



REPUBLIC OF CROATIA

MINISTRY OF FINANCE

**ANNUAL REPORT
OF THE MINISTRY OF FINANCE
FOR 2005**

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A WORD FROM THE MINISTER OF FINANCE

The Government of the Republic of Croatia, within its economic agenda, has been focused on achieving two strategic goals: maintaining macroeconomic stability by reducing the existent macroeconomic risks and fostering sustainable economic growth in order to ensure better standard of living to Croatian citizens. It is obvious that, when taking into account specific conditions of the Croatian economy, fiscal policy represents the most important component of the overall economic policy. Already in 2004 the Republic of Croatia has witnessed a significant change in conducting its fiscal policy by defining the key guidelines for the implementation of fiscal adjustment and strengthening budget management together with achieving more transparency of the system, which has also marked the year 2005.

Therefore, in 2005 we have continued with the implementation of fiscal consolidation. Over the past two years the fiscal deficit was reduced from 6.2% of GDP in 2003 to 4.1% of GDP in 2005, or by 2.1 percentage points. Achieved results of the fiscal policy, measured by the level of fiscal deficit, are the consequence of the increased revenue outturn as well as the control and more efficient spending of the budgetary funds. Namely, due to the increased economic activity in the country and more efficacious collection of tax revenues, total revenue of the general government in 2005 recorded an annual increase of 7%. On the other hand, control of the quasi-fiscal operations, establishment of the internal audit units within the budgetary users and strengthening the control of the expense side of the budget in general, have contributed to the decrease of the share of total expense of the general government in GDP to under 50%, more precisely from 50.3% in 2004 to 48.7% in 2005. By directing all our efforts to resolve the issue of excessive deficit and consolidate public finance, we have shown that the government can positively contribute to the stability in the economy. By this I primarily mean fostering economic growth which amounted to 4.3% in 2005 as well as slowing down the external debt by government financing on the domestic market. This policy, which follows European trends of fiscal deficit reduction, has set the basis for fulfilling the Maastricht criterion related to fiscal deficit of 3% of GDP in 2006.

In the context of the accession of the Republic of Croatia to the European Union, it is necessary to remind ourselves of the importance of the year 2005. Namely, in October 2005 the negotiations for the accession to the European Union were formally opened. This was followed by the analytical overview and evaluation of the degree of harmonisation of national legislation with the *acquis communautaire* which lasted one year. Furthermore, in 2005 Croatia prepared its second Pre-accession Economic Programme for the period 2006-2008 which was assessed by the European Commission as a comprehensive economic policy document, outlining a sound and coherent medium-term macroeconomic framework, appropriate to tackle macroeconomic imbalances under the specific Croatian circumstances. This was a confirmation of Croatian economic policy and the course of the fiscal policy, primarily the strong fiscal consolidation and reduction of fiscal deficit.

With an objective of introducing our work and our achievements in the area of fiscal policy to the public, we have prepared the Annual Report for 2005. Taking into account the wide spectrum of areas dealt by the Ministry of Finance, we have decided this year to widen the coverage of the Annual Report by including the progress achieved in the area of financial system, customs, tax administration, financial police, money laundering prevention and foreign exchange inspection.

Finally, I would like to thank all my associates and employees of the Ministry of Finance for their devoted work during the last year. The product of our joint work is presented in this Annual Report which, I hope, our distinguished readers will find useful and interesting.

Ivan Šuker

Minister of Finance

Zagreb, October 2006

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MACROECONOMIC DEVELOPMENTS IN 2005



1.1 INTERNATIONAL ENVIRONMENT

The estimated growth of world output amounted to 4.9% in year 2005. In spite of deceleration compared to year 2004 when it amounted to 5.3%, the realized growth can be regarded as rather strong in the context of continued oil prices growth and restricted monetary policy trend. The growth of world trade was also high and it amounted to 7.4% in year 2005. Following the modest growth in the first half of 2005 when European Union and Eurozone quarterly growth of gross domestic product amounted to 0.4%, during the third quarter acceleration of economic activity was recorded. Such realization was to the large extent result of strengthening of two largest economies in the Eurozone, Germany and France. During the fourth quarter European Union economies were supported by favorable economic conditions which mainly concern the strong growth of world economy and trade, continued strengthening of competitiveness measured by real effective exchange rate, deceleration of oil prices growth and supportive macroeconomic policies. In such conditions quarterly real gross domestic product growth of 0.3% in the last quarter of 2005 was slightly negative surprise, but in the same time growth of previous quarters was revised upwards which resulted in annual gross domestic product growth of 1.3% in the Eurozone and 1.8% in the European Union in year 2005.

Table 1.1: International Environment - Macroeconomic Indicators

	2004	2005	2006p	2007p
Real growth of gross domestic product				
World	5.3	4.9	5.1	4.9
European Union	2.4	1.8	2.8	2.4
Italy	1.1	0.0	1.5	1.3
Germany	1.2	0.9	2.0	1.3
Slovenia	4.2	3.9	4.2	4.0
Eurozone	2.1	1.3	2.4	2.0
Consumer price index, annual change				
European Union	2.1	2.2	2.3	2.4
Eurozone	2.1	2.2	2.3	2.4
Oil prices growth, US dollars	30.7	41.3	29.7	9.1

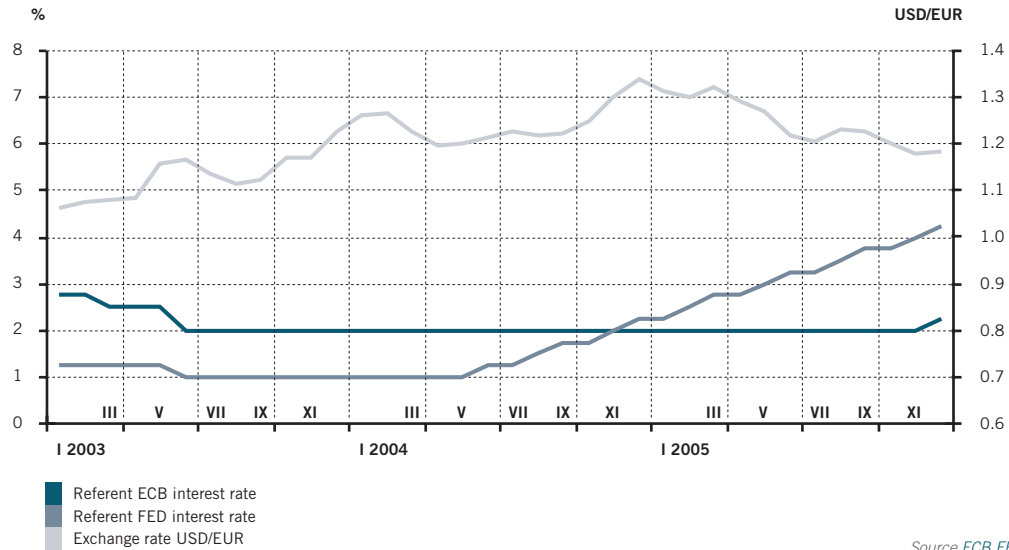
Source: International Monetary Fund: "World Economic Outlook, September 2006"

Real gross domestic product growth in Germany wasn't steady during the course of year 2005. The significant growth of 0.6% in the first and third quarter was accompanied by modest growth in second and fourth quarter. In the last three months, the negative contribution to growth of domestic and external demand was compensated by increase of inventories. After the slight recovery in year 2004, real gross domestic product in Italy stagnated again in year 2005 like it did in years 2002 and 2003. The contribution of domestic demand was slightly positive only due to increase in government consumption. Concerning the international sector, net exports had negative impact on real gross domestic product growth. Slovenian economy recorded real gross domestic product growth of around 3.9% in year 2005. The main determinants of economic growth in year 2005 were continued growth of exports, decrease of inventories and growth of personal consumption supported by increase in employment and favorable borrowing conditions.

The prices of raw materials increased significantly in year 2005 which was mainly the result of increase in oil prices and other energy products. Concerning the oil prices, prices of Brent oil type increased by 41.3% in year 2005. High and fluctuating growth of oil prices was result of high demand on one and disruptions of supply on the other side. Concerning the influence of geopolitical factors on oil prices, the higher levels of oil prices can be expected in forthcoming medium run period. The American FED continued its policy of increasing interest rates which increased from 2.25% at the end of 2004 to 4.25% at the end of year 2005. European Central Bank also increased interest rates to the level of 2.25% at the end of 2005.



Figure 1.1.: Interest Rates and Dollar versus Euro Exchange Rate



Source ECB, FED

The International Monetary Fund projections indicate further growth of world economies in forthcoming period. After the growth of 4.9% in year 2005, slight acceleration to 5.1% in year 2006 is expected. Concerning the positive perspective of economic activity and trade growth in the rest of the world, in 2006 acceleration of economic growth to 2.8% in European Union and to 2.4% in Eurozone is expected. Acceleration of GDP growth will be result of domestic demand increase but also the result of higher contribution of external sector. The projections of European Commission indicate acceleration of economic growth in Italy, Germany, and Slovenia in year 2006 which is of significance for Croatia concerning the relevance of these markets for Croatian merchandise exports but also their relevance as countries from which high share of tourist come to Croatia.



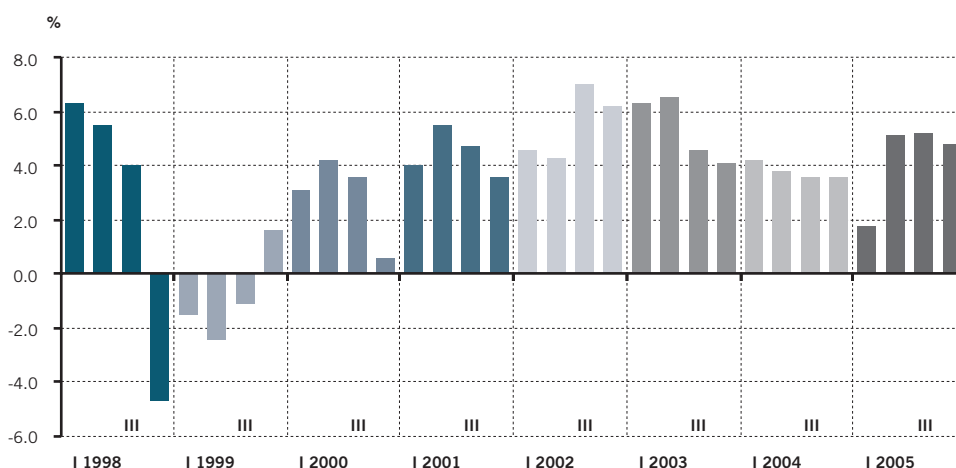
1.2 REAL SECTOR

The basic characteristic of Croatian economy in year 2005 was acceleration of economic activity which is corroborated by faster real gross domestic product growth when compared to year 2004. The highest contribution to gross domestic product growth came from personal consumption and exports of goods and services from expenditure side and industrial production from production side. Tourist season recorded excellent results and during the year there were 51 million of tourist nights recorded. Inflation slightly accelerated which was to the high extent determined by growth of oil prices in the world markets. Accelerated economic activity was accompanied by positive developments in the labour market. Administrative unemployment indicated continued decrease of unemployed persons on annual level in all months of the second half of year 2005 while labour survey unemployment declined to the lowest level in last six years.

1.2.1 Gross Domestic Product

Real growth of gross domestic product amounted, according to the estimations of Central Bureau of Statistics, in year 2005 to 4.3% which represents acceleration of 0.5 percentage points when compared to previous year. This outturn was a result of low growth in first and high growth in remaining quarters of year 2005. Namely, gross domestic product increased on the annual level in the first quarter by 1.8%, accelerated to 5.1% in second and 5.2% in third while in the fourth quarter grew by 4.8%.

Figure 1.2.: Real Growth of Gross Domestic Product by Quarters

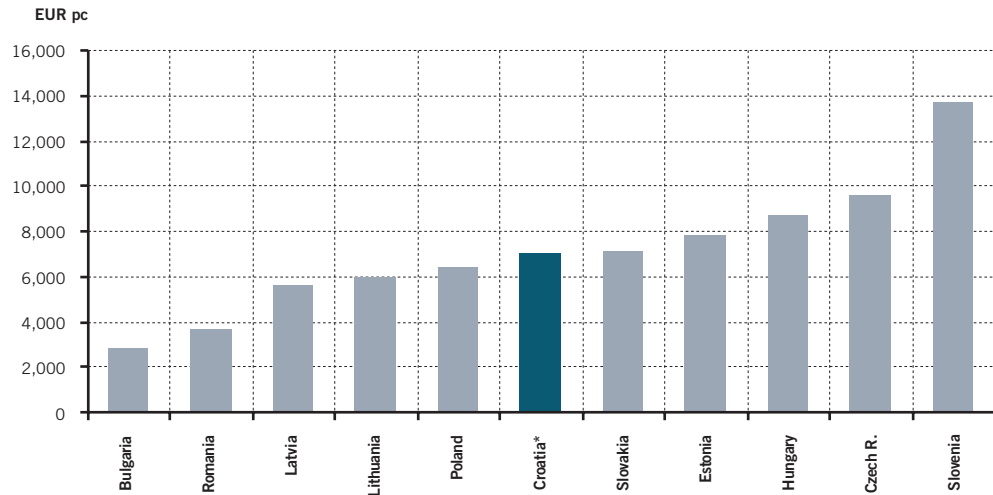


Source: CBS

It should be mentioned that final data adjusted to the annual account for year 2002 and 2003 were published. Compared to the estimated data, gross domestic product in current prices increased by HRK 1.8 billion in year 2002 and HRK 5.4 billion in year 2003. The nominal change was a result of revised real growth rate from 5.2% to 5.6% in year 2002 and from 4.3% to 5.3% in year 2003, but also the result of deflator revision. The stated revisions also resulted in increase of originally published nominal gross domestic product in year 2004 from HRK 207.082 billion to HRK 212.826 billion. When gross domestic product per capita is observed, it can be seen that it increased from EUR 6.4 thousands in 2004 to almost EUR 7 thousands in year 2005. When comparing the level of gross domestic product of Croatia with new European Union member states it should be taken into consideration that data are not fully aligned with European system of integrated economic accounts. The full alignment will result in inclusion of nonofficial economy in gross domestic product but also some changes in accounting of dwelling services and financial services indirectly measured which will result in increase of gross domestic product level.



Figure 1.3.: Nominal Gross Domestic Product per capita in Euros in Year 2005



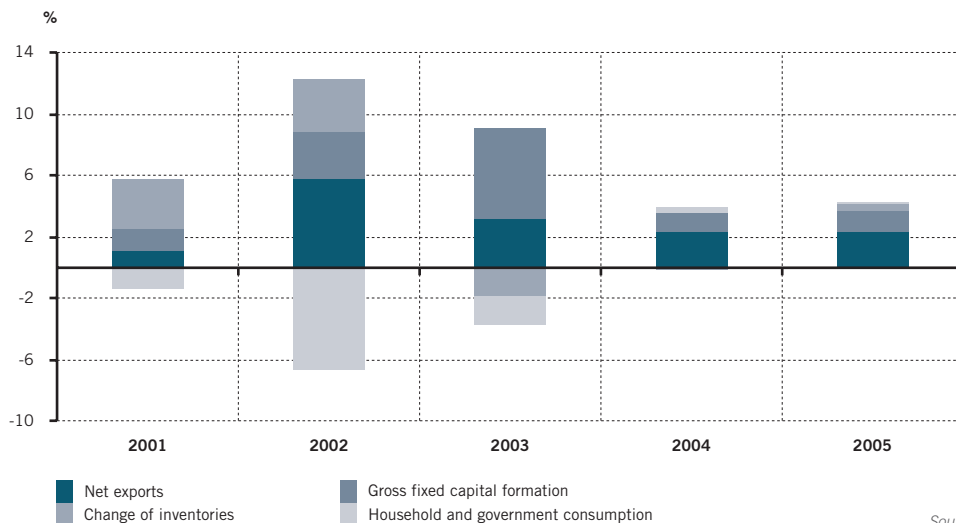
*Croatia without grey economy

Source: Eurostat

1.2.2 Gross Domestic Product from the Expenditure Side

When separate components from the expenditure side of gross domestic product are observed, it can be seen that in 2005 the highest rate of real growth of 4.8% was recorded in gross fixed capital formation which is particularly important when taken into account that the purpose of capital goods is not consumption but rather production which determines their significant role in economic growth in the future. Real growth of personal consumption continued to decelerate in year 2005 when it amounted to 3.4% while government consumption increased by 0.8%. Exports of goods and services grew by 4.6% in year 2005 which is faster than the growth of imports of goods and services of 3.5%. Concerning contributions to growth, the highest positive contribution to gross domestic product growth came from exports of goods and services in amount of 2.2 percentage points. Personal consumption contributed to growth by 2.1 percentage points, government consumption by 0.2 percentage points while contribution of gross fixed capital formation amounted to 1.4 percentage points. The negative contribution of imports of goods and services amounted to -2.2 percentage points but due to the high real growth of exports of goods and services contribution of net exports of goods and services to growth was slightly positive and it amounted to 0.1 percentage points. The coverage of imports of goods and services by exports of good and services increased from 83.6% in 2004 to 84.4% in year 2005.

Figure 1.4.: Contributions of Individual Components to Real Gross Domestic Product Growth



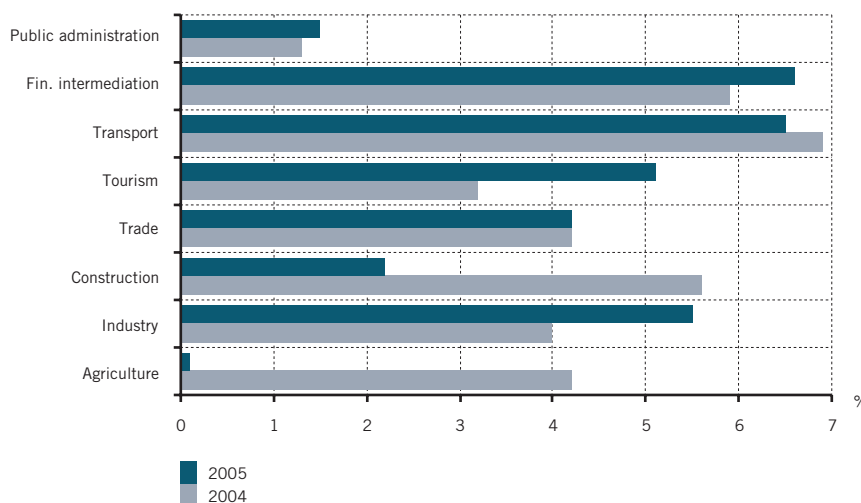
Source: CBS



1.2.3 Gross Domestic Product from the Production Side

The calculation of gross domestic product from the expenditure side indicate that the highest real growth of gross value added in year 2005 was recorded in the activity of financial intermediation¹ (6.6%), transport² (6.5%), industry³ (5.5%), hotels and restaurants (5.1%), trade⁴ (4.2%), construction (2.2%), public service⁵ (1.5%) and agriculture⁶ (0.1%). Concerning the shares of individual activities in total gross value added, the highest part is taken by industry (24.2%), public service (20.1%) and financial intermediation (18.1%).

Figure 1.5.: Real Growth of Gross Value Added of Individual Components



Source: CBS

1.2.3.1 Industrial Production

Monthly indicator of industrial production volume indicated deceleration of industrial production growth in the first quarter of year 2005 and strong revival of industrial production in the rest of the year. In the second quarter high growth of 8.9% was recorded and strong growth was retained in third (5.3%) and fourth quarter (5.4%). On the annual level, the industrial production growth accelerated from 3.7% in 2004 to 5.1% in the year 2005. The total number of employees in industry was on average at 1.4% higher level in year 2005 than in year 2004 but in spite of that, due to the high industrial production growth, the productivity of labour in industry increased by 3.6% when compared to the previous year.

Observed by main industrial groupings, the highest growth in year 2005 was recorded in capital goods (14.7%), in non-durable consumer goods (6.5%) and intermediate goods except energy (6.6%). When observed by activities, the decrease was recorded in electricity, gas and water supply (-1.1%) and mining and quarrying (-3.0%) while the manufacturing industry which has the highest share (82.5%) in total industrial production grew by 6.5%. The highest contribution to manufacturing in year 2005 came from manufacture of food products and beverages which grew by 6.9% and from publishing, printing and reproduction of recorded media (15.8%) while among other categories, high growth was recorded in manufacture of machinery and equipment (17.7%) and manufacture of other transport equipment (3.9%).

1.2.3.2 Construction

The construction work index recorded annual decrease of 0.8% during the year 2005 which is a result of annual decrease of 6.0% in the first half of the year and revival and growth of 4.6% in the second half of the year. When observed by the type of construction, the construction work index of buildings grew by 9.7% while other civil engineering works decreased by 7.8% on the annual level. Such development were in line with high housing loans growth which during 2005 increased by 28.8%. The leading indicators of construction activities in year 2005 indicate revival of construction activities in forthcoming period. Namely, during the year 2005 number of building permits issued increased 8.5% when compared to the year 2004.

¹ The category includes financial intermediation, real estate, renting and business activities

² The category includes transport, storage and communication

³ Including mining and quarrying, manufacturing, electricity, gas and water supply

⁴ Including wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods

⁵ The category includes public administration and defense, compulsory social security, education, health and social work, other community, social and personal services and activities of households

⁶ Including agriculture, hunting, forestry and fishing



1.2.3.3 Retail trade

In year 2005 retail trade turnover recorded nominal growth of 6.5% while real growth in the same period amounted to 2.8% which represents an acceleration compared to year 2004 when real retail turnover growth amounted to 2.6%. The growth of retail trade turnover in year 2005 was in line with its sources of financing. Namely, continuation of high annual credit growth to households of 20.3% was recorded in year 2005. Concerning the fact that in year 2005 there were around 11.000 people more employed on average than a year earlier and that the average net wage grew by 4.9%, the mass of wages also probably had some impact on retail trade turnover growth in year 2005. When nominal retail trade turnover by activities is observed, it can be seen that the highest growth in 2005 was recorded in sale, maintenance and repair of motor vehicles (14.9%) and retail trade of automotive fuels (19.8%) which was influenced with increases in oil prices.

1.2.3.4 Tourism

When observing the whole year 2005, it can be seen that the total number of tourist arrivals increased by 6.2% while the total number of tourist nights increased by 7.6% and reached 51.4 million. Increase in number of foreign tourist arrivals of 7.0% and increase in number of foreign tourist nights of 8% mostly contributed to the favorable tourist indicators during the year 2005. The number of domestic tourist arrivals increased compared to year 2004 by 1.8% while the number of domestic tourist nights increased by 2.9%. Favorable developments in tourist arrivals and nights had also positive impact on tourism revenues. Therefore in year 2005 inflow of EUR 6 billion was recorded on the basis of tourist revenues. When compared to the year 2004, tourist revenues increased by 9.0%.

1.2.4 Labour Market

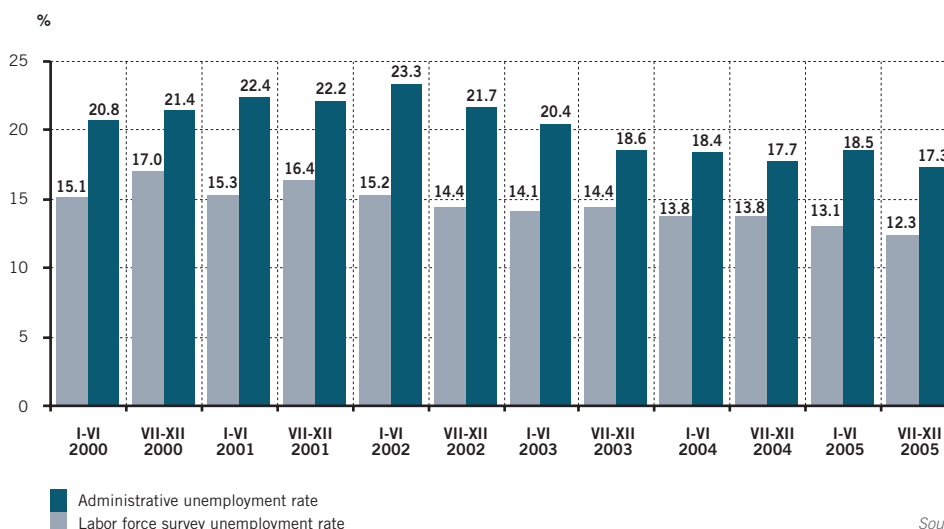
According to the Central Bureau of Statistics data, robust economic activity during year 2005 was followed by positive trends on the labour market. Although in the first half of the year on the annual level increase in the number of unemployed persons was recorded, since July decrease on the annual level has been recorded. At the end of year 2005 there were 307.9 thousands of total persons unemployed which represents a decrease of 9.7 thousands or 3.1% when compared to the end of year 2004. The unemployment rate decreased in the observed period from 18.5% to 17.8%. When the average number of total unemployed persons in year 2005 is observed, it can be seen that the number of unemployed decreased by 1,136 or 0.4% while the average number of employed increased by almost 11.000 or 0.8% on the annual level. The average annual unemployment rate decreased from 18.0% in year 2004 to 17.9% in year 2005.

According to the Labour Force Survey data, during the second half of year 2005 in Croatia have been 3,659,000 working age persons of which 49.2% were persons who work or actively looking for work and can be classified in labour force. Compared to the survey results from the second half of year 2004, working age population increased by 75.000 while the labour force increased by 13.000 in the same time. Total number of employed was in the second half of year 2005 at the level of 1,580,000 which represents an increase of 38,000 when compared to the same period of 2004 while the number of unemployed decreased at the same time by 24,000 to the level of 222,000. Described developments determined the unemployment rate which was in the second half of 2005 at the level of 12.3% or 1.5 percentage points lower compared to the second half of 2004 when it amounted to 13.8%. The unemployment rate of 12.3% is the lowest unemployment rate recorded in last seven years. Administrative unemployment rate was 17.3% at average in the second half of 2005 which was still significantly higher than Labour Force Survey unemployment rate.

