	1,036,663	1,174,554	1,246,495
September	1,048,531	1,172,804	1,261,768
October	1,042,892	1,169,332	1,235,919
November	1,041,208	1,174,276	1,250,839
December	1,162,349	1,317,535	1,392,191
TOTAL	12,530,156	13,849,908	14,875,155

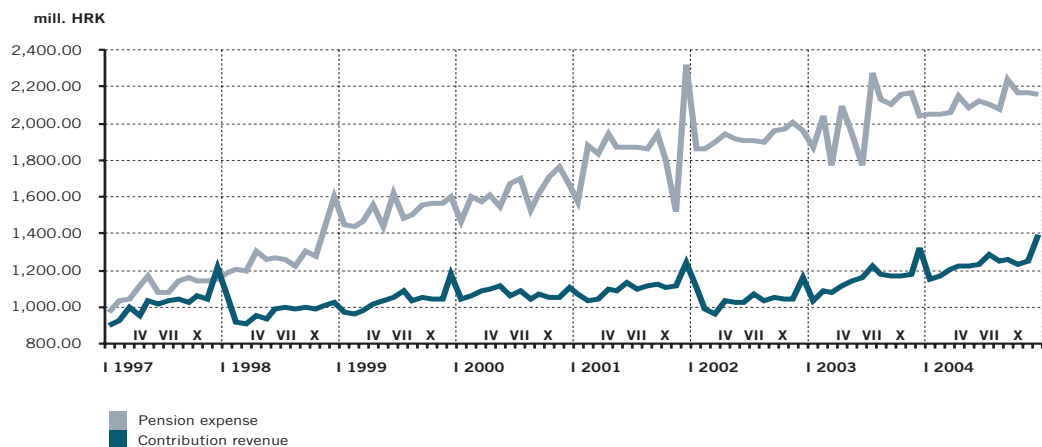
Source: Ministry of Finance

Table 2.18: Pension Expenditure by months in 2002 and 2003

(000 HRK)	2002	2003	2004
Month			
January	1,864,870	1,874,021	2,048,779
February	1,857,688	2,040,386	2,048,521
March	1,896,842	1,775,049	2,057,156
April	1,940,890	2,091,228	2,145,566
May	1,910,165	1,945,300	2,081,263
June	1,906,356	1,773,659	2,118,977
July	1,909,153	2,270,140	2,104,665
August	1,893,875	2,128,532	2,079,324
September	1,975,122	2,100,915	2,241,690
October	1,965,633	2,159,010	2,164,951
November	2,005,666	2,170,494	2,164,980
December	1,963,724	2,037,612	2,158,486
TOTAL	23,089,983	24,366,345	25,414,357

Source: Ministry of Finance

Figure 2.16: Pension Expenditure and Pension Insurance Contributions 1997 - 2004



Source: Ministry of Finance

Observing the structure of pension expense in 2004, it can be seen that the largest part relates to old-age pensions, family and disability pensions. These categories account for 72.3% of total pension expense. War veteran pensions were realized in the amount of HRK 2.754 billion in 2004 and as such this expense represents an annual increase of high 40%. The remainder of the pension expense relates to other pension categories classified upon the beneficiary groups which receive the pension, such as the ex Yugoslav army personnel, member of Croatian Homeland army, members of HAZU (Croatian Academy of Science and Art) and others.

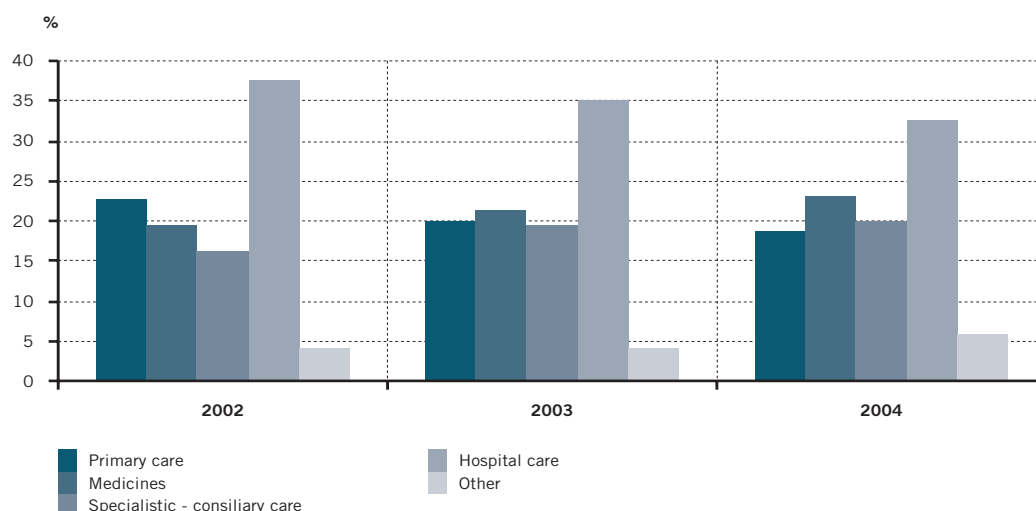


Within the social benefits, a part of health system expenditure is included, however it is important to mention that the part of health expenditure, according to GFS 2001 methodology, is reclassified in compensation of employees. Namely, budget secures resources for health over the 27 account (stands for social benefits), however in those amounts a part of expenditure that is not a social benefit by nature is included but those are compensation of employees and thus are reclassified according to GFS 2001.

If the entire health expenditure is observed, thus including the part that is reclassified to compensation of employees, in 2004 total of HRK 13.958 billion was paid out for the health, which compared to the previous year represents an increase of 10%.

If, on the other hand, we exclude the part of health expenditure that was reclassified to compensation of employees, than the annual increase of 13% can be observed. The reason for such relatively high increase primarily arises from the fact that the budget paid out HRK 533 million in 2004 to cover the substantial part of arrears of health institutions to their suppliers. Hence, it can be concluded that the payout of health liabilities on one side and the inclusion of the largest part of revenue and expense of the Croatian Health Institute to the budget, caused and causes significant impact to the revenue side but especially to the expense side of the budget.

Figure 2.17: Structure of Main Health Expenditures 2002- 2004



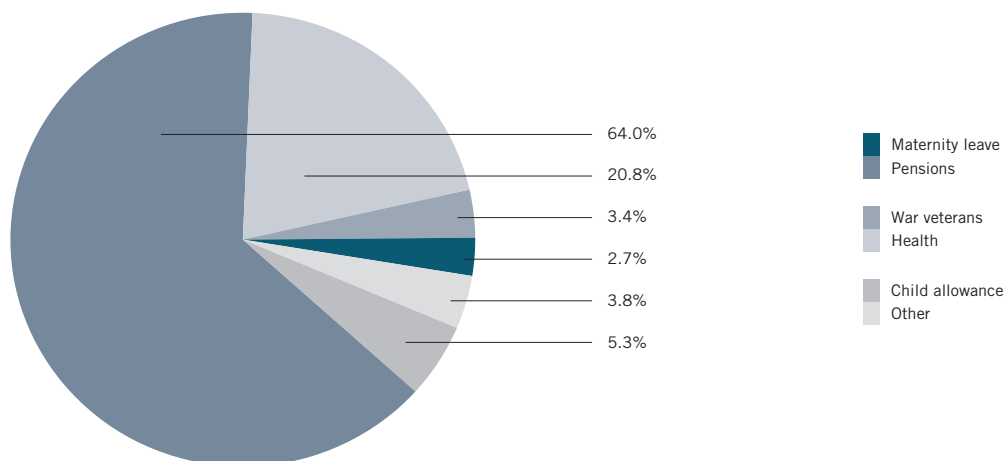
Source: Ministry of Finance

In accordance with the increase of allowances and the number of beneficiaries, maternity leave expense in 2004 was realized in the amount of HRK 1.057 billion, which represents an increase of 8.3% compared to 2003. In the same time, expenses for care for the war veterans increased significantly compared to the previous year in light of securing the realization of the veteran permanent rights, so that these expenses were realized in the amount of HRK 1.347 billion, which represents an annual increase of 5.3%. As the case with Croatian Pension Fund and Croatian Health Insurance Institute, the largest part of revenue and expense of the Croatian Employment Service was included in the State Treasury system. So, in that sense, unemployment benefits were realized in the amount of HRK 867 million. Of other large categories of social benefits, it is worth to mention child allowance, which in 2004 was realized in the amount of HRK 1.509 billion.





Figure 2.18: Social Benefits Structure in 2004



Source: Ministry of Finance

2.2.2.6. Other Expense

Supplementary budget for 2004 set the plan of HRK 4.354 billion for other expense, which compared to the original plan for 2004 represented an increase of HRK 42.7 million or 1%. The main reason for this increase originated from an increase in other capital expense, precisely in capital grants to banks and other financial institutions and enterprises outside the public sector. Budget reallocation from December of 2004, secured (reallocated) additionally resources for current and capital other expense, so that the final plan for 2004 was established in the amount of HRK 4.497 billion. According to the final data for 2004, total other expense of the budgetary central government was realized in the amount of HRK 4.412 billion, which compared to 2003 represents an increase of 14.7%. In the same time, such realization represents 98.1% of the plan for 2004. Out of total amount of the budgetary central government other expense, 99.9% relates to various other expenses, while the remainder relates to expense for property other than interest.

Hence, various other expenses, which account for the largest part of total other expense, were realized in the amount of HRK 4.408 billion. This category is divided between the current other expense in the amount of HRK 1.842 billion and capital amount in the amount of HRK 2.566 billion.

Table 2.19: Other Expense in 2002, 2003 and 2004

(000 HRK)		2002	2003	2004	Index 2003 / 2002	Index 2004 / 2003
28	Other expense	2,684,283.5	3,847,791.1	4,412,358.9	143.3	114.7
281	Property expense other than interest	451.8	6,766.9	3,954.6	1497.8	58.4
282	Miscellaneous other expense	2,683,831.7	3,841,024.2	4,408,404.3	143.1	114.8
2821	Current	1,331,109.2	2,325,646.4	1,842,516.4	174.7	79.2
2822	Capital	1,352,722.5	1,515,377.8	2,565,887.9	112.0	169.3

Source: Ministry of Finance

Observing the structure of budgetary central government other expense, it can be noted that the largest part of total their expense relates to capital other expense (58.1%). In the same time, other capital expense was recorded in the amount of HRK 2.566 billion, which represents a significant annual increase of 12%. Within the structure of capital other expense, other capital expense to enterprises dominate (54% of capital other expense). Within the abovementioned category of capital other expense, the largest part relates to expense for modernization and development of railway tracks and crossings for international transport and severance pay for the employees of the Croatian Railways. Of all other large components of capital other expense to enterprises, housing savings should be mentioned.

Next, within the capital other expense, with the amount of realization, capital other expense to households follows, whose share in total other expense amounted to 32% in 2004. Observing the structure of this capital other expense, it can be seen that the largest part of it relates to expense for reconstruction of the war damaged housing units. The remainder of capital other expense relates to capital other expense to

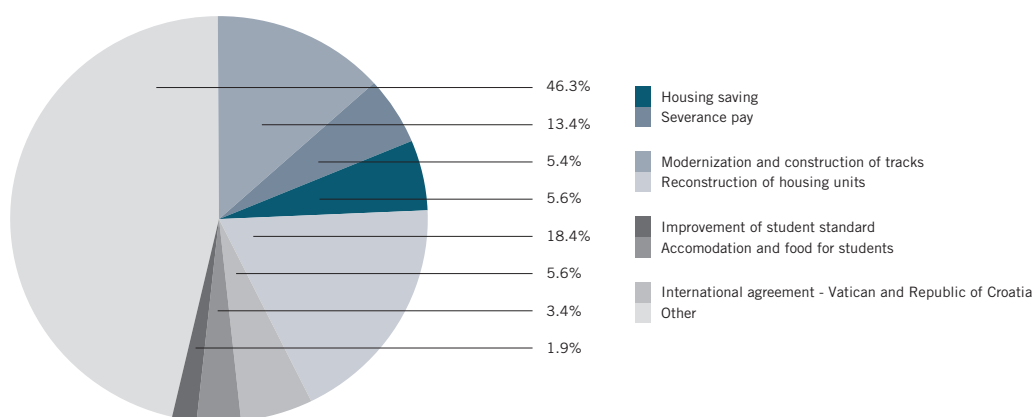


nonprofit institutions, within which the largest part relates to expense for the preservation of the cultural monuments, and to construction and the maintenance of the institutions of culture. The above-mentioned largest component of capital other expense, account for 78% of total capital other expense.

Observing the current other expense, it can be seen that this expense category was realized at HRK 1.842 billion, which represents 41.8% of total other expense of the budgetary central government and which represents 79.2% of the amount realized in the previous year. Within the structure of this expense, current other expense to nonprofit institutions should be mentioned as the largest part of total current other expense. Namely, this other expense category accounts for 82% of total current other expense. Current other expense to nonprofit institutions entirely relates to current donations in cash where the largest part relates to international agreement of the Republic of Croatia and the Holy See, donations for the food and housing of students follow and donations for the improvement of the student standard of living, sports donations, donations for libraries and for publishing and other.

Hence, by presenting the largest categories of the other expense, a clearer picture of this expense category in 2004 can be seen, which is also demonstrated in the following figure.

Figure 2.19: The Structure of Other Expense in 2004



Source: Ministry of Finance

2.2.3. Budgetary Central Government Expense by Function in 2004

Functional classification of expense enables international comparability of specific categories of expense as well as the analysis of public expenditures. According to GFS 2001 methodology, the total amount of budgetary central government expense by function amounted to HRK 84.795 billion in 2004, which represents an annual increase of 7.1%. It is worth to mention that according to GFS 2001 methodology, expense by function relates to GFS 2001 expense plus the acquisition of nonfinancial assets.

Table 2.20: Budgetary Central Government Expense by Function, Structure and Share in GDP

		Structure			Share in GDP		
		2002	2003	2004	2002	2003	2004
7	Total expense	100.0	100.0	100.0	41.3	41.0	40.9
701	General public services	9.9	10.4	10.6	4.1	4.2	4.3
702	Defense	5.9	5.2	4.4	2.4	2.1	1.8
703	Public order and safety	6.5	6.5	6.5	2.7	2.7	2.7
704	Economic affairs	7.7	8.4	9.3	3.2	3.4	3.8
705	Environment protection	0.4	0.4	0.3	0.1	0.2	0.1
706	Housing and community amenity affairs	1.9	2.3	3.0	0.8	0.9	1.2
707	Health	14.4	14.7	15.0	6.0	6.0	6.1
708	Recreation, culture and religion	1.3	1.4	1.5	0.6	0.6	0.6
709	Education	8.5	8.6	8.5	3.5	3.5	3.5
710	Social protection	43.4	42.2	41.1	18.0	17.3	16.8

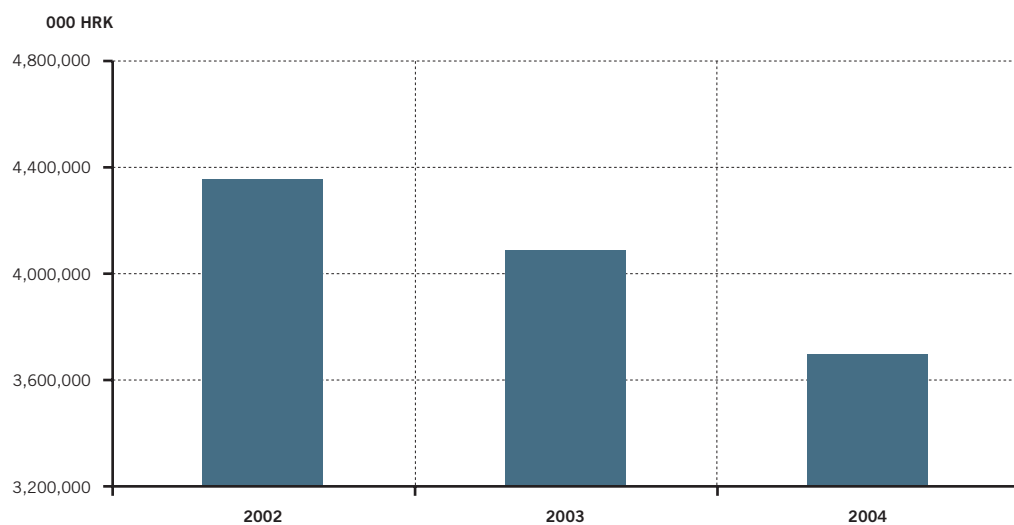
Source: Ministry of Finance



Observing the expense by function in the period 2002-2004 according to GFS 2001 it can be seen that the expense for general public services continuously increase as a share in GDP. In the same time the expense for general public services record an increase as a share of total budgetary central government expense. Since this expense category relates by large to public debt transactions and legal affairs, the increase of this expense can generally be considered as an unfavorable development.

The share of general public services increased from 4.1% of GDP in 2002 to 4.3% of GDP in 2004. In the same time, a significant relative decrease of the share for defense expenditure in total expense and as a share in GDP can be observed, which is in line with the rationalization of the organization and modernization of arm forces. The share of defense expenditure was reduced from 2.4% of GDP in 2002 to 1.8% in 2004.

Figure 2.20: Defense in 2002 - 2004



Source: Ministry of Finance

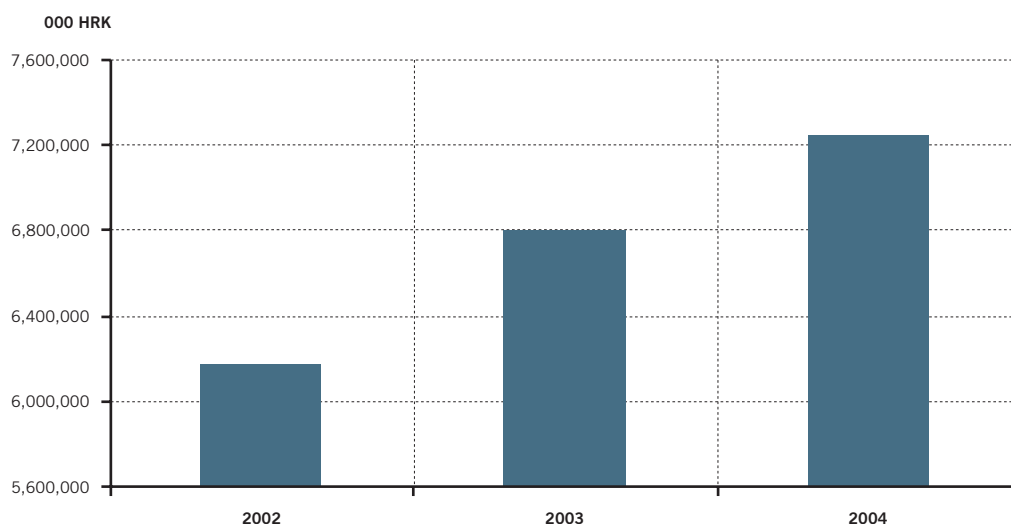
Expense for public order and safety kept the same share in total expense and in GDP in the observed period. Namely, this expense category stood at 2.7% of GDP in the observed period although in 2003 and 2004 a slight increase can be observed in these expenses compared to 2002. The largest part of this category of expense by function relates to police forces, fire fighting and judiciary issues.

In the same period, economic affairs recorded a significant increase as a share of total expense and as a share of GDP. Namely, these expenses increased from 3.2% of GDP in 2002 to 3.8% in 2004. The largest contribution to the increase of this expense category arises from the increase of general economic affairs associated with the increase in agricultural expenses, forestry expenses, fishery, hunting and transportation. The largest part of this category of expense relates to agricultural expenses and railway transportation expenses. In the same time, it is worth to mention that an increase can be observed in expenses for health, recreation, culture and religion, which in general can be considered as a favorable trend.

Especially, an increase in education expenses can be considered as a favorable trend with the target of securing necessary conditions to achieve the effective educational system which should be improved in the way to absorb the larger number of persons that it was the case in previous years and especially in tertiary education.



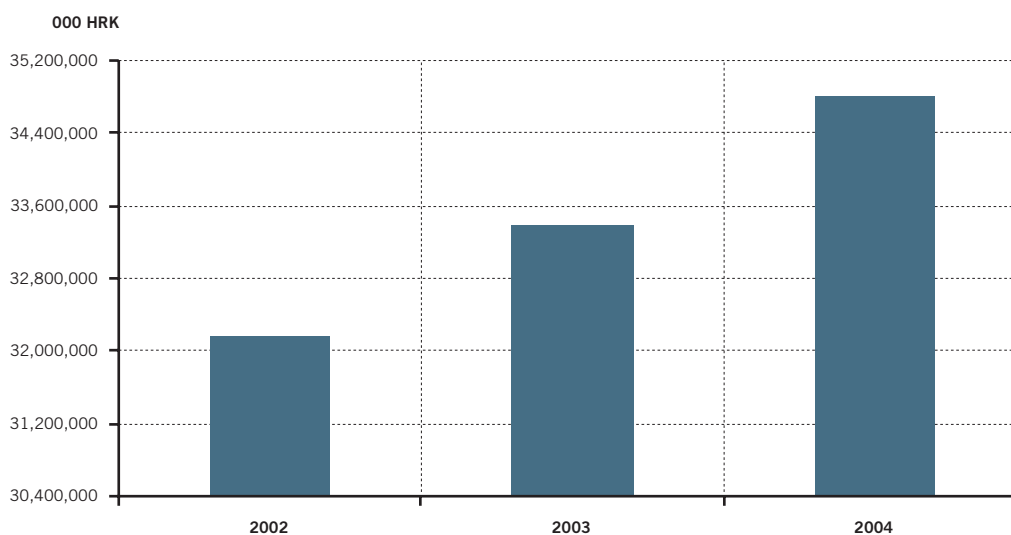
Figure 2.21: Education in 2002 - 2004



Source: Ministry of Finance

The largest part of budgetary central government expense, observed by function, is associated with social protection expenses, which in 2004 accounted for 41.1% of total expense. Although a slight decrease of the share of this category of expense in total expense and as a share of GDP can be observed, social protection recorded significant annual increases in the observed period. Namely, in 2004 social protection recorded an annual increase of 4.2% where the largest contribution to the increase originates from an increase in pension expense as the largest single category of social protection expense.

Figure 2.22: Social Protection in 2002 - 2004



Source: Ministry of Finance



2.3. Transactions in Nonfinancial Assets of the Budgetary Central Government



Transactions in nonfinancial assets refer to all expenditure associated with the acquisition of nonfinancial assets and to all receipts associated with the disposal of nonfinancial assets. In that sense, the amounts of net transactions in nonfinancial assets are the net result of all acquisitions and all disposals, hence the total acquisition reduced by the amount of total disposal of nonfinancial assets.

According to the original plan for 2004, net nonfinancial assets were planned in the amount of HRK 1.907 billion, which was the result of HRK 2.151 billion of total acquisition of nonfinancial assets and HRK 244 million of total disposal of nonfinancial assets. Supplementary budget, from July of 2004, reduced the total plan of net nonfinancial assets for 2004 by HRK 72 million or by 3.4% in line with the slower than expected realization in first six months of 2004.

Supplementary budget from July of 2004 did not change the expected amount of the disposal of nonfinancial assets so that the final supplementary budget plan of net nonfinancial assets was set at HRK 1.835 billion. Further, based upon the realization of net nonfinancial assets in the second half of 2004, budget reallocation from December of 2004 reduced the plan for this category by HRK 270 million or by 13%. The reason for this major reduction of the plan arises from the realization during first eleven months of the observed year. In the same time the expected disposal of nonfinancial assets was not changed relative to the supplementary budget so that the final plan for the net acquisition of nonfinancial assets was set at HRK 1.565 billion. Out of that amount, the largest part, namely HRK 1.541 billion or 98.5%, refers to acquisition of fixed assets or to be more precise to acquisition of buildings and structures. In the same time, net acquisition of valuables amounted to HRK 7.6 million, while the net acquisition of nonproduced assets amounted to HRK 15.9 million.

According to final data for 2004, total net acquisition of nonfinancial assets was realized in the amount of HRK 1.419 billion, which is by HRK 146 million or by 9.3% below the plan for that year. In the same time, such an outturn represents an annual decrease of 21.7%. Total net acquisition of nonfinancial assets in 2004 is the result of the total acquisition of nonfinancial assets in the amount of HRK 1.664 billion and total disposal in the amount of HRK 244.4 million. Hence, it can easily be observed that the reason for the abovementioned decrease of net nonfinancial assets compared to the plan arises exclusively from a decrease in the acquisition level of nonfinancial assets, having in mind that the total disposal practically was realized in line with the plan.

Observing the structure of the net acquisition of nonfinancial assets, it can be seen that the largest decrease to the plan comes from a decrease in acquisition of fixed assets (by HRK 156 million), while the net acquisition of nonproduced assets was realized by HRK 11 million above the plan for 2004.

Within the net acquisition of fixed assets, which in 2004 was realized at HRK 1.384 billion, the largest part relates to the net acquisition of buildings and structures, which according to the final data for 2004 accounts for 58.6% of the total net acquisition of nonfinancial assets, namely this category amounted to HRK 811.4 million. This figure is the result of the HRK 1.050 billion of acquisition and HRK 239 million of disposals of nonfinancial assets. Net acquisition of machinery and equipment follows with the amount of HRK 518.9 million and net acquisition of the other nonfinancial assets in the amount of HRK 54.2 million.

If the structure of the realized net acquisition of nonfinancial assets is observed more carefully, it can be seen that the largest acquisition refers to buildings and structures, then to machinery and equipment and finally to other nonfinancial assets. Total acquisition of fixed assets amounted to HRK 1.624 billion. The largest part of acquisition of buildings and structures refers to acquisitions of business buildings and structures (67% of total buildings and structures acquisition), then housing objects (32%) and other buildings and structures (0.2%). The largest part of business buildings and structures in 2004 refers to the construction and reconstruction of school and hospital objects.

In the same time, the largest part of the acquisition of housing object refers to the return of the property, temporary housing arrangements and purchase of real estate in the name of the Republic of Croatia. The largest part of the acquisition of other nonfinancial assets refers to arrangement of the place of mass graves from the homeland war. The acquisition of buildings and structures accounts for 65% of total acquisition of fixed assets.

Total acquisition of machinery and equipment by large (almost 93%) refers to acquisition of other machinery and equipment where the largest part relates to office equipment, furniture and maintenance and protection. Total acquisition of machinery and equipment accounts for 32% of the acquisition of fixed assets.

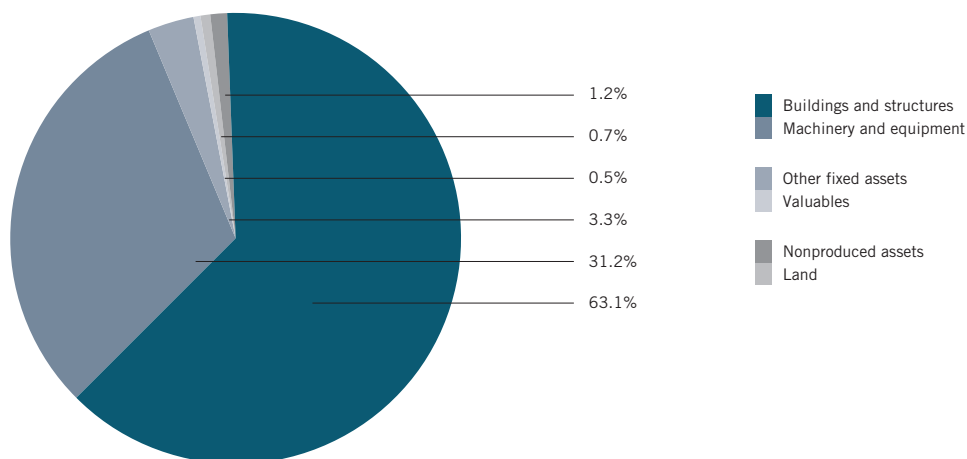
Total acquisition of other fixed assets account for only 3% of total acquisition of fixed assets and to a largest extent refers to acquisitions of computer programs.

Total acquisition of valuables in 2004 amounted to HRK 7.5 million, while no disposals were recorded. The acquisition of valuables by large refers to official state mapping and to the improvements of the Constitutional court of the Republic of Croatia.

Total acquisition of nonproduced assets amounted to HRK 32.3 million in 2004, which by large refers to acquisition of land, licenses and other rights.



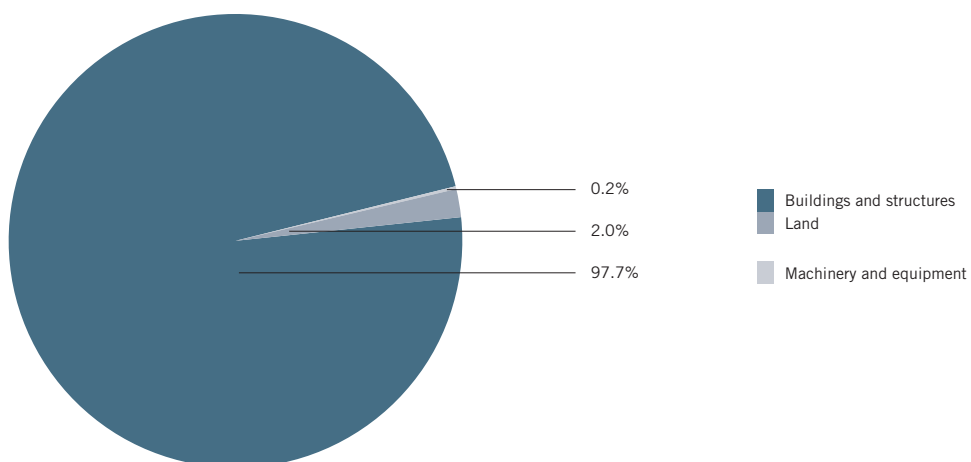
Figure 2.23: Structure of the Acquisition of Nonfinancial Assets in 2004



Source: Ministry of Finance

Total disposal of nonfinancial assets amounted to HRK 244 million in 2004, and almost entirely it refers to disposal of fixed assets (97.7%), while the remainder relates to the disposal of nonproduced assets. The largest disposals of fixed assets refers to disposal of buildings and structures (over 99%) of the total disposal of fixed assets, by large relating to disposal of housing units that are the property of the state. Disposal of nonproduced assets entirely relates to the disposal of land.

Figure 2.24: Structure of Disposal of Nonfinancial Assets in 2004



Source: Ministry of Finance

Hence, from the above-mentioned, total net acquisition of nonfinancial assets of the budgetary central government amounted to HRK 1.419 billion in 2004, which is the result of described acquisitions of nonfinancial assets in the amount of HRK 1.664 billion and disposals in the amount of HRK 244 million.



Table 2.22: Budgetary Central Government Net Acquisition of Nonfinancial Assets in 2002, 2003 and 2004

	(000 HRK)	2002	2003	2004	Index 2003/2002	Index 2004/2003
31	NET ACQUISITION OF NONFINANCIAL ASSETS	1,377,002.9	1,812,403.6	1,419,466.9	131.6	78.3
311	Fixed assets	1,284,191.8	1,795,345.4	1,384,608.6	139.8	77.1
311,1	Acquisitions: fixed assets	1,499,188.5	2,019,172.2	1,624,050.5	134.7	80.4
311,2	Disposals: fixed assets	214,996.7	223,826.8	239,441.9	104.1	107.0
3111	Buildings and structures	715,757.4	1,199,770.2	811,476.8	167.6	67.6
3112	Machinery and equipment	388,336.5	516,597.8	518,941.0	133.0	100.5
3113	Other fixed assets	180,097.9	78,977.4	54,190.8	43.9	68.6
313	Valuables	69,099.8	5,303.3	7,518.2	7.7	141.8
313,1	Acquisitions: valuables	69,099.8	5,303.3	7,518.2	7.7	141.8
313,2	Disposals: valuables	0.0	0.0	0.0		
314	Nonproduced assets	23,704.1	11,754.9	27,340.1	49.6	232.6
314,1	Acquisitions: nonproduced assets	26,743.6	30,513.9	32,299.2	114.1	105.9
314,2	Disposals: nonproduced assets	3,039.5	18,759.0	4,959.1	617.2	26.4
3141	Land	-2,010.2	-18,361.1	7,062.3	913.4	-38.5
3144	Intangible nonproduced assets	25,714.3	30,116.0	20,277.8	117.1	67.3

Source: Ministry of Finance



2.4. Transactions in Financial Assets and Liabilities of the Budgetary Central Government

According to GFS 2001 methodology, different measures of deficit/surplus are observed, which are defined within the GFS methodology. The most important measure of deficit/surplus is net lending/borrowing. In this chapter we present the realization of the financial assets and liabilities in 2004 due to fact that the net lending/borrowing can alternatively be explained as the difference between the net acquisition of financial assets and net incurrence of liabilities.

In other words, total financing of the net lending/borrowing originates in transactions in financial assets and liabilities or in other words it is equal to the difference between the net incurrence of liabilities and net acquisition of financial assets within the certain period of time. In 2004, total net incurrence of liabilities accounted to HRK 4.309 billion, while in the same time total net acquisition of financial assets amounted to HRK 222 million. Based on these data, total financing of the net lending/borrowing amount amounts to HRK 4.087 billion. Further in this text, a more thorough description of transactions in financial assets and liabilities of the budgetary central government is provided.

Total net financial assets of the budgetary central government amounted to HRK 222 million in 2004, which is the result of HRK 212.2 million of net domestic financial assets and HRK 9.8 million of foreign net financial assets. The component of the net financial assets is the result of acquisitions and disposals of financial assets and the change in money and deposits.

Hence, HRK 212.2 million of net domestic financial assets in 2004 is the result of the change in money and deposits of HRK -1.114 billion, net acquisition of loans in the amount of HRK 1.002 billion and net acquisition of shares and other equity in the amount of HRK 323.5 million.

According to GFS 2001 methodology, negative amount of the certain category of financial assets reflects the reduction of that category, while the positive value indicates an increase. In that sense, negative amount of money and deposits indicates a withdrawal of money and deposits from the state account in the observed period. Net acquisition of domestic loans, in previously mentioned amount, is the result of acquisition of loans in the amount of HRK 1.329 billion and disposal of loans in the amount of HRK 326 million. Acquisition of loans by large represents loans provided to enterprises in the public sector, then loans provided to domestic enterprises, crafts, small and medium size entrepreneurs and loans provided to nonprofit institutions, citizens and households.

Out of total amount of acquired loans, loans to enterprises within the public sector accounted to 48%. Acquisition of domestic shares and other equity amounted to HRK 448.5 million in 2004, which by large relates to shares and other equity in banks and other financial institutions (founding capital of Croatian bank for reconstruction and development).

Disposals of domestic loans were realized in the amount of HRK 326 million in 2004, and this amount mainly relates to repayment of the loan principal from domestic enterprises, small and medium size entrepreneurs. Disposals of domestic shares and other equity was realized in the amount of HRK 125 million in 2004, which relates to the sale of shares and equity that state holds in enterprises within the public enterprises, thus privatization.

Foreign net financial assets amounted to HRK 9.7 million in 2004, which entirely relates to acquisition of shares and other equity in foreign banks and other financial institutions or precisely to founding capital in international financial institutions. In the following table, we present transactions in financial assets of the budgetary central government in 2002-2004 period.

Table 2.23: Budgetary Central Government Net Acquisition of Financial Assets in 2002, 2003 and 2004

	(000 HRK)	2002	2003	2004
32	NET ACQUISITION OF FINANCIAL ASSETS	1,649,392.2	-1,320,128.6	221,977.3
321	Domestic	1,635,902.8	-1,330,054.7	212,191.5
3212	Currency and deposits	359,542.9	1,146,530.3	-1,114,263.8
3213	Securities other than shares	0.0	0.0	0.0
3214	Loans	689,541.9	393,362.8	1,002,955.3
3214,1	Acquisition	1,014,320.7	1,576,177.4	1,328,793.9
3214,2	Disposal	324,778.8	1,182,814.6	325,838.6
3215	Shares and other equity	586,818.0	-2,869,947.8	323,500.0
3215,1	Acquisition	586,818.0	485,020.0	448,500.0
3215,2	Disposal	0.0	3,354,967.8	125,000.0
322	Foreign	13,489.4	9,926.1	9,785.8
3225	Shares and other equity	13,489.4	9,926.1	9,785.8
3225,1	Acquisition	13,489.4	9,926.1	9,785.8
3225,2	Disposal	0.0	0.0	0.0

Source: Ministry of Finance





Total net incurrence of liabilities of the budgetary central government amounted to HRK 4.309 billion in 2004, which is the result of net domestic incurrence of liabilities in the amount of HRK 4.038 billion and net foreign incurrence of liabilities in the amount of HRK 270.3 million. Total net domestic incurrence of liabilities are the result of incurrence and repayments on domestic financial markets, so that total net domestic incurrence amounted to HRK 13.048 billion, which incorporated HRK 11.382 billion of incurrence through securities other than shares and HRK 1.665 billion of incurrence through loans.

The abovementioned amount of HRK 11.382 of incurrence through securities other than shares incorporated the incurrence of liabilities through treasury bills and bonds. Out of that amount, HRK 2.297 relates to incurrence of liabilities through domestic treasury bills, while HRK 9.085 billion relates to incurrence of liabilities through domestic bond issuance.

Total net domestic repayments amounted to HRK 9.009 billion in 2004, where this figure relates to HRK 5.025 billion of repayment for securities other than share and HRK 3.948 billion of repayment for loans.

Total net foreign incurrence of liabilities amounted to HRK 270.3 million in 2004, which relates to HRK 4.977 billion of foreign incurrence of liabilities and HRK 4.707 billion of foreign repayments. Out of total amount of foreign incurrence of liabilities in 2004, the largest part or HRK 3.742 billion relates to incurrence of liabilities through securities other than shares, while the remainder of the foreign incurrence of liabilities refers to loans, in the amount of HRK 1.235 billion. Total amount of foreign incurrence through securities other than shares relates to foreign bond issuance. Total foreign repayments amounted to HRK 4.707 billion, where total of HRK 2.526 billion relates to repayment of securities other than shares, while the remainder in the amount of HRK 2.180 refers to repayment of loans.

Hence, observed in total, through total incurrence and total repayments, total net incurrence of liabilities in 2004 amounted to previously stated amount of HRK 4.309 billion, which is the result of total (domestic and foreign) incurrence of liabilities in the amount of HRK 18.026 billion and total (domestic and foreign) repayments in the amount of HRK 13.717 billion.

Table 2.24: Budgetary Central Government Net Incurrence of Liabilities in 2002, 2003 and 2004

	(000 HRK)	2002	2003	2004
33	NET INCURRENCE OF LIABILITIES	3,772,670.7	2,890,288.7	4,309,040.4
33,1	Total repayments	6,240,866.3	6,520,770.5	13,717,081.5
33,2	Total incurrence	10,013,537.0	9,411,059.2	18,026,121.9
331	Domestic	1,424,916.2	-159,690.2	4,038,705.1
331,1	Repayment	1,734,325.3	4,146,435.2	9,009,705.0
331,2	Incurrence	3,159,241.5	3,986,745.0	13,048,410.1
3313	Securities other than shares	1,297,359.9	635,810.6	6,357,475.7
3313,1	Repayment	1,481,694.3	2,305,093.0	5,025,194.2
3313,2	Incurrence	2,779,054.2	2,940,903.6	11,382,669.9
3314	Loans	127,556.3	-795,500.8	-2,318,770.6
3314,1	Repayment	252,631.0	1,841,342.2	3,984,510.8
3314,2	Incurrence	380,187.3	1,045,841.4	1,665,740.2
332	Foreign	2,347,754.5	3,049,978.9	270,335.3
332,1	Repayment	4,506,541.0	2,374,335.3	4,707,376.5
332,2	Incurrence	6,854,295.5	5,424,314.2	4,977,711.8
3323	Securities other than shares	3,024,357.8	4,051,109.1	1,215,439.1
3323,1	Repayment	2,579,181.0	0.0	2,526,875.9
3323,2	Incurrence	5,603,538.8	4,051,109.1	3,742,315.0
3324	Loans	-676,603.3	-1,001,130.2	-945,103.8
3324,1	Repayment	1,927,360.0	2,374,335.3	2,180,500.6
3324,2	Incurrence	1,250,756.7	1,373,205.1	1,235,396.8

Source: Ministry of Finance

Observing the structure of total net incurrence of liabilities of the budgetary central government in 2004, regarding the net incurrence on domestic and foreign financial markets, it is obvious that a major shift occurred in 2004. Namely, budgetary central government relies heavily on domestic financial markets for its financing needs in 2004, which was not the case in previous years. This practice continues even in 2005 and results with the positive effects on overall stabilization of the growth of foreign indebtedness on one side and on further development of domestic financial markets on the other side.



2.5. Measures of Deficit/Surplus and Financing of the Budgetary Central Government

In the next table we present different measures of deficit/surplus of the budgetary central government according to GFS 2001 methodology, which were explained in the introductory part of this Annual report of the Ministry of finance. Also, table shows the amount of financing of the main measure of deficit/surplus, namely of net lending/borrowing where the amount of financing is equal to the amount of net lending/borrowing just with a opposite sign.

Table 2.25. Budgetary Central Government Deficit/Surplus Measures According to GFS 2001

	(000 HRK)	2002	2003	2004
	TRANSACTIONS AFFECTING NET WORTH			
1	Revenue	69,651,075	74,677,474	80,463,518
2	Expense	70,397,351	77,075,487	83,131,114
24	Interest	3,263,574	3,587,329	3,972,466
	Net - gross operating balance (1 - 2)	-746,276	-2,398,014	-2,667,596
	Primary operating balance (1 - 2 + 24)	2,517,299	1,189,315	1,304,870
	TRANSACTIONS IN NONFINANCIAL ASSETS			
31	Net acquisition of nonfinancial assets	1,377,003	1,812,404	1,419,467
	Net lending - borrowing (1 - 2 - 31)	-2,123,279	-4,210,417	-4,087,063
	Financing (33-32)	2,123,279	4,210,417	4,087,063
	TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES			
32	Net acquisition of financial assets	1,649,392	-1,320,129	221,977
33	Net incurrence of liabilities	3,772,671	2,890,289	4,309,040

Source: Ministry of Finance

Net operating balance, which according to government finance statistics methodology 2001 is defined as the difference between the revenue and expense of the budgetary central government amounted to HRK -2.668 billion. As a measure of budgetary deficit/surplus, also primary operating balance is observed which serves as the indicator of the current fiscal policy having in mind that this measure excludes interest payments from previously explained measure of deficit/surplus and thus excludes the effects of previous deficits and accumulated public debt.

In 2004, interest payments amounted to HRK 3.972 billion making the primary operating balance in the amount of HRK 1.305 billion. Net lending/borrowing is defined as the difference between the net operating balance and net acquisition of nonfinancial assets. Net acquisition of nonfinancial assets amounted to HRK 1.419 billion in 2004 making the net lending/borrowing at the level of HRK -4.087 billion in 2004. Compared to 2003, net lending/borrowing was reduced by HRK 123.4 million. Total financing of the net lending/borrowing amounted to HRK 4.087 billion in 2004, which is the result of net incurrence of liabilities in the amount of HRK 4.309 billion and net acquisition of financial assets in the amount of HRK 222 million.





3.1. Revenue, Expense and Transactions in Nonfinancial Assets of the Extrabudgetary Funds and Agencies



In the Republic of Croatia, five extrabudgetary funds and four agencies existed in 2004. The funds include Croatian Pension Insurance Fund, Croatian Health Insurance Fund, Croatian Employment Service, Croatian Waters and Environment Protection Fund, the last being established in 2004. The agencies include Croatian Motorways, Croatian Roads, State Agency for Deposit Insurance and Bank Rehabilitation and Croatian Privatization Fund.

By observing the budget execution of all the extrabudgetary funds and agencies in 2004, it can be seen that they have all together collected revenue in the amount of HRK 7.830 billion, of which the largest share was collected by the Croatian Motorways, followed by Croatian Waters and Croatian Roads (see table 3.2.). A significant share of revenue of Croatian Motorways and Croatian Roads was realized on the basis of the share in the excises on petroleum products. Stated amount of collected revenue represents a 9% annual decrease of revenues which is, primarily, the result of reduction in grants from the budgetary central government to funds and agencies in 2004, compared to 2003.

Total expenditures of the extrabudgetary funds and agencies in 2004 were at the level of HRK 5.085 billion (see table 3.2.) which, in comparison to 2003, represents a significant decrease of 17%. The reason for these developments lies within the fact that in 2003 a significant amount of social benefits was recorded at the accounts of social security funds, whereas this amount has decreased in 2004. Within the structure of total expenditures of the extrabudgetary funds and agencies, the most significant place is occupied by the Croatian Waters which account for 28% of total expenditures.

The process of intensive motorway and road construction, followed by the improvements and maintenance of the existing roads and, finally, the investments in water management have marked the dynamics of total nonfinancial assets of the extrabudgetary funds and agencies in 2004. Namely, total net acquisition of nonfinancial assets (acquisition subtracted by the disposal) was HRK 6.953 billion in 2004 at the level of the extrabudgetary funds and agencies (see table 3.2.). This amount in 2004 represents an annual increase of 12.5%. It is worth mentioning that over 80% of total net acquisition of nonfinancial assets is related to Croatian Motorways which is not surprising given the works which were carried out in 2004.



3.2. Transactions in Financial Assets and Liabilities of the Extrabudgetary Funds and Agencies

Total net financial assets of the extrabudgetary funds and agencies in 2004 amounted to HRK -120 million which was exclusively the result of transaction in domestic financial assets. According to the Government Finance Statistics methodology, GFS 2001, net financial assets consists of acquisition and disposal of financial assets and change in the currency and deposit balance. Croatian Motorways account for the largest share in the financial assets of the extrabudgetary funds. Financial assets of Croatian Motorways in 2004 amounted to HRK -162.3 million, followed by the financial assets of the State Agency for Deposit Insurance in the amount of HRK -134.2 million. Domestic financial assets of the extrabudgetary funds amounted to HRK -120 million in 2004 which is the result of the change in the currency and deposit balance of HRK 223.2 million, the acquisition of loans in the amount of HRK -193.2 million and net acquisition of shares and other equity in the amount of HRK -150 million. According to GFS 2001 methodology, negative sign of the specific net category of financial assets represents a decrease of that financial asset, while a positive sign represent its increase. Net acquisition of domestic loans of the extrabudgetary funds is the result of the acquisition of loans in the amount of HRK 97.8 million and their disposal in the amount of HRK 291 million. Both, the acquisition and the disposal of loans in 2004 were on domestic market. Their largest share relates to the Croatian Privatization Fund which, in 2004, recorded HRK 128.5 million of acquisitioned loans while it accounted for the whole amount of disposed loans of the extrabudgetary funds.

Net acquisition of domestic shares and other equity of the extrabudgetary funds and agencies is the result of the acquisition of shares and other equity in the amount of HRK 64.3 million and their disposal in the amount of HRK 214.2 million. Croatian Privatization Fund again accounts for the largest share of the acquisition and the disposal of the shares and other equity. The acquisition of shares and other equity of the Croatian Privatization Fund amounted to HRK 143.4 million while their disposal recorded the amount of HRK 30.9 million. The acquisition of domestic shares and other equity in 2004 was also recorded by the Croatian Roads in the amount of 13.3 million and the State Agency for Deposit Insurance in the amount of HRK 57.5 million. On the other hand, the disposal of shares and other equity was also recorded by Croatian Motorways in the amount of HRK 27.9 million and the State Agency for Deposit Insurance at the level of HRK 5.5 million.

The extrabudgetary funds and agencies did not record any foreign financial assets in 2004.

Transactions in financial assets and liabilities of the extrabudgetary funds and agencies in 2004 are presented in the following table.

Table 3.1. Transactions in Financial Assets and Liabilities of the Extrabudgetary Funds in 2004

	Croatian Pension Insurance Fund	Croatian Health Insurance Fund	Croatian Employment Service	Croatian Waters	Environment Protection Fund	Croatian Motorways	Croatian Roads	State Agency for Deposit Insurance and Bank Rehabilitation	Croatian Privatization Fund	TOTAL
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES										
32 Net acquisition of financial assets	-65,372	3,427	-34,524	-11,385	-138,044	-162,274	296	-134,228	15,293	-119,979
321 Domestic	65,372	3,427	-34,524	-11,385	138,044	-162,274	296	-134,228	15,293	-119,979
Loans	-64	0	-37,843	0	0	-124,596	0	0	-30,684	-193,187
Shares and other equity	0	0	0	0	0	27,897	-13,344	-51,989	-112,514	-149,950
Currency and deposits	65,436	3,427	3,319	-11,385	138,044	-65,575	13,640	-82,239	158,491	223,158
322 Foreign	0	0	0	0	0	0	0	0	0	0
33 Net incurrence of liabilities	0	0	0	38,99	0	4,077,793	351,770	-368,023	-11,956	4,088,574
331 Domestic	0	0	0	42,859	0	379,709	100,000	-368,023	-11,956	142,589
Loans	0	0	0	42,859	0	149,709	100,000	-131,198	-11,956	149,414
Acquisition	0	0	0	48,531	0	479,648	134,060	131,198	333,321	1,126,758
Disposal	0	0	0	91,390	0	629,357	234,060	0	321,365	1,276,172
Securities other than shares	0	0	0	0	0	230,000	0	-236,825	0	-6,825
Acquisition	0	0	0	0	0	0	0	236,825	0	236,825
Disposal	0	0	0	0	0	230,000	0	0	0	230,000
332 Foreign	0	0	0	-3,869	0	3,698,084	251,770	0	0	3,945,985
Loans	0	0	0	-3,869	0	3,698,084	251,770	0	0	3,945,985

Source: Ministry of Finance

Total net liabilities of the extrabudgetary funds and agencies amounted HRK 4.089 billion in 2004 as a result of net domestic liabilities in the amount of HRK 142.6 million and net foreign liabilities in the amount of HRK 3.946 billion. Total net domestic liabilities are the result of incurrence of liabilities and repayments on the domestic financial market, so that total net domestic incurrence of liabilities of the extrabudgetary funds stood at HRK 1.506 billion and resulted from HRK 230 million of incurrence of liabilities on the basis of securities other than shares and HRK 1.276 billion on the basis on loans. Croatian Motorways have



..... contributed to this incurrence of liabilities of HRK 1.506 billion the most. Namely, in 2004 Croatian Motorways recorded incurrence of liabilities at the level of HRK 859.4 million, of which HRK 230 million refers to incurrence of liabilities on the basis securities other than shares and HRK 629.4 million on the basis of domestic loans. Croatian Privatization Fund recorded incurrence of liabilities at the amount of HRK 321.4 million completely on the basis of loans, while Croatian Roads recorded the amount of HRK 234.1 million of the incurrence of liabilities based on loans as well in 2004. Among the extrabudgetary funds, Croatian Waters also recorded incurrence in liabilities on the domestic market in 2004 at the level of HRK 91.4 million of loans.

Total net domestic repayments of the extrabudgetary funds and agencies amounted to HRK 1.364 billion in 2004 due to the HRK 236.8 million of repayments of securities other than shares and HRK 1.127 billion of loan repayments. The largest share of domestic repayments relates to Croatian Motorways in the amount of HRK 479.6 million which is completely based on repayments of domestic loans. State Agency for Deposit Insurance and Bank Rehabilitation recorded domestic repayments in the amount of HRK 368 million which is the result of repayments of domestic loans in the amount of HRK 131.2 million and repayments based on securities other than shares in the amount of HRK 236.8 million. Croatian Privatization Fund recorded HRK 333.3 million of domestic repayments, which are completely realized as loan repayments. Croatian Roads repaid HRK 134.1 million of domestic loans while domestic loan repayments of Croatian Waters amounted to HRK 48.5 million.

Total net foreign liabilities of the extrabudgetary funds and agencies in 2004 stood at HRK 3.946 billion and consisted of total foreign incurrence of liabilities in the amount of HRK 3.978 billion and total foreign repayments in the amount of HRK 31.8 million. The whole amount of foreign incurrence of liabilities of the extrabudgetary funds in 2004 relates to incurrence of liabilities based on loans. Croatian Motorways account for 93.0% of the total foreign incurrence of liabilities. Namely, in 2004 Croatian Motorways recorded incurrence of liabilities based on loans in the amount of HRK 3.698 billion. Beside Croatian Motorways, also Croatian Roads and Croatian Waters recorded incurrence of liabilities based on loans amounting to HRK 251.8 million and HRK 27.9 million respectively.

Total foreign repayments of the extrabudgetary funds and agencies in 2004 amounted to HRK 31.8 million. The whole amount was spent on repayments of foreign loans of Croatian Waters.



3.3. Measures of Deficit/Surplus and Financing of the Extrabudgetary Funds and Agencies

Table 3.2. Measures of Deficit/Surplus and Financing of the Extrabudgetary Funds and Agencies in 2004 According to GFS 2001 Methodology

(000 HRK)	Croatian Pension Insurance Fund	Croatian Heat Insurance Fund	Croatian Employment Service	Croatian Waters	Environment Protection Fund	Croatian Motorways	Croatian Roads	State Agency for Deposit Insurance and Bank Rehabilitation	Croatian Privatization Fund	TOTAL
TRANSACTIONS AFFECTING NET WORTH										
1 Revenue	670,814	865,013	111,674	1,658,435	172,273	2,295,423	1,417,787	575,893	62,946	7,830,258
2 Expense	587,420	831,295	141,333	1,426,283	32,443	756,796	934,630	314,474	60,141	5,084,815
24 Interest	896	0	2	37,907	0	191,132	4,306	136,971	0	371,214
Net/Gross operating balance (1 - 2)	83,394	33,718	-29,659	232,152	139,830	1,538,627	483,157	261,419	2,805	2,745,443
Primary operating balance (1 - 2 + 24)	84,290	33,718	-29,657	270,059	139,830	1,729,759	487,463	398,390	2,805	3,116,657
TRANSACTIONS IN NONFINANCIAL ASSETS										
31 Net acquisition of nonfinancial assets	18,022	30,291	4,865	282,527	1,786	5,778,694	834,631	27,624	-24,444	6,953,996
Net lending/borrowing (1 - 2 - 31)	65,372	3,427	-34,524	-50,375	138,044	-4,240,067	-351,474	233,795	27,249	-4,208,553
Financing (33-32)	-65,372	-3,427	34,524	50,375	-138,044	4,240,067	351,474	-233,795	-27,249	4,208,553
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES										
32 Net acquisition of financial assets	65,372	3,427	-34,524	-11,385	138,044	-162,274	296	-134,228	15,293	-119,979
33 Net incurrence of liabilities	0	0	0	38,990	0	4,077,793	351,770	-368,023	-11,956	4,088,574

Source: Ministry of Finance

Net operating balance, which is according to GFS 2001 methodology defined as the difference between revenues and expenditures of the extrabudgetary funds, stood at HRK 2.745 billion in 2004, whereas the largest share relates to Croatian Motorways. Primary operating balance is also considered as the measure of the fiscal deficit. It serves as an indicator of the current fiscal policy since it excludes interest payments from the previous deficit calculation thus excluding the effect of previous deficits and accumulated public debt. Interest payments of the extrabudgetary funds and agencies recorded the level of HRK 371.2 million in 2004 while the primary operating balance amounted to HRK 3.117 billion. The category net lending/borrowing is defined as the difference between net operating balance and net nonfinancial assets. Net nonfinancial assets of the extrabudgetary funds recorded the level of HRK 6.954 billion in 2004 while net lending/borrowing was realized in the amount of HRK -4.209 billion. The largest share of net lending/borrowing derived from transactions of Croatian Motorways. Total financing of net lending/borrowing is the result of transactions in financial assets and liabilities and in 2004 it amounted to HRK 4.209 billion.



3.4. The Croatian Institute for Pension Insurance

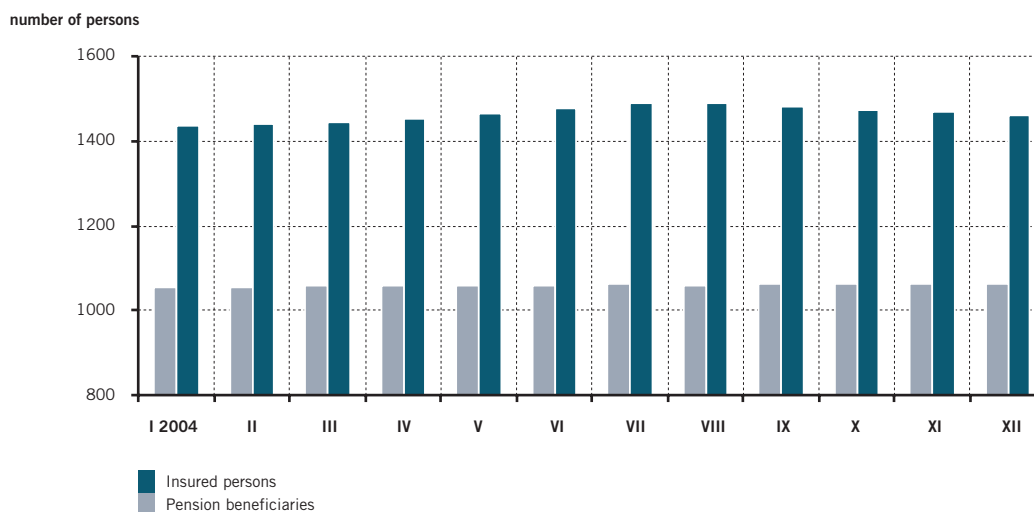


Activities of the Croatian Institute for Pension Insurance experienced significant changes in the last few years which are the result of the inclusion of the largest part of its revenues and expenditures in the State Treasury system. Namely, by including the largest part of the revenues and expenditures of the Institute in the State Treasury system, since July 1, 2001, the Croatian Institute for Pension Insurance stopped with the collection of pension insurance contributions and, in the large extent, with the payments of pensions through its own account.

The main activity of the Croatian Institute for Pension Insurance is execution of general pension insurance which ensures rights of the insured persons in the case of old age, disabilities and physical injuries on the basis of reciprocity and solidarity, while it also ensures right of the family members of the insured persons in case of their decease. The Institute also carries out the work related to the child allowance, collects data and keeps the register of the insured persons, people who are liable to paying contributions, beneficiaries of the pension insurance and child allowance, as well as implements international agreements on social insurance, etc.

On December 31, 2004, there were 1,460,105 insured persons, 1,064,247 pension beneficiaries and 245,279 child allowance beneficiaries for 462,123 children registered in the Croatian Institute for Pension Insurance. From this data, it can be noticed that the unfavorable ratio between total number of the insured persons and total number of the beneficiaries is one of the main problems of the whole Croatian pension system. Namely, the unemployment burden from the past periods, war consequences and faster aging of the population contributed to this ratio of the insured persons and the beneficiaries. In the Republic of Croatia this ratio amounts to unfavorable 1.37 which means that 1.37 insured persons pay contribution, on the principle of reciprocity and solidarity, for each beneficiary. It is worth mentioning that the average number of the active insured persons in 2004 has been insignificantly increasing faster than the average number of the beneficiaries.

Figure 3.1. Number of the Active Insured Persons and the Pension Beneficiaries in 2004

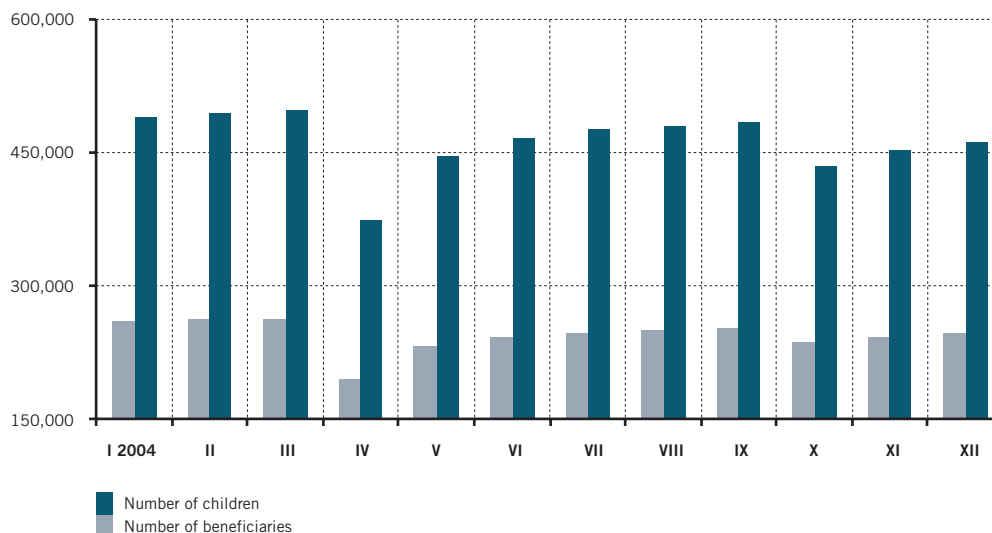


Source: Croatian Institute for Pension Insurance

Out of the total number of the beneficiaries of the old age, disability and family pension in December 2004, 54% relates to old age pensions, 23.3 to disability pensions and 22.2% relates to family pensions. The average pension (old age, invalid and family pension) reduced by the tax and local tax in December 2004 amounted to HRK 1,802.3. In the same time, the average Croatian army pension amounted to HRK 2,895. According to the Act on the Amendments to the Pension Insurance Act, actual amount of the pension is determined for every half a year by adjusting the actual value of the pension to the growth rate of the average salary of all employed persons in the Republic of Croatia in the previous half of the year. Pursuant to the Child Allowance Act, Croatian Institute for Pension Insurance carries out the work related to the child allowance. In December 2004 the average amount of the child allowance was HRK 268.3 per child. In the same time, 245,279 beneficiaries of the child allowance for 462,123 children were registered.



Figure 3.2. Number of Child Allowance Beneficiaries in 2004

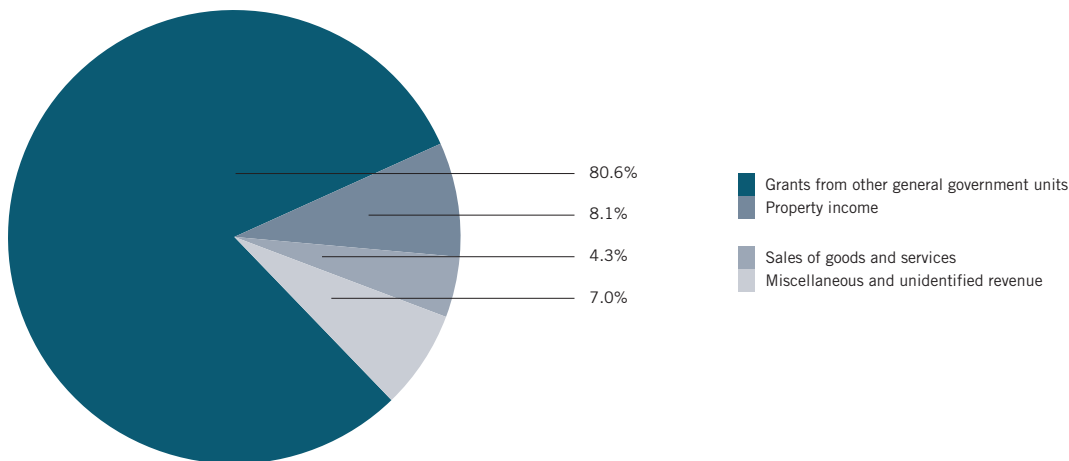


Source: Croatian Institute for Pension Insurance

3.4.1. Revenue

According to the GFS 2001 methodology, total revenue of the Croatian Institute for Pension Insurance in 2004 were realized at the level of HRK 670.81 million, i.e. 36.4% of the amount realized in 2003, as an exclusive consequence of the received grants and collected other revenue. Namely, grants represent the most important category which accounts for 80.6% of the total revenue and they exclusively relate to grants from other government units. Realized in the amount of HRK 540.92 million, grants from other government units account for 31.1% of the grants realized in 2003 which makes them the main reason of the decrease in the revenue of the Institute in 2004. Within their structure, the largest share relates to the current grants which recorded the amount of HRK 521.36 million, while capital grants stood at HRK 19.56 million in 2004. Other revenue, which account for the rest of 19.4% of the total revenue in 2004, were realized at the level of HRK 129.89 million. The most significant category of the other revenue is property income realized in the amount of HRK 54.44 million, of which dividends account for HRK 41.18 million, i.e. 75.6%. Revenue from sales of goods and services recorded the amount of HRK 28.74 million solely as the result of incidental sales by nonmarket establishments. The Croatian Institute for Pension Insurance recorded miscellaneous and unidentified revenue in the amount of HRK 46.72 million in 2004.

Figure 3.3. Revenue Structure of Croatian Institute for Pension Insurance in 2004



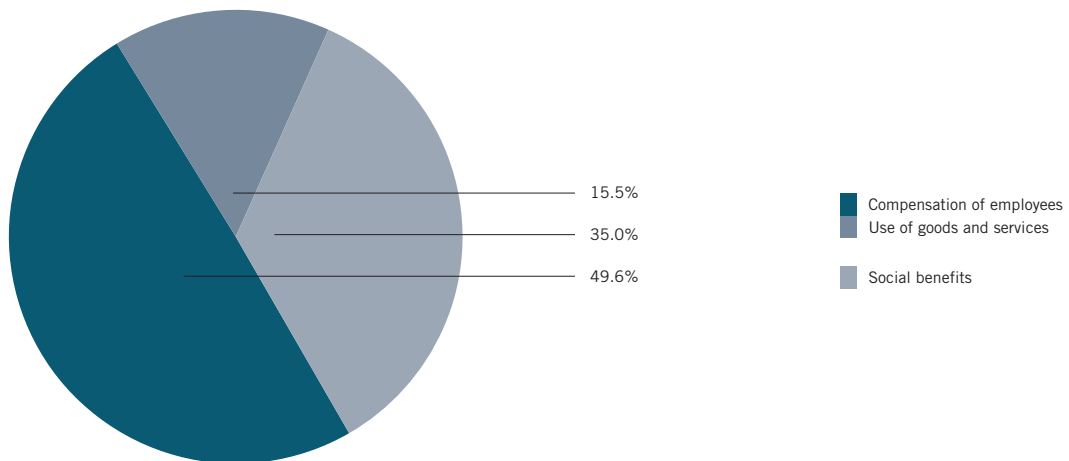
Source: Croatian Institute for Pension Insurance, Ministry of Finance



3.4.2. Expense

Total expense of the Croatian Institute for Pension Insurance recorded the amount of HRK 587.42 million which represents 31.9% of the total expense realized in 2003. Almost half of the amount, i.e. HRK 290.79 million is related to the compensation of employees. In its structure, HRK 252.99 million relates to wages and salaries, while the rest HRK 37.8 million relates to social contributions. Social benefits, which are solely determined by social security benefits, are realized in the amount of HRK 205.01 million, but it is worth mentioning that, in the period of temporary financing in 2004, the Croatian Institute for Pension Insurance paid HRK 200 million of pensions abroad. Use of goods and services of the Institute amounted to HRK 90.72 million while interest payments amounted to only HRK 896 thousands. Therefore, the transfer of the largest part of pension payments to the State Treasury account has a significant effect on the total expense realized in 2004.

Figure 3.4. Expense Structure of Croatian Institute for Pension Insurance in 2004



Source: Croatian Institute for Pension Insurance, Ministry of Finance

3.4.3. Transactions in Assets and Liabilities

Net nonfinancial assets of the Croatian Institute for Pension Insurance amounted to HRK 18.02 million in 2004, which is exclusively the result of transactions in fixed assets. Namely, the acquisition of fixed assets amounted to HRK 21.15, while almost half of the amount, i.e. HRK 10.55 million is realized by the acquisition of machinery and equipment. The rest of the amount is realized by the acquisition of buildings and structures amounting to HRK 7.38 million and the acquisition of other fixed assets amounting to HRK 3.22 million. The disposal of fixed assets in the amount of HRK 3.13 million is almost in the full amount the result of the disposal of buildings and structures, given that the disposal of machinery and equipment recorded the amount of only HRK 11 thousands.

Net financial assets of the Croatian Institute for Pension Insurance in the amount of HRK 65.37 million solely result from the transactions on the domestic market. Currency and deposits recorded the amount of HRK 65.44 million while the disposal of loans amounted to only HRK 64 thousands. Positive amount of the financial assets indicates its increase.

The Croatian Institute for Pension Insurance did not record any transactions in liabilities in 2004, which means that it recorded neither the repayments nor the incurrence of liabilities.



3.5. The Croatian Health Insurance Institute

Like other social security funds, the activities of the Croatian Health Insurance Institute are under the significant influence of the inclusion of the largest part of its revenues and expenditures in the State Treasury system in the last few years.

The main activity of the Croatian Health Insurance Institute is execution of the general health insurance and conduct of other works in accordance with the Health Insurance Act and Health Care Act. The Ministry of Health and Social Welfare is responsible for the surveillance of the legitimacy of the Croatian Health Insurance Institute's work. The abovementioned inclusion of its revenues and expenditures in the State Treasury system means that the contributions for the general health insurance are paid to the State Treasury account and, as such, they represent the revenue of the Budgetary Central Government. The funds for the executed health services are transferred to the hospitals from the Budgetary Central Government on the basis on the contracts signed with the Croatian Health Insurance Institute, while the funds for all other segments of the health care are transferred from the Budgetary Central Government to the Croatian Health Insurance Institute which then executes the payments. Since 2002, the Croatian Health Insurance Institute also executes the supplementary health insurance in the form of the voluntary health insurance.

The operation of the Croatian Health Insurance Institute in 2004 is characterized by the introduction of the maximum rationalization of the expenses, improvements in the efficiency of the monitoring and control of the cash flow in the Institute and health institutions. These measures are in line with the overall efforts made for establishing the efficient and sustainable health system within which all liabilities would be fulfilled on time. Specific positive results could have been perceived already at the end of 2004. The success of the implementation of the measures depends on the number of factors, of which some are out of the reach of the Croatian Health Insurance Institute and the overall health system. Even though the number of insured persons is increasing in the last few years, an adverse trend in the area of employment and increase in other categories of supported citizens indicates an unfavorable ration between the active and the supported population, which, ultimately, has an unfavorable impact on the business conditions in the health system as a whole.

As already mentioned, the average number of the insured persons, within the Croatian Health Insurance Institute, shows an increasing trend in the last few years. So, the average number of the insured persons in 2004 was at the level of 4,303,087 persons, which represents an increase of more than 0.1% in comparison to the previous year. The largest share of the total number of the insured persons relates to the active citizens, followed by the family members and the pensioners.

Table 3.3. The Average Number of the Insured Persons at the Croatian Health Insurance Institute

	Average I-XII 2002	Structure	Average I-XII 2003	Structure	Average I-XII 2004	Structure	2004/2003
Employed persons	1,328,356	31.34	1,389,096	32.33	1,412,445	32.82	101.68
Active farmers	94,150	2.22	85,632	1.99	77,332	1.80	90.31
Pensioners	997,971	23.54	1,000,408	23.28	1,005,342	23.36	100.49
Unemployed persons	365,396	8.62	375,258	8.73	388,915	9.04	103.64
Other	125,334	2.96	139,989	3.26	140,710	3.27	100.52
Family members	1,318,679	31.11	1,299,407	30.24	1,272,912	29.58	97.96
Refugees	9,224	0.22	7,165	0.17	5,431	0.13	75.80
TOTAL	4,239,110	100.00	4,296,955	100.00	4,303,087	100.00	100.14

Source: Croatian Health Insurance Institute

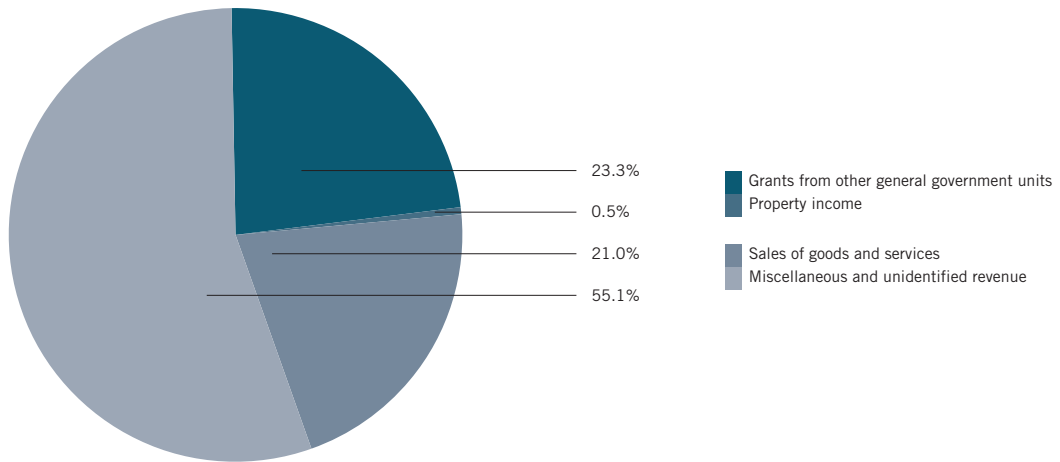
3.5.1. Revenue

Total revenue of the Croatian Health Insurance Institute recorded the amount of HRK 865.01 million in 2004, which represents 77.9% of the amount realized in 2003. Other revenue at the level of HRK 663.14 million, i.e. 76.7% of the total revenue, gave the largest contribution to these developments. The most significant category of the other revenue is miscellaneous and unidentified revenue in the amount of HRK 476.97 million. Sales of goods and services, which exclusively resulted from the incidental sales by nonmarket establishments, amounted to HRK 181.7 million, while property income stood at HRK 4.47 million in 2004. The rest of the total revenue which corresponds to 23.2%, i.e. HRK 201.87, relates to the grants whose whole amount derives from grants from other government units.





Figure 3.5. Revenue Structure of the Croatian Health Insurance Institute in 2004

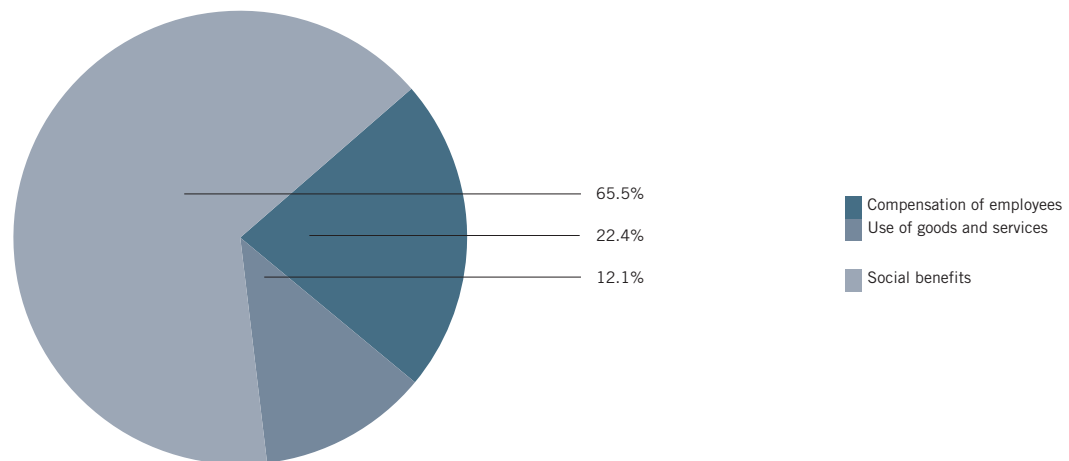


Source: Croatian Health Insurance Institute, Ministry of Finance

3.5.2. Expense

The Croatian Health Insurance Institute recorded the amount of HRK 831.3 million of total expense in 2004, which represents a decrease of 6.4 percentage points in comparison to the year 2003. The largest share of total expense, 65.5%, is recorded by the social benefits, precisely the social security benefits amounting to HRK 544.32 million. The Croatian Health Insurance Institute has appropriated HRK 185.99 million for the compensation of employees, of which HRK 160.3 million relates to wages and salaries and HRK 25.69 million to social contributions. The use of goods and services is realized in the amount of HRK 101 million in 2004, which represents a decrease of 11.2 percentage points when compared to 2003.

Figure 3.6. Expense Structure of the Croatian Health Insurance Institute in 2004



Source: Croatian Health Insurance Institute, Ministry of Finance



..... 3.5.3. Transactions in Assets and Liabilities

Net nonfinancial assets of the Croatian Health Insurance Institute stood at HRK 30.29 million in 2004, which resulted from the acquisition of nonfinancial assets in the amount of HRK 30.91 million and its disposal in the amount of HRK 622 thousands. Transactions in the nonfinancial assets are mostly the consequence of the transactions in fixed assets which recorded the net amount of HRK 28.31 million, i.e. 93.5% of total net nonfinancial assets. The acquisition of fixed assets at the level of HRK 28.2 million mostly resulted from the acquisition of buildings and structures of HRK 16.46 million, while the rest of the amount relates to the acquisition of machinery and equipment (HRK 11.18 million) and other fixed assets (HRK 1.17 million). The disposal of fixed assets is exclusively the result of the disposal of buildings and structures in the amount of HRK 494 thousands. The remaining 6.5% of the net nonfinancial assets relates to the nonproduced assets which recorded the net amount of HRK 1.98 million in 2004, as the result of the acquisition of nonproduced assets in the amount of HRK 2.11 million and its disposal of HRK 128 thousands.

The financial assets of the Croatian Health Insurance Institute were realized in the amount of HRK 3.43 million in 2004, which solely resulted from currency and deposits.

The Croatian Health Insurance Institute recorded no transactions in liabilities in 2004.



3.6. The Croatian Employment Service



The Croatian Employment Service is established by the Act on the intermediation in employment and on the rights in the time of unemployment, as the public institution in the ownership of the Republic of Croatia, with the task of resolving issues in the area of employment and unemployment. In the last few years, the activities of the Croatian Employment Service were influenced by the inclusion of the largest part of its revenue and expense in the State Treasury account, since January 1, 2002. This actually means that the employment contributions are paid to the State Treasury account and, as such, they represent the revenue of the Budgetary Central Government. In the same time, the largest share of the expense, which in the largest extent relates to social benefits, is recorded at the State Treasury account.

The clients of the Croatian Employment Service are businesses, crafts, associations, institutes, cooperatives, local government and foreign organizations acting as employers, followed by the unemployed persons which are defined as persons which are actively seeking work, are available for the job and do not earn more than the maximum cash benefit. The employment seekers are persons which are registered at the Croatian Employment Service and which are seeking work, but are not beneficiaries of the unemployment rights. Beside the abovementioned categories, the clients of the Croatian Employment Service are also pupils, students and others.

The Croatian Employment Service is, in the same time, the institutions responsible for producing statistical data in the area of unemployment and employment.

The annual average of the registered unemployment in 2004 was at the level of 309,875 persons, which represents a decrease of around 6% when compared to 2003. The year 2003 was the first year, since 1996, which recorded a decrease in the registered unemployment. However, the reasons for the decrease in 2003 and 2004 are not fully associated with the improvements in the labor market, but also, in the significant extent, with the stricter criteria for registering persons as unemployed. During 2004, the Croatian Employment Service acted as the agent for employing a total of 138,580 persons, which is 5% less than in 2003 when it served as the agent for employing a total of 145,211 persons. The insight to the employment of different categories of job-seekers is provided by the unemployment rate which represents the ratio of employed persons in a year and the sum of the unemployed at the beginning of the year and newly registered unemployed persons. As it was the case in the few of the previous years, the highest unemployment rate was recorded for the job seekers with the non-university degree and the university degree.

Table 3.4. *Employment Rate by the Level of Professional Qualification*

Level of Professional Qualification	Unemployed		Newly registered		Employed		Employment rate	
	2003	2004	2003	2004	2003	2004	2003	2004
No schooling and uncomplete basic school	60,707	20,989	31,824	6,531	13,320	2,517	14.4	9.1
Basic school	59,551	71,001	28,929	40,042	17,124	20,864	19.4	18.8
1 to 3-year vocational secondary school	108,735	124,213	86,756	108,687	57,061	60,616	29.2	26.0
4-year vocational secondary school and grammar school	78,683	73,172	60,908	66,852	38,976	37,846	27.9	27.0
Non-university degree	10,315	8,474	9,669	8,860	7,492	6,204	37.5	35.8
University degree	11,808	12,026	13,774	14,437	11,238	10,533	43.9	39.8
TOTAL	329,799	309,875	231,860	245,409	145,211	138,580		

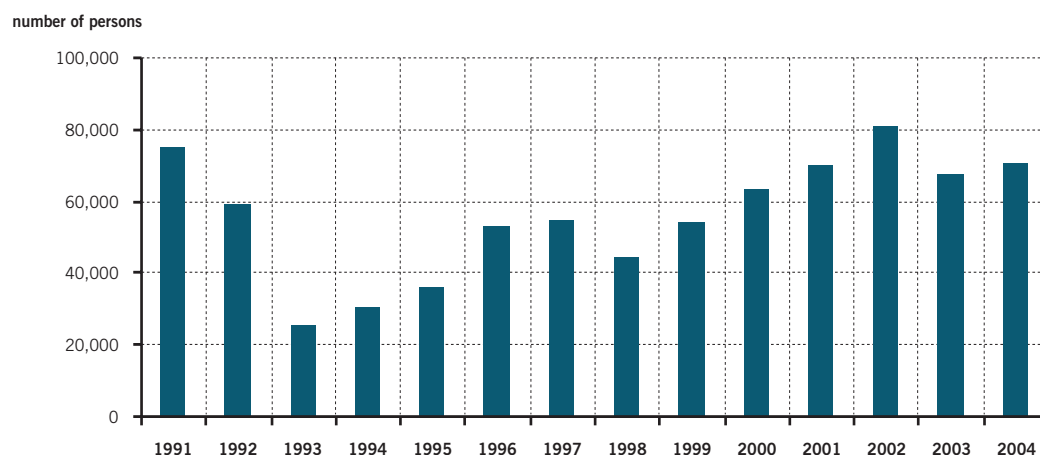
Source: Croatian Employment Service

At the end of December 2004, 317,577 unemployed persons were registered at the Croatian Employment Service, which represents a decrease of 1,107 persons or 0.35% in comparison to the number of unemployed in December 2003.

According to the data from the Croatian Employment Service, a total of 70,467 persons, which represents a share of 22.7% of the total number of unemployed persons, received the unemployment benefit in December 2004.



Figure 3.7. The Average Number of the Beneficiaries of the Cash Unemployment Benefit



Source: Croatian Employment Service

3.6.1. Revenue

The Croatian Employment Service collected HRK 111.67 million of total revenue in 2004, which represents an increase of 24.7% compared to 2003. The only sources of revenue of the Croatian Employment Service are grants and other revenue. Grants were in 2004 realized at the level HRK 96.17 million, i.e. 33.6% more than in the previous year. These grants, exclusively received from other government units, account for the share 86.1% of total revenue. Other revenue recorded the amount of HRK 15.51 million. Property income in the amount of HRK 8.62 million represents a share of 55.6% of total revenue. Interest payments in the amount of HRK 8.27 million mostly contributed to these developments. Rent stood at HRK 176 thousands, while dividends amounted to HRK 169 thousands. Within the structure of other revenue, the miscellaneous and unidentified revenue which amounted to HRK 8.27 million is also an important category. Fines, penalties and forfeits recorded the level of HRK 219 thousands, while sales of goods and services stood at only HRK 87 thousands.

3.6.2. Expense

Total expense of the Croatian Employment Service in the amount of HRK 141.33 million in 2004, were almost at the same level as in 2003. The most significant expense category is compensation of employees, which in the amount of HRK 101.41 million account for a share of 71.8% of total expense. Within their structure, HRK 87.69 million is appropriated for wages and salaries and HRK 13.72 million to social contributions. The Croatian Employment Service appropriated HRK 36.51 million, i.e. 25.8% of total expense, for the use of goods and services in 2004. The remaining share of the expense in the amount of HRK 3.41 million is related to the social assistance benefits.

3.6.3. Transactions in Assets and Liabilities

Net nonfinancial assets of the Croatian Employment Service in the amount of HRK 4.87 million resulted from the transactions in fixed assets. The acquisition of fixed assets stood at HRK 4.92 million in 2004, which was the result of the acquisition of buildings and structures (HRK 1.41 million), machinery and equipment (HRK 1.73 million) and other fixed assets (HRK 1.78 million). The disposal of fixed assets was realized in the amount of only HRK 50 thousands as the result of the disposal of machinery and equipment. Net financial assets recorded the amount of HRK -34.52 million, solely on the domestic market in 2004. The mentioned amount of financial assets of the Croatian Employment Service resulted from the disposal of loans in the amount of HRK 37.84 million and the currency and deposit balance of HRK 3.32 million. The Croatian Employment Service recorded no transactions in liabilities in 2004.



3.7. The Croatian Waters

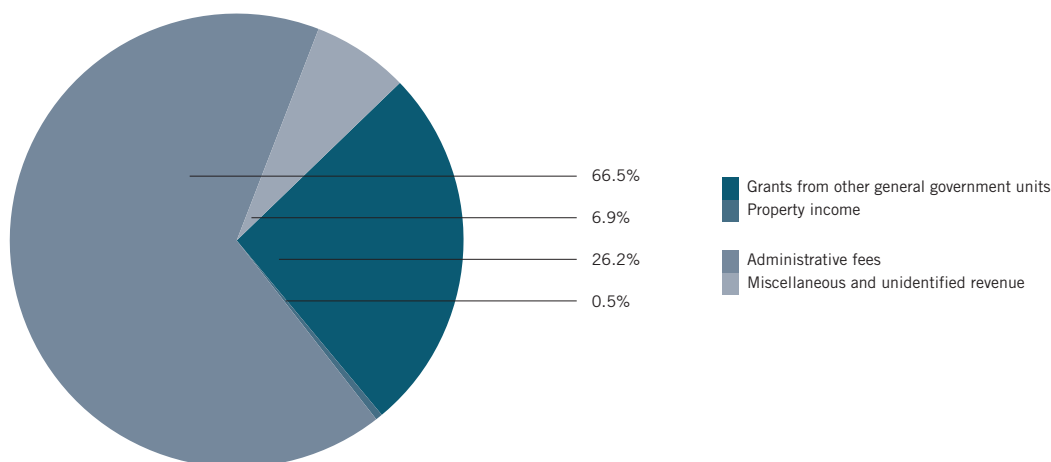


The public enterprise Croatian Waters, within its core business, conducts the activities related to the preparation of water supply basis and plans, preparation of projects, conceptual solutions, studies and investment programs as well as conducts the review of the project documentation, deals with watercourse arrangements and protection against the harmful effects of water and manages the malioration systems. Furthermore, the Croatian Waters conducts activities related to the water protection, water use, public water management as well as plans and collects funds for financing the activities and tasks essential for water management in line with the Law.

3.7.1. Revenue

Total revenue of the Croatian Waters were realized in the amount of HRK 1.66 billion in 2004, which represents an increase of 7.4% compared to 2003. The largest contribution to this outturn was made by other revenue in the amount of HRK 1.22 billion, i.e. 73.8% of total revenue. Within their structure, the most significant are revenues from sales of goods and services, i.e. administrative fees (fee for the use of water) which recorded the level of HRK 1.1 billion or 90% of total revenue in 2004. Grants, which account for the remaining 26.2% of total other revenue, stood at HRK 434 million and were only received from the other government units. Within their structure, current grants from other government units amounted to HRK 105.34 million, while capital grants amounted to HRK 328.66 million, i.e. 75.5% of total grants.

Figure 3.8. Revenue Structure of the Croatian Waters in 2004



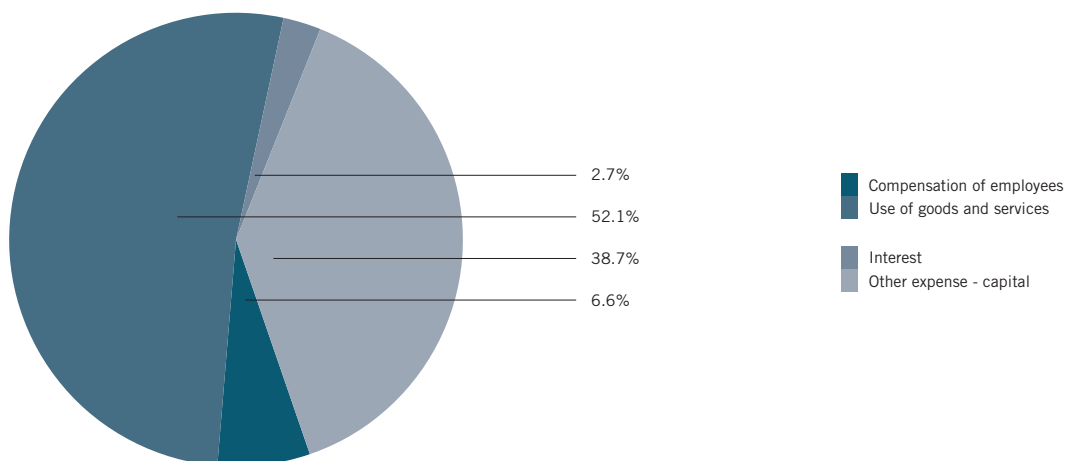
Source: Croatian Waters, Ministry of Finance

3.7.2. Expense

The Croatian Waters recorded HRK 1.43 billion of total expense in 2004, which is almost the same level of expense in 2003. The largest share was appropriated to the use of goods and services recorded in the amount of HRK 743.38 million, i.e. 52.1% of total expense. Other expense amounted to HRK 551.32 million which represents a share of 38.7% of total expense. Other expense solely resulted from the capital other expense. An amount of HRK 93.68 million was appropriated to the compensation of employees, of which HRK 80.62 million was for wages and salaries and HRK 13.06 million for social contributions. The Croatian Waters appropriated HRK 37.91 million for interest payments. Within their structure, the largest share of 71.5% relates to interests paid to residents other than general government which amounted to HRK 27.1 million, while interests to nonresidents amounted to HRK 10.81 million.



Figure 3.9. Expense Structure of the Croatian Waters in 2004



Source: Croatian Waters, Ministry of Finance

3.7.3. Transactions in Assets and Liabilities

Transactions in nonfinancial assets in the net amount of HRK 232.15 million were the result of the acquisition of nonfinancial assets of HRK 282.8 million and its disposal of HRK 270 thousands. The largest contribution to these developments was made by fixed assets, especially buildings and structures which were acquired for HRK 254.21 million, representing a share of 91.7% of the acquisition of fixed assets in 2004. The remaining amount of HRK 23.12 million relates to the acquisition of machinery and equipment. The disposal of fixed assets, which in the same time represents the total disposal of nonfinancial assets, was realized as the disposal of buildings and structures. Besides fixed assets, the Croatian waters also recorded the acquisition of nonproduced assets in the amount of HRK 5.47 million which solely resulted from the acquisition of land.

Net financial assets stood at -11.39 million as a result of currency and deposit balance in 2004.

The Croatian Waters recorded the amount of HRK 38.99 million of net liabilities in 2004, which is a consequence of total incurrence of liabilities in the amount of HRK 119.33 million and repayments of HRK 80.34 million. On the domestic market, the Croatian Waters incurred liabilities in the net amount of HRK 42.86 million, solely on the basis of loans. On the other hand, on the foreign market, the Croatian Waters recorded the amount of the repayments of loans which by HRK 3.78 million exceeds the incurrence of liabilities based on loans.



3.8. The Environment Protection Fund



The Environment Protection Fund was established by the Act on the Environment Protection Fund which is being applied since January 1, 2004. The main reason for establishing the Fund is ensuring additional funds for financing projects, programs and similar activities in the area of protection, sustainable use and improvements in the environment. The Fund is participating, with its resources, in financing the national energy programs in the area of the use of renewable energy sources. The Environment Protection Fund is ensuring its resources through the Budgetary Central Government and four types of fees related to the environment protection. These include: fee for polluters, environment users' fee, fee for wastage and a special environment fee paid by all owners of the motor vehicles at the time of the registration of the vehicle. The resources collected by the Fund are appropriated to different programs, projects and similar activities such as the air protection and air quality improvement, waste dumps rehabilitation, support for the cleaner production, support for the use of renewable sources of energy, protection of biological diversity, etc.

3.8.1. Revenue

In 2004, a year in which it was established, the Environment Protection Fund collected HRK 172.27 million of total revenue, solely as a result of grants and other revenue. Other revenue, which account for the share of 99.1% of total revenue, were realized in the amount of HRK 170.75 million, with the largest contribution of HRK 170.52 million made by administrative fees. The remaining share of other revenue in the amount of only HRK 229 thousands relates to property income, i.e. to interests. Grants, which were only received from other government units, amounted to HRK 1.53 million in 2004.

3.8.2. Expense

Total expense of the Environment Protection Fund stood at HRK 32.44 million in 2004. The Fund mostly appropriated its resources to other expense, precisely to current other expense in the amount of HRK 27.8 million. The use of goods and services recorded the amount of HRK 2.73 million in 2004, while the smallest share of the expense relates to the compensation of employees which were at the level of HRK 1.91 million. Within the structure of the compensation of employees, wages and salaries recorded the amount of HRK 1.63 million, while social contributions amounted to HRK 272 thousands.

3.8.3. Transactions in Assets and Liabilities

The Environment Protection Fund realized the amount of HRK 1.79 million of the nonfinancial assets in 2004. This amount solely resulted from the acquisition of machinery and equipment in the amount of HRK 1.55 million and the acquisition of intangible nonproduced assets in the amount of HRK 233 thousands. Net financial assets recorded the amount of HRK 138.04 million in 2004, exclusively as the result of currency and deposit balance.

The Environment Protection Fund recorded no transactions in liabilities in 2004.



3.9. The Croatian Motorways Ltd.

The Croatian Motorways Ltd is limited liability company for motorway management, construction and maintenance. It was registered and started operating on April 11, 2001 as one of the two legal successors of the Croatian Road Administration. The Croatian Motorways Ltd is in full ownership of the Republic of Croatia. Its activities include designing and obtaining building permits and certificates of occupancy for motorways, repurchasing of land, awarding works for construction of motorways and toll-gates, professional monitoring and control, motorway patrol, informing the public, making decisions on the use of roads and other activities related to the motorway management.

The funds needed for conducting described activities derive from six main sources: petrol fee for financing motorway construction and maintenance, toll for the use of motorways and toll-gates, special transport fee, fee for the use of road area and provision of supporting services as well as other sources and long-term indebtedness. The prevailing sources of the Croatian Motorways are petrol fees, tolls and debt incurrence. A total of 181 km of motorways was constructed in 2004, of which 177 km is a part of the motorway Bosiljevo-Split whose largest section constructed in 2004 was the section of 96 km which stretches from the tunnel Mala Kapela to the junction Gornja ploča.

Table 3.5. Realization of the Motorway Construction Program in 2004

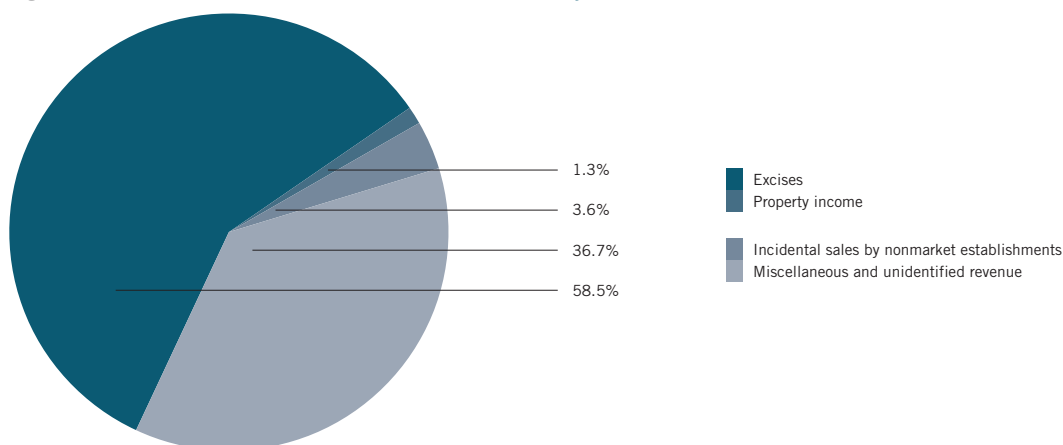
Motorway section	km / 2004
Rijeka - Rupa	4
Tunel Mala Kapela - Gornja Ploča	96
Zadar 2 - Pirovac	36
Vrpolje - Split (Dugopolje)	45
UKUPNO	181

Source: Croatian Motorways

3.9.1. Revenue

The Croatian Motorways collected HRK 2.3 billion of revenue in 2004, which represents an increase of 19.1% in comparison to the previous year. The most significant category of total revenue is tax revenue realized in the amount of HRK 1.34 billion, solely on the basis of excises which have increase by 2.1% compared to 2003. Other revenue, which account for 41.5% of total revenue, recorded the amount of HRK 953.74 million, even 55.3% more than in the previous year. The largest contribution to these developments was made by miscellaneous and unidentified revenue which amounted to HRK 841.88 million. Sales of goods and services recorded the amount of HRK 81.61 million, exclusively based on the incidental sales by nonmarket establishments, while property income, i.e. revenue from interests and dividends were realized at the level of HRK 30.25 million.

Figure 3.10. Revenue Structure of the Croatian Motorways in 2004



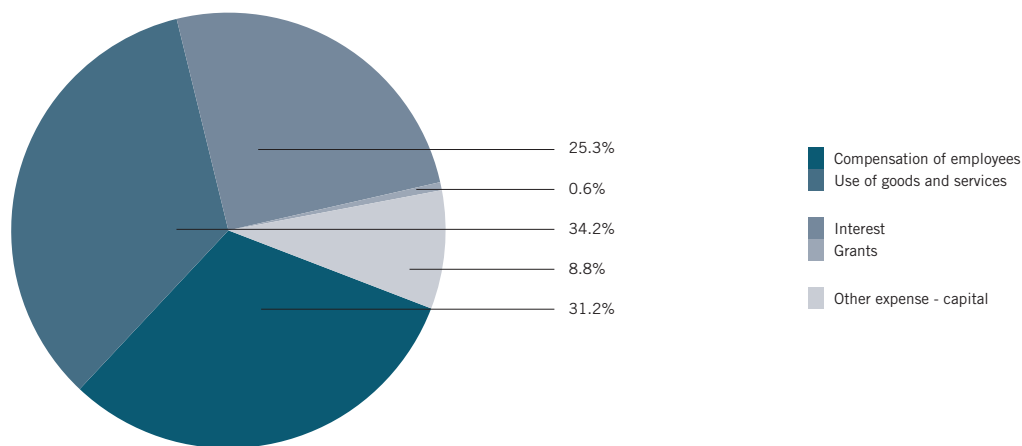
Source: Croatian Motorways



3.9.2. Expense

Total expenses of the Croatian Motorways were executed in the amount of HRK 756.8 million, i.e. 9.3% more than in 2003. The largest share was appropriated for the use of goods and services in the amount of HRK 258.51 million, followed by the compensation of employees. Within the structure of the compensation of employees which were at the level of HRK 236.35 million, 86.3%, i.e. HRK 203.96 million was appropriated for wages and salaries, while social contributions accounted for the remaining 13.7%. The Croatian Motorways recorded the amount of HRK 191.13 million of interest payments in 2004, which represents an increase of 55.8% compared to the previous year. The largest share of not less than 89.4% of total interests relates to interest payments to nonresidents. The remaining 10.6% relates to interests paid to residents other than general government. Other expense of the Croatian Motorways recorded the level of HRK 66.26 million in 2004, solely as the result of the capital other expense. The Croatian Motorways spent HRK 4.54 million for grants to other general government units.

Figure 3.11. Expense Structure of the Croatian Motorways in 2004



Source: Croatian Motorways

3.9.3. Transactions in Assets and Liabilities

The Croatian Motorways only acquired nonfinancial assets thereby recorded the amount of HRK 5.78 billion of net nonfinancial assets in 2004. The largest contribution to these developments was made by the acquisition of fixed assets in the amount of HRK 5.7 billion, i.e. 98.6% of total net nonfinancial assets. This category is related to motorway construction and acquisition of necessary equipment. Within the structure of the acquisition of fixed assets, 98.1% relates to the acquisition of buildings and structures, while the remaining 1.9% related to the acquisition of machinery and equipment. The acquisition of nonproduced assets, which accounts for 1.4% of total acquisition of nonfinancial assets, was realized at the level of HRK 80.8 million, which resulted from land acquisition of HRK 76.97 million and the acquisition of intangible nonproduced assets in the amount of HRK 3.84 million.

When observing the acquisition of nonfinancial assets in the period 2002-2004, a continuous increase, which results from the size of the conducted works in the motorway construction in each year, is evident. Out of total acquisition of nonfinancial assets in the period 2002-2004, which in the largest extent relates to the motorways construction, not less than 40% relates to the year 2004.

Transactions in financial assets were conducted only on domestic market in 2004 recording the amount of HRK -124.6 million of net financial assets. This balance is the result of a decrease of HRK 65.58 million in currency and deposits, the disposal of loans in the amount of HRK 124.6 million and the acquisition of shares and other equity in the amount of HRK 27.9 million.

Net liabilities of the Croatian Motorways stood at HRK 4.08 million in 2004. Not less than 90.7% of total liabilities relates to foreign indebtedness which, in the amount of HRK 3.7 billion, exclusively resulted from the incurrance of liabilities based on loans. On the domestic market, the Croatian Motorways recorded the incurrance of liabilities based on loans in the amount of HRK 629.63 million, while on the basis of securities other than shares it recorded HRK 230 million of liabilities. The Croatian Motorways repaid the loans in the amount of HRK 479.65 million.



3.10. The Croatian Roads Ltd.

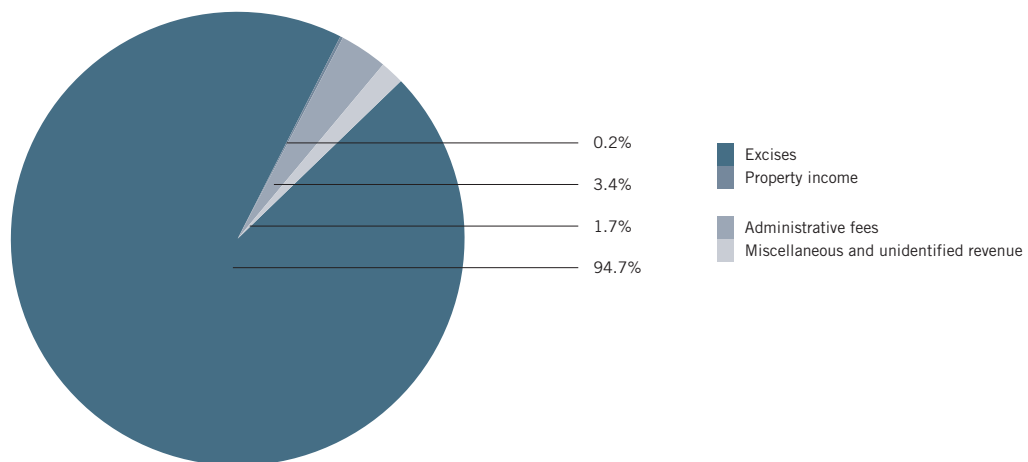
The Croatian Roads Ltd is limited liability company for management, construction and maintenance of the state roads. The company's profit is used for the construction and maintenance of the state roads. The activities of the Croatian Roads include carrying on basic regional, traffic, technical and economic research and analysis, programming and planning the public roads development, designing, construction of state roads (except the motorways), organizing funding, financing of state roads construction, other road management activities, environment protection, collecting statistics and other activities.

The sources of revenue of the Croatian Roads are petrol fee for financing road construction and maintenance, fee from the vehicles registered outside the Republic of Croatia, special transport fee, fee for excessive use of public roads, fee for the use of road area and provision of supporting services as well as other sources and financing by the long-term loans. The prevailing source of the Croatian Roads is the petrol fee which, in average, in the period 2002-2004 accounts for 95% of its total revenue. Investments and maintenance of state roads account for the largest share of expenses related to the company's activities.

3.10.1. Revenue

Total revenue of the Croatian Roads recorded the level of HRK 1.42 billion in 2004, i.e. 2.8% more than in the previous year. The largest contribution to this outturn was made by tax revenue, i.e. by excises collected in the amount HRK 1.34 billion. The excises accounted for not less than 94.7% of total revenue. The remaining 5.35% of total revenue of the Croatian Roads relates to other revenue. Within their structure, the most significant are sales of goods and services which were, solely on the basis of the administrative fees, realized at the level of HRK 48.81 million. The miscellaneous and unidentified revenue stood at HRK 24.25 million, while the property income obtained on the basis of interest and rent amounted to HRK 2.61 million in 2004.

Figure 3.12. Revenue Structure of the Croatian Roads in 2004



Source: Croatian Roads

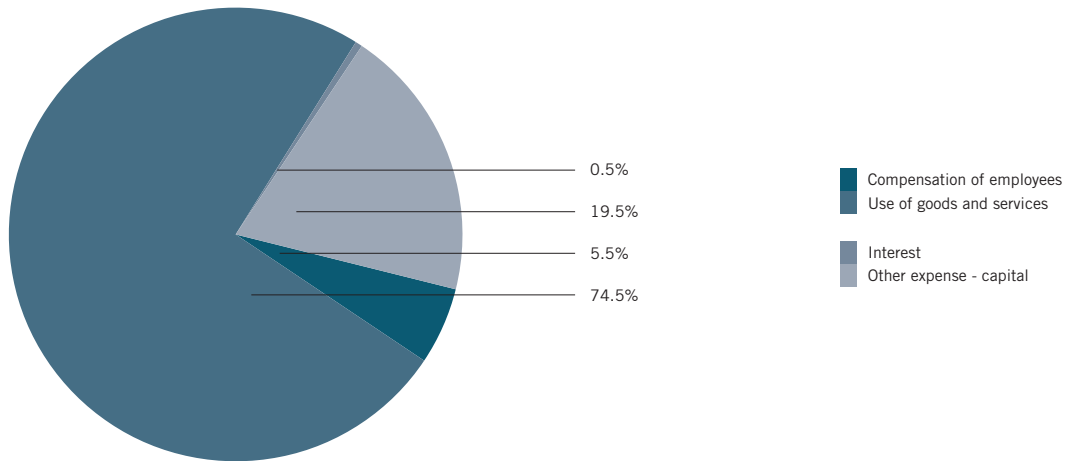
3.10.2. Expense

Total expenses of the Croatian Roads were realized at the level of HRK 934.63 million in 2004, which represents an increase of 11.2% compared to 2003. The largest share of total expense relates to the use of goods and services which amounted to HRK 696.42 million followed by the capital other expense in the amount of HRK 182.31 million. The compensation of employees of the Croatian Roads was realized at the level of HRK 51.59 million, of which 86% relates to wages and salaries and the rest to social contributions. The Croatian Roads spent HRK 4.31 million for interest payments in 2004. The largest amount of HRK 2.53 million relates to interest payments to nonresidents, while the remaining HRK 1.78 million is spent for interest payment to residents other than general government.





Figure 3.13. Expense Structure of the Croatian Roads in 2004



Source: Croatian Roads

3.10.3. Transactions in Assets and Liabilities

Net nonfinancial assets of the Croatian Roads are recorded in the amount of HRK 834.63 million in 2004, which is the result of the acquisition of nonfinancial assets in the amount of HRK 835.91 million and its disposal of HRK 1.28 million. The whole amount of the disposal of nonfinancial assets is related to the disposal of fixed assets; precisely, to the disposal of buildings and structures in the amount of HRK 970 thousands and the disposal of machinery and equipment in the amount of only HRK 306 thousands. The acquisition of nonfinancial assets is mostly related to the acquisition of fixed assets which is basically the investment in state roads. Namely, buildings and structures were acquired in the amount of HRK 720.33 million in 2004, while the acquisition of machinery and equipment amounted to HRK 23.53 million. The acquisition of nonproduced assets, which account for 11% of total acquisition of nonfinancial assets, stood at HRK 92.05 million, which exclusively resulted from the land acquisition.

Net financial assets of the Croatian Roads amounted to only HRK 296 million in 2004, which resulted from the transactions on the domestic market. This amount is the result of currency and deposits recorded at the level of HRK 13.64 million and the disposal of shares and other equity in the amount of HRK 13.34 million.

Net liabilities of the Croatian Roads in the amount of HRK 351.77 million resulted from the net incurrence of liabilities on the foreign market at the level of HRK 251.77 million and on the domestic market at the level of HRK 100 million. Net indebtedness on the foreign market is a sole consequence of the incurrence of liabilities based on loans. The Croatian Roads also recorded the incurrence in liabilities based on loans on the domestic market in the amount of HRK 234.06 million, but it also repaid HRK 134.06 million of loans.



3.11. The State Agency for Deposit Insurance and Banks Rehabilitation

The State Agency for Deposit Insurance and Banks Rehabilitation is a specialized financial institution which insures savings deposits in banks and savings banks and executes the banks rehabilitation procedure. The funds of the Agency are collected from the insurance premiums which banks and savings banks pay for the insurance of savings deposits and from the current revenues of the Agency.

3.11.1. Revenues

Total revenues of the State Agency for Deposit Insurance and Banks Rehabilitation were realized at the amount of HRK 575.89 million in 2004, exclusively as the result of collected other revenue. The largest share of 70.1% relates to the property income realized at the level of HRK 403.44 million. Within their structure, the largest amount of HRK 394.37 million was collected by withdrawals from income of quasi-corporations (premiums) while the remaining share relates to the interest revenue in the amount of HRK 5.92 million and dividends recorded in the amount of HRK 3.15 million. The miscellaneous and unidentified revenues were realized at the level of HRK 172.45 million.

3.11.2. Expense

The State Agency for Deposit Insurance and Banks Rehabilitation recorded HRK 314.47 million of total expense in 2004, which represents the increase of 25.1% compared to the previous year. The largest amount of HRK 162.16 million was spent for social security benefits which are related to the Agency's core activity of savings deposit insurance. The Agency spent HRK 136.97 million for interest payments, only to residents other than general government, which is in a large extent the result of interest payments for loans and bonds obtained in the past years for the banks rehabilitation. HRK 10.66 million was spent on the use of goods and services, while the smallest amount of only HRK 4.68 million was spent for the compensation of employees. Within the structure of the compensation of employees, the largest amount of HRK 4.01 million relates to wages and salaries, while the remaining HRK 668 thousands relates to social contributions.

3.11.3. Transactions in Assets and Liabilities

Net financial assets amounted to HRK 27.62 million which is the result of the acquisition of fixed assets. Within its structure, the largest amount of the acquisition of HRK 27.29 million relates to buildings and structures, while the remaining HRK 336 thousands relates to the acquisition of machinery and equipment. Transactions in financial assets were made exclusively on the domestic market. There was a decrease in financial assets in the amount of HRK 134.23 million in 2004. Namely, the State Agency for Deposit Insurance and Banks Rehabilitation recorded a decrease in currency and deposits in the amount of HRK 82.24 million as well as the disposal of shares and other equity in the amount of HRK 57.5 million and its acquisition of only HRK 5.51 million.

The State Agency for Deposit Insurance and Banks Rehabilitation recorded no incurrence in liabilities in 2004. On the domestic market, it repaid HRK 368.02 million of liabilities, of which HRK 236.83 million relates to the repayments of securities other than shares and HRK 131.2 million to the repayments of loans.



3.12. The Croatian Privatization Fund



The main task of the Croatian Privatization Fund is conducting and completing the privatization process of companies whose shares and equities are still in the ownership of the state institutions such as State Agency for Deposit Insurance and Banks Rehabilitation, Croatian Institute for Pension Insurance, Croatian Health Insurance Institute, electricity supply company "Hrvatska elektroprivreda" (HEP), oil company INA, Croatian Bank for Reconstruction and Development (HBOR). The main funds of the Croatian Privatization Fund are collected from the dividends from its equities in the companies. The core activity of the Croatian Privatization Fund can be described as the transformation of the public companies into the stock companies, privatization of the equities, assets and rights, transfer of equities without the fee based on the decisions of responsible entities, management of the companies in which state institutions still have their equities as well as management of the assets in the ownership of the Republic of Croatia when this is determined by the law or the Government's decision.

3.12.1. Revenue

Total revenues of the Croatian Privatization Fund in the amount of HRK 62.95 million were realized solely on the basis of collected other revenue. Within their structure, property income in the amount of HRK 55.63 million account for the share of 88.4% of total revenue, while the remaining 11.6% relates to miscellaneous and unidentified revenue. The most significant are dividends realized at the amount of HRK 51.91 million, i.e. 93.2% of total property income. The revenue from interests amounted to HRK 1.96 million, while the rent amounted to HRK 1.76 million in 2004.

3.12.2. Expense

The Croatian Privatization Fund recorded total expense in the amount of HRK 60.14 million in 2004. The resources were spent for the use of goods and services in the amount of HRK 29.1 million and for the compensation of employees in the amount of HRK 31.04 million, of which HRK 26.72 million relates to wages and salaries and the remaining HRK 4.32 million relates to social contributions.

3.12.3. Transactions in Assets and Liabilities

Net nonfinancial assets of the Croatian Privatization Fund were realized at the level of HRK -24.44 million as the result of the disposal of fixed assets in the amount of HRK 25.17 million and its acquisition in the amount of HRK 725 thousands. The disposal of fixed assets was exclusively the result of the disposal of buildings and structures while its acquisition resulted from the acquisition of machinery and equipment in the amount of HRK 709 thousands and the acquisition of buildings and structures of only HRK 16 thousands. Transactions in financial assets were made only on the domestic market where HRK 15.29 million of net financial assets of the Croatian Privatization Fund was realized in 2004. The Fund recorded the disposal of HRK 128.46 million of loans and the acquisition of loans in the amount of HRK 97.78 million. Also, it realized the amount of HRK 143.38 million by the disposal of shares and other equity while it spent HRK 30.86 million for their acquisition. Currency and deposits of the Fund amounted to HRK 158.49 million in 2004.

Net liabilities amounted to HRK -11.95 million in 2004 which resulted from the transactions in loans on the domestic market. Namely, the Fund recorded the incurrence of liabilities based on loans in the amount of HRK 321.37 million, while it repaid HRK 333.32 million of loans.



4.1. Consolidated Central Government by Economic Classification



Consolidated central government consists of the budgetary central government, five extrabudgetary funds (Croatian Pension Insurance Fund, Croatian Health Insurance Fund, Croatian Employment Service, Croatian Waters, Environment Protection Fund) and four agencies (Croatian Motorways, Croatian Roads, State Agency for Deposit Insurance and Bank Rehabilitation and Croatian Privatization Fund) which revenues and expenses are consolidated.

This chapter presents an overview of revenue, expense and transactions in assets and liabilities of the consolidated central government according to the GFS 2001 methodology.

4.1.1. Consolidated Central Government Revenue

Total revenues of the consolidated central government in 2004 are realized in the amount of HRK 87.019 billion or 42% of GDP (Table 4.1.). Tax revenues represent the most significant category of total revenues. Their share in GDP has decreased from 24.8% in 2003 to 24.1% in 2004 indicating a trend of decreasing tax burden of the economy. Social contributions have kept its share in GDP at the level of 14.2% in 2004 while other revenues have increased it from 2.8% to 3.7%, primarily as a result of the property income and sales of goods and services.

Table 4.1: Consolidated Central Government Revenue, 2002-2004

	(000 HRK)	2002	% GDP	2003	% GDP	2004	% GDP
1	REVENUE	75,064,040.3	41.8	80,786,554.7	41.8	87,019,284.2	42.0
11	Taxes	45,171,300.7	25.2	47,912,180.4	24.8	49,833,665.9	24.1
111	Taxes on income, profits, and capital gains	6,022,403.1	3.4	6,189,047.2	3.2	6,259,713.1	3.0
1111	Payable by individuals	3,363,295.1	1.9	3,114,580.8	1.6	3,128,273.0	1.5
1112	Payable by corporations and other enterprises	2,659,108.0	1.5	3,074,466.4	1.6	3,131,440.1	1.5
113	Taxes on property	294,555.6	0.2	289,926.0	0.2	355,823.3	0.2
114	Taxes on goods and services <i>of which:</i>	36,335,226.2	20.3	39,282,251.6	20.3	41,286,024.8	19.9
1141	General taxes on goods and services	26,089,212.5	14.5	28,260,009.3	14.6	30,013,661.2	14.5
11411	Value-added taxes	25,952,486.3	14.5	28,129,299.9	14.6	29,864,904.7	14.4
11412	Sales taxes	136,726.2	0.1	130,709.4	0.1	148,756.5	0.1
1142	Excises	9,835,295.1	5.5	10,482,097.1	5.4	10,625,357.7	5.1
115	Taxes on international trade and transactions	2,050,624.3	1.1	1,810,866.2	0.9	1,590,727.3	0.8
116	Other taxes	468,491.5	0.3	340,089.4	0.2	341,377.4	0.2
12	Social contributions	25,200,022.1	14.0	27,424,607.5	14.2	29,477,597.2	14.2
13	Grants	290.0	0.0	11,840.5	0.0	10,121.5	0.0
14	Other revenue	4,692,427.5	2.6	5,437,926.3	2.8	7,697,899.6	3.7

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

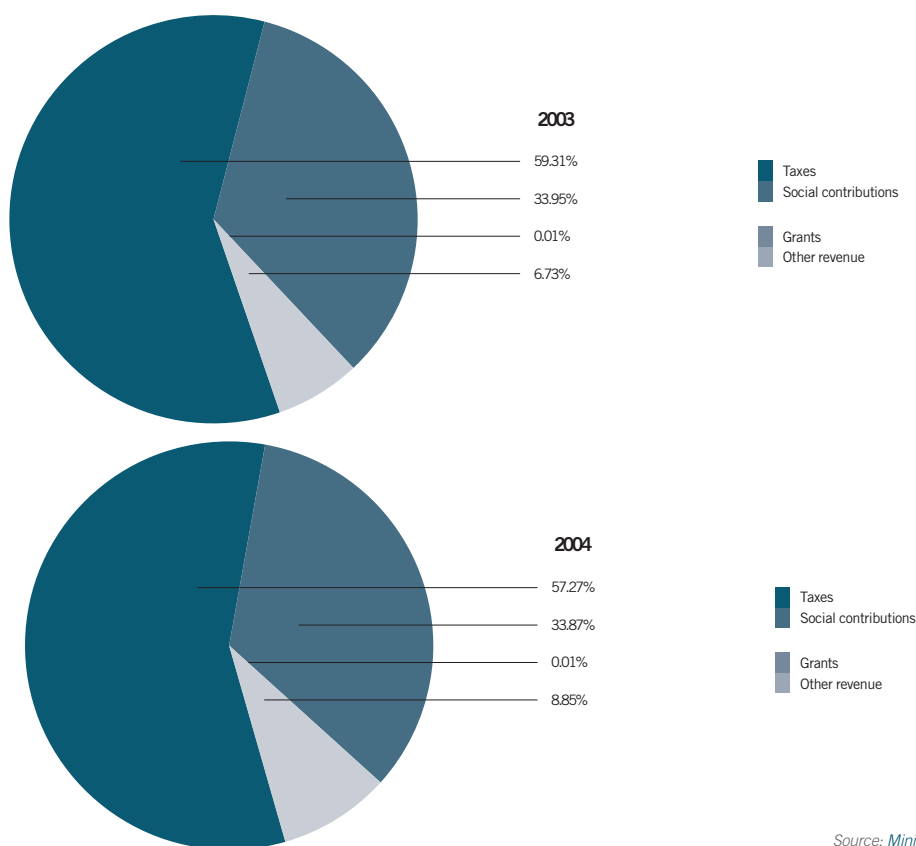
Tax revenues still represent the most significant item in total revenues of the consolidated central government even though their share has decreased by two percentage points, from 59.3% to 57.3% at the account of increasing the share of the other revenues. All the components of tax revenues have contributed to this decreasing trend of total tax revenues, except taxes on property. Beside this trend of decreasing the importance in total revenues, a respective decrease in their share in GDP is present. Social contributions and grants have kept their share in total revenues at the same level as in 2003. (Figures 4.1. and 4.2.)