In year 2005, gross wages recorded annual nominal growth of 4.4% while net wages increased at the same time by 4.9%. Those developments represent deceleration of net and gross wages growth compared to year 2004 when net wages recorded an increase of 5.9% and gross wages an increase of 6.4%. As opposed to the year 2004, in year 2005 faster growth of gross than net wages was recorded which was enabled by changes in Law on Income Tax. When influence of inflation is extracted, the gross wages grew in real terms in year 2005 by 1.1% while net wages increased in real terms by 1.5%. The highest gross wages were recorded in the sector of financial intermediation while the lowest were recorded in the sector of fishery.



Figure 1.6.: Labour Force Survey and Administrative Unemployment Rate

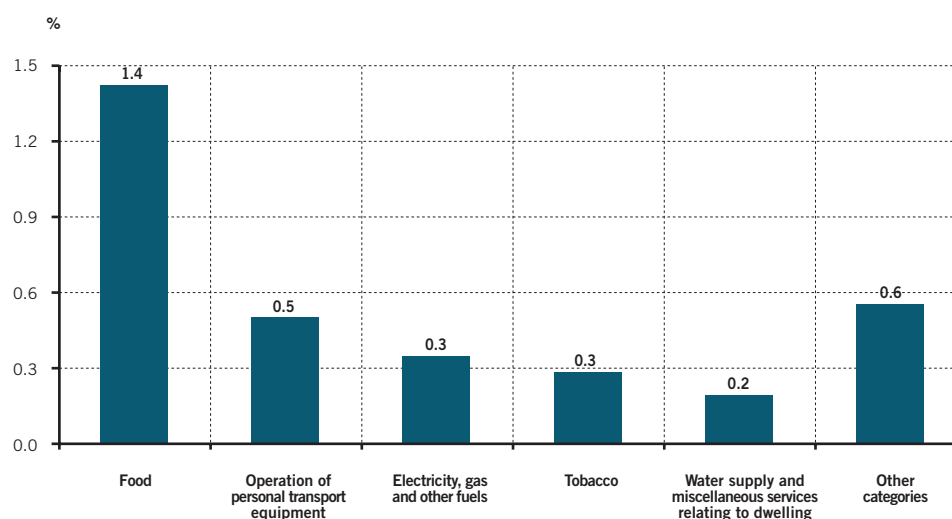


Source: CBS

1.2.5 Prices

The price level measured by consumer price index was in December of 2005 at 3.6% higher level than in the December of 2004. When the average growth of index in year 2005 is observed, inflation was at level of 3.3%. The prices of goods increased by 3.4% while prices of services increased by 2.9%. The main determinants of consumer price index during the year 2005 were food prices, prices of fuel and lubricants for personal vehicles, electric energy and health services. The food prices were on average at 4.7% higher level in year 2005 than year 2004 and this was a result of unfavorable weather conditions during summer. The fuels and lubricants for personal vehicles prices were determined by high oil prices growth on world markets and this category in year 2005 recorded average annual growth of 10.6%. Introduction of administrative payments in health from first of October determined an increase of health services prices by 5.4% while the electric energy prices increased by 1.6% in the observed period which was a consequence of HEP prices increase from the first of September.

Figure 1.7.: Contributions of Separate Categories to the Growth of Prices



Source: CBS



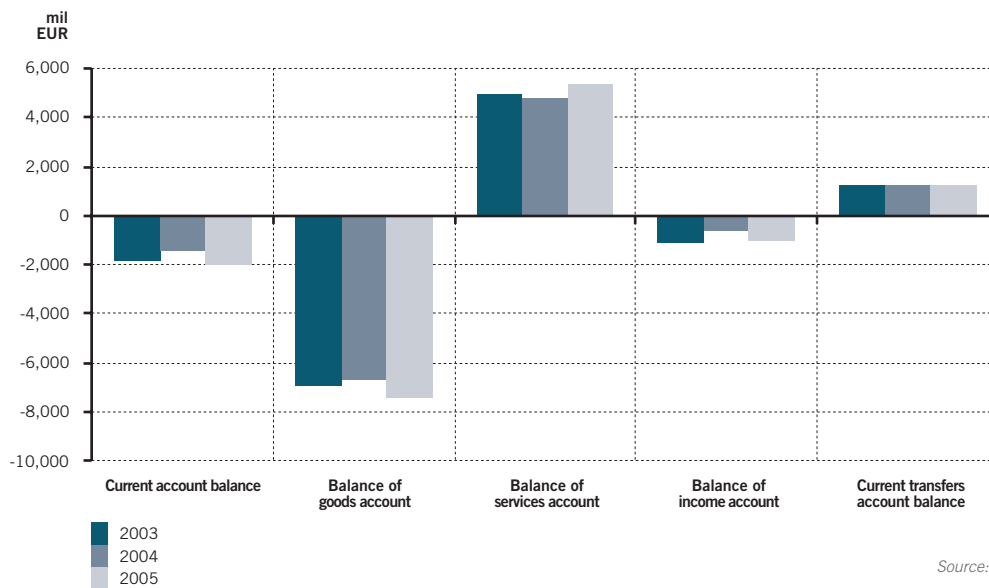
1.3 INTERNATIONAL SECTOR

The external relations of Croatia in year 2005 were characterized by increase of merchandise trade deficit but also by increase of services account surplus as a result of good tourist season. Financial inflows from abroad in the property of foreign direct investments recorded significant increase while the growth of external debt was slowed down when compared to the year earlier. The average kuna versus euro exchange rate appreciated when compared to the year earlier and appreciation is even more evident when end period exchange rate is observed.

1.3.1 Balance of Payments

The deficit of current account balance of payments amounted in year 2005 to EUR 1,993 billion which represents an increase of EUR 588 million or 41.9% when compared to the year 2004. When expressed as a share of gross domestic product, the current account deficit increased from 4.9% of gross domestic product in year 2004 to 6.4% of gross domestic product in year 2005. The highest contribution to deficit increase came from increase in negative balance of goods account which grew by 11.8% compared to year 2004. Such developments on the goods account were in the first place determined by the faster growth of imports when compared to year 2004 which was to the large extent result of high oil prices growth on the world markets. Positive developments during year 2005 were recorded on the services account which is corroborated by the surplus of EUR 5,318 billion. The surplus growth on the services account was mainly contributed by increase in tourism revenues which reached the level of EUR 6 billion and when compared to year 2004 increased by 9.0%. Significant contribution to current account deficit increase in year 2005 came from the income account which negative balance increased by EUR 335 million which was mainly the consequence of increase of outflows on the bases of retained profits. Current transfers account recorded positive balance in year 2005 in the amount of EUR 1,184 billion.

Figure 1.8.: Current Account of Balance of Payments



Source: CBS

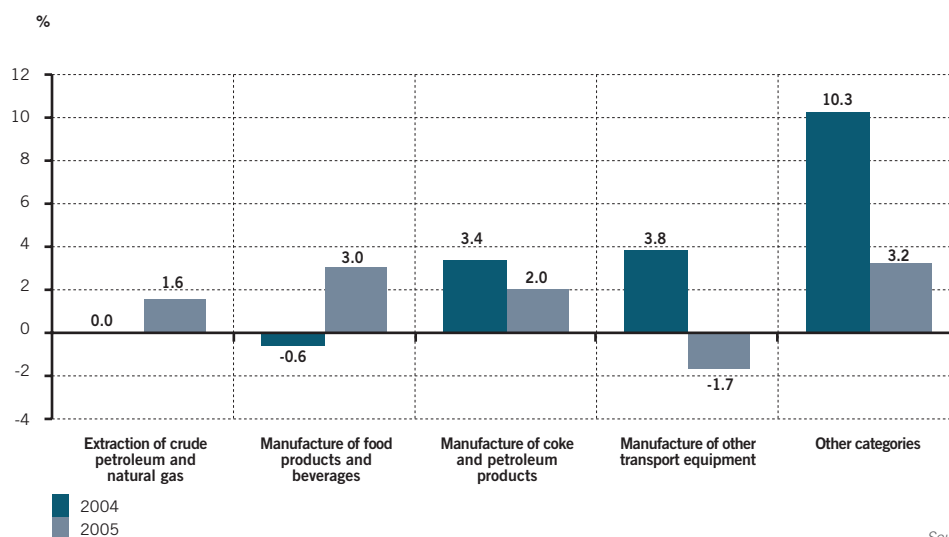
The current account deficit in year 2005 was mainly financed by foreign direct investments which net amounted to EUR 1,218 billion and increased by 73.1% when compared to year 2004. Account of portfolio investments recorded net outflow in amount of EUR 1,077 billion which was mainly the result of government orientation on borrowing on domestic financial market and repayment of foreign bonds. On the bases of other investments, net inflow of funds in amount of EUR 3,740 billion was recorded in year 2005. The highest net inflow of funds was recorded at banks in amount of EUR 2,501 billion and other sectors in amount of EUR 1,040 billion while inflow in amount of EUR 196 million was recorded at government. Described developments on current and financial account led to the growth of international reserves by EUR 822 billion. Net errors and omissions were also in year 2005 at the high level and amounted to EUR -1,029 billion.



1.3.2 External Trade

According to the final results on the annual level in year 2005 exports of goods increased by 8.1% while imports of goods grew by 10.5%. The coverage of imports by exports was at level of 47.3% in year 2005, which makes a decrease of 1.1 percentage points compared to the year 2004, while external trade deficit went up by 12.2% in the same period. When analyzing the trade by activity in the year 2005, the highest contribution to the growth of exports came from manufacture of food and beverages which increased by 37.6%, manufacture of machinery and equipment (22.6%), manufacture of coke and petroleum products (19.6%) and manufacture of chemicals and chemical products (14,3%). The highest negative contribution to growth of exports came from manufacture of other transport equipment which decreased by 15.5% in the year 2005. The most significant increase on the side of imports was recorded in extraction of crude petroleum and natural gas which increased by 33.2%.

Figure 1.9.: Contributions of Individual Categories to the Total Exports of Goods Growth

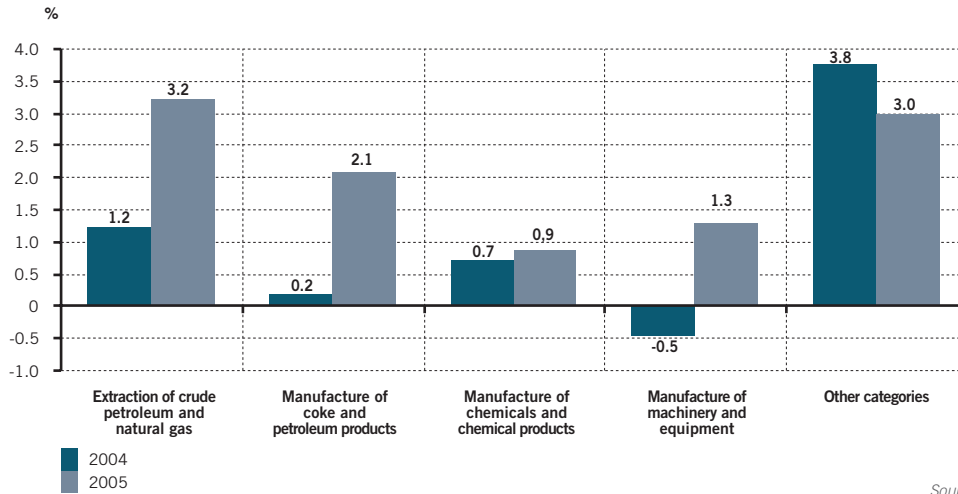


Source: CBS

The contribution to growth indicator is used to estimate the effect of each export component to the total export, concerning the growth of this component and its share in total exports. When observing three categories which have the highest share in total exports, it is obvious that the highest change in terms of contribution to growth was recorded in exports of other transport equipment. In year 2004 contribution to growth of this category amounted to 3.8 percentage points while in year 2005 it declined to -1.7 percentage points. The highest share within this category is taken by ships, which can significantly deform developments of the rest of the exports, due to its large transactions. When the category of other transport equipment is excluded from exports and imports, exports grew by 11.9% and imports increased by 10.9% in year 2005. When the same analogy is used to analyze imports, it can be seen that the main influence on import growth in year 2005 had category extraction of crude petroleum and natural gas. Increase of crude oil import probably partly indicates an increase in imported quantity, but it is mostly the consequence of increase in oil prices in world markets. The growth rate of import amounted 10.5% in year 2005, but if the effect of oil prices increase is excluded, this growth is around 7.2%. From everything mentioned it can be concluded that in year 2006 trade balance will be mainly influenced by manufacture of other transport equipment on the export side, but also the crude oil prices in world markets on the import side.



Figure 1.10.: Contribution of Individual Categories to the Total Imports of Goods Growth



Source: CBS

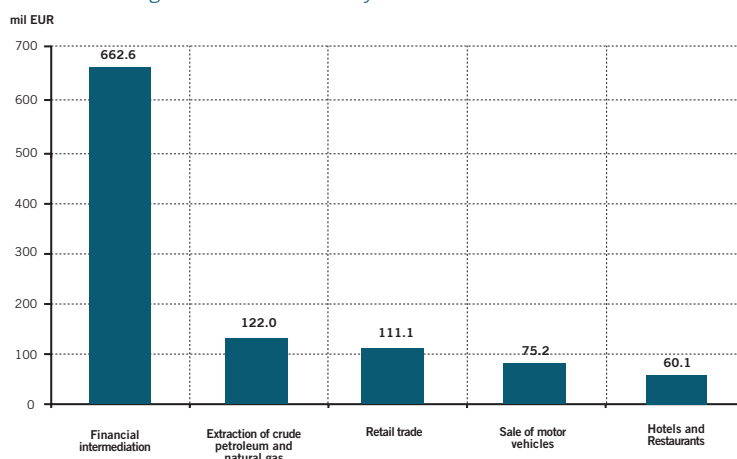
The highest share in total export of goods had export to Italy which made 21.1% of total Croatian export of goods in year 2005, while exports to BiH made 14.4%, Germany 10.7%, Slovenia around 8.1% and Austria 7.1% of total export of goods. When compared with year 2004, export to Slovenia grew by 17.2%, BiH 8.0%, Germany 3.2 while export to Italy decreased by 0.3% and Austria by 18.2%. If the foreign trade in goods expressed in USD is observed, in year 2005 export grew by 9.3% and import by 11.9%. Those higher levels of annual growth rates of export and import expressed in USD are result of the fact that the majority of Croatian trade in goods is made with countries members of European Union, so influence on this growth also has depreciation of USD against euro.

1.3.3 Foreign Direct Investments

Total stock of foreign direct investments in the Republic of Croatia reached at the end of year 2005 the level of EUR 11.4 billion. During the year 2005 total investments in the Republic of Croatia amounted to EUR 1,403 billion which represents nominal increase of EUR 412 million or 41.6% when compared to the previous year. Of the total foreign direct investments in the year 2005, equity investments amounted to the EUR 765 million while reinvested earnings amounted to EUR 569 million. When the structure of foreign direct investments by activities in year 2005 is observed, the highest amounts were recorded at financial intermediation (EUR 663 million) and extraction of crude petroleum and natural gas (EUR 122 million). They were followed by retail trade (EUR 111 million), sale, maintenance and repair of motor vehicles (EUR 75 million) and hotels and restaurants (EUR 60 million). When the structure of foreign direct investments in the Republic of Croatia by country of origin in year 2005 is observed, the highest amounts were recorded from Austria (EUR 494 million) and Hungary (EUR 331 million). Next country by the amount of investments was Italy (EUR 169 million), Netherlands (EUR 160 million) and Slovenia (EUR 114 million).



Figure 1.11.: Structure of Foreign Direct Investments by Activities in Year 2005



Source: CNB

1.3.4 External Debt

Total external debt amounted to EUR 25.5 billion at the end of year 2005 or 82.5% of estimated GDP for year 2005. When expressed as share of GDP, external debt grew much slower in year 2005 (2.3 percentage points) than in year 2004 when it increased by 4.7 percentage points. Annual growth of external debt also decelerated from 15.0% in year 2004 to 12.1% in year 2005. The highest contribution to external debt growth in year 2005 came from the sector of banks which external debt increased by EUR 1.3 billion and other sectors which external debt also increased by EUR 1.3 billion. Such developments of the banks external debt was in line with continued higher growth of banks' loans which increased by 20.3% in year 2005 and were partly financed by increase of deposits and partly by foreign borrowings which resulted in increase of banks' foreign liabilities by about HRK 6 billion during the year 2005. When other sectors are observed, in year 2005 external debt on the bases of foreign direct investments increased by EUR 325 million while external debt of government decreased by EUR 204 million which was in line with government orientation of financing its needs on domestic financial market. It should be mentioned that significant changes were recorded in the structure of external debt, where the most significant one was recorded in the sector of government which share decreased from 31.8% in December 2004 to 27.6% of total external debt in December 2005. Decrease of government external debt share was substituted by increase of banks' share in total external debt (from 33.8% to 35.2%) and other sectors (from 25.5% to 28.0%).

Figure 1.12.: External Debt of the Republic of Croatia



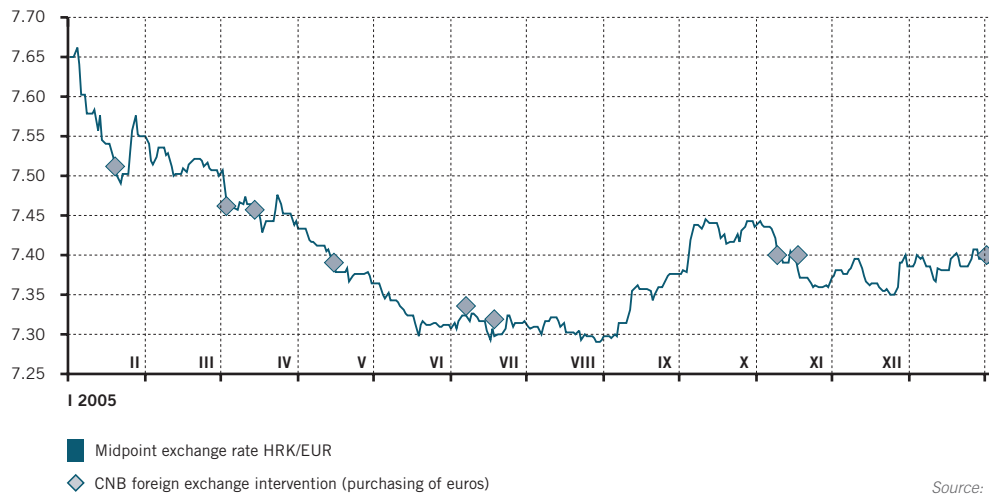
Source: CNB



1.3.5 Foreign Exchange Rate

When the average kuna per euro exchange rate on the annual level is observed, it decreased from 7.50 kuna for euro in year 2004 to 7.40 kuna for euro in year 2005. Such development represents appreciation of kuna against euro by 1.3%. Appreciation is even stronger if end of period exchange rate is observed. Kuna per euro exchange rate decreased from 7.67 kuna for euro at the end of year 2004 to 7.38 kuna for euro at the end of year 2005 which represented kuna appreciation of 3.9%. The exchange rate of kuna to American dollar moved in line with fluctuations of dollar versus euro exchange rate on the world exchange rate markets. Thus, average annual kuna per dollar exchange rate amounted in year 2005 to 5.95 kuna for dollar and appreciated compared to year 2004 by 1.5%. Croatian national bank intervened nine times on foreign exchange market during the year 2005. In all nine interventions euro was purchased from commercial banks which amounted totally to EUR 570 million.

Figure 1.13.: Midpoint Kuna per Euro Exchange Rate and Foreign Exchange Interventions of CNB



Source: CNB



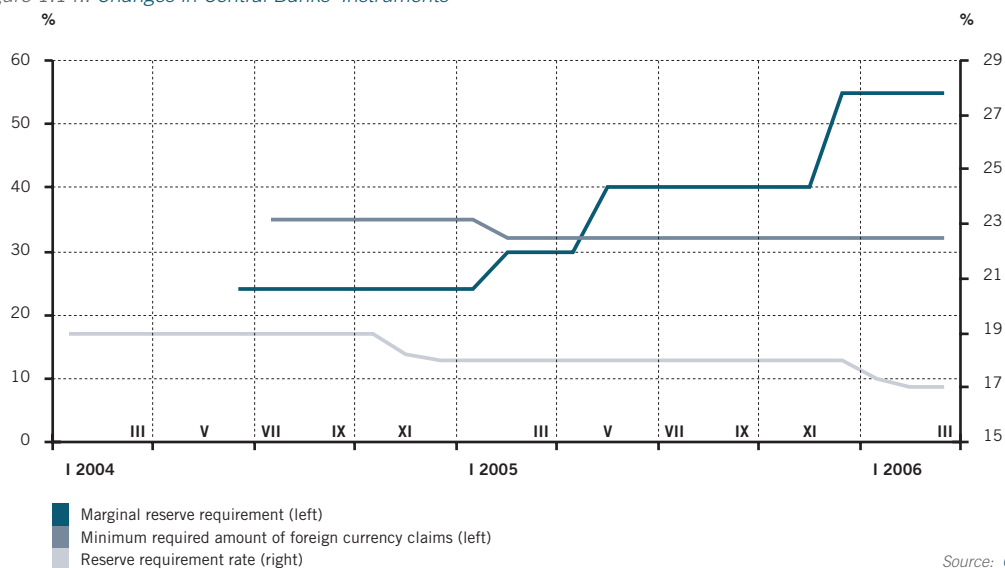
1.4 FINANCIAL SECTOR

Developments in the financial sector during the year 2005 were characterized by high inflows of foreign capital which made appreciation pressures on kuna per euro exchange rate. In accordance with such developments, monetary policy was directed on restriction of foreign capital inflows and mitigation of its influence on exchange rate appreciation. Monetary policy instruments which were used for that purpose include marginal reserve requirement, minimum required amount of foreign currency claims, foreign exchange interventions and open market operations. The growth of banks' foreign liabilities and time and savings deposits with banks allowed further acceleration of total credits growth on the annual level when compared to the year 2004. Although acceleration was recorded in credits to enterprises and credits to households, doubled acceleration of credits to enterprise growth than in year 2004 should be highlighted. The basic characteristic of money market was decreased fluctuation of interest rates which was evident during summer months of previous years due to high inflows of tourist revenues in foreign currency. Stabilization is result of introduction and implementation of new instrument of Croatian National Bank i.e. open market operations. During the year 2005 positive developments were recorded on the capital market which is confirmed by high turnover growth and high growth of both Croatian stock exchange indices.

1.4.1 Monetary Policy and Developments of Credit Aggregates

The most important changes in monetary policy instruments in year 2005 concern introduction of open market operations, increase of obligatory marginal reserve and decrease of minimum required amount of foreign currency claims. In order to support government financing on domestic markets, central bank decreased minimum required amount of foreign currency claims from 35% to 32% in February 2005 which freed HRK 4 billion and increased banking sector liquidity for purpose of government financing without crowding out of other sectors. Despite of decrease in government external debt, other sectors continued to borrow abroad which triggered new reaction of central bank. Thus, in February 2005 marginal reserve requirement was increased from 24% to 30% and additionally to 40% in May. Concerning further growth of external borrowing, in November marginal reserve requirement was once more increased to 55%. In the second quarter central bank started to perform open market operations which facilitated management of liquidity.

Figure 1.14.: Changes in Central Banks' Instruments



Source: CNB

The basic characteristic of year 2005 was acceleration of credit activity of banks when compared to year 2004. The most significant contribution to credits growth came from sector of households where fast growth of housing loans should be pointed out. When compared with year 2004, faster growth of credits to central government was recorded which is in line with government orientation for borrowing on domestic market. Concerning the sector of enterprises, it should be noticed that during year 2005 credits to enterprises grew twice faster than a year before. Credit activity of banks was to the high extent financed by increase of time and savings account loans which grew fast especially during the summer months, in line with good tourist season. The growth of foreign liabilities decelerated compared to year 2004 but foreign assets decreased which resulted in further decline of net foreign assets.



Annual credit growth of commercial banks decreased in December 2005 when compared to November and amounted to 20.3%. Total credits to households recorded in December annual growth of 20.3% while only housing loans increased by 28.8%. Credits to enterprises increased by 16.3% which represents more than doubled acceleration when compared to December 2004 when growth amounted to 8.0%. When commercial banks' credits to central government are observed, it can be seen that they were in December of 2005 at 55.3% higher level than in the same month of year 2004 which was a result of government orientation on domestic market borrowing.