Within the tax revenues the most significant component is represented by taxes on goods and services among which VAT and excises are the leading items. VAT has amounted to HRK 29.865 billion in 2004 which represents an annual increase of 6.2%. With regard to its share of 34.3% in total revenues, VAT is still the main source of revenue of the consolidated central government. However, in 2004 there was a shortfall in the VAT collection compared to the amount planned by the supplementary budget, which implies the existence of the underground economy, given that very positive outcomes in the area of production, trade, tourism and imports were recorded in 2004. The effect of the underground economy can also be seen in the revenues collected from excises which have amounted to HRK 10.625 billion in 2004 recording an annual increase of 5.1% or, in other words, 0.2 percentage points less than the increase in 2003. It is worth mentioning that the excises are the only source of tax revenue at the level of the extrabudgetary funds. Realized in the amount of HRK 2.684 billion in 2004, the revenues from the excises at the level of the extrabudgetary funds represent a share of 25.3% of total excises of the consolidated central government. Taxes on international trade and transactions show a nominal



decrease in revenues of HRK 220.14 million in comparison to the year 2003, which is a consequence of the developments in the international cooperation and of international trade liberalization. On the other hand, taxes on property have achieved a significant growth of 22.7% compared to 2003 when a decrease in this category was recorded. The amount of HRK 355.8 million collected as taxes on property has been primarily a consequence of the increase in prices and trade in the real-estate market. In the context of tax revenues, income and profit taxes are worth mentioning as well. After a nominal decrease in revenues collected from an income tax in 2003, this revenue category has increased in the year 2004, despite the expectations that the larger number of tax exemptions will lead to the decrease in the revenues from the income tax. With respect to the increase in the employment and in the gross wages and salaries, the income tax has recorded an increase of HRK 13.7 million. At the same time, profit tax has recorded an annual increase of 1.9%, or HRK 56.9 million, reaching a level of HRK 3.131 billion in the year 2004.

Figures 4.1. and 4.2.: Structure of Consolidated Central Government Revenues in 2003 and 2004



Source: Ministry of Finance

Within the structure of total revenues of the consolidated central government, social contributions and grants, as exclusive revenues of the budgetary central government, have kept their share at the same level as in 2003. Social contributions have recorded an annual increase of 7.5% while grants have decreased by 14.5%. Other revenues of the consolidated central government recorded at the level of HRK 7.698 billion have achieved a significant increase of 41.6% in 2004 which is primarily due to the increase in other revenues at the level of budgetary central government. Namely, other revenues of the budgetary central government have increased by 94.3%, while other revenues of the extrabudgetary funds have increased by 11.6% in 2004. As a consequence of these developments, other revenues of the budgetary central government and of the extrabudgetary funds have equalized their shares in the other revenues of the consolidated central government in comparison to the year 2003 when the other revenues of the extrabudgetary funds had recorded a share of 63.8%. Property income of the budgetary central government or, being precise, the revenues from dividends on the basis of the state share in Croatian Telecommunications have contributed to this significant increase in other revenues. Sales of goods and services, recorded in the amount of HRK 2.291 billion, are also worth mentioning as the second most significant category of the other revenues. They are primarily realized at the level of the extrabudgetary funds which account for a share of 70.4% in total revenues from the sales of goods and services of the consolidated central government.



4.1.2. Consolidated Central Government Expense

The consolidated central government expenses have been realized in the amount of HRK 86.941 billion and at the level of 42% of GDP in 2004. When compared to the previous year, this amount represents an increase of 7.7% and, accordingly, an increase in the share of GDP by 0.2 percentage points. These developments of expenses in 2004 are in compliance with the developments of revenues which share in GDP has also increased by 0.2 percentage points reaching the level of 42% of GDP. Within the structure of total expenses, interest payments, subsidies, grants and other expenses have increased their share in GDP, while the compensation for employees and the social benefits have decreased it (Table 4.2.).

Table 4.2.: Consolidated Central Government Expense, 2002-2004

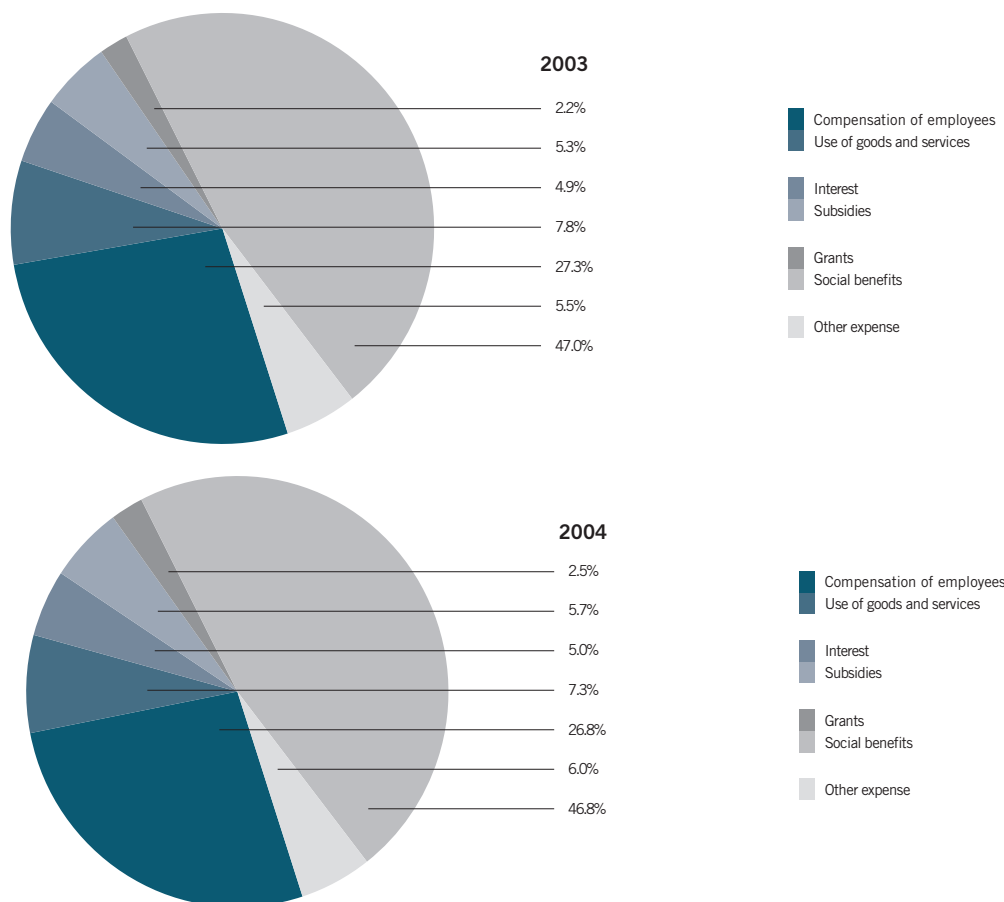
	(000 HRK)	2002	% GDP	2003	% GDP	2004	% GDP
2	EXPENSE	75,448,085.9	42.1	80,715,286.4	41.8	86,941,437.4	42.0
21	Compensation of employees	20,288,106.7	11.3	22,068,463.1	11.4	23,265,723.7	11.2
211	Wages and salaries	17,326,467.8	9.7	18,762,897.2	9.7	19,750,868.2	9.5
212	Social contributions	2,961,638.9	1.7	3,305,565.9	1.7	3,514,855.5	1.7
22	Use of goods and services	6,870,170.0	3.8	6,291,713.6	3.3	6,327,740.5	3.1
24	Interest	3,646,152.2	2.0	3,955,965.9	2.0	4,343,680.3	2.1
241	To nonresidents	1,919,679.3	1.1	2,026,844.9	1.0	2,160,784.3	1.0
242	To residents other than general government	1,726,472.9	1.0	1,929,121.0	1.0	2,182,896.0	1.1
25	Subsidies	3,563,568.5	2.0	4,292,712.4	2.2	4,968,068.5	2.4
251	To public corporations	1,654,823.2	0.9	1,942,931.7	1.0	2,783,462.4	1.3
252	To private enterprises	1,908,745.3	1.1	2,349,780.7	1.2	2,184,606.1	1.1
26	Grants	1,659,176.5	0.9	1,737,217.2	0.9	2,162,992.9	1.0
261	To foreign governments	66,004.3	0.0	43,918.0	0.0	76,464.4	0.0
262	To international organizations	38,682.7	0.0	41,239.1	0.0	83,433.8	0.0
263	To other general government units	1,554,489.5	0.9	1,652,060.1	0.9	2,003,094.7	1.0
27	Social benefits	35,839,240.5	20.0	37,939,553.1	19.7	40,645,793.6	19.6
271	Social security benefits	19,533,160.8	10.9	30,639,144.5	15.9	29,100,970.6	14.1
272	Social assistance benefits	15,943,381.4	8.9	6,745,819.7	3.5	11,180,722.8	5.4
273	Employer social benefits	362,698.3	0.2	554,588.9	0.3	364,100.2	0.2
28	Other expense	3,581,671.5	2.0	4,429,661.1	2.3	5,227,437.9	2.5

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

Within the structure of the consolidated central government expenses, some slight differences are present, but no significant changes have occurred (Figures 4.3. and 4.4.). Social benefits still remain as the most significant category of the expenses of the consolidated central government, accounting for a share of 46.7% in total expenses, even though it has decreased by 0.3 percentage points when compared to the year 2003. Furthermore, social benefits, which have amounted to HRK 40.646 billion in 2004, have recorded an annual increase of 7.1% as a result of higher pension expenditures and social assistance benefits. The highest amount of the social benefits has been realized at the level of the budgetary central government which account for the share of 97.7% of total social benefits. Compensation of employees has also primarily been realized at the level of the budgetary central government. In 2004 it recorded the amount of HRK 23.266 billion or an increase of 5.4%, which represents a slower growth than in 2003, due to slowing down of the growth of employment and salaries of the civil servants. Nevertheless, compensation to employees still remain the second most significant category of total expenses of the consolidated central government, accounting for the share of 26.8% which has decreased by 0.58 percentage points in comparison to 2003. The use of goods and services has also decreased its share in total expenses from 7.8% in 2003 to 7.3% in 2004. Within the expenditures for the use of goods and services of the consolidated central government which amounted to HRK 6.328 billion, a share of 68.9% has been realized at the level of the budgetary central government.



Figures 4.3. and 4.4.: Structure of Consolidated Central Government Expense in 2003 and 2004



Source: Ministry of Finance

On the basis of the importance of certain categories within total expenses of the consolidated central government, next place is reserved for the other expenses which have increased their share to 6% in 2004 or by 0.5 percentage points compared to the previous year. The realization of the other expenses at the level of HRK 5.227 billion, which represents an annual increase of 18%, is primarily the result of the current and capital expenses of the budgetary central government. Other expenses of the extrabudgetary funds account for the share of only 15.8% in total other expenses of the consolidated central governments, which is primarily the result of capital investments of Croatian Motorways and Croatian Roads. Subsidies have increased by 15.7% in 2004. Taking into account the fact that the subsidies have been increasing by 20.5% for the past two years, a trend of slowing down in their growth can be noticed in 2004. Subsidies represent the exclusive expense of the budgetary central government. The interest payments of the consolidated central government have recorded a faster growth of 9.8% in 2004 while keeping their share in total expenses at almost the same level of 5% as in 2003. The interest payments of the budgetary central government account for the share of 91.5% in total interest payments of the consolidated central government. Grants represent the smallest category of total expenses with the share of 2.5%. They have been realized at the level of HRK 2.163 billion recording the largest annual increase of 24.5% in 2004. Grants have primarily been executed by the budgetary central government, but it is also worth mentioning that Croatian Motorways have granted HRK 4.54 million to the other government units.

4.1.3. Transactions in Nonfinancial Assets of the Consolidated Central Government

Net nonfinancial assets of the consolidated central government have recorded the amount of HRK 8.373 billion and slightly decreased their share in GDP to 4% in 2004 (Table 4.3.) even though their annual increase amounted to 4.7%. The acquisition of nonfinancial assets amounted to HRK 8.648 billion while their disposal amounted to only HRK 274.9 million. The extrabudgetary funds have contributed with 80.8% to the acquisition of nonfinancial assets while the budgetary central government has contributed with the share of 88.9% to their disposal. According to the type of assets in the transactions, fixed assets, primarily buildings and structures, have contributed the most to the realization of nonfinancial assets in 2004. The acquisition of buildings and structures at the level



of extrabudgetary funds, primarily Croatian Motorways, account for the share of 78.5% in total acquisition of nonfinancial assets of the consolidated central government. On the other hand, the disposal of buildings and structures in the amount of HRK 238.8 million is mostly realized at the level of the budgetary central government. Transactions in the machinery and equipment and other fixed assets have also mostly been realized at the level of the budgetary central government accounting for the share of 75.6%. Transactions in the valuables have exclusively been determined by their acquisition at the level of the budgetary central government in the amount of HRK 7.5 million. Net amount of nonproduced assets, which has mostly been realized at the level of the extrabudgetary funds (86.8%), has increased by 68.1% in 2004.

Table 4.3.: Transactions in Nonfinancial Assets of the Consolidated Central Government, 2002-2004

	(000 HRK)	2002		2003		2004	
		HRK	% GDP	HRK	% GDP	HRK	% GDP
31	NET NONFINANCIAL ASSETS (311+312+313+314)	6,129,421.9	3.4	7,996,013.6	4.1	8,373,462.9	4.0
311	Fixed assets	5,898,126.8	3.3	7,867,051.4	4.1	8,158,063.6	3.9
312	Inventories	7.2	0.0	0.0	-	0.0	-
313	Valuables	70,399.8	0.0	5,303.3	0.0	7,518.2	0.0
314	Nonproduced assets	160,888.1	0.1	123,658.9	0.1	207,881.1	0.1

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

4.1.4. Transactions in Financial Assets and Liabilities of the Consolidated Central Government

Transactions in financial assets have mostly been determined by the transactions in domestic financial assets. Net financial assets amounted to HRK 28.4 million in 2004, of which the amount of HRK 9.8 million, realized on the foreign market, has been exclusively the result of the acquisition of the shares and other equity at the level of the budgetary central government. The remaining transactions which have affected net financial assets were carried out on the domestic market. In 2004, currency and deposits of the budgetary central government recorded a negative amount of HRK 1.14 billion which indicates the withdrawal of currency and deposits. The extrabudgetary funds have ended the year with the currency and deposits being positive and at the level of HRK 223.2 million. The highest amount of the acquisition of financial assets refers to the given loans in the amount of HRK 1.353 billion while the acquisition of shares and other equity have amounted to HRK 512.8 million. The acquisition of the abovementioned types of financial assets has primarily been realized at the level of the budgetary central government which has increased its domestic financial assets in 2004. On the other hand, the extrabudgetary funds recorded a decrease in their financial assets. At the same time, the extrabudgetary funds have recorded the amount of HRK 214.2 million as a result of the disposal of shares and other equity, mostly from the portfolio of the Croatian Privatization Fund, which has exceeded the acquisition of the shares and other equity recorded at the level of HRK 64.3 million.

Table 4.4.: Transactions in Financial Assets and Liabilities of the Consolidated Central Government, 2002-2004

	(000 HRK)	2002		2003		2004	
		HRK	% GDP	HRK	% GDP	HRK	% GDP
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES							
32	Net financial assets	516,310	0.3	-963,228	-0.5	28,384	0.0
321	Domestic	502,821	0.3	-973,154	-0.5	18,599	0.0
	Currency and deposits	1,556,930	0.9	1,636,304	0.8	-891,106	-0.4
	Loans	354,826	0.2	241,579	0.1	736,154	0.4
	Shares and other equity	-1,408,935	-0.8	-2,851,037	-1.5	173,550	0.1
322	Foreign	13,489	0.0	9,926	0.0	9,786	0.0
	Shares and other equity	13,489	0.0	9,926	0.0	9,786	0.0
33	Net liabilities	7,029,778	3.9	6,961,518	3.6	8,324,000	4.0
331	Domestic	2,078,600	1.2	948,884	0.5	4,107,680	2.0
	Securities other than shares	1,297,360	0.7	1,165,889	0.6	6,350,651	3.1
	Loans	781,240	0.4	-217,005	-0.1	-2,242,971	-1.1
332	Foreign	4,951,178	2.8	6,012,634	3.1	4,216,320	2.0
	Securities other than shares	3,024,358	1.7	5,175,750	2.7	1,215,439	0.6
	Loans	1,926,820	1.1	836,884	0.4	3,000,881	1.4

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



Transactions in liabilities of the consolidated central government are almost equally determined by the transactions on the domestic and on the foreign market which was not the case in 2003 when a strong emphasis was put on the incurrence of liabilities on the foreign market. Net liabilities amounted to HRK 8.32 billion in 2004 which represents a share of 4% in GDP. When compared to 2003, net liabilities have increased by 19.6%. Incurrence of liabilities of the consolidated central government on the domestic market has exclusively been realized on the basis of loans and securities other than shares in the amount of HRK 14.48 billion while the repayments have amounted to HRK 10.37 billion. According to the government level, developments in the liabilities have mostly been influenced by the budgetary central government. Namely, net incurrence on the basis of securities other than shares at the level of the budgetary central government recorded the amount of HRK 6.36 billion, while net repayments of the loans amounted to HRK 2.32 billion. Therefore, net liabilities of the budgetary central government in the amount of HRK 4.04 billion account for the share of 98.3% in total net liabilities of the consolidated central government. At the level of the extrabudgetary funds, the incurrence of liabilities amounted to HRK 142.6 billion which was the result of net incurrence on the basis on loans in the amount of HRK 149.41 million and net repayments based on securities other than shares in the amount of HRK 6.86 million. Consolidated central government has also recorded incurrence of liabilities on the foreign market on the basis of loans and securities other than shares in the net amount of HRK 4.216 billion. This has primarily been the result of net incurrence on the basis of loans at the level of the extrabudgetary funds which amounted to HRK 3.96 billion and therefore, accounting for 93.6% of total net foreign incurrence of liabilities of the consolidated central government. Croatian Motorways account for the largest share of 93.7% in total amount of foreign incurrence at the level of the extrabudgetary funds. The budgetary central government has recorded net foreign incurrence of liabilities on the basis of securities other than shares in the amount of HRK 1.22 billion and net repayments of loans in the amount of HRK 945.1 million.

4.1.5. Measures of Deficit/Surplus and Financing of the Consolidated Central Government

Table 4.5. *Measures of Deficit/Surplus and Financing of the Consolidated Central Government according to the GFS 2001 methodology, 2002-2004*

(000 HRK)	2002		2003		2004	
	HRK	% GDP	HRK	% GDP	HRK	% GDP
TRANSACTIONS AFFECTING NET WORTH						
1 Revenue	75,064,040	41.8	80,786,555	41.8	87,019,284	42.0
2 Expense	75,448,086	42.1	80,715,286	41.8	86,941,437	42.0
24 Interest	3,646,152	2.0	3,955,966	2.0	4,343,680	2.1
Net/Gross operating balance (1 - 2)	-384,046	-0.2	71,268	0.0	77,847	0.0
Primary operating balance (1 - 2 + 24)	3,262,107	1.8	4,027,234	2.1	4,421,527	2.1
TRANSACTIONS IN NONFINANCIAL ASSETS						
31 Net acquisition of nonfinancial assets	6,129,421.9	3.4	7,996,014	4.1	8,373,463	4.0
Net lending/borrowing (1 - 2 - 31)	-6,513,468	-3.6	-7,924,745	-4.1	-8,295,616	-4.0
Financing (33 - 32)	6,513,468	3.6	7,924,745	4.1	8,295,616	4.0
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES						
32 Net acquisition of financial assets	516,310	0.3	-963,228	-0.5	28,384	0.0
33 Net incurrence of liabilities	7,029,778	3.9	6,961,518	3.6	8,324,000	4.0

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

Net operating balance of the consolidated central government amounted to HRK 77.9 million in 2004. If interest payments of the consolidated central government, which amounted to 4.344 billion in 2004, are excluded from the calculation, a primary operating balance is obtained. It recorded a level of HRK 4.421 billion in 2004. Net nonfinancial assets of the consolidated central government have increased by HRK 377.5 million in 2004, reaching the level of HRK 8.374 billion. Net lending/borrowing has increased in the same period by HRK 370.9 million reaching the level of HRK -8.296 billion in 2004. By observing transactions in financial assets and liabilities, it can be seen that total financing of net lending/borrowing amounted to HRK 8.296 billion.



4.2. Consolidated Central Government According to Government Level



By observing the budget items of the consolidated central government it can be concluded that the budgetary central government has the leading role in them. The revenues of the consolidated central government depend on the revenues of the budgetary central government which have increased their share in GDP by 0.2 percentage points while the revenues of the extrabudgetary funds have kept it at the level of 3.2%. Within the extrabudgetary funds, the most significant sources of revenue are Croatian Motorways, Croatian Roads and Croatian Waters. On the expense side, it is worth pointing out that a trend of nominal decrease in the expense of the extrabudgetary funds is present as well as a decrease in their share in GDP from 3.2% to 2.5% in 2004. Accordingly, the expense of the budgetary central government increased their share in GDP by 0.9 percentage points. The extrabudgetary funds have contributed the most to the transactions in nonfinancial assets. Its acquisition of nonfinancial assets has amounted to 3.4% of GDP in 2004. On the other hand, the budgetary central government was more important for the developments in financial assets. By observing the transactions in liabilities, it is clear that the budgetary central government and the extrabudgetary funds have equally contributed to the net liabilities of the consolidated central government. It is worth pointing out, that the budgetary central government is oriented to the domestic incurrence of liabilities, while the extrabudgetary funds rely on the foreign incurrence of liabilities.

Table 4.6.: Consolidated Central Government According to Government Level, 2002-2004

	(000 HRK)	2002	% GDP	2003	% GDP	2004	% GDP
1	REVENUE	75,064,040	41.8	80,786,555	41.8	87,019,284	42.0
	Budgetary Central Government	69,651,075	38.8	74,677,474	38.7	80,463,518	38.9
	Extrabudgetary Funds	5,412,965	3.0	6,109,081	3.2	6,555,766	3.2
	Croatian Institute for Pension Insurance	110,074	0.1	103,501	0.1	129,892	0.1
	Croatian Health Insurance Institute	467,497	0.3	822,183	0.4	663,139	0.3
	Croatian Employment Service	25,278	0.0	17,573	0.0	15,507	0.0
	Croatian Waters	1,098,582	0.6	1,150,333	0.6	1,224,431	0.6
	Environment Protection Fund	-	-	-	-	170,748	0.1
	Development and Employment Fund	28	0.0	-	-	-	-
	Regional Development Fund	83	0.0	-	-	-	-
	Croatian Motorways Ltd.	1,695,972	0.9	1,927,787	1.0	2,295,423	1.1
	Croatian Roads Ltd.	1,208,654	0.7	1,379,782	0.7	1,417,787	0.7
	State Agency for Deposit Insurance and Bank Rehabilitation	617,914	0.3	581,931	0.3	575,893	0.3
	Croatian Privatization Fund	188,883	0.1	125,991	0.1	62,946	0.0
2	EXPENSE	75,448,086	42.1	80,715,286	41.8	86,941,437	42.0
	Budgetary Central Government	67,497,678	37.6	74,579,743	38.6	81,856,622	39.5
	Extrabudgetary Funds	7,950,408	4.4	6,135,543	3.2	5,084,815	2.5
	Croatian Institute for Pension Insurance	1,575,181	0.9	1,844,077	1.0	587,420	0.3
	Croatian Health Insurance Institute	1,263,096	0.7	888,105	0.5	831,295	0.4
	Croatian Employment Service	239,458	0.1	140,387	0.1	141,333	0.1
	Croatian Waters	1,125,187	0.6	1,427,067	0.7	1,426,283	0.7
	Environment Protection Fund	-	-	-	-	32,443	0.0
	Development and Employment Fund	1,979,550	1.1	-	-	-	-
	Regional Development Fund	276,375	0.2	-	-	-	-
	Croatian Motorways Ltd.	343,256	0.2	692,490	0.4	756,796	0.4
	Croatian Roads Ltd.	726,445	0.4	840,372	0.4	934,630	0.5
	State Agency for Deposit Insurance and Bank Rehabilitation	301,665	0.2	251,360	0.1	314,474	0.2
	Croatian Privatization Fund	120,195	0.1	51,685	0.0	60,141	0.0
31	NET ACQUISITION OF NONFINANCIAL ASSETS	6,129,422	3.4	7,996,014	4.1	8,373,463	4.0
	Acquisition	6,375,996	3.6	8,271,515	4.3	8,648,383	4.2
	Budgetary Central Government	1,595,039	0.9	2,054,989	1.1	1,663,868	0.8
	Extrabudgetary Funds	4,780,957	2.7	6,216,526	3.2	6,984,515	3.4
	Disposals	246,574	0.1	275,502	0.1	274,920	0.1
	Budgetary Central Government	218,036	0.1	242,586	0.1	244,401	0.1
	Extrabudgetary Funds	28,538	0.0	32,916	0.0	30,519	0.0
32	NET ACQUISITION OF FINANCIAL ASSETS	516,310	0.3	-963,228	-	28,384	0.0
321	Domestic	502,821	0.3	-973,154	-	18,599	0.0
	Budgetary Central Government	1,566,897	0.9	-1,330,055	-	212,192	0.1
	Extrabudgetary Funds	-1,064,076	-0.6	356,901	0.2	-193,593	-
322	Foreign	13,489	0.0	9,926	0.0	9,786	0.0
	Budgetary Central Government	13,489	0.0	9,926	0.0	9,786	0.0
	Extrabudgetary Funds	0	0.0	0	0.0	0	0.0
33	NET INCURRENCE OF LIABILITIES	7,029,778	3.9	6,961,518	3.6	8,324,000	4.0
331	Domestic	2,078,600	1.2	948,884	0.5	4,107,680	2.0
	Budgetary Central Government	1,424,916	0.8	-159,690	-	4,038,705	2.0
	Extrabudgetary Funds	653,684	0.4	1,108,574	0.6	68,975	0.0
332	Foreign	4,951,178	2.8	6,012,634	3.1	4,216,320	2.0
	Budgetary Central Government	2,347,755	1.3	3,049,979	1.6	270,335	0.1
	Extrabudgetary Funds	2,603,423	1.5	2,962,655	1.5	3,945,985	1.9

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



5.1. Territorial Organization and Legal Base for Financing



The legal framework which regulates the system of financing the local and regional self-government units consists of the following legal documents and subordinate legislation: Constitution of the Republic of Croatia¹, the Law of Local and Regional Self-government Units², the Budget Law, the Law on the Financing of Local and Regional Self-government Units, the Law on the Areas of Special State Concern³, the Law of Hilly and Mountainous areas, the Law on Islands, the Law on the Execution of the State Budget, annual directive for financing decentralized function and other special laws which regulate certain activities (business that units are obligated to organize and business which units could negotiate if it ensures the conditions for their negotiating). Constitutional changes from 2001 accent division of powers by territory as a base for regional development.

According to the Law⁴ on the areas of the Republic of Croatia 570 local units were established, namely:

- 426 municipalities and 123 cities, as Local Self-government Units,
- 20 counties as Regional Self-government Units;
- and City of Zagreb (which is arranged by special law and has status of city and county).

Counties negotiate business of regional self-government interests namely: education, health, space and urban planning, economic development, transport and transportation infrastructure, planning and development of educational, health, social and cultural institution areas.

Cities and municipalities negotiate business of local character, which realize needs of citizens namely: settlement regulating and housing, space and urban planning, utility services, care for children, social welfare, primary health care, school elementary education, culture, physical culture and sport, consumer protection, environmental protection and improvements, fire and civil protection.

Except for mentioned business, municipalities, cities and counties negotiate public administration business, which transferred to them by special laws and which state budget ensures resources for. Business from their own field units finance with their own sources. According to mentioned functions and degrees of municipalities, cities and counties development, it is necessary to ensure sources of financing to achieve higher citizens' standard. That could be realized by enough of own sources of financing. However, economic-financial capacity of certain units is not enough for business implementation from their field, that specially refers to areas of special state concerns for which are adopted special laws and stimulation measures for their reconstruction and development.

The areas of special state concerns are divided into three groups to speed up elimination of war sequent, stimulation of evenly demographic and economic development of all areas.

From total number of municipalities/cities status of special state concern areas have 180 of them (to the first and second group belong 111 municipalities/city, to the third group belong 69 municipalities). Limiting value for acquisition of mentioned concern status is assigned by law (all three groups can cover up to 15% of total population of Republic of Croatia).

Effects of the Law about areas of special state concern have significantly influenced on increased revenue realization in 2003, and in 2004 its higher effect is realized. Namely, according to this law, the part of personal income tax and corporate income tax realized on the areas of units, which belongs to state budget, is relinquished to these units and as such is revenue of their budgets. Besides mentioned, there are introduced different tax reliefs based on transactions of real estate, privileges based on benefits for exploitation of raw material and other different benefits to physical and legal entities which have place of residence on the areas of special state concern.

To get island protection⁵ and speeded economic and demographic development, programs of sustainable island development are defined. Islands are divided into two groups, which state supports by its programs through numerous support measures (improvement of connections between island and continent, benefits when purchasing or renting agricultural land, water consumption, financing of water supply capital projects, physical planning, and improvement of traffic infrastructure).

Besides the previously mentioned areas⁶, the Law defined also hilly and mountainous areas, which are at special concern, to create prerequisites for raising living standards. 45 local units have belonging status. Tax reliefs (privileges based on personal income tax, corporate income tax, concession, benefits and other)

¹ Constitution of the Republic of Croatia ("Official Gazette", No. 41/01).

² The Law of Local and Regional Self-Government Units ("Official Gazette", No. 33/01, 60/01 i 106/03.)

³ The Law on the Areas of Special State Concern (final draft) ("Official Gazette", No.26/03.).

⁴ The Law on the Areas of Counties, Cities and Municipalities in Republic of Croatia ("Official Gazette", No. 10/97., 124/97., 50/98., 88/98., 22/99., 117/99., 128/99., 44/00., 127/00., 92/01., 79/02., 83/02.,25/03. i 107/03.).

⁵The Law on Islands ("Official Gazette", No. 34/99. i 32/02.).

⁶The Law on Hilly and Mountain areas ("Official Gazette", No. 12/02., 32/02. i 117/03.).



for areas of special state concern are implemented on the hilly and mountainous areas. If certain unit fulfills conditions from this Law, it can not realize the belonging status to this group if provides rights based on Law of special state concern areas and Law on islands.

At the end of 2001 Law⁷ was promoted according to which Regional Development Fund has been established to stimulate equable regional development, especially of areas of special state concern, islands, hilly and mountainous areas and other areas which realized gross domestic product under 65% of average gross domestic product in Republic of Croatia. Fund generates resources from state budget, privatization, bonds, loans, grants and other resources according to the Law.

With adoption of the Constitutional changes and Law of Local and Regional Self-government from 2001 the assumptions for more efficient process of decentralization were created. By decentralization, or transfer of resources and functions from state to local level, besides existing territorial organization, there is will to build up efficient public sector closer to citizens and their needs, but also to strengthen responsibility of local authorities for implementation of business from their field. That should bring up to more participation of citizens in making decisions.

According to the Law on Financing Local and Regional Self-government Units from July the 1st, 2001, sources and ways of financing were defined, while functions and subjects of decentralization were defined by special laws and other directives. In 2003 process of decentralization from 2001 was continued (education, health, social welfare on counties (21) and (32) cities) also on decentralized financing of regular activities of public fire-fighting units⁸ (total 86 municipalities/cities). For transferred functions additional share in personal income tax was increased, which is realized on their field for settlement of the minimum financial standard, and privilege on equalization grants from state budget. Pursuant to the above, the functions and additional shares were transferred for the following:

Table 5.1: 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%.

Decisions⁹ of the Government on the minimum financial standards prescribe the criteria and benchmarks for provision of minimum standard for each decentralized function, which is the basis for establishment of transferred commitments to local and regional self-government units.

By Decree¹⁰ the Government of the Republic of Croatia regulates the mode of calculation of the amount of equalization grants in 2004 for decentralized functions of local and regional self-government units, which have taken over the financing of decentralized functions. Counties, cities and municipalities realize the right to the equalization grant 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 Decision of the Government on the minimum financial standards for a respective in a particular year.

⁷The Law on the Regional Development Fund of Republic of Croatia ("Official Gazette", No. 107/01.).

⁸The Law on Fire-fighting ("Official Gazette", No. 139/04.)

⁹ - Decision on criteria and benchmarks for determined balance rights for financing minimum financial standards of public purpose for elementary education, secondary education and student homes in 2004;

- Decision on minimum financial standards of material and financial expenses for Centers for social welfare and grants for settlement costs of living to users which used firewood in 2004;

- Decision on minimum financial standards for decentralized financing homes for elder and disabled persons in 2004;

- Decision on minimum financial standards for decentralized functions for health institutions in 2004;

- Decision on minimum financial standards for decentralized financing of regular activity of public fire-fighting units in 2004 ("Official Gazette", No. 48/04.) and

¹⁰ The Decree on the Mode of Calculating the Amount of Equalization Grants for Decentralized Functions ("Official Gazette", No. 48/04.).





..... Equalization grants remittance depending on expense category namely: expenses for elementary and secondary education and fire fighting for current month, and difference by monthly account adjusts whit payments for the next month, while the grants for acquisition of nonfinancial assets and additional investments on nonfinancial assets realizes on delivered documentation which line ministry verifies, for accounts which are paid or being paid in month in which grant is given.

By own decision consumers of the primary and secondary education grants are able to join the funds for acquisition of fixed assets and additional investment on nonfinancial assets up to the level of balanced rights. In this way 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.

Besides additional sources of financing, cities, municipalities and counties, holders of the decentralized functions, are obliged to remit the funds to final users and their earmarked purposes.

The oversight over the legality of performing the functions and earmarked purposes of the funds is primarily being done by counties and cities, and when specially required line ministries and the Ministry of Finance. In addition, local and regional self-government units are obliged to report on a quarterly basis to the line ministry about the spent funds of the user from their scope of competence.

Counties, cities and municipalities that achieve more funds than prescribed by Decisions and Decree, have to return the funds excess at the state budget of the Republic of Croatia.

It should be noted that a larger portion of primary and secondary education functions and health are stil financed from the state budget.



5.2. Financing of Local and Regional Self-Government Units

The Law on Financing regulates the revenues of local and regional self-government units, their allocation, and rates, i.e., limits within which they are prescribed. In addition, the local units also have to abide by other special regulations, which regulate various areas of public spending.

Local units generate revenues from their own revenues of local and regional self-government units, 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.

Counties' own revenue sources are: from the own assets, county taxes (inheritance and gifts tax, road motor vehicles tax, boat tax, slot machine tax) and other revenues that are prescribed by a special law.

Municipalities/cities' own revenue sources are: from the own assets, taxes (surtax on personal income tax, sales tax, second home tax, uncultivated agricultural land tax, unused enterprise real estate tax, undeveloped building land tax, trading name tax, public land use tax) then administrative charges, residence charges, communal and other fees.

Joint tax revenues that are divided among the state, cities/municipalities and counties (personal income tax, corporate income tax, and tax on real estate transactions) accounted for the major part of revenues of local and regional self-government units, both in terms of the structure and in terms of the absolute amount. Therefore, specific changes significantly affected the local budgets.

Distribution of joint tax revenues (see Table 5.2.) remained the same as in previous year:

Table 5.2: *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
Corporate income 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).

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

The share of the state budget in personal income tax amounted 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. On the areas of special state concern personal income tax and corporate income tax are divided for municipality/city budget 90% and for county budget 10%.

The state ceded HRK 539 million in 2004 as a ceded part of personal income tax for the mentioned areas, what is increase of 52 % in comparison to 2003.

Considering the significance of the personal income tax share in local budgets and the fact that with the return of personal income tax by the annual application the same division as by the payment is applied, so that the units at the areas of special state concern would not confront financial difficulties and impossibility of performing the regular functions, for 2004 also the state has taken over the obligation of return of personal income tax to the citizens, to taxpayers from the areas of special state concern, on personal income tax revenues of the state budget for the following: instead of 111 municipalities and cities (group I and II areas of special state concern), 69 municipalities of the group III i 45 municipalities which have status of hilly-mountainous areas and instead of 20 counties for the citizens on the mentioned areas. As the personal income tax return HRK 374 million was returned in 2004.

According to the Law on Financing of Local and Regional Self-Government Units, to municipalities and cities on islands, which conclude the agreement on financing the projects of common interest for development of the islands, state cedes its share in personal income tax (25.6%). In the year 2004 HRK 45.5 million was extracted for these areas. Mostly these are projects of water supply, spatial planning and improving the traffic infrastructure. Except for the previously mentioned ceded funds it is necessary to mention also subsidies, refundable and nonrefundable resources and direct capital investment from the state budget through the Regional Development Fund. In the year 2004 about HRK 107 million was allocated for the capital projects on the local self-government units areas. Besides the stimulation funds for municipalities, cities and counties development, which are planned inside the funds of the certain ministries, Law on Execution of State Budget of the Republic of Croatia over the past couple of years criteria was set up, on calculation of grants which are applied for I and II group of the special state concern areas units and for





counties. Grants for counties refer to funds for correction of fiscal capacity of the counties and on stimulation funds for capital expenses (for nonfinancial assets) from the county budget. As criteria for calculation and division of the grants, average revenues of the county budget per capita on the state level were used (state average, total revenues minus grants, receipts from financing and decentralized functions revenues) for 2002 and county budget revenues per county capita. For stimulation funds for capital expenses (expenses on nonfinancial assets) and their division state average of the capital expenses from the counties budgets per capita for 2002 was used, capital expenses from the county budget per capita for 2002 and population number per counties.

At least 50% of the current grant counties divide on municipalities and cities, which are not direct users of the state budget grants. Counties themselves prescribe their criteria for grants division from their areas and obligation for reporting on how grants are used. Besides state budget grants counties ensure grants for the units on their areas or cofinance expenses for nonfinancial assets from their own funds.

Legal criteria, which are applied on calculation of the grants for municipalities and cities on the special state concern area, are following: population number on the concern areas, budgetary revenues per capita on the state level, average revenues of the group per capita, i.e. municipalities and cities, share of expenses for capital programs in total expenses, balancing of the material expenses, rationality funds of expenses for employees and funds for covering the functions of cities of the population below 30.000.

It is settled, on the basis of financial reports of the local and regional self-government units, if certain unit fulfils criteria for grants getting and its amount is set up.

Current grants for municipalities and cities were HRK 37.2 million, and for counties for stimulation of capital projects and balancing the fiscal capacity HRK 39.9 million.

When observing altogether, when ceded share of the personal income tax for municipalities/cities budgets on the special state concern areas is added to direct amount of the current state budget grants and personal income tax returns by the annual application for the citizens on this areas, state ceded HRK 1 billion for this areas only in 2004.

Though since 2001 by the Law on Financing, municipalities and cities was given a possibility to introduce new taxes (uncultivated agricultural land tax, unused enterprise real estate tax, undeveloped building land tax) and surtaxes, revenues collected on this basis, except for surtax on personal income tax, are negligible, what is pointing to the fact that the most units had not prescribed this taxes or were not recovering them in sufficient amount.

Surtax on personal income tax is revenue of the city or municipality on whose area taxpayer has place of residence. Surtax is additional tax and basis for its calculation is personal income tax. Municipalities and cities prescribe tax amount by their decisions in legally prescribed frame (up to 10% municipalities, up to 12% cities of the population under 30.000, up to 15% cities of the population above 30.000 and up to 30% City of Zagreb). Since the possibility of introducing surtax on personal income tax was extended to all municipalities/cities, by the end of 2004 number of the local self-government units which had taken their decisions on introducing the surtax on personal income tax was increased (215 municipalities/cities), what has increased surtax realization from HRK 783 million in 2003 to HRK 888 million in 2004, what is increase of 13%. Surtax of the City of Zagreb is included in this amount, and in the year 2004 was realized in the amount of HRK 585 million.

The indicator of the size and significance of the local self-government is local and regional self-government share in gross domestic product, as also in total revenues of the general government. Share of the local and regional self-government (53 units) in gross domestic product in the year 2004 was 5.2% and in total revenues of the general government 11,2%.



5.3. Budget Revenues of Local and Regional Self-Government

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 GFS 2001 methodology. It is important to indicate that the biggest 53 units of local and regional self-government participate with 70-80% in total revenues of all units.

Unlike previous years when budget execution was monitored by methodology of International Monetary Fund for statistics of public finance GFS 1986, for 2004 reports are analyzed according to new classification GFS 2001, so that observing continuously, and to fully get information about financial situation of units in comparison to GFS 1986, it is necessary to emphasize that there are differences in coverage of total revenues, total expenses and net lending.

Statistical report includes revenues, expenses, and net transactions in nonfinancial and financial assets and net transactions in liabilities.

Revenues increase net value and according to GFS 2001 classification they are monitored like: taxes, grants and other revenues.

Table 5.3: Budget Revenue Outturn in 2004 for 53 units (32 Cities, 20 Counties and City of Zagreb)

in 000 HRK	Outturn	Structure
	2004	2004
REVENUES	10,828,868	100.00
Tax revenues	6,592,061	60.87
Grants	1,425,056	13.16
Other revenues	2,811,751	25.97

Note: According to methodology GFS 2001
Source: Ministry of Finance

The total revenues to cities and counties in 2004 were HRK 10.8 billion. Observing the structure of total revenues in 2004, tax revenues were dominant, realized in the amount of HRK 6.6 billion, they had the share of 61% in total revenues. The share of other revenues was 26% while the share of grants in the structure of revenues in 2004 amounted 13% of total revenues.

Tax revenues together with other revenues (revenues from property, sales of goods and services, fines, penalties, administrative fees) had the share of 87% in total revenues in 2004.

The increased share of tax revenues and grants in total revenues during the last years was a result of increase on the basis of own and joint revenues as well as the outturn of additional revenues for decentralized functions (the increased share in the personal income tax), as well as a portion of remitted grants from the state budget and through line ministries.

Table 5.4: Financing of Decentralized Functions in 2004

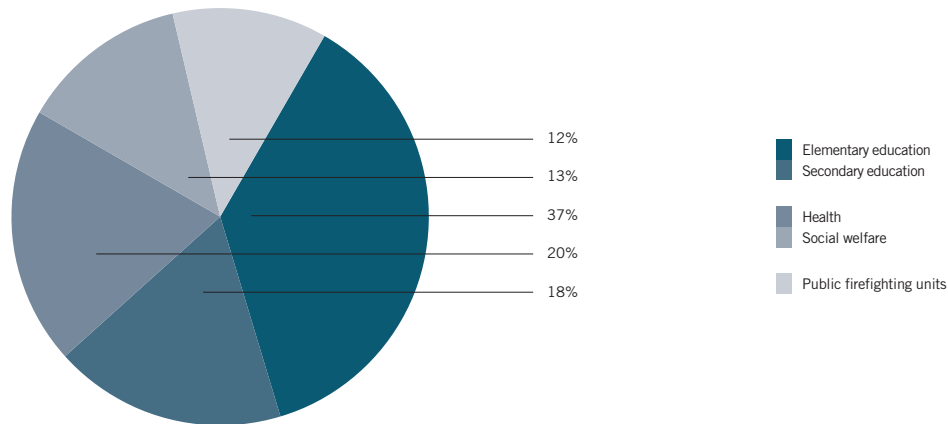
Functions	2004			in 000 HRK
	Counties and City of Zagreb	Cities (32)	Cities/Municipalities (54)	Total
Elementary education	542,657	199,970	–	742,627
Secondary education	369,065	–	–	369,065
Health	398,060	–	–	398,060
Social welfare	263,697	–	–	263,697
Public firefighting units	39,098	144,610	53,827	237,535
Total commitments	1,612,577	344,580	53,827	2,010,984

Total liabilities for transferred decentralized functions amounted HRK 2.011 billion, and the structure is shown on Figure 5.1.





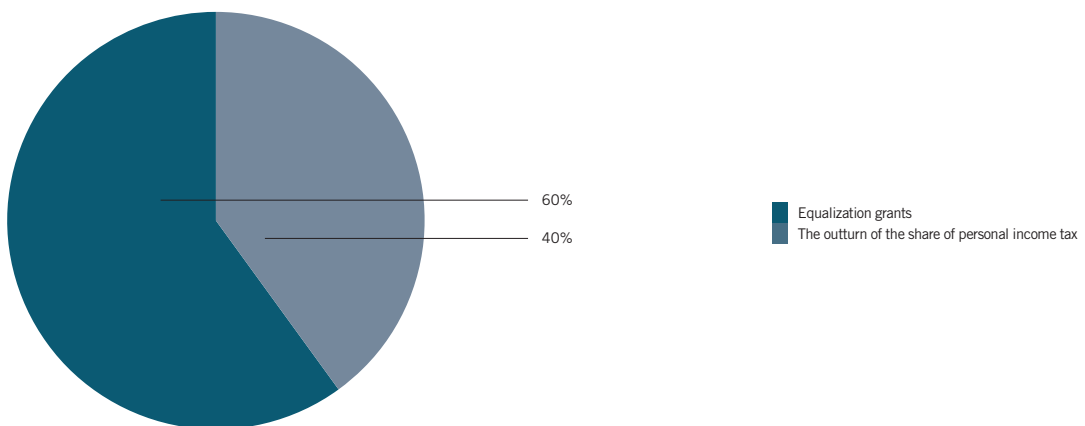
Figure 5.1. Structure of Decentralized Liabilities by Functions in 2004



Source: Ministry of Finance

In comparison to 2003, when decentralized liabilities amounted HRK 1.806 billion, they increased 11% in 2004.

Figure 5.2. Structure of the Outturn of Revenues for Decentralized Functions in 2004



Source: Ministry of Finance

The outturn of the share of personal income tax from the additional share in 2004 (Figure 5.2) amounted HRK 799 million, what was enough for financing 40% of total transferred expenses. The rest of transferred liabilities was settled from equalization grants. Since the increase of personal income tax did not follow the increase of expenses for decentralized functions and that there are more and more units, that total share of the personal income tax is ceded to, more and more funds are extracted from the equalization grants position. The unequal economic power is one of the rather more significant reasons of so large differences in fiscal capability of units, what can particularly be seen also from the relation of the outturn of the additional shares in the personal income tax for decentralized functions and assigned equalization grants.

In terms of counties the lowest requirements for the equalization grants for settlement of decentralized obligations had the City of Zagreb, the outturn of which was 99% revenues from additional personal income tax share, following are units of Zagreb county, Istria county, Primorje-Gorski Kotar county about 50%, and the highest requirements for the equalization grants were for Lika-Senj county 99% and Vukovar-Srijem county 90%.

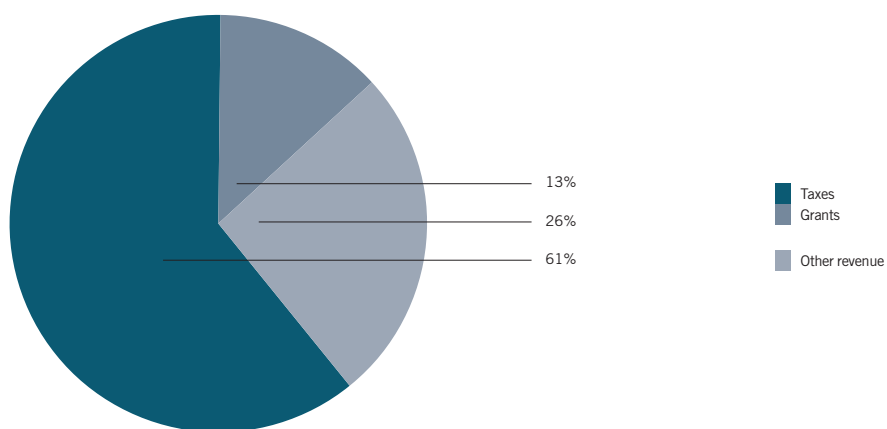
It should be noted that the liabilities for decentralized functions were fully settled for the counties, cities and municipalities, that units of the local and regional self-government gain more space for autonomous decision making when dealing with funds redistribution for decentralizing funds and that positive movement in the perspective of the needs as well in racionalization of certain expenses can be seen.



5.3.1. Taxes

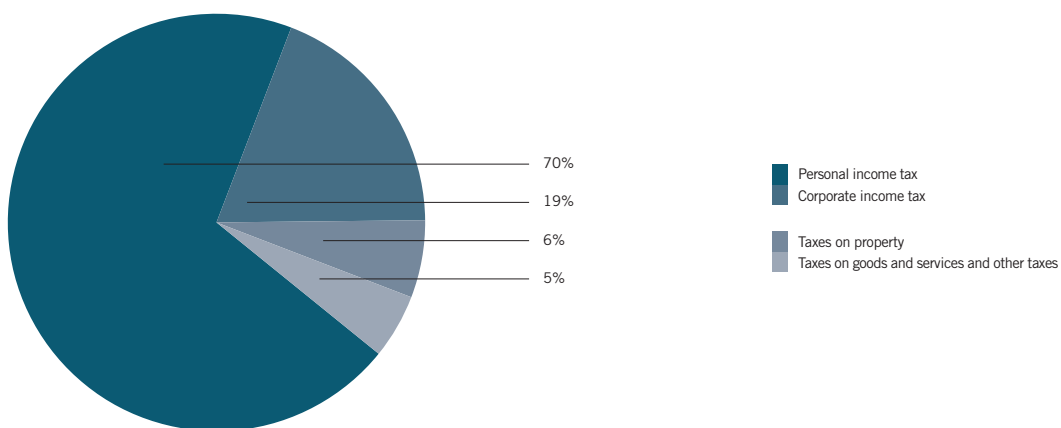
In the structure of revenues of local and regional self-government unit budget, as illustrated in Figures 5.3 and 5.4, the most significant ones were tax revenues, whose outturn in 2004 was HRK 6.6 billion or 61% of total revenues. Units collected tax revenues from own and joint tax revenues. A high share of taxes in total revenues was a result of an increased share in joint tax revenues. Given that from 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 a 5% growth of tax revenues in comparison with 2003. Tax and surtax on personal income realized in the amount of HRK 4.6 billion and in the structure of total revenues the share was 43% whereas in 2003 that share was 38%.

Figure 5.3. Structure of Total Revenues for 32 Cities, Counties and the City of Zagreb in 2004



Source: Ministry of Finance

Figure 5.4. Structure of Tax Revenues for 32 Cities, Counties and the City of Zagreb in 2004



Source: Ministry of Finance

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.

The structure of tax revenues (Figure 5.4.) indicates that highest revenues were collected by joint tax revenues whose share was 89% (tax and surtax on personal income whose share was 70%, of corporate income tax for 19%) whereas the share of all other taxes, like taxes on goods and services and other taxes, was 11% in total tax revenues.

The outturn of corporate income tax in 2004 was HRK 1.264 billion, which was an insignificant increase in comparison to the previous year. Corporate income tax, as second more significant source of total revenues, held its share of 12%, as it was also in 2003.





Opposite of the joint taxes (personal income tax, corporate income tax and tax on real estate transactions) revenues collected from local taxes are poorly present. Property taxes and taxes on goods and services, that mostly represent own tax revenues of the local and regional self-government units (second home tax, uncultivated agricultural land tax, unused enterprise real estate tax, undeveloped building land tax, public land use tax, sales tax, trading name tax and other taxes) in the structure of total revenues of those units make only 6%.

5.3.2. Grants

Grants contain current and capital transfers which budgets and budgetary beneficiaries receive from the foreign governments, international organizations and other subjects inside the general government.

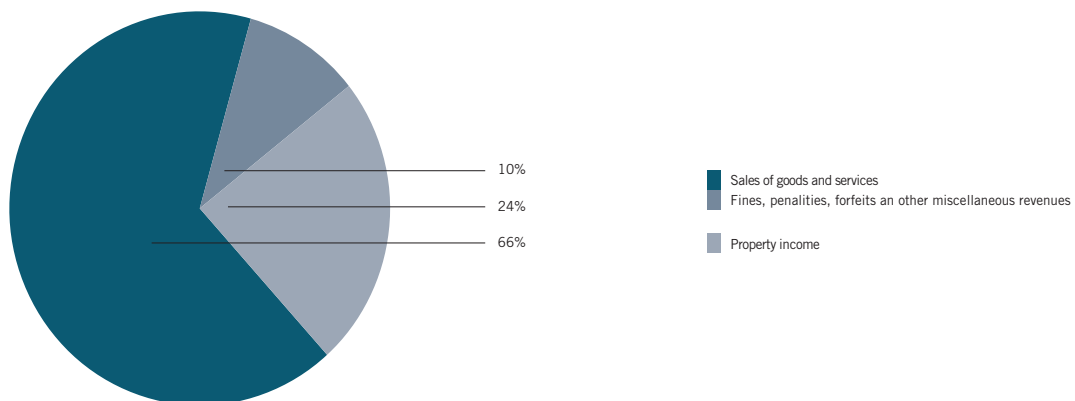
In 2004 grants were realized in the amount of HRK 1.4 billion. In total revenues of the 53 local and regional self-government units for the year 2004, grants share was 13%. In the total amount of grants, except for direct grants for special state concern areas (for counties), grants of line ministries, Croatian Waters, Regional Development Fund and other, also part of the personal income tax received as equalization grants from the state budget for decentralized functions was stated, which according to GFS methodology has the status of received grants inside the general government, not the tax revenues.

In 2004 HRK 1.050 billion was remitted from the state budget for decentralized functions financing as equalization grants.

5.3.3. Other Revenue

Other revenues of HRK 2.8 billion represent second (Figure 5.2. to 5.5.) largest revenue of the local budgets and amounted 26% in the structure of total revenues.

Figure 5.5. Structure of Other Revenues of 32 Cities, Counties and City of Zagreb in 2004



Source: Ministry of Finance

Other revenues may according to GFS 2001 methodology be divided into basic categories as follows:

1. revenues from assets (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 are realized in the amount of HRK 685 million and make 24% of other revenues,
2. revenues from selling goods and services realized in the amount of HRK 1.8 billion (revenues from sale of duty stamps, revenues from tourist taxes, communal fees, communal contributions, and other fees) with 66% share, and
3. fines, penalties, forfeits and various other revenues with 10% share.

According to special laws, fees and charges based on these laws, and contained in other revenues of their budgets, belong to counties, cities and municipalities. Introducing the revenues and height units themselves set up in the legal frame. But, it is necessary to emphasize that those are allocated revenues which can be used only for activities they were introduced for, and more significant share have communal contribution and communal fee that, among the others, finance maintenance of the communal infrastructure and public lighting as one of the leading expenses of the local budgets.



5.4. Budget Expenses of Local and Regional Self-Government (53 units)

The expenses reduce net value because of transactions and according to methodology GFS 2001 are divided into tri basic categories: employees' compensation, use of goods and services, interests, subsidies, grants, social benefits and other expenses. Financing of expenses 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. Expenses of local units pertained to the performing of activities in the competence of local and regional self-government units.

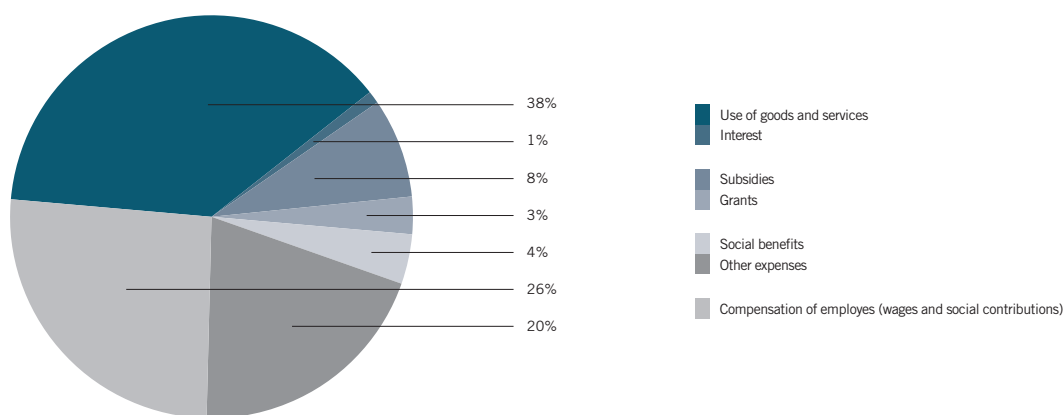
Table 5.5: Budget Expenses in 2004 for 53 Local Units (32 Cities, 20 Counties and City of Zagreb)-GFS 2001

in 000 HRK	Outturn	Structure
	2004	2004
Total expenses	8,766,249	100.00
Compensation of employees	2,239,472	25.55
Use of goods and services	3,351,575	38.23
Interests	79,559	0.91
Subsidies	726,356	8.29
Grants	267,077	3.05
Social benefits	376,014	4.29
Other expenses	1,726,196	19.69

Note: According to methodology GFS 2001
Source: Ministry of Finance

Totally executed expenses in 2004 amounted HRK 8.76 billion. The structure of expenses is shown in Figure 5.6.

Figure 5.6. Structure of Total Expenses of 32 Cities, Counties and City of Zagreb in 2004



Source: Ministry of Finance

The share of compensation for employees in total expenses amounted 26%, expenses for use of goods and services 38%, other expenses (grants) 20% and all other (subsidies, grants, social benefits and interests) amounted 16%. From totally executed expenses in 2004, the most funds were utilized on use of goods and services (HRK 3.35 billion) what was mostly a result of the decentralization process whereby commitments of financing of the major part of current operations in the education and social welfare were transferred to the lower level. The expenses for the use of goods and services include the expenses, which are necessary for regular functioning of budget users. Funds were utilized in material, energy, public lighting, cleaning, public areas, communal and other services for regular needs and expenses for current maintenance of bulidings and equipment.





..... Compensation for employees (wages and contributions), realized in the amount of HRK 2.2 billion, in addition to wages of employees in self-government bodies also contained mainly the wages of budget users (theaters, museums, libraries, kindergartens, etc.)

Financial expenses, i.e., interest payment had the smallest share of 1% in total expenses of local budget. Interest mostly refers to paying domestic and foreign loan commitments taken over by the units in previous years. Repayment of the interest for domestic credits in 2004 amounted HRK 38 million and for foreign interest HRK 41 million.

Subsidies are current fund transfers, which are given on one-time basis or more time basis for production stimulation or provision of services. According to purposes they can be: for interest subsidies, programs of staff development, restructuring companies and other. They were realized in the amount of HRK 726 million and had the share of 8% in total expenses. Mostly, they are earmarked for public corporations while the smaller part is earmarked for private enterprises. Subsidies to private enterprises are mostly assigned to farmers, craftsmen, small and medium undertakings.