Figure 1.15.: Growth of Credits to Enterprises and Households



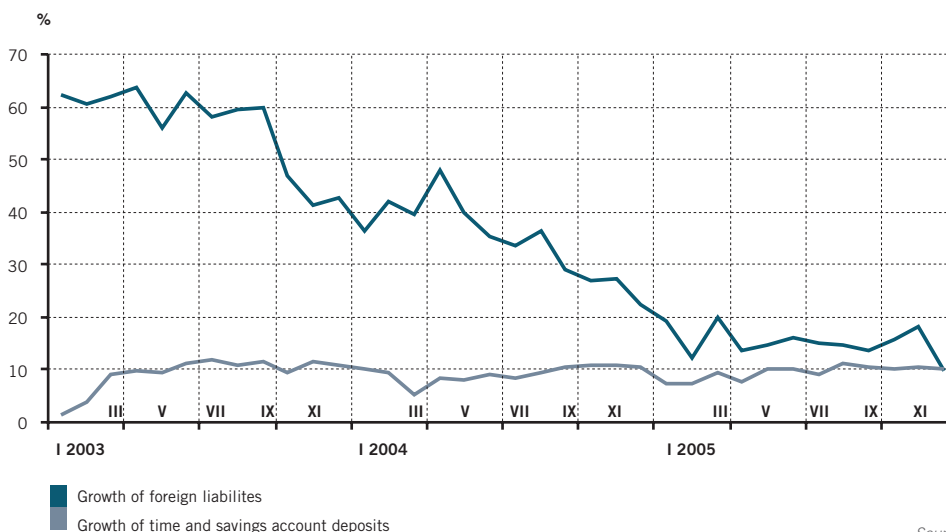
Source: CNB

Total kuna and foreign exchange time and savings deposits with commercial banks were at the end of 2005 at level of HRK 114.8 billion, which was an increase of HRK 10.5 billion compared to the end of year 2004. When observing annual growth rates, it can be seen that total kuna and foreign exchange time and savings deposits in year 2005 increased by 10.1%, which is about equal to the growth in year 2004. Total kuna time and savings deposits with commercial banks increased by HRK 5.5 billion or 24.5% in year 2005. The highest contribution to this growth came from deposits of households which increased by HRK 4.1 billion and deposits of non-banking financial institutions which went up by HRK 1.1 billion. Foreign exchange time and savings deposits grew by HRK 5 billion or 6.1% during year 2005, where in consideration should be taken appreciation effect of kuna against euro of 3.9%. The highest contribution to time and savings deposits' growth came from sector of households which increased by HRK 4.6 billion.

Total foreign assets of commercial banks decreased in year 2005 by HRK 8 billion or 18.3% and at the end of a year reached the level of HRK 35.6 billion. This trend of foreign assets was influenced by changes of central bank's monetary instruments. Total foreign liabilities of commercial banks increased in year 2005 by HRK 5.9 billion or 9.7% and at the end of the year it reached the level of HRK 67.1 billion. Described developments determined net foreign assets development which at the end of year 2005 amounted to HRK -31.5 billion.



Figure 1.16: Growth of Foreign Liabilities and Time and Savings Account Deposits



Source: CNB

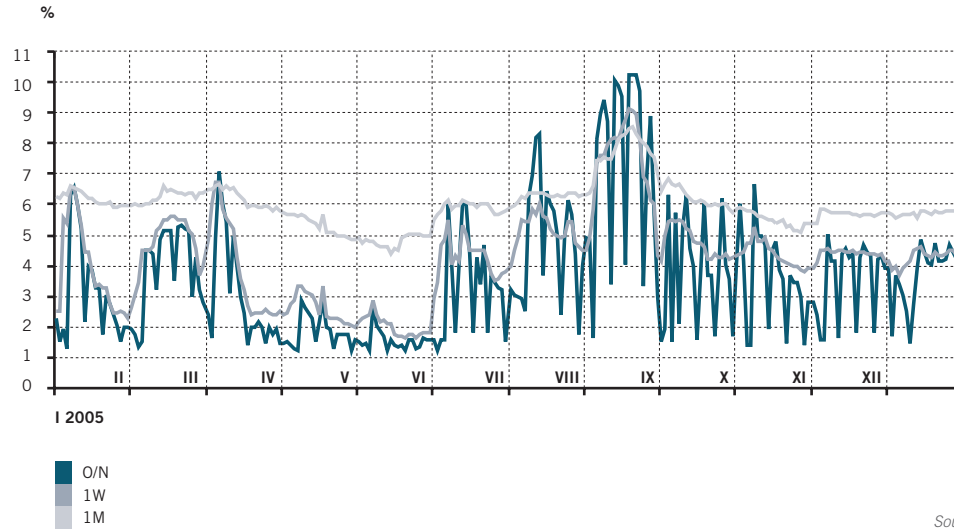
1.4.2 Money Market

Interest rates developments on Zagreb Money Market indicated high market liquidity in year 2005 concerning the fact that average interest rates decreased by 2 percentage points when compared to year earlier. Somewhat higher interest rates were recorded during summer months when the highest interest rate of 5.5% in August was recorded. Those developments were inline with seasonal effects also recorded in previous years which appear due to tourist season. Namely, arrival of high number of foreign tourists increases demand for domestic currency which affect growth of interest rates. After the summer months interest rates decreased to the lower levels and average interest rate from September to December of 2005 was at lower level of 2.5%.

Although introduction of new instruments of monetary policy during the year 2005 performed in direction of reduction in interest rates fluctuations on money market, influence of separate factors on interest rates development can be distinguished. Firstly it should be mentioned that usually around every eighth in the month, slight increase in short term interest rates appeared owing to the fact that this was the date of obligatory reserves allocation. Government borrowing also had it's implications on interest rates developments. Thus, new government bond issue of HRK 3 billion in March with maturity of five years had its implications on interest rates developments. During July increase in ZIBOR interest rates was also recorded which was also coincided with government bond issue of amount EUR 350 million and maturity period of ten years. Although one more government bond issue followed which had two tranches in December 2005 and February 2006 but there wasn't significant influence on interest rates developments. This can be explained by introduction of open market operations in mid 2005 which facilitated liquidity management to central bank. The most important factor which influenced growth of interest rates in year 2005 is tourist season and its in»uenced was also re»ected on appreciation of kuna to euro. For year 2005 strong kuna exchange rate was characteristic on which central bank tried to influence by exchange rate interventions. From January to December of year 2005 there were nine exchange rate interventions, in all of them euro was purchased and additional kuna liquidity was generated.



Figure 1.17: ZIBOR Developments



Source: CBA

2
BUDGETARY CENTRAL GOVERNMENT
IN 2005



2.1 STATE TREASURY DEVELOPMENTS 2003 - 2006

State treasury represents a complex system of financial management of budgetary activities which is operational in a way to join public revenues and public expenditure. Main objectives of the State treasury are the efficient use of public resources and the implementation of financial discipline. Activities undertaken in last three years were aimed at fulfilling of these objectives.

2.1.1 Improved Planning

Thorough elaboration according to programs - activities/projects of ministries and other public administration bodies was presented to Croatian parliament on State budget for 2006, which contributed to more clear and transparent picture of their overall activities. Further, the planning system, and hence the system of execution of the budget, according to financing sources was established which enabled control of execution and use of revenues which purpose is defined under the special regulations.

2.1.2 Expanded Budget Coverage

Budget coverage was expanded to include lottery revenue, road charges (inclusion of HAC and HC), own revenues of budgetary users, revenues under the special regulations (administrative fees and other earmarked revenues), EU grants. Budget for 2007 will additionally incorporate overall revenues and expenditure of the Croatian Institute for pension Insurance, the Croatian Health Insurance Institute and the Croatian Employment Service.

2.1.3 System of Measuring Financial Impacts of Regulations to Budgets is Introduced

Anticipation and control of future spending is one of key elements in improvement of the process of budget preparation, and also of instruments for maintenance and/or reduction of the level of public expenditure within the envisaged macroeconomic framework. To achieve this, it was crucial that still in early stage of proposing of regulations financial impact projection of their implementation to state and other budgets is secured.

The Government, with its special Decree starting to be effective as of June 8th 2005, prescribed the Form of standard methodology for projection of financial impact (Form: PFU) which is used to present financial impacts. Central state administrative offices and technical services of the Government are required to present the Statement on projection of the impact of legal proposals on state budget, budget of Local and Regional Self-government Units as well as on the number of civil servants and employees when they present their proposals of regulations and other legal proposals which are adopted by the Government of the Republic of Croatia and for law and other legal proposals which Government presents before the Croatian Parliament.

2.1.4 Introduction of Budgetary Analysis

More detailed observance of the performance of ministries and other administrative bodies is introduced. Based on analysis, limits or the size of financial plans for three year period of ministries and other bodies are constructed for those financing sources affecting the deficit. This is in the same time an important precondition of quality budget preparation. Limits are defined within the Economic and Fiscal Policy Guidelines with the aim to create fiscally and socially sustainable budget for the mid-term period.

2.1.5 Introduction of the Single Treasury Account

The base precondition for quality and efficient Treasury is the introduction of the Single treasury account (STA). Without the functional single account it can occur that the idle cash is available on accounts of budgetary users while in the same time borrowing occurs to meet the financing needs. The implementation of the single account started in 2005 paying attention to details to secure quality functioning of budgetary users, which entering to the single account still manage both revenue and expenditure in effort to fulfill their objectives and conduct planned programs. By June of 2006, accounts of majority of ministries and other administrative bodies were closed and remaining accounts will be closed by January 1st 2007.

The introduction of the single account does not imply the loss of autonomy of budgetary users to manage their resources but represents consolidation of the system of finance management, while the Treasury provides cash security for all approved activities in line with the approved budget for certain fiscal year. The objective to be reached with the implementation of the single account is the rationalization of managing the public money and not to abolish the right to manage budgetary funds which are still the autonomous rights confirmed by Parliamentary adoption of the budget.



2.1.6 Improved Budget Execution Process

Methodology of execution is aligned with needs of observance according to sources of financing. Various control measures are imposed on execution of expenditures planned regarding particular financing sources and modern mechanisms are implemented prescribed with the financial regulation of the EU:

- possibility to carry over obligations financed from revenue associated with sources which use is predefined. With this, an important step has been made to meet the accrual concept of the budget.
- control of spending in line with the outturn of earmarked revenues
- securing of general revenue for obligatory budgetary expenditure

2.1.7 Developed Financial Planning and Projections

Daily, weekly, monthly and quarterly observance of expected revenues and due expenditures is implemented based on which, financing needs are assessed together with defining best financing instruments. Processes of work are defined and described, as well as data sources, methods for data availability are defined, steps of conducting the work are described and reporting system for planning of financial flows and liquidity projections are defined and elaborated, which are produced on monthly, weekly and daily basis.

2.1.8 Increased Financial Discipline

The procedure of analyzing the work of particular user is implemented before the approval of monthly allocation. Monthly observance, per user, is conducted with: monthly outturns 2003-2006, comparison of plan-execution and execution-execution for 2005 and 2006, comparison of plan and execution according to activities by economic classification on the second or if required more detailed level.

2.1.9 Project Documentation for Development and Implementation of the Integrated Accounting-financial System is Elaborated

Project documentation is elaborated in line with European standards for elaboration of the integrated accounting-financial system which will upgrade the functionality of the Treasury. After the implementation of this system, the Treasury will move to the highest development level of the accounting systems and will have complete access to data on due commitments and maturities. Currently, monitoring of commitments is not uncontrolled, but commitments are not monitored within the system but in form of reports on commitments providing information to the Treasury. Prior to the definition of the final solution for the integrated accounting-financial system series of analysis were performed of which most important being "Study of rationalization". Financial and informational systems of the ministries were analyzed and the basis for their incorporation in a unique system was defined, which in the end will make possible to daily observe users (currently are observed on monthly basis through the system of monthly Reports on commitments compiled and reported to the Ministry of finance by users).

2.1.10 National Fund is Established and Accredited - Treasury for EU Funds Management

Memorandum of understanding on the establishment of the National fund between the Republic of Croatia and the European Commission was signed on May 5th 2005. The work of National fund is managed by National Authorizing Officer (NAO), state secretary of the Ministry of finance. NAO is responsible for the overall financial management of pre-accession funds of the Community. NAO is required to secure the observance of rules, regulations and procedures of the Community pertaining to procurement, reporting and financial management, and that a proper reporting and information system is functioning. National fund was accredited successfully and has been approved with the permission to work from European Commission in February of 2006.

All of activities so far mentioned ensured the better use of public resources and elimination of unnecessary costs and hence the real start of work and operational system of the State Treasury.

The system of Treasury and the implementation of the single account produce additional savings; there is no retaining of cash funds on special accounts, account to account payments are abolished. Beside already mentioned, more prompt dealing with commitments affects the liquidity of the state and also of other entities which can then further meet their obligations (increased liquidity of the entrepreneurial sector). This also reduces the need for financing of the state and increases efficiency. Beside this, the system of Treasury imposes order and financial discipline. This implicitly affects the subjective approach in assessment of priorities in public spending.



2.2 BUDGETARY CENTRAL GOVERNMENT REVENUE

2.2.1 Budgetary Central Government Revenue Plan

In the end of November of 2004, State budget of the Republic of Croatia and financial plans of extrabudgetary funds for 2005 were adopted. In line with main macroeconomic indicators and assumptions, total revenue of the budgetary central government, according to GFS 2001, was planned at HRK 86.357 billion which compared to the outturn of 2004 represented an increase of 7.3%.

Based on new expectations both on revenue and expense side of the budget, in July of 2005 supplementary budget for 2005 was adopted, which anticipated a reduction in the overall level of expected revenue by 786.2 million compared to the original plan. Expected revenue level was set at HRK 85.571 billion, which compared to 2004 represented an annual increase of 6.4%.

Main reasons for adoption of the supplementary budget of the Republic of Croatia in 2005 were: slower economic growth in the first quarter of 2005 compared to expectations during the preparation of the budget and need for certain changes in the expense structure. New plan of budgetary revenues was based on real GDP growth of 3.7% and on nominal growth of 7.2% compared to the previous year, as well as on revenue outturn in the first half of the year. Observing the overall revenue according to the supplementary budget, a reduction in taxes and social contributions took place compared to the original budget figures while all other revenues were planned above the original budget figures. In tax revenues, only corporate income tax recorded an increase compared to the original plan, sales tax, customs and other taxes.

Table 2.1. Revenue of the budgetary central government according to the original and the new plan for 2005

	(000 HRK)	Plan 2005	New Plan 2005	Index new plan 05/plan 05
1	REVENUE	86,357,026.5	85,570,783.3	99.1
11	Taxes	51,621,140.8	50,497,917.3	97.8
111	Taxes on income, profits, and capital gains	6,813,535.5	7,299,917.3	107.1
1111	Payable by individuals	3,325,047.4	3,229,045.2	97.1
1112	Payable by corporations and other enterprises	3,488,488.1	4,070,872.1	116.7
113	Taxes on property	387,151.8	377,172.7	97.4
114	Taxes on goods and services	42,503,153.4	40,844,906.8	96.1
1141	General taxes on goods and services	33,598,710.9	32,618,024.0	97.1
11411	Value-added taxes	32,775,525.4	31,706,123.6	96.7
11412	Sales taxes	823,185.5	911,900.4	110.8
1142	Excises	8,904,442.5	8,226,882.8	92.4
115	Taxes on international trade and transactions	1,527,469.4	1,563,912.8	102.4
116	Other taxes	389,830.7	412,007.7	105.7
12	Social contributions	32,318,444.4	31,485,290.8	97.4
1211	Employee contributions	16,325,041.4	15,851,359.4	97.1
1212	Employer contributions	15,993,403.0	15,633,931.4	97.8
13	Grants	48,413.1	80,424.4	166.1
132	From international organizations	48,413.1	55,424.4	114.5
133	From other general government units	0.0	25,000.0	-
14	Other revenue	2,369,028.2	3,507,150.8	148.0
141	Property income	1,183,708.6	2,165,456.0	182.9
142	Sales of goods and services	671,544.9	752,081.0	112.0
143	Fines, penalties, and forfeits	365,490.5	391,329.6	107.1
144	Voluntary transfers other than grants	13,433.0	23,433.0	174.4
145	Miscellaneous and unidentified revenue	134,851.2	174,851.2	129.7

Source: Ministry of finance



2.2.2 Outturn of the Budgetary Central Government Revenue

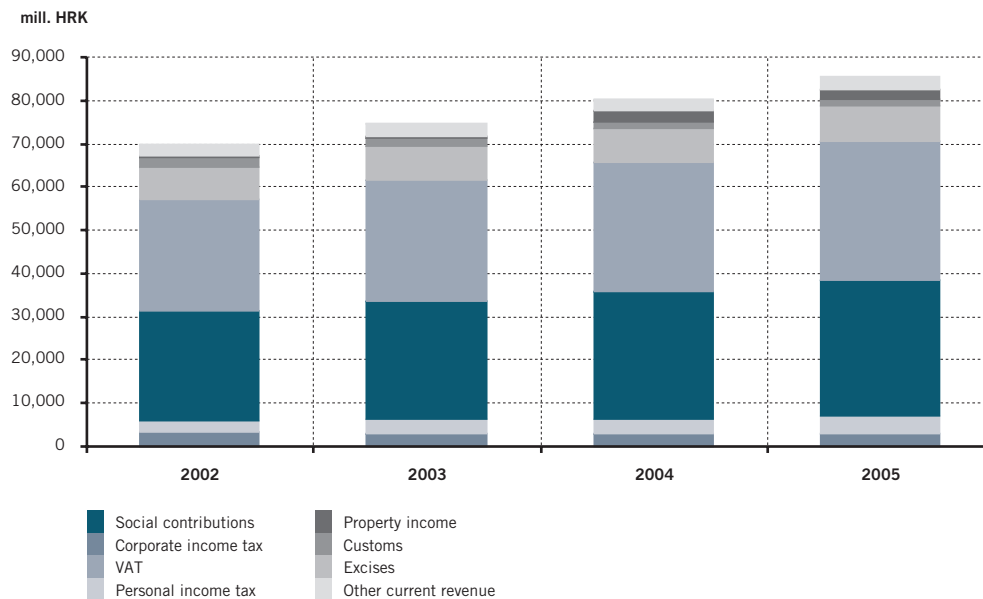
Total budgetary central government revenue amounted to HRK 85.653 billion in 2005. Such an outturn is in line with the supplementary budget for 2005. Namely, this revenue amount is by HRK 82.2 million above the plan. When observed in comparison to the outturn of 2004, total revenues of 2005 increased by 6.4%.

Within the structure of total revenue, most important are tax revenues which in 2005 accounted for 59.2% of total revenue. Social contributions follow with their share of 36.5% in total revenues, while the remainder refers to grants, property income, administrative fees, revenues under the special regulations and other revenues.

If shares in GDP of certain revenue categories are observed, it can be seen that the share of total revenue in GDP was almost constant in the period 2002 - 2005. Namely, in 2002, budgetary central government revenue accounted for 38.4%, 37.6% in 2003, while in 2004 it accounted for 37.8%. In 2005, share of total budgetary central government revenue in GDP accounted for 37.4%, which is somewhat lower than in the previous years but in line with economic policy of the Government of the Republic of Croatia with the aim to reduce the share of both revenue and expense in GDP.

Compared to previous years, 2005 share of tax revenue in GDP was moderately reduced. Namely, in 2002 the share of tax revenue in GDP accounted for 23.6%, in 2003 this share accounted to 22.8%, 22.2% in 2004, while in 2005 it accounted for 22.1% of GDP. It can be concluded that a moderate trend of reduction of tax revenue share in GDP is present. Social contributions recorded broadly same share in GDP over the years although in 2005 this share was lower then the average of past few years, but only for 0.1 percentage points. Other revenues, especially property income depend on specific circumstances in different periods so that the comparison of their share in GDP is not representative.

Figure 2.1. The structure of the budgetary central government revenue



Source: Ministry of finance



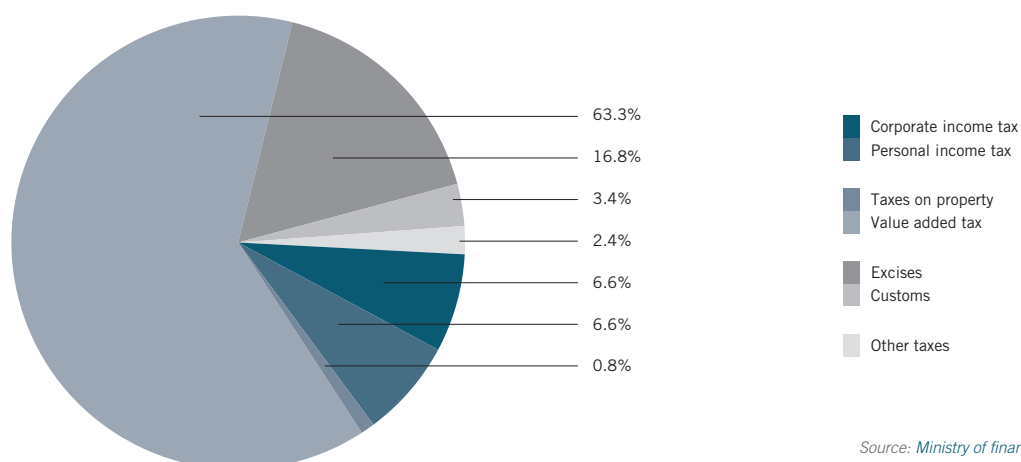
2.2.2.1 Tax Revenue

Tax revenue is by far the largest category of total revenues. In 2005, this category recorded an annual increase of 7.5% compared to 2004, while in the same time this category recorded broadly the same share in GDP. Total tax revenue were realized almost in line with the plan, namely for HRK 189.6 billion above the plan.

This revenue amounted to HRK 50.688 billion in 2005, which represents a share of 58.6% in total budgetary central government revenue. Main changes within the tax system that took place in 2005 were the amendments to the value-added tax law which came to be effective as of July of 2005. In the end of 2004, new corporate income tax law was adopted, as well as amendments to the personal income tax law. These laws started to be effective as of January 1st of 2005 and hence produced the whole year effects to the 2005 revenue.

According to the before mentioned changes in certain tax laws, their fiscal effects change also. The structure of tax revenue in 2005 shows that the fiscal significance of the personal income tax, excises and customs was reduced compared to 2004. On the other hand, the fiscal significance of the corporate income tax and value-added tax increased, while other taxes showed more or less constant shares in total tax revenue.

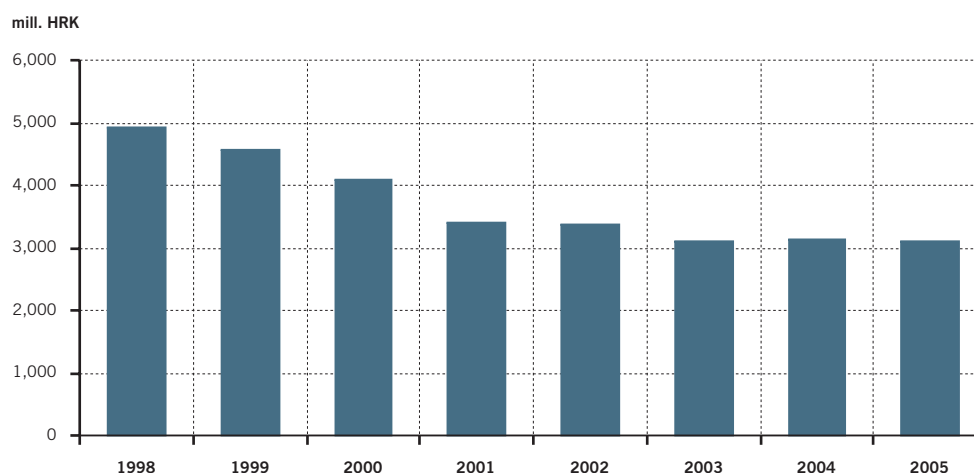
Figure 2.2. Tax revenue structure in 2005



Source: Ministry of finance

Personal Income Tax

Figure 2.3. Annual outturns of personal income tax



Source: Ministry of finance



Personal income tax was collected in the amount of HRK 3.1 billion in 2005, which is by HRK 122.6 below the planned amount. With such an outturn, personal income tax recorded a level which is by 3.8% below the supplementary budget plan and 0.7% below the outturn of 2004. The largest part of collected personal income tax can be attributed to taxation of non-self-employment and taxation of self-activities, while smaller amounts refer to taxation of property and property rights and taxation of capital.

Personal income tax, in 2005, applied 15% rate for income up to the double amount of personal deduction, 25% rate for the amounts between the double amount of personal deduction and five times the amount of personal deduction, 35% rate was applied for the amounts over the five times the amount of personal deduction while for higher wage levels 45% rate was applied. Personal deduction in 2005 amounted to HRK 1.6 thousand (it was increased from HRK 1.5 thousand to HRK 1.6 thousand as of January 1st of 2005 in line with the new personal income tax law).

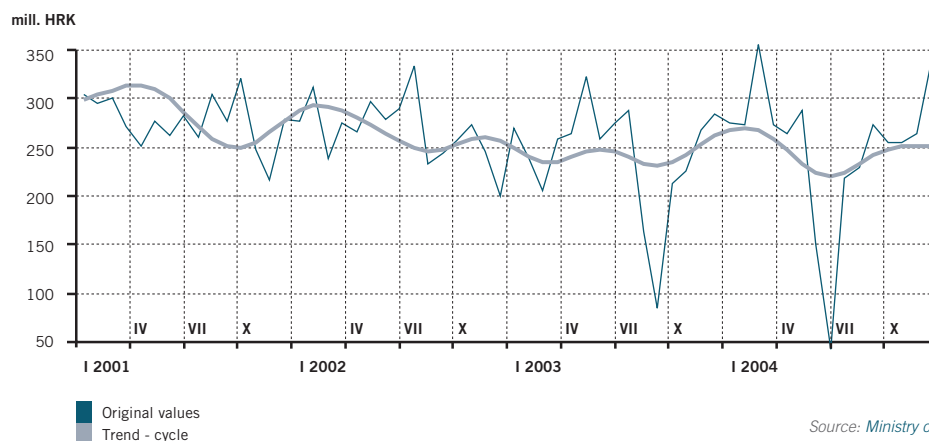
Personal income tax revenue is shared between the state budget and local government units but this process is totally neutral observing the general government level. Within the new Personal income tax law (National gazette, No 177/04) which was adopted by the Croatian Parliament on December 3rd 2004 the most important novelty was the increase in the personal deduction amount, while cumulative annual deductions were limited to the level of HRK 12 thousand.

Given the adoption of the new Personal income tax law, Ordinance on personal income tax was adopted (National Gazette, No 1/05 and 14/05) starting to be effective as of January 1st of 2005 with special attention to defining the non-taxable amounts of fees, rewards, grants, severance pays and other as well as to defining receipts in nature. Minister of finance issued the uniform Ordinance on personal income tax (National Gazette, No 95/05) effective as of August 11th of 2005. This Ordinance puts in order ways and circumstances of the use of personal deduction, content and the form of prescribed reports as well as the content of the annual tax return form. Further, Minister of finance issued the Ordinance on renting of apartments, rooms and beds to passengers and tourists and organizing of tourist camps which shall be lump-sum taxed, the amount of the lump-sum tax and ways of paying it (National Gazette, No 48/05) effective as of January 1st 2005.

To establish the equal treatment with respect to the conduction of regulations concerning the taxation of income of physical persons, Central Office of the tax Administration issued several instructions to all of regional offices. These are the main instructions:

- Instruction on taxation of receipts of sport athletes and contribution payments for obligatory insurances (January 27th 2005).
- Instruction on taxation of receipts of pupils and students for the work performed within the student organizations (March 15th 2005).
- Instruction on part of the personal deduction resulting from disability status (October 13th 2005).
- Instruction on the evidence of use of transportation vehicles (October 24th 2005).
- Instruction on filling out and filing of the annual income tax refund form for 2005 (December 14th 2005) accompanied with the brochure consisting examples on how to fill out the annual income tax refund form.
- Instruction on the evidence of use of reproduction and consumable materials, food and beverages (December 19th 2005).

Figure 2.4. Personal income tax revenue trend, in constant prices (average 2001 = 100)



Source: Ministry of finance



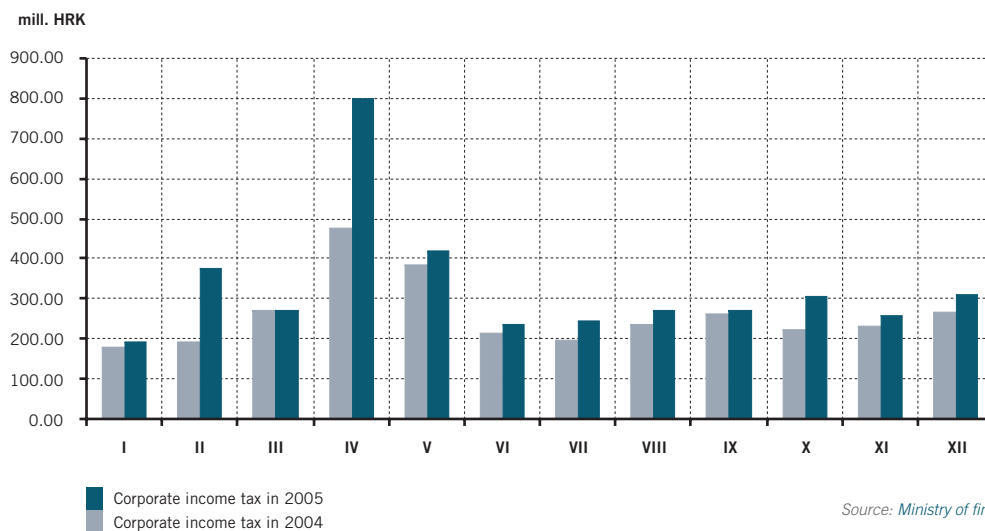
Although 2005 was characterized with the stagnating trend of personal income tax revenue compared to 2004, in following years a pick up in this revenue can be expected primarily due to expected increase in employment and expected increase of gross wages.

Corporate Income Tax

The original plan of corporate income tax revenue was set at HRK 3.488 billion, which represented an increase of 11.4% compared to 2004. Within the supplementary budget this plan was revised and set at HRK 4.071 billion. Namely, in first six months of 2005, around 73.3% of the original yearly plan was already collected. Although there is a great seasonality present in collection of this revenue, which due to dynamics of the payments are collected intensively in the first part of the year, this outturn for six months was rather high so that the annual plan for 2005 was revised upwards by HRK 582.4 million.

Corporate income tax revenue was collected in the amount of HRK 3.951 billion in 2005, which represents 97.1% of the revised plan, while observing on the annual level an increase of 26.2% was recorded. Such high annual increase is primarily the result of good business results of Croatian enterprises in 2004 but also due to fact that for 2005 expanded tax base was used. Namely, in 2004 (unlike in 2003) the cleaning of the balance sheets of enterprises was not present, to decrease the tax base of the corporate income tax, neither there was one off write offs of receivables which turned out to be the main reasons behind lower revenue collection from this source in 2004. Observing figure 2.5. it is clearly evident the increase in this revenue throughout 2005 compared to 2004 outturns. The increase is particularly high in April when annual tax settlements come due.

Figure 2.5. Corporate tax revenue trends in 2004 and 2005



In the end of 2004, Amendments to the Law on corporate income tax were adopted by the Croatian parliament on its session on December 3rd 2004 (National Gazette, No 177/04). According to these amendments, the tax rate stays at 20%, which is one of the lowest in Europe. Also, with these amendments some new exemptions were introduced aimed at the increase in entrepreneurial activity in Croatia. New law started to be effective as of January 1st 2005.

During 2005, following amendments to the Law and Ordinances took place:

Minister of finance issued the Ordinance on corporate income tax (National Gazette, No 01/05 and 14/05), as a temporary by-law, regulating tax payments by subtraction and advances which was put out of force with the adoption of the new Ordinance on corporate income tax (National Gazette, No 95/05). On its session of July 13th of 2005, Croatian Parliament adopted a decision of proclamation of the Law on amendments of Law on corporate income tax (national Gazette, No 90/05) which excluded the following items:

- article 21 - exemptions and deductions for tax payers on area of special state concern
- article 22 - exemptions for tax payers in the City of Vukovar area
- article 23 - exemptions for tax payers in mountain and hill areas
- article 24 - exemptions and deductions for tax payers in free zones



These exemptions, deductions and incentives were not abolished but regulated within special laws:

- Law on amendments of the Law on areas of special state concern (National Gazette, No 90/05)
- Law on reconstruction and development of the City of Vukovar (National Gazette, No 44/01 and 90/05)
- Law on mountain and hill areas (national Gazette, No 12/02, 32/02, 117/03, 42/05 and 90/05)
- Law on free zones (national gazette, No 44/96 and 92/05).

Taxes on Property

The original plan for taxes on property was set at HRK 387.2 million for 2005, while the expected amount according to the supplementary budget was reduced to the level of HRK 377.2 million, which represents an increase of 6% compared to 2004. Total collected amount of revenue from taxes on property amounted to HRK 375.5 million, which is broadly in line with the plan or 5.5% above the outturn of 2004. This revenue was collected totally from real estate transactions. The reason for relatively good outturn of this revenue lies in increased level of real estate transactions, as well as in increased real estate prices. Similar is expected in following years.

Value-added Tax

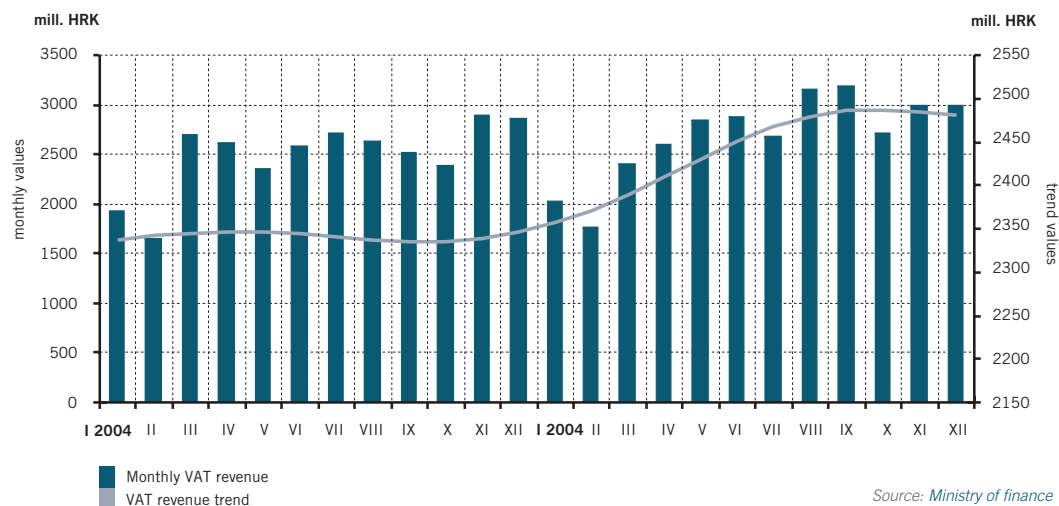
Value-added tax is the most important revenue source of the budgetary central government. Totally, HRK 32.243 billion was collected from this source in 2005 which is by 8% above the collected amount in 2004. Within the structure of tax revenue, value-added tax revenue accounted for 63.6% in 2005 speaking in favor of the importance of this tax for the budget.

Compared to the planned amount, value-added revenue collection is by HRK 537.2 million above the planned amount or 1.7%. Such an outturn is partly caused with the exceptional tourist season (largest amounts of VAT collected in August and September) and with strong economic activity in the second, third and the last quarter of the year. Also, the final outturn was partly affected with amendments of the Law on value-added tax. Namely, in July, Law on amendments of the Law on value-added tax was adopted which included the provision of prolonging the time limit for the return of VAT from 15 to 30 days which was one of factors in»uencing high growth of the VAT revenue in the third quarter. Namely, only in the third quarter of 2005, VAT revenue increased by 14.8% compared to the same period of the previous year, which is the cumulative effect of the before mentioned legal change and good tourist season. All of these factors affected the improved revenue collection from this source in the second half of the year and consequently to the final outturn above the plan for 2005.

Within the structure of the value-added tax the most important stays the value-added tax paid on imports, which in 2005 accounted for 66.5% of total VAT revenue. VAT paid on imports recorded an annual increase of 11.7% compared to 2004. The biggest monthly VAT revenue collection in 2005 was recorded in August (HRK 3.159 billion), in November (HRK 2.987 billion) and in December (2.985 billion). Such dynamics of monthly VAT revenue collections was primarily affected with stronger economic activity during the second half of the year, exceptional tourist season, and also the revenue from those tax payers who pay for their tax obligations quarterly. To account and to pay the VAT quarterly are obliged those tax payers which delivery of goods and services do not exceed HRK 85 thousand per annum.



Figure 2.6. Value-added tax revenue monthly trends



Also, in 2005, the Law on amendments of the Law on value-added tax was adopted (National Gazette 90/05 as of July 25th 2005 - to be effective as of January 1st 2006) the abolishment of the zero VAT rate for services of organized tourist arrivals paid by abroad transfers and the introduction of the reduced rate of 10% for services of accommodation, accommodation with breakfast, half board and full board in all commercial tourist facilities, and for services of agency associated with those services. With the intention to align the Ordinance with the provisions of the new Law on value-added tax, Ordinance on amendments of the value-added tax was adopted (National Gazette, No 153/05) as well as new forms for tax evidence (forms U-RA, I-RA), for claim of value-added tax and final tax claim (PDV-K).

Excises

Excise taxes were collected in the amount of HRK 8.178 billion in 2005, which compared to 2004 represents an increase of 3%. Excise taxes were collected at the level of 99.4% or HRK 49.2 million below the supplementary budget plan. Observing those categories of excise taxes which were collected below the plan for 2005, the biggest downfall was recorded in excise tax on coffee and excise tax on nonalcoholic beverages. Planned levels were reached only by excise tax on luxury goods, excise tax on beer and excise tax on oil derivatives, while also a moderate downfall was recorded in excise tax on cars, motor vehicles, boats and airplanes, excise tax on alcohol and excise tax on tobacco products.

Table 2.2: Excise tax revenue trends

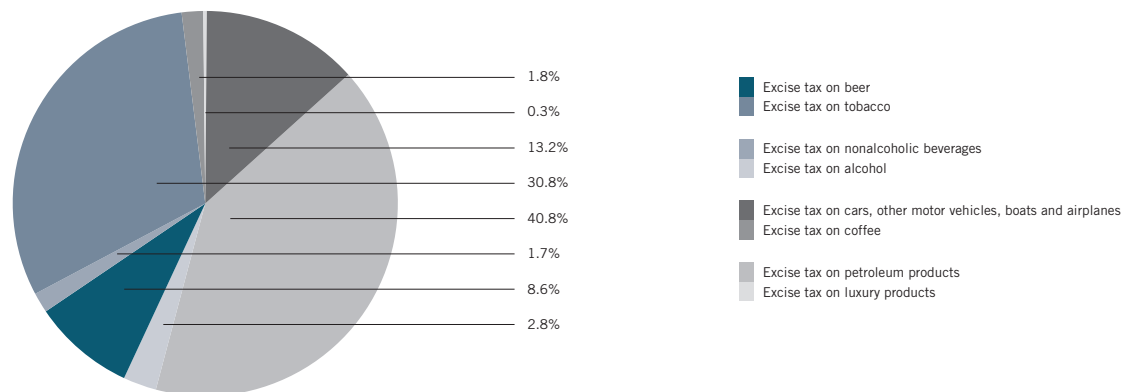
(000 HRK)	Outturn 2004	New plan 2005	Outturn 2005	Index 2005/2004	Index 2005/Plan 05
Excises	7,941,553.7	8,226,882.8	8,177,659.1	103.0	99.4
- Excise tax on cars, other motor vehicles, boats and airpl.	945,209.1	1,106,990.5	1,080,925.8	114.4	97.6
- Excise tax on petroleum products	3,325,659.0	3,325,659.0	3,337,501.2	100.4	100.4
- Excise tax on alcohol	230,795.7	230,795.7	228,385.9	99.0	99.0
- Excise tax on beer	718,277.7	682,363.8	702,386.1	97.8	102.9
- Excise tax on nonalcoholic beverages	132,984.0	159,580.8	141,904.5	106.7	88.9
- Excise tax on tobacco	2,430,843.3	2,528,077.1	2,518,801.3	103.6	99.6
- Excise tax on coffee	135,437.0	171,068.1	145,334.4	107.3	85.0
- Excise tax on luxury products	22,348.0	22,348.0	22,419.9	100.3	100.3

Source: Ministry of finance



Compared to 2004, the biggest increase was recorded in excise tax on cars, motor vehicles, boats and airplanes (14.4%), then in excise tax on coffee (7.3%), excise tax on nonalcoholic beverages (6.7%) and excise tax on tobacco products (3.6%). Reasons for the mismatch in collected amounts to their plans for certain excise tax categories primarily lie in effects of the grey economy. The share of excise tax revenue in total tax revenue declined from 16.8% in 2004 to 16.1% in 2005. Within the excise tax revenue structure, the most important category stays the excise tax on petroleum products which accounted to 40.8% of total excises and excise tax on tobacco products with their share of 30.8% of total excises. Although in past several years reductions of the share of total excise revenue to total revenue have been recorded, and hence their importance for the overall budget, this trend should be revised due to fact that these revenues are easy to collect and contribute to the progressives of the tax system.

Figure 2.7. Structure of excise tax revenues in 2005



Source: Ministry of finance

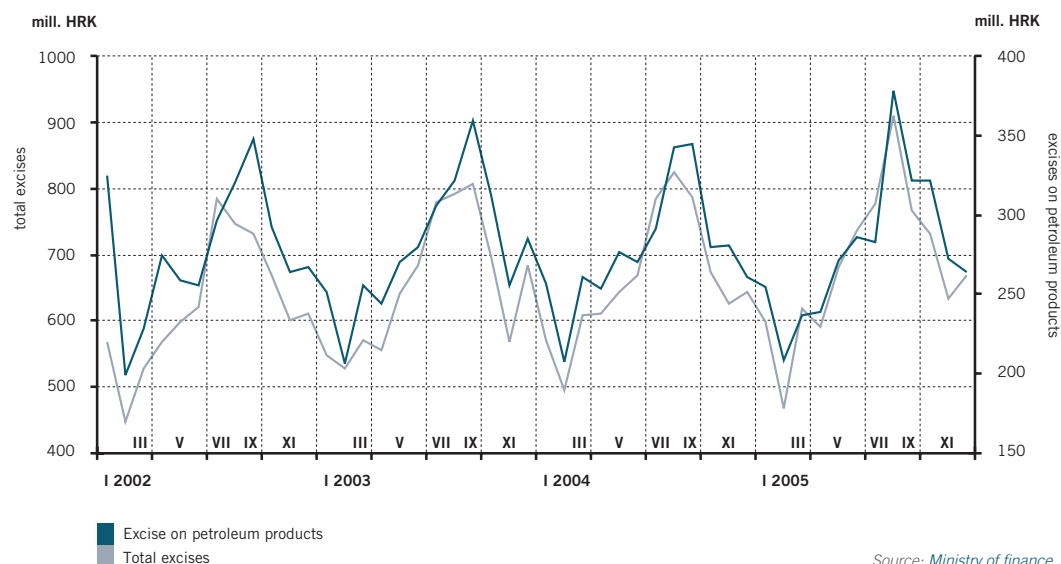
As it was previously mentioned, excise tax on petroleum products has the most important role in total excises. With the supplementary budget for 2005, the expected level of this revenue was reduced by HRK 347 million compared to the original plan for 2005, which equals the level of 2004. These changes within the supplementary budget were in line with the outturn in first six months of 2005 when only 40.7% was collected compared to the original 2005 plan. Due to good tourist season, revenue from excise tax on petroleum products recorded an increase in August, which contributed to better cumulative result on year level.

Revenue from excise tax on petroleum product was collected in the amount of HRK 3.338 billion, which accounted for 40.8% of total excise revenue. Although excise tax on petroleum products have the largest and hence most important share in total excise revenue, its share in total excises was moderately reduced compared to 2004 when it accounted to 41.9%.

Revenue from excise tax on petroleum products were realized in line with the supplementary budget plan, namely on the level of 2004. Such trends, especially taking into account exceptional tourist season, clearly indicate to the presence of grey economy associated with petroleum product while efforts to restrain such activities could substantially increase the overall level of collected revenue.



Figure 2.8. Total excise revenue and excise on petroleum products revenue monthly trends



If quantitative deliveries of certain fuels subject to excise tax on petroleum products are observed, it can be seen that in 2005 a significant drop in quantity deliveries of the gasoline 98 occurred. Namely, delivered quantities of this fuel decreased by 62.6% compared to 2004. On the other hand, deliveries of the unleaded gasoline increased by 1%, deliveries of diesel by 9.5% and deliveries of blue diesel by 5.8%.

Table 2.3. Quantities of oil derivatives in 2004 and 2005

litres	Gasoline - 98			Unleaded gasoline			DIESEL			BLUE DIESEL		
	2004	2005	Index 05/04	2004	2005	Index 05/04	2004	2005	Index 05/04	2004	2005	Index 05/04
january	8,163,777	2,793,909	34.2	59,491,972	59,188,465	99.5	72,462,465	82,911,761	114.4	7,568,538	8,968,383	118.5
february	7,404,415	2,798,940	37.8	57,356,782	54,513,167	95.0	79,554,220	84,357,342	106.0	9,734,541	4,827,708	49.6
march	6,988,891	2,950,618	42.2	66,869,661	67,987,405	101.7	100,421,173	103,066,535	102.6	10,385,990	10,157,990	97.8
april	6,667,658	2,492,648	37.4	73,197,271	69,457,419	94.9	99,650,881	111,689,898	112.1	11,094,257	15,699,138	141.5
may	6,062,052	2,486,408	41.0	70,263,295	76,849,958	109.4	103,742,632	121,150,927	116.8	13,920,191	14,757,652	106.0
june	5,791,918	2,460,397	42.5	77,194,385	82,111,079	106.4	115,187,440	126,117,395	109.5	11,614,406	14,346,981	123.5
july	5,960,443	2,280,523	38.3	95,677,163	95,448,111	99.8	120,643,800	134,135,456	111.2	15,263,437	15,420,401	101.0
august	5,533,246	2,551,813	46.1	102,507,626	103,401,460	100.9	119,736,465	138,399,465	115.6	14,430,272	13,832,389	95.9
september	4,892,459	1,982,202	40.5	75,471,618	76,821,944	101.8	115,305,359	123,913,745	107.5	15,262,642	18,720,435	122.7
october	4,524,783	1,725,832	38.1	69,707,513	72,257,751	103.7	108,759,841	119,823,856	110.2	19,058,904	21,856,722	114.7
november	3,931,365	1,066,377	27.1	64,009,300	66,353,861	103.7	100,451,828	108,355,449	107.9	16,735,441	18,665,187	111.5
december	3,835,512	504,204	13.1	70,727,088	66,683,829	94.3	101,421,247	101,431,752	100.0	13,246,647	10,321,806	77.9
TOTAL	69,756,519	26,093,871	37.4	882,473,674	891,074,449	101.0	1,237,337,351	1,355,353,581	109.5	158,315,266	167,574,792	105.8

Source: Ministry of finance - customs administration



Revenue from excise tax on tobacco products accounted for 30.8% of total excise revenue in 2005, representing second important excise tax revenue source. Supplementary budget for 2005 set the plan for this excise category at HRK 2.528 billion. In 2005, the share of excise on tobacco products increased by 0.2 percentage points in total excises. Revenue from excise tax on tobacco was collected in the amount roughly in line with the plan, while compared to 2004 increase of 3.6% was recorded. This is an improvement in collection of revenue from this source compared to the very beginning of 2005. However, since in 2004 excise tariffs on tobacco were increased, higher growth than actually realized was anticipated. This increase in excise tariffs on tobacco products was introduced in July of 2004 and it was expected to materialize in higher annual increase, primarily in the first half of 2005. However, this effect did not take place partly due to stagnating of economy in the first quarter of 2005 and partly due to existence of grey economy regarding the production and trade of cigarettes. To cope with the existence of the grey market of these products, in August of 2005, stamps on cigarettes were introduced accompanied with control measures by customs administration of the import and export of tobacco products. These measures gave first positive results already in the second half of 2005. Nevertheless, it is still evident that unofficial economy exists in cigarette trade. The existence of the grey economy produces great damages for the budget due that great efforts and coordination of various state institutions is required for its repression.

Table 2.4. Produced quantities of cigarettes for domestic market and export, and import of foreign cigarettes in packages for 2004 and 2005

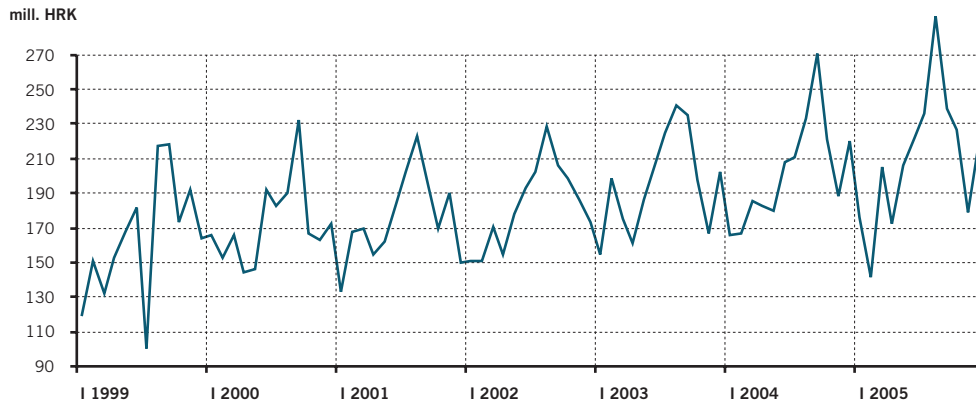
packages	Production for domestic market			Production for export			Total production			Import of cigarettes		
	2004	2005	Index 05/04	2004	2005	Index 05/04	2004	2005	Index 05/04	2004	2005	Index 05/04
january	30,168,786	22,810,137	75.6	23,810,548	14,876,720	62.5	53,979,334	37,686,857	69.8	1,500	22,000	1,466.7
february	28,581,720	26,838,377	93.9	22,538,080	31,222,143	138.5	51,119,800	58,060,520	113.6	267,500	22,500	8.4
march	31,266,861	27,825,423	89.0	28,265,939	29,592,361	104.7	59,532,800	57,417,784	96.4	108,000	318,000	294.4
april	32,722,814	29,543,891	90.3	29,525,786	25,848,649	87.5	62,248,600	55,392,540	89.0	201,250	150,500	74.8
may	35,621,525	32,122,422	90.2	24,443,975	27,159,903	111.1	60,065,500	59,282,325	98.7	286,750	149,500	52.1
june	33,904,156	35,331,496	104.2	30,524,744	37,910,978	124.2	64,428,900	73,242,474	113.7	266,000	342,500	128.8
july	30,295,543	39,026,852	128.8	35,989,058	40,508,989	112.6	66,284,601	79,535,841	120.0	302,750	414,750	137.0
august	38,151,080	35,754,062	93.7	40,477,075	39,347,065	97.2	78,628,155	75,101,127	95.5	125,000	536,250	429.0
september	32,038,721	32,821,608	102.4	33,502,529	31,910,446	95.2	65,541,250	64,732,054	98.8	326,000	128,000	39.3
october	28,502,778	27,319,821	95.8	31,688,676	26,103,223	82.4	60,191,454	53,423,044	88.8	199,750	165,250	82.7
november	30,508,355	30,566,931	100.2	37,434,989	26,357,949	70.4	67,943,344	56,924,880	83.8	25,000	1,727,500	6,910.0
december	27,385,894	25,855,082	94.4	41,909,103	31,007,965	74.0	69,294,997	56,863,047	82.1	507,000	2,982,300	588.2
TOTAL	379,148,233	365,816,102	96.5	380,110,502	361,846,391	95.2	759,258,735	727,662,493	95.8	2,616,500	6,959,050	266.0

Source: Ministry of finance - customs administration

It is evident from the previous table that import of foreign cigarettes increased in 2005 reaching triple the amount of the previous year. In the same time, production of cigarettes was reduced by 4.2% mostly referring to production for imports than to production for domestic use.