Grants are non-obliged current and capital transfers, which are given to other general government units. Mostly they are allocated for co-financing current and capital transfers to state and local budget users. For mentioned expenses in 2004, HRK 267 million i.e., 3% of total expenses was realized. The biggest part, i.e. 65% of grants is earmarked for capital grants to other general government units (road construction, space planning, water supply and other).

Social benefits-benefits to citizens had 4% share in total expenses. Those are mostly expenses for co-financing of the prices for students' transport, accomodation, food and co-financing of the price for firewood for users of social welfare.

Other expenses (grants) included current and capital expenses, which were in 2004 realized in the amount of HRK 1.7 billion and had the share of 20% in total expenses. Grants were mainly earmarked for non-profit organizations for non-economy investments, reparations because of natural disasters, acquisition of equipment, companies and non-profit institutions owned by local and regional self-government units for acquisition of nonfinancial assets. In their structure 74% refers to current expenses while the smaller part refers to other capital expenses.



5.5. Transactions in Nonfinancial Assets

Table 5.6: Changes in Net worth of Nonfinancial Assets in 2004 for 53 Local Units (32 Cities, 20 Counties and City of Zagreb)

NET ACQUISITION OF NONFINANCIAL ASSETS	2,121,355
Fixed assets	2,213,163
Acquisition: Fixed assets	2,500,488
Disposals: Fixed assets	287,325
Valuables	164
Acquisition: Valuables	164
Disposals: Valuables	0
Nonproduced assets	-91,972
Acquisition: Nonproduced assets	210,755
Disposals: Nonproduced assets	302,727

Note: According to methodology GFS 2001

Source: Ministry of Finance

According to GFS 1986 methodology, the revenues from disposal of nonfinancial assets and expenses for acquisition of nonfinancial assets were consisted in revenues respectively expenses, but according to methodology GFS 2001 they are stated in transactions of nonfinancial assets. Nonfinancial assets include produced and nonproduced assets. Produced fixed assets include buildings, structures, machinery, equipment and other fixed assets. Total acquisition of produced nonfinancial assets amounted HRK 2.5 billion (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.), while disposal (of business objects, the revenues from flat disposal and other structure objects) was only HRK 287 million.

Nonproduced nonfinancial assets consist of lands, subsoil assets, other naturally occurring assets and other rights (concessions, licences, patents etc.). Acquisition and disposal of nonproduced assets realized in 2004 was almost totally by disposal of land.

In 2004 net nonfinancial assets was realized in the amount of HRK 2.1 billion what is the result of acquisition and disposal of nonfinancial assets.

Since the revenues from disposal of nonfinancial assets are realized by property disposals which are in the biggest part owned by cities and smaller by counties, so their share in budgets of the cities is higher. Acquisition of fixed nonfinancial assets was financed not only from property disposal but mostly from realized other revenues and receipts from incurrences.



5.6. Transactions in Financial Assets and Liabilities



Table 5.7: Changes in Net Worth of Financial Assets and Liabilities in 2004 for 53 Local Units (32 Cities, 20 Counties and City of Zagreb)

NET ACQUISITION OF FINANCIAL ASSETS	76,344
Domestic	78,038
Foreign	-1,694
NET INCURRENCE OF LIABILITIES	135,080
Domestic	232,026
Foreign	-96,946

Note: According to methodology GFS 2001

Source: Ministry of Finance

Financial assets of local and regional self-government units consist of financial claims. Transactions in financial assets in 2004 were HRK 76.3 million net, and are result of:

- expenses for given domestic loans of HRK 126.6 million;
 - for shares and purchasing equities in company's capital HRK 16.4 million
 - and other claims HRK 10.9 million
- also receipts from return of given loans HRK 68.2 million
 - receipts from share and equity in companies selling HRK 20.2 and foreign HRK 1.7 million
 - and increasing deposit status for HRK 12.4 million.

The given loans are assigned mostly for companies in public sector, small and medium undertakings or banks as an assurance of undertakings' credit return on the units area.

Transactions in liabilities are result of incurrences and repayments by received loans and by issued securities. Since there is no acquisition of nonfinancial assets, and since the goal is to finance capital projects, local and regional self-government units was given a possibility to incurrence in accordance with legal documents¹¹ and subordinate legislation¹². In accordance with Law and Directive of counties, cities and municipalities can incurrence only in banks on the area of Republic of Croatia for capital projects which are financed from their budget, and which are confirmed by representative entity with previous accordance of the Government. Also for 2004 restriction measurements were prescribed, in the Law on the Execution of the State Budget of the Republic of Croatia for the year 2004, by which Croatian Government can give concordance for incurrence to the local and regional self-government units for the year 2004 by the number of 2% of realized revenues of all local and regional self-government units, stated in the financial report for 2003. Provisions did not refer to areas of special state concern units and those that realize credit resources from the resources of the Republic of Croatia Regional Development Fund and Development and Employment Fund.

Municipalities, cities and counties were allowed to apply for incurrence if their revenues were larger than the operational expenses in the financial reports for 2003.

Transactions in 2004 liabilities were HRK 135 million net and are result of domestic incurrences of HRK 542 million and capital repayments of the received domestic and foreign incurrences of the HRK 407 million. Domestic incurrences were created because of the bonds for financing of comunal infrastructure of HRK 214 million, and loans taken in domestic banks of HRK 328 million.

Besides the stated, municipalities, cities and counties can give guarantees for incurrence to the public institutions or companies whose founder and major owner they are. The mentioned guarantee is included in annual incurrence of the unit. Annual annuity of the credits, guarantees and other arrears can be up to 20% of the realized revenues of the unit in the year before the year of incurrence. Units are allowed to refinance previous credit liabilities because of the more favourable credit conditions, first of all decrease of interest rates on the capital market. Credit for which Croatian Government gave concordance for incurrences is allowed to be refinanced, with the condition that refinanced amount is smaller than the rest of the debt from the previous Government Decision. The mentioned legislative possibilities units have used according to their possibilities.

¹¹ Budget Law ("Official Gazette", No. 96/03.), the Law on the Execution of the State budget ("Official Gazette", No. 31. i 104/04.)

¹² The rules on incurrences princip of Local and Regional Self-government Units and giving guarantees to Local and Regional Self-government Units ("Official Gazette", No. 55/04.)



6.1. Significant Fiscal Policy Features in 2004



..... Significant fiscal adjustment as well as reduction of external imbalances was marked fiscal policy in the previous year, what was defined by Fiscal Policy Principles for 2005-2007 which was adopted by the Government of the Republic of Croatia in July 2004. Namely, the general government budget deficit that reached the level of 6.3% of GDP in 2003 largely destabilized the IMF Stand-by Arrangement that was concluded by the Croatian authorities in February 2003.

At the beginning of 2004 the negotiations on conclusion of new arrangement started, that was approved by the Executive Board of the International Monetary Fund in August 2004 for the period of 20 months. This supported the program contained in the Memorandum on Economic and Fiscal Policy whose key objectives were to establish transparency in public finances and the beginning of the medium term consolidation process. Therefore, the Croatian Government orientation was to reduce the budget deficit and external imbalances created by high current account deficits and the burden with external debt.

Although the target general government deficit was 4.5% of GDP in 2004, the realized deficit of 4.9% of GDP indicates the significant fiscal adjustment in comparison with the previous year. It's important to stress that all transactions were included in the budget for 2004 that were reported outside the budget in the preceding years. In this way the implementation of more transparent fiscal policy whose goal is to fulfill Maastricht's criteria for EU accession (the fiscal deficit of 3% of GDP and public debt below 60% of GDP) is confirmed.

In the area of the tax system Amendments to the Act on Excise Tax on Tobacco Products and Act on Excise Taxes on Cars, Other Motor Vehicles, Vessels and Aircraft were introduced. Amendments to the Act on Income Tax, Act on Contributions for obligatory insurance and Profit Tax Act were also established, in practice since January 1, 2005, to abstract weaknesses of existing Acts and to provide gradual integrating with EU Guidelines.

Since January 1, 2004 the coverage of extrabudgetary funds was extended by establishing the Environment Protection and Energy Efficiency Fund for the purpose of providing additional funds for financing projects, programs and similar actions in the field of conservation, protection and promotion of environment.

Late 2004 Standard&Poor's credit rating for Croatia was raised from BBB- to BBB what will introduce easier access to financial markets and more convenient financing conditions. With continuation of the process of fiscal consolidation and implementation of structural reforms in the following period, the role of the state in the economy will reduce and its fiscal positions strengthen.



6.2. Consolidated General Government by Economic Classification

6.2.1. Consolidated General Government Revenues

During 2004, consolidated general government collected HRK 96.427 billion, what is increase of HRK 7.112 billion or 8.0% in comparison with previous year. At the same time, the share of total revenues of consolidated general government in the gross domestic product amounted 46.6% what represents 0.3% more than in the previous year.

Table 6.1 indicates basic categories of revenues of consolidated general government, reported according to economic classification and as a share of the gross domestic product.

Table 6.1: Consolidated General Government Revenues in 2002-2004

	(000 HRK)	2002	% GDP	2003	% GDP	2004	% GDP
1	REVENUES	82,895,736	46.2	89,314,501	46.3	96,426,967	46.6
11	Taxes	50,665,636	28.2	53,834,653	27.9	56,425,728	27.2
111	Taxes of income, profits and capital gains	10,940,797	6.1	11,516,423	6.0	12,160,712	5.9
1111	Taxes on individual income	7,226,672	4.0	7,197,917	3.7	7,764,615	3.7
1112	Taxes on corporate income	3,714,125	2.1	4,318,506	2.2	4,396,097	2.1
113	Taxes on property	623,974	0.3	605,840	0.3	730,913	0.4
114	Taxes on goods and services	36,563,588	20.4	39,547,169	20.5	41,587,966	20.1
1141	General taxes on goods and services	26,127,927	14.6	28,302,816	14.7	30,057,275	14.5
11411	Value-added taxes	25,952,486	14.5	28,129,300	14.6	29,864,905	14.4
11412	Sales taxes	175,441	0.1	173,516	0.1	192,370	0.1
1142	Excises	9,835,295	5.5	10,482,097	5.4	10,625,358	5.1
115	Taxes on international trade and transactions	2,050,624	1.1	1,810,866	0.9	1,590,727	0.8
116	Other taxes	486,653	0.3	354,355	0.2	355,410	0.2
12	Social contributions	25,200,022	14.0	27,424,608	14.2	29,477,597	14.2
13	Grants	1,190	0.0	12,034	0.0	13,992	0.0
14	Other revenue	7,028,887	3.9	8,043,206	4.2	10,509,650	5.1

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

During the period from 2002 to 2004 tax burden, measured by the share of tax revenues of consolidated general government in GDP, including social contributions was still above high 40% of GDP. Towards their following reduction, new tax measures have been introduced (described in Chapter II) to initiate the investment increase as a basis for stepping up the economic activity. Specified, tax revenues showed a reducing tendency from 27.9% of GDP in 2003 to 27.2% of GDP in 2004 while the social contributions retained their share at the level of 2003. At the same time, the share of other revenues in GDP increased for 0.9% in comparison with previous year. Desirable reducing of tax burden should be realized parallel with decrease of public expenditure.

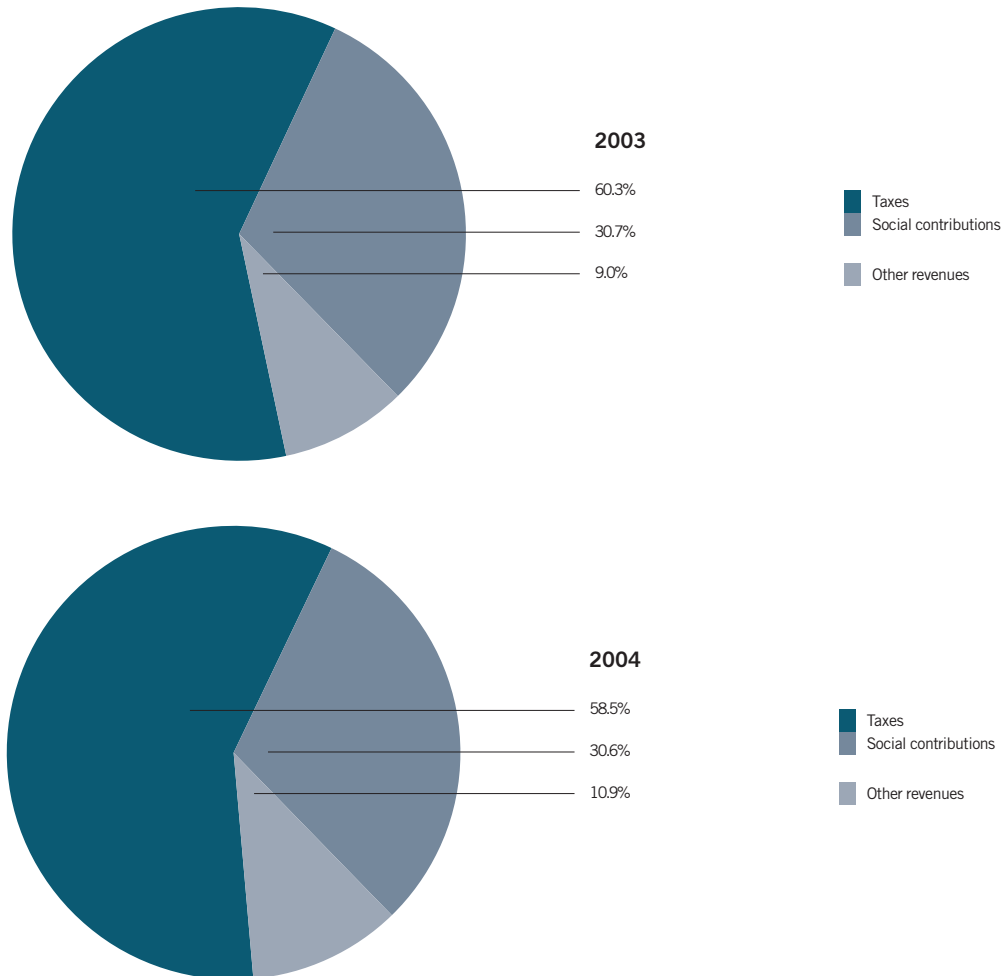
The structure of total revenues of consolidated general government in 2003 and 2004 is illustrated in Figures 6.1 and 6.2.

It can be noted that tax revenues in 2004 realized a relatively smaller portion (58.5%) in total revenues in comparison with the previous fiscal year (60.3%). This was partly due to difficulties in the collection of some taxes caused by widespread tax evasion. The share of social contributions (30.6%) stayed almost identically the same as share realized in 2003. On the other hand, the realization of other revenues raised their share in total revenues from 9.0% in 2003 to 10.9% in 2004.





Figures 6.1. and 6.2: Structure of Consolidated General Government Revenues in 2003 and 2004



Source: Ministry of Finance

Figures 6.3. and 6.4. indicate the structure of tax revenues of consolidated general government in 2003 and 2004, according to economic classification.

Although revenues from VAT were the biggest component of tax revenues of consolidated general government, their share of 52.9% in total tax revenues in 2004 was not a significant change in comparison with the previous year (52.3%). Namely, the revenues from VAT were not collected according to the annual plan. Though they increased 6.2% in the previous fiscal year, that was considerably slower than in 2003 when their growth was 8.4%. In other words, during 2004 they were collected in the amount of HRK 29.865 billion, while in the 2003 they amounted HRK 28.129 billion. Despite favorable trade and tourism indicators, during summer months these revenues were slowing down because of the expressed effect of gray economy. In 2004 excise revenues, realised in the amount of HRK 10.625 billion, were 18.8% of total tax revenues. Compared to the previous year, excises recorded a growth of only 1.4%, which was much lower than growth and share in 2003, at the level of 6.6% respectively 19.5%. This decreasing tendency is most directly the result of low collection of components of all excises, particularly excises on oil derivatives, which participate with 41.9% in the total structure of excises. Given that specific component of excises taxes were already described in Chapter II, this part will deal only with sources of collected excise taxes. Thereby, out of the total amount of collected excises in 2004, budgetary central government collected HRK 7.942 billion, whereas the remaining HRK 2.684 billion were collected on extrabudgetary funds i.e. Croatian Motorways and Croatian Roads. Earmarked setting aside of a portion of excise taxes on oil and oil derivatives for construction of roads and motorways was regulated by law in 2001.



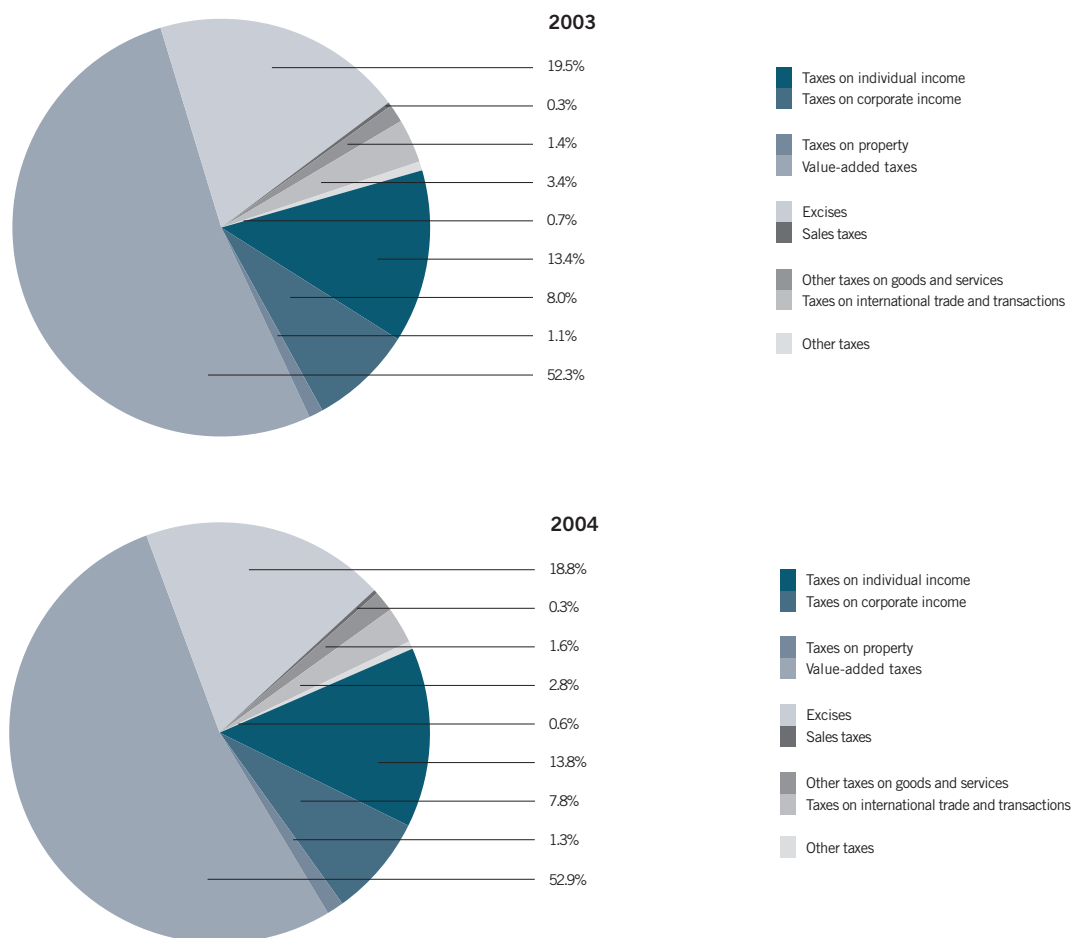
Revenues from personal income tax recorded an increase in the total tax revenues from 13.4% in 2003 to 13.8% in 2004. Favorable indicators of employment growth and increase of tax base of income tax during the observed period were related to outturn of revenues from that tax. Also, some changes in income tax i.e. significantly tax exemptions influenced the reached growth of revenues. Therefore, in 2003, 0.4% lower revenues were collected a year-on-year level, whereas in 2004 there was a significant growth of revenues, of 7.9%. It's important to emphasize that on the consolidated general government level, out of total amount of revenues from personal income tax (HRK 7.765 billion), budgetary central government collected HRK 3.128 billion and local government units collected HRK 4.636 billion.

During 2004 revenues from corporate income tax had 1.8% increase, a considerable slowdown compared with previous year (16.3%). Due to that, the share of profit tax in total tax revenues decreased from 8.0% in 2003 to 7.8% in 2004. According to government level, it's visible that out of the amount of HRK 4.397 billion of total revenues from profit tax, HRK 3.131 billion relates to budgetary central government and HRK 1.265 billion relates to local government units.

The decline in the share of revenues from tax on international trade and transactions in total tax revenues continued in 2004 namely from 3.4% recorded in 2003 to 2.8% in 2004. The decline is mostly due to the contracts about free trade and process of liberalizing trade relations. This is also confirmed by their annual declining for 11.7% in 2003 respectively 12.2% in 2004.

Revenues from property tax, which are completely made up of revenues from taxes on real estate transactions, recorded an increase in the share of total tax revenues for 0.2% i.e. from 1.1% in 2003 to 1.3% in 2004, what resulted with high increase rate of 20.6% compared with the previous year.

Figures 6.3 and 6.4: Structure of Consolidated General Government Tax Revenues in 2003 and 2004



Source: Ministry of Finance





Social contributions, which make up 30.6% of total revenues of consolidated general government, had a 7.5% increase in 2004, what was in 1.3 percentage points lower than in 2003. The increase of social contributions was the result of the growth of wages (described in Chapter II).

Other revenues of consolidated general government were collected in the amount of almost HRK 10.510 billion, what was an annual increase of 10.9% in 2004 (in comparison to 9.0% in 2003). This outturn was mainly due to revenues from sales of goods and services and revenues from property tax, which included dividend payments of Croatian Telecom paid in the budgetary central government in 2004. From the side of extrabudgetary funds and local government units, the largest contribution to other revenues growth came from administrative fees

6.2.2. Consolidated General Government Expense

During the last fiscal year, on the level of consolidated general government, it was consumed HRK 94.286 billion or 8.0% more than in previous year. Thus the share of total expense in GDP, according to methodology GFS 2001, increased from 45.2% recorded in 2003 to 45.5% in 2004.

Total expense of consolidated general government, reported according to economic classification and as a share in GDP in the period from 2002 to 2004, is provided in Table 6.2.

Table 6.2: Consolidated General Government Expense in 2002-2004

	(000 HRK)	2002	% GDP	2003	% GDP	2004	% GDP
2	EXPENSE	81,318,571	45.3	87,295,863	45.2	94,286,501	45.5
21	Compensation of employees	22,181,946	12.4	24,065,457	12.5	25,505,196	12.3
211	Wages and salaries	18,966,243	10.6	20,495,807	10.6	21,723,668	10.5
212	Social contributions	3,215,703	1.8	3,569,651	1.8	3,781,528	1.8
22	Use of goods and services	9,772,569	5.4	9,494,184	4.9	9,679,316	4.7
24	Interest	3,761,201	2.1	4,039,182	2.1	4,423,239	2.1
241	To nonresidents	1,927,686	1.1	2,071,500	1.1	2,201,890	1.1
242	To residents other than general government	1,833,515	1.0	1,967,682	1.0	2,221,349	1.1
25	Subsidies	4,146,064	2.3	4,915,835	2.5	5,694,425	2.7
251	To public corporations	2,189,093	1.2	2,513,650	1.3	3,420,619	1.7
252	To private enterprises	1,956,971	1.1	2,402,185	1.2	2,273,806	1.1
26	Grants	535,489	0.3	557,297	0.3	1,008,884	0.5
261	To foreign governments	66,004	0.0	43,918	0.0	76,464	0.0
262	To international organizations	38,683	0.0	41,239	0.0	83,434	0.0
263	To other general government units	430,802	0.2	472,140	0.2	848,986	0.4
27	Social benefits	36,129,009	20.1	38,254,500	19.8	41,021,808	19.8
271	Social security benefits	19,534,518	10.9	30,639,145	15.9	29,100,971	14.1
272	Social assistance benefits	16,224,954	9.0	7,056,206	3.7	11,552,423	5.6
273	Employer social benefits	369,537	0.2	559,149	0.3	368,415	0.2
28	Other expense	4,792,294	2.7	5,969,408	3.1	6,953,634	3.4

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

It is noted that annual growth of total expenses of consolidated general government is determined by a high share of social security benefits (mainly expenses for pension benefits), wages and salaries. In this way the level of expenses for wages and salaries was 10.5% share of GDP during 2004 (in comparison with 10.6% of GDP in 2003). The level of social benefits had identical share as in the previous year (19.8% of GDP). Expenses for use of goods and services recorded a decrease of 0.2% at the annual level (from 4.9% of GDP to 4.7% of GDP). On the other hand, the share of expenses for subsidies increased from 2.5% of GDP to 2.7% of GDP while the other expenses reached the level of 3.4% of GDP in 2004. Expenses for interest were about 2.1% of GDP as in 2003.

In the following extension (figures 6.5. and 6.6.) a detailed overview of the structure of expenses for consolidated general government in 2003 and 2004 is given, out of which withal arises also an answer why the state consumption increased in 2004.



The largest component in the total expenses makes the expenses for social benefits, which were realized in the amount of HRK 41.022 billion during 2004. Thereby their share (43.5%) remained almost identical to the share from 2003 (43.8%). However, expenses for social benefits grew up somewhat more (7.2%) than in the previous year (5.9%) because of increasing expenses for social security benefits i.e. expenses for pension benefits, specifically old age pensions and somewhat less pensions for disabled persons and family pensions. In their structure social assistance benefits recorded a significant annual growth of 63.7% because of the higher expenses for disabled persons and family pensions, child allowance and pension supplement of HRK 100+6%.

The following are employment contributions in the amount of HRK 25.506 billion, which along with social benefits represent the most important expense category of the budget. With a share of 27.1% in total expenses of consolidated general government, compensations for employees grew up slower (6.0%) compared to the year 2003 (8.5%). Reason for that was partly also sluggish growth of employment and wages in public administration in 2004.

A high third place in the structure of total expenses was held also by expenses for use of goods and services with a 10.3% share. They were realized in the amount of HRK 9.679 billion what was 1.9% more in the comparison with 2003 when these expenses recorded annual decreasing of 6.2%.

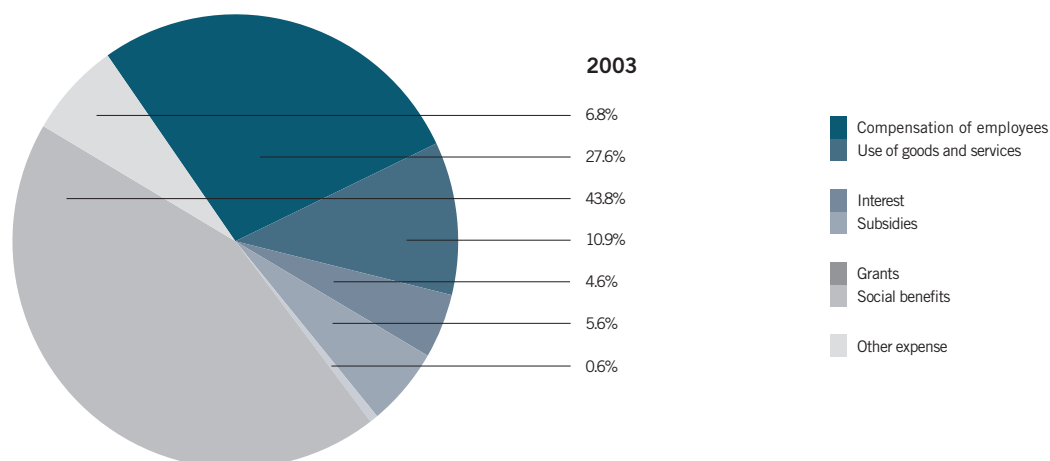
Share of other expenses raised from 6.8% in 2003 to 7.4% in 2004 although they grew up slower (16.5%) than in the previous year (20.9%). Capital expenses amounted HRK 3.806 billion what was higher than their last year amount for the 133.6%, while at the same time current expenses in the amount of HRK 3.145 billion were lower for 12%. Out of total amount of other capital expenses, over HRK 2.5 billion refers to budgetary central government expenses while the other HRK 1.2 billion refers to extrabudgetary funds and agencies expenses, issued by Croatian Waters, Croatian Motorways and Croatian Roads (caused by investments in road infrastructure) and local government units. At the same time, more than HRK 1.8 billion of current expenses were realized through the budgetary central government while HRK 1.3 billion refers to local government units.

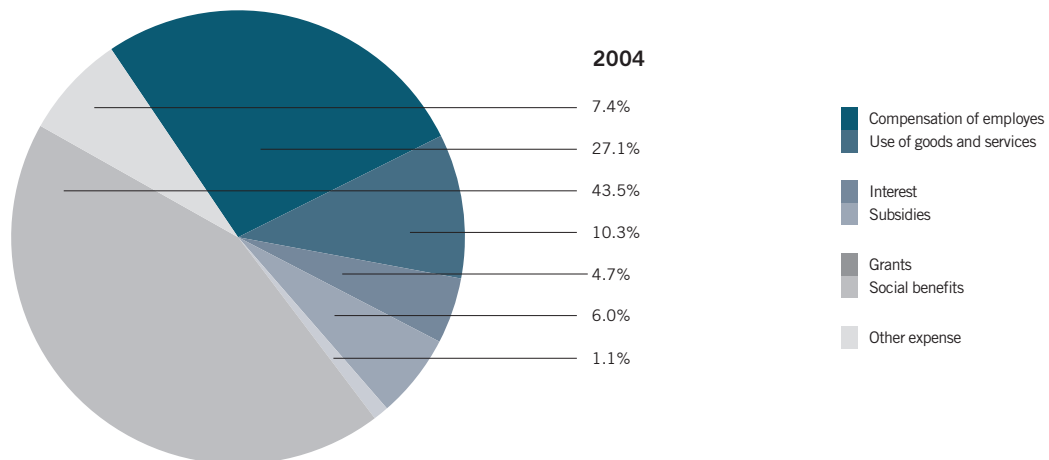
In 2004 expenses for subsidies increased 15.8% what was lower than increase in the previous year (18.6%). About 60% of total subsidies refer to subsidies to public enterprises whereat the biggest part was granted to maintenance of railway infrastructure and traffic regulation. Other 40% of total subsidies refer to subsidies to private enterprises where the biggest part was directed to agriculture production promotion. These movements implicated on enlargement of relative share of subsidies in total expenses from 5.6% in 2003 to 6.0% in 2004.

In 2004 interest payments were HRK 4.423 billion what was 9.5% more compared with 2003 (growth of 7.4%). This kind of expenses is directly connected with movements of public debt level.

This kind of expenses is directly connected with movement of public debt what is confirmed also by amounts that are spent for interest payments on domestic and foreign debt. Namely, interest rate paid on domestic debt is significantly higher than in 2003 (12.9% against 7.3%) what is partly also result of state intend to mostly rely on the domestic sources when covering the financing needs. In the structure of total expenses, expenses for interest payments maintained the same level as the year before (4.7%).

Figures 6.5. and 6.6: Structure of Consolidated General Government Expense in 2003 and 2004





Source: Ministry of Finance

6.2.3. Transactions in Nonfinancial Assets of the Consolidated General Government

The overview of nonfinancial assets and the share in GDP from 2002 to 2004 is provided in the Table 6.3. During 2004 net acquisition of nonfinancial assets of consolidated general government amounted HRK 10.495 billion whereas it was created as a result of acquisition of nonfinancial assets (HRK 11.360 billion) which exceeded their disposals (for almost HRK 865 million). Thus it was realized in the 9.2% higher amount than in the previous year. The largest contribution to the acquisition of nonfinancial assets came from the acquisition of fixed assets (the share of 96.2%), in which the acquisitions of buildings and structure dominated with 90.4%. At the same time 61.5% refer to the extrabudgetary funds and agencies (mainly the road infrastructure of Croatian motorways and Croatian roads), while the rest went to the acquisition of buildings and structures by the budgetary central government and local government. The acquisition of nonproduced assets, with the share of 3.7% in total acquisition of nonfinancial assets, was mostly realized by the acquisition of lands at the local government level (40.8%) and extrabudgetary funds and agencies (41.2%). Although it made the smallest contribution to the acquisition of nonfinancial assets, acquisition of valuables mostly came from budgetary central government.

Disposals of nonfinancial assets mostly came from the disposals of buildings and structures (64.2%) by budgetary central government and local government while local governments pursued the activities of land disposals (34.5%). In this way during 2004 disposals of nonfinancial assets recorded the annual growth of 17.9%.

Table 6.3: Transactions in Nonfinancial Assets of the Consolidated General Government in 2002-2004

	(000 HRK)	2002	% GDP	2003	% GDP	2004	% GDP
31	NET ACQUISITION OF NONFINANCIAL ASSETS d/	7,265,355	4.1	9,664,414	5.0	10,494,818	5.1
311	Fixed assets	7,071,325	3.9	9,543,005	4.9	10,371,227	5.0
312	Inventories	7	0.0	0	-	0	-
313	Valuables	71,953	0.0	6,885	0.0	7,683	0.0
314	Nonproduced assets	122,070	0.1	114,525	0.1	115,909	0.1

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



6.2.4. Transactions in Financial Assets and Liabilities of the Consolidated General Government

The overview of financial assets and the share in GDP from 2002 to 2004 is provided in the Table 6.4. In 2004 net acquisition of financial assets of consolidated general government amounted HRK 104.2 million, of which domestic financial assets were recorded in the amount of HRK 96.1 million and foreign financial assets in the amount of HRK 8.1 million. In this way domestic financial assets were mostly generated from the budgetary central government transactions in currency and deposits, loans and shares and other equity (described in Chapter II). The extrabudgetary funds and agencies reduced their domestic financial assets because of increased acquisitions for loans and shares and other equity (HRK 160 million), and in this way realized the amount of negative sign (of almost HRK -120 million). The local government budget participated with HRK 78 million in total domestic financial assets whereat acquisitions of loans, shares and other equity and other account receivable (HRK 154.1 million) exceeded disposals (HRK 88.5 million). Foreign financial assets are result of budgetary central government transactions in the amount of HRK 9.8 million and local government budget in the amount of HRK -1.7 million (because of disposals for loans).

Table 6.4: *Transactions in Financial Assets and Liabilities of the Consolidated General Government in 2002-2004*

	(000 HRK)	2002	% GDP	2003	% GDP	2004	% GDP
	TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES						
32	NET ACQUISITION OF FINANCIAL ASSETS	1,301,496	0.7	-767,908	-0.4	104,242	0.1
321	Domestic	1,289,649	0.7	-771,136	-0.4	96,150	0.0
3212	Currency and deposits	2,341,640	1.3	1,651,082	0.9	-878,660	-0.4
3214	Loans	416,367	0.2	371,799	0.2	794,074	0.4
3215	Shares and other equity	-1,471,328	-0.8	-2,836,335	-1.5	169,766	0.1
3218	Other accounts receivable	2,969	0.0	42,318	0.0	10,970	0.0
322	Foreign	11,847	0.0	3,228	0.0	8,092	0.0
3224	Loans	-1,642	0.0	-6,698	0.0	-1,694	0.0
3225	Shares and other equity	13,489	0.0	9,926	0.0	9,786	0.0
33	NET LIABILITIES	6,989,686	3.9	6,877,868	3.6	8,458,594	4.1
331	Domestic	2,051,749	1.1	954,395	0.5	4,339,219	2.1
3313	Securities other than shares	1,318,319	0.7	1,169,229	0.6	6,558,485	3.2
3314	Loans	733,430	0.4	-214,835	-0.1	-2,219,265	-1.1
332	Foreign	4,937,937	2.8	5,923,473	3.1	4,119,375	2.0
3323	Securities other than shares	3,024,358	1.7	5,175,750	2.7	1,215,439	0.6
3324	Loans	1,913,579	1.1	747,723	0.4	2,903,935	1.4

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

During 2004 net liabilities of consolidated general government recorded HRK 8.459 billion what is for HRK 1.581 billion more than in the previous year. All the financing needs were carried out by rising liabilities i.e. incurrences. In contrast with the previous year, during 2004 the government met financing needs by significantly more increased incurrences on domestic than on foreign field. In this way the share of domestic incurrence liabilities (62.6%) exceeded foreign incurrence of liabilities (37.3%). In absolute amount ratio was HRK 15.022 billion versus HRK 8.956 billion. Namely, domestic liabilities in 2004 were increased in HRK 3.385 billion what was the result of the liabilities rise on the basis of securities other than shares, and the liabilities reduction in the incurrences through loans. The incurrence from securities other than shares amounted HRK 11.827 billion, of which HRK 11.383 billion came from the incurrences of budgetary central government, HRK 230 million from extrabudgetary funds and agencies and HRK 213 million from local government. At the same time, principal repayments of securities other than shares were recorded in the amount of HRK 5.268 billion whereat the incurrences of budgetary central government amounted HRK 5.026 billion while the repayments of extrabudgetary funds and agencies and local governments were significantly lower (HRK 236.8 million apropos HRK 5.6 million). The repayments of loans in the amount of HRK 5.415 billion came from the repayments of budgetary central government (HRK 3.984 billion), extrabudgetary funds and agencies (HRK 1.127 billion and local governments (HRK 303.9 million) while the incurrences through loans were almost HRK 2.220 billion less than repayments i.e. amounted HRK 3.196 billion. Thereof the incurrences of liabilities of budgetary central government amounted HRK 1.666 billion, extrabudgetary funds and agencies amounted HRK 1.277 billion and local government amounted





HRK 328.1 million. The part of the financing needs was covered by incurrence in the abroad. In 2004 total foreign liabilities amounted HRK 4.119 billion what was HRK 1.805 billion less than foreign liabilities in 2003. These movements confirmed the government orientation on domestic financing sources during 2004. Foreign incurrence of liabilities (HRK 8.956 billion) were mostly the result of incurrence through loans by extrabudgetary funds and agencies, especially Croatian motorways and Croatian roads (HRK 3.978 billion) and budgetary central government (HRK 1.236 billion) as also incurrence by issued securities other than shares of budgetary central government (HRK 3.742 billion). Principal repayments of the debt on securities other than shares (HRK 2.257 billion) came from the budgetary central government repayment, exceeded incurrence on securities other than shares for HRK 1.215 billion in 2004. Foreign loan repayments in the amount of HRK 2.309 billion, which refer to the repayments of budgetary central government (HRK 2.180 billion), extrabudgetary funds and agencies (HRK 31.8 million) and local government (HRK 96.9 million) exceeded incurrence through loans for HRK 2.904 billion.

6.2.5. Measures of Deficit/Surplus and Financing of the Consolidated General Government

The overview of different measures of deficit of consolidated general government and the amount of net lending/borrowing in the year 2004, according to GFS 2001 methodology, is provided in the Table 6.5. Net operating balance of consolidated general government, which is according to GFS methodology defined as a difference between total revenues and expenses, in 2004 was at the level of HRK 2.140 billion. Net operating balance of consolidated general government, which is defined as a difference between total revenue and expense, according to methodology of public finance GFS 2001 was at the level of HRK 2.140 billion in 2004. Primary operating balance which is used as indicator of current fiscal policy since it excludes the interest from calculation and thereby eliminates the previous fiscal deficit impact as an accumulative public debt, in 2004 recorded HRK 6.564 billion. In comparison with the year 2003, primary operating deficit surplus of consolidated general government increased for HRK 505.9 million what was priory the sequent of growth of interests which was higher for HRK 384.1 million in the observed period. Net lending/borrowing category is defined as a difference between net operating balance and net acquisition of nonfinancial assets. In 2004 net acquisition of nonfinancial assets was at the level of HRK 10.495 billion while the net lending/borrowing was recorded in the amount of HRK -8.354 billion. In comparison with 2003, net lending borrowing increased for HRK 708.9 million. Total amount of net lending/borrowing financing is realized in the amount of HRK 8.354 billion and this is the result of net acquisition of liabilities of consolidated general government in the amount of HRK 8.459 billion and net acquisition of financial assets in the amount of HRK 104.2 million.

Table 6.5. Measures of Consolidated General Government Deficit/Surplus and Financing, According to GFS 2001 Methodology in the Period from 2002 to 2004

(000 HRK)		2002	% GDP	2003	% GDP	2004	% GDP
TRANSACTIONS AFFECTING NET WORTH							
1	Revenues	82,895,736	46.2	89,314,501	46.3	96,426,967	46.6
2	Expense	81,318,571	45.3	87,295,863	45.2	94,286,501	45.5
24	Interest	3,761,201	2.1	4,039,182	2.1	4,423,239	2.1
Net-gross operating balance (1-2)		1,577,165	0.9	2,018,638	1.0	2,140,466	1.0
Primary operating balance (1-2+24)		5,338,366	3.0	6,057,820	3.1	6,563,705	3.2
TRANSACTIONS IN NONFINANCIAL ASSETS							
31	Net acquisition of nonfinancial assets	7,265,355	4.1	9,664,414	5.0	10,494,818	5.1
Net lending-borrowing (1-2-31)		-5,688,190	-3.2	-7,645,776	-4.0	-8,354,352	-4.0
Financing (3-2)		5,688,190	3.2	7,645,776	4.0	8,354,352	4.0
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES							
32	Net acquisition of financial assets	1,301,496	0.7	-767,908	-0.4	104,242	0.1
33	Net acquisition of liabilities	6,989,686	3.9	6,877,868	3.6	8,458,594	4.1

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



6.3. Consolidated General Government According to Government Level

Table 6.6 indicates the trend of total revenues, expenses, nonfinancial assets, financial assets and liabilities as a share in GDP, for each level of government from 2002 to 2004, according to GFS 2001 methodology. Since 2002 the share of revenues of total budget entities mostly maintained the level of previous year or recorded slight increasing. At the same time, the share of total expenses is increasing whereat the extrabudgetary funds and agencies perform the exception. Namely, their share significantly decreases in the value of GDP (from 4.4% in 2002 to 2.5% in 2004). It's important to perceive that the share of the value of nonfinancial assets increases in GDP from 4.1% in 2002 to 5.0% in 2003 with respect to 5.1% in 2004.

Table 6.6: Consolidated General Government According to Government Level in 2002-2004

	(000 HRK)	2002	% GDP	2003	% GDP	2004	% GDP
1	REVENUES	82,895,736	46.2	89,314,501	46.3	96,426,967	46.6
	Budgetary Central Government	69,651,075	38.8	74,677,474	38.7	80,463,518	38.9
	Extrabudgetary Funds	5,412,965	3.0	6,109,081	3.2	6,555,766	3.2
	Croatian Institute for Pension Insurance	110,074	0.1	103,501	0.1	129,892	0.1
	Croatian Health Insurance Institute	467,497	0.3	822,183	0.4	663,139	0.3
	Croatian Employment Service	25,278	0.0	17,573	0.0	15,507	0.0
	Croatian Waters	1,098,582	0.6	1,150,333	0.6	1,224,431	0.6
	Environment Protection Fund	-	-	-	-	170,748	0.1
	Development and Employment Fund	28	0.0	-	-	-	-
	Regional Development Fund	83	0.0	-	-	-	-
	Croatian Motorways Ltd.	1,695,972	0.9	1,927,787	1.0	2,295,423	1.1
	Croatian Roads Ltd.	1,208,654	0.7	1,379,782	0.7	1,417,787	0.7
	State Agency for Deposit Insurance and Bank Rehabilitation	617,914	0.3	581,931	0.3	575,893	0.3
	Croatian Privatization Fund	188,883	0.1	125,991	0.1	62,946	0.0
	Budgetary Local Government	7,831,695	4.4	8,527,946	4.4	9,407,683	4.5
2	EXPENSE	81,318,571	45.3	87,295,863	45.2	94,286,501	45.5
	Budgetary Central Government	66,518,447	37.1	73,257,177	37.9	80,607,176	38.9
	Extrabudgetary Funds	7,805,952	4.4	6,135,543	3.2	5,080,273	2.5
	Croatian Institute for Pension Insurance	1,575,181	0.9	1,844,077	1.0	587,420	0.3
	Croatian Health Insurance Institute	1,263,096	0.7	888,105	0.5	831,295	0.4
	Croatian Employment Service	239,458	0.1	140,387	0.1	141,333	0.1
	Croatian Waters	1,125,187	0.6	1,427,067	0.7	1,426,283	0.7
	Environment Protection Fund	-	-	-	-	32,443	0.0
	Development and Employment Fund	1,949,105	1.1	-	-	-	-
	Regional Development Fund	162,364	0.1	-	-	-	-
	Croatian Motorways Ltd.	343,256	0.2	692,490	0.4	752,254	0.4
	Croatian Roads Ltd.	726,445	0.4	840,372	0.4	934,630	0.5
	State Agency for Deposit Insurance and Bank Rehabilitation	301,665	0.2	251,360	0.1	314,474	0.2
	Croatian Privatization Fund	120,195	0.1	51,685	0.0	60,141	0.0
	Budgetary Local Government	6,994,172	3.9	7,903,142	4.1	8,599,052	4.2
31	NET ACQUISITION OF NONFINANCIAL ASSETS	7,265,355	4.1	9,664,414	5.0	10,494,818	5.1
	Acquisition	7,917,442	4.4	10,398,246	5.4	11,359,790	5.5
	Budgetary Central Government	1,595,039	0.9	2,054,989	1.1	1,663,868	0.8
	Extrabudgetary Funds	4,780,957	2.7	6,216,526	3.2	6,984,515	3.4
	Budgetary Local Government	1,541,446	0.9	2,126,731	1.1	2,711,407	1.3
	Disposals	652,087	0.4	733,832	0.4	864,972	0.4
	Budgetary Central Government	218,036	0.1	242,586	0.1	244,401	0.1
	Extrabudgetary Funds	28,538	0.0	32,916	0.0	30,519	0.0
	Budgetary Local Government	405,513	0.2	458,330	0.2	590,052	0.3
32	NET ACQUISITION OF FINANCIAL ASSETS	1,301,496	0.7	-767,908	-	104,242	0.1
321	Domestic	1,289,649	0.7	-771,136	-	96,150	0.0
	Budgetary Central Government	1,566,897	0.9	-1,384,115	-	138,090	0.1
	Extrabudgetary Funds	-1,064,076	-	409,057	0.2	-119,979	-
	Budgetary Local Government	786,828	0.4	203,922	0.1	78,039	0.0
322	Foreign	11,847	0.0	3,228	0.0	8,092	0.0
	Budgetary Central Government	13,489	0.0	9,926	0.0	9,786	0.0
	Extrabudgetary Funds	0	0.0	0	0.0	0	0.0
	Budgetary Local Government	-1,642	0.0	-6,698	0.0	-1,694	0.0
33	NET INCURRENCE OF LIABILITIES	6,989,686	3.9	6,877,868	3.6	8,458,594	4.1
331	Domestic	2,051,749	1.1	954,395	0.5	4,339,219	2.1
	Budgetary Central Government	1,424,916	0.8	-159,690	-	4,038,705	2.0
	Extrabudgetary Funds	653,684	0.4	1,108,574	0.6	68,975	0.0
	Budgetary Local Government	-26,851	0.0	5,511	0.0	231,539	0.1
332	Foreign	4,937,937	2.8	5,923,473	3.1	4,119,375	2.0
	Budgetary Central Government	2,347,755	1.3	3,049,979	1.6	270,335	0.1
	Extrabudgetary Funds	2,603,423	1.5	2,962,655	1.5	3,945,985	1.9
	Budgetary Local Government	-13,241	0.0	-89,161	0.0	-96,946	0.0

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

6.4. Deficit of Consolidated General Government in 2004 According to Modified Accrual Principle



..... Different measures of deficit/surplus were described in the previous chapters according to public finance methodology GFS 2001 of International Monetary Fund.

Different measures of deficit/surplus will be described in this Chapter according to modified accrual basis. The difference between modified accrual basis and cash basis, when recording the budget transactions implies including in the calculation all transactions that happened in the fiscal year regardless the period of their final payments.

According to modified accrual basis, deficit/surplus of consolidated general government is calculated in the way that the total revenues of consolidated general government (without capital revenues) reduce for total expenses (according to GFS 1986 methodology) made of expenses (according to GFS 2001 methodology), enlarged for total acquisition of nonfinancial assets, net value of acquisition and disposal of loans and acquisition for shares and other equity as also other account receivable.

At the same time, modified accrual data in the calculation of deficit are the result of the transactions on modified accrual basis of Croatian motorways and Croatian roads while the budgetary central government, all other extrabudgetary funds and agencies (except from Croatian motorways and Croatian roads) and local government units (the biggest 53) expressed transactions on cash basis.

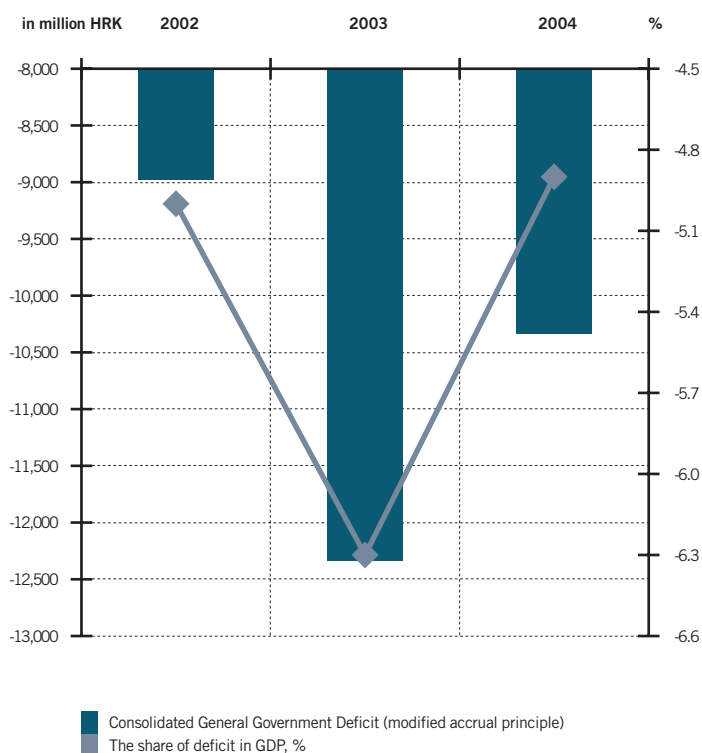
Finally, to the previously described transactions the change of arrears in the fiscal year should be added, and possible other transactions on modified accrual basis (beyond Croatian motorways and Croatian roads) that (according to the agreement with International Monetary Fund) have to be included in the final calculation of consolidated general government deficit according to modified accrual basis.

In the year 2004, deficit of consolidated general government according to modified accrual basis reached the level of 4.9% of GDP. It is important to emphasize that in 2003 deficit of consolidated general government amounted the high 6.3% of GDP according to modified accrual basis whereat a significant fiscal non-discipline existed, seen in incomplete evidence of budget transactions and “by-passing” spending of budget money, whether through over expenses in the budget of Croatian motorways and Croatian roads or through the system of giving state guarantees that are coming to the charge or through activities of Croatian Bank for Reconstruction and Development and Croatian Privatization Fund.

Unlike 2003 when described practice was discernible, the budget for 2004 included all quasi-fiscal transaction (Croatian railways, Croatian Roads, Croatian Bank for Reconstruction and Development) to get the transparency of account and review of budget transactions. To take into consideration above mentioned and a fact that the budget 2004 paid significant accounts of budget resources for the purpose of settled arrears from the previous periods, getting deficit of consolidated general government at the level of 4.9% of GDP, in 2004 a significant positive movement in the process of fiscal consolidation was realized, directed to generating the level of deficit according to recommendations of European union.



Figure 6.7: The Realization of the Consolidated General Government Deficit in the Period 2002-2004



Source: Ministry of Finance

The next table indicates the calculation of deficit of consolidated general government according to modified accrual basis that is agreed upon with International Monetary Fund.

Table 6.7: The calculation of Consolidated General Government Deficit according to modified accrual principle in 2004

in million HRK	2004
Revenues *	96,357
Expense GFS 1986	106,495
Expense GFS 2001 *	94,559
Net acquisition of nonfinancial assets *	10,494
Net loans (total acquisition of loans minus disposals of loans) *	891
Acquisition of shares and other equity *	539
Other accounts receivable *	11
Consolidated General Government deficit without capital revenues *	-10,138
Concession fee on the provision of telecommunications services (paid in February 2005)	197
Change in arrears	-384
Consolidated General Government deficit (modified accrual basis)	-10,325
Deficit as a share of GDP, %	-4.9

* HAC and HC are on accrual basis

Source: Ministry of Finance



..... So, in 2004 consolidated general government deficit amounted HRK 10.325 billion what is the result of consolidated general government deficit according to cash basis, which includes all transactions of Croatian motorways and Croatian roads expressed on modified accrual basis in the amount of HRK 10.138 billion. This deficit, according to the agreement with International Monetary Fund, is reduced for concession of telecommunication services which is really paid in February 2005. However, regarding the creation of that revenue, according to modified accrual basis, it belongs in the year 2004. Further, in 2004 deficit amount multiplies for the amount of change in arrears (negative amount represents an increase of total arrears). Taking into account all previously mentioned, in 2004 consolidated general government deficit reached the level of 4.9% of GDP, according to modified accrual basis.





According to the Budget Law (Official Gazette "Narodne Novine" no. 96/2003) government debt is defined as the debt of consolidated government budget without guarantees. With the addition of government guarantees, government debt is defined as public debt.

Table 7.1. illustrates the development of the public debt of the Republic of Croatia in the period from 2000 to 2004:

Table 7.1: *General government debt*

GENERAL GOVERNMENT DEBT end of period, HRK million	2000	2001	2002	2003	2004
1. Domestic general government debt	22,461.8	26,128.3	32,012.3	35,314.4	42,721.0
1.1. Domestic debt the Republic of Croatia	18,509.7	21,467.9	23,320.0	28,160.8	37,223.7
Treasury bills	2,564.6	4,892.3	5,632.7	6,548.1	9,022.5
Money market instruments	14.2	7.4	0.1	0.3	
Bonds	14,082.5	15,415.8	15,887.9	17,422.0	23,080.1
Croatian National Bank Loans	0.0	-	0.5	1.4	3.3
Bank loans	1,848.4	1,152.4	1,798.8	4,189.1	5,117.8
1.2. Domestic debt of Republic funds	2,777.2	3,380.5	7,659.1	6,247.5	3,911.2
Money market instruments	-	-	-	-	-
Bonds	1,686.8	1,636.1	4,108.1	3,418.2	1,726.0
Bank loans	1,090.4	1,744.3	3,551.0	2,829.3	2,185.1
1.3. Domestic debt of local government	1,174.9	1,280.0	1,033.1	906.1	1,586.2
Money market instruments	5.9	30.5	30.2	16.9	6.6
Bonds	0.5	1.2	-	-	204.4
Bank loans	1,168.4	1,248.2	1,002.9	889.2	1,375.1
2. Foreign general government debt	38,084.3	41,089.0	40,538.4	45,832.8	50,098.2
2.1. Foreign debt of the Republic of Croatia	36,453.4	39,487.3	37,388.3	41,048.8	41,951.9
Money market instruments	-	-	-	-	-
Bonds	25,762.8	30,746.7	28,694.2	32,144.8	32,793.2
Loans	10,690.6	8,740.6	8,694.1	8,904.1	9,158.7
2.2. Foreign debt of Republic funds	1,176.8	1,124.9	2,755.4	4,463.2	7,902.3
Money market instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Loans	1,176.8	1,124.9	2,755.4	4,463.2	7,902.3
2.3. Foreign debt of local government	454.1	476.9	394.6	320.8	244.0
Money market instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Loans	454.1	476.9	394.6	320.8	244.0
3. Total (1+2)	60,546.1	67,217.4	72,550.7	81,147.2	92,819.2
Addendum: Issued guarantees of the Republic of Croatia					
1. Domestic	3,377.0	5,957.8	7,423.8	6,796.5	4,542.2
2. Foreign	9,595.7	8,619.1	8,155.0	8,530.1	7,732.4
3. Total debt of HBOR	2,045.8	2,765.9	3,816.1	4,954.0	5,776.3
Total: Issued guarantees of the Republic of Croatia (1+2+3)	15,018.6	17,342.8	19,394.9	20,288.6	18,050.9
GRAND TOTAL:	75,564.7	84,560.2	91,945.6	101,435.8	110,870.1
BDP	152,518.8	165,639.5	179,390.1	193,066.8	207,082.0
TOTAL GENERAL GOVERNMENT DEBT (as % of BDP)	49.5	51.05	51.25	52.5	53.5

Source: Ministry of Finance

The content and coverage of the 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. Government funds and agencies (DAB, HFP)
4. Debt originated by issuing government guarantees to beneficiaries outside the *general government* sector
5. Debt of 53 units of local government and self-government
6. Direct debt of the Croatian Bank for Reconstruction and Development

This coverage includes the direct debt of the HBOR and excludes the government guarantees issued to the HBOR (this was done to avoid possible double reporting of debt since in numerous cases the government issues guarantees for HBOR borrowing and placements).



7.1. Credit Rating of the Republic of Croatia

Four leading international credit rating agencies usually perform an annual verification of the awarded credit rating to the Republic of Croatia and the verification in 2004 by Moody's Investor Service, Fitch Ratings as well as Rating and Investment Information (R&I) resulted in a confirmed investment grade credit rating.

The Standard & Poor's rating agency in 2004 increased the credit rating of the Republic of Croatia from BBB- to BBB, which is within the past seven years that rating agencies rate the credit worthiness of the Republic of Croatia the most important upgrade. The credit rating upgrade reflects the reforms and structural changes as well as the stabilisation of the external debt level of the public and private sector.

Table 7.2: Overview of credit ratings of the Republic of Croatia

	Long-term rating Foreign currency	Long-term rating Domestic currency	Short-term rating Foreign currency
Moody's Investors Service	Baa3 / stable outlook	Baa1	P-3
Standard & Poor's	BBB/ stable outlook	BBB+	A-3
Fitch Ratings	BBB- / positive outlook	BBB+	F3
R & I	BBB		

Source: Ministry of Finance

Table 7.3 illustrates the comparison among credit ratings of leading transition countries.

Table 7.3: Comparison of credit ratings

Country	Moody's Investors Service	Standard & Poor's
Bulgaria	Ba1/positive outlook	BBB- /positive outlook
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+ /positive outlook
Romania	Ba1/positive outlook	BB+ /positive outlook
Slovakia	A2 /positive outlook	A- /positive outlook
Slovenia	Aa3 /stable outlook	AA-/stable outlook

Source: Ministry of Finance



7.2. Domestic State Budget Debt



7.2.1. Domestic Debt Categories

The structure of domestic debt by categories as of end 2003 and 2004 is illustrated in table 7.4. The repayment and interest payments plan for the domestic debt in the period from 2005 to 2019 is illustrated in table 7.5.

Total domestic debt amounted to HRK 35,788.64 million by the end of 2004, while by the end of 2003 it amounted to HRK 26,260.79 million. The increase of the domestic debt in 2004 was to a major extent realised by issuing bonds on the domestic capital market and by increased net issuance of treasury bills.