Figure 2.9. Excise taxes on tobacco monthly trends



Source: Ministry of finance

Regarding the importance in the total excise tax revenue, revenue from excise tax on cars, other motor vehicles, boats and airplanes takes the third place. The share of this source revenue in total excises has been growing steadily from year to year reaching 13.2% in 2005 or 1.3 percentage points more than in 2004. This revenue was collected in the amount of HRK 1.081 billion in 2005. Its high annual increase of 14.4% originates from the increase in car sales primarily and also due to higher levels of excise tariffs. It is worth to mention that only in July and August a decrease compared to the previous year was recorded. This decrease is the result of the decrease in car sales in July of 2005 compared to July 2004. Namely, in July of 2004 new, higher, tariffs were introduced so that prior to their coming in force increased car sales took place in order to take the opportunity of lower tariffs. In July of 2004, totally 9 thousand cars was sold or 12% more than in the same period of 2003. On the other hand, in July of 2005 totally 7514 cars was sold or 16.5% less than in the same period of the previous year.

All other excise taxes collected totally HRK 1.240 billion in 2005. The share of revenue from excise tax on nonalcoholic beverages and from excise tax on luxury goods in total excise revenue stood at the level of the previous year averaging at 1.7% and 0.3% respectively. Revenue from excise tax on nonalcoholic beverages amounted to the level which was by 11.1% lower than the supplementary budget plan primarily due to collections during the second half of the year. Revenue from excise tax on luxury products amounted to HRK 22.4 million in 2005 and as such equaled the amount of the previous year.

Revenue from excise tax on coffee recorded an annual increase of 7.3% and increased their share in total excise revenue by 0.1 percentage points. Nevertheless, this revenue was realized only at 85% of the supplementary budget plan mostly due to slower revenue collection in the second half of the year. Revenue from excise tax on coffee and revenue from excise tax on nonalcoholic beverages recorded highest decreases in comparison with the plan.

Revenue from excise tax on beer were collected in the amount of HRK 702.4 million in 2004 and have recorded an increase of 2.9% compared to the plan. Compared to 2004, this revenue recorded a decrease of 2.2% while its share in total excises was decreased by 0.4 percentage points. As it can be seen from the following table, total delivered quantities of beer increased by 1.3% compared to 2004.



Table 2.5. Beer quantities in 2003, 2004 and 2005

hectolitres	2003	2004	2005	2005/2004
january	134,049.2	147,935.2	129,761.0	87.7
february	161,399.2	189,988.3	168,187.5	88.5
march	228,164.7	234,540.3	238,590.5	101.7
april	306,364.8	320,587.7	303,315.4	94.6
may	368,149.8	327,862.6	365,685.1	111.5
june	482,279.0	459,109.0	477,168.7	103.9
july	481,249.4	465,933.0	421,760.8	90.5
august	483,365.7	426,969.7	452,526.0	106.0
september	304,042.5	293,483.1	297,559.8	101.4
october	251,704.4	241,893.3	254,873.4	105.4
november	217,574.5	204,335.3	221,673.7	108.5
december	294,650.8	251,126.1	279,687.4	111.4
TOTAL	3,712,993.9	3,563,763.7	3,610,789.1	101.3

Source: Ministry of finance - customs administration

Reduction was recorded also in revenue from excise tax on alcohol, which in 2005 were collected in the amount of HRK 228.4 million. This revenue was realized at 99% of the plan while compared to 2004 a decrease of 1% was recorded.

However, it is worth to mention that delivered quantities of alcoholic drinks throughout the year, except for the beginning of 2005, were above those in 2004. Total delivered quantities of alcoholic drinks increased by 5.8% in 2005 compared to 2004. Nevertheless, revenue from this source recorded an annual decrease pointing to existence of the grey economy even in this area.

Table 2.6. Quantities of alcoholic drinks in 2003, 2004 and 2005

hectolitres	2003	2004	2005	2005/2004
january	237,816.0	240,223.5	209,746.1	87.3
february	262,327.8	240,900.2	222,352.3	92.3
march	271,155.4	249,945.6	253,919.6	101.6
april	301,473.8	301,528.3	245,647.6	81.5
may	317,118.8	312,800.0	320,314.9	102.4
june	316,247.6	328,021.6	361,249.4	110.1
july	355,673.6	378,067.7	392,448.3	103.8
august	337,425.3	358,541.3	396,887.6	110.7
september	316,325.6	284,656.7	308,153.4	108.3
october	299,651.1	252,797.7	273,332.7	108.1
november	308,164.9	266,250.1	303,058.0	113.8
december	463,599.7	324,707.6	456,785.5	140.7
TOTAL	3,786,979.6	3,538,440.4	3,743,895.4	105.8

Source: Ministry of finance - customs administration

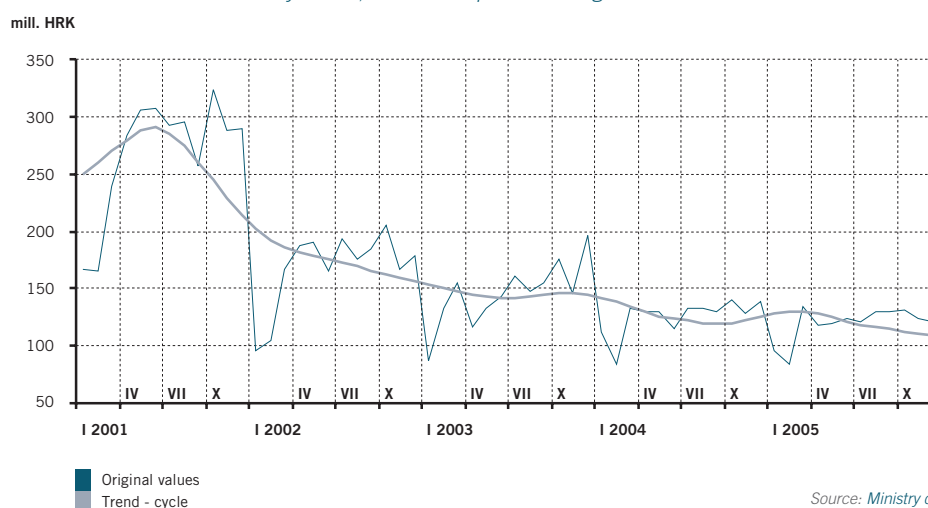
Revenue from Taxes on International Trade

During 2005, total of HRK 1.563 billion of revenue was collected from custom duties. The amount of collected custom duties is in line with the budget plan, while compared to 2004 this revenue recorded a decrease of 1.7%.

With the aim to develop the international cooperation, in the period January 2000 to December 2004, negotiations with at least ten countries on avoidance of double taxation were concluded. Also, Croatia has concluded numerous agreements on free trade which facilitated the export and import, but also affected the reduction in customs revenue. The share of customs revenue in total tax revenue accounted to 4.8% in 2002 while this share accounted to 3.1% in 2005, similar, the importance of this revenue source for the budget declined, which can be expected even further to happen. Although certain declines can be expected, as previously mentioned, in future years these declines will be of lower magnitude due to fact that the process of liberalization of foreign trade with other countries is finished to the largest extent.



Figure 2.10. Customs revenue monthly trends, in constant prices (average 2001 = 100)



Source: Ministry of finance

Other Tax Revenue

Other taxes revenue was collected in the amount of HRK 369 million in 2005 or 10.4% below the plan. This decline to the planned amount in other taxes revenue results from lower than expected outturn of state and court fees. Namely, state and court fees have the largest share in other taxes, 99.7% in 2005. These fees amounted to HRK 368.1 million in 2005, which is by 8.4% below the plan. Beside this, other taxes incorporate other miscellaneous tax revenues which in 2005 amounted to only HRK 932.5 thousand.

Within the tax system of the Republic of Croatia, some important amendments to laws and regulations occurred during 2005. Namely, on December 21st 2005, Law on amendments of Law on administrative fees was adopted according to which fees regarding the internal affairs were increased. Customs tariffs were changed within the Decree on amendments to the Tariffs of Law on administrative fees.

Also, the Republic of Croatia started to apply agreements on avoidance of the double taxation as of January 1st 2005 with following countries:

- Agreement on avoidance of double taxation and detaining of the avoidance of paying of personal income tax and taxes on property between the Republic of Croatia and the Kingdom of Belgium
- Agreement on avoidance of double taxation and detaining of the avoidance of paying of personal income tax and taxes on property between the Government of the Republic of Croatia and the Government of the Republic of Belarus
- Agreement on avoidance of double taxation and detaining of the avoidance of paying of personal income tax between the Republic of Croatia and the Republic of Chile
- Agreement on avoidance of double taxation and detaining of the avoidance of paying of personal income tax between the Government of the Republic of Croatia and the Government of the Republic of Estonia
- Agreement on avoidance of double taxation and detaining of the avoidance of paying of personal income tax between the Government of the Republic of Croatia and the Government of the Republic of Malaysia
- Agreement on avoidance of double taxation regarding personal income tax and taxes on property between the Government of the Republic of Croatia and the Government of the Republic of Yugoslavia

2.2.2.2 Social Security Contributions

Social security contributions were planned in the amount of HRK 31.485 billion in 2005. This revenue was collected in the amount of HRK 31.301 billion in 2005 which represents an annual increase of 6.2%. Such an outturn is broadly in line with the plan, namely represents 99.4% of the plan. Social contributions in 2005 clearly show the correlation with the economic trends, namely with trends in employment and wages. Within the structure of social security contributions the largest part relates to employer contributions (53.3%) which recorded an annual increase of 6.1% in 2005 compared to the previous year while in the same time an increase of 6.8% to the plan was recorded. Employer contributions amounted to HRK 16.69 billion in 2005. Within the structure of employer contributions the largest part relates to contributions



for health insurance which in 2005 accounted for 90% of total employer contributions. The reminder of employer contributions refers to pension insurance contributions and employment contributions. In the same time, employee contributions recorded an annual increase of 5.5% and accounted for 44.3% of total social security contributions. These contributions were collected in the amount of HRK 13.857 billion in 2005 and refer totally, unlike employer contributions, to contributions for pension insurance. The smallest share in total contributions of only 2.4% belongs to social contributions of unemployed and self-employed persons. These contributions were collected in the amount of HRK 748.5 million. It is worth to mention that contributions of unemployed and self-employed persons recorded a high annual increase of 24.6%.

Figure 2.11. Social contributions revenue trends in 2004 and 2005, by months



Source: Ministry of finance

2.2.2.3 Grants

In 2005, grants were planned in the amount of HRK 80.4 million, while their outturn accounted for only 34.2% of the plan. Namely, grants were realized in the amount of HRK 27.5 million. Grants, almost entirely, were those from international organizations in the amount of HRK 27.4 million. Grants from international organizations mostly referred to current grants (68.9%) while the reminder originated from capital grants.

2.2.2.4 Property Income

Total property income (financial and nonfinancial) was set at HRK 2.165 billion by the plan for 2005, while the final outturn amounted to HRK 2.227 billion. Hence, this revenue exceeded the plan value by 2.8%.

Financial property income was planned in the amount of HRK 1.614 billion and was realized in the amount of HRK 1.379 billion which is by 16% below the plan. This revenue in 2005 originated from interest on deposits and demand deposits, dividends and withdrawals from income of quasi-corporations. In 2005, the largest part of this revenue originated from dividends which accounted for 81.5% of total financial property income and for 49.4% of total property income.

Interest revenue was collected by 17% above the plan for 2005 and amounted to HRK 62.8 million, while withdrawals from income of quasi-corporations exceeded the plan by HRK 142.5 million. His revenue amounted to HRK 192.5 million in 2005, while according to the supplementary budget only HRK 50 million was anticipated.

Nonfinancial property income, rent revenue, was planned in the amount of HRK 524.2 million in 2005 and was realized by 61.8% above the yearly plan, namely in the amount of HRK 848 million. The most important single revenue source within this revenue category refers to concessions which accounted for 52% of total rent revenue. Amid concession revenues, the most important were frequency concessions in 2005. Total frequency concessions amounted to HRK 392.7 million in 2005 consisting



of radio concessions beside the concession for the third GSM. The amount of HRK 196.7 million was received in 2005 as a deferred payment of third GSM concession from 2004. Other concessions were collected as well in 2005 such as concessions for use of waters, casinos, maritime land, customs zones and other concessions.

In 2005, within rent, revenue from lending of property and other nonfinancial property revenue were collected, as well, as road charges. Revenue from lending of property amounted to HRK 30.3 million in 2005 which represents an increase of 49.7% compared to 2004. The largest part of this amount refers to lending of the agricultural land and also from other real estate, from use of agricultural land belonging to the Republic of Croatia and from use of forests belonging to the Republic of Croatia.

Other nonfinancial property income revenue amounted to HRK 397.6 million in 2005 which is by HRK 345.6 million above the plan, primarily as the result from sales of monetary gold and succession revenues. Other nonfinancial property income revenue was collected from use of oil terminals and oil pipes, hunting permits, fishing permits, monumental fees, use of cultural goods and revalued amount of the real estate debt. Of those mentioned the most important stay monumental fees which in 2005 amounted to HRK 46.8 million.

Table 2.7. Property income revenue

(000 HRK)	2004	2005	Index 2005/2004
Property income	2,667,701.0	2,226,646.9	83.5
Interest	35,752.0	62,784.1	175.6
Dividends	1,868,840.6	1,123,345.9	60.1
Withdrawals from income of quasi-corporations	146,819.9	192,515.7	131.1
Property income attrib. to insurance policyholder	0.0	0.0	-
Rent	616,288.5	848,001.2	137.6

Source: Ministry of finance

2.2.2.5 Sales of Goods and Services

Revenue from sales of goods and services amounted to HRK 782.4 million in 2005 which compared to 2004 represents an increase of 15.6%. Compared to the planned amount this revenue was realized by 4% more. Revenue from sales of goods and services originate from administrative fees and incidental sales by non-market establishments. Administrative fees were collected in the amount of HRK 397.1 million in 2005 which is an increase of 1.4% to the plan. Within the structure of administrative fees the largest share relates to public administration revenues. Beside these, in 2005, revenue from other administrative fees and other fees were collected. Other administrative fees by large originated from sales of state stamps and notary public fees. Other administrative fees were collected also from fees associated with the issuance of long-term securities, border crossing fees, fees paid by persons in transit, fees for the access to the Court register, fees in the legal area of industrial property and similar fees.

Incidental fees by non-market establishments amounted to HRK 385.4 million in 2005 or 6.9% above the plan. The largest share in incidental sales by non-market establishments, of 91.8%, relates to revenue from performing the basic operations of the own activities. This revenue was collected in the amount of HRK 353.6 million in 2005. Other revenues within the incidental sales are much lower in amounts and originate from performing of own activities (HRK 31.8 million). Incidental sales by non-market establishments recorded an annual increase of 5.9% in 2005.

2.2.2.6 Revenue from Fines, Penalties and Forfeits, Voluntary Transfers and Miscellaneous and Other Unidentified Revenue

Fines, penalties and forfeits were planned in the amount of HRK 391.3 million in 2005 and were realized by 7.8% below the plan, namely in the amount of HRK 360.7 million. Compared to 2004, these revenues recorded an increase of 5.4%. The largest part of these revenues refer to traffic fines which in 2005 were collected in the amount of HRK 197 million or by 22.5% above the 2004 amount. Traffic fines accounted for 54.6% in total revenue from fines, penalties and forfeits. Customs fines follow with the share of 10.3% and their collected amount of HRK 37.1 million in 2005. Other fines have smaller shares and refer to tax fines, criminal fines, foreign exchange fines, economic violation



finances and other fines (for various violations belonging to the state according to court settlements, paid fees for forcible payments, cash confiscated under the special regulations, fire protection fines and others).

Voluntary transfers other than grants were planned in the amount of HRK 23.4 million in 2005 and were realized at the level of only 24.1% of the plan, namely in the amount of HRK 5.7 million. This revenue refers to current donations from legal and physical persons outside the general government.

Miscellaneous and other unidentified revenue was planned in the amount of HRK 174.9 million in 2005 and were collected by 49.4% above the plan. From this source, totally HRK 261.2 million was collected where the largest part relates to return of the unused resources from previous years and revenue originating from refunding of expenses from previous years. Other revenues within the category of miscellaneous and other unidentified revenue are much smaller in amount than these two mentioned categories.



2.3 BUDGETARY CENTRAL GOVERNMENT EXPENSE

2.3.1 Budgetary Central Government Expense Plan

Croatian Parliament adopted the State Budget of the Republic of Croatia for 2005 on its session of November 24th of 2004. With the main objective to continue with the process of fiscal consolidation total expense plan for 2005 was set at HRK 87.325 billion which represented an annual increase of 5% compared to the outturn of 2004. During the first half of 2005, and in particular in the first quarter the increase in the economic activity turned out to be somewhat slower than previously expected during the creation of the Budget for 2005. Due to this fact, revenue of the State Budget were collected less intensively than previously expected while in the same time a need to change the original structure of the expense side of the Budget occurred. Hence, on its session of July 12th of 2005, Croatian Parliament adopted Amendments to the State Budget of the Republic of Croatia by which revenue plan was revised to a lower expected level while total expense plan was set at the level of HRK 87.633 billion, namely expense plan was increased by HRK 307.5 million. Hence, according to the Amendments to the State Budget, total annual increase of 5.4% was envisaged for expense. With the supplementary plan for 2005, compensation of employees plan was expanded by HRK 362 million, expense for use of goods and services plan was reduced by HRK 285.4 million, interest expense plan was reduced by HRK 22.2 million, subsidies plan was reduced by HRK 86.5 million, grants were reduced by HRK 149.7 million, social benefits plan was expanded by HRK 500 million while other expense plan was reduced by HRK 10,6 million. The largest increases according to the new plan of expense were secured for compensation of employees and for pension expenses within the category of social benefits. In the same time, compensation of employees and social benefits represent the largest part of total expenses of the budgetary central government so that according to the new plan for 2005, social benefits accounted for 47.3% while compensation of employees accounted for 26.5% of total expense.

2.3.2 Outturn of the Budgetary Central Government Expense

According to final data for 2005, total budgetary central government expense was realized in the amount of HRK 87.857 billion. Such an outturn represents an increase of 5.7% compared to 2004 and in the same time represents the outturn above the 2005 plan by 0.3%.

The final expense realization is by HRK 224 million above the plan for 2005, while observing the structure of expense it can be seen that all of the expense categories except interest and grants were realized below the plan. Interest was realized by HRK 392 million above the plan for 2005. 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. In the same time, grants were realized by HRK 128 million above the plan for the observed period, mainly due to higher than planned current grants to other general government levels.

Out of categories that reported a decrease to the planned amount, other expense reported a decrease of HRK 101.6 million, followed by social benefits (HRK 82.5 million), compensation of employees (HRK 58.2 million), use of goods and services (HRK 51.2 million) and subsidies (HRK 2.1 million).



2 BUDGETARY CENTRAL GOVERNMENT IN 2005

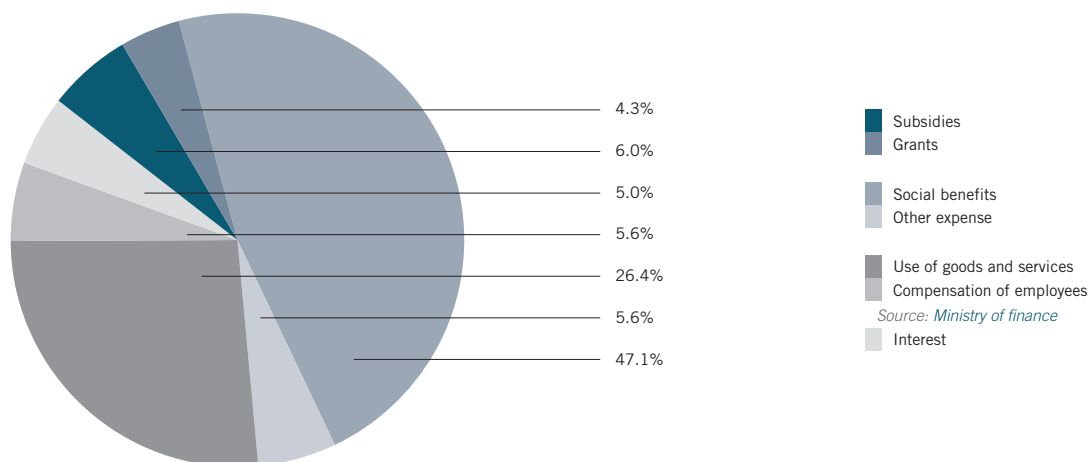
Table 2.8. Budgetary central government expense 2003 - 2005

	(000 HRK)	2003	2004	Plan 2005	2005	Index 2005/2004	Index 2005 / Plan 2005
2	EXPENSE	77,075,487.4	83,131,114.4	87,633,408.8	87,857,464.9	105.7	100.3
21	Compensation of employees	21,225,816.1	22,268,286.7	23,240,776.0	23,182,585.9	104.1	99.7
211	Wages and salaries	18,037,101.2	18,888,605.2	19,769,296.2	19,699,216.4	104.3	99.6
212	Social contributions	3,188,714.9	3,379,681.5	3,471,479.8	3,483,369.5	103.1	100.3
22	Use of goods and services	4,170,610.6	4,358,720.5	5,003,119.4	4,951,917.4	113.6	99.0
24	Interest	3,587,328.9	3,972,466.3	3,995,124.3	4,387,009.7	110.4	109.8
241	To nonresidents	1,879,419.9	1,976,502.3	2,038,637.8	2,053,587.9	103.9	100.7
242	To nonresidents other than general government	1,707,909.0	1,995,964.0	1,956,486.5	2,333,421.8	116.9	119.3
25	Subsidies	4,292,712.4	4,968,068.5	5,250,878.8	5,248,743.7	105.6	100.0
251	To public corporations	1,942,931.7	2,783,462.4	2,755,924.7	2,784,825.0	100.0	101.0
252	To private enterprises	2,349,780.7	2,184,606.1	2,494,954.1	2,463,918.7	112.8	98.8
26	Grants	3,746,958.2	3,420,326.9	3,668,927.0	3,796,846.7	111.0	103.5
261	To foreign governments	43,918.0	76,464.4	74,250.0	73,639.3	96.3	99.2
262	To international organizations	41,239.1	83,433.8	86,626.9	93,831.7	112.5	108.3
263	To other general government units	3,661,801.1	3,260,428.7	3,508,050.1	3,629,375.7	111.3	103.5
27	Social benefits	36,204,270.1	39,730,886.6	41,440,984.4	41,358,454.8	104.1	99.8
271	Social security benefits	28,917,771.5	28,189,471.6	29,465,168.4	29,308,716.4	104.0	99.5
272	Social assistance benefits	6,731,909.7	11,177,314.8	11,772,371.1	11,792,075.3	105.5	100.2
273	Employer social benefits	554,588.9	364,100.2	203,444.9	257,663.1	70.8	126.7
28	Other expense	3,847,791.1	4,412,358.9	5,033,598.9	4,931,906.7	111.8	98.0
282	Miscellaneous other expense	3,841,024.2	4,408,404.3	5,033,598.9	4,926,986.9	111.8	97.9
2821	Current	2,325,646.4	1,842,516.4	2,065,648.3	2,154,806.2	116.9	104.3
2822	Capital	1,515,377.8	2,565,887.9	2,967,950.6	2,772,180.7	108.0	93.4

Source: Ministry of finance

Observing the structure of budgetary central government expense in 2005, it can be seen that the largest share relates to social benefits, which share in total expense amounted to 47.1%. Compensation of employees follows with a share of 26.4% in total expense. Hence, these two largest expense categories account for three quarters of total budgetary central government expense in the observed period.

Figure 2.12. Structure of budgetary central government expense in 2005





2.3.2.1 Compensation of Employees

Total expense plan for compensation of employees was set at the level of HRK 23.240 billion according to the supplementary budget for 2005, which compared to the outturn of 2004 represented an increase of 4.4%. According to final data for 2005, total compensation of employees amounted to HRK 23.182 billion, which is by HRK 58.2 million below the plan for the observed period. In the same time, such realization represents 99.7% of the yearly plan and an increase of this expense of 4.1% compared to the previous year. Within the structure of realized expense for compensation of employees in 2005 the largest part relates to wages and salaries, while the remainder relates to social contributions. Hence, out of total compensation for employees, HRK 19.699 billion or almost 85% related to wages and salaries while the remaining 15% or HRK 3.483 billion related to social contributions.

Table 2.9. Compensation of employees 2003 - 2005

	(000 HRK)	2003	2004	2005	Index 2004 / 2003	Index 2005 / 2004.
21	Compensation of employees	21,225,816.1	22,268,286.7	23,182,585.9	104.9	104.1
211	Wages and salaries	18,037,101.2	18,888,605.2	19,699,216.4	104.7	104.3
212	Social contributions	3,188,714.9	3,379,681.5	3,483,369.5	106.0	103.1

Source: Ministry of finance

2.3.2.2 Use of Goods and Services

According to the supplementary budget for 2005, total expense for use of goods and services were planned in the amount of HRK 5.003 billion. Hence, according to the supplementary budget, total expected expense for use of goods and services was reduced by HRK 285.7 million compared to the original plan for 2005 primarily due to the trend of this expense category observed in the first half of the year which evidently pointed out to a possibility to achieve substantial savings in these expenses by paying attention to a more rational spending. Based on savings in this expense category till end year, according to final data this expense category amounted to HRK 4.952 billion or HRK 51.2 million below the supplementary plan for 2005. Such realization represented an annual increase of 13.6% compared to the previous year and reached 99% of the yearly plan.

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 than half of total expense for use of goods and services. These categories are office equipment, energy, military equipment, current and investment maintenance services, 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.

2.3.2.3 Interest

According to the final data for 2005, interest expense was realized in the amount of HRK 4.387 billion, which represents HRK 391.8 or 9.8% 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 2004, interest expense recorded an annual increase of 10.4%. Observing domestic and foreign component of interest expense, it can be seen that domestic interest expense were realized above the expense for foreign interest as well as it was the case in 2004, while in previous years expense for foreign interest prevailed. This information points out to a gradual development of stronger domestic financial market and to Government firm orientation to borrow at home, which on the other hand has positive implications regarding the total foreign indebtedness.

Observing the structure of interest expense in 2005, it can be seen that the largest part of this expense relates to the interest for issued bonds. Namely, total of HRK 2.863 billion or 65.3% of total interest expense in 2005 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 2.10. Interest expense 2003 - 2005

	(000 HRK)	2003	Structure	2004	Structure	2005	Structure
24	Interest	3,587,328.9	100.0	3,972,466.3	100.0	4,387,009.7	100.0
241	Foreign	1,879,419.9	52.4	1,976,502.3	49.8	2,053,587.9	46.8
242	Domestic	1,707,909.0	47.6	1,995,964.0	50.2	2,333,421.8	53.2

Source: Ministry of finance

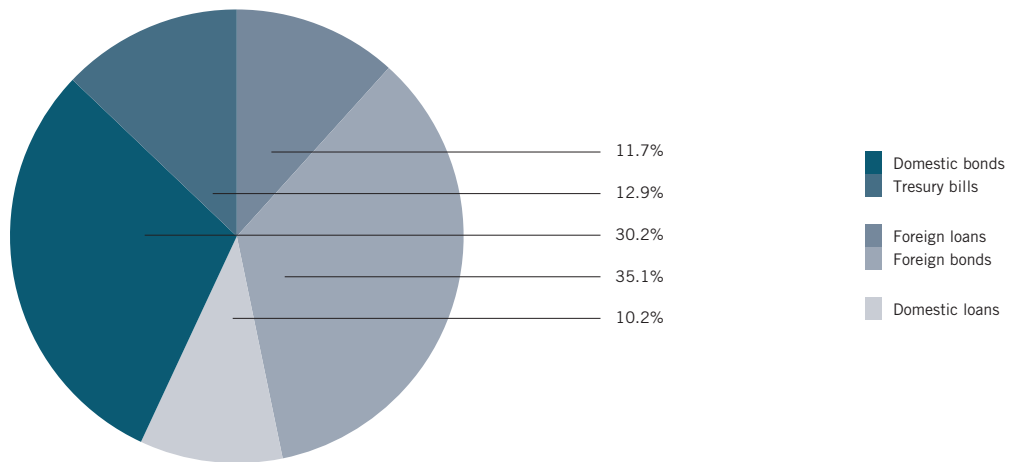


Table 2.11. Interest expense structure 2004 - 2005

(000 HRK)	2004	2005
Interest	3,972,466.3	4,387,009.7
Foreign	1,976,502.3	2,052,566.9
Loans	474,378.2	512,977.7
Bonds	1,502,124.1	1,539,589.1
Domestic	1,995,964.0	2,334,442.8
Tresury bills	330,818.3	564,693.7
Loans	495,717.4	446,187.6
Bonds	1,169,428.3	1,323,561.6

Source: Ministry of finance

Figure 2.13. Interest expense structure in 2005



2.3.2.4 Subsidies

According to the original plan for 2005, total subsidies were planned in the amount of HRK 5.337 billion. According to the supplementary budget, total expense for subsidies were reduced by HRK 86.5 million primarily due to the outturn in the first half of 2005. According to final data for 2005, total subsidies were realized in the amount of HRK 5.249 billion which represents an outturn by HRK 2.1 million below the plan for 2005. In the same time such an outturn represents an annual increase of 5.6%.

Table 2.12. Subsidy expense 2003 - 2005

	(000 HRK)	2003	2004	2005	Index 2004 / 2003	Index 2005 / 2004
25	Subsidies	4,292,712.4	4,968,068.5	5,248,743.7	115.7	105.6
251	To public corporations	1,942,931.7	2,783,462.4	2,784,825.0	143.3	100.0
252	To private enterprises	2,349,780.7	2,184,606.1	2,463,918.7	93.0	112.8

Source: Ministry of finance



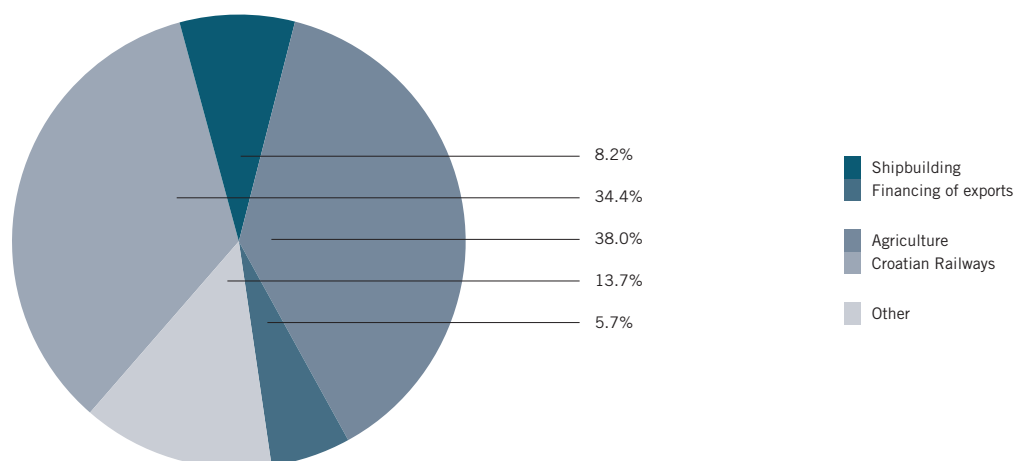
Observing the structure of subsidies in 2005, it can be seen that the subsidies to public corporations were realized above the subsidies to private enterprises. Namely, the share of subsidies to public corporations in total subsidy expense amounted to 53%. The largest part of subsidies to public corporations relates to Croatian Railways, while the largest part of subsidies to private enterprises relates to agricultural subsidies. Namely, subsidies to Croatian Railways accounted for 34.4% and subsidies to agriculture to 38% of total subsidy expense in 2005. Also, it can be noted that the rationalization applied to running the business in Croatian Railways during 2005, reduced the need for subsidies to this company from the state budget.

Table 2.13. Subsidy expense structure 2004 i 2005

(000 HRK)	2004	2005
Subsidies	4,968,068.5	5,248,743.7
Croatian Railways	1,863,371.0	1,806,541.3
Shipbuilding	506,681.1	431,311.1
Agriculture	1,846,820.2	1,993,903.4
Financing of exports	155,751.6	300,000.0
Other	595,444.6	716,987.9

Source: Ministry of finance

Figure 2.14. Subsidy expense structure in 2005



Source: Ministry of finance

2.3.2.5 Grants

Total grants, which relate to grants to foreign governments, grants to international organizations and grants within the general government were set at HRK 3.669 billion according to supplementary budget for 2005. According to final data for 2005, grants were realized in the amount of HRK 3.797 billion, which is by HRK 128 million above the plan or in other words such an outturn is 3.5% above the yearly plan, while the annual increase amounts to 11%. Within the structure of grants, the largest part (95%) relates to grants within the general government. Within the consolidation on the level of consolidated central or general government, expenses for grants within the general government are consolidated (canceled).



Table 2.14. Grants 2003 - 2005

(000 HRK)		2003	2004	2005	Index 2004 / 2003	Index 2005 / 2004
26	Grants	3,746,958.2	3,420,326.9	3,796,846.7	91.3	111.0
261	To foreign governments	43,918.0	76,464.4	73,639.3	174.1	96.3
262	To international organizations	41,239.1	83,433.8	93,831.7	202.3	112.5
263	To other general government	3,661,801.1	3,260,428.7	3,629,375.7	89.0	111.3
2631	Current	3,198,504.5	2,498,597.5	2,623,246.2	78.1	105.0
2632	Capital	463,296.6	761,831.2	1,006,129.5	164.4	132.1

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 72.3%) 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.

2.3.2.5 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. This expense category was planned in the amount of HRK 40.938 billion for year 2005 and as such represented an annual increase of 3% compared to the final outturn of the previous year. Supplementary budget for 2005 set the plan for social benefits at HRK 41.441 million, which compared to the original plan for 2005 represents an increase of HRK 500 million. The reason for the abovementioned increase in the plan of social benefits for 2005 comes from the necessity of securing additional resources for pensions, veteran pensions, additional maternity leave, permanent veteran rights and for unemployment benefits.

According to the final data for 2005, social benefits were realized in the amount of HRK 41.358 million, which is by HRK 82.5 million or by 0.2% less than the planned amount for 2005. In the same time, such an outturn represents an annual increase of 4.1%, where this increase can be elaborated by the conduction of the previously mentioned programs of social care and pensions.

However, the abovementioned increase is in the same time much lower than the annual increase of this expense category in 2004 when it accounted for 9.7%.

Table 2.15. Social benefits 2003 - 2005

(000 HRK)		2003	2004	2005	Index 2004 / 2003.	Index 2005 / 2004
27	Social benefits	36,204,270.1	39,730,886.6	41,358,454.8	109.7	104.1
271	Social security benefits	28,917,771.5	28,189,471.6	29,308,716.4	97.5	104.0
272	Social assistance benefits	6,731,909.7	11,177,314.8	11,792,075.3	166.0	105.5
273	Employer social benefits	554,588.9	364,100.2	257,663.1	65.7	70.8

Source: Ministry of finance

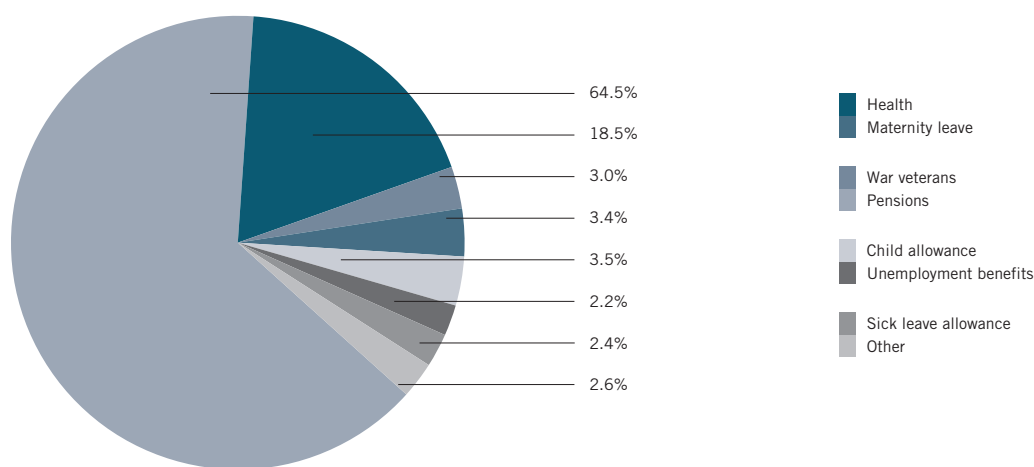
The largest part of total social benefits relates to social security benefits in 2005. This category of social benefits accounted for 71% of the total social benefits in the observed period. Such a large share in total social benefits is not surprising given this item includes the largest parts of expenses for pensions and health system expenses.

Social assistance benefits follow with the share in total social benefits with their share of 28.5% in 2005, while the remaining part relates to employer social benefits. Within the social assistance benefits we can find numerous expenses associated with social rights of which permanent veteran rights, child allowance, additional maternity leave and equipment for newborn children, care assistance and others should be outlined.



The largest part of social assistance benefits relates to veteran pensions, while the large part also relates to pensions of some other pensioner groups such as ex Yugoslav army personnel, World War II veterans, ex political prisoners and others. The smallest part of total social benefits relate to employer social benefits. Within the structure of social benefits, the most important part relates to pensions. Out of total amount for social benefits in 2005, 64.5% relates to pensions. Health expense follows within the structure of total social benefits, which in 2005 accounted to 18.5% of total social benefits. Hence, it is obvious that just two expense categories, namely pensions and health, account for around 85% of total social benefits. In the following figure the structure of social benefits in 2005 is presented.

Figure 2.15. Social benefits structure in 2005



Source: Ministry of finance

Observing the structure of pension expense in 2005, it can be seen that the largest part relates to old-age pensions, family and disability pensions with the social security benefits. These categories account for 72.4% of total pension expense. War veteran pensions were realized in the amount of HRK 2.944 billion in 2005 and as such this expense represents an annual increase of high 7.7%. 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 2005 total of HRK 13.723 billion was paid out for the health, which compared to the previous year represents an increase of 4,8%.

The reason for such relatively moderate 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.

Maternity leave expense was realized in the amount of HRK 1.404 billion in 2005, which represents an increase of almost 33% compared to 2004. 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 1.236 billion, which represents an annual increase of 9%. Total expense for unemployment benefits amounted to HRK 889 million in 2005. Of other important categories within the structure of social benefits it is worth to mention child allowances, which in 2005. amounted to HRK 1.435 billion while sick leave compensations amounted to almost HRK 1 billion.



2.3.2.6 Other Expense

According to GFS 2001 methodology, other expense relate to other current and other capital expenses. Supplementary budget for 2005 set the plan for other expenses at HRK 5.034 billion, which compared to the original plan for 2005 represents a decrease of HRK 10.6 million. According to final data for 2005, total other expense were realized in the amount of HRK 4.932 billion which compared to the previous year represents an increase of 11.8%. In the same time, such outturn represents 98% of the yearly plan. Out of total amount of other expense realized in 2005, 99.9% relates to category miscellaneous other expense while the reminder relates to property expense other than interest. Hence, miscellaneous other expense, which accounts for the largest part of total other expense, amounted to HRK 4.927 billion, made of HRK 2.155 billion in current and HRK 2.772 billion in capital other expense.

Table 2.16. Other expense 2003 - 2005

(000 HRK)		2003	2004	2005	Index 2004 / 2003	Index 2005 / 2004
28	Other expense	3,847,791.1	4,412,358.9	4,931,906.7	114.7	111.8
281	Property expense other than interest	6,766.9	3,954.6	4,919.8	58.4	124.4
282	Miscellaneous other expense	3,841,024.2	4,408,404.3	4,926,986.9	114.8	111.8
2821	Current	2,325,646.4	1,842,516.4	2,154,806.2	79.2	116.9
2822	Capital	1,515,377.8	2,565,887.9	2,772,180.7	169.3	108.0

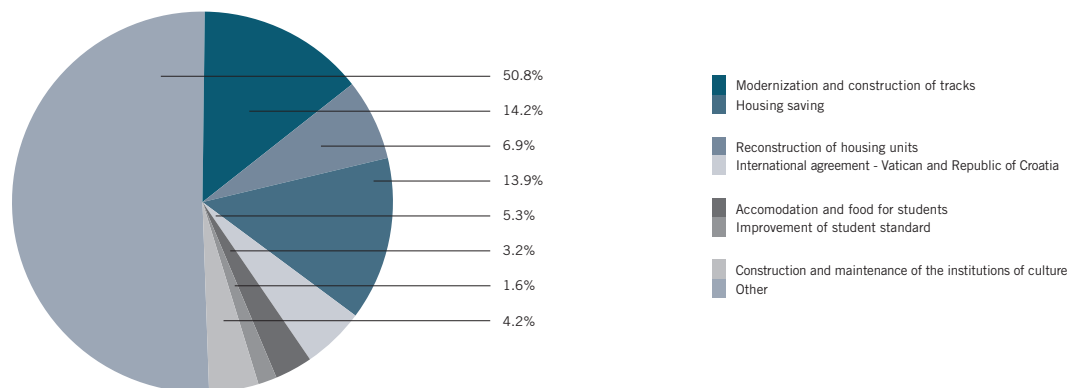
Source: Ministry of finance

Observing the structure of budgetary central government other expense in 2005, it can be noted that the largest part of total other expense relates to capital other expense (56.2%). In the same time, other capital expense was recorded in the amount of HRK 2.772 billion, which represents a significant annual increase of 8%. Within the structure of capital other expense, with the amounts realized, modernization and construction of railway tracks and crossings for international transport, housing savings, and expenses for the reconstruction of war damaged housing units and expenses for protection of monuments of culture and construction, maintenance and reconstruction of institutions of culture should be mentioned. These categories, which we outlined as the most important ones, account for almost 70% of total other expense.

Observing the current other expense, it can be seen that this expense category was realized at HRK 2.155 billion, which represents 43.7% of total other expense of the budgetary central government and which represents an increase of 16.9% compared to the previous year. Within the structure of this expense category, current donations referring to the international agreement of the Republic of Croatia and the Holy See should be outlined, then donations regarding the accommodation and food of students and 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 2005 can be seen, which is also demonstrated in the following figure.

Figure 2.16. Structure of other expense in 2005



Source: Ministry of finance



2.3.3 Budgetary Central Government Expense by Function

Functional classification of expense provides detailed breakdown of expense categories with respect to the main functions to which the execution of certain expenses serve. Also, functional classification of expense provides a good international comparison and analysis of the public expenses.

According to GFS 2001 methodology, based on which functional classification of expense is presented in this chapter, the total amount of budgetary central government expense refers to expenses plus the acquisition of nonfinancial assets. Observing the expense of the budgetary central government expense according to this classification since the beginning of independence till present significant changes of their structure can be observed. Namely, in the very beginning of independence some expense categories increased substantially, primarily expenses for general public services originating from the need to ensure the introduction of institutions of the new state. Further, influenced with the war activities, substantial increase occurred in expenses associated with defense accompanied with significant reduction of expenses associated with social protection, all expressed as share in gross domestic product. The main reason behind the reduction in expenses associated with social protection came from the real reduction in certain social rights on one side and wages of the budgetary central government budget users on the other hand as factors of fiscal consolidation in situation of increased expenses associated with war activities. The period immediately after the war was characterized with new changes of the structure of expenses according to functional classification primarily expressed through the reduction of defense expenses and gradual increase of expenses associated with social protection and those associated with the reconstruction process. Expense categories according to functional classification are influenced by described developments even till the present; however it can be observed that those expense categories are gradually moving towards levels of shares to GDP which can be observed in neighboring countries which have not been burdened with the war developments. Total budgetary central government expense by functional classification reached the level of HRK 89.686 billion in 2005, which represents an increase of 5.8% compared to the previous year.

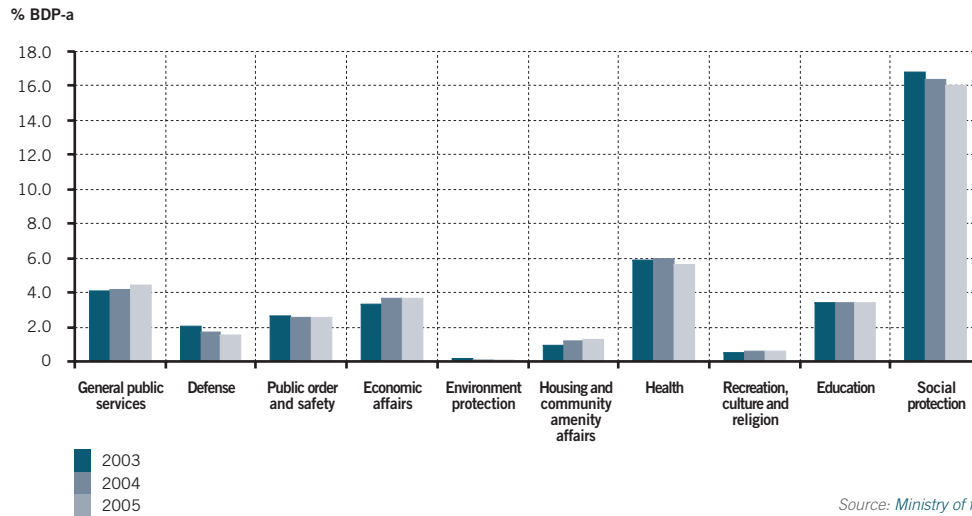
Table 2.17: Budgetary central government expense by function 2003 - 2005, structure and share in GDP

	(000 HRK)	Structure			Share in GDP		
		2003	2004	2005	2003	2004	2005
7	Total expense	100.0	100.0	100.0	39.9	39.8	39.2
701	General public services	10.4	10.6	11.4	4.1	4.2	4.5
702	Defense	5.2	4.4	4.0	2.1	1.7	1.6
703	Public order and safety	6.5	6.5	6.5	2.6	2.6	2.5
704	Economic affairs	8.4	9.3	9.4	3.3	3.7	3.7
705	Environment protection	0.4	0.3	0.2	0.2	0.1	0.1
706	Housing and community amenity affairs	2.3	3.0	3.2	0.9	1.2	1.2
707	Health	14.7	15.0	14.4	5.9	6.0	5.6
708	Recreation, culture and religion	1.4	1.5	1.5	0.5	0.6	0.6
709	Education	8.6	8.5	8.5	3.4	3.4	3.4
710	Social protection	42.2	41.1	40.9	16.8	16.4	16.0

Source: Ministry of finance



Figure 2.17. Budgetary central government expense by function trends 2003 - 2005



Source: Ministry of finance

Observing the expense by function in the period 2003-2005 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. This expense category relates by large to public debt transactions and legal affairs.

The share of general public services increased from 4.1% of GDP in 2003 to 4.5% of GDP in 2005. In the same time, a significant relative decrease of the share for defense expense 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 2.1% of GDP in 2003 to 1.6% in 2005. Expense for public order and safety kept roughly the same share in total expense and in GDP in the observed period. Namely, this expense category stood at 2.6% of GDP in the observed period. 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 3.3% of GDP in 2003 to 3.7% in 2005. 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.

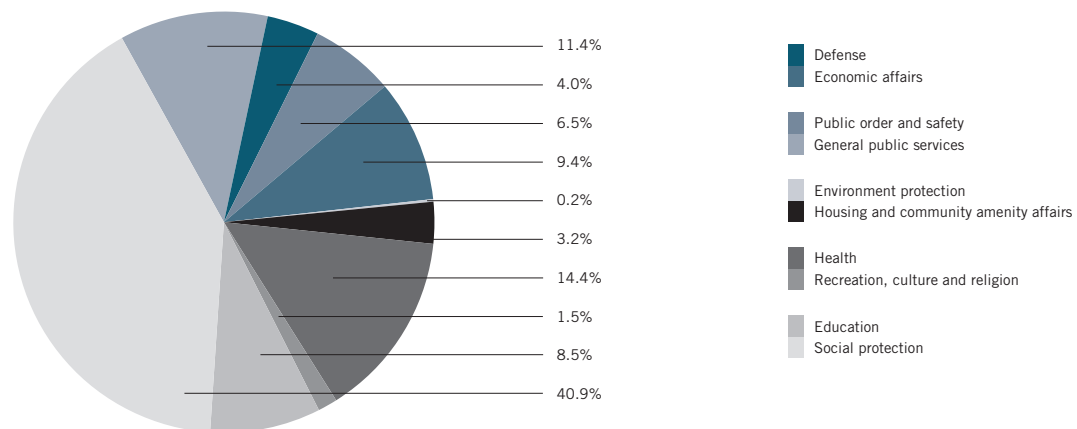
The largest part of this category of expense relates to agricultural expenses and railway transportation expenses. In the same time, it is worth to mention that an increase can be observed in expenses for health, recreation, culture and religion, which in general can be considered as a favorable trend.

Health expense was on average kept on the same share to GDP in the observed period if we exclude expenses for rehabilitation of the health system in 2004 from these expenses. Education expenses record constant annual increases in the observed period which enabled the constant share to GDP of these expenses in the observed period, which on the other hand is in line with the aim to create efficient educational system in the way to absorb the larger number of persons that it was the case in previous years and especially in tertiary education.

The largest part of budgetary central government expense, observed by function, is associated with social protection expenses, which in 2005 accounted for 40.9% 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 2005 social protection recorded an annual increase of 5.5% where the largest contribution to the increase originates from an increase in pension expense as the largest single category of social protection expense.



Figure 2.18. Structure of budgetary central government expense by functional classification in 2005



Source: Ministry of finance



2.4 TRANSACTIONS IN NONFINANCIAL ASSETS OF THE BUDGETARY CENTRAL GOVERNMENT IN 2005

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 2005, net nonfinancial assets were planned in the amount of HRK 2.242 billion, which was the result of HRK 2.486 billion of total acquisition of nonfinancial assets and HRK 244 million of total disposals of nonfinancial assets. Supplementary budget, reduced the total plan of net nonfinancial assets by HRK 337,3 million or by 15% in line with the slower than expected realization in first six months of 2005. Hence, the total planned amount of net acquisition of nonfinancial assets was set at HRK 1.904 billion according to the supplementary budget.