Table 7.4: Domestic debt of the Republic of Croatia as of 31st December, HRK thousand

Debt item:	Orig. currency:	2003		2004		Maturity:	Coupon:
		Amount in orig. currency	Amount in HRK	Amount in orig. currency	Amount in HRK		
Forozen foreign exchange desposits	EUR	204,862	1,566,563	72,862	558,944	2005	5.00%
Big bonds I	HRK	1 722,935	1,722,935	1,810,891	1,810,891	2011	5.00%
Big bonds II	EUR	73,060	558,682	65,931	505,771	2011	7.20%
Big bonds III	EUR	72,388	553,544	65,954	505,948	2012	7.20%
Bonds - Series 01 D-04		200,000	1 529,382			2004	6.50%
Bonds - Series 02 D-08	EUR	200,000	1,529,382	200,000	1,534,247	2008	6.875%
Bonds - Series 03 D-12	EUR	500,000	3,823,455	500,000	3,835,617	2012	6.875%
Bonds - Series 04 D-8	HRK	1, 000,000	1,000,000	1,000,000	1,000,000	2008	6.125%
Bonds - Series 05 D-14	EUR			650,000	4,986,302	2014	5.500%
Bonds - Series 06 D-07	EUR			400,000	3,068,494	2007	3.875%
Bonds - Series 07 D-19	EUR			200,000	1,534,247	2019	5.375%
BRA bonds - Series I	EUR	74,221	567,560	57,277	439,387	2007	6.00%
BRA bonds - Series II	EUR	28,961	221,461	26,150	200,605	2012	5.00%
BRA bonds - Series III	EUR	75,060	573,981	68,389	524,628	2012	7.20%
BRA bonds - Series IV	EUR	39,643	303,146	35,796	274,597	2012	5.00%
BRA bonds - Series V-A	EUR	2,056	15,725	1,587	12,174	2007	6.00%
BRA bonds - Series V-B	EUR	127,037	971,440	105,000	805,482	2008	7.00%
Club loan	EUR			231,360	1,774,817	2006	3.65%
Medium - and long-term debt			14,937,254		23,372,148		
Treasury bills	HRK		6,548,061		9,022,464		
Other short-term debt	HRK		1,357,304		1,668,000		
Short-term debt			7,905 365		10,690,464		
BRA Insured deposit scheme bonds I			0	781,441	0	2003	8.00%
BRA Insured deposit scheme bonds II	EUR	225 000	1,720,555	225,000	1,726,028	2005	8.375%
HZZO bonds	EUR	222 000	1,697,614			2004	8.50%
Bonds issued with a government guarantee			3,418,168		1,726,028		
Total debt			26,260,787		35,788,641		

Source: Ministry of Finance



By the end of 2004, a total of 7 government bonds was listed on the domestic securities market, whose list with conditions is illustrated in table 7.6.

Aiming at the development of the domestic capital market and in line with the fiscal policy objective to settle major part of the foreign debt by borrowing on the domestic market, the Republic of Croatia has issued in 2004 on the domestic market three series of government bonds.

Bonds - Series 05 D-14 were issued in three tranches in a total value of EUR 650 million with a maturity of 10 years and a fixed annual coupon of 5.50%. Interest payments will be effected semi-annually, whereas the principle will be repaid completely at maturity (February 10th, 2014). The 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 the Series 05 D-14¹ bonds was issued in the amount of EUR 200 million in kuna value, at the price of 98.119% of nominal value, and was paid on the 10th of February 2004.

The second tranche of the Series 05 D-14² bonds was issued in the amount of EUR 150 million in kuna value, and was paid on the 23rd of March 2004.

The third tranche of the 05 D-14³ bonds was issued in the amount of EUR 300 million in kuna value, and was paid on the 20th of September 2004.

The Republic of Croatia issued in July 2004 the Series 06 D-07⁴ bonds in the amount of EUR 400 million, with a fixed annual coupon of 3.875%. The bonds were paid on the 7th of July 2004. Interest payments will be paid semi-annually, whereas the principal will be repaid completely at maturity (July 7th, 2007). The bonds were issued with Privredna banka Zagreb d.d. Zagreb and Zagrebačka banka d.d. Zagreb as lead managers. They were listed in the first quotation of the Zagreb Stock Exchange d.d. Zagreb and the Varaždin Stock Exchange d.d. Varaždin. Since the bonds of the Croatian Institute for Health Insurance issued in July 2000 in the amount of EUR 222 million have matured at the same time, the proceeds from this series have in major part been used to repay this issue.

In November 2004 the Republic of Croatia issued the Series 07 D-19⁵ bonds in the amount of EUR 200 million on a 15-year term and a fixed annual coupon of 5.375%. As for now, those are the bonds with the longest maturity which is of particular importance for the development of the domestic financial market. The interest payments will be paid semi-annually, whereas the principal will be fully repaid at maturity (November 29th 2019). The bonds were issued by agents Erste & Steiermarkische Bank d.d., Privredna banka Zagreb d.d. Zagreb, Raiffeisenbank d.d. Zagreb and Zagrebačka banka d.d. Zagreb. The proceeds from the issuance of this series were in major part used for the repayment of the first issue of the Samurai bonds.

¹ Official Gazette Narodne Novine no. 16/2004

² Official Gazette Narodne Novine no. 34/2004

³ Official Gazette Narodne Novine no. 131/2004

⁴ Official Gazette Narodne Novine no. 91/2004; Government decision of 8th July 2004 (Class 451-04/04-01/04; no. 5030120-04-3)

⁵ Official Gazette Narodne Novine no. 166/2004





Table 7.5: Overview of domestic bonds issued by the Republic of Croatia or with a guarantee of the Republic of Croatia

DAB Bonds for Insured Savings Deposits I	DAB Bonds for Insured Savings Deposits II
Issued by: State Agency for Deposit Insurance and Bank Rehabilitation	Issued by: State Agency for Deposit Insurance and Bank Rehabilitation
EUR 105 000 000	EUR 225 000 000
3 years,	5 years,
8% coupon	8.375% coupon
Lead manager(s): Privredna banka Zagreb d.d. and Zagrebačka banka d.d. Zagreb	Lead manager(s): Privredna banka Zagreb d.d. and Zagrebačka banka d.d. Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of issue: 19/12/2000	Date of issue: 19/12/2000
Date of maturity: 19/12/2003	Date of maturity: 19/12/2005
This bond was fully repaid upon maturity	
HZZO Bonds	Bonds - Series 01 D-04
Issued by: Croatian Institute for Health Insurance	Issued by: Republic of Croatia
EUR 222 000 000	EUR 200 000 000
4 years,	3 years
8.5% coupon	6.5% coupon
Lead manager(s): Zagrebačka banka d.d. Zagreb	Lead manager(s): Privredna banka Zagreb d.d. and Zagrebačka banka d.d. Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of issue: 19/07/2000	Date of issue: 20/09/2001
Date of maturity: 19/07/2004	Date of maturity: 20/09/2004
This bond was fully repaid upon maturity	This bond was fully repaid upon maturity
Bonds - Series 02 D-08	Bonds - Series 03 D-12
Issued by: Republic of Croatia	Issued by: Republic of Croatia
EUR 200 000 000	EUR 500 000 000
7 years	10 years
6.875% coupon	6.875% coupon
Lead manager(s): Privredna banka Zagreb d.d. and Zagrebačka banka d.d. Zagreb	Lead manager(s): Privredna banka Zagreb d.d., Zagrebačka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of issue: 14/12/2001	Date of issue: 23/05/2002
Date of maturity: 14/12/2008	Date of maturity: 23/05/2012
Bonds - Series 04 D-08	Bonds - Series 05 D-14
Issued by: Republic of Croatia	Issued by: Republic of Croatia
HRK 1 000 000 000	EUR 650 000 000
5 years	10 years
6.125% coupon	5.5% coupon
Lead manager(s): Riječka banka d.d. Rijeka and Splitska banka d.d. Split	Lead manager(s): Privredna banka Zagreb d.d., Zagrebačka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of issue: 28/05/2003	Date of issue: 10/02/2004
Date of maturity: 28/05/2008	Date of maturity: 10/02/2014
Bonds - Series 06 D-07	Bonds - Series 07 D-19
Issued by: Republic of Croatia	Issued by: Republic of Croatia
EUR 400 000 000	EUR 200 000 000
3 years	15 years
3.875% coupon	5.375% coupon
Lead manager(s): Privredna banka Zagreb d.d., Zagrebačka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb	Lead manager(s): Erste & Steiermarkische Bank d.d., Privredna banka Zagreb d.d., Zagrebačka banka d.d. Zagreb i Raiffeisenbank d.d. Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of issue: 07/07/2004	Date of issue: 29/11/2004
Date of maturity: 07/07/2007	Date of maturity: 29/11/2019

Source: Ministry of Finance

During 2004 the bonds of the Croatian Institute for Health Insurance issued in July 2000 and amounting EUR 222 million were completely repaid as well as the Series 01 D-04 bonds issued in September 2001 in the amount of EUR 200 million.



Table 7.6: Redemption of domestic debt (HRK million)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Redemption of principal	2,776.76	579.49	3,686.41	3,024.52	285.45	304.24	2,136.46	3,960.35	0.00	4,986.30	0.00	0.00	0.00	0.00	1,534.25
Frozen foreign exchange deposits	507.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	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	1,810.99	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds II	58.92	63.06	67.43	72.03	76.87	81.93	88.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds III	52.93	56.84	60.99	65.51	70.27	75.41	80.93	42.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds - Series I	137.93	146.21	154.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series II	22.63	23.78	25.01	26.24	27.62	29.00	30.45	15.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series III	54.93	58.92	63.29	67.89	72.88	78.25	83.92	44.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series IV	30.99	32.60	34.21	35.98	37.82	39.66	41.65	21.63	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series Va	3.84	4.07	4.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series Vb	181.04	194.01	207.81	222.62	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 02 D-08	0.00	0.00	0.00	1,534.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 03 D-12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3,885.62	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	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 05 D-14	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,986.30	0.00	0.00	0.00	0.00	0.00
Bonds - Series 06 D-07	0.00	0.00	3,068.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,534.25
Bonds - Series 07 D-19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds for insured deposits II	1,726.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest payments	1,370.31	1,169.48	1,130.97	972.79	776.41	757.46	735.67	492.65	356.71	219.59	82.47	82.47	82.47	82.47	82.47
Blocked foreign currency savings	20.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds I	90.52	90.52	90.52	90.52	90.52	90.52	90.52	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds II	35.29	31.07	26.62	21.94	17.03	11.89	4.83	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds III	35.52	31.61	27.46	22.94	18.18	13.04	7.52	1.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series I	24.32	16.03	7.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series II	9.74	8.59	7.36	6.14	4.83	3.38	1.92	0.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series III	36.82	32.76	28.46	23.78	18.79	13.50	7.75	1.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series IV	13.95	11.81	10.13	8.36	6.60	4.88	2.88	0.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series Va	0.69	0.46	0.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series Vb	53.24	40.35	26.54	11.74	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 02 D-08	105.48	105.48	105.48	105.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 03 D-12	263.74	263.74	263.74	263.74	263.74	263.74	263.74	131.87	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 04 D-08	61.45	61.45	61.45	61.45	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 05 D-14	274.25	274.25	274.25	274.25	274.25	274.25	274.25	274.25	274.25	137.12	0.00	0.00	0.00	0.00	0.00
Bonds - Series 06 D-07	118.90	118.90	118.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 07 D-19	82.47	82.47	82.47	82.47	82.47	82.47	82.47	82.47	82.47	82.47	82.47	82.47	82.47	82.47	82.47
BRA bonds for insured deposits II	144.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total debt service	4,147.07	1,748.96	4,817.38	3,997.30	1,061.85	1,061.70	2,872.13	4,453.00	356.71	5,205.89	82.47	82.47	82.47	82.47	1,616.71

Exchange rate: Mid exchange rate of the CNB as of 31/12/2004

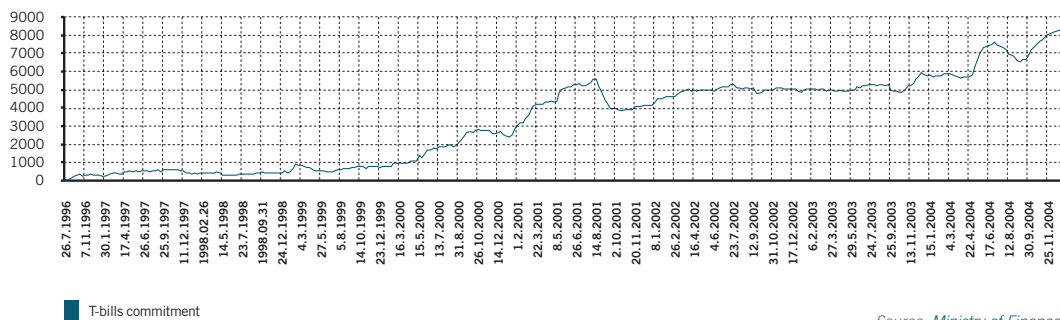
Source: Ministry of Finance



7.2.2. Treasury Bills

Treasury bills as of the 31st of December of 2004 amounted to HRK 8,259.1 million, while by the end of 2003 there was HRK 5,781.0 million of unredeemed T-bills, i.e. the total amount of issued T-bills in 2004 increased by HRK 2,478.1 million in comparison to the end of 2003. The amount of T-bills has been continuously increasing during the whole year, except in the summer months when the bank liquidity was reduced due to the high demand for kunas during the tourist season. The development of T-bills liabilities is illustrated in figure 7.1.

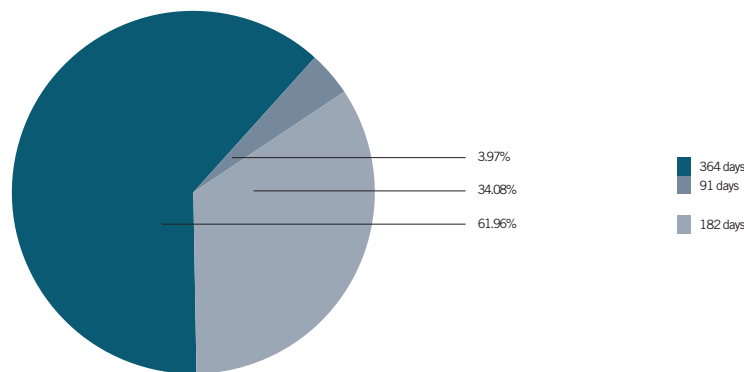
Figure 7.1.: The development of T-bills commitments



Source: Ministry of Finance

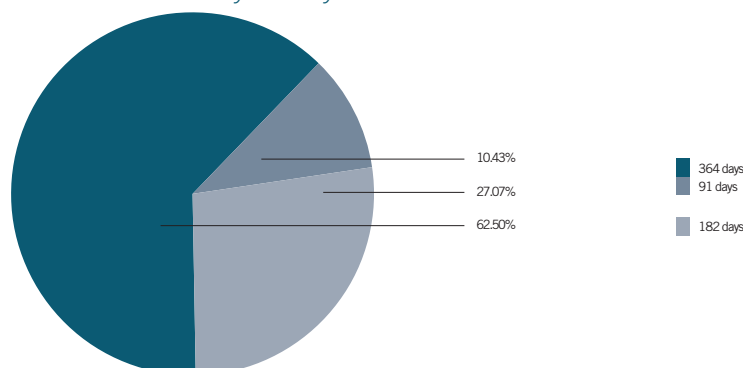
Figure 7.2 illustrates the structure of issued treasury bills by maturity as of 31st of December 2004 whereas figure 7.3 illustrates the same structure as of 31st December of 2003. In the structure of issued T-bills the largest part refers to bills with one-year maturity, whose share by the end of 2004 reached 62% (HRK 5,117.2 million) of total issued T-bills, while 34% refers to T-bills with the maturity of 182 days and 4% to 91-days maturity.

Figure 7.2.: Structure of T-bills by maturity as of 31/12/2004



Source: Ministry of Finance

Figure 7.3.: Structure of T-bills by maturity as of 31/12/2003

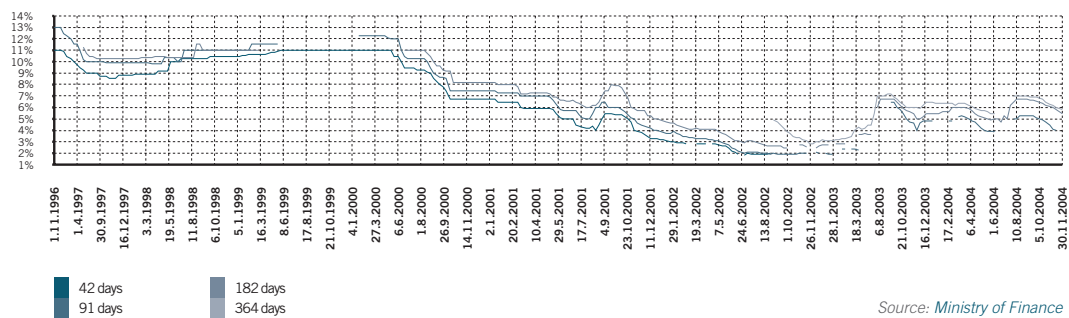


Source: Ministry of Finance



Interest rates on T-bills during 2004, as illustrated in figure 7.4, have remained, with some mild fluctuations, at the levels recorded in the last quarter of 2003. By the end of 2004, interest rates were as high as 5.80% for 364-days T-bills (6.00% at the end of 2003), 5.50% for 182-days (5.00% at the end of 2003) and 3.80% for 91-days T-bills (4.00% at the end of 2003).

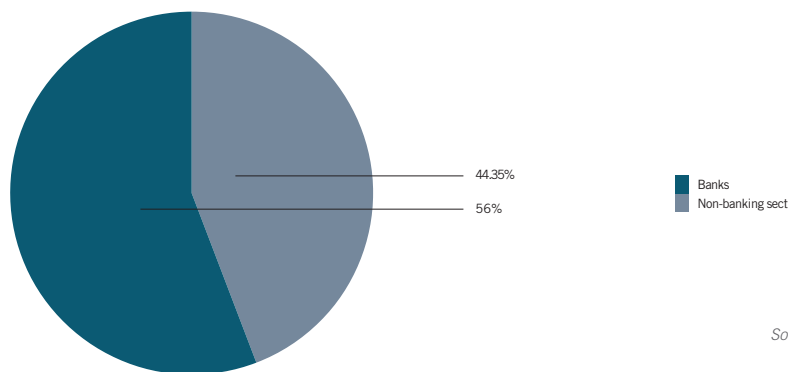
Figure 7.4.: Interest rates on Treasury bills



Source: Ministry of Finance

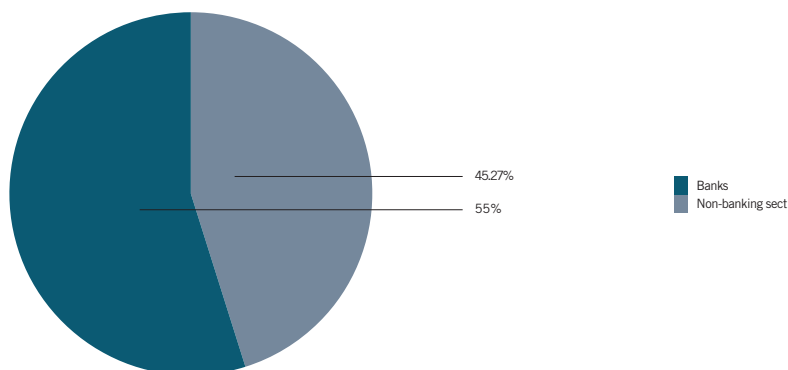
During 2004 there was no significant change in the structure of buyers of treasury bills in comparison to the 2003 years, which is illustrated by figures 7.5 and 7.6. The share of the banking sector in total issued T-bills amounted to 56% by the end of 2004 while in 2003 it amounted to 55%.

Figure 7.5.: Structure of treasury bills by buyers as of 31/12/2004



Source: Ministry of Finance

Figure 7.6.: Structure of treasury bills by buyers as of 31/12/2003



Source: Ministry of Finance

7.3. Foreign Debt of the Republic of Croatia



7.3.1. International Bonds of the Republic of Croatia

At the end of 2004 there were a total of 12 bonds issued by the Republic of Croatia on international markets, which is one more than at the end of 2003. The overall list of international bonds with the terms of issue is illustrated in table 7.7.

In July 2004 the Euro-DEM bonds issued in July 1997 in the amount of DEM 300 million were completely repaid. In December 2004 the first Samurai bonds were fully redeemed, issued in December 1999 in the amount of JPY 25 billion.

The Republic of Croatia has issued during the 2004, namely in April, one international bond. The Republic of Croatia⁶ issued the 15th of April 2004 a euro-bond in the amount of EUR 500 million that matures the 15th of April 2014. The bonds were issued at a price of 99.155% of the nominal amount and with a fixed coupon of 5%, which was 100 bps above the relevant 10-year German Bund. The interest payments are paid annually and the principal will be fully repaid at maturity. The bonds were issued with J.P. Morgan and UBS Investment Bank as lead managers.

Table 7.7: Overview of international bonds issued by the Republic of Croatia

London Club Series A:	London Club Series B:
US\$ 857 796 000	US\$ 604 426 000
3 years grace period, 11 years repayments	10 years repayments
US\$ 6-month LIBOR+81.25 bps	US\$ 6-month LIBOR+81.25 bps
Listing: Luxembourg	Listing: Luxembourg
Date of issue: 31/07/1996	Date of issue: 31/07/1996
Date of maturity: 31/07/2010	Date of maturity: 31/07/2006
Euro-dollar bonds:	Euro-DEM bonds:
US\$ 300 million	DEM 300 million
5 years, bullet	7 years, bullet
7% coupon	6.125% coupon
(80 bps above 5-year Treasuries)	(95 bps above relevant Bund)
Lead manager(s): Merrill Lynch and UBS	Lead manager(s): Credit Suisse and Deutsche Morgan Grenfell
Listing: Luxembourg	Listing: Frankfurt
Date of issue: 06/02/1997	Date of issue: 01/07/1997
Date of maturity: 27/02/2002	Date of maturity: 16/07/2004
Those bonds were fully redeemed upon maturity	Those bonds were fully redeemed upon maturity
Matador Bonds:	Euro-EUR bonds / I:
ESP 15 billion	EUR 300 million
3 years, bullet	7 years, bullet
6.5% coupon	7.375 % coupon
(225 bps above the relevant Spanish bonds)	(375 bps above the 7-year German Bund)
Lead manager: Santander Investment	Lead manager(s): Credit Suisse and Dresdner Kleinwort Benson
Listing: Madrid	Listing: Luxembourg
Date of issue: 04/03/1998	Date of issue: 23/02/1999
Date of maturity: 26/03/2001	Date of maturity: 10/03/2006
Those bonds were fully redeemed upon maturity	

⁶ Official Gazette Narodne Novine no. 48/2004



Samurai bond / I:	Euro-EUR bonds / II:
JPY 25 billion	EUR 500 million
5 years, bullet	5 years, bullet
4% coupon	7% coupon
(310 bps above the 5-year Yen LIBOR)	(210 bps above the 5-year German Bund)
Lead manager: Daiwa securities SB	Lead manager: Dresdner Kleinwort Benson
Listing: Tokyo	Listing: Luxembourg
Date of issue: 14/12/1999	Date of issue: 28/03/2000
Date of maturity: 14/12/2004	Date of maturity: 28/03/2005
Those bonds were fully redeemed upon maturity	
Samurai bond / II:	Samurai bond / III:
JPY 40 billion	JPY 25 billion
7 years, bullet	5 years, bullet
3% coupon	2.5% coupon
(135 bps above the 7-year Yen LIBOR)	(152 bps above 5-year Yen LIBOR)
Lead manager: Daiwa securities SB	Lead manager: Daiwa securities SB
Listing: Tokyo	Listing: Tokyo
Date of issue: 11/07/2000	Date of issue: 06/02/2001
Date of maturity: 11/07/2007	Date of maturity: 23/02/2006
Euro-EUR bonds / III:	Euro-EUR bonds / IV:
EUR 750 million	EUR 500 million
10 years, bullet	7 years, bullet
6.75 % coupon	6.25% coupon
(215 bps above the 10-year German Bund)	(158 bps above 7-year German Bund)
Lead manager(s): JP Morgan and Deutsche Bank	Lead manager(s): Deutsche Bank and CSFB
Listing: Luxembourg	Listing: Luxembourg
Date of issue: 06/03/2001	Date of issue: 28/01/2002
Date of maturity: 14/03/2011	Date of maturity: 11/02/2009
Samurai bond / IV:	Euro-EUR bonds / V:
JPY 25 billion	EUR 500 million
6 years, bullet	7 years, bullet
2.15% coupon	4.625% coupon
(144 bps above the 6-year Yen LIBOR)	(95 bps above the 7-year Euribor)
Lead manager: Daiwa Securities SMBC and Nomura Securities	Lead manager(s): Deutsche Bank and Citigroup
Date of issue: 26/06/2002	Listing: Luxembourg
Date of maturity: 26/06/2008	Date of issue: 24/02/2003
	Date of maturity: 24/02/2010
Samurai bond / V:	Euro-EUR bonds / VI:
JPY 25 billion	EUR 500 million
6 years, bullet	10 years, bullet
1.23% coupon	5% coupon
(99 bps above 6-year Yen LIBOR)	(100 bps above the 10-year Euribor)
Lead manager: Daiwa Securities SMBC and Nomura Securities	Lead manager(s): JP Morgan and UBS Investment Bank
Date of issue: 26/06/2003	Listing: Luxembourg
Date of maturity: 26/06/2009	Date of issue: 15/04/2004
	Date of maturity: 15/04/2014

Source: Ministry of Finance



Table 7.8: International bonds issued by the Republic of Croatia

	Curr.	Amount in org. curr.	Amount in USD*	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
London Club Series A	USD	857,796,000	857,796,000	77,981,454	77,981,455	77,981,454	77,981,454	77,981,454	77,981,454	77,981,454	0			
- coupon: 6m LB+13/16				18,949,493	16,142,161	13,334,829	10,527,496	7,720,164	4,912,832	2,105,499	0			
London Club Series B	USD	604,426,000	604,426,000	83,219,640	83,219,640	83,219,640								
- coupon: 6m LB+13/16				8,238,744	8,238,744	8,238,744								
EuroDM	DM	300,000,000	184,113,235	184,113,235										
- coupon: 6.125 %				11,276,936										
EURO bond	EUR	300,000,000	408,269,996	0	0	408,269,996								
- coupon: 7.375%				30,109,912	30,109,912	30,109,912								
Samurai bond / I	JPY	25,000,000,000	240,747,945	240,747,945										
- coupon: 4%				9,629,918										
EURO bond	EUR	500,000,000	680,449,993	0	680,449,993									
- coupon: 7%				47,631,500	47,631,500									
Samurai bond / II	JPY	40,000,000,000	385,196,712	0	0	0	385,196,712							
- coupon: 3%				11,555,901	11,555,901	11,555,901	11,555,901							
Samurai bond / III	JPY	25,000,000,000	240,747,945	0	0	240,747,945								
- coupon: 2.5%				6,018,699	6,018,699	3,009,349								
EURO bond	EUR	750,000,000	1,020,674,990	0	0	0	0	0	0	0	1,020,674,990			
- coupon: 6.75%				68,895,562	68,895,562	68,895,562	68,895,562	68,895,562	68,895,562	68,895,562	68,895,562			
EURO bond	EUR	500,000,000	680,449,993	42,528,125	42,528,125	42,528,125	42,528,125	42,528,125	42,528,125					
- coupon: 6.25%				5,176,081	5,176,081	5,176,081	5,176,081	2,588,040						
Samurai bond / IV	JPY	25,000,000,000	240,747,945	240,747,945										
- coupon: 2.15%				31,470,812	31,470,812	31,470,812	31,470,812	31,470,812	31,470,812	31,470,812				
EURO bond	EUR	500,000,000	680,449,993	0	0	680,449,993								
- coupon: 4.625%				2,961,200	2,961,200	2,961,200	2,961,200	2,961,200	2,961,200	2,961,200				
Samurai bond / V	JPY	25,000,000,000	240,747,945	240,747,945										
- coupon: 1.23%				34,022,500	34,022,500	34,022,500	34,022,500	34,022,500	34,022,500	34,022,500				
EURO bond	EUR	500,000,000	680,449,993	0	0	0	0	0	0	0	0	0	0	680,449,993
- coupon: 5.0%				586,062,275	841,651,088	810,219,035	463,178,166	318,729,399	999,179,393	758,431,447	1,020,674,990	0	0	680,449,993
Repayment	USD			328,465,382	304,751,196	251,303,015	207,137,676	190,186,402	183,310,430	136,494,373	102,918,061	34,022,500	34,022,500	34,022,500
Interest payments	USD			914,527,657	1,146,402,284	1,061,522,050	670,315,843	508,915,802	1,182,489,822	894,925,820	1,123,593,052	34,022,500	34,022,500	714,472,493
Total debt service	USD			5,892,513,513	5,050,862,424	4,240,643,389	3,777,465,223	3,458,735,823	2,459,556,431	1,701,124,983	680,449,993	680,449,993	680,449,993	0
Stock (end of year)	USD													

*Exchange rate as of 31/12/2004 6m USD LIBOR 2.78063 (31/12/2004)



8. Relations of the Republic of Croatia with International Financial Institutions

8.1. 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 2004 were preservation of macroeconomic stability and accomplishment of sustainable growth as well as fulfilling the conditions for getting positive opinion (avis) and achievement of candidacy status for membership in European Union. According to the Program of work of the Government of the Republic of Croatia for the period 2000-2004 defined by development priorities¹ and in line with programmatic document Country Assistance Strategy-CAS², Croatian programs and projects which IBRD finances with loans and grants were implemented.

Withdrawal of IBRD loan funds made easier infrastructural investments and investments into after war reconstruction; it stimulated implementation of fiscal sustainability and financial sector stability reforms, helped improvement and strengthening of market institutions, competition and process of bankruptcy and enterprises management. During the 2004 World Bank continued to provide financial, technical and advisory assistance to the Government of the Republic of Croatia, launched a number of structural and institutional reforms and opted for measures of alleviation of macroeconomic imbalances, strengthening market institutions, increasing the flexibility of labor market, competitiveness of the economy and creating an enabling business environment which will attract investments. By its tutorship new analytical reports and studies were produced and expert forums were held: 1. Briefing Book, January 2004, 2. Administration Reform and European Integration in Croatia, Forum, Zagreb, June 7, 2004³, 3. Forum Doing Business in Croatia: 2005, Zagreb, November 3, 2004⁴.

During the 2004 new Country Assistance Strategy⁵ for 2005-2008 period was prepared. This general strategy of World Bank Group was prepared in partnership with the Government of the Republic of Croatia and on the basis of consultations with local government representatives, nongovernmental organizations, syndicates, scientists and broader public. Document CAS is mutual program of International Bank for Reconstruction and Development and International Financial Corporation as World Bank Group members which defines goals and instruments of assistance and priority areas of cooperation based on comprehensive sector analyses. As starting points of its preparation served earlier produced studies, reports and recommendations of the World Bank, European Commission, IMF and other international institutions and Program of the Government of the Republic of Croatia in the Mandate period 2003-2007 (drawn up on December 23, 2003) in which undertaking of structural reforms to achieve sustainable development was highlighted, Government Pre-Accession Economic Program 2005-2007 (completed on October 14, 2004) and Croatia Economic Memorandum: A Strategy for Growth Through European Integration-CEM which World Bank presented in 2003.

¹ Development Priorities of the Republic of Croatia in the period from 2002-2004 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, 6. improving the living standards and employment of the population

² IBRD 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 reform and aimed at reducing public expenditures (through implementation of a program of further structural reforms aimed at reducing expenditures (through the 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 funds, 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. The update of Strategy was completed on August 22, 2001 and presented to the Board of Executive Directors on September 19, 2001.

³ Forum was organized by: Government of the Republic of Croatia, World Bank, European Commission Delegation, Unit for International Development of British Government and SIGMA (Support for Improvement in Governance and Management)-common initiative of OECD and EU

⁴ Forum was organized by World Bank Office in Zagreb with financial support of USAID

⁵ Document of the World Bank-International Bank for Reconstruction and Development and International Financial Corporation-Country Assistance Strategy for the Republic of Croatia, November 24, 2004 was firstly accepted on the Government of the Republic of Croatia session on November 11, 2004 and World Bank Board of Executive Directors accepted it unanimously on secession on December 12, 2004. Document is available on Croatian and English language on the webpage of World Bank Office in Croatia: www.worldbank.hr and Ministry of Finance: www.mfin.hr.



..... The new Strategy covers macroeconomic stabilization, reduction of public sector, promotion of sustainable growth based on private sector, participation of broad layers of population in the growth through modernization of health, social and pension system and sustainable management of natural resources. The main goal of new Strategy is not just to support Government strategy of growth, reforms and institutional and economic ability for fulfilling the requirements for European Union membership, but also to accelerate important structural and institutional reforms to achieve faster economic growth which would facilitate Croatian accession to European Union with more dynamic and competitive economy.

The new Strategy is founded on three scenarios of growth for 2005-2008 period (baseline, high and low) and on that bases three scenarios of withdrawal of IBRD funds by three types of financial instruments (1. programmatic loans for development policy adjustment, 2. sector loans for reforms in sectors of infrastructure, energy and social protection and 3. investment loans for strengthening of institutions, environmental protection and alleviation negative reform effects). The major novelty in loans preparations is general agreement to consider possibility that IBRD accepts Croatian legislation as bases for carrying out some projects, especially in procedures of public procurement and accounting. Program of loans in baseline scenario for four fiscal years amounts to USD 1.064 billion while low scenario predicts loans in amount of USD 314 million and high scenario USD 1.514 billion. The new Strategy also includes analytical and advisory assistance on the bases of global experience and experience of countries which became or are candidates for European Union membership.

8.1.2. New Loans and Grants Approved in 2004

In 2004 through International Bank for Reconstruction and Development total financing of projects in Croatia were contracted in amount of EUR 42.02 million and USD 786,150.00. Only one new loan was concluded in amount of EUR 40 million for implementation of Project for Protection of Water from Pollution in Coastal Areas, four new grants from European Union, Netherlands and Japan funds worth EUR 2.020 million and USD 766,150.00 and five small grants in total amount of USD 20,000 under the IBRD Small Grants Program⁶. The grants from Netherlands are new types of grants which Republic of Croatia used for the first time and they are approved by World Bank Executive Director for Official Development Assistance funds of Netherlands as a support to countries of the Dutch Constituency to which Croatia belongs.

Loan for Implementation of Project for Protection of Water from Pollution in Coastal Areas (No: 72260-HR) EUR 40 million

The goal of this Project is protection of Adriatic coast in Croatia which is priority from ecological and economical reasons. The Project concept is in line with Program for Promotion of Efficient and Sustainable Services of Drainage and Purification of Waste Water in Coastal Area and Improvement in Quality of Sea Water beside the Adriatic Coast, National Plan for Environmental Protection and European Union environment protection standards. Carrying out of Project will improve purification of waste water and drainage infrastructure and expand sewage system. In this way problem of water pollution in number of cities will be solved and quality of sea water improved. Project consists of three components: 1. investment in coastal ecological infrastructure (construction and expansion of sewage system, main collectors, ladle pumps and objects for processing waste water and underwater drains), 2. Institutional strengthening and management of Project (creation and implementation of institutional framework for control of polluted water, completion of project schemes and evaluation, observation and financial management) and 3. strengthening of coastal water quality observance net (laboratory nets of Ministry of Environmental Protection, Physical Planning and Construction and Croatian Waters for ecological observance). Conclusion of project is expected till May 31, 2008.

⁶ The 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 budget. IBRD approves grants in the maximum amount of USD 15 thousand, usually from 3 to 7 thousand and from 1999 IBRD approved small grants in amount of USD 140,000. In 2004 small grants were approved to the following nongovernmental organizations: Croatian Women Net, Organization for Help to the Children with Special Needs (IDEM), Organization for Sustainable Development of Community (ODRAZ), Organization for Employment Promotion and Expert Qualification of Young People (ZUM) and Organization for Promotion of Creativity (Merlin)





The loan was contracted between the Republic of Croatia and IBRD in amount of EUR 40 million on July 2, 2004 and came into force on December 17, 2004 and the funds were not withdrawn in year 2004⁷. The contract was also concluded on July 2, 2004 between IBRD and Croatian Waters, which carries out the Project and on the basis of Supplementary Contract about Loan, withdraws loan funds in tranches till November 30, 2008 in line with in contract defined categories for financing expenses: 1. works EUR 28.5 million, 2. goods EUR 5.1 million, 3. consultant services and education EUR 2.4 million and 4. other EUR 3 million.

This new loan was IBRD approved by more favorable financial conditions: 10 years for principal repayment, 5 years grace period for principal repayment, with a fluctuating LIBOR interest rate which is applied to six month deposits in EUR increased by the spread, front end fee of 1% of the Loan payable on the day of effectiveness of the Loan and commitment fee of 0.85% from the creation of liability and 0.75% after four years from creation of liability⁸.

EU CARDS Grant for Land Registry and Cadastre Project: Support to the Registration of Sea Goods (TF 052657) - EUR 1,960,000.00

The Government of the Republic of Croatia concluded with IBRD contract about this Grant on July 6, 2004⁹. The Grant in amount of EUR 1.96 million was approved to Croatia by European Union in frame of CARDS with the purpose to establish efficient land registry and real estate market. For the Project for Land Registry and Cadastre improvement with IBRD was concluded in 2002 contract in amount of EUR 26 million, EU also gave grant from CARDS in 2003 in amount of EUR 4.9 million which is used by Ministry of Justice and State Geodetic Administration till the end of 2006 for technical assistance, staff training and establishment of spatial data information system. The implementation of Project for Land Registry and Cadastre improvement is supported with IBRD Loan and EU CARDS Grant in total amount of EUR 32.86 million.

The funds of the Grant in amount of EUR 1.96 million will be used by Ministry of Justice and State Geodetic Administration till August 31, 2007 to finance activities in sea area in the framework of the Land Registry and Cadastre Project in line with in contract defined categories of expenses: 1. consulting services EUR 645,000, 2. education and staff training EUR 260,000, 3. technical services EUR 625,000 which includes cadastre measurements, preparation of orthophoto maps, development of information system, informing the public and other services, 4. purchase of equipment EUR 370,000 and 5. operative expenses of Project Execution Unit EUR 60,000.

Japanese Grant for preparation of Project for Education Reform (PHRD TF 053149) - USD 766.150,00

The contract for Grant in amount of USD 766.150,00 for preparation of Project for Education Reform between the Government of the Republic of Croatia and IBRD was signed on December 22, 2004¹⁰. The basic purpose of Grant is improvement of Education system in Croatia i.e. support to reform efforts of the Government of the Republic of Croatia the sector of education with the objective to develop more modern education which would improve possibilities of education for teachers and students. The Grant will finance six basic activities: 1. analyses of education of teachers and students reform and the need for further professional training (USD 148,700), 2. diagnostic analysis and plan of education reform (USD 126.650), 3. development of strategic framework for evolution of education outcomes (USD 138,450), 4. evaluation of education management and need for development of management (USD 141.825), 5. management of Grant coordination team and communication with public about reform of education (USD 162.275) and 6. management of other studies which are needed for preparation of the Project (USD 48.250). Ministry of Science, Education and Sport, in the property of Grant recipient, will withdraw funds till June 23, 2005 (or later than that date which can be set by IBRD) for payments of two expense categories 1. consultant services USD - 727,250.00 and 2. training, workshops and consultations USD - 38,900.

⁷ The Law of approval of Contract between Republic of Croatia and International Bank for Reconstruction and Development for financing the Project for Protection of Water from Pollution in Coastal Areas was published in "The Official Gazette-International Agreements", No. 11/2004

⁸ Front end fee will amount to 0.50% instead of 1% and commitment fee will amount to 0.35% instead of contracted 0.85% due to Board Executive Directors approval for decrease in fees for loans approved in period from July 1, 2004 to June 30, 2005

⁹ The Grant was approved by EU in the frame of CARDS while the contract about the Grant was concluded with IBRD as an administrator of Grant's funds. Decree on Publication of Agreement between the Republic of Croatia and International Bank for Reconstruction and Development about the Grant for Land Registry and Cadastre Project: Support to the Registration of Sea Goods (TF 052657) was published in "The Official Gazette-International Agreements", No. 8/2004

¹⁰ Decree on Publication of Agreement wasn't published in "The Official Gazette-International Agreements" till the end of year 2004



..... *Netherlands Grants for the Implementation of two Projects in the Area of Development and Rationalization of Financial Management Information System in Croatia - EUR 60,000,00*

In the frame of The Dutch Constituency in which is Croatia in a property of IBRD¹¹ member, two Grants in amount of EUR 30.000,00 were received: 1. for the support of Project of Development of Financial Management Information System - Strategic Study for Croatia with contracted period of implementation till November 1, 2005 and 2. for the support of Project of Rationalization of Financial Management Information System - Study about Rationalization in Croatia which should be finished till June 1, 2005. The Contracts about Grants were concluded on November 26, 2004 between Ministry of Finance of the Republic of Croatia and Netherlands Ministry for Development Cooperation. The Grants funds were withdrawn at the end of 2004.

8.1.3. Preparation of Projects to Be Financed by New Loans

In the different stages of preparation during 2004 were seven projects for financing which are expected to be contracted as new loans of IBRD in year 2005 and which are covered with CAS for 2005 to 2008 period. These are following projects:

1. Project of Social and Economic Recovery (EUR 35 million) - the purpose of Project is economic and social revitalization of underdeveloped and war affected areas of special Government care.
2. Croatian Project of Technological Development (EUR 31 million) - directed to the improvement of Croatian market competitiveness by strengthening of domestic scientific technological infrastructure, especially in the area of industry.
3. Project of Social Care System Development (EUR 31 million) - covered reorganization and rationalization of Social Care System, strengthening of information-management Social Care System and improvement of infrastructure in institutions of Social Care.
4. Plan of Development of Pedagogic and Education System 2005-2010 (EUR 70.1 million).
5. Project of Agriculture Legislative Adjustment with EU Acquis Communautaire - loan advance (EUR 1.85 million)
6. Project Eastern Slavonia II (USD 40 million) - continued on the Reconstruction Project for Eastern Slavonia, Baranja and Western Srijem which is financed with before contracted IBRD loan
7. Programmatic loan for Structural Adjustments (PAL - EUR 120 million) - covers reforms in ten different areas (competitiveness and governance, financial discipline, promotion of new business entities foundation, promotion of exports and innovations, public administration, management of public expenditures, judiciary, pension system, programs of social assistance and financing of health)

¹¹ Republic of Croatia is in a property of IBRD member in so called Dutch Constituency which gathers 12 country members (Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Israel, Croatia, Macedonia, Moldavia, Netherlands, Romania and Ukraine). Namely, these countries traditionally represented by Netherlands, i.e. Executive Director of Constituency is Ad Melkret (Netherlands representative), and his deputy is Tamara Solnyk (representative of Ukraine). The meetings of Constituency are held before annual and spring convention of Bank and IMF.





8.1.4. Review of Loans and Stock of Debt toward the International Bank for Reconstruction and Development (IBRD)

In the period from 1994 to 2004 IBRD granted 28 long-term loans for financing programs and projects in the Republic of Croatia. The Republic of Croatia concluded 19 loans directly with IBRD (public loans)¹², whereas 9 loans were concluded with state guarantees¹³. All those loans together with the Istria Water Supply Project (granted in 1990, taken over in 1994 with a guarantee of the Republic of Croatia¹⁴), make up a total 29 loans worth USD 656.36 million and EUR 519.02 million. In the period from 1994 to 2004, as of December 31, 2004 a total of USD 573.03 million (87.30% of total loans in USD) and EUR 352.39 million (67.89% of loans in EUR) were used.

Total status of undisbursed loan funds as of December 31, 2004 amounted to USD 83.33 million (12.70% of total loans in USD) and EUR 166.63 million (32.11% of total loans in EUR). Those credit funds will be used for financing projects and programs according to agreed timelines, i.e., in the period from 2005 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 2004 and against outstanding loans on the basis of inherited loans of SFRY¹⁵ on December 31, 2004 amounted to USD 439.57 million and EUR 239.51 million.

¹² Out of nineteen 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, Coastal Forest Reconstruction and Protection Project, Enterprise Financial Reconstruction Loan, Structural Adjustment Loan), whereas nine loans are effective.

¹³ For the financing of 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. DEJM 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 6,488,486.21 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 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.

¹⁴ Loan 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 the Reconstruction and Development and the Agreement on Taking over 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.

¹⁵ The 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 2004 all 17 loans were fully repaid. During 2004 the last installments were repaid for IBRD loan No. 30690 obtained for financing Istrian Water Supply (last maturity: April 14, 2004).



Table 8.1. Review of Loans of the International Bank for Reconstruction and Development (IBRD) concluded from 1994 to 2004

No.	Project	Signed on	Currency	Loan Amount	Undisbursed As of Dec. 31, 2004	Closing Date	Debt Outs, Dec. 31, 2004	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	78,595.00	15.12.1998.	15.06.2011
2.	Health Project (38430-HR) ¹	08.03.1995	000 USD	38,925.49	0.00	30.04.2000	22,665.89	15.06.2000	15.12.2011
3.	Highway Sector Project (38690-HR) ²	27.04.1995	000 USD	79,878.48	0.00	31.12.2001	54,554.71	15.12.1999	16.06.2012
4.	Capital Market Development Project (39990-HR) ³	23.04.1996	000 EUR	7,260.34	0.00	30.06.1999	5,148.70	15.10.2001	15.04.2013
5.	Farmer Support Services Project (39880-HR) ⁴	23.04.1996	000 USD	14,258.74	0.00	31.2.2002	9,952.34	01.09.2001	01.03.2013
6.	Technical Assistance Project (39890-HR)	23.04.1996	000 USD	5,000.00	0.00	30.04.2000	3,530.00	15.10.2001	15.04.2013
7.	Emergency Reconstruction and Mine Clearing Project (41040-HR) ⁵	04.12.1996	000 EUR	74,797.17	0.00	31.12.2001	55,901.68	15.07.2002	15.01.2012
8.	Coastal Forest Reconstruction and Protection Project (41190-HR) ⁶	31.01.1997	000 USD	38,589.30	0.00	30.05.2003	28,268.90	15.06.2002	15.12.2013
9.	Enterprise Financial Reconstruction Loan (EFSAL-41590-HR) ⁷	04.06.1997	000 EUR	81,806.70	0.00	31.12.2001	61,355.02	15.12.2002	15.06.2012
10.	Reconstruction Project for Eastern Slavonia, Baranja and Western Srijem (43510-HR) ⁸	08.09.1998	000 EUR	37,835.59	3,476.79	31.12.2004	30,575.24	15.01.2004	15.07.2013
11.	Railway Modernization and Restructuring Project (44330-HR)	20.01.1999	000 EUR	85,400.00	4,959.41	30.06.2005	76,170.58	15.09.2004	15.03.2014
12.	Technical Assistance Project for Institutional and Legislative Changes for Private Sector Development (44600-HR)	05.05.1999	000 USD	7,300.00	2,423.61	30.06.2005	4,511.38	15.10.2004	15.04.2014
13.	Health System Project (45130-HR)	07.10.1999	000 USD	29,000.00	14,253.62	30.06.2005	14,746.37	30.06.2005	15.12.2014
14.	Trade and Transport Facilitation in Southeast Europe (45820-HR)	27.10.2000	000 EUR	14,800.00	2,153.36	31.03.2005	12,646.63	15.05.2006	15.11.2015
15.	Court and Bankruptcy Administration Project - Technical Assistance (46130-HR)	03.07.2001	000 USD	5,000.00	3,879.19	31.07.2005	1,120.80	15.12.2006	15.06.2016
16.	Structural Adjustment Loan (46410-HR)	05.12.2001	000 USD	202,000.00	0.00	31.10.2003	202,000.00	15.04.2007	15.10.2016
17.	Pension System Investment Project (46720-HR)	17.09.2002	000 USD	27,300.00	15,160.98	30.12.2006	12,139.01	15.1.2007	15.05.2017
18.	Real Property Registration and Cadastre Project (46740-HR)	18.09.2002	000 EUR	26,000.00	23,174.55	30.09.2008	2,825.44	15.05.2008	15.11.2017
19.	Project for Protection of Water from Pollution in Coastal Areas (72260-HR)	02.07.2004	000 EUR	40,000.00	40,000.00	30.11.2008	0.00	15.10.2009	15.04.2019
TOTAL I:			000 USD	575,252.03	35,717.43		432,084.43		
			000 EUR	367,899.81	73,764.12		244,623.33		





No.	Project	Signed on	Currency	Loan Amount	Undisbursed As of Dec. 31, 2004	Closing Date	Debt Outs, Dec. 31, 2004	Principal Repayment Date	
								First	Last
II. LOANS WITH GUARANTEES OF RC									
1.	Investment Recovery Project (4 loans: 4246,4247,4248 i 4249 HR) ⁹	04.12.1997	000 EUR	21,589.49	0.00	31.12.2002	17,209.01	15.03.2003.	15.09.2012
2.	Municipal Environmental Infrastructure Project (MEIP 43520-HR) ¹⁰	25.09.1998	000 EUR	33,233.97	15,529.01	30.06.2006	12,719.86	15.11.2003	15.05.2013
3.	Rijeka Gateway Project (47140-HR) - Croatian Motorways	12.07.2003	000 EUR	15,700.00	15,319.60	09.09.2009	380.39	15.12.2008	15.06.2018
4.	Rijeka Gateway Project (47150-HR) - Port Authority Rijeka	12.07.2003	000 USD	55,100.00	47,613.30	09.09.2009	7,486.69	15.12. 2008	15.06.2018
5.	Rijeka Gateway Project (47160-HR) - Croatian Roads	12.07.2003	000 EUR	76,200.00	57,703.94	09.09.2009	18,496.05	15.12. 2008	15.06.2018
6.	Energy Efficiency Project (71980-HR) - Croatian Power Utility d.d.	10.11.2003	000 EUR	4,400.00	4,316.00	30.06.2010	84.00	15.04.2008	15.10.2013
TOTAL II. :			000 EUR	151,123.47	92,868.57		48,889.32		
			000 USD	55,100.00	47,613.30		7,486.69		
III. Outstanding Inherited Unrepaid Loans (taken over with the guarantee of RC)									
1.	Istria Water Supply Project (30690-HR) ¹¹	01.02.1990	000 USD	26,016.29	0.00	30.06.2000	0.00	15.10.1994	15.04.2004
TOTAL (I+II+III):			000 USD	656,368.32	83,330.73		439,571.13		
			000 EUR	519,023.28	166,632.70		293,512.65		

Notes:

- (1.) 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.
- (2.) 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.
- (3.) For Capital Market Development Project a loan as agreed of DEM 14.2 million. After conversion to EUR effected on November 30, 2001, the Loan amounts to EUR 7,260,344.71.
- (4.) 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.
- (5.) 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
- (6.) For the Coastal Forest Reconstruction and Protection Project a loan was agreed of USD 42 million, USD 3,140,690.88 was canceled and the Loan amounts to USD 38,589,309.12.
- (7.) 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
- (8.) For the 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
- (9.) Four loans were agreed in the total amount pf 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., Vara_din 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 pf all loans to EUR and deduction of cancelled 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.
- (10.) For MEIP a loan was agreed of DEM 65 million, which after conversion to EUR amounts to EUR 33,233,972.28.
- (11.) 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 time¹⁶. The State budget¹⁷ 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 budget. On the basis of guarantees of the Republic of Croatia, due liabilities were also paid in the total amount of EUR 202,562.72 (principal 168,624.06 + interest 33,938.66) against the Loan No. 42490-HR (liabilities of Alpe Jadran Banka d.d. - under liquidation, Split). Liabilities arising from the Loan for the Health Project were paid for by the Croatian Institute of Health Insurance¹⁸. Due interests and fees against loans for the Investment Recovery Project¹⁹ and Program of Municipal Environmental Infrastructure Project²⁰, obtained with a guarantee of the Republic of Croatia, were settled by three commercial banks and HBOR (Borrowers). Due interests and fees in the total amount of EUR 390,041.54 and USD 234,116.76 were settled by the beneficiaries - Croatian Motorways d.o.o., Port Authority Rijeka, and Croatian Roads d.o.o. Interests in single currency loans in EUR were paid at the annual rate in the range between 2.69% and the lowest 2.25%. Interests on loans obtained in USD were paid at the rate from 4.85%, 4.62% and 3.80% for loans in the currency pool, whereas interests for single currency loans were paid in the range between 1.43% and the lowest of 2.30%. 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, 2004 to December 31, 2004 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 688,401.75 and EUR 260,254.77²¹.

8.1.5. Utilization of Loan Funds in 2004

In the course of 2004 a total of USD 14.88 million and EUR 66.93 million was withdrawn from available funds of IBRD loans (public and publicly and guaranteed). Data on utilization of loan funds for implementation of project are illustrated in Table 8.2 (Utilization of IBRD Loans in 2004). Implementation of agreed projects and programs, with certain delays in disbursement of some loans (allocated for Eastern Slavonia, Baranja and Western Srijem Reconstruction and investments in municipal infrastructure and protection of environment (Split-Kaštela), modernization and reconstruction of railways and investments into health), was performed in line with the capacity of Project Implementation Unit, work dynamics, procurement procedure possibilities for fulfilling the agreed conditions for withdrawal of loans, and provided financial funds from domestic sources. Closing dates were extended for the completion of the Railway Modernization and Reconstruction Project (until June 30, 2005) and the Health System Project (December 30, 2005). In the 2004 Loan IBRD No. 41190-HR funds for the Coastal Forest Reconstruction and Protection Project weren't used because the Loan earlier contracted in amount of USD 42 million was closed for withdrawals at the end of 2003 and remained funds in amount USD 3,410,690.88 were canceled. The Loan was withdrawn in amount USD 38,589,309.12 and IBRD delivered in November 2004 revised repayment plan.

¹⁶ According to received IBRD's calls for payment and agreed repayment schedules of concluded loans (direct loans and loans with state guarantees) during 2004 the total was paid to IBRD as follows: USD 21,524,018.84 (principal + interests + fees), EUR 40,216,555.62 (principal + interests + fees) and CHF 14,950,619.60 (principal + interests). 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 21,421,902.65 (principal + interests + fees), EUR 33,614,733.15 (principal + interests + fees) and CHF 14,950,619.60 (principal + interests).

¹⁷ State Budget of the Republic of Croatia for 2004 ("The Official Gazette" No. 31/2004, 47/2004, 104/2004)

¹⁸ HZZO paid in 2004 USD 2,078,542.64 (principle 1,694,939.06 + interests 453,514.58) and CHF 2,989,582.83 (principle 2,159,044.81 + interests 830,538.02) on the bases of USD 38.92 million for the Project in Health

¹⁹ In 2004 three commercial banks settled a total of EUR 2,380,426.56 for payment of principal and interests against loans used for Investment Recovery Project.

²⁰ In 2004 Croatian Bank for Reconstruction and Development (HBOR) paid EUR 3,687,040.57 EUR (principal EUR 3,323,397.22 + interest and fees EUR 363,643.35) against a loan of EUR 33.23 million agreed on a loan for financing the Program of Municipal Environmental Infrastructure Project (MEIP).

²¹ IBRD approves reduced interest only to debtors which fulfill their obligations relarly and in timel manner, not later than 30 calendar days after the maturity of the debt. During fiscal year 2004 IBRD calculated the Interest Partial Waiver at the rates of 0.05% and 0.25% per anum.





Table 8.2. Utilization of IBRD Loans in 2004

No.	Loan	Project Name	Effective Date	Currencies	Loan Amount	Total Disbursements as of Dec. 31, 2003	Utilization in 2004	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 (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 Reconstruction and Mine Cleaning 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	38,589,309.12	38,589,309.12	0.00	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	24,691,260.42	9,667,542.21	34,358,802.63
11.	44330-HR	Railway Modernization and Restructuring Project	09. 06. 1999	EUR	85,400,000.00	52,237,057.35	28,203,523.83	80,440,583.18
12.	44600-HR	Project of Technical Assistance for Institutional and Legislative Changes for Private Sector Development	03. 08. 1999	USD	7,300,000.00	3,486,043.86	1,390,341.95	4,876,385.81
13.	45130-HR	Health System Project	28.03. 2000	USD	29,000,000.00	11,586,834.45	3,159,537.19	14,746,371.64
14.	45820-HR	Trade and Transport Facilitation in Southeast Europe Project	02.05. 2001	EUR	14,800,000.00	6,272,728.74	6,373,908.82	12,646,637.56
15.	46130-HR	Court and Bankruptcy Administration Project	29.01.2002	USD	5,000,000.00	587,372.83	533,428.78	1,120,801.61
16.	46410-HR	Structural Adjustment Loan (SAL) closed	08.02.2002	USD	202,000,000.00	202,000,000.00	00.00	202,000,000.00
17.	46720-HR	Pension System Investments Project	20.02.2003	USD	27,300,000.00	6,044,265.26	6,094,744.81	12,139,010.07
18.	46740-HR	Real Property Registration and Cadastre Project	20.02.2003	EUR	26,000,000.00	1,085,857.36	1,739,588.49	2,825,445.85
19.	72260-HR	Project for Protection of Water from Pollution in Coastal Areas	17.12.2004	EUR	40,000,000.00	0.00	0.00	0.00
Total I:				USD	575,252,039.76	528,356,556.16	11,178,052.73	539,534,608.89
				EUR	327,899,818.10	248,151,122.76	45,984,565.35	294,135,688.11



No.	Loan	Project Name	Effective Date	Currencies	Loan Amount	Total Disbursements as of Dec. 31, 2003	Utilization in 2004	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	26,016,289.22	0.00	26,016,289.22
2.	42460. 42470. 42480 42490 - HR (4 loans)	Investment Recovery Project	04. 03. 1998	EUR	21,589,498.73	21,589,498.73	0.00	21,589,498.73
3.	43520-HR	Municipal Environmental Infrastructure Project	28. 06. 1999	EUR	33,233,972.28	14,791,569.87	2,913,389.75	17,704,959.62
4.	47140 - HR (Croatian motorways)	Rijeka Gateway Project	12.07. 2003	EUR	15,700,000.00	157,000.00	223,391.26	380,391.26
5.	47150-HR (Port Authority Rijeka)	Rijeka Gateway Project	12.07. 2003	USD	55,100,000.00	3,778,030.07	3,708,669.17	7,486,699.24
6.	47160-HR (Croatian Roads)	Rijeka Gateway Project	12.07. 2003	EUR	76,200,000.00	762,000.00	17,734,051.05	18,496,051.05
7.	71980-HR (Croatian Power Utility)	Energy Efficiency Project	08.04.2004	EUR	4,400,000.00	0.00	84,000.00	84,000.00
Total II:				USD	81,116,289.22	29,794,319.29	3,708,669.17	33,502,988.46
				EUR	151,123,471.01	37,300,068.60	20,954,832.06	58,254,900.66
Total				USD	656,368,328.98	558,150,875.45	14,886,721.90	573,037,597.35
(I+II):				EUR	519,023,289.11	285,451,191.36	66,939,397.41	352,390,588.77

IBRD loan funds in 2004 were mostly invested in Railway Modernization and Restructuring Project (EUR 28.20 million), Rijeka Gateway Project (USD 3.70 million + EUR 17.95 million), Reconstruction Project for Eastern Slavonia, Baranja and Western Srijem (EUR 9.66 million), Trade and Transport Facilitation in Southeast Europe Project (EUR 6.37 million), Pension System Investments Project (USD 6.09 million). In the Reconstruction of Health System USD 3.15 million was invested. For the implementation of Municipal Environmental Infrastructure Project through HBOR EUR 2.91 million was used. For the Technical Assistance Project for Private Sector Development USD 1.39 million was withdrawn, for the implementation of Real Property Registration and Cadastre Project EUR 1.73 million was withdrawn while the lowest amounts were withdrawn for Court and Bankruptcy Administration Project - Technical Assistance USD 533,428.78 and Loan for Energy Efficiency Project EUR 84,000.00. The Loan for financing Project for Protection of Water from Pollution in Coastal Areas became effective on December 17, 2004 and funds from this Loan weren't withdrawn till the end of year 2004.

8.1.6. Review of Grants

In the period from 1995 to 2004 for the preparation of programs and projects in the Republic of Croatia 43 grant agreement were concluded. The grants were assigned for preparation of numerous projects in the area of infrastructure, structural adjustments in the sector of health and social protection, agriculture, education, public finances and judiciary, protection of environment and development of private sector. Grant agreements were concluded in four different currencies in total amount of USD 22,902,944.00, JPY 270,500,000.00, GBP 352,800.00 and EUR 6,920,000.00. Republic of Croatia concluded with IBRD as executive agency 37 grant agreements in the total amount of USD 21,250,450.00, JPY 270,500,000.00, GBP 352,800 and EUR 6,860,000.00. Funds of this grants which are uses through IBRD as executive agency are approved from international funds of technical assistance as for example: 1. Global and Environmental Facility-GEF, 2. Policy and Human Resources Development Fund-PHRD and also from donation funds of Japan, Great Britain, Northern Ireland and Netherlands governments and from CARDS program of European Union.

Additionally to mentioned 37 grants, two more grants between Ministry of Finance of Republic of Croatia and Netherlands Ministry for Development Cooperation were concluded in total value of EUR 60,000.00. These grants were obtained from Netherlands government in the frame of the Dutch Constituency in which is Croatia in a property of IBRD member.





Also four grants (which are not monitored under Ministry of Finance) in the total amount of USD 1,652,494.00 were allocated: 1. Croatian Power Utility d.d. - two grants: for the District Heating Project USD 187,994.00 and for Energy Efficiency Project USD 350,000.00, 2. Nongovernmental Organizations for the Program of Refugee Return on the areas of Zadar, Knin and Šibenik in amount of USD 1,090,000.00 and 3. Grant for the Operational focal point of Global Environment Fund - USD 24,000 (funds were used for brochures, translation of documents, study tours and others in the area of environmental protection).

Irreclaimable grant funds are mainly used for payments of consultant services and producing the studies needed for as better preparation of projects which are after finishing feasibility studies reported to the bank for financing the loans.

The Republic of Croatia signed agreements for 28 grants in USD in the total amount of USD 21,250,450.00 out of which 16 grants are closed, whereas among 8 grants on December 31, 2004 USD 11.62 million remained for withdrawal. Those funds will be withdrawn in the period from 2005 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, 2004 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 one grant was agreed amounting to GBP 352,800.00, whereas the remaining of GBP 2,831.68 was canceled and Grant was closed on March 31, 2004. Funds donated from EU CARDS - two grants in total amount of EUR 6.8 million for the Land Registry and Cadastre Project will be utilized till August 31, 2007. Netherlands grant funds for two projects in the area of Rationalization and Development of Financial Management Information System were withdrawn at the end of 2004 and projects should be finished till June/November 2005.

New Grants in Preparation

During 2004/2005 12 grants worth more than USD 12 million are in the process of preparation and should be agreed through IBRD:

1. Japanese Government Grant for the Sustainable Health System Project (USD 425,000)
2. Kingdom of Norway grant for co-financing Karst Ecosystem Conservation Project (USD 200,000)
3. Netherlands Government Grant for the Project for Protection of Water from Pollution in Coastal Areas (USD 2 million)
4. Netherlands Government Grant for the Project of Adjustment of Agriculture with Acquis Communautaire EU
5. Grant from Global Environment Fund for the Renewable Energy Resources Project (USD 5.5 million)

The basic data about grants agreed between the Republic of Croatia and IBRD and grants obtained in the framework of IBRD Dutch Constituency in the period from 1995 to 2004 are contained in Table 8.3.



Table 8.3. Review of IBRD Grants and grants obtained in the framework of IBRD Dutch Constituency (as of December 31, 2004)

No.	Year when Signed	Grant No.	Grant Purpose	Currencies	Grant Amount	Canceled Amount	Outstanding for Utilization as of Dec. 31, 2004
A. Grants agreed with IBRD							
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	436.02	0.00
19.	1999	25799 (closed)	Municipal Environmental Infrastructure Project	USD	216,840.00	48.55	0.00
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 (closed)(1.)	Capacity Building for Social and Economic Communication	USD	400,000.00	0.00	8,507.13
24.	2001	26262 (closed)	Social Protection Project (Japanese Grant)	USD	200,000.00	0.00	0.00
25.	2001	26441 (closed)	Coastal Cities Pollution Protection Project	USD	325,000.00	0.00	0.00
26.	2001	29810 (closed)	Social Protection Project (UK Grant)	GBP	352,800.00	2,831.68	0.00
27.	2002	50539	Karst Ecosystem Conservation Project	USD	5,070,000.00	0.00	3,380,701.95
28.	2002	50513	Social and Economic Recovery Project	USD	425,360.00	0.00	179,997.43
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	206,659.90
31.	2003	52062	Budget Management Strengthening Project	USD	368,000.00	35.000	333,000.00
32.	2003	51781(2.)	Land Registry and Cadastre Project	EUR	4,900,000.00	0.00	4,357,197.05
33.	2003	52381 (Grad Zagreb- closed) (3.)	Preparation of the City of Zagreb Wastewater Nutrient Reduction Project	USD	350,000.00	0.00	350,000.00





No.	Year when Signed	Grant No.	Grant Purpose	Currencies	Grant Amount	Canceled Amount	Outstanding for Utilization as of Dec. 31, 2004
34.	2003	52141 (HEP USD 5,000,000.00 + HBOR USD 2,000,000.00)	Energy Efficiency Project	USD	7,000,000.00	0.00	6,264,100.00
35.	2003	52844	Neretva and Trebišnjica Integrated Ecosystem Management Project	USD	145,000.00	0.00	145,000.00
36.	2004	52657	Land Registry and Cadastre Project: Coastal Goods Registration Support	EUR	1,960,000.00	0.00	1,960,000.00
37.	2004	53149	Preparation of Education System Reform	USD	766,150.00	0.00	766,150.00
Total (1.-37.):				USD	21,250,450.00	572,381.68	11,984,116.41
				JPY	270,500,000.00	70,655,270.00	0.00
				GBP	352,800.00	2,831.68	0.00
				EUR	6,860,000.00	0.00	6,317,187.05
B. Grants of the Dutch Constituency in the framework of IBRD							
38.	2004.	5105 CF	Project of Financial Management Information System Strategic Study	EUR	30,000.00	30,000.00	0.00
39.	2004.	5105 CF	Project of Rationalization of Financial Management Information System Strategic Study	EUR	30,000.00	30,000.00	0.00
Total (1.-39.):				USD	21,250,450.00	572,381.68	11,984,116.41
				JPY	270,500,000.00	70,655,270.00	0.00
				GBP	352,800.00	2,831.68	0.00
				EUR	6,920,000.00	0.00	6,317,187.05

Notes:

- (1.) The Grant 27386 is closed for utilization and remained funds in amount of USD 8,507.13 can't be withdrawn in forthcoming period. Confirmation of cancellation of those funds is expected from IBRD.
- (2.) In the Agreement about Grant 5178 is stated that interests on deposited funds in Trust Fund are prescribed to non used amount of grant; from the amount of EUR 4,357,197.05 the interests are EUR 64,439.86.
- (3.) The Grant 52381 is closed for utilization on December 31, 2004 and funds will not be able to withdrawn. IBRD didn't approve prolongation of utilization period due to inactivity in Project implementation.



8.2. European Bank for Reconstruction and Development (EBRD)

EBRD's activities in the Republic of Croatia during 2004 were performed in line with earlier adopted document "Croatia Strategy"²² for the two years period (2003-2004). This document contains basic guidelines of cooperation and jointly with the Government of the Republic of Croatia prepared framework of the plan and program of projects to be financed by EBRD in five key areas:

1. infrastructure and environmental protection sector (fostering, commercialization, liberalization and privatization of infrastructure services)
2. the enterprise sector (encourage the development of small and medium development of small and medium enterprises, particularly those who develop new production processes and technologies and improve the level of management, know-how and 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)
3. tourist sector which is of special importance for the development of the overall Croatian economy (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 (with new financial instruments aimed at financing agricultural production)
5. financial sector (privatization and consolidation of the banking sector, continue to support strengthening commercial banks which 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, leasing etc.

8.2.1. Business Operations in 2004

In line with its mandate²³ and established operational priorities²⁴ 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 and communal infrastructure in Dubrovnik.

In the year 2004 EBRD approved five new loans for financing Projects in the Republic of Croatia without state guarantees in the total amount of EUR 161 million.

Table 8.4. *New Loans of EBRD Agreed in 2004*

BENEFICIARY	PROJECT	CURRENCIES	AMOUNT
City of Dubrovnik	Project of City Transport Development	EUR	7.500.000,0
Zagrebačka banka d.d., Zagreb	Credit Line for Mortgage Financing of Houses/Apartments	EUR	100.000.000,00
GETRO, Zagreb	Extension of Supermarket Chain	EUR	20.000.000,00
LURA, d.d. Zagreb	Busines Extension	EUR	8.500.000,00
Zagrebačka banka d.d., Zagreb	Program of Warehouses Acceptations (Sector of Agriculture)	EUR	25.000.000,00
Total:		EUR	161.000.000,00

During 2004 Republic of Croatia haven't concluded new loans with EBRD nor loans with state guarantee. Due to relatively high price of EBRD loans, the intention of Republic of Croatia is further not to take EBRD loans but eventually support project with state guarantees for sectors in which EBRD has comparative advantages.

²² EBRD - Strategy of Croatia, Approved by the Board of Directors on November 19, 2002

²³ EBRD was established and does business with a special mandate to finance projects which assists 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 principles of multi-party democracy, pluralism, and market economy.

²⁴ Since 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 co financing development of inter-regional infrastructure and trade. As a priority it financed projects in the private sector, strengthening the financial sector in the function 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.





In the October 2004 started numerous mutual activities of the Government of Republic of Croatia and EBRD with the purpose of making new Strategy for Croatia which covers period from 2005-2007. After the analysis of macroeconomic situation in Croatian society and economy the strategic orientation of EBRD is to cooperate closely with Croatian Government and to support activities for European Union accession. The first draft of Strategy was published on EBRD website in October 2004 with public invitation for comments and remarks. The Government of Croatia adopted on February 24²⁵, 2005 EBRD document: Strategy for Croatia and it was adopted from EBRD Board of Executive Directors. Strategy for Croatia is comprehensive document which is made of EBRD President recommendation and four chapters in which framework are given analytical assessment of bank portfolio, business environment, strategic orientation and cooperation with other international financial institutions. Strategy contains basic guidelines and recommendations for achieving goals of transition in Croatia, priority sectors in which EBRD will invest funds and mutually established plan of projects which bank will finance in next two years. In the framework of recommendations major structural challenges are identified which Republic of Croatia will have to confront: restructuring and privatization of remaining communal enterprises owned by state and small enterprises in tourism, but also acceleration of reforms in public service and judiciary. In order to achieve transition goals, to Croatian Government are recommended following activities: 1. promotion of private sector participation in infrastructure on national and local level, 2. strengthening of independence and capacities of new regulation bodies, 3. improvement of business environment to attract green field investments and foreign direct investments, 4. acceleration of public communal enterprises privatization process and small enterprises in sector of tourism, 5. commencement of restructuring in sensitive sectors (agriculture, shipyards), 6. strengthening the incentives for improvement of transparency and efficiency and to decrease corruption in judiciary and public administration and 7. continuation of regional cooperation development through strengthening of foreign trade, investments and foreign investments. The Strategy defines that EBRD will give highest priority to investments in three key sectors of Croatian economy:

1. infrastructure and environment protection, especially financing of transport, railway infrastructure, telecommunications, communal infrastructure and infrastructure for protection of environment with help of ISPA program of EU.
2. financial sector - EBRD will support institutional strengthening of commercial banks, it will continue to finance small, micro and medium enterprises with help of EU PHARE program through credit line for SME Finance Facility and Rural Finance Facility or opening the credit line for financing of rural areas to help rural farming to fulfill EU standards, also it will continue to support sector of leasing, it will support privatization of insurance companies and it will continue to approve loans for infrastructural investments through banks to small municipalities:
3. enterprise sector - EBRD will support privatization and restructuring strategically important enterprises in state ownership, especially in sensitive sectors (railways, tourism), the enterprises will be identified which will improve corporative management and adopt newest standards of business and it will extend financial instruments and cooperate with them in financing of their development plans, in agricultural and food sector through warehouse receipt financing of primary agricultural production will be extended, it will support expansion of Croatian companies to neighbor countries and vice versa, it will cooperate with foreign strategic investors in promotion of new project and green field investments.

EBRD forecasts that in the forthcoming period of two years it will invest in Croatian projects between 150 and 250EUR million of which in infrastructural projects it plans to invest EUR 110 million.

²⁵ Document of European Bank for Reconstruction and Development Strategy for Croatia, As approved by Board of Directors at its meeting on March 3, 2005. Document is available on IBRD website: www.ebrd.org.



Projects under Preparation

In different phases of preparation are four infrastructural projects which EBRD would be ready to finance with state guarantee if government would request it and those projects are covered with new Cooperation Strategy 2005-2007 and six projects of local communal infrastructure with guarantees of cities.

Projects Proposed to be Financed with State Guarantees (EUR 142.5 million)

1. Construction of Coastal Infrastructure of Port Dubrovnik - EUR 26.5 million
2. Beltway around Rijeka (eastern part) - EUR 36 million
3. Investment into the Railway Project - EUR 50 million (construction of optical cables on corridors X and Vb and construction of new rails on chosen parts of corridor X)
4. Reconstruction of Port Ploče - EUR 30 million (with IBRD co financing)

Communal Infrastructure Projects with City Guarantees (EUR 59 million)

1. City of Split - development and modernization of city transportation - EUR 7 million
2. City of Karlovac - Modernization of Water Supply (ISPA co financing) - EUR 10 million
3. City of Rijeka - Modernization of Water Supply - EUR 7 million
4. City of Zagreb - Road Reconstruction - EUR 15 million
5. Waste Disposals - Cities of Osijek, Dubrovnik, Rijeka - EUR 20 million
6. City of Zagreb - Waste incinerator

Withdrawal of Loans in 2004

In 2004 total amount of EUR 62.88 and USD 10.77 of active loans funds earlier concluded with state guarantees were withdrawn.

Table 8.5. Review of Withdrawals of EBRD Loan Funds in 2004, contains data on disbursed loan funds for each specific project. The highest amount of EBRD funds was invested in road infrastructure - Project of Croatian Motorways Reconstruction (EUR 18.31 million) and Project of Motorway Rijeka-Zagreb Construction (EUR 15.59 million), Project of Zagreb Center for Regional Control (EUR 11.47 million), ecological projects - INA (EUR 12.6 million), Program of Investment in Local Infrastructure and Environment Protection (EUR 4.45 million) while for the Project of Railway Locomotives in the agreed period remained funds in amount of EUR 719,603.33 were withdrawn and the Loan was closed.





Table 8.5. Review of Withdrawals of EBRD Loan Funds in 2004

No.	Project Name	Loan No.	Date of Conclusion Agreement	Currencies	Loan Amount	Utilized till December 31, 2003	Utilized in 2004	Totally Utilized till December 31, 2004	Non Utilized till December 31, 2004	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	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	27,118,624.77	4,456,598.72	31,575,223.49	0.01	31.01.2004
4.	Railway Locomotive Reconstruction Project (II)	733	08.12.1998	USD	35,000,000.00	34,280,396.67	719,603.33	35,000,000.00	0.00	05.02.2004
5.	Small and Medium Entrepreneurship Project (HBOR)	923* (closed)	20.03.2001	EUR	6,000,000.00	6,000,000.00	00.00	6,000,000.00	0.00	19.09.2004
6.	Ecological Projects in INA d.d.	935	10.05.2001	EUR	36,000,000.00	13,331,711.56	12,602,037.98	25,933,749.54	10,066,250.46	30.06.2005
7.	Rijeka-Zagreb Motorway	975*	22.10.2001	EUR	60,000,000.00	26,467,191.37	15,590,681.89	42,057,873.26	17,942,126.74	11.05.2005
8.	Uljanik Shipyard d.d. Pula - Advance Guarantee for Tanket Construction	18149	26.02.2002	USD	11,490,000.00	1,436,250.00	10,053,750.00	11,490,000.00	0.00	31.10.2004
9.	Zagreb Center for Regional Control Project	25800	05.09.2002	EUR	25,000,000.00	5,513,287.94	11,473,846.67	16,987,134.61	8,012,865.39	30.09.2005
10.	Highway Reconstruction in Croatia Project	27171	13.12.2002	EUR	46,500,000.00	4,743,945.25	18,315,154.78	23,059,100.03	23,440,899.97	30.04.2006
11.	Project Completion of Highway on Corridor X in RC (Županja-Lipovac)	31848*	12.11.2003	EUR	45,000,000.00	0.00	450,000.00	450,000.00	44,550,000.00	20.11.2006
Total II				EUR	307,851,206.08	140,950,743.46	62,888,320.04	203,839,063.51	104,012,142.57	
(I.-II.):				USD	46,490,000.00	35,716,646.67	10,773,353.33	46,490,000.00	0.00	
Total				EUR	347,250,640.59	180,350,177.98	62,888,320.04	243,228,498.02	104,012,142.57	
(I+II):				USD	66,225,519.76	55,452,166.43	10,773,353.33	66,225,519.76	0.00	

Notes:

1. Loan No. 231 was agreed on USD 22 million; during 1996 and 2001 total amount of USD 2,264,480.23 was canceled and the Loan was closed on February 14, 2002.
2. Loan No. 286 agreed in the amount DEM 70.9 million; it was reduced by non withdrawn amount of DEM 107,019.78 and converted to EUR.
3. Agreed Loan No. 627 amounting to DEM 33.5 million; during 2000/2001 DEM 27,212,026.00 was canceled; the Loan was converted in EUR and on March 25, 2002 EUR 11,431.53 was canceled and the Loan was closed for withdrawals
4. Agreed Loan No. 494 of DEM 105 million; during 1999 and 2001 total amount of DEM 24.56 million was canceled; Loan was converted in EUR; in 2002 EUR 5 million was canceled and on April 10, 2003 additional ER 4,553,095.00 was canceled



5. Loan No. 923 agreed in the amount of EUR 12 million ; on September 12, 2004 EUR 6 million was canceled and funds withdrawn on the special account in amount of EUR 1,755,568.49 will be paid of till January 19, 2005
6. Loan No. 975 agreed in amount of EUR 90 million; EBRD reduced Loan by EUR 30 million after the co financing was agreed with EIB in amount of EUR 60 million
7. Loan No. 31848 agreed in November 2003, the Agreement about Loan and Guarantee came in to force on December 9, 2004. The Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and the International Bank for the Reconstruction and Development for the Project of Completion Highways on Corridor X in the Republic of Croatia was brought by Croatian Parliament on June 4, 2004 session and was published in ("The Official Gazette - International Agreements", No. 6/2004

Repayments of Debt to the EBRD

All due commitments in 2004 regarding public loans as well as regarding the state guaranteed loan granted to the Croatian Railways were settled by the State Budget of the Republic of Croatia²⁶. The beneficiaries of EBRD loans, namely Hrvatska elektroprivreda d.d. (Croatian Power Utility), Hrvatska banka za obnovu i razvitak (Croatian Bank for Reconstruction and Development), INA - Industrija nafte d.d. (Croatian Petrol Industry), Hrvatska kontrola zračne plovidbe d.o.o. (Croatian Air Traffic Control), Autocesta Rijeka-Zagreb d.d. (Zagreb-Rijeka Motorway) and Hrvatske autoceste d.o.o. (Croatian Motorways) settled their commitments on time during 2004 according EBRD calls for payment²⁷, so the guarantees issued by the Republic of Croatia were not exercised.

8.2.2. Overview of the Loans (1994-2004)

In the period from 1994 to 2004 the EBRD financed 67 projects in Croatia with a total of over EUR 1.317 billion (according to EBRD data²⁸), out of which EUR 1.1 billion refers to favourable loans while EUR 217 million refers to direct equity investment. The EBRD invested 67% of total funds into private sector projects and 34% to public sector projects.

The EBRD loans granted to the Republic of Croatia (3 loans) and granted with state guarantee (11 loans) amounted, in the original currencies of the loans, to EUR 347.25 million and USD 66.22 million as of the 31st of December 2004. In the period from 1994 to 2004 a total of USD 66.22 million (100%) was utilised in terms of loans contracted in USD as well as EUR 243.23 million (70.05%) in terms of loans converted or contracted in EUR. According to the contracted closing dates and as of the 20th of November 2006, a total of EUR 104.01 million (29.95%) has not been disbursed.

In the period from 1994 to 2004 the Republic of Croatia (RC) stipulated with the EBRD three agreements on direct loans in the total amount of EUR 39.39 million and USD 19.73 million and eleven agreements on state guarantees amounting to EUR 307.85 million and USD 46.49 million. Eight of these fourteen loans were closed for withdrawal, of which six are being repaid and two were repaid completely.

²⁶ The State Budget of the Republic of Croatia for 2004 (Official Gazette "Narodne novine", no. 31/2004, 47/2004 and 104/2004) provided the funds for the settlement of the commitments to the EBRD. During 2004 the EBRD was paid according to received calls for payment: (1) for the loan no. 231 amounting USD 19.73 million for the construction of the air traffic system, it was paid total USD 1,016,907.76 (principal 985,519.76 + interest payment 31,388.00); (2) for the loan no. 286 amounting EUR 36.19 million for the highway reconstruction, it was paid total EUR 3,564,062.65 (principal 3,015,908.48 + interest payment 548,154.17); (3) for the loan no. 627 amounting EUR 3.20 million for the Wholesale Market Project it was paid EUR 505,546.45 (principal 320,355.84 + interest payment 185,190.61); (4) for the loan no. 733 amounting USD 35 million for the repair of railway locomotives USD 3,604,795.89 (principal 2,916,668.00 + interest payment 686,477.67 + fees 1,650.22).

²⁷ The due commitments against the loan no. 283 the HEP settled in the amount of EUR 4,465,590.06 (principal 4,294,851.80 + interest payments 170,738.26), the HBOR settled the due commitments of the loans no. 494 (MEIP) amounting to EUR 4,203,486.47 (principal 3,407,520.18 + interest payment 788,801.17 + fees 7,165.10) and no. 923 (Financing of Investments of Small and Medium Enterprises) amounting to EUR 463,674.84 (principal 250,000 + interest payment 181,591.51 + fees 32,083.33), the Croatian Air Traffic Control settled interest payments and fees in the amount of EUR 808,478.49 against loan no. 25800, the Rijeka-Zagreb Motorway d.d. paid a total of EUR 1,248,123.78 for interests and fees against loan no. 975 and the Croatian Motorways paid the due interest payments and fees in the amount of EUR 1,135,619.87 against loan no. 27171 and the one-off commission of EUR 450,000.00 against loan no. 31848.

²⁸ Source: Strategy for Croatia, 3rd of March 2005, Annex 1 Committed Projects per Year as of December 31, 2004.





..... During 2004 the following three loans contracted with the guarantees of the Republic of Croatia were closed for withdrawal:

1. Loan no. 494 amounting EUR 31,575,223.50 for the financing of the Municipal Environmental Infrastructure Programme (MEIP) through the Croatian Bank for Reconstruction and Development (HBOR). This loan was initially stipulated to DEM 105 million with the guarantee of the RC²⁹ and in 1999 it was reduced by DEM 6.5 million (by giving up of tranche C aimed to the investment programme for the city of Rijeka) amounting to DEM 98.44 million. After the second cancellation in the amount of DEM 18 million with the Annex 3 the loan amounted to DEM 80.44 million. After the conversion of DEM to EUR the loan amounted to EUR 41,128,318.92. In March 2002 the HBOR requested an additional deduction from the loan in the amount of EUR 5 million and the prolongation of the maturity to March 31st, 2003 which reduced the loan to EUR 36,128,318.92. The amounts of the tranches to the final beneficiaries were also reduced so the tranche A amounted to EUR 30,677,512.87 (Vodoprivredno i komunalno poduzeće Split), tranche B to EUR 4,970,191.68 (Komunalno poduzeće Pula) and tranche D to 480,614.37 (Hrvatske vode).

In April 2003 the HBOR requested the cancellation of part of the loan in the amount of EUR 4,553,095.43 reducing the loan to EUR 31,575,223.50 while the tranches were restructured as follows: tranche A to EUR 30,677,512.87 (for the Vodoprivredno i komunalno poduzeće Split), tranche B to EUR 897,710.63 (for the Komunalno poduzeće Pula), while the tranche D (for the Hrvatske vode) was cancelled. The maturity was prolonged to the 31st of January 2004 by when the funds were disbursed and the loan was closed.

2. Loan no. 733 was contracted the 8th of December 1998 with the guarantee of the RC for the financing of the Project of renewal of railway locomotives in the amount of USD 35 million. The Project includes the renewal of diesel locomotives (financed with USD 22.2 million), the repair and modernisation of diesel-electric locomotives (USD 9.62 million) as well as consultancy for the implementation of the project (USD 230,000). The contracted final withdrawal date (March 31st, 2002) was prolonged for the first time during 2001 and set to August 31st, 2003, and a second time when the final date was set to February 5th, 2004. The Croatian Railways have withdrawn the remaining funds amounting to USD 719,603.33 by that date and the loan was closed.
3. Loan no. 923 that was initially granted to the Croatian Bank for Reconstruction and Development (HBOR) with the guarantee of the RC in the amount of EUR 12 million for the financing of Small and Medium Enterprises' investments projects aimed at the development of the private sector in the Republic of Croatia. The withdrawal was settled in four tranches, each amounting EUR 3 million. The first tranche has been withdrawn the 31st of March 2002, the second tranche the 12th of September 2003, while the remaining tranches (EUR 6 million) should be withdrawn by the settled date: 19th of September 2004. However, the 12th of September 2004 the withdrawal of the remaining amount of EUR 6 million was cancelled and it was agreed with the EBRD that the previously withdrawn funds deposited on a special account could be paid to the beneficiaries up to the 19th of January 2005.

Status of the Debt to the EBRD as of the 31st of December 2004

The total public debt to the EBRD amounted by the end of 2004 to USD 37.73 million and EUR 157.55 million, out of which the direct public loans debt amounted to EUR 17.32 million and the guaranteed loans debt amounted to USD 37.73 and EUR 140.23 million. Detail data on direct public loans and guaranteed loans is given in Table 8.6.

²⁹ The Law on the Ratification of the Agreement for the Guarantee of the Republic of Croatia for the "Municipal Environment Infrastructure Programme" between the Republic of Croatia and the European bank for reconstruction and development, the Official Gazette - International agreements "Narodne novine" - Međunarodni ugovori, no. 4/1997



Table 8.6. Overview of Loans Granted from the EBRD (as of the 31st of December 2004)

No.	Project Title	Loan no.	Settlement Date	Currency	Loan Amount	Used	Remains for Withdrawal	Closing Date	Repayments Dates: first/last	Debt
1	2	3	4	5	6	7	8 (6-7)	9	11	12
I. PUBLIC LOANS										
1.	Air Navigation 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	0.00
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	15,079,542.36
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	2,242,490.96
Total I				USD	19,735,519.76	19,735,519.76	0.00			0.00
				EUR	39,399,434.51	39,399,434.51	0.00			17,322,033.32
II. LOANS GUARANTEED BY THE 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	2,147,425.91
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 Programme****	494* closed	09. 12. 1996	EUR	31,575,223.50	31,575,223.49	0.01	31. 01. 2004	10. 04. 2001 10. 10. 2011	23,852,641.17
4.	Railway Locomotive Renewal Project	733	08. 12. 1998	USD	35,000,000.00	35,000,000.00	0.00	05.02. 2004	20. 05. 2002 20. 11. 2013	26,249,996.00
5.	Small and Medium Enterprises' Investment Financing (HBOR)	923*	20.03.2001	EUR	6,000,000.00	6,000,000.00	0.00	19.09. 2004	05.08.2004 05.08.2011	5,750,000.00
6.	Environmental Rehabilitation Projects within the INA d.d.	935	10.05.2001	EUR	36,000,000.00	25,933,749.54	10,066,250.46	30.06.2005	30.09.2005 30.03.2011	25,933,749.54
7.	Rijeka-Zagreb Motorway	975*	22.10.2001	EUR	60,000,000.00	42,057,873.26	17,942,126.74	11.05.2005	12.05.2005. 12.11.2019	42,057,873.26
8.	Uljanik Shipyard d.d., Pula - Refund Guarantee Facility of the EBRD, with the guarantee of the RC	18149	26.02. 2002	USD	11,490,000.00	11,490,000.00	0.00	4 guarantees issued by 31. 10. 2004	Guarantee Repayment by 31. 05. 2006	11,490,000.00
9.	Zagreb Regional Control Project	25800	05.09. 2002	EUR	25,000,000.00	16,987,134.61	8,012,865.39	30.09.2005	20.11. 2006 20.05. 2013	16,987,134.61
10.	Croatian Motorway Reconstruction Project	27171	13.12. 2002	EUR	46,500,000.00	23,059,100.03	23,440,899.97	30.04. 2006	20.05.2006 20.11.2017	23,059,100.03
11.	Completion of the Highway in Corridor X Project in RC (Županija-Lipovac)	31848	12.11.2003	EUR	45,000,000.00	450,000.00	44,550,000.00	20.11.2006	20.05. 2007 20.11. 2021	450,000.00
Total II				EUR	307,851,206.08	203,839,063.51	104,012,142.57			140,237,924.52
				USD	46,490,000.00	46,490,000.00	0.00			37,739,996.00
Total (I+ II):				USD	66,225,519.76	66,225,519.76	0.00			37,739,996.00
				EUR	347,250,640.59	243,238,498.02	104,012,142.57			157,559,957.84





Notes:

- (1) Loan no. 231 amounting USD 22 million; 06-05-1996 cancelled USD 2,264,480.24, loan amounts to USD 20 million.
- (2) Loan no. 286 amounting DEM 70.9 million; 28-02-1999 cancelled the remaining amount of DEM 107,019.78, loan amounts DEM 70,792,980.22. The remaining debt converted to EUR amounts EUR 18,095,450.84 as of 31-12-2003.
- (3) Loan no. 627 amounting DEM 33.5 million, reduced the 01-09-2000 by DEM 9 million and the 24-11-2001 for further DEM 18,212,026.09. The loan, after the deduction of the cancelled amounts (total: DEM 27,212,026.09), amounts to DEM 6,287,973.91 which, converted to EUR, amount to EUR 3,214,990.01. The remaining amount of EUR 11,431.53 was cancelled 25-03-2002 and the loan amount to EUR 3,203,558.48.
- (4) Loan no. 494 amounting DEM 105 million, reduced the 23-11-1999 by DEM 6.56 million and the 06-04-2001 for DEM 18 million (total: DEM 24.56 million). The loan amounting to DEM 80.44 million converted to EUR amounted EUR 41,128,318.93; the 06-05-2002 EUR 5 million was cancelled and the 10-04-2003 additional EUR 4,553,095.43 so the loan amounts to EUR 31,575,223.50.
- (5) Loan no. 923 amounting EUR 12 million. The 12-09-2004 it was cancelled EUR 6 million; the remaining funds were withdrawn to the special account are being paid until 19-01-2005.
- (6) Loan no. 975 amounting EUR 90 million; the EBRD reduced the loan on the 01-07-2002 by EUR 30 million; loan amounts to EUR 60 million.
- (7) Loan no. 31848 contracted in November 2003, the loan agreement and the guarantee agreement came to force the 9th of December 2004. The Law on the Ratification of the Agreement on the Guarantee between the Republic of Croatia and European Bank for Reconstruction and Development for the Project on the Completion of the Highway on Corridor X in the Republic of Croatia was brought by the Croatian Parliament the 4th June 2004 and published in the International agreements' section of the Official Gazette "Narodne novine" - Međunarodni ugovori no. 6/2004..



8.3. Council of Europe Development Bank (CEB)

New Loans Agreed in 2004

During 2004, the Council of Europe Development Bank (CEB) has, within its possibilities and in line with Rules on loans of the CEB, continued to offer support to Croatia in the development of three sectors in particular, which are important for a successful integration into the European Union: (1) fostering the return of refugees, (2) the improvement of the quality and efficiency of the education system and (3) support to the development of the Croatian islands. The Republic of Croatia has agreed with the CEB three new direct framework agreements amounting to a total of HRK 888,171,371.00.

1. Framework loan agreement 1435(2002) for the Project of sustainable return of displaced persons and refugee return - Reconstruction and Housing in the amount of HRK 292,351,000.00 signed the 30th of January 2004 in Zagreb and the 3rd of January 2004 in Paris. The aim of this Project is the continuation of the Project of displaced persons and refugee return in the RC which was financed in 2001 by the CEB with a HRK 232,000,000.00 loan. The new loan was granted for the coverage of 50% of total project costs and will be paid in tranches with a maturity of 10 years, a grace period of 5 years, the interest rate equal to the six-month EURIBOR/LIBOR, which is settled by an separate agreement for each tranche and being reduced for 0.50% of annual subsidy of the CEB during the repayment period, the overdue fee which equals the one-month EURIBOR/LIBOR plus 2.5% annually and a commitment fee of 0.50% annually in case of non-respecting the withdrawal schedule defined by the minimum limits. The Law on the Ratification of the Framework Loan Agreement was published in the International agreements' section of the Official Gazette "Narodne novine" - Međunarodni ugovori no. 6/2004 and enacted the 2nd of July 2004.
2. Framework loan agreement 1456(2003) for the Project of building and reconstruction of school objects in the Republic of Croatia in the amount of HRK 402,456,000.00 signed the 15th of December 2004 in Zagreb. The CEB supports the investments in the sector of education which are important for the technological and economic development of Croatia by this, third loan aimed at the reconstruction of schools damaged in war and the purchase of equipment. By the end of 2004 the Law on the Ratification of the Framework Loan Agreement was not enacted and there was no withdrawal of funds in 2004³⁰.
3. Framework loan agreement 1498(2004) for the Project of building utility and social infrastructure objects on the Croatian islands in the amount of HRK 193,364,371.00 signed in Zagreb, the 15th of December 2004. The investment in the utility infrastructure, health and social care as well as education is key for the promotion of sustainable economic and social development on the islands and with this project, undertaken within the framework of the National programme for island development (enacted by the Croatian parliament in 1997), it is planned to spend HRK 769,814,000.00 out of which 25% will be financed by the funds of the CEB loan, 50% by local government units and 25% by the state budget. By the end of 2004 the Law on the Ratification of the Framework Loan Agreement was not enacted and there was no withdrawal of funds in 2004³¹.

Preparation of the Strategy of the European Council Development Bank for Croatia for the Period 2005-2009

In 2004 started numerous activities concerning the elaboration of a draft document which will define the strategic framework for the priority fields in the cooperation with the CEB, the range and direction of favourable long-term loans, and the forms of technical support and different co-financing arrangements with other international financial institutions. The CEB financial support to Croatia will be mainly directed to the support of national development and modernisation programmes in the social sectors: 1. displaced persons and refugees, 2. health sector, 3. education, 4. building of social housing objects, 5. improvement of life conditions in urban and rural areas, 6. protection of the environment, 7. employment and professional training, 8. cultural heritage and 9. improvement of minorities' life conditions (the Roma issue). The Croatian government has accepted the draft strategy for Croatia (2005-2009) on the 20th of May 2005.

³⁰ The Law on the Ratification of the Framework Loan Agreement no. F/P 1456 (2003) for the Project of reconstruction and building of school objects in the Republic of Croatia, stipulated between the Council of Europe Development Bank and the Republic of Croatia was enacted by the Croatian parliament the 20th of May 2005 and published in the International agreements' section of the Official Gazette "Narodne novine" - Međunarodni ugovori no. 5/2005.

³¹ The Law on the Ratification of the Framework Loan Agreement no. F/P 1498(2004) for the Project of building utility and social infrastructure objects on Croatian islands between the Republic of Croatia and the Council of Europe Development Bank was enacted by the Croatian parliament the 20th of May 2005 and published in the International agreements' section of the Official Gazette "Narodne novine" - Međunarodni ugovori no. 5/2005.





Utilisation of Loans in 2004

In 2004 it has been withdrawn a total of HRK 170,244,641.60 (EUR 23,190,700.00, according the CEB exchange rate as of each tranche withdrawal day). Namely, all the tranches of previously agreed framework loans with the CEB have been withdrawn: the second tranche of the Framework loan for the implementation of the Project of reconstruction of the Franciscan monastery "Mala braća" in Dubrovnik in the amount of EUR 630,700.00 (HRK 4,625,901.00); second tranche of the Framework loan for the Project of reconstruction and modernisation of the School of Public Health "Andrija Štampar" in Zagreb, and International Centre for Health Management in Dubrovnik in the amount of EUR 935,000.00 (HRK 7,009,096.60) and the first tranche of the Framework loan for the Project of sustainable return of displaced persons and refugees in the amount of EUR 21,625,000.00 (HRK 158,609,644.00).

Overview of Loans Granted in the Period From 1998 to 2004

In the period from 1998 to 2004 with the CEB it was agreed the financing of eleven projects in the Republic of Croatia. The Republic of Croatia settled ten direct loans amounting to a total of HRK 1,676,535,780.00 for the financing of projects of reconstruction of health infrastructure, schools, cultural heritage, projects of building utility and social infrastructure on islands as well as for the displaced persons and refugees return while one framework loan agreement was agreed with the Croatian Bank for Reconstruction and Development (HBOR) with the guarantee of the Republic of Croatia amounting EUR 8 million for the promotion of small and medium enterprises.

Based upon the settled framework direct loan agreements, the Republic of Croatia has withdrawn HRK 852,470,816.60, while still remains HRK 824,064,963.40 (49.15%) for the investment in the implementation of the projects.

The detailed overview of loans agreed with the CEB in the period from 1998 to 2004, which includes the data on the utilisation of funds or withdrawal of tranches in the period since 1999 (when the first tranches were withdrawn) to 2004, the agreed financial terms and the status of the Republic of Croatia's debt to the CEB, is pictured in Table 8.7.



Table 8.7. Overview of CEB Loans and Status of the Debt as of 31st of December 2004

No.	Project	Framework Loan Amount (HRK)	Tranche / Date of Withdrawal	Amount Used (HRK)*	Currency	Debit in Currency as of 31.12.2004	Interest rate	Grace period	Repayment of Principal	
									First	Last
1	2	3	4	5	7	8	9	10	11	12
I. FRAMEWORK DIRECT LOANS TO THE RC										
1.	Project F/P 1278/1998 Reconstruction of Health Infrastructure in Eastern Slavonia (Beneficiary: Ministry of Health)	172 744 129	I. (17. 03. 1999)	35,078,800	USD	5,075,000	5,71%	5 years	17. 03. 2005	17. 03. 2009
	The loan is closed.		II. (02. 11. 1999)	34,288,200	EUR	4,500,000	5,38%	5 years	02. 11. 2005	02. 11. 2009
			III. (22.02. 2000)	26,329,600	EUR	3,400,000	5,56%	5 years	02.02. 2006	22.02. 2010
			IV. (29.11. 2000)	36,396,000	EUR	4,800,000	5,54%	5 years	29.11. 2006	29.11. 2010
			V. (21.12. 2001)	14,778,000	EUR	2,000,000	4,67%	5 years	21.12.2007	21.12. 2011
			VI. (18.01.2002)	7,551,000	EUR	1,000,000	4,89%	5 years	18.01. 2008	18.01. 2012
			VII. (04.06.2003)	18,322,529	EUR	2,400,000	3,56%	5 years	04.06.2009	04.06. 2013
			Total 1. (I-VII):			172,744,129	USD EUR	5,075,000 18,100,000		5 years
2.	Project F/P 1279/1988 Reconstruction of Schools in Eastern Slavonia (Beneficiary: Ministry of Public Works, Reconstruction and Construction)	67 368 000	I. (15. 03. 1999)	16,658,110	USD	2,410,000	5,71%	5 years	17. 03. 2005	17. 03. 2009
	The loan is closed.	Cancelled: 987 205	II. (23. 11. 1999)	23,715,310	EUR	3,100,000	5,04%	5 years	29. 11. 2005	29. 11. 2009
			III. (29.11. 2000)	14,406,750	EUR	1,900,000	5,53%	5 years	29.11. 2006	29.11. 2010
			IV. (01.08. 2001)	7,897,670	EUR	1,100,000	5,06%	5 years	01.08.2007	01.08.2011
			V. (05.08.2003)	3,702,955	EUR	490,000	3,75%	5 years	05.08.2009	05.08.2013
			Total 2. (I- V):			66,380,795	USD EUR	2,410,000 6 590,000		
3.	Project F/P 1352/1999 School Reconstruction (Beneficiary: Ministry of Public Works, Reconstruction and Construction)	98 682 000	I. (01.08.2001)	24,410,980	EUR	3,400,000	5,06%	5 years	01.08.2007	01.08. 2011
			II. (03.10. 2002)	42,841,700	EUR	5,800,000	4,31%	6 years	17.04. 2008	17.04. 2012
			III. (05.08.2003)	20,404,035	EUR	2,700,000	3,75%	5 years	05.08.2009	05.08.2013
			Total 3. (I-III):			87,656,715	EUR	11,900,000		
4.	Project F/P 1378/2000 Return of Displaced Persons and Refugees in the RC - Reconstruction and Housing (Beneficiary: Ministry of Public Works, Reconstruction and Construction)	232 000 000	I. (01.08. 2001)	58,155,579	EUR	8,100,000	5,06%	5 years	01.08. 2007	01.08. 2011
	The loan is closed.		II. (17.04. 2002)	96,067,400	EUR	13,000,000	5,24%	5 years	17.04. 2008	17.04. 2012
			III. (29.07.2003)	77,777,030	EUR	10,300,000				
			Total 4. (I-III):			232,000,000	EUR	31,400,000		





No.	Project	Framework Loan Amount (HRK)	Tranche / Date of Withdrawal	Amount Used (HRK)*	Currency	Debit in Currency as of 31.12.2004	Interest rate	Grace period	Repayment of Principal	
									First	Last
1	2	3	4	5	7	8	9	10	11	12
5.	Project F/P 1379/2000 Reconstruction of the Franciscan Monastery Mala braća in Dubrovnik	10 325 454	I. (08.08. 2002)	4,639,950	EUR	630,000	5,32%	5 years	08.08.2008	08.08. 2012
			II. (12.08.2004)	4,625,901	EUR	630,700	4,46%	5 years	12.08.2010	12.08.2014
			Total 5. (I-II):	9,265,851	EUR	1,260,700				
6.	Project F/P 1351/1999 Reconstruction of Health Infrastructure (Beneficiary: Ministry of Health)	186 837 031	I. (19.12. 2003)	112,328,259	EUR	14,578,000	4,10%	5 years	19.12.2009	19.12. 2013
7.	Project F/P 1419/2001 Reconstruction of the SPH "Andrija Štampar" Zagreb and the ICHM in Dubrovnik	21 395 000	I. (12.08. 2003)	6,476,327	EUR	856,725	4,3%	5 years	12.08. 2009	12.08. 2013
			II. (17.12.204)	7,009,096.60	EUR	935,000	3,80%	5 years	17.12.2010	17.12.2014
			Total 7. (I- II)	1,348,523.60	EUR	1,791,725				
8.	Project F/P 1435/2002 Sustainable return of displaced persons and refugees	292 351 000	I. (12.08.2004)	158,609,644	EUR	21,625,000	4,00%	5 years	12.08.2010	12.08.2014
9.	Project F/P 1456/2004 Building and Reconstruction of School Objects in the Republic of Croatia	402 456 000								
10.	Project F/P 1498/2004 Construction of Utility and Social Infrastructure Objects on the Croatian Islands	193 364 371								
	Total framework loans (1.-10):	1 676 535 780	Total used (as of : 31.12.2004):	852,470,816.60	Total: USD EUR	7,485,000 107,245,425				
	II. FRAMEWORK LOAN WITH THE GUARANTEE OF THE RC	Amount (EUR)		Used (EUR)		Debt in Currency				
11.	Project F/P 1392/2000 Financing of Credit Programme for Small and Medium Enterprises (HBOR)	8 000 000	I. (31.05. 2002)	2,000,000	EUR	1,833,333,34	Euribor + 0,40%	26 months	05.08. 2004	05.02. 2010
			II. (12.09. 2003)	2,000,000	EUR	2,000,000	Euribor +0,29%	29 months	05.02.2006	05.08. 2011
			Total 11. (I- II):	4,000,000	EUR	3,833,333.34				
					Total (1.-11.): USD EUR	7,485,000 111,078,758.34				

Note: the data on usage of the loans is expressed according the exchange rate of the CEB on the payment day of each tranche.



1. The Framework loan for the Project of reconstruction of the health infrastructure in Eastern Slavonia (F/P 1278/1998)³² amounting HRK 172,744,129.00 finances 44% out of the total HRK 388,800,650.00 of estimated net costs for the reconstruction of primary and secondary health care systems (reconstruction/ construction of 18 centres of primary health care and 3 hospitals, construction of 48 apartments for health sector employees as well as the procurement of medical equipment).
In 2003 an additional agreement was stipulated for the withdrawal of the tranche no. VII of the framework loan and in June 2003 it was used HRK 18,322,529.00. As of the 31st of December 2003, for the implementation of the Project from the Framework loan a total of HRK 172,744,129.00 (100%) has been withdrawn in seven tranches and the loan was closed.
2. For the Project of School Reconstruction in Eastern Slavonia³³ the framework loan no. F/P 1279/1998 was agreed with the CEB, amounting to HRK 67,368,000.00 (50% of the total HRK 134,736,000.00 estimated net costs for the repair and reconstruction of 33 elementary schools and 1 secondary school included in the project). The Project was implemented by the Ministry of Public Works, Reconstruction and Construction as part of the overall reconstruction programme of the Eastern Slavonia. In 2003 it was agreed the withdrawal of the fifth tranche amounting EUR 490,000 which was withdrawn in August 2003 (HRK 3,702,955.00). As of the 31st of December 2003 it was used a total of HRK 66,380,795.00, while the remaining funds amounting HRK 987,205.00 were cancelled and the loan was closed.
3. For the implementation of the Project of School Reconstruction in the Republic of Croatia from the framework loan amounting HRK 98,682,000.00 (F/P 1352/1999)³⁴ it is financed the reconstruction of 41 schools in war damaged areas in eight counties. The Project is implemented by the Ministry of Sea, Tourism, Transport and Development as part of the overall reconstruction programme. In August 2003 the third tranche amounting EUR 2.7 million (HRK 20,404,035.00) has been withdrawn. The remaining funds amount to HRK 11,025,258.00 (11.17%) as of 31.12.2004, while in the period from 2001 to 2003 it has been withdrawn a total of HRK 87,656,715.00 (88.83%). During 2004 there were no withdrawals.
4. The Project of reconstruction and housing of displaced persons and refugees in the Republic of Croatia is financed by the Framework loan amounting HRK 232,000,000.00 (F/P 1378/2000)³⁵ which was signed the 2nd and 7th February 2001. The loan, jointly with funds from the state budget, is used to finance the return of properties and the provision of alternative housing solutions for temporary beneficiaries, the organised reconstruction of damaged and destroyed family houses owed by the returnees as well as the reconstruction of utilities infrastructure as means of dealing with the issue of housing of displaced persons and refugees. The Project was implemented by the Ministry of Public Works, Reconstruction and Construction as part of the overall reconstruction programme. In July 2003 the final, third tranche has been withdrawn amounting to EUR 10.3 million (HRK 77,777,030.00), and the loan was completely utilised and closed.
5. The Project of reconstruction of the Franciscan monastery "Mala braća" in Dubrovnik is financed by a CEB loan amounting HRK 10,325,454.00 (F/P 1379/2000)³⁶ stipulated the 19th June 2001 in Dubrovnik during the 36th Annual Assembly of the CEB. The reconstruction is implemented by the monastery itself and the Ministry of Culture and it is financed by the CEB loan, the funds of the Franciscan Province in Zadar and the World Monument Watch (WMW) grant. The reconstruction started with the west wing, primarily to restore the old library as well as the musical and manuscript archive which necessitated the most urgent intervention in order to reduce the damage to the exceptionally valuable holdings and to enable the use of the library for scientific purposes for which it was unavailable several years. In 2004 it was spent EUR 630,700.00 while for withdrawal still remains the amount of HRK 1,059,603.00 (10.26%).

³² Law on the Ratification of the Framework Loan Agreement between the Council of Europe Fund for Social Development and the Republic of Croatia for the project 1278 (1998) - Reconstruction of the Health Infrastructure in Eastern Slavonia (Official Gazette "Narodne novine - Međunarodni ugovori", no. 13/1998).

³³ Law on the Ratification of the Framework Loan Agreement between the Council of Europe Fund for Social Development and the Republic of Croatia for the project 1279 (1998) - Reconstruction of Schools in Eastern Slavonia (Official Gazette "Narodne novine - Međunarodni ugovori", no. 13/1998).

³⁴ Law on the Ratification of the Framework Loan Agreement between the Council of Europe Development Bank and the Republic of Croatia for the School Reconstruction (Official Gazette "Narodne novine - Međunarodni ugovori", no.7/2001)

³⁵ Law on the Ratification of the Framework Loan Agreement between the Council of Europe Development Bank and the Republic of Croatia for the Project of Displaced Persons and Refugee Return - Reconstruction and Housing (Official Gazette "Narodne novine - Međunarodni ugovori", no.7/2001)

³⁶ Law on the Ratification of the Framework Loan Agreement 1379(2000) for the Reconstruction of the Franciscan Monastery "Mala braća" in Dubrovnik, between the Council of Europe Development Bank and the Republic of Croatia (Official Gazette "Narodne novine - Međunarodni ugovori", no.14/2001)





6. The Project of Health Infrastructure Reconstruction is financed by the CEB framework loan amounting to HRK 186,837,031 (F/P 1351/1999)³⁷, stipulated the 23rd and 30th of October 2001 (enacted the 31st of July 2002). The loan, in addition to budgetary resources, is used to finance the construction works or the purchase of equipment for 4 hospitals (Pakrac, Dubrovnik, Sisak and Zadar), 2 clinical-hospital centres (Rijeka, Zagreb) and 4 health care centres (Metković, Slunj, Knin, Dubrovnik) as well as the procurement of medical and non-medical equipment for 45 medical clinics that were built previously with state budget resources. The Project is implemented by the Ministry of Health and Social Welfare as part of the overall health sector reconstruction programme. In August 2003 the first tranche amounting EUR 14,578,000.0 (HRK 112,328,259.00) was withdrawn while HRK 74,508,772.00 (39.88%) is available for withdrawal.
7. The Project of reconstruction of the School of Public Health "Andrija Štampar" includes the reconstruction of existing objects for the education of employees in the fields of health management and health promotion in Zagreb and Dubrovnik. The agreed CEB loan amounts to HRK 21,395,000 (F/P 1419/2001)³⁸. The estimated value of the project amounts to HRK 42,790,000.00, out of which 50% is financed by the CEB loan, while the remaining part of HRK 21,395,000.00 (50%) is co-financed by the state budget (7%), City of Zagreb (21%), HZZO (5%) and the Faculty of Medicine Zagreb (17%).
In August 2003 the first tranche amounting EUR 856,725.00 (HRK 6,476,327.00) was withdrawn, the second in December 2004 amounting EUR 935,000 (HRK 7,009,096.60) making a total of HRK 13,485,423.60, while HRK 7,909,576.40 (36.97%) was available for withdrawal as of 31.12.2004.
8. The project F/P 1435 (2002) - Sustainable Return of Displaced Persons and Refugees³⁹ is a follow-up of the project F/P 1378(2000), which the CEB finances with a loan amounting HRK 292,351,000.00. The aim of the project is to return the property to the owners (returnees) by ensuring alternative housing to temporary beneficiaries which fulfil the conditions. In 2004 the first tranche was withdrawn in the amount of EUR 21,625,000.00 (HRK 158,609,644.00), while HRK 133,741,356 (45.75%) is available for withdrawal.
9. The project of construction and reconstruction of school objects in the Republic of Croatia F/P 1456 (2003) involves the construction and reconstruction of 143 elementary and secondary schools in 18 counties and the City of Zagreb. The aim of the project is to build and repair schools which have been directly damaged in the war or which have an increased number of students being displaced or refugees. The schools financed within the project will be open to minorities and other ethnical groups and will provide access to disabled persons. The CEB Framework loan of HRK 402,456,000.00 finances 50% of the project value⁴⁰. By the end of 2004 the preparation for the ratification of the Framework loan agreement has started and after the approval the project will be implemented by the Ministry of Sea, Tourism, Transport and Development.
10. The Project of Construction of Utility and Social Infrastructure Objects on the Croatian Islands F/P 1498 (2004) aims at the improvement of the life conditions and quality of life on the islands in order to reduce the emigration of the population. It is expected that the implementation of the project will contribute to the economic and social development of the islands as well as attract new inhabitants to the islands. The project involves investment in the construction of water-supply and sewage systems, roads, electricity and gas networks, health sector infrastructure, social welfare and education. The CEB finances the project with a loan of HRK 193,364,371.00⁴¹ which amounts to 25% of the project value, the state budget will also finance 25%, while the remaining 50% will be financed by the units of local and regional government. The project will be implemented by the Ministry of Sea, Tourism, Transport and Development following the enacting of the law on the ratification of the Framework loan that is in procedure.

³⁷ Law on the Ratification of the Framework Loan Agreement 1351/1999) for the Reconstruction of the Health Sector Infrastructure, between the Council of Europe Development Bank and the Republic of Croatia (Official Gazette "Narodne novine - Međunarodni ugovori", no. 9/2002 and 12/2002)

³⁸ Law on the Ratification of the Framework Loan Agreement 1419/2001 for the Reconstruction of the School for Public Health "Andrija Štampar" in Zagreb and the International Centre for Health Management "Andrija Štampar" in Dubrovnik (Official Gazette "Narodne novine - Međunarodni ugovori", no. 10 and 12/2002)

³⁹ Law on the Ratification of the Framework Loan Agreement 1435(2002) for the project Sustainable Return of Displaced Persons and Refugees - Property Return and Housing, between the Council of Europe Development Bank and the Republic of Croatia (Official Gazette "Narodne novine - Međunarodni ugovori", no. 6/2004)

⁴⁰ The Framework loan agreement was signed the 15th of December 2004 and the law on the ratification of the Framework agreement is in procedure

⁴¹ The Framework loan agreement was signed the 15th of December 2004 and the law on the ratification of the Framework agreement is in procedure



- 11. The project of financing the credit programme for the small and medium enterprises is financed by the CEB loan no. F/P 1392/2000⁴² to the HBOR granted with state guarantee. Total value of the project amount to EUR 20 million, out of which the CEB finances EUR 8 million (40%) and the remaining part of EUR 12 million (60%) is financed by the EBRD. The Framework loan agreement was concluded on the 16th of February 2001 in Paris and the 21st of February and 15th of March 2001 in Zagreb, and came to force the 19th of September 2001. The HBOR has withdrawn the second tranche of the loan worth EUR 2 million in September 2003. As of 31.12.2004, the remaining amount available for withdrawal is EUR 4 million (50%). The aim of the credit programme project is to provide medium- and long-term financing of SME development in order to achieve higher employment. The HBOR grants the loans to companies and craftsmen with less than 250 employees and a minimum of 51% of private ownership. The loans are used for investment in fixed capital (premises, equipment), working capital (up to 30% of the loan amount) and refinancing of existing liabilities (under the condition that the total amount used to working capital financing and refinancing does not exceed 30% of the loan amount).

In 2004 the State Budget paid the due interest payments against the used tranches of the framework loans in the amount of USD 427,393.50 and EUR 3,912,386.07. The HBOR paid in 2004 EUR 95,898.80 of interest payments and the first principal repayment amounting EUR 166,666.66 related to the framework loan aimed at the financing the credit programme for the small and medium enterprises.

Total debt of the Republic of Croatia to the CEB, against all withdrawn tranches of framework loans and as of 31.12. 2004, amount to USD 7,485,000.00 and EUR 107,245,425.00, while the debt of the HBOR to the CEB, against the framework loan with state guarantee, amounts to EUR 3,833,333.34.

Projects / Loans in Preparation

New projects that fall within the priority sectors to be defined by the Cooperation Strategy for Croatia for the period 2005-2009 and that will be financed by CEB loans are in different stages of preparation: research, rehabilitation and revitalisation of the cultural and historical heritage in Ilok, Vukovar and Vučedol (EUR 22.6 million), second phase of the reconstruction of the Franciscan monastery "Mala braća" in Dubrovnik (EUR 10 million), modernisation of the health sector (EUR 19 million), building of student dorm, projects in the area of environment protection and SME financing.

⁴² Law on the Ratification of the Framework Loan Agreement, between the Republic of Croatia, the Croatian Bank for Reconstruction and Development and the Council of Europe Development Bank for the financing of the entrepreneurship credit programme ("Official Gazette "Narodne novine - Međunarodni ugovori", no. 9/2001).



8.4. European Investment Bank (EIB)



Establishment of Institutional Relations

The Republic of Croatia, after the establishment of diplomatic relations with the then European Community, has started to cooperate with the EIB in 1992, while in 1994 the allocation of the remaining debt based on loans or part of loans granted to the ex-Yugoslavia has been performed based on the principle of partial succession. The Republic of Croatia has in 1995 arranged its legal and financial relations with the EIB regarding inherited debt by concluding the Guarantee Agreement and the Letter of Agreement no. 0298⁴³. The activities of establishing institutional relations of the Republic of Croatia with the EIB, started in 1995⁴⁴ and stopped after the Croatian liberation of occupied areas in August 1995, were continued in mid-2000 following a EIB invitation when the preparation of two Croatian projects was discussed: (1) construction of the highway Breznički Hum-Varaždin (23.2 km)⁴⁵ and (2) modernisation and electrification of the railway within the Pan-European Corridor Vc, nominated and accepted as so-called “quick-start” projects within the framework of the Stability Pact.

The Council of Ministers of the European Union approved the EIB mandate to finance infrastructure projects and private sector development projects in Croatia the 7th of November 2000. The Framework Agreement between the Republic of Croatia and the European Investment Bank was signed the 13th of December 2000 and came to force the 30th October 2001⁴⁶. This agreement arranges the activities of the EIB in the Republic of Croatia and enables the bank to finance projects, by granting favourable loans, in line with the development priorities of Croatia. Based on the Framework Agreement, the Board of Governors has approved on the 6th of February 2001 the granting of loans for investment projects in Croatia.

8.4.1. Loans Concluded in 2004

During 2004, the EIB has, in line with the policy of the EU as well as within the framework of its business policy and based on the Framework Agreement with Croatia, supported the financing of two large infrastructure projects by granting favourable long-term loans in the amount of EUR 195 million: (1) Completion of the highway on the Corridor X within the Republic of Croatia (highway section Županja-Lipovac) worth EUR 45 million and (2) Integral development of the local community by a framework multisectoral loan for utilities infrastructure in the amount of EUR 150 million.

The Republic of Croatia has concluded with the EIB two new agreements by which the mentioned projects are financed.