Table 2.18. Transactions in nonfinancial assets of the budgetary central government 2003 - 2005

	(000 HRK)	2003	2004	2005	Index 2004 / 2003	Index 2005 / 2004
31	Net acquisition of nonfinancial assets	1,812,403.6	1,419,466.9	1,553,668.4	78.3	109.5
311	Fixed assets	1,795,345.4	1,384,608.6	1,516,968.2	77.1	109.6
311,1	Acquisitions: fixed assets	2,019,172.2	1,624,050.5	1,781,346.8	80.4	109.7
311,2	Disposals: fixed assets	223,826.8	239,441.9	264,378.6	107.0	110.4
3111	Buildings and structures	1,199,770.2	811,476.8	867,662.5	67.6	106.9
3112	Machinery and equipment	516,597.8	518,941.0	557,319.9	100.5	107.4
3113	Other fixed assets	78,977.4	54,190.8	91,985.8	68.6	169.7
313	Valuables	5,303.3	7,518.2	7,220.0	141.8	96.0
313,1	Acquisitions: valuables	5,303.3	7,518.2	7,220.0	141.8	96.0
313,2	Disposals: valuables	0.0	0.0	0.0		
314	Nonproduced assets	11,754.9	27,340.1	29,480.2	232.6	107.8
314,1	Acquisitions: nonproduced assets	30,513.9	32,299.2	40,251.0	105.9	124.6
314,2	Disposals: nonproduced assets	18,759.0	4,959.1	10,770.8	26.4	217.2
3141	Land	-18,361.1	7,062.3	-10,282.1	-38.5	-145.6
3144	Intangible nonproduced assets	30,116.0	20,277.8	39,762.3	67.3	196.1

Source: Ministry of finance

According to final data for 2005, total net acquisition of nonfinancial assets was realized in the amount of HRK 1.554 billion, which is by HRK 350.7 million or by 18.4% below the plan for that year. In the same time, such an outturn represents an annual decrease of 9.5%. Total net acquisition of nonfinancial assets in 2005 is the result of the total acquisition of nonfinancial assets in the amount of HRK 1.829 billion and total disposal in the amount of HRK 275.2 million. Observing the structure of net acquisition of nonfinancial assets it can be seen that the largest reduction with respect to the plan was recorded in net acquisition of fixed assets, as high as HRK 348 million. In the same time, net acquisition of nonproduced assets was realized by only HRK 2.7 million below the plan for 2005.

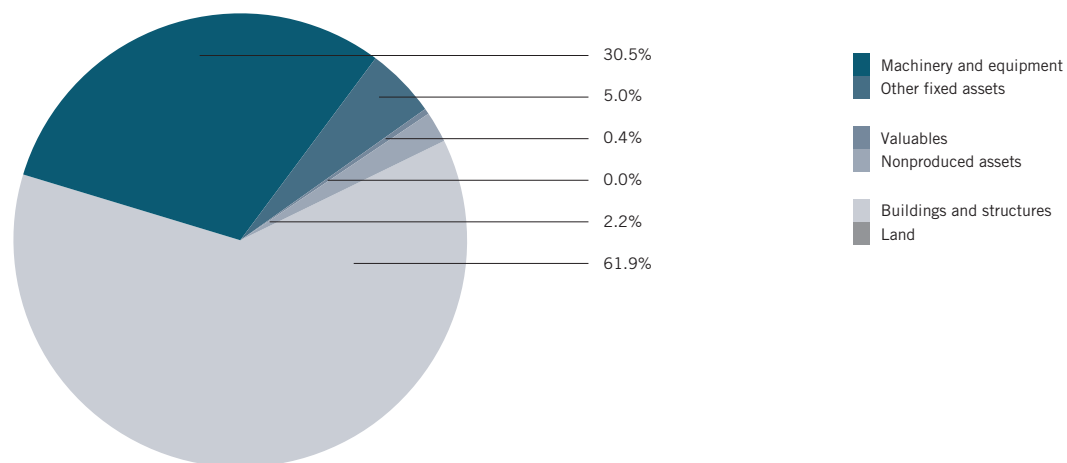
Within the net acquisition of fixed assets, which in 2005 was realized at HRK 1.517 billion, the largest part relates to the net acquisition of buildings and structures, which according to the final data for 2005 accounts for 57.2% of the total net acquisition of nonfinancial assets, namely this category amounted to HRK 867.6 million. This figure is the result of the HRK 1.131 billion of acquisition and HRK 263.6 million of disposals of nonfinancial assets. Net acquisition of machinery and equipment follows with the amount of HRK 557.3 million and net acquisition of the other nonfinancial assets in the amount of HRK 92 million.

Total net acquisition of valuables amounted to HRK 7.2 million in 2005 and it entirely reflected the acquisition of valuables while disposals did not occur.

Total net acquisition of nonproduced assets amounted to HRK 29.5 million in 2005 and it is the result of the acquisition in the amount of HRK 40.2 million and disposal in the amount of HRK 10.7 million. The acquisition of nonproduced assets mostly refers to acquisition of licenses and other rights while disposal entirely originated from sales of land.

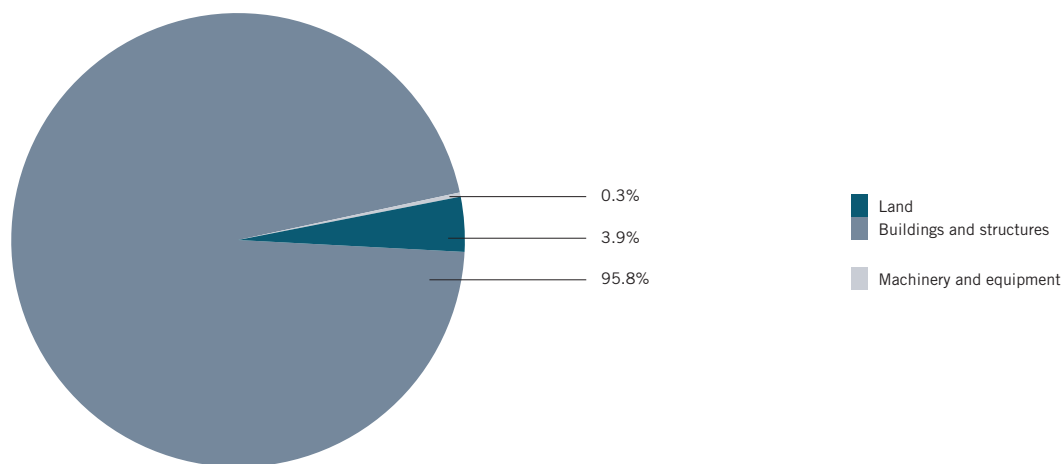


Figure 2.19. Structure of acquisition of nonfinancial assets in 2005



Source: Ministry of finance

Figure 2.20. Structure of disposal of nonfinancial assets in 2005



Source: Ministry of finance



2.5 TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES OF THE BUDGETARY CENTRAL GOVERNMENT

Within the chapter 2.5 we give a presentation on the outturn of transactions in financial assets and liabilities of the budgetary central government for 2005 and once more we need to stress out that Net lending/borrowing can alternatively be expressed as the difference between the net acquisition of financial assets and net incurrence of liabilities in given period.

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. Observing 2005, total net incurrence of liabilities accounted to HRK 5.511 billion, while in the same time total net acquisition of financial assets amounted to HRK 1.753 billion. Based on these data, total financing of the Net lending/borrowing amounts to HRK 3.758 billion. Further in this text, a more thorough description of transactions in financial assets and liabilities of the budgetary central government in 2005 are provided.

Total net financial assets of the budgetary central government amounted to HRK 1.753 billion in 2005, which is the result of HRK 1.758 billion of net domestic financial assets and HRK -4.8 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 1.758 billion of net domestic financial assets in 2005 is the result of the change in cash and deposits of HRK 688.2 million, net acquisition of loans in the amount of HRK 847.6 million and net acquisition of shares and other equity in the amount of HRK 222 million.

Positive amount of cash and deposits indicates an increase of cash and deposits on 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 1.026 billion and disposal of loans in the amount of HRK 178.8 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.

Disposals of domestic loans in 2005 mainly relate to repayment of the loan principal from domestic enterprises, small and medium size entrepreneurs. Net domestic acquisition of shares and other equity in amount of HRK 222 million is the result of acquisition of shares and other equity in amount of HRK 235 million and disposal in amount of HRK 13.2 million. Acquisition of domestic shares and other equity in 2005 originated mostly from acquisition of shares and other equity of banks and other financial institutions. Disposals of domestic shares and other equity in 2005 relate to the sale of shares and equity that state holds in enterprises within the public enterprises, thus privatization.

Foreign net acquisition of financial assets amounted to HRK -4.8 million in 2005, 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 amount of HRK 2.7 million and to disposal in the amount of HRK 7.5 million. In the following table, we present transactions in financial assets of the budgetary central government in 2003-2005 period.

Table 2.19. Transactions in financial assets of the budgetary central government 2003 - 2005

	(000 HRK)	2003	2004	2005
32	Net acquisition of nonfinancial assets	-1,320,128.6	221,977.3	1,752,824.5
321	Domestic	-1,330,054.7	212,191.5	1,757,681.4
3212	Currency and deposits	1,146,530.3	-1,114,263.8	688,185.0
3213	Securities other than shares	0.0	0.0	0.0
3214	Loans	393,362.8	1,002,955.3	847,590.4
3214,1	Acquisition	1,576,177.4	1,328,793.9	1,026,366.5
3214,2	Disposal	1,182,814.6	325,838.6	178,776.1
3215	Shares and other equity	-2,869,947.8	323,500.0	221,906.0
3215,1	Acquisition	485,020.0	448,500.0	235,065.1
3215,2	Disposal	3,354,967.8	125,000.0	13,159.1
322	Foreign	9,926.1	9,785.8	-4,856.9
3225	Shares and other equity	9,926.1	9,785.8	-4,856.9
3225,1	Acquisition	9,926.1	9,785.8	2,699.3
3225,2	Disposal	0.0	0.0	7,556.2

Source: Ministry of finance



Total net incurrence of liabilities of the budgetary central government amounted to HRK 5.511 billion in 2005, which is the result of net domestic incurrence of liabilities in the amount of HRK 10.592 billion and net foreign incurrence of liabilities in the amount of HRK -5.081 billion. 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 14.981 billion, which incorporated HRK 12.481 billion of incurrence through securities other than shares and HRK 2.5 billion of incurrence through loans.

Incurrence through securities other than shares on domestic markets incorporated the incurrence of liabilities through treasury bills and bonds. Out of total amount, HRK 3.420 relates to incurrence of liabilities through domestic treasury bills, while HRK 9.060 billion relates to incurrence of liabilities through domestic bond issuance.

Total net domestic repayments amounted to HRK 4.389 billion in 2005, where this figure relates to HRK 2.845 billion of repayment for securities other than shares and HRK 1.545 billion of repayment for loans.

Total net foreign incurrence of liabilities amounted to HRK -5.081 billion in 2005, which relates to HRK 783.5 million of foreign incurrence of liabilities and HRK 5.864 billion of foreign repayments. Total amount of foreign incurrence of liabilities in 2005 refers to loans. Total foreign repayments amounted to HRK 5.864 billion, where total of HRK 3.714 billion relates to repayment of securities other than shares, while the remainder in the amount of HRK 2.150 refers to repayment of loans.

Hence, observed in total, through total incurrence and total repayments, total net incurrence of liabilities in 2005 amounted to previously stated amount of HRK 5.511 billion, which is the result of total (domestic and foreign) incurrence of liabilities in the amount of HRK 15.764 billion and total (domestic and foreign) repayments in the amount of HRK 10.253 billion.

Observing the structure of total net incurrence of liabilities of the budgetary central government, regarding the net incurrence on domestic and foreign financial markets, it is obvious that a major shift occurred in 2004 and 2005. Namely, budgetary central government relies heavily on domestic financial markets for its financing needs in two observed years, which was not the case in previous years which produces 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.

Table 2.20. Transactions in liabilities of the budgetary central government 2003 - 2005

	(000 HRK)	2003	2004	2005
33	Net incurrence of liabilities	2,890,288.7	4,309,040.4	5,510,947.6
33,1	Total repayments	6,520,770.5	13,717,081.5	10,253,489.1
33,2	Total incurrence	9,411,059.2	18,026,121.9	15,764,436.7
331	Domestic	-159,690.2	4,038,705.1	10,591,559.7
331,1	Repayment	4,146,435.2	9,009,705.0	4,389,322.6
331,2	Incurrence	3,986,745.0	13,048,410.1	14,980,882.3
3313	Securities other than shares	635,810.6	6,357,475.7	9,636,343.1
3313,1	Repayment	2,305,093.0	5,025,194.2	2,844,600.8
3313,2	Incurrence	2,940,903.6	11,382,669.9	12,480,943.9
3314	Loans	-795,500.8	-2,318,770.6	955,216.6
3314,1	Repayment	1,841,342.2	3,984,510.8	1,544,721.8
3314,2	Incurrence	1,045,841.4	1,665,740.2	2,499,938.4
332	Foreign	3,049,978.9	270,335.3	-5,080,612.1
332,1	Repayment	2,374,335.3	4,707,376.5	5,864,166.5
332,2	Incurrence	5,424,314.2	4,977,711.8	783,554.4
3323	Securities other than shares	4,051,109.1	1,215,439.1	-3,713,935.0
3323,1	Repayment	0.0	2,526,875.9	3,713,935.0
3323,2	Incurrence	4,051,109.1	3,742,315.0	0.0
3324	Loans	-1,001,130.2	-945,103.8	-1,366,677.1
3324,1	Repayment	2,374,335.3	2,180,500.6	2,150,231.5
3324,2	Incurrence	1,373,205.1	1,235,396.8	783,554.4

Source: Ministry of finance



2.6 MEASURES OF DEFICIT/SURPLUS AND FINANCING OF THE BUDGETARY CENTRAL GOVERNMENT

In the following table we present different measures of deficit/surplus of the budgetary central government according to GFS 2001 methodology. 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 2.21: Budgetary central government deficit/surplus measures according to GFS 2001

	(000 HRK)	2003	2004	2005
	TRANSACTIONS AFFECTING NET WORTH			
1	Revenue	74,677,474	80,463,518	85,653,010
2	Expense	77,075,487	83,131,114	87,857,465
24	Interest	3,587,329	3,972,466	4,387,010
	Net - gross operating balance (1 - 2)	-2,398,014	-2,667,596	-2,204,455
	Primary operating balance (1 - 2 + 24)	1,189,315	1,304,870	2,182,555
	Transactions in nonfinancial assets			
31	Net acquisition of nonfinancial assets	1,812,404	1,419,467	1,553,668
	Net lending - borrowing (1 - 2 - 31)	-4,210,417	-4,087,063	-3,758,123
	Financing (33-32)	4,210,417	4,087,063	3,758,123
	Transactions in financial assets and liabilities			
32	Net acquisition of financial assets	-1,320,129	221,977	1,752,825
33	Net incurrence of liabilities	2,890,289	4,309,040	5,510,948

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 -2.204 billion in 2005. 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 2005, interest payments amounted to HRK 4.387 billion making the primary operating balance in the amount of HRK 2.182 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 1.554 billion in 2005 making the net lending/borrowing at the level of HRK -3.758 billion in 2005. Compared to 2004, net lending/borrowing was reduced by HRK 328.9 million or 0.3 percentage points. Total financing of the net lending/borrowing amounted to HRK 3.758 billion in 2005, which is the result of net incurrence of liabilities in the amount of HRK 5.510 billion and net acquisition of financial assets in the amount of HRK 1.753 billion.

3
**EXTRABUDGETARY FUNDS
AND AGENCIES AND CONSOLIDATED
CENTRAL GOVERNMENT**



3.1 EXTRABUDGETARY FUNDS AND AGENCIES

In the Republic of Croatia, five extrabudgetary funds and four agencies existed in 2005. The funds include Croatian Pension Insurance Fund, Croatian Health Insurance Fund, Croatian Employment Service, Croatian Waters and Environment Protection Fund. The agencies include Croatian Motorways, Croatian Roads, State Agency for Deposit Insurance and Bank Rehabilitation and Croatian Privatization Fund.

Extrabudgetary funds and agencies realize most of their revenues through own resources and grants from budgetary central government. Total revenues of extrabudgetary funds and agencies amounted to HRK 8.1 billion which represents annual growth of 3.9%. Total expenditures of the extrabudgetary funds and agencies in 2005 were at the level of HRK 5.6 billion which represents an annual increase of 10.5%. Within the structure of total expenditures the most significant place is occupied by the Croatian Waters which account for 26.5% of total expenditures and Croatian Motorways which account for 19.4% of total expenditures.

Total net acquisition of nonfinancial assets in 2005 amounted to HRK 5.1 billion which represents 74% of last year amount. This is a result of decrease in acquisition of fixed assets of Croatian Motorways and Croatian Roads as a result of reduced construction of motorways in 2005 when comparing with 2004.

Total net financial assets of the extrabudgetary funds and agencies in 2005 amounted to HRK -133.1 million which was exclusively the result of transaction in domestic financial assets. This is a result of, change in the currency and deposit balance which amounted to HRK 390 million, the acquisition of loans in the amount of HRK -68.2 million and net acquisition of shares and other equity in the amount of HRK -454.9 million.

Total net liabilities of the extrabudgetary funds and agencies amounted to HRK 2.5 billion in 2005 as a result of net domestic liabilities in the amount of HRK 1.5 billion and net foreign liabilities in the amount of HRK 1 billion. Incurrence of domestic liabilities is mostly a result of incurrence of liabilities of Croatian Motorways and Croatian Roads. In the same time, HRK 855.3 million was repaid through State Agency for Deposit Insurance and Bank Rehabilitation, Croatian Roads and Croatian Waters. Total foreign repayments amounted to HRK 39.5 million. The whole amount was spent on repayments of foreign loans of Croatian Waters.

Table 3.1 Transactions in financial assets and liabilities of the extrabudgetary funds in 2005

(000 HRK)	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	-3,067	112,122	-35,869	5,284	29,775	-42,758	50,297	-349,252	100,403	-133,065
321 Domestic	-3,067	112,122	-35,869	5,284	29,775	-42,758	50,297	-349,252	100,403	-133,065
Loans	-13	0	-39,139	0	20,000	-61,137	-15,925	0	28,048	-68,166
Shares and other equity	0	-2,470	-587	0	0	0	-6,018	-290,010	-155,834	-454,919
Currency and deposits	-3,054	114,592	3,857	5,284	9,775	18,379	72,240	-59,242	228,189	390,020
322 Foreign	0	0	0	0	0	0	0	0	0	0
33 Net incurrence of liabilities	9	0	0	9,434	0	2,441,653	561,159	-519,566	5,206	2,497,895
331 Domestic	9	0	0	-26,179	0	1,698,272	302,376	-519,566	5,206	1,460,118
Loans	0	0	0	-26,179	0	1,698,272	302,376	-103,989	5,206	1,875,686
Securities other than shares	9	0	0	0	0	0	0	-263,836	0	-263,827
332 Foreign	0	0	0	35,613	0	743,381	258,783	0	0	1,037,777
Loans	0	0	0	35,613	0	743,381	258,783	0	0	1,037,777

Source: Ministry of Finance

Net operating balance, which is a measure of budget deficit, stood at HRK 2.5 billion in 2005. Primary operating balance, which excludes interest payments from the previous deficit calculation thus excluding the effect of previous deficits and accumulated public debt, amounted to HRK 3.1 billion. The category net lending/borrowing amounted to HRK -2.6 billion and was financed through previously described transactions of financial assets (HRK -133.1 million) and liabilities (HRK 2.5 billion).



Table 3.2 Measures of deficit/surplus and financing of the extrabudgetary funds and agencies in 2005

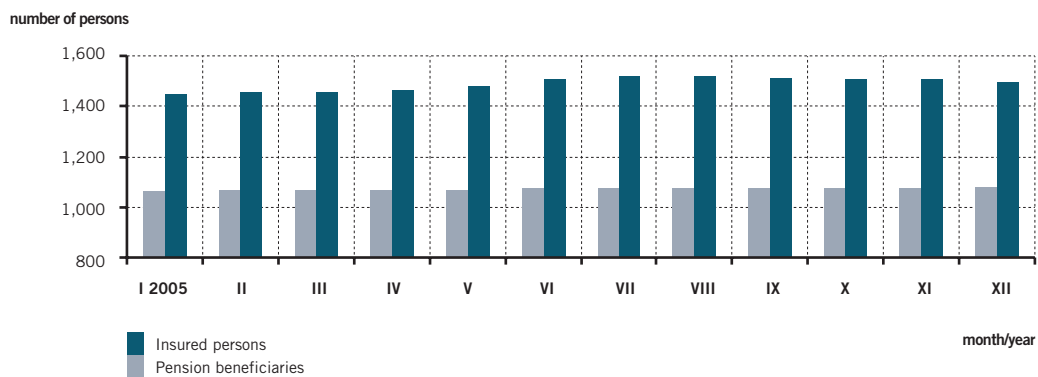
(000 HRK)	Croatian Pension Insurance Fund	Croatian Health Insurance Fund	Croatian Employment Service	Croatian Waters	Environment Protection Fund	Croatian Motorways	Croatian Roads	State Agency for Deposit Insurance and Bank Rehabilitation	Croatian Privatization Fund	TOTAL	
TRANSACTIONS AFFECTING NET WORTH											
1	Revenue	398,337	1,065,103	114,957	1,715,607	214,737	2,547,003	1,474,714	367,438	237,044	8,134,940
2	Expense	382,162	914,345	145,931	1,489,465	172,045	1,088,687	1,062,405	182,993	182,119	5,620,152
24	Interest	721	0	0	33,734	0	445,185	16,060	121,940	0	617,640
Net/Gross operating balance (1 - 2)											
		16,175	150,758	-30,974	226,142	42,692	1,458,316	412,309	184,445	54,925	2,514,788
Primary operating balance (1 - 2 + 24)											
		16,896	150,758	-30,974	259,876	42,692	1,903,501	428,369	306,385	54,925	3,132,428
TRANSACTIONS IN NONFINANCIAL ASSETS											
31	Net acquisition of nonfinancial assets	19,251	38,636	4,895	230,292	12,917	3,942,727	923,171	14,131	-40,272	5,145,748
Net lending/borrowing (1 - 2 - 31)											
		-3,076	112,122	-35,869	-4,150	29,775	-2,484,411	-510,862	170,314	95,197	-2,630,960
Financing (33 - 32)											
		3,076	-112,122	35,869	4,150	-29,775	2,484,411	510,862	-170,314	-95,197	2,630,960
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES											
32	Net acquisition of nonfinancial assets	-3,067	112,122	-35,869	5,284	29,775	-42,758	50,297	-349,252	100,403	-133,065
33	Net incurrence of liabilities	9	0	0	9,434	0	2,441,653	561,159	-519,566	5,206	2,497,895

Source: Ministry of Finance

3.3.1 The Croatian Institute for Pension Insurance

The main activity of the Croatian Institute for Pension Insurance is execution of general pension insurance. 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, 2005, there were 1,498,877 insured persons, 1,078,283 pension beneficiaries and 234,768 child allowance beneficiaries for 440,733 children registered in the Croatian Institute for Pension Insurance. The unfavorable ratio between total number of the insured persons and total number of the beneficiaries (1.39) is still one of the main problems of the whole Croatian pension system.

Figure 3.1 The number of the Active Insured Persons and the Pension Beneficiaries in 2005

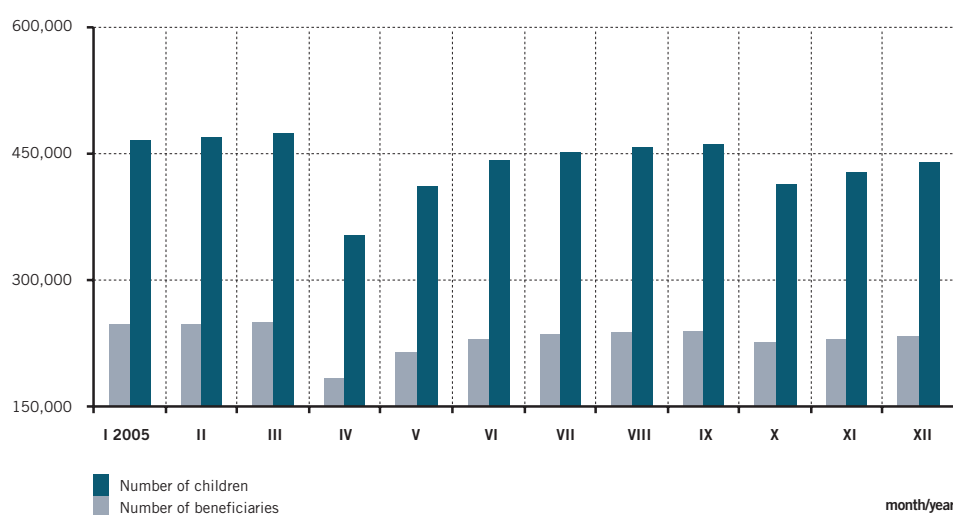


Source: Croatian Institute for Pension Insurance



Out of the total number of the beneficiaries of the old age, disability and family pension in December 2005, 54.8% relates to old age pensions, 22.8% to disability pensions and 22.4% relates to family pensions. The average pension (old age, invalid and family pension) reduced by the tax and local tax in December 2005 amounted to HRK 1,848.1. In the same time, the average Croatian army pension amounted to HRK 2,867.1. 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 2005 the average amount of the child allowance was HRK 260 per child. In the same time, 236,986 beneficiaries of the child allowance for 445,954 children were registered.