1. Guarantee Agreement between the Republic of Croatia and the European Investment Bank for the Project of Completion of the Highway on the Corridor X within the Republic of Croatia, signed the 22nd and 29th of July 2004⁴⁷. The financing agreement between the EIB and the company Croatian Motorways has been signed the 14th and 29th of July 2004 by which the EIB loan with state guarantee no. 22639 amounting EUR 45 million is granted for the partial financing of the costs for the construction of two sections of the highway: Županja-Spačva (15.95 km) and Spačva-Lipovac (13.48 km). The estimated value of the project amount to EUR 102.6 million out of which 43.86% will be financed by the EIB loan, 43.86% by the EBRD loan amounting EUR 45 million and 12.28% by own resources. The EIB loan amounting EUR 45 million will be used until 01.04.2007 in ten tranches whose contracted minimal value amounts to EUR 3 million. The agreed maturity is 25 years, including a principal grace period of five and a half years, and the fixed or floating interest rate will be set on the withdrawal of each tranche.

⁴³ Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and European Investment Bank and the Letter of Agreement no. 0298, signed the 12th January 1995 in Luxembourg and the 10th February in Zagreb (Official Gazette “Narodne novine - Meunarodni ugovori”, no. 6/1995), came to force the 23rd May 1995.

⁴⁴ Within the preparation of the Draft Agreement of the Republic of Croatia and the European Union on trade and cooperation, it has also been prepared the Draft Protocol for the financial cooperation with the European Community that should have enabled the EIB to finance projects in Croatia.

⁴⁵ This project has been suspended until the confirmation of conformity to the implementation criteria.

⁴⁶ Law on the Ratification of the Framework Agreement between the Republic of Croatia and European Investment Bank that arranges the activities of the EIB in the Republic of Croatia (Official Gazette “Narodne novine - Meunarodni ugovori”, no. 6/2001).

⁴⁷ Law on the Ratification of the Guarantee Agreement between the Republic of Croatia and European Investment Bank for the project of completion of the highway in corridor X within the Republic of Croatia published in the Official Gazette “Narodne novine - Meunarodni ugovori”, no. 1/2005.



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2. Framework multisectoral loan for utilities infrastructure - the Financing Agreement between the Republic of Croatia and the European Investment Bank for the Project of Integral Development of the Local Community, signed the 24th December 2004 approved the EIB loan no. 22881 amounting to EUR 150 million⁴⁸. The aim of the project is eliminate the disparities in the development of underdeveloped areas and providing prerequisites for a sustainable economic and social development as well as the integral management of the local community by improving the quality of utilities, housing, health and social care, education, culture and sports. The project encompasses three components: (1) the utility component (water supply, sewage, repair and reconstructions of roads, gas and electricity supply), (2) social component (elderly people homes, children's homes, schools, health care centres, medical clinics, museums, libraries) and (3) environment protection (waste disposal and safekeeping, objects for recycle processing and other). The estimated value of the project amounts to EUR 300 million, out of which 50% will be financed by the EIB loan. The loan funds will be used until 31.07.2008 by the withdrawal of maximum 15 tranches in the minimal amount of EUR 5 million, which will be repaid in 15 years with a grace period of 5 years. The interest rate will be set upon the withdrawal of each tranche as one of the agreed options: fixed, floating or floating with a fixed range. The project will be realised by the implementation of multisectoral investment subprojects nominated by the local government units.

8.4.2. Withdrawal of Funds in 2004

In 2004, a total of EUR 33,071,244.02 has been withdrawn of available, previously granted EIB loans out of which EUR 8 million refers to direct loans and EUR 25,071,244.02 to state guaranteed loans. Data on withdrawn funds is given in Table 8.8.

Most of the funds were spent in the implementation of the Project of reconstruction of state roads - EUR 15 million. The third tranche amounting EUR 5 million has been withdrawn with a fixed interest rate of 5.01% and the fourth tranche amounting EUR 10 million with the fixed interest rate of 4.72% and maturity of 15 years and a grace period of 5 years.

For the financing of the Project for the Zagreb Air Traffic it has been withdrawn EUR 8.5 million, that is, the fourth tranche amounting EUR 5 million with a fixed interest rate of 4.43%, the fifth tranche amounting EUR 1.5 million with a fixed interest rate of 4.30% and the sixth tranche amounting EUR 2 million with a fixed interest rate of 4.04%.

From the loan granted for the Project of reconstruction of utilities infrastructure on the areas of special state concern the first tranche amounting EUR 8 million has been withdrawn with a fixed interest rate of 4.28%. The HBOR has during 2004 withdrawn the last, fourth tranche amounting EUR 1,571,244.02 agreed within the EIB global loan no. 21.316 worth EUR 10 million aimed at the financing of small enterprises.

Fro the financing of the Project of Reconstruction of Railways on the Pan-European Corridor Vc, for which the loan no. 21.051 amounting EUR 40 million was agreed, there was no withdrawals during 2004 as for the loan no. 21.609 for the Highway Rijeka-Zagreb Project and the loan no. 22.374 for the Project for the construction of gas pipelines in the Republic of Croatia.

Funds were not withdrawn neither from new loans concluded in 2004 because the relevant laws on ratification of the guarantee agreements and financing agreements signed with the EIB were not enacted by the end of 2004, thus the loans were not operative for withdrawal.

⁴⁸ The Law on the Ratification of the Financing Agreement between the Republic of Croatia and the European Investment Bank for the Project of Integral Development of the Local Community is in procedure.





Table 8.8. Withdrawals of funds from EIB loans in 2004, EUR

No.	Loan no.	Project Title	Beneficiary	Loan Amount	Withdrawn until 31. 12. 2003	Withdrawals I. - XII. 2004	Total Withdrawn until 31. 12. 2004	Available for Withdrawal as of 31. 12. 2004	Term for Withdrawal
I. BLIC LOANS									
1.	21.051	Project of Infrastructure Reconstruction and Modernisation of the Signalisation and Telecommunication System within Sections of the Vc Pan-European Corridor	Croatian Railways d.o.o.	40,000,000.00	8,500,000.00	0,00	8,500,000.00	31,500,000.00	30.10. 2005
2.	22.165	Project of Utilities Infrastructure Reconstruction on the Areas of Special State Concern	Ministry of Sea, Tourism, Transport and Development	50,000,000.00	0,00	8,000,000.00	8,000,000.00	42,000,000.00	31.03. 2006
3.	22.881	Framework Multisectoral Loan for the Utilities Infrastructure - Integral Development of the Local Community Project	Ministry of Sea, Tourism, Transport and Development	150,000,000.00	0,00	0,00	0,00	150,000,000.00	31.07. 2008
TOTAL I. (1.-3):				240,000,000.00	8,500,000.00	8,000,000.00	16,500,000.00	223,500,000.00	
II. STATE GUARANTEED LOANS									
1.	21.262	Project of Reconstruction of State Roads	Croatian Roads d.o.o.	60,000,000.00	5,000,000.00	15,000,000.00	20,000,000.00	40,000,000.00	26.05. 2004
2.	21.316	Global Loan to HBOR	HBOR	10,000,000.00	8,428,755.98	1,571,244.02	10,000,000.00	0.00	26.05. 2004
3.	21.609	Rijeka- Zagreb Motorway Project	Rijeka-Zargeb Motorway	60,000,000.00	42,000,000.00	00.00	42,000,000.00	18,000,000.00	30.06. 2005
4.	21.677	Project for the Zagreb Air Traffic Control	Croatian Air Transport control d.o.o.	20,000,000.00	7,750,000.00	8,500,000.00	16,250,000.00	3,750,000.00	30.06. 2006
5.	21.850	Project of Highways Repair in the RC	Croatian Motorways d.o.o.	50,000,000.00	7,000,000.00	0.00	7,000,000.00	43,000,000.00	31.12. 2006
6.	22.374	Construction of the Gas Pipeline System in RC Project	Plinacro d.o.o.	90,000,000.00	0.00	0.00	0.00	90,000,000.00	01.12. 2007
7.	22.639	Project of Completion of the Highway in the Corridor X within the RC (section: Županja- Lipovac)	Croatian Motorways d.o.o.	45,000,000.00	0.00	0.00	0.00	45,000,000.00	01.04. 2007
TOTAL II (1-7):				335,000,000.00	70,178,755.98	25,071,244.02	95,250,000.00	239,750,000.00	
GRAND TOTAL (I+II):				575,000,000.00	78,678,755.98	33,071,244.02	111,750,000.00	463,250,000.00	

8.4.3. Payments of Due Commitments Against EIB Loans in 2004

The State Budget of the Republic of Croatia has paid in 2004 the due interest payments against the two withdrawn tranches of the EIB loan no. 21.051 for the Croatian Railways beneficiary amounting to EUR 420,978.12. The other beneficiaries of loans granted with the guarantee of the Republic of Croatia have fulfilled all their due commitments so the state guarantees were not exercised. The Croatian Roads d.o.o. paid against the loan no. 21.262 a total of EUR 335,113.9 in interest payments for the four withdrawn tranches, the Rijeka-Zagreb Motorway d.d. paid EUR 1,000,252.32 for the two tranches withdrawn against the EIB loan no. 21.609, the Croatian Air Traffic Control Hrvatska d.o.o. paid EUR 540,419.44 in interest payments against the six tranches withdrawn for the loan no. 21.677, the Croatian Motorways d.o.o. paid against the loan no. 21.850 a total of EUR 341,600 in interest payments for one tranche withdrawn and the HBOR paid against the global loan no. 21.316 for interest payments for the four withdrawn tranches a total of EUR 390,193.80.



Repayments of Assumed Loans

The inherited long-term loans granted in the period from 1982 to 1989⁴⁹ have also been repaid in 2004 based on the laws and repayments plans for different currencies. The EIB elaborated the 6th of December 2001 the revised repayment plans based on the withdrawal tranches in the previous currencies (BEF, DEM, FRF, ITL, NLG and GRD) after their conversion into EUR by fixed exchange rates.

The due commitments towards the European Investment Bank against the loans used for the financing of roads and railways were paid by the funds of the State Budget for 2004. After the fulfilment of all due commitments in 2004 two loans were completely repaid, while the remaining debt denominated in EUR and in four other currencies converted to Kuna, according the mid exchange rate of the Croatian National Bank as of the 31st of December 2004, amounted to HRK 234,389,587.35. The overview of the assumed EIB loans as well as the status of debt by the end of 2004 is depicted in Table 8.9.

Table 8.9. Overview of assumed EIB loans and status of debt

No.	EIB Loan No.	New Borrowers According to Letter of Agreement	Guarantor by Letters of Agreement	Loan Amount in EUR	Currency	Debt Outstanding as of 31. 12. 2004
1.	16275 EEMS-HE CRO (repaid: 30.11.2001)	HEP d.d. Zagreb Letter of Agreement no. 0297	Republic of Croatia	10 552 500.00	EUR GBP	0.00 0.00
2.	16279 TYH-II-HC CRO (repaid: 15.07.2003)	Republic of Croatia Letter of Agreement no. 0298		16 000 000.00	EUR USD	0.00 0.00
3.	16284 TYR-I-HZ CRO (repaid: 31.01.2004)	Croatian Railways d.o.o. Letter of Agreement no. 0296	Republic of Croatia	29 190 000.00	EUR DKK USD GBP	0.00 0.00 0.00 0.00
4.	16289 TYH-III-HC CRO (repaid: 15.09.2004)	Republic of Croatia Letter of Agreement no. 0298		15 250 000.00	EUR GBP DKK USD CHF	0.00 0.00 0.00 0.00 0.00
5.	13554 TYH-IV-HC CRO	Republic of Croatia Letter of Agreement no. 0298		60 000 000.00	EUR GBP JPY CHF	8,294,690.00 717,697.83 1,188,028,374.00 7,193,018.22
6.	14090 TYR-IIB-HZ CRO	Croatian Railways d.o.o. Letter of Agreement no. 0296	Republic of Croatia	18 000 000.00	EUR CHF USD GBP	4,074,208.45 2,908,954.16 1,053,928.20 1,024,159.46
	TOTAL:			148 992 500.00	EUR	12,368,898.45
					USD	1,053,928.20
					GBP	1,741,857.29
					CHF	10,101,972.38
					JPY	1,188,028,374.00
					HRK*	234,398,587.35

* according the mid exchange rate of the CNB 31. 12. 2004

⁴⁹ According the principle of partial succession and based on the so-called territorial principle, six remaining outstanding long-term loans of beneficiaries resident in the Republic of Croatia (Croatian Electricity Utility - HEP, Croatian Roads and Croatian Railways), denominated in ECU to be paid in different currencies. The total assumed debt denominated in 11 currencies as of 31.12.1994 amounted to HRK 877,147,661.94.



8.4.4. Overview of Loans (2001-2004)

After the Framework Agreement between the Republic of Croatia and the EIB has come to force, the EIB has granted fourteen loans in the total amount of EUR 641,000,000.00. Three out of this fourteen loans were concluded directly with the government (worth total EUR 240 million), seven of them were agreed with state guarantee (amounting to EUR 335 million), while four global loans without state guarantee were granted to banks for the financing of small and medium enterprises in the total amount of EUR 66 million. Within the concluded public and publicly guaranteed loans, in the period from 2001 to 2004 a total of EUR 111.75 million has been withdrawn which is the amount of the total towards the EIB, while for withdrawal until 2008 still remains EUR 463.25 million. A total of EUR 16.5 million has been withdrawn against public loans and still is available EUR 223.5 million for withdrawal while against the loans concluded with state guarantee a total of EUR 95.25 million has been withdrawn and EUR 239.75 million is available for withdrawal. Basic data on loans is given in the overview of loans (Table 8.10).

This loans were concluded with the following terms: maturity of 8-20 years, grace period on principal repayment of 3.5-5.5 years, fixed and/or floating interest rate based on EURIBOR augmented by the EIB margin, overdue fee that is calculated by increasing the agreed interest rate by 2% or 2.5% (in the case of fixed interest rate) or by increasing the agreed interest rate by 0.25% (in the case of floating interest rates) and the payment of fees in cases of delayed tranche withdrawal and/or tranche withdrawal cancellation.

Table 8.10. Overview of EIB loans granted within the Framework Agreement between the RC and the EIB since 13.12.2000 (status as of 31.12.2004)

I. PUBLIC LOANS

No.	Loan no.	Project Title	Beneficiary	Settlement Date	Law Published in the Official Gazette of RC	Expiration Date	Currency	Loan Amount	Withdrawn	Available for Withdrawal	Debt
1.	FI No. 21.051	Project of Infrastructure Reconstruction and Modernization of the Signalization and Telecommunication Systems within Sections of the Vc Pan-European Corridor	Croatian Railways d.o.o.	24.05.2001	NN-MU no. 2/2002	30.10.2005	EUR	40,000,000.00	8,500,000.00	31,500,000.00	8,500,000.00
2.	FI No. 22.165	Project of Utilities Infrastructure Reconstruction on the Areas of Special State Concern	Ministry of Sea, Tourism, Transport and Development	30.07.2003	NN-MU no. 16/2003	31.03.2006	EUR	50,000,000.00	8,000,000.00	420,000.00	8,000,000.00
3.	FI No. 22.881	Framework Multisectoral Loan for the Utilities Infrastructure - Integral Development of the Local Community Project	Ministry of Sea, Tourism, Transport and Development	20. and 24.12.2004	NN-MU no. In procedure	31.07.2008	EUR	150,000,000.00	0.00	150,000,000.00	0.00
		TOTAL I. (1.-3.):					EUR	240,000,000.00	16,500,000.00	223,500,000.00	16,500,000.00



II. LOANS OBTAINED WITH THE GUARANTEE OF THE RC

No.	Loan no.	Project Title	Beneficiary	Settlement Date	Law Published in the Official Gazette of RC	Expiration Date	Currency	Loan Amount	Withdrawn	Available for Withdrawal	Debt
1.	FI No. 21.262	Project of Reconstruction of State Roads	Croatian Roads d.o.o.	29.10.2001	NN-MU no. 4/2002	26.05.2004	EUR	60,000,000.00	20,000,000.00	40,000,000.00	20,000,000.00
2.	FI No. 21.316	Global Loan to HBOR	HBOR	26.11. 2001	NN-MU no. 4/2002	26.05.2004	EUR	10,000,000.00	10,000,000.00	0.00	10,000,000.00
3.	FI No. 21.609	Rijeka-Zagreb Highway Project	Rijeka - Zagreb Motorway d.d.	24.06. 2002	NN-MU 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	Project for the Zagreb AIR Traffic Control	Croatian Air Transport Control d.o.o.	10/12.09. 2002	NN-MU no. 14/2002	30.06.2006	EUR	20,000,000.00	16,250,000.00	3,750,000.00	16,250,000.00
5.	FI No. 21.850	Project of Highways Repair in the RC	Croatian Motorways d.o.o.	13.12. 2002	NN- MU no.10/2003	31.12.2006	EUR	50,000,000.00	7,000,000.00	43,000,000.00	7,000,000.00
6.	FI No. 22374	Construction of the Gas Pipeline System in RC Project	Plinacro d.o.o.	16.12. 2003	NN-MU no. 3/2004	01.12.2007	EUR	90,000,000.00	0.00	90,000,000.00	0.00
7.	FI No. 22639	Project of Completion of the Highway in the Corridor X within the RC (section: Županja -Lipovac)	Croatian Motorways d.o.o.	22. and 29.07. 2004	NN-MU no. 1/2005	01.04.2007	EUR	45,000,000.00	0.00	45,000,000.00	0.00
		TOTAL II. (1.-7.):					EUR	335,000,000.00	95,250,000.00	239,750,000.00	95,250,000.00
		GRAND TOTAL (I+II):					EUR	575,000,000.00	111,750,000.00	463,250,000.00	111,750,000.00

III. LOANS OBTAINED WITHOUT STATE GUARANTEE

Type of Loan	Beneficiary	Settlement Date	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
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.-4.):	EUR 66,000,000.00





..... *New Projects in Preparation*

New infrastructure projects amounting up to EUR 150 million to be financed by EIB loans are in different stages of preparation. For the financing of the Split Beltway it is foreseen a loan amounting EUR 60 million, for the improvement of roads (second phase) EUR 60 million and for the second phase of the Zagreb-Rijeka Motorway EUR 30 million. For the financing of the private sector, namely the small and medium enterprises, global loans worth EUR 50 million are foreseen (global loan to HBOR amounting EUR 20 million and global loan to Zagrebačka banka EUR 30 million).

The Republic of Croatia has continued good cooperation as shareholder with all the four international financial institutions (IBRD, EBRD, CEB and EIB) as well as with the Inter-American Bank for Development, monitoring the changes in the policies of those institutions that could have influence the Republic of Croatia. Year 2004 was marked by the multilateral effort to develop the cooperation strategies with international financial institutions - creditors which were achieved with three out of four institutions. Only the cooperation strategy with the World Bank has been approved by the end of 2004, while the new strategies of cooperation with the EBRD and CEB have been prepared and actually approved in the beginning of 2005. The cooperation strategy with the EIB remains as a challenge for 2005.



9. Annual Report of the State-owned Companies' Activities in 2004.....



..... At the base of financial reports, Balance sheet, Profit and loss statement, Overview of the status to liabilities on supplier and claims on consumer, analysis of the activities of 19 public completely and mostly state owned enterprises:

- ACI,
- Autocesta Rijeka - Zagreb,
- Croatia Airlines Ltd.,
- Croatia Osiguranje,
- Hrvatska elektroprivreda,
- Hrvatska lutrija Ltd.,
- Croatian Postal Service,
- Hrvatska radiotelevizija,
- Croatian Motorways Ltd.,
- Croatian Roads Ltd.,
- Croatian Waters,
- Croatian Forests Ltd.,
- Croatian Railways Ltd.,
- Industrija nafte,
- Jadrolinija,
- Jadranski naftovod,
- Narodne novine,
- Plovput Ltd.,
- Vjesnik.



Table 9.1: Indicators of activities of completely and mostly state owned enterprises for January - December 2004 period

No.	ENTERPRISES	TOTAL ASSETS		04./03.	TOTAL EQUITY		04./03.	PROFIT/LOSS		04./03.	TOTAL INCOME		04./03.	TOTAL EXPENSE		04./03.
		2003.	2004.	%	2003.	2004.	%	2003.	2004.	%	2003.	2004.	%	2003.	2004.	%
1.	Croatian Railways	10,640,991	11,713,083	110	10,640,991	11,713,083	110	-189,832	-175,449	92	3,371,382	3,806,559	113	3,561,214	3,982,008	112
2.	Hrvatska elektroprivreda	26,222,474	26,418,840	101	26,222,474	26,418,840	101	34,746	459,417	1,322	8,887,929	9,113,939	103	8,853,183	8,654,522	98
3.	Croatian Forests	1,869,631	1,895,276	101	1,869,631	1,895,276	101	-16,760	15,768	-94	1,903,666	1,947,518	102	1,920,426	1,931,750	101
4.	Jadrolinija	697,707	917,160	131	697,707	917,160	131	16,366	4,524	28	673,080	708,722	105	656,715	704,198	107
5.	Croatian Post Service	1,446,071	1,275,786	88	1,446,071	1,275,786	88	10,259	-134,723	-1,313	1,527,146	1,445,789	95	1,515,887	1,580,512	104
6.	Narodne novine	382,936	398,368	104	382,936	398,368	104	39,168	29,337	75	488,607	508,656	104	479,319	479,319	107
7.	HRT	954,088	990,474	104	954,088	990,474	104	67,769	3,507	5	1,393,034	1,376,241	99	1,325,265	1,372,734	104
8.	INA Matrica	14,028,531	15,128,107	108	14,028,531	15,128,107	108	817,566	1,518,140	186	14,672,057	16,547,108	113	13,854,491	15,028,968	108
9.	Ploput	149,590	139,897	94	149,590	139,897	94	38	117	308	65,328	68,011	104	65,290	67,894	104
10.	Croatia Airlines	2,444,792	2,322,823	95	2,444,792	2,322,823	95	15,134	37,699	249	1,423,346	1,429,348	100	1,408,212	1,391,649	99
11.	Croatia osiguranje	4,999,730	5,290,454	106	4,999,730	5,290,454	106	95,192	105,440	111	2,686,537	2,983,063	111	2,591,345	2,877,623	111
12.	Croatian Roads	66,726,950	67,241,144	101	66,726,950	67,241,144	101	127,172	0	0	1,250,864	1,300,852	104	1,123,692	1,300,852	116
13.	Croatian Motorways	29,306,505	32,902,513	112	29,306,505	32,902,513	112	0	0	0	642,547	872,924	136	642,547	872,924	136
14.	Autocesta Rijeka - Zagreb	4,895,143	5,016,043	102	4,895,143	5,016,043	102	-11,168	449	-4	290,299	346,009	119	301,467	345,560	115
15.	JANAF	2,496,515	2,442,769	98	2,496,515	2,442,769	98	26,389	30,181	114	332,964	321,439	97	306,575	291,258	95
16.	Vesnik	269,912	246,121	91	269,912	246,121	91	-22,024	-10,811	49	270,449	272,510	101	292,473	283,321	97
17.	ACI	445,390	442,118	99	445,390	442,118	99	6,737	-1,510	-22	105,411	114,651	109	98,674	116,161	118
18.	Croatian Waters	9,969,929	10,647,753	107	9,969,929	10,647,753	107	-56,680	13,917	-25	1,675,520	1,690,852	101	1,732,200	1,676,935	97
19.	Hrvatska lutrija	264,766	309,548	117	264,766	309,548	117	301,840	62,403	21	354,141	349,160	99	52,301	286,757	548
	TOTAL	178,211,651	185,738,277	104	178,211,651	185,738,277	104	1,261,911	1,958,429	155	42,014,307	45,203,351	108	40,752,396	43,244,945	106

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9.1. Basic Characteristics of Activities



The main characteristic of earlier mentioned enterprises activities in 2004 is significant increase of profit for very high 55% in comparison with 2003. This increase was mostly contributed by Hrvatska elektroprivreda, whose profit was HRK 459.4 million in 2004, which is increase of 1.222% in comparison with 2003. The reason for this drastical profit increase is in favourable hydrology, fuel savings for smaller thermoelectrane work, and significant export increase of 235%.

Also significant contribution to profit increase was achieved by Plovput Ltd. (208%), INA Matica (86%), Croatia Airlines (149%), Jadranski naftovod (14%), Croatia osiguranje (11%).

In absolute number the highest profit was achieved by INA Matica, of HRK 1.518 billion, which represents 70% share in total profit of 19 companies, following one is Hrvatska elektroprivreda, whose share in total profit of 19 companies is 21%, and Croatia Osiguranje with 5% share in total profit of 19 companies. Four companies made loss on activities: Croatian Railways Ltd., Croatian Postal Service, Vjesnik, ACI.

Croatian Railways Ltd. achieved loss of HRK 175.4 million, what in comparison with 2003 represents decrease of 8 %. Croatian Postal Service achieved loss of HRK 134.7 million, which represents a negative trend in comparison with 2003 when company had achieved profit of HRK 10.3 million. Companies Vjesnik and ACI are having decrease in loss in comparison with 2003. Vjesnik made activities with loss of HRK 10.8 million what in comparison with 2003 represents decrease of 51%. ACI achieved loss of HRK 1.5 million what in comparison with 2003 represents decrease of 78 %.

Activities of 19 companies in 2004 were defined greatly by increase of 8% in total income, and simultaneous slower increase in expenses of 6% in comparison with 2003, which represents a positive trend of business activities of these companies.

Staff costs followed the trend of total income increase, meaning that those also increased in 8% in comparison with 2003.

The biggest staff costs increase was stated by Croatian Motorways Ltd. (47%), Hrvatska lutrija Ltd. (29%), Hrvatska radiotelevizija (23%).

Indebtedness of the companies in 2004 were HRK 24.318 billion, what in comparison with 2003 represents an increase of 22%.

Croatian Roads Ltd. noted the biggest indebtedness increase 948% in comparison with 2003. Following ones are Jadrolinija with indebtedness increase of 187%, Croatian Motorways Ltd. of 64% and Croatia Airlines of 63% in comparison with 2003. Other companies noted indebtedness decrease trend in comparison with year 2003.

The results of positive activities from the point of income in state budget influenced on income from corporate income tax increase, which in comparison with 2003 increased in high 503%, and what is greatly effect of basic period.

Subsidies of the state in the given period increased in 31%, and greatly for giving bigger funds for Autocesta Rijeka - Zagreb (100%) and subsidies increase for Croatian Railways Ltd. (69%).

In the observed period increase of the negative trend of the net labour equity of 17.6% in comparison with 2003 was noted, what points to liquidity problems in some companies: Croatian Railways Ltd., Hrvatska elektroprivreda, Croatian Roads Ltd., Croatian Motorways Ltd. and ACI.

ACI

ACI has not delivered the requested data by the end of creation of this Annual report.

Autocesta Rijeka - Zagreb,

During the year 2004 Autocesta Rijeka - Zagreb achieved profit of HRK 0.4 million, what represents the beginning of positive trend of company's activities, since in 2003 the company had stated loss of HRK 11.1 million in activities. Bigger income increase over expenses increase in 2004, in comparison with 2003 resulted with achieved profit of the company, what made a positive influence on profitability, cost-effectiveness and economics, and influenced its increase. Indebtedness level decreased in comparison with the year 2003. This points to the fact that total assets of Autocesta Rijeka - Zagreb company were financed with 35% from outside resources, and trend is positive because of indebtedness decrease in comparison with year before when assets were financed with 44% outside resources.



Croatia Airlines

By setting the planned guidelines for the year 2004, Croatia Airlines projected the continuation of positive activities, and with increase of transactions and income achieved net profit of HRK 38 million, what is 149% higher than in 2003, when it was HRK 15.1 million. Although it kept the trend of positive activities and achieved profit, the image of financial activities of the company gives negative look, and points to certain parts of company's activities, which can additionally be improved. In 2004 the company financed almost 60% of liabilities from outside funds, what in great part means the credit institutions funds. These liabilities to credit institutions make almost 50% of total equity and liabilities.

Croatia Osiguranje

During the year 2004 company's income was increasing faster than expenses and as a result a net profit of HRK 105.4 million was achieved, which is 11% more than in 2003, when it was HRK 95.2 million. The total income was HRK 2.983 billion, which is 11% more than in 2003. The included gross premium, which in the income structure makes the biggest part (91.6%) in 2004, increased in HRK 99.1 million (3%) in comparison with 2003.

The biggest increase of premium make the life insurances, which increase is HRK 36.6 million (17.8%) in comparison with 2003. Total expenses were HRK 2.878 billion what is 11% higher than the year 2003, where the increase was made by all categories of expenses. Structurally, the biggest share is the damage expense (60% of total) whereas the trend dynamics was kept at the level of the year before.

Hrvatska elektroprivreda

The company has ended the operational year with HRK 459.4 million profit, what is a significant increase in comparison with 2003 when profit was HRK 34.7 million. The reason for this drastical profit increase is in favourable hydrology, fuel savings for smaller thermoelectrane work, and significant export increase of 235%. Total income is HRK 9.1 billion, what is increase of 3%. In the total income structure the biggest increase was noted at operational income (9%). Total expenses are HRK 8.7 billion and make an insignificant decrease of 2% in comparison with 2003. In the total expenses structure the biggest increase in comparison with 2003 was made at staff costs (8%) and altogether are HRK 1.4 billion.

Hrvatska lutrija Ltd.

The company ended the operational 2004 year with profit of HRK 62.4 million what represents the increase of HRK 10.1 million in comparison with 2003. The company's profit after taxes was HRK 49.5 million. Corporate income tax of HRK 12.9 million was noted, what is 16.6% higher than in 2003. Total income from the basic activity was HRK 349.2 million, what is in HRK 4.9 million or 1.4% less in comparison with 2003. Total expenses are HRK 286.8 million what is 5% less in comparison with 2003. Indebtedness level is the same. Larger decrease of expenses in comparison with income decrease and stated higher profit had a positive influence on profitability and economics, with the same cost-effectiveness rate.

Croatian Postal Service

The company noted loss of HRK 134.7 million in 2004, what is a significant change after last year's profit of HRK 10.2 million. Total income of the company was HRK 1.4 billion what is decrease of 5% in comparison with 2003. In the total income structure increase was made at financial income (123%) whereas operational income stayed at the same level as in 2003. When observing structurally, operational income decreased, where the most significant decrease was noted in subsidies and donations share of 66%. Total expenses were HRK 1.5 billion what is increase of 4% in comparison with 2003. In the total expenses structure increase was made by operational costs of 4%, and financial expenses of 15%. Staff costs were increased in 7% while depreciation and amortisation costs decreased in 8%.

Hrvatska radiotelevizija

Activities of HRT during the year 2004 were marked by negative trend. Positive financial activities result of HRK 3.5 million was made. This kind of trend is seen through higher increase of costs in comparison with income in 4.8% and decrease of marketing income of 9%, what resulted in profit decrease of 96%. Increase of the outside cooperation costs, significant staff costs increase in 25% and also employment increase of 4% additionally burden company's activities. Because of the stated problems need for further rationalization of activities is obvious, especially decrease of outside cooperation expenses and politics of payment expenses increase.





Croatian Motorways Ltd.

Company's income is balanced with expenses, meaning that profit of the company for the year 2004 was zero. Total income in 2004 was HRK 873.2 million, what in relation to 2003 represents increase of 36%. Toll income was HRK 775 million, 44% higher than in 2003. Toll income in 2004 was increased in 20.5% for increased toll price from HRK 0.33 to HRK 0.40 per km and for 7.5% bigger vehicle traffic at the highways in comparison with 2003. Total expenses for highway building, maintaining and management in 2004 are HRK 6.220 billion. For building and invest maintaining of the highways HRK 4.738 billion was invested, or 97% out of planned. Indebtedness coefficient was increased in 2004, and points to the fact that total assets of the company are 35% financed by outside capital. Indebtedness is increased because of investing in building the new highway sections.

Croatian Roads Ltd.

Law of public roads sets activities of Croatian Roads Ltd. Basic activity of the company is building, reconstructing and maintaining the public roads. With the new Law of public roads and application of the provisions which regulate public road financing, fund resources that represent the public capital that Republic of Croatia uses to finance building and maintaining the public roads and out of which the difference between income and expenses in the operational year is refunded. For applying the capital approach, result (profit/loss) for 2004 is zero. Basic and the biggest funds resource for activities financing-fuel taxation is not enough to cover the expenses of maintaining, building and amortization insurance, and from the public capital the difference of HRK 139 million between income and expenses was covered. The company is 100% owned by state.

Croatian Waters

It can be said that plan for managing Croatian waters for 2004 is almost achieved. Income is only 2% lower than planned and expenses on ordinary activities are lowered in 1%. Decrease of plan was influenced by 4% decrease of income from the budget, so that the capital transfers were reduced, and total indebtedness was maintained at the same level.

Croatian forests Ltd.

Operational year of the company was achieved with HRK 15.8 million, what is a positive movement in comparison with 2003 when activities loss was HRK 16.8 million. Total income was HRK 1.9 billion meaning 2% increase in comparison with 2003. In total income structure an increase was achieved at operational income (3%). Total expenses were HRK 1.9 billion, almost the same as total expenses achieved in the year before. In the total expenses structure expenses in the mentioned period were HRK 1.9 billion and maintained at the same level. When observing its structure in comparison with 2003, an increase in staff costs was achieved (4%) and amortization costs (21%).

Croatian Railways Ltd.

The main characteristic of this company's activities in 2004 is achieved loss of HRK 175.4 million, what is decrease of 8% in comparison with 2003. Total income increase was achieved, but also total expenses of 12%. In total income structure the largest increase was noted at financial (51%) and operational (38%). Great part of operational income is achieved from subsidies and donations (69%). It is necessary to emphasize that in this company the biggest part of subsidies covered the employees' salaries. Over the state budget all liabilities in domestic and foreign credits of this company were overtaken. In the total expenses structure the biggest increase in comparison with 2003 was achieved at financial (90%). In the expenses 4% increase was noted, the biggest part in the structure make staff costs (34%). Amortization costs increased in 13%.

INA Matica

Company has ended the operational year with HRK 1.5 billion profit, what is increase of 50% in comparison with 2003. Total income of the company was HRK 16.5 billion what is increase of 13% in comparison with 2003. In the total income structure, operational income increased 16% in comparison with observed period. When observing structurally, operational income achieved biggest increase from export (36%). Total expenses were HRK 15 billion, where 8% increase in comparison with observed period was achieved. In the total expenses structure, operational costs increased in 9%, out of which staff costs are bigger in 2%, and amortization costs in 4%.



Jadrolinija

Company has ended the operational year with HRK 4.5 million profit what is a significant decrease of 72% in comparison with 2003, when it was HRK 16.4 million. Total income of the company was HRK 708.7 million, what is an increase in 5% in comparison with 2003. In the total income structure an increase was achieved at operational (3%) and financial (27%) income. In the operational income structure increase was achieved at export (7%) and subsidies and donations (2%). Total expenses were HRK 704.2 million what is an increase in 7% in comparison with 2003. In the total expenses structure operational costs (7%) and financial expense (90%) achieved an increase. Staff costs increased in 12% and amortization costs 22%.

Janaf

Company has ended the operational year with HRK 30.2 million profit. Total income was HRK 321.4 million, what is HRK 11.6 million or 3.5% less than in previous period. Share of the operational income in total income is 75.7% and note a small increase (1%) in comparison with 2003, while financial income, which represent 17.6% of total income note a significant decrease (37.4%). In the operational income structure income from the oil transport increased (5.6%) while income from the derivatives storage decreased in 3.5%. Total expenses are HRK 291.3 million and they are less in 5% in comparison with 2003. Operational costs, which make the biggest group of expenses (88.3%), increased in 2% and in operational costs structure increased were material costs (3%) and amortization costs (1%). Staff costs are bigger in 3.4% in comparison with 2003.

Narodne novine

Company has ended the operational year with HRK 29.3 million profit, what is 28% decline in comparison with 2003. Total income of the company was HRK 508.7 million what is an increase of 4% in comparison with 2003. In total income structure, an increase was achieved by operational income, 6% in comparison with the observed period. When observing structurally, operational income decreased the most in subsidies and donations share (66%). Total expenses were HRK 479.3 million what is an increase of 7% in comparison with 2003. In total expenses structure the biggest increase was achieved by operational costs (48%), where staff costs increased in 12% and amortization costs in 6%.

Plovput Ltd.

Company has ended the operational year with HRK 0.1 million profit what is an increase of 208% in comparison with 2003, when it was HRK 0.04 million. Total income of the company was HRK 68 million (4% increase in comparison with 2003). In total income structure operational income was at the previous year level, and was HRK 64.4 million. Income from the sales in the country increased in 21% in comparison with 2003 and influenced the increase of the operational income. Subsidies and donations share decreased in 55%. Total expenses were HRK 67.9 million what was an increase of 4% in comparison with the observed period. In the total expenses structure, an increase was made by operational costs (8%), where staff costs increased in 8% and amortization costs in 5%.

Vjesnik

During the year 2004 restructuring of the Vjesnik company began, adjusting the organizational and personnel structure to technological modernization. Continuing the process, rationalization is expected, in staff costs and production costs. Though positive movement in company's activities were made, by decreasing the loss in 49%, quite a lot of space is left for further improvement of business results in Vjesnik business policy.





10. Report on Work of Department for Financing EU Assistance Programmes and Project



..... Department for Financing EU Assistance Programmes and Projects is performing tasks connected with implementation of EU assistance programmes for Republic of Croatia.

Department was founded as the result of Memorandum of understanding between European Commission and Government of Republic of Croatia on founding of Central Finance and Contracting Unit (CFCU), that is inside of Department for Financing EU Assistance Programmes and Projects. CFCU is implementation unit for projects inside the CARDS help programme and for PHARE and ISPA preaccession programmes. CFCUs organization is part of a common European Union model for implementation of its help programmes outside the EU, and means using of special rules and procedures made especially for EU help programmes implementation. Inside of this programmes CFCU is responsible for paying, accounting, contract administration, implementation of acquisition and financial and other reporting on done services. Description of CFCU tasks includes preparation of competition documentation in co-operation with Units for programmes implementation in line ministries and other state administration bodies, competition implementation, leading of the process of supplier selection, signing contracts, supervising contract implementation in cooperation with Units for programmes implementation, realization of paying and financial and other reporting. Types of contracts for the project implementation made with selected offers include contracts for the procurement of goods, services, twinning, works and contracts for the grant scheme.

Special status of the CFCU in the national administration is coming from:

- a) Introducing of EU help programmes and tendency to create administrative structures that will be made in the surroundings of so called Decentralised Implementation System and Extended Decentralised Implementation System, and on the base of significant EU rules
- b) Need for creating the financial controlling system for EU helping funds, that will unite the best practical systems in cooperation with so called Sound Financial Management
- c) Practice that comes from positive experience of the new EU members in implementation of preaccession programmes at the same base
- d) Fact that CFCU represents connection between the national administration and EU represented with Delegations for each country
- e) Fact that experiences from this surrounding are base for absorption capacities of the future member country

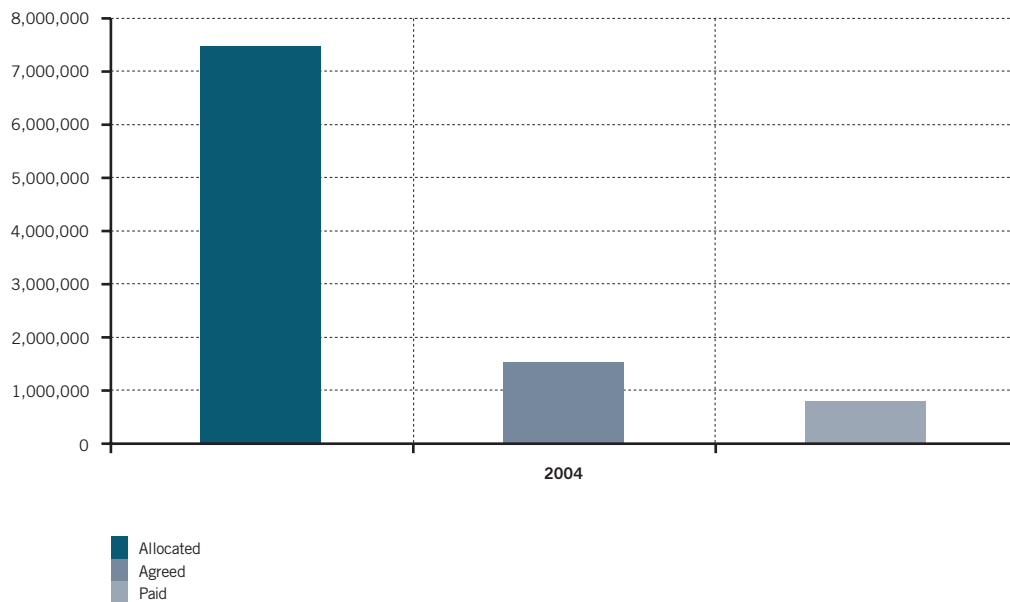
Inside the CARDS programme for 2002, by decision of the European Commission seven projects that would be implemented with 13 contracts and full CDCU responsibility were identified, inside the so called decentralised implementation system. Total value of the implemented projects EUR 7.5 million was decentralised, or, 12.7% out of total sum of the funds allocated for CARDS 2002 (EUR 59 million). According to the applicable rules, implementation of these projects will finish by the end of 2006.

The following CARDS projects were decentralised:

1. Increasing of capacities on the field of agriculture and nourishing products (EUR 1,750,000)
2. Increasing of capacities on the field of consumer protection (EUR 1,250,000)
3. Professional qualification and education (EUR 1,500,000)
4. Local partnership for employment (EUR 900,000)
5. Mobility of higher education: diplomas recognition policy (EUR 600,000)
6. Improving the sanitary inspection and food controlling (EUR 750,000)
7. Improving the fitosanitary inspection (EUR 750,000)



CARDS 2002 (Decentralised, 31st December 2004, in EUR)



By the 31st December, the Central Finance and Contracting Unit made 2 contracts, total value of 1,489,604, of which EUR 650,949 was paid to executors.





**11. Report on the Work of the Department for the
Harmonisation of Internal Audit and Financial Control for 2004**



The implementation of internal financial controls and internal audit in the public sector is one of the fundamental prerequisites (Chapter 32, the former chapter 28) in the process of accession of the Republic of Croatia to the European Union.

The Ministry of finance of the Republic of Croatia has recognised this need, that is, this obligation, and started in 2002 with systematic reforms of internal financial controls and the implementation of internal audit, firstly by establishing a separate Department for internal audit and control within the Ministry of finance.

Already at that time the Ministry established the cooperation with the US organisation USAID with the aim to help the establishment of the Department and the definition of the initial work strategy. At the same time, the preparation of the CARDS 2002 project "Development of public internal financial controls in the Republic of Croatia" started in cooperation with the Delegation of the European Commission and the SIGMA consultancy company. The project has been approved by the European commission in 2003 and started in October 2003 and it will last two years.

The Department for internal audit and control consisted of two divisions, namely the Division for internal audit and the Division for internal control. The functions of the Department were carried out by seven employees. In 2005, the Department was renamed into the Department for the harmonisation of internal audit and financial control.

In 2004, the further development of the Department continued as well as the development of the system of internal financial control and internal audit in the public sector.

During 2004 the Department undertook the following activities:

- preparation of the Rulebook on internal audit of budgetary users, a by-law that in more details defines the obligation of establishing internal audit in the government administration bodies;
- elaboration of the proposal for the "Strategy for the development of internal financial control and internal audit in the Republic of Croatia" and submission to the government of the Republic of Croatia;
- implementation activities of the CARDS 2002 project "Development of public internal financial controls (PIFC) in the Republic of Croatia" through constant cooperation with the project team as well as with the representatives of the European Commission, European Delegation as foreseen by the project time schedule;
- implementation of pilot audits in the Ministry of finance;
- preparation of documents aimed at the creation of final prerequisites for the operative establishment of the new profession and of the internal audit activities in government administration bodies;
- constant coordination with government administration bodies in the establishment of the internal audit;
- preparation activities for the elaboration of the proposal and submission to the European commission of a new project "Further development of public internal financial controls (PIFC) in the Republic of Croatia" through the CARDS 2004;
- cooperation with international institutions (World Bank and other domestic and foreign institutions) that have supervised the status and development of internal financial controls as well as the implementation of internal audit in the Republic of Croatia;
- cooperation in the harmonisation of the National Programme of the Republic of Croatia for the Accession to the EU for 2004 (chapter 28) as well as in the preparation of the same programme for 2005;
- drafting the proposal for the Law on audit
- giving opinions to proposals of legal and other documents prepared by other departments within the Ministry of finance;
- establishment and maintenance of the web site of the Department for internal audit and supervision of project (pifc.mfin.hr) within the web site of the Ministry of finance;
- solving control issues according to written claims;
- attending several seminars regarding internal financial control and internal audit as well as other topics.

Documents accepted during the 2004 define the functions and responsibilities of the Department. The Rulebook on internal audit of budgetary users (Official gazette "Narodne Novine" 111/04), brought in August 2004, defines the conditions that an internal auditor has to fulfil, the standards and methodology of the internal audit, the criteria on which budgetary users base the organisation of internal audit as well as the ways to harmonise the work of internal audit of budgetary users. The obligation of enacting the Rulebook emerges from the articles 137 and 138 of the Budget Law (Official gazette "Narodne Novine" 96/03).

The document "Strategy for the development of internal financial control and internal audit in the Republic of Croatia" has been accepted by the government of the Republic of Croatia on the 2nd of September 2004. The aim of that PIFC document is to report the key elements of the current status as well as the development strategy for the establishment and development of an overall and efficient public internal financial control



..... in the Republic of Croatia. The importance of the elaboration of this document the government of the Republic of Croatia has emphasised in its answers to the EC Questionnaire (Chapter 28).

The system of the public internal financial control (PIFC) includes three basic elements as follows:

1. financial management and internal control
2. internal audit
3. central harmonisation unit, that is, the Department within the Ministry of finance that is responsible for the establishment of the system.

The PIFC development strategy, which is equal for domestic funds and for the EU funds, is of great importance in the process of integration of the Republic of Croatia in the European Union. During the accession process there is the possibility of changes and amendments to the Strategy which depends on the requests of the European Union and acquired experience.

In line with the internationally accepted standards, the practice developed in the European Commission and member states and in line with the EU recommendations, the term "public internal financial control" means the overall, integrated system established by the government of the Republic of Croatia in order to control, audit and report the usage of national budgetary funds and of EU funds.

The concept proposed for the Republic of Croatia in the "Strategy for the development of internal financial control and internal audit", aimed at the achievement of an efficient and transparent functioning of the PIFC, will fully respect three elements:

- I. The managerial responsibility for the collection and spending of public funds, including the responsibility for the establishment and maintenance of efficient financial management and control (FMC) systems

The establishment and implementation of FMC systems, including the set of rules aimed to the achievement of an efficient, effective and cost-effective spending of available funds (including foreign funds), falls into the responsibility of the heads and management of each institution (ministry or TDU). The heads of the institutions are responsible for the functioning, effectiveness and development of the FMC system. The management takes the responsibility for the supervision and development of the FMC system, along with the related financial responsibility. The FMC system includes:

- a) Independent functions of *ex ante* and *ex post* financial control. *Ex ante* financial control represents a set of control activities indispensable for the adoption of financial decisions regarding budgetary funds usage, liabilities, public procurement procedures, contracts and contract related disbursements as well as the refund of unjustifiable paid amounts. *Ex post* financial control checks whether the budgetary funds were used legally, purposely and timely.
- b) The functions of accountancy and financial reporting;
- c) The procedures for the preparation, processing and storage of financial and other documents.

For the successful functioning of the FMC system, the principle of responsibility designation has to be applied. The system is in line with the legislation currently in force, the budgetary provisions and principles of good financial management, that is, with the principles of transparency, efficiency, effectiveness and cost-effectiveness. The FMC system comprises all the measures for the control and management of the overall government revenues/receipts, expenses/disbursements, assets and liabilities. The FMC system includes all the internal control systems and procedures in the public sector.

The *ex ante* controls are introduced by heads of institutions in order to ensure the efficient functioning of the public sector, i.e. the purposely spending of public resources (including foreign ones) in order to achieve the targets which have been set. The main goal of the FMC is to ensure:

- the reliability and integrity of information, in particular of financial information;
- the alignment with the policies, plans, procedures, laws and rules;
- the preservation of assets;
- the cost-effective, efficient and effective usage of resources.

An independent internal audit in each ministry and in each public institution ensures the existence and effective functioning of the overall system of internal controls.





..... II. Functionally independent internal audit, capable to perform the audit of the system and the audit of the business conduct.

The internal audit is an independent, objective activity of giving a professional opinion, shaped in a way to add value and improve the performance of the organisation. It helps the organisation to achieve its targets by introducing a systematic, disciplined approach to evaluation and increases the efficiency of the risk management process, control and business.

The internal audit objectively and professionally evaluates the systems of internal control, points out the encountered weaknesses and gives recommendations for their removal. In its functioning it will apply the international standards for internal audit and the best practices of EU member states. The system of internal controls is the mandatory system of financial and other types of business rules and procedures, including organisational structures, methods and procedures established by the head of the budgetary user within his/her domain in order to ensure the legal, cost-effective, efficient and effective conduct of the overall business. The internal control is not a supplement and substitute for the management processes but helps the head of institution in the achievement of goals within the business area of the budgetary user. Internal auditors are independent in their work, which they conduct based on the strategic and annual plan approved by the head of institution, as well as in conducting internal audits and reporting the audit results. The head of institution is responsible for monitoring the implementation of the internal auditor's recommendations.

III. Central harmonisation and coordination system for the system of financial management and control as well as for internal audit

In line with the practice in the EU and other countries, it is necessary to establish a central unit (department) for the harmonisation of FMC and internal audit methodologies for all ministries/TDUs. In that sense, within the Ministry of finance, it was established the Department for internal audit and control, i.e. the Central harmonisation unit. This unit is responsible for the development and implementation of methodologies and standards. The working areas of this unit includes: the development of procedures and drafting of a manual for financial management, control and internal audit; drafting of a template charter for internal audit and of an ethical codex for civil servants involved in internal audit. The Central unit also develops the methodology for risk analysis to be used by all public institutions. In addition, it gives methodological guidelines related to issues of financial control and internal audit, evaluates the activities of internal audit offices, monitors the implementation of assessed requests and analyses the functions of internal audit units within public legal entities.

The Central harmonisation unit is responsible for the education and certification of internal auditors in public sector. This unit submits to the government the annual report on internal audit and FMC based on the consolidation and analysis of annual report submitted by different ministries and TDUs, i.e. internal audit units.

The fundamental task of the Central harmonisation unit is the programme of education of internal auditors. In 2004 the programme of education of internal auditors, prepared by the project partner SOFRECO, included 40 participants. The education was carried out by a foreign consultancy company specialised in the education of internal auditors in the public and private sector. The first five out of seven modules have been performed for two rounds of participants while the remaining modules were scheduled for 2005. The participants have acquired the necessary theoretical knowledge to perform, with the help of local experts on the project, initial audits within their ministries. A manual has been developed for the needs of internal audit performance in which the methodology of internal audit is prescribed in more details, i.e. the internal audit procedures and implementation approaches. The manual has been developed in cooperation with the CARDS 2002 Project team. Each internal auditor has received a copy of the manual and it has the obligation to use it. The manual will be updated and changed based on the experiences acquired during audit performance.

Within the education of internal auditors, during 2004 pilot audits of the following processes were performed:

- audit of business trip orders,
- audit of money refunds for wrong payments or overpayments of judicial and/or administrative fees,
- audit of the public procurement process of the Ministry of finance,
- audit of the execution of invoice payments to suppliers for the goods/services received,
- audit of the evaluation of the efficiency of control functions of the budgetary supervision (started).



..... During the year the cooperation with international and domestic institutions has been established as follows:

- the International Monetary Fund (IMF), regarding the Report on the Observance of Standards and Codes (ROSC),
- the World Bank, regarding the mission for the assessment of the reliability of financial processes related to the Programmatic Adjustment Loan (PAL),
- Croatian Association of Accountants and Financial Experts.

The Department has cooperated in the alignment of the National Programme of the Republic of Croatia for 2004 and in the preparation for the National Programme for 2005 regarding chapter 28.

In the adoption procedure of the Law on state audit the Department participated in the work of the parliament committees and bodies.

In 2004 the Department's employees have, besides the regular education, participated to different seminars according the programme of education of internal auditors of which the most important are as follows:

- PIFC seminar, DG Budget, Brussels, 25th - 26th October 2004
 - 2nd Workshop of Central Harmonisation Units of EU Member Countries and Candidate Countries, Balatonsozod, Hungary, 29th November - 2nd December 2004
 - Internal Control, Center of Excellence in Finance, Ljubljana, 9th - 21st May 2004
- and other seminars organised in the Republic of Croatia which relate to internal audit and internal control.

CONCLUSION

During 2004, jointly with the experts of the CARDS 2002 project "Development of public internal financial controls (PIFC) in the Republic of Croatia", has been done a lot in the establishment of internal financial control systems, in particular regarding internal audit. However, this is only the beginning, while the development and more intensive implementation of further activities is expected in 2005 and after, when it will be necessary to undertake a number of action in all government bodies in order to organise independent and objective units of internal audit and to establish internal financial controls aimed at the efficient, effective and cost-effective management of public resources.





12.1. Internal Organization of the Ministry of Finance in the Year 2004

(Decree on The Internal Organizational Structure of the Ministry of Finance-"The Official Gazette" No. 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" no. 70/01, 71/03 and 198/03). The work of the Ministry of Finance is run by the Minister of Finance, whose substitute is State Secretary. The following administrative organizations and other internal organizational units have been set up for the performance of the activities in the scope of the Ministry:

1. Bureau for Macroeconomic Analyses and Planning
2. State Treasury
3. Financial System Department
4. Department for International Financial Institutions and European Integration
5. Department for EU assistance Programs and Projects Financing
6. Department of Economy
7. Internal Audit and Control Department
8. Secretariat General of the Ministry
9. Independent Service for the Construction and Maintenance of Border Crossings and Customs Facilities
10. Independent Service for Second-Instance Administrative Procedure
11. Cabinet of the Ministry of Finance

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 Service



12.2. The Scope of the Internal Organizational Units of the Ministry of Finance

The Macroeconomic Analysis and Planning Bureau performs the activities of macroeconomic trend 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 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: Sector for Budget Preparation, Sector for Budget Execution, Public Debt and Cash Management Department, Sector for System improvement and Sector for Budget Oversight.

The Sector for Budget Preparation 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 Sector for Budget Execution prepares the draft of the annual financial statement of the state budget, the draft of the annual financial statement of the 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 the 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 requested by the Minister.

The Public Debt and Cash Management Department register 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 of sources, maturity, currency and interest structure, prepares the proposals for the decisions on the issuance of the state guarantees, registers and keeps track on the loans issued by the state.

The Sector for System Improvement participates in the adjustment of the operating system to the information system of the State Treasury, is in charge of information system of the State Treasury, and provides support to the beneficiaries of the State Treasury system.

The Sector for Budget Oversight performs budget supervision activities for purpose of providing the utilization of budget resources according to the law and earmarked purposes.

The Department for International Financial Institutions and European Integration prepares legal regulations related to the foreign financial relations, performs the 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 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 services, goods and works, manages the system of financial monitoring of the implementation of the project and financial fund flows and also performs other tasks requested by the Minister.

The Department of Economy plans and monitors the collection of non-tax and capital revenues, monitors the implementation of economic programs, monitors and analyses 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 requested by the Minister.

The Financial System Department participates in the drafting of legal regulations in the areas of 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 requested by the Minister.





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 Internal Audit and Control Department performs permanent and comprehensive supervision of the operations of the Ministry of Finance and other tasks requested by the Minister.

The Independent Service for Second-Instance Administrative Procedure decides on the complaints of the Tax Department, Customs Department and country 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.

The Cabinet of the Minister of Finance performs protocol-related activities for the Minister, 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 the 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 regulations, 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 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 custom 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 requested by the Minister.

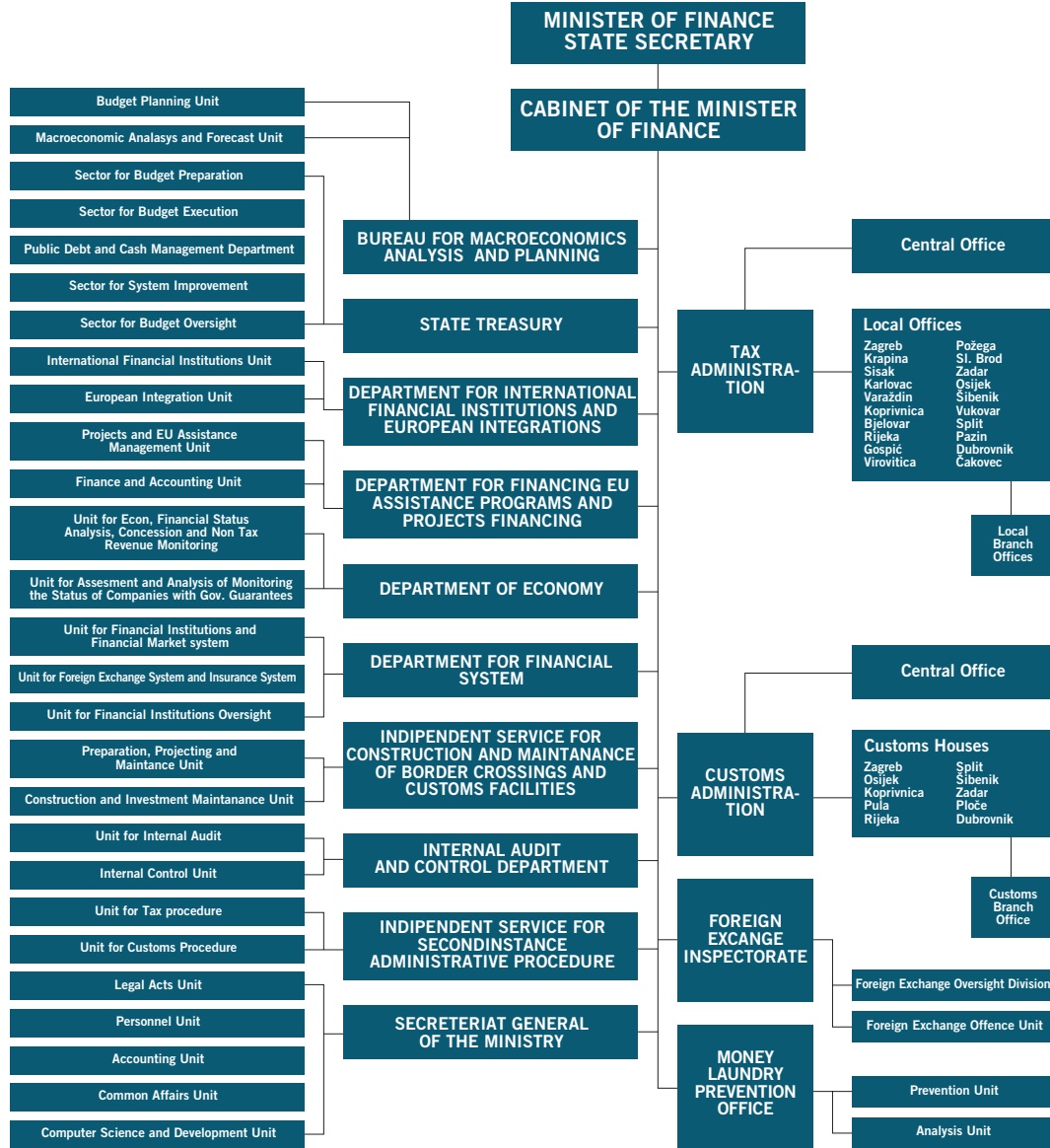
The Foreign Exchange Inspectorate performs inspection supervision and is in charge of first-instance offence procedure in the area of foreign exchange and foreign trade operations, as well as foreign credit operations and also other tasks requested by the Minister.

The Money Laundry Prevention Office collects, analyses, performs-analytical processing and stores transaction data prescribed by the Anti Money Laundry Act, performs direct supervision of those obliged to implement the Act, cooperates with the 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 by the Secretary General of the Ministry, the work of Bureaus and Departments is managed by the Assistant Ministers, the work of 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 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







Appendix 1: Basic Macroeconomic indicators of Croatian economy

	1999	2000	2001	2002	2003	2004
Growth rate of GDP (%)	-0.9	2.9	4.4	5.2	4.3	3.8
GDP, per capita (EUR)	4,102	4,560	4,998	5,451	5,747	6,220
Consumer prices, average (%)	4.0	4.6	3.8	1.7	1.8	2.1
Producers prices, average (%)	2.5	9.7	3.6	-0.4	1.9	3.5
Unemployed persons, end of period	341,730	378,544	395,141	366,162	318,684	317,577
Unemployment rate, end of period	20.4	22.6	23.1	21.5	19.1	18.5
Unemployment rate - ILO, average (%)	13.6	16.1	15.9	14.9	14.3	13.8
Average monthly gross wage, growth rate (%)	10.2	7.0	3.9	6.0	4.8	6.4
Average monthly gross wage, HRK	4,551	4,869	5,061	5,366	5,623	5,985
Average monthly net wage, growth rate (%)	13.9	8.9	6.5	5.0	5.9	5.9
Average monthly net wage, HRK	3,055	3,326	3,541	3,720	3,940	4,173
Total volume of industrial production, growth rate (%)	-1.4	1.7	6.0	5.4	4.1	3.7
Retail sales turnover, real growth rate (%)	-0.4	14.4	9.5	12.6	3.7	2.6
Total tourist bed-nights, growth rate (%)	-15.0	45.0	11.0	3.0	4.0	2.0
Total volume of construction projects, growth rate (%)	-7.7	-9.1	3.6	12.8	22.8	2.0
Exchange rate HRK/USD, average	7.11	8.28	8.34	7.86	6.70	6.04
Exchange rate HRK/USD, end of period	7.65	8.16	8.36	7.15	6.12	5.64
Exchange rate HRK/EUR, average	7.58	7.63	7.47	7.41	7.56	7.50
Exchange rate HRK/EUR, end of period	7.68	7.60	7.37	7.44	7.65	7.67
Trade balance (mill. USD)	-3,485	-3,455	-4,481	-5,818	-8,022	-8,565
Exports (mill. USD)	4,247	4,432	4,666	4,904	6,187	8,024
Imports (mill. USD)	7,732	7,887	9,147	10,722	14,209	16,589
Current account balance (mill. EUR)	-1,313	-490	-818	-2,097	-1,757	-1,258
Current account balance (% GDP)	-7.0	-2.5	-3.7	-8.7	-7.3	-5.2
Total outstanding external debt, end of period (mill. USD)	10,143	11,282	11,870	15,680	24,759	30,859
Total outstanding external debt, end of period (mill. EUR)	10,101	12,109	13,458	15,055	19,811	22,675
International reserves of CNB, end of period (mill. EUR)	3,013	3,783	5,334	5,651	6,554	6,436
Interest rates on treasury bills of 91 days maturity, end of period	11.50%	7.50%	4.00%	2.00%	4.00%	3.80%
ZIBOR (3 m), average	15.30%	11.10%	7.90%	4.60%	5.50%	7.35%

Source: CBS, CNB, Ministry of finance



Appendix 2: Budgetary central government revenue 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	69,651,075.3	74,677,473.7	107.2	80,463,518.2	107.7
11	Taxes	42,810,173.7	45,281,076.4	105.8	47,149,861.9	104.1
111	Taxes on income, profits, and capital gains	6,022,403.1	6,189,047.2	102.8	6,259,713.1	101.1
1111	Payable by individuals	3,363,295.1	3,114,580.8	92.6	3,128,273.0	100.4
1112	Payable by corporations and other enterprises	2,659,108.0	3,074,466.4	115.6	3,131,440.1	101.9
113	Taxes on property	294,555.6	289,926.0	98.4	355,823.3	122.7
1134	Taxes on financial and capital transactions	294,555.6	289,926.0	98.4	355,823.3	122.7
114	Taxes on goods and services	33,974,099.2	36,651,147.6	107.9	38,602,220.8	105.3
1141	General taxes on goods and services	26,089,212.5	28,260,009.3	108.3	30,013,661.2	106.2
11411	Value-added taxes	25,952,486.3	28,129,299.9	108.4	29,864,904.7	106.2
11412	Sales taxes	136,726.2	130,709.4	95.6	148,756.5	113.8
1142	Excises	7,474,168.1	7,850,993.1	105.0	7,941,553.7	101.2
1144	Taxes on specific services	39,624.4	7,903.3	19.9	26,216.5	331.7
1145	Taxes on use of goods, permission to use goods	126,558.7	182,348.1	144.1	226,812.5	124.4
11452	Other	126,558.7	182,348.1	144.1	226,812.5	124.4
1146	Other taxes on goods and services	244,535.5	349,893.8	143.1	393,976.9	112.6
115	Taxes on international trade and transactions	2,050,624.3	1,810,866.2	88.3	1,590,727.3	87.8
1151	Customs and other import duties	2,050,624.3	1,810,866.2	88.3	1,590,727.3	87.8
116	Other taxes	468,491.5	340,089.4	72.6	341,377.4	100.4
12	Social contributions	25,189,614.1	27,416,930.5	108.8	29,477,597.2	107.5
121	Social security contributions	25,189,614.1	27,416,930.5	108.8	29,477,597.2	107.5
1211	Employee contributions	0.0	12,334,662.0		13,139,274.1	106.5
1212	Employer contributions	1,605,081.6	14,323,245.2	892.4	15,737,707.0	109.9
1213	Self-employed or nonemployed contributions	455,559.6	759,023.3	166.6	600,616.1	79.1
1214	Unallocable contributions	23,128,972.9	0.0	-	0.0	-
13	Grants	0.0	10,406.5		10,121.5	97.3
131	From foreign governments	0.0	0.0	-	684.1	
1311	Current	0.0	0.0	-	571.0	
1312	Capital	0.0	0.0	-	113.1	
132	From international organizations	0.0	10,406.5		9,437.4	90.7
1321	Current	0.0	10,406.5		9,437.4	90.7
1322	Capital	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	-	0.0	-
14	Other revenue	1,651,287.5	1,969,060.3	119.2	3,825,937.6	194.3
141	Property income	622,899.7	417,485.5	67.0	2,667,701.0	639.0
1411	Interest	14,105.6	19,433.0	137.8	35,752.0	184.0
1412	Dividends	115,129.8	108,122.9	93.9	1,868,840.6	1,728.4
1413	Withdrawals from income of quasi-corporations	361,950.2	5.1	0.0	146,819.9	-
1414	Property income attrib. to insurance policyholders	0.0	0.0	-	0.0	-
1415	Rent	131,714.1	289,924.5	220.1	616,288.5	212.6
142	Sales of goods and services	625,218.7	749,462.7	119.9	676,950.9	90.3
1421	Sales of market establishments	0.0	0.0	-	0.0	-
1422	Administrative fees	257,485.7	305,448.1	118.6	312,994.2	102.5
1423	Incidental sales by nonmarket establishments	367,733.0	444,014.6	120.7	363,956.7	82.0
1424	Imputed sales of goods and services	0.0	0.0	-	0.0	-
143	Fines, penalties, and forfeits	333,802.6	307,167.5	92.0	342,370.6	111.5
144	Voluntary transfers other than grants	0.0	1,522.6		248.5	16.3
1441	Current	0.0	1,522.6		248.5	16.3
1442	Capital	0.0	0.0	-	0.0	-
145	Miscellaneous and unidentified revenue	69,366.5	493,422.0	711.3	138,666.6	28.1





Appendix 3: Budgetary central government expense 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
2	EXPENSE	70,397,350.9	77,075,487.4	109.5	83,131,114.4	107.9
21	Compensation of employees	19,534,161.7	21,225,816.1	108.7	22,268,286.7	104.9
211	Wages and salaries	16,677,053.8	18,037,101.2	108.2	18,888,605.2	104.7
212	Social contributions	2,857,107.9	3,188,714.9	111.6	3,379,681.5	106.0
2121	Actual social contributions	2,857,107.9	3,188,714.9	111.6	3,379,681.5	106.0
2122	Imputed social contributions	0.0	0.0		0.0	
22	Use of goods and services	4,391,924.0	4,170,610.6	95.0	4,358,720.5	104.5
23	Consumption of fixed capital	0.0	0.0		0.0	
24	Interest	3,263,574.2	3,587,328.9	109.9	3,972,466.3	110.7
241	To nonresidents	1,887,009.3	1,879,419.9	99.6	1,976,502.3	105.2
242	To residents other than general government	1,376,564.9	1,707,909.0	124.1	1,995,964.0	116.9
243	To other general government units	0.0	0.0		0.0	
25	Subsidies	2,104,974.5	4,292,712.4	203.9	4,968,068.5	115.7
251	To public corporations	657,422.2	1,942,931.7	295.5	2,783,462.4	143.3
252	To private enterprises	1,447,552.3	2,349,780.7	162.3	2,184,606.1	93.0
26	Grants	4,161,544.5	3,746,958.2	90.0	3,420,326.9	91.3
261	To foreign governments	66,004.3	43,918.0	66.5	76,464.4	174.1
2611	Current	66,004.3	43,918.0	66.5	46,500.0	105.9
2612	Capital	0.0	0.0		29,964.4	
262	To international organizations	38,682.7	41,239.1	106.6	83,433.8	202.3
2621	Current	38,682.7	41,239.1	106.6	83,433.8	202.3
2622	Capital	0.0	0.0		0.0	
263	To other general government units	4,056,857.5	3,661,801.1	90.3	3,260,428.7	89.0
2631	Current	3,956,782.1	3,198,504.5	80.8	2,498,597.5	78.1
2632	Capital	100,075.4	463,296.6	462.9	761,831.2	164.4
27	Social benefits	34,256,888.5	36,204,270.1	105.7	39,730,886.6	109.7
271	Social security benefits	17,950,808.8	28,917,771.5	161.1	28,189,471.6	97.5
272	Social assistance benefits	15,943,381.4	6,731,909.7	42.2	11,177,314.8	166.0
273	Employer social benefits	362,698.3	554,588.9	152.9	364,100.2	65.7
28	Other expense	2,684,283.5	3,847,791.1	143.3	4,412,358.9	114.7
281	Property expense other than interest	451.8	6,766.9	1,497.8	3,954.6	58.4
282	Miscellaneous other expense	2,683,831.7	3,841,024.2	143.1	4,408,404.3	114.8
2821	Current	1,331,109.2	2,325,646.4	174.7	1,842,516.4	79.2
2822	Capital	1,352,722.5	1,515,377.8	112.0	2,565,887.9	169.3



Appendix 4: Transactins in nonfinancial assets of the budgetary central government 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
31	Net acquisition of nonfinancial assets d/	1,377,002.9	1,812,403.6	131.6	1,419,466.9	78.3
311	Fixed assets	1,284,191.8	1,795,345.4	139.8	1,384,608.6	77.1
311,1	Acquisitions: fixed assets	1,499,188.5	2,019,172.2	134.7	1,624,050.5	80.4
311,2	Disposals: fixed assets	214,996.7	223,826.8	104.1	239,441.9	107.0
311,3	Consumption of fixed capital (CFC): fixed assets	0.0	0.0	-	0.0	-
3111	Buildings and structures	715,757.4	1,199,770.2	167.6	811,476.8	67.6
3111,1	Acquisitions: buildings and structures	929,636.7	1,423,367.0	153.1	1,050,314.9	73.8
3111,2	Disposals: buildings and structures	213,879.3	223,596.8	104.5	238,838.1	106.8
3111,3	CFC: buildings and structures	0.0	0.0	-	0.0	-
3112	Machinery and equipment	388,336.5	516,597.8	133.0	518,941.0	100.5
3112,1	Acquisitions: machinery and equipment	389,453.9	516,827.8	132.7	519,544.8	100.5
3112,2	Disposals: machinery and equipment	1,117.4	230.0	20.6	603.8	262.5
3112,3	CFC: machinery and equipment	0.0	0.0	-	0.0	-
3113	Other fixed assets	180,097.9	78,977.4	43.9	54,190.8	68.6
3113,1	Acquisitions: other fixed assets	180,097.9	78,977.4	43.9	54,190.8	68.6
3113,2	Disposals: other fixed assets	0.0	0.0	-	0.0	-
3113,3	CFC: other fixed assets	0.0	0.0	-	0.0	-
312	Inventories	7.2	0.0	-	0.0	-
313	Valuables	69,099.8	5,303.3	7.7	7,518.2	141.8
313,1	Acquisitions: valuables	69,099.8	5,303.3	7.7	7,518.2	141.8
313,2	Disposals: valuables	0.0	0.0	-	0.0	-
314	Nonproduced assets	23,704.1	11,754.9	49.6	27,340.1	232.6
314,1	Acquisitions: nonproduced assets	26,743.6	30,513.9	114.1	32,299.2	105.9
314,2	Disposals: nonproduced assets	3,039.5	18,759.0	617.2	4,959.1	26.4
3141	Land	-2,010.2	-18,361.1	-	7,062.3	-
3141,1	Acquisitions: land	1,029.3	397.9	38.7	12,021.4	3,021.2
3141,2	Disposals: land	3,039.5	18,759.0	617.2	4,959.1	26.4
3142	Subsoil assets	0.0	0.0	-	0.0	-
3142,1	Acquisitions: subsoil assets	0.0	0.0	-	0.0	-
3142,2	Disposals: subsoil assets	0.0	0.0	-	0.0	-
3143	Other naturally occurring assets	0.0	0.0	-	0.0	-
3143,1	Acquisitions: other naturally occurring assets	0.0	0.0	-	0.0	-
3143,2	Disposals: other naturally occurring assets	0.0	0.0	-	0.0	-
3144	Intangible nonproduced assets	25,714.3	30,116.0	117.1	20,277.8	67.3
3144,1	Acquisitions: intangible nonproduced assets	25,714.3	30,116.0	117.1	20,277.8	67.3
3144,2	Disposals: intangible nonproduced assets	0.0	0.0	-	0.0	-





Appendix 5: Transactions in financial assets of the budgetary central government 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
32	Net acquisition of financial assets	1,649,392.2	-1,320,128.6	-	221,977.3	-
321	Domestic	1,635,902.8	-1,330,054.7	-	212,191.5	-
3212	Currency and deposits	359,542.9	1,146,530.3	318.9	-1,114,263.8	-
3213	Securities other than shares	0.0	0.0	-	0.0	-
3213,1	Acquisitions: Securities other than shares	0.0	0.0	-	0.0	-
3213,2	Disposals: Securities other than shares	0.0	0.0	-	0.0	-
3214	Loans	689,541.9	393,362.8	57.0	1,002,955.3	255.0
3214,1	Acquisitions: Loans	1,014,320.7	1,576,177.4	155.4	1,328,793.9	84.3
3214,2	Disposals: Loans	324,778.8	1,182,814.6	364.2	325,838.6	27.5
3215	Shares and other equity	586,818.0	-2,869,947.8	-	323,500.0	-
3215,1	Acquisitions: Shares and other equity	586,818.0	485,020.0	82.7	448,500.0	92.5
3215,2	Disposals: Shares and other equity	0.0	3,354,967.8	-	125,000.0	3.7
3216	Insurance technical reserves	0.0	0.0	-	0.0	-
3216,1	Acquisitions: Insurance technical reserves	0.0	0.0	-	0.0	-
3216,2	Disposals: Insurance technical reserves	0.0	0.0	-	0.0	-
3217	Financial derivatives	0.0	0.0	-	0.0	-
3217,1	Acquisitions: Financial derivatives	0.0	0.0	-	0.0	-
3217,2	Disposals: Financial derivatives	0.0	0.0	-	0.0	-
3218	Other accounts receivable	0.0	0.0	-	0.0	-
3218,1	Acquisitions: Other accounts receivable	0.0	0.0	-	0.0	-
3218,2	Disposals: Other accounts receivable	0.0	0.0	-	0.0	-
322	Foreign	13,489.4	9,926.1	73.6	9,785.8	98.6
3222	Currency and deposits	0.0	0.0	-	0.0	-
3223	Securities other than shares	0.0	0.0	-	0.0	-
3223,1	Acquisitions: Securities other than shares	0.0	0.0	-	0.0	-
3223,2	Disposals: Securities other than shares	0.0	0.0	-	0.0	-
3224	Loans	0.0	0.0	-	0.0	-
3224,1	Acquisitions: Loans	0.0	0.0	-	0.0	-
3224,2	Disposals: Loans	0.0	0.0	-	0.0	-
3225	Shares and other equity	13,489.4	9,926.1	73.6	9,785.8	98.6
3225,1	Acquisitions: Shares and other equity	13,489.4	9,926.1	73.6	9,785.8	98.6
3225,2	Disposals: Shares and other equity	0.0	0.0	-	0.0	-
3226	Insurance technical reserves	0.0	0.0	-	0.0	-
3226,1	Acquisitions: Insurance technical reserves	0.0	0.0	-	0.0	-
3226,2	Disposals: Insurance technical reserves	0.0	0.0	-	0.0	-
3227	Financial derivatives	0.0	0.0	-	0.0	-
3227,1	Acquisitions: Financial derivatives	0.0	0.0	-	0.0	-
3227,2	Disposals: Financial derivatives	0.0	0.0	-	0.0	-
3228	Other accounts receivable	0.0	0.0	-	0.0	-
3228,1	Acquisitions: Other accounts receivable	0.0	0.0	-	0.0	-
3228,2	Disposals: Other accounts receivable	0.0	0.0	-	0.0	-
323	Monetary gold and SDRs	0.0	0.0	-	0.0	-



Appendix 6: Transactions in liabilities of the budgetary central government 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
33	Net incurrence of liabilities	3,772,670.7	2,890,288.7	76.6	4,309,040.4	149.1
33.1	Total repayments	6,240,866.3	6,520,770.5	104.5	13,717,081.5	210.4
33.2	Total incurrence	10,013,537.0	9,411,059.2	94.0	18,026,121.9	191.5
331	Domestic	1,424,916.2	-159,690.2	-	4,038,705.1	
331.1	Repayments	1,734,325.3	4,146,435.2	239.1	9,009,705.0	217.3
331.2	Incurrence	3,159,241.5	3,986,745.0	126.2	13,048,410.1	327.3
3312	Currency and deposits	0.0	0.0	-	0.0	-
3313	Securities other than shares	1,297,359.9	635,810.6	49.0	6,357,475.7	999.9
3313,1	Repayments: Securities other than shares	1,481,694.3	2,305,093.0	155.6	5,025,194.2	218.0
3313,2	Incurrences: Securities other than shares	2,779,054.2	2,940,903.6	105.8	11,382,669.9	387.0
3314	Loans	127,556.3	-795,500.8	-	-2,318,770.6	-
3314,1	Repayments: Loans	252,631.0	1,841,342.2	728.9	3,984,510.8	216.4
3314,2	Incurrences: Loans	380,187.3	1,045,841.4	275.1	1,665,740.2	159.3
3316	Insurance technical reserves	0.0	0.0	-	0.0	-
3316,1	Repayments: Insurance technical reserves	0.0	0.0	-	0.0	-
3316,2	Incurrences: Insurance technical reserves	0.0	0.0	-	0.0	-
3317	Financial derivatives	0.0	0.0	-	0.0	-
3317,1	Repayments: Financial derivatives	0.0	0.0	-	0.0	-
3317,2	Incurrences: Financial derivatives	0.0	0.0	-	0.0	-
3318	Other accounts payable	0.0	0.0	-	0.0	-
3318,1	Repayments: Other accounts payable	0.0	0.0	-	0.0	-
3318,2	Incurrences: Other accounts payable	0.0	0.0	-	0.0	-
332	Foreign	2,347,754.5	3,049,978.9	129.9	270,335.3	8.9
332.1	Repayments	4,506,541.0	2,374,335.3	52.7	4,707,376.5	198.3
332.2	Incurrence	6,854,295.5	5,424,314.2	79.1	4,977,711.8	91.8
3322	Currency and deposits	0.0	0.0	-	0.0	-
3323	Securities other than shares	3,024,357.8	4,051,109.1	133.9	1,215,439.1	30.0
3323,1	Repayments: Securities other than shares	2,579,181.0	0.0	-	2,526,875.9	
3323,2	Incurrences: Securities other than shares	5,603,538.8	4,051,109.1	72.3	3,742,315.0	92.4
3324	Loans	-676,603.3	-1,001,130.2	-	-945,103.8	-
3324,1	Repayments: Loans	1,927,360.0	2,374,335.3	123.2	2,180,500.6	91.8
3324,2	Incurrences: Loans	1,250,756.7	1,373,205.1	109.8	1,235,396.8	90.0
3326	Insurance technical reserves	0.0	0.0	-	0.0	-
3326,1	Repayments: Insurance technical reserves	0.0	0.0	-	0.0	-
3326,2	Incurrences: Insurance technical reserves	0.0	0.0	-	0.0	-
3327	Financial derivatives	0.0	0.0	-	0.0	-
3327,1	Repayments: Financial derivatives	0.0	0.0	-	0.0	-
3327,2	Incurrences: Financial derivatives	0.0	0.0	-	0.0	-
3328	Other accounts payable	0.0	0.0	-	0.0	-
3328,1	Repayments: Other accounts payable	0.0	0.0	-	0.0	-
3328,2	Incurrences: Other accounts payable	0.0	0.0	-	0.0	-





Appendix 7: Budgetary central government expense by function

	(000 HRK)	2002	2003	2004
7	Total expense	74,170,855.1	79,130,476.7	84,794,982.3
701	General public services	7,374,118.6	8,202,368.2	8,958,022.6
702	Defense	4,352,135.6	4,087,773.8	3,700,636.3
703	Public order and safety	4,790,499.3	5,176,019.6	5,488,422.3
704	Economic affairs	5,747,134.5	6,631,930.1	7,866,261.5
705	Environment protection	264,258.6	310,793.9	234,334.6
706	Housing and community amenity affairs	1,411,431.1	1,829,917.5	2,528,730.7
707	Health	10,703,957.9	11,609,418.9	12,719,750.1
708	Recreation, culture and religion	993,561.7	1,085,002.2	1,242,363.0
709	Education	6,314,708.8	6,806,802.9	7,244,729.9
710	Social protection	32,219,049.0	33,390,449.7	34,811,731.4



Appendix 8: Transactions of extrabudgetary funds and agencies 2002 - 2004

	(000 HRK)	2002*	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	8,537,638.0	8,604,825.0	100.8	7,830,258.0	91.0
11	Taxes	2,361,127.0	2,631,104.0	111.4	2,683,804.0	102.0
12	Social contributions	10,408.0	7,677.0	73.8	0.0	-
13	Grants	3,124,963.0	2,497,178.0	79.9	1,274,492.0	51.0
131	From foreign governments	290.0	1,434.0	494.5	0.0	-
132	From international organizations	0.0	0.0	-	0.0	-
133	From other general government units	3,124,673.0	2,495,744.0	79.9	1,274,492.0	51.1
1331	Current	2,901,511.0	2,256,669.0	77.8	926,267.0	41.0
1332	Capital	223,162.0	239,075.0	107.1	348,225.0	145.7
14	Other revenue	3,041,140.0	3,468,866.0	114.1	3,871,962.0	111.6
2	EXPENSE	8,175,408.0	6,135,543.0	75.0	5,084,815.0	82.9
21	Compensation of employees	753,945.0	842,647.0	111.8	997,437.0	118.4
211	Wages and salaries	649,414.0	725,796.0	111.8	862,263.0	118.8
212	Social contributions	104,531.0	116,851.0	111.8	135,174.0	115.7
22	Use of goods and services	2,510,074.0	2,132,441.0	85.0	1,969,020.0	92.3
24	Interest	382,702.0	368,637.0	96.4	371,214.0	100.7
241	To nonresidents	32,670.0	147,425.0	451.3	184,282.0	125.0
242	To residents other than general government	350,032.0	221,212.0	63.2	186,932.0	84.5
25	Subsidies	1,458,594.0	0.0	-	0.0	-
251	To public corporations	997,401.0	0.0	-	0.0	-
252	To private enterprises	461,193.0	0.0	-	0.0	-
26	Grants	235,659.0	0.0	-	4,542.0	-
263	To other general government units	235,659.0	0.0	-	4,542.0	-
2631	Current	12,430.0	0.0	-	0.0	-
2632	Capital	223,229.0	0.0	-	4,542.0	-
27	Social benefits	1,582,352.0	2,029,198.0	128.2	914,907.0	45.1
271	Social security benefits	1,582,352.0	2,015,288.0	127.4	911,499.0	45.2
272	Social assistance benefits	0.0	13,910.0	-	3,408.0	24.5
28	Other expense	1,252,206.0	762,620.0	60.9	827,695.0	108.5
3	CHANGE IN NET WORTH: TRANSACTION	362,230.0	2,469,282.0	681.7	2,745,443.0	112.5
31	Net acquisition of nonfinancial assets	4,752,419.0	6,183,610.0	130.1	6,953,996.0	112.5
31.1	Acquisition of nonfinancial assets	4,780,957.0	6,216,526.0	130.0	6,984,515.0	112.4
31.2	Disposal of nonfinancial assets	28,538.0	32,916.0	115.3	30,519.0	92.7
32	Net acquisition of financial assets	-1,135,061.0	409,057.0	-	-119,979.0	-
321	Domestic	-1,135,061.0	409,057.0	-	-119,979.0	-
322	Foreign	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	3,257,107.0	4,123,385.0	-	4,088,574.0	-
331	Domestic	653,684.0	1,160,730.0	-	142,589.0	-
332	Foreign	2,603,423.0	2,962,655.0	-	3,945,985.0	-

* Including Regional development fund and Development and employment fund



Appendix 9: Transactions of the Croatian pension fund 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	1,558,404.0	1,845,366.0	118.4	670,814.0	36.4
11	Taxes	0.0	0.0	-	0.0	-
12	Social contributions	10,408.0	772.0	7.4	0.0	-
13	Grants	1,448,330.0	1,741,865.0	120.3	540,922.0	31.1
131	From foreign governments	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	-	0.0	-
133	From other general government units	1,448,330.0	1,741,865.0	120.3	540,922.0	31.1
1331	Current	1,435,617.0	1,714,878.0	119.5	521,361.0	30.4
1332	Capital	12,713.0	26,987.0	212.3	19,561.0	72.5
14	Other revenue	99,666.0	102,729.0	103.1	129,892.0	126.4
2	EXPENSE	1,575,181.0	1,844,077.0	117.1	587,420.0	31.9
21	Compensation of employees	224,936.0	241,408.0	107.3	290,789.0	120.5
211	Wages and salaries	193,157.0	207,538.0	107.4	252,989.0	121.9
212	Social contributions	31,779.0	33,870.0	106.6	37,800.0	111.6
22	Use of goods and services	117,667.0	127,140.0	108.1	90,721.0	71.4
24	Interest	666.0	0.0	-	896.0	-
241	To nonresidents	0.0	0.0	-	0.0	-
242	To residents other than general government	666.0	0.0	-	896.0	-
25	Subsidies	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	-	0.0	-
27	Social benefits	1,212,069.0	1,472,945.0	121.5	205,014.0	13.9
271	Social security benefits	1,212,069.0	1,472,945.0	121.5	205,014.0	13.9
272	Social assistance benefits	0.0	0.0	-	0.0	-
28	Other expense	19,843.0	2,584.0	13.0	0.0	-
3	CHANGE IN NET WORTH: TRANSACTION	-16,777.0	1,289.0	-	83,394.0	6,469.7
31	Net acquisition of nonfinancial assets	11,698.0	21,937.0	187.5	18,022.0	82.2
31.1	Acquisition of nonfinancial assets	14,740.0	27,173.0	184.3	21,154.0	77.8
31.2	Disposal of nonfinancial assets	3,042.0	5,236.0	172.1	3,132.0	59.8
32	Net acquisition of financial assets	-28,475.0	-20,570.0	-	65,372.0	-
321	Domestic	-28,475.0	-20,570.0	-	65,372.0	-
322	Foreign	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	0.0	78.0	-	0.0	-
332	Foreign	0.0	0.0	-	0.0	-



Appendix 10: Transactions of the Croatian health institute 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	725,795.0	1,109,974.0	152.9	865,013.0	77.9
11	Taxes	0.0	0.0	-	0.0	-
12	Social contributions	0.0	6,905.0	-	0.0	-
13	Grants	258,298.0	287,791.0	111.4	201,874.0	70.1
131	From foreign governments	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	-	0.0	-
133	From other general government units	258,298.0	287,791.0	111.4	201,874.0	70.1
1331	Current	258,298.0	287,791.0	111.4	201,874.0	70.1
1332	Capital		0.0	-	0.0	-
14	Other revenue	467,497.0	815,278.0	174.4	663,139.0	81.3
2	EXPENSE	1,263,096.0	888,105.0	70.3	831,295.0	93.6
21	Compensation of employees	172,509.0	180,743.0	104.8	185,992.0	102.9
211	Wages and salaries	148,247.0	155,722.0	105.0	160,298.0	102.9
212	Social contributions	24,262.0	25,021.0	103.1	25,694.0	102.7
22	Use of goods and services	901,387.0	113,659.0	12.6	100,979.0	88.8
24	Interest	0.0	20,554.0	-	0.0	-
241	To nonresidents	0.0	0.0	-	0.0	-
242	To residents other than general government	0.0	20,554.0	-	0.0	-
25	Subsidies	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	-	0.0	-
27	Social benefits	189,184.0	490,368.0	259.2	544,324.0	111.0
271	Social security benefits	189,184.0	490,368.0	259.2	544,324.0	111.0
272	Social assistance benefits	0.0	0.0	-	0.0	-
28	Other expense	16.0	82,781.0	517,381.3	0.0	-
3	CHANGE IN NET WORTH: TRANSACTION	-537,301.0	221,869.0	-	33,718.0	15.2
31	Net acquisition of nonfinancial assets	16,093.0	27,272.0	169.5	30,291.0	111.1
31.1	Acquisition of nonfinancial assets	22,314.0	31,236.0	140.0	30,913.0	99.0
31.2	Disposal of nonfinancial assets	6,221.0	3,964.0	63.7	622.0	15.7
32	Net acquisition of financial assets	266,606.0	604,597.0	-	3,427.0	-
321	Domestic	266,606.0	604,597.0	-	3,427.0	-
322	Foreign	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	820,000.0	410,000.0	-	0.0	-
331	Domestic	820,000.0	410,000.0	-	0.0	-
332	Foreign	0.0	0.0	-	0.0	-





Appendix 11: Transactions of the Croatian employment service 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	134,756.0	89,573.0	66.5	111,674.0	124.7
11	Taxes	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	-	0.0	-
13	Grants	109,478.0	72,000.0	65.8	96,167.0	133.6
131	From foreign governments	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	-	0.0	-
133	From other general government units	109,478.0	72,000.0	65.8	96,167.0	133.6
1331	Current	99,728.0	72,000.0	72.2	96,167.0	133.6
1332	Capital	9,750.0	0.0	-	0.0	-
14	Other revenue	25,278.0	17,573.0	69.5	15,507.0	88.2
2	EXPENSE	239,458.0	140,387.0	58.6	141,333.0	100.7
21	Compensation of employees	87,228.0	91,633.0	105.0	101,411.0	110.7
211	Wages and salaries	75,048.0	78,711.0	104.9	87,690.0	111.4
212	Social contributions	12,180.0	12,922.0	106.1	13,721.0	106.2
22	Use of goods and services	34,999.0	34,844.0	99.6	36,512.0	104.8
24	Interest	0.0	0.0	-	2.0	-
241	To nonresidents	0.0	0.0	-	0.0	-
242	To residents other than general government	0.0	0.0	-	2.0	-
25	Subsidies	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	-	0.0	-
27	Social benefits	117,231.0	13,910.0	11.9	3,408.0	24.5
271	Social security benefits	0.0	0.0	-	0.0	-
272	Social assistance benefits	117,231.0	13,910.0	11.9	3,408.0	24.5
28	Other expense	0.0	0.0	-	0.0	-
3	CHANGE IN NET WORTH: TRANSACTION	-104,702.0	-50,814.0	-	-29,659.0	-
31	Net acquisition of nonfinancial assets	9,304.0	8,767.0	94.2	4,865.0	55.5
31.1	Acquisition of nonfinancial assets	9,412.0	9,061.0	96.3	4,915.0	54.2
31.2	Disposal of nonfinancial assets	108.0	294.0	272.2	50.0	17.0
32	Net acquisition of financial assets	-114,006.0	-59,581.0	-	-34,524.0	-
321	Domestic	-114,006.0	-59,581.0	-	-34,524.0	-
322	Foreign	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	0.0	0.0	-	0.0	-
331	Domestic	0.0	0.0	-	0.0	-
332	Foreign	0.0	0.0	-	0.0	-



Appendix 12: Transactions of Croatian waters 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	1,485,228.0	1,544,421.0	104.0	1,658,435.0	107.4
11	Taxes	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	-	0.0	-
13	Grants	386,936.0	395,522.0	102.2	434,004.0	109.7
131	From foreign governments	290.0	1,434.0	494.5	0.0	-
132	From international organizations	0.0	0.0	-	0.0	-
133	From other general government units	386,646.0	394,088.0	101.9	434,004.0	110.1
1331	Current	220,000.0	182,000.0	82.7	105,340.0	57.9
1332	Capital	166,646.0	212,088.0	127.3	328,664.0	155.0
14	Other revenue	1,098,292.0	1,148,899.0	104.6	1,224,431.0	106.6
2	EXPENSE	1,125,187.0	1,427,067.0	126.8	1,426,283.0	99.9
21	Compensation of employees	79,773.0	87,792.0	110.1	93,675.0	106.7
211	Wages and salaries	68,267.0	75,924.0	111.2	80,618.0	106.2
212	Social contributions	11,506.0	11,868.0	103.1	13,057.0	110.0
22	Use of goods and services	724,972.0	826,878.0	114.1	743,383.0	89.9
24	Interest	47,926.0	37,057.0	77.3	37,907.0	102.3
241	To nonresidents	19,735.0	28,015.0	142.0	10,812.0	38.6
242	To residents other than general government	28,191.0	9,042.0	32.1	27,095.0	299.7
25	Subsidies	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	-	0.0	-
27	Social benefits	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	-	0.0	-
28	Other expense	272,516.0	475,340.0	174.4	551,318.0	116.0
3	CHANGE IN NET WORTH: TRANSACTION	360,041.0	117,354.0	32.6	232,152.0	197.8
31	Net acquisition of nonfinancial assets	295,988.0	290,709.0	98.2	282,527.0	97.2
31.1	Acquisition of nonfinancial assets	296,218.0	291,043.0	98.3	282,797.0	97.2
31.2	Disposal of nonfinancial assets	230.0	334.0	145.2	270.0	80.8
32	Net acquisition of financial assets	44,316.0	-146,776.0	-	-11,385.0	-
321	Domestic	44,316.0	-146,776.0	-	-11,385.0	-
322	Foreign	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	-19,737.0	26,579.0	-	38,990.0	-
331	Domestic	-3,443.0	30,289.0	-	42,859.0	-
332	Foreign	-16,294.0	-3,710.0	-	-3,869.0	-





Appendix 13: Transactions of Environment protection fund in 2004

	(000 HRK)	2004
1	REVENUE	172,273.0
11	Taxes	0.0
12	Social contributions	0.0
13	Grants	1,525.0
131	From foreign governments	0.0
132	From international organizations	0.0
133	From other general government units	1,525.0
1331	Current	1,525.0
1332	Capital	0.0
14	Other revenue	170,748.0
2	EXPENSE	32,443.0
21	Compensation of employees	1,905.0
211	Wages and salaries	1,633.0
212	Social contributions	272.0
22	Use of goods and services	2,734.0
24	Interest	0.0
241	To nonresidents	0.0
242	To residents other than general government	0.0
25	Subsidies	0.0
251	To public corporations	0.0
252	To private enterprises	0.0
26	Grants	0.0
263	To other general government units	0.0
2631	Current	0.0
2632	Capital	0.0
27	Social benefits	0.0
271	Social security benefits	0.0
272	Social assistance benefits	0.0
28	Other expense	27,804.0
3	CHANGE IN NET WORTH: TRANSACTIONS	139,830.0
31	Net acquisition of nonfinancial assets	1,786.0
31.1	Acquisition of nonfinancial assets	1,786.0
31.2	Disposal of nonfinancial assets	0.0
32	Net acquisition of financial assets	138,044.0
321	Domestic	138,044.0
322	Foreign	0.0
33	Net incurrence of liabilities	0.0
331	Domestic	0.0
332	Foreign	0.0



Appendix 14: Transactions of Croatian motorways 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	1,695,972.0	1,927,787.0	113.7	2,295,423.0	119.1
11	Taxes	1,212,445.0	1,313,743.0	108.4	1,341,683.0	102.1
12	Social contributions	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	-	0.0	-
1331	Current	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	-	0.0	-
14	Other revenue	483,527.0	614,044.0	127.0	953,740.0	155.3
2	EXPENSE	343,256.0	692,490.0	201.7	756,796.0	109.3
21	Compensation of employees	117,445.0	162,982.0	138.8	236,353.0	145.0
211	Wages and salaries	102,594.0	140,867.0	137.3	203,955.0	144.8
212	Social contributions	14,851.0	22,115.0	148.9	32,398.0	146.5
22	Use of goods and services	200,296.0	406,858.0	203.1	258,509.0	63.5
24	Interest	25,515.0	122,650.0	480.7	191,132.0	155.8
241	To nonresidents	12,935.0	118,482.0	916.0	170,942.0	144.3
242	To residents other than general government	12,580.0	4,168.0	33.1	20,190.0	484.4
25	Subsidies	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	-	4,542.0	-
263	To other general government units	0.0	0.0	-	4,542.0	-
2631	Current	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	-	4,542.0	-
27	Social benefits	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	-	0.0	-
28	Other expense	0.0	0.0	-	66,260.0	-
3	CHANGE IN NET WORTH: TRANSACTION	1,352,716.0	1,235,297.0	91.3	1,538,627.0	124.6
31	Net acquisition of nonfinancial assets	3,676,519.0	5,113,679.0	139.1	5,778,694.0	113.0
31.1	Acquisition of nonfinancial assets	3,676,519.0	5,113,679.0	139.1	5,778,694.0	113.0
31.2	Disposal of nonfinancial assets	0.0	0.0	-	0.0	-
32	Net acquisition of financial assets	279,815.0	-412,302.0	-	-162,274.0	-
321	Domestic	279,815.0	-412,302.0	-	-162,274.0	-
322	Foreign	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	2,603,618.0	3,466,080.0	-	4,077,793.0	-
331	Domestic	0.0	530,000.0	-	379,709.0	-
332	Foreign	2,603,618.0	2,936,080.0	-	3,698,084.0	-





Appendix 15: Transactions of Croatian roads 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	1,208,654.0	1,379,782.0	114.2	1,417,787.0	102.8
11	Taxes	1,148,682.0	1,317,361.0	114.7	1,342,121.0	101.9
12	Social contributions	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	-	0.0	-
1331	Current			-	0.0	-
1332	Capital			-	0.0	-
14	Other revenue	59,972.0	62,421.0	104.1	75,666.0	121.2
2	EXPENSE	726,445.0	840,372.0	115.7	934,630.0	111.2
21	Compensation of employees	39,895.0	45,037.0	112.9	51,590.0	114.6
211	Wages and salaries	34,461.0	38,733.0	112.4	44,349.0	114.5
212	Social contributions	5,434.0	6,304.0	116.0	7,241.0	114.9
22	Use of goods and services	475,301.0	592,492.0	124.7	696,421.0	117.5
24	Interest	1,750.0	928.0	53.0	4,306.0	464.0
241	To nonresidents		928.0	-	2,528.0	272.4
242	To residents other than general government	1,750.0	0.0	-	1,778.0	-
25	Subsidies	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	-	0.0	-
27	Social benefits	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	-	0.0	-
28	Other expense	0.0	201,915.0	-	182,313.0	90.3
3	CHANGE IN NET WORTH: TRANSACTIONS	482,209.0	539,410.0	111.9	483,157.0	89.6
31	Net acquisition of nonfinancial assets	430,755.0	736,943.0	171.1	834,631.0	113.3
31.1	Acquisition of nonfinancial assets	432,218.0	738,092.0	170.8	835,907.0	113.3
31.2	Disposal of nonfinancial assets	1,463.0	1,149.0	78.5	1,276.0	111.1
32	Net acquisition of financial assets	2,233.0	-167,248.0	-	296.0	-
321	Domestic	2,233.0	-167,248.0	-	296.0	-
322	Foreign	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	-49,221.0	30,285.0	-	351,770.0	-
331	Domestic	-65,320.0	0.0	-	100,000.0	-
332	Foreign	16,099.0	30,285.0	-	251,770.0	-



Appendix 16: Transactions of State agency for banks 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	617,914.0	581,931.0	94.2	575,893.0	99.0
11	Taxes	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	-	0.0	-
1331	Current		0.0	-	0.0	-
1332	Capital		0.0	-	0.0	-
14	Other revenue	617,914.0	581,931.0	94.2	575,893.0	99.0
2	EXPENSE	301,665.0	251,360.0	83.3	314,474.0	125.1
21	Compensation of employees	3,932.0	4,110.0	104.5	4,678.0	113.8
211	Wages and salaries	3,355.0	3,507.0	104.5	4,010.0	114.3
212	Social contributions	577.0	603.0	104.5	668.0	110.8
22	Use of goods and services	28,046.0	7,915.0	28.2	10,664.0	134.7
24	Interest	205,819.0	187,360.0	91.0	136,971.0	73.1
241	To nonresidents	0.0	0.0	-	0.0	-
242	To residents other than general government	205,819.0	187,360.0	91.0	136,971.0	73.1
25	Subsidies	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	-	0.0	-
27	Social benefits	63,868.0	51,975.0	81.4	162,161.0	312.0
271	Social security benefits	63,868.0	51,975.0	81.4	162,161.0	312.0
272	Social assistance benefits	0.0	0.0	-	0.0	-
28	Other expense	0.0	0.0	-	0.0	-
3	CHANGE IN NET WORTH: TRANSACTIONS	316,249.0	330,571.0	104.5	261,419.0	79.1
31	Net acquisition of nonfinancial assets	17,824.0	-94.0	-	27,624.0	-
31.1	Acquisition of nonfinancial assets	17,824.0	2,464.0	13.8	27,624.0	1,121.1
31.2	Disposal of nonfinancial assets	0.0	2,558.0	-	0.0	-
32	Net acquisition of financial assets	298,425.0	330,665.0	-	-134,228.0	-
321	Domestic	298,425.0	330,665.0	-	-134,228.0	-
322	Foreign	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	0.0	0.0	-	-368,023.0	-
331	Domestic	0.0	0.0	-	-368,023.0	-
332	Foreign	0.0	0.0	-	0.0	-





Appendix 17: Transactions of the Croatian privatization fund 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	188,883.0	125,991.0	66.7	62,946.0	50.0
11	Taxes	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	-	0.0	-
1331	Current	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	-	0.0	-
14	Other revenue	188,883.0	125,991.0	66.7	62,946.0	50.0
2	EXPENSE	120,195.0	51,685.0	43.0	60,141.0	116.4
21	Compensation of employees	27,676.0	28,942.0	104.6	31,044.0	107.3
211	Wages and salaries	23,812.0	24,794.0	104.1	26,721.0	107.8
212	Social contributions	3,864.0	4,148.0	107.3	4,323.0	104.2
22	Use of goods and services	18,327.0	22,655.0	123.6	29,097.0	128.4
24	Interest	73,902.0	88.0	0.1	0.0	-
241	To nonresidents	0.0	0.0	-	0.0	-
242	To residents other than general government	73,902.0	88.0	0.1	0.0	-
25	Subsidies	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	-	0.0	-
27	Social benefits	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	-	0.0	-
28	Other expense	290.0	0.0	-	0.0	-
3	CHANGE IN NET WORTH: TRANSACTIONS	68,688.0	74,306.0	108.2	2,805.0	3.8
31	Net acquisition of nonfinancial assets	-14,502.0	-15,603.0	-	-24,444.0	-
31.1	Acquisition of nonfinancial assets	2,972.0	3,778.0	127.1	725.0	19.2
31.2	Disposal of nonfinancial assets	17,474.0	19,381.0	110.9	25,169.0	129.9
32	Net acquisition of financial assets	-14,363.0	280,272.0	-	15,293.0	-
321	Domestic	-14,363.0	280,272.0	-	15,293.0	-
322	Foreign	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	-97,553.0	190,363.0	-	-11,956.0	-
331	Domestic	-97,553.0	190,363.0	-	-11,956.0	-
332	Foreign	0.0	0.0	-	0.0	-



Appendix 18: Consolidated central government 2002-2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	75,064,040.3	80,786,554.7	107.6	87,019,284.2	107.7
11	Taxes	45,171,300.7	47,912,180.4	106.1	49,833,665.9	104.0
111	Taxes on income, profits, and capital gains	6,022,403.1	6,189,047.2	102.8	6,259,713.1	101.1
1111	Payable by individuals	3,363,295.1	3,114,580.8	92.6	3,128,273.0	100.4
1112	Payable by corporations and other enterprises	2,659,108.0	3,074,466.4	115.6	3,131,440.1	101.9
113	Taxes on property	294,555.6	289,926.0	98.4	355,823.3	122.7
1134	Taxes on financial and capital transactions	294,555.6	289,926.0	98.4	355,823.3	122.7
114	Taxes on goods and services	36,335,226.2	39,282,251.6	108.1	41,286,024.8	105.1
1141	General taxes on goods and services	26,089,212.5	28,260,009.3	108.3	30,013,661.2	106.2
11411	Value-added taxes	25,952,486.3	28,129,299.9	108.4	29,864,904.7	106.2
11412	Sales taxes	136,726.2	130,709.4	95.6	148,756.5	113.8
1142	Excises	9,835,295.1	10,482,097.1	106.6	10,625,357.7	101.4
115	Taxes on international trade and transactions	2,050,624.3	1,810,866.2	88.3	1,590,727.3	87.8
116	Other taxes	468,491.5	340,089.4	72.6	341,377.4	100.4
12	Social contributions	25,200,022.1	27,424,607.5	108.8	29,477,597.2	107.5
13	Grants	290.0	11,840.5	4,082.9	10,121.5	85.5
14	Other revenue	4,692,427.5	5,437,926.3	115.9	7,697,899.6	141.6
2	EXPENSE	75,448,085.9	80,715,286.4	107.7	86,941,437.4	107.7
21	Compensation of employees	20,288,106.7	22,068,463.1	108.8	23,265,723.7	105.4
211	Wages and salaries	17,326,467.8	18,762,897.2	108.3	19,750,868.2	105.3
212	Social contributions	2,961,638.9	3,305,565.9	111.6	3,514,855.5	106.3
22	Use of goods and services	6,870,170.0	6,291,713.6	91.6	6,327,740.5	100.6
24	Interest	3,646,276.2	3,955,965.9	108.5	4,343,680.3	109.8
241	To nonresidents	1,919,679.3	2,026,844.9	105.6	2,160,784.3	106.6
242	To residents other than general government	1,726,596.9	1,929,121.0	111.7	2,182,896.0	113.2
25	Subsidies	3,563,568.5	4,292,712.4	120.5	4,968,068.5	115.7
251	To public corporations	1,654,823.2	1,942,931.7	117.4	2,783,462.4	143.3
252	To private enterprises	1,908,745.3	2,349,780.7	123.1	2,184,606.1	93.0
26	Grants	1,659,176.5	1,737,217.2	104.7	2,162,992.9	124.5
261	To foreign governments	66,004.3	43,918.0	66.5	76,464.4	174.1
262	To international organizations	38,682.7	41,239.1	106.6	83,433.8	202.3
263	To other general government units	1,554,489.5	1,652,060.1	106.3	2,003,094.7	121.2
27	Social benefits	35,839,240.5	37,939,553.1	105.9	40,645,793.6	107.1
271	Social security benefits	19,533,160.8	30,639,144.5	156.9	29,100,970.6	95.0
272	Social assistance benefits	15,943,381.4	6,745,819.7	42.3	11,180,722.8	165.7
273	Employer social benefits	362,698.3	554,588.9	152.9	364,100.2	65.7
28	Other expense	3,581,671.5	4,429,661.1	123.7	5,227,437.9	118.0
281	Property expense other than interest	451.8	6,766.9	1,497.8	3,954.6	58.4
282	Miscellaneous other expense	3,581,219.7	3,660,274.2	102.2	5,223,483.3	142.7
2821	Current	1,626,258.2	2,310,437.4	142.1	1,870,320.4	81.0
2822	Capital	1,954,961.5	1,349,836.8	69.0	3,353,162.9	248.4
3	CHANGE IN NET WORTH: TRANSACTIONS	-384,045.6	71,268.3	-	77,846.8	109.2
31	Net acquisition of nonfinancial assets	6,129,421.9	7,996,013.6	130.5	8,373,462.9	104.7
311	Fixed assets	5,898,126.8	7,867,051.4	133.4	8,158,063.6	103.7
312	Inventories	7.2	0.0	-	0.0	-
313	Valuables	70,399.8	5,303.3	7.5	7,518.2	141.8
314	Nonproduced assets	160,888.1	123,658.9	76.9	207,881.1	168.1
32	Net acquisition of financial assets	516,310.2	-963,227.6	-	28,384.3	-
321	Domestic	500,820.8	-973,153.7	-	18,598.5	-
322	Foreign	13,489.4	9,926.1	-	9,785.8	-
33	Net incurrence of liabilities	7,029,777.7	6,961,517.7	-	8,324,000.4	-
331	Securities other than shares	2,078,600.2	948,883.8	-	4,107,680.1	-
332	Incurrences: Securities other than shares	4,951,177.5	6,012,633.9	-	4,216,320.3	-



Appendix 19: Local governments (53 units, 32 cities, counties and the city of Zagreb) 2002 - 2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	9,097,563.2	10,074,567.5	110.7	10,828,868.4	107.5
11	Taxes	5,494,335.2	5,922,472.9	107.8	6,592,062.2	111.3
111	Taxes on income, profits, and capital gains	4,918,394.0	5,327,376.0	108.3	5,900,998.9	110.8
1111	Payable by individuals	3,863,376.9	4,083,336.2	105.7	4,636,341.8	113.5
1112	Payable by corporations and other enterprises	1,055,017.1	1,244,039.8	117.9	1,264,657.1	101.7
113	Taxes on property	329,418.2	315,914.0	95.9	375,089.5	118.7
114	Taxes on goods and services	228,361.4	264,917.2	116.0	301,941.4	114.0
1141	General taxes on goods and services	38,714.8	42,806.3	110.6	43,613.3	101.9
11411	Value-added taxes	0.0	0.0	-	0.0	-
11412	Sales taxes	38,714.8	42,806.3	110.6	43,613.3	101.9
1142	Excises	0.0	0.0	-	0.0	-
115	Taxes on international trade and transactions	0.0	0.0	-	0.0	-
116	Other taxes	18,161.6	14,265.7	78.5	14,032.4	98.4
12	Social contributions	0.0	0.0	-	0.0	-
13	Grants	1,266,768.1	1,546,815.0	122.1	1,425,055.7	92.1
14	Other revenue	2,336,459.9	2,605,279.6	111.5	2,811,750.5	107.9
2	EXPENSE	7,136,352.6	8,127,197.7	113.9	8,766,249.2	107.9
21	Compensation of employees	1,893,839.3	1,996,994.2	105.4	2,239,472.3	112.1
211	Wages and salaries	1,639,774.9	1,732,909.5	105.7	1,972,800.2	113.8
212	Social contributions	254,064.4	264,084.7	103.9	266,672.1	101.0
22	Use of goods and services	2,902,398.5	3,202,470.5	110.3	3,351,575.2	104.7
24	Interest	115,048.8	83,216.2	72.3	79,558.6	95.6
241	To nonresidents	8,007.1	44,655.5	557.7	41,105.5	92.1
242	To residents other than general government	107,041.7	38,560.7	36.0	38,453.1	99.7
25	Subsidies	582,495.1	623,122.6	107.0	726,356.3	116.6
251	To public corporations	534,269.5	570,717.9	106.8	637,156.2	111.6
252	To private enterprises	48,225.6	52,404.7	108.7	89,200.1	170.2
26	Grants	142,180.6	366,701.1	257.9	267,077.0	72.8
261	To foreign governments	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	-	0.0	-
263	To other general government units	142,180.6	366,701.1	257.9	267,077.0	72.8
27	Social benefits	289,768.0	314,946.5	108.7	376,014.0	119.4
271	Social security benefits	0.0	0.0	-	0.0	-
272	Social assistance benefits	282,929.0	310,386.5	109.7	371,699.7	119.8
273	Employer social benefits	6,839.0	4,560.0	66.7	4,314.3	94.6
28	Other expense	1,210,622.3	1,539,746.6	127.2	1,726,195.8	112.1
281	Property expense other than interest	0.0	0.0	-	0.0	-
282	Miscellaneous other expense	1,210,622.3	1,539,746.6	127.2	1,726,195.8	112.1
2821	Current	938,099.3	1,260,826.0	134.4	1,274,170.8	101.1
2822	Capital	272,523.0	278,920.6	102.3	452,025.0	162.1
3	CHANGE IN NET WORTH: TRANSACTIONS	1,961,210.6	1,947,369.8	99.3	2,062,619.2	105.9
31	Net acquisition of nonfinancial assets	1,135,933.1	1,668,400.3	146.9	2,121,355.0	127.1
311	Fixed assets	1,173,198.0	1,675,953.4	142.9	2,213,163.1	132.1
312	Inventories	0.0	0.0	-	0.0	-
313	Valuables	1,553.4	1,581.3	101.8	164.3	10.4
314	Nonproduced assets	-38,818.3	-9,134.4	-	-91,972.4	-
32	Net acquisition of financial assets	785,185.5	197,223.8	-	76,344.6	-
321	Domestic	786,827.7	203,921.8	-	78,038.8	-
322	Foreign	-1,642.2	-6,698.0	-	-1,694.2	-
33	Net incurrence of liabilities	-40,092.0	-81,745.7	-	135,080.4	-
331	Domestic	-26,851.1	7,415.1	-	232,026.2	-
332	Foreign	-13,240.9	-89,160.8	-	-96,945.8	-



Appendix 20: Consolidated general government 2002-2004

	(000 HRK)	2002	2003	Index 2003/2002	2004	Index 2004/2003
1	REVENUE	82,895,735.6	89,314,500.8	107.7	96,426,967.1	108.0
11	Taxes	50,665,636.0	53,834,653.3	106.3	56,425,728.1	104.8
111	Taxes on income, profits, and capital gains	10,940,797.1	11,516,423.2	105.3	12,160,712.0	105.6
1111	Payable by individuals	7,226,672.0	7,197,917.0	99.6	7,764,614.8	107.9
1112	Payable by corporations and other enterprises	3,714,125.1	4,318,506.2	116.3	4,396,097.2	101.8
113	Taxes on property	623,973.9	605,840.0	97.1	730,912.8	120.6
114	Taxes on goods and services	36,563,587.6	39,547,168.8	108.2	41,587,966.2	105.2
1141	General taxes on goods and services	26,127,927.3	28,302,815.6	108.3	30,057,274.5	106.2
11411	Value-added taxes	25,952,486.3	28,129,299.9	108.4	29,864,904.7	106.2
11412	Sales taxes	175,441.0	173,515.7	98.9	192,369.8	110.9
1142	Excises	9,835,295.1	10,482,097.1	106.6	10,625,357.7	101.4
115	Taxes on international trade and transactions	2,050,624.3	1,810,866.2	88.3	1,590,727.3	87.8
116	Other taxes	486,653.1	354,355.1	72.8	355,409.8	100.3
12	Social contributions	25,200,022.1	27,424,607.5	108.8	29,477,597.2	107.5
13	Grants 1,190,2	12,034.1	1,011.1	13,991.7	116.3	
14	Other revenue	7,028,887.3	8,043,205.9	114.4	10,509,650.1	130.7
2	EXPENSE	81,318,570.6	87,295,862.7	107.4	94,286,501.1	108.0
21	Compensation of employees	22,181,946.0	24,065,457.3	108.5	25,505,196.0	106.0
211	Wages and salaries	18,966,242.7	20,495,806.7	108.1	21,723,668.4	106.0
212	Social contributions	3,215,703.3	3,569,650.6	111.0	3,781,527.6	105.9
22	Use of goods and services	9,772,568.5	9,494,184.1	97.2	9,679,315.7	101.9
24	Interest	3,761,201.0	4,039,182.1	107.4	4,423,238.9	109.5
241	To nonresidents	1,927,686.4	2,071,500.4	107.5	2,201,889.8	106.3
242	To residents other than general government	1,833,514.6	1,967,681.7	107.3	2,221,349.1	112.9
25	Subsidies	4,146,063.6	4,915,835.0	118.6	5,694,424.8	115.8
251	To public corporations	2,189,092.7	2,513,649.6	114.8	3,420,618.6	136.1
252	To private enterprises	1,956,970.9	2,402,185.4	122.8	2,273,806.2	94.7
26	Grants	535,489.2	557,296.9	104.1	1,008,884.4	181.0
261	To foreign governments	66,004.3	43,918.0	66.5	76,464.4	174.1
262	To international organizations	38,682.7	41,239.1	106.6	83,433.8	202.3
263	To other general government units	430,802.2	472,139.8	109.6	848,986.2	179.8
27	Social benefits	36,129,008.5	38,254,499.6	105.9	41,021,807.6	107.2
271	Social security benefits	19,534,517.5	30,639,144.5	156.8	29,100,970.6	95.0
272	Social assistance benefits	16,224,953.7	7,056,206.2	43.5	11,552,422.5	163.7
273	Employer social benefits	369,537.3	559,148.9	151.3	368,414.5	65.9
28	Other expense	4,792,293.8	5,969,407.7	124.6	6,953,633.7	116.5
281	Property expense other than interest	451.8	6,766.9	1,497.8	3,954.6	58.4
282	Miscellaneous other expense	4,791,842.0	5,200,020.8	108.5	6,949,679.1	133.6
2821	Current	2,564,357.5	3,571,263.4	139.3	3,144,491.2	88.0
2822	Capital	2,227,484.5	1,628,757.4	73.1	3,805,187.9	233.6
3	CHANGE IN NET WORTH: TRANSACTIONS	1,577,165.0	2,018,638.1	128.0	2,140,466.0	106.0
31	Net acquisition of nonfinancial assets	7,265,355.0	9,664,413.9	133.0	10,494,817.9	108.6
311	Fixed assets	7,071,324.8	9,543,004.8	135.0	10,371,226.7	108.7
312	Inventories	7.2	0.0	-	0.0	-
313	Valuables	71,953.2	6,884.6	9.6	7,682.5	111.6
314	Nonproduced assets	122,069.8	114,524.5	93.8	115,908.7	101.2
32	Net acquisition of financial assets	1,301,495.7	-767,908.2	-	104,241.8	-
321	Domestic	1,289,648.5	-771,136.3	-	96,150.2	-
322	Foreign	11,847.2	3,228.1	-	8,091.6	-
33	Net incurrence of liabilities	6,989,685.7	6,877,867.6	-	8,458,593.7	-
331	Domestic	2,051,749.1	954,394.5	-	4,339,219.2	-
332	Foreign	4,937,936.6	5,923,473.1	-	4,119,374.5	-





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