Figure 3.2 Number of Child Allowance Beneficiaries in 2005

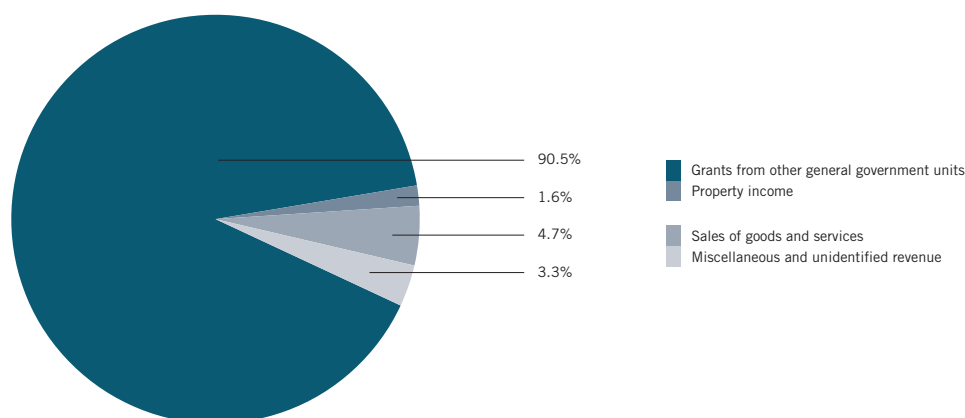


Source: Croatian Institute for Pension Insurance

Revenue

Total revenue of the Croatian Institute for Pension Insurance in 2005 were realized at the level of HRK 398.3 million, as an exclusive consequence of the received grants and collected other revenue. Namely, grants represent the most important category which accounts for 90.5% of the total revenue. Other 9.5% of total revenues refers to other revenue. In other words, grants were realized in the amount of HRK 360.3 million and other revenue were realized in the amount of HRK 38 million. Within the structure of other revenue, 49.4% refers to revenue from sales of goods and services, 34.2% to revenues of miscellaneous and unidentified revenue and 16.4% to property income.

Figure 3.3 Revenue Structure of Croatian Institute for Pension Insurance in 2005



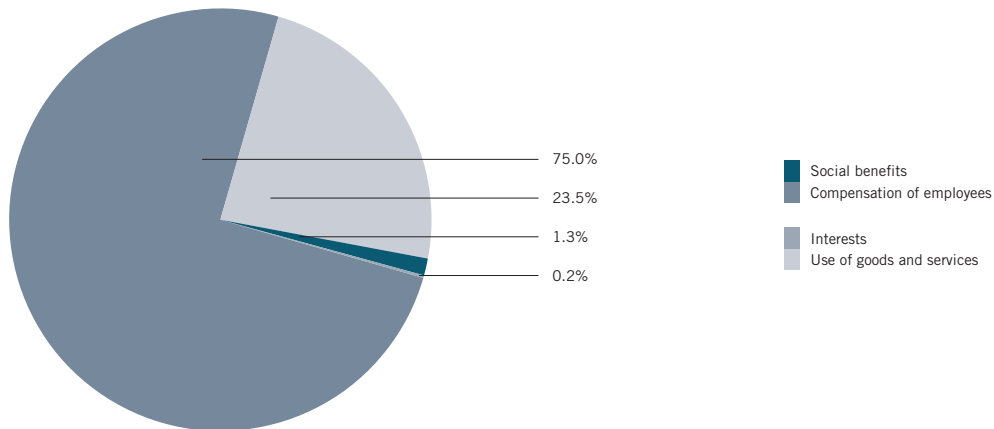
Source: Croatian Institute for Pension Insurance, Ministry of Finance



Expenditures

Total expenditures of the Croatian Institute for Pension Insurance recorded the amount of HRK 382.2 million. Almost half of the amount, i.e. HRK 286.5 million is related to the compensation of employees. In its structure, HRK 248.4 million relates to wages and salaries, while the rest HRK 38.1 million relates to social contributions. Social benefits, which are solely determined by social security benefits, are realized in the amount of HRK 5.1 million. Use of goods and services of the Institute amounted to HRK 89.9 million while interest payments amounted to only HRK 721 thousands.

Figure 3.4 Expenditure Structure of Croatian Institute for Pension Insurance in 2005



Source: Croatian Institute for Pension Insurance, Ministry of Finance

Transactions in Assets and Liabilities

Net nonfinancial assets of the Croatian Institute for Pension Insurance amounted to HRK 19.3 million in 2005, which is exclusively the result of transactions in fixed assets and nonproduced assets. Namely, the acquisition of fixed assets amounted to HRK 14.7, while almost half of the amount, i.e. HRK 7.8 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 6.6 million and the acquisition of other fixed assets amounting to HRK 288 thousands. The disposal of fixed assets in the amount of HRK 3.3 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 -3.1 million solely result from the transactions on the domestic market. Currency and deposits recorded the amount of HRK -3.1 million while the disposal of loans amounted to only HRK 13 thousands.

The Croatian Institute for Pension Insurance recorded transactions in liabilities in the amount of HRK 9 thousands which refers in its whole amount to incurrence of liabilities other than shares.

3.1.2 The Croatian Health Insurance Institute

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 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 2005 was at the level of 4,330,493 persons, which represents an increase of 0.6% in comparison to the previous year.

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

	Average I-XII 2003	Structure	Average I-XII 2004	Structure	Average I-XII 2005	Structure	2005 / 2004
Employed persons	1,389,096	32.3	1,412,445	32.8	1,450,057	33.5	102.7
Active farmers	85,632	2.0	77,332	1.8	69,684	1.6	90.1
Pensioners	1,000,408	23.3	1,005,342	23.4	1,007,865	23.3	100.3
Unemployed persons	375,258	8.7	388,915	9.0	404,236	9.3	103.9
Other	139,989	3.3	140,710	3.3	140,783	3.3	100.1
Family members	1,299,407	30.2	1,272,912	29.6	1,253,903	29.0	98.5
Refugees	7,165	0.2	5,431	0.1	3,965	0.1	73.0
TOTAL	4,296,955	100.0	4,303,087	100.0	4,330,493	100.0	100.6

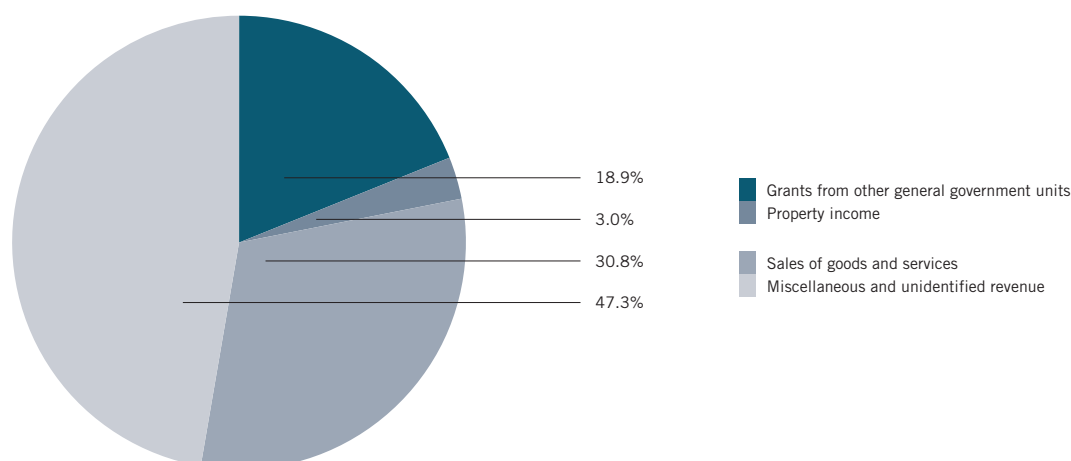
Source: Croatian Health Insurance Institute



Revenue

Total revenue of the Croatian Health Insurance Institute recorded the amount of HRK 1.1 billion in 2005. Other revenue represents the most important category of total revenues (81%). Within the structure of other revenues, the most important are miscellaneous and unidentified revenue, which amounted to HRK 504.2 million and include revenues from supplemental insurance. Revenues from sales of good and services, which resulted from the incidental sales by nonmarket establishments (HRK 263.3 million) and administrative fees (HRK 64.3 million), amounted to HRK 327.6 million. The rest of the total revenue, which corresponds to 18.9%, relates to the grants from other government units.

Figure 3.5 Revenue Structure of the Croatian Health Insurance Institute in 2005

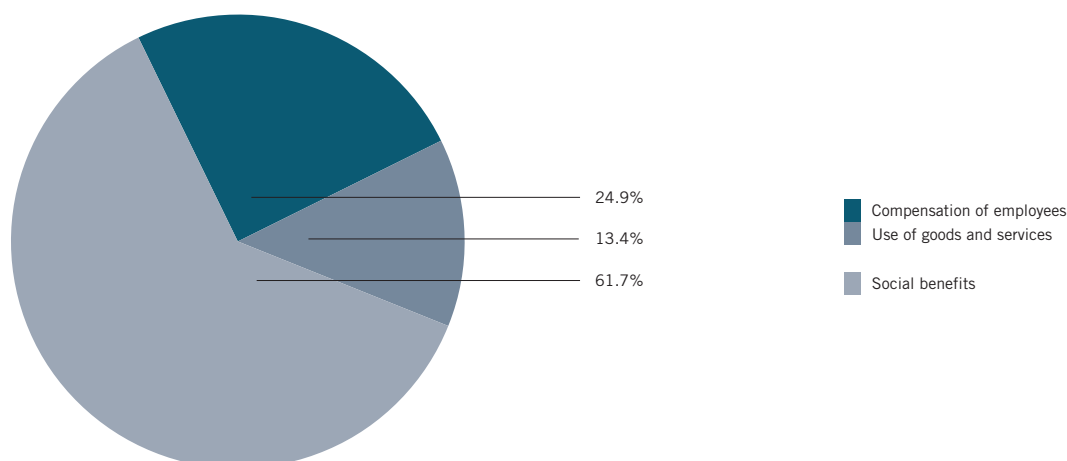


Source: Croatian Health Insurance Institute, Ministry of Finance

Expense

The Croatian Health Insurance Institute recorded the amount of HRK 914.3 million of total expense in 2005. The largest share of total expense, 61.7%, is recorded by the social benefits, precisely the social security benefits amounting to HRK 564.5 million. The Croatian Health Insurance Institute has appropriated HRK 227.7 million for the compensation of employees, of which HRK 197.5 million relates to wages and salaries and HRK 30.2 million to social contributions. The use of goods and services is realized in the amount of HRK 122.1 million.

Figure 3.6 Expense Structure of the Croatian Health Insurance Institute in 2005



Source: Croatian Health Insurance Institute, Ministry of Finance



Transactions in Assets and Liabilities

Net nonfinancial assets of the Croatian Health Insurance Institute stood at HRK 38.6 million in 2005, which resulted from the acquisition of nonfinancial assets in the amount of HRK 38.9 million and its disposal in the amount of HRK 335 thousand. Transactions in the nonfinancial assets are mostly the consequence of the transactions in fixed assets which recorded the net amount of HRK 38.7 million. Nonproduced assets amounted to HRK -78 thousand, as a result of acquisition of nonproduced assets in the amount of HRK 23 thousand and disposal of nonproduced assets in the amount of 101 thousand.

The financial assets of the Croatian Health Insurance Institute were realized in the amount of HRK 112.1 million in 2005, which resulted from currency and deposits in the amount of HRK 114.6 million and disposals of shares and other equity in the amount of HRK 2.5 million.

The Croatian Health Insurance Institute recorded no transactions in liabilities in 2005.

3.1.3 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.

The annual average of the registered unemployment in 2005 was at the level of 308,738 persons, which represents a decrease of around 4% when compared to 2004 (309,875 persons).

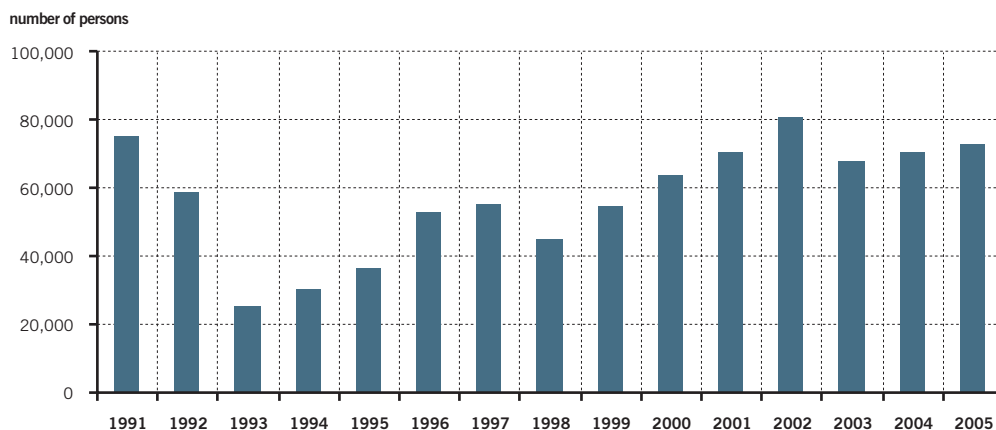
Table 3.4 Employment Rate by the Level of Professional Qualification

Professional Qualification	Unemployed		Newly registered		Employed		Employed rate	
	2004	2005	2004	2005	2004	2005	2004	2005
No schooling and uncomplete basic school	20,989	19,679	6,531	5,994	2,517	2,167	9.1	8.4
Basic school	71,001	71,240	40,042	42,032	20,864	21,366	18.8	18.9
1 to 3-year vocational secondary school	124,213	120,930	108,687	94,536	60,616	60,181	26.0	27.9
4-year vocational secondary school and grammar school	73,172	75,867	66,852	65,871	37,846	40,140	27.0	28.3
Non-university degree	8,474	9,001	8,860	9,208	6,204	6,703	35.8	36.8
University degree	12,026	12,021	14,437	14,423	10,533	10,333	39.8	39.1
TOTAL	309,875	308,738	245,409	232,064	138,580	140,890		

Source: Croatian Employment Service

According to the data from the Croatian Employment Service, a total of 72,801 persons, which represents a share of 23.6% of the total number of unemployed persons, received the unemployment benefit in December 2005.

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



Source: Croatian Employment Service



Revenue

The Croatian Employment Service collected HRK 115 million of total revenue in 2005. The only sources of revenue of the Croatian Employment Service are grants and other revenue. Grants were in 2005 realized at the level HRK 96.1 million, i.e. 83.6% of total revenues. Other revenue recorded the amount of HRK 18.9 million.

Expense

Total expenses of the Croatian Employment Service were recorded in the amount of HRK 145.9 million in 2005. The most significant expense category is compensation of employees, which in the amount of HRK 107.4 million account for a share of 73.6% of total expense. The Croatian Employment Service appropriated HRK 37.9 million, i.e. 26% of total expense, for the use of goods and services in 2005. The remaining share of the expense in the amount of HRK 670 thousand is related to the social assistance benefits.

Transactions in Assets and Liabilities

Net nonfinancial assets of the Croatian Employment Service in the amount of HRK 4.9 million resulted from the transactions in fixed assets. The acquisition of fixed assets stood at HRK 5 million in 2005, and disposal amounted to HRK 67 thousand.

Net financial assets recorded the amount of HRK -35.9 million, solely on the domestic market in 2005. The mentioned amount of financial assets of the Croatian Employment Service resulted from the disposal of loans in the amount of HRK 39.1 million and the currency and deposit balance of HRK 3.9 million and disposal of shares and other equity in the amount of HRK 587 thousand.

The Croatian Employment Service recorded no transactions in liabilities in 2005.

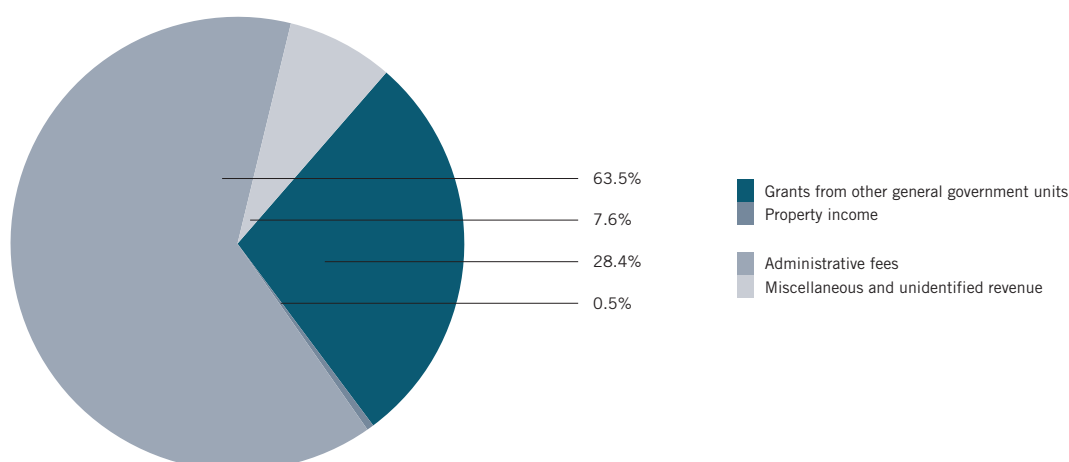
3.1.4 The Croatian Waters

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.

Revenue

Total revenue of the Croatian Waters was realized in the amount of HRK 1.7 billion in 2005. Other revenue in the amount of HRK 1.2 billion, i.e. 71.6% of total revenue, made the largest contribution to this outturn. 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. Grants, which account for the remaining 28.4% of total other revenue, stood at HRK 487.8 million and were only received from the other government units.

Figure 3.8 Revenue Structure of the Croatian Waters in 2005



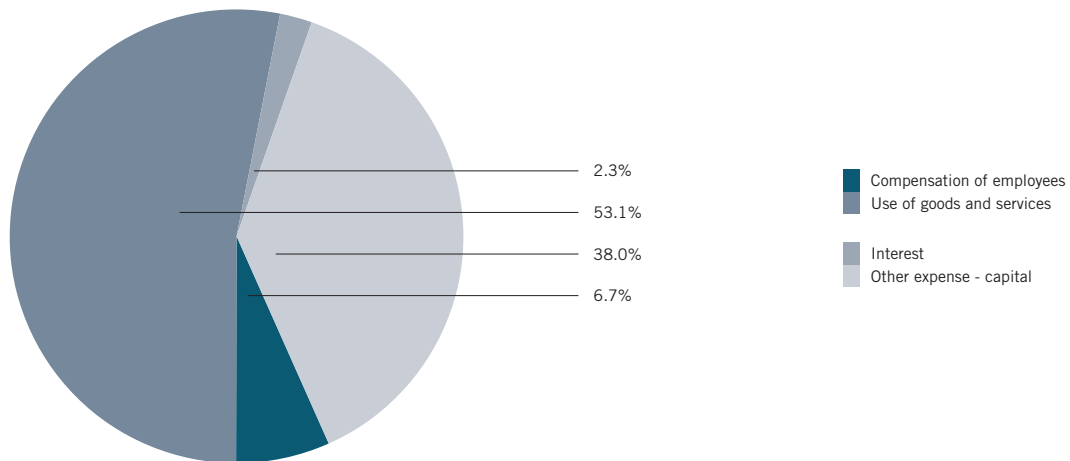
Source: Croatian Waters, Ministry of Finance



Expense

The Croatian Waters recorded HRK 1.5 billion of total expense in 2005. The largest share was appropriated to the use of goods and services recorded in the amount of HRK 790.7 million, i.e. 53% of total expense. Other expense amounted to HRK 565.6 million, which represents a share of 38% of total expense. An amount of HRK 99.4 million was appropriated to the compensation of employees, of which HRK 85.5 million was for wages and salaries and HRK 13.9 million for social contributions. The Croatian Waters appropriated HRK 33.7 million for interest payments.

Figure 3.9 Expense Structure of the Croatian Waters in 2005



Source: Croatian Waters, Ministry of Finance

Transactions in Assets and Liabilities

Transactions in nonfinancial assets in the net amount of HRK 230.3 million were the result of the acquisition of nonfinancial assets of HRK 230.6 million and its disposal of HRK 296 thousand.

Net financial assets stood at 5.3 million as a result of currency and deposit balance in 2005.

The Croatian Waters recorded the amount of HRK 9.4 million of net liabilities in 2005, which is a consequence of total incurrence of liabilities in the amount of HRK 150.3 million and repayments of HRK 140.9 million. On the domestic market, the Croatian Waters incurred liabilities in the net amount of HRK 75.2 million, solely on the basis of loans and also repaid liabilities in the amount of HRK 101.4 million. On the other hand, on the foreign market, repayments of loans amounted to HRK 39.5 million and incurrence of loans amounted to HRK 75.2 million.

3.1.5 The Environment Protection Fund

The main reason for establishing The Environment Protection 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 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.

Revenue

In 2005 the Environment Protection Fund collected HRK 214.7 million of total revenue, solely as a result of revenue. The largest contribution of HRK 212.9 million refers to administrative fees.

Expense

Total expense of the Environment Protection Fund stood at HRK 172 million in 2005. The Fund mostly appropriated its resources to capital grants to other general government units (HRK 149.8 million), which represent high 87% of total expense. Compensation of employees recorded the level of HRK 3.9 million and expense for use of goods and services amounted to HRK 12.2 million. Subsidies to public corporations were recorded at the level of HRK 5.2 million while the rest of the total sum (HRK 948 thousand) refers to other expense.



Transactions in Assets and Liabilities

The Environment Protection Fund realized the amount of HRK 12.9 million of the nonfinancial assets in 2005. This amount solely resulted from the acquisition of machinery and equipment in the amount of HRK 12.7 million and the acquisition of intangible nonproduced assets in the amount of HRK 175 thousand. Net financial assets recorded the amount of HRK 29.8 million as a result of currency and deposit on domestic market (HRK 9.8 million) and acquisition of loans on domestic market in the amount of HRK 20 million. The Environment Protection Fund recorded no transactions in liabilities in 2005.

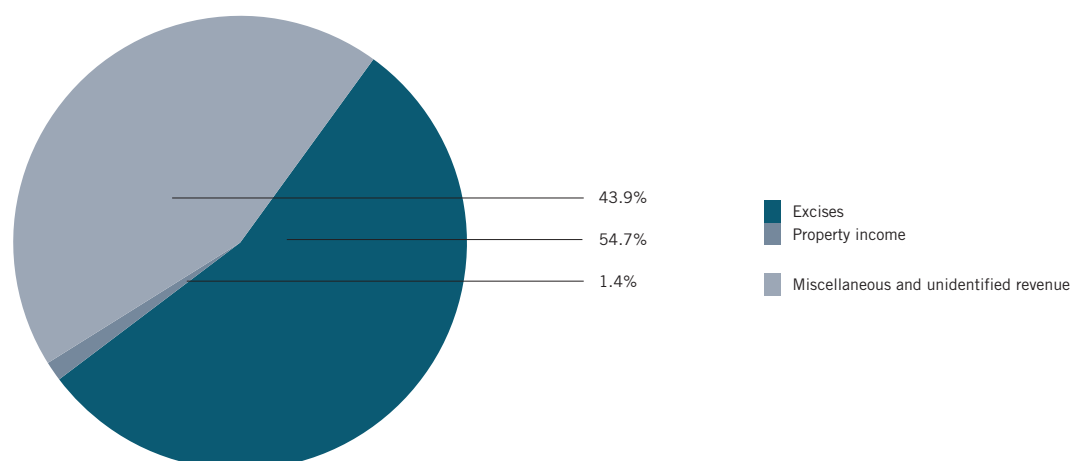
3.1.6 The Croatian Motorways Ltd.

The Croatian Motorways Ltd is limited liability company for motorway management, construction and maintenance. 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.

Revenue

The Croatian Motorways collected HRK 2.5 billion of revenue in 2005. The most significant category of total revenue is tax revenue realized in the amount of HRK 1.4 billion, solely on the basis of excises. Other revenue recorded the amount of HRK 1.2 billion. The largest contribution to these developments was made by miscellaneous and unidentified revenue, which amounted to HRK 1.1 billion. Property income revenue amounted to HRK 35.7 million.

Figure 3.10 Revenue Structure of the Croatian Motorways in 2005



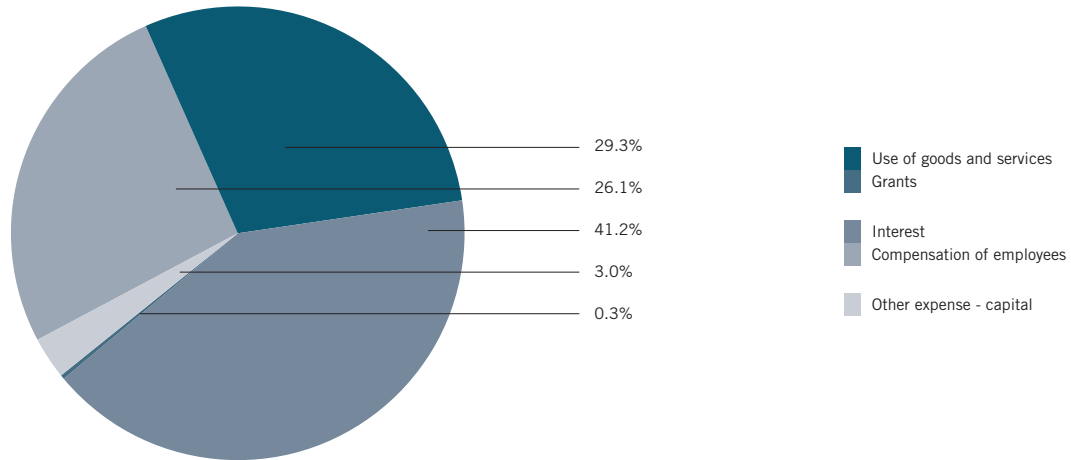
Source: Croatian Motorways

Expense

Total expenses of the Croatian Motorways were executed in the amount of HRK 1.1 billion. The largest share was appropriated for the interests in the amount of HRK 445.2 million, out of which HRK 288.5 million refers to interests to nonresidents and HRK 156.7 million refers to interest to resident other than general government. Furthermore, use of goods and services was recorded at the level of HRK 314.5 million. Within the structure of the compensation of employees which were at the level of HRK 289.9 million, HRK 250.4 million (86.4%) refers to wage and salaries and HRK 39.5 million (13.6%) refers to social contributions. Other expense of the Croatian Motorways recorded the level of HRK 35.5 million and capital grants to other general government units amounted to HRK 3.6 million.



Figure 3.11 Expense Structure of the Croatian Motorways in 2005



Source: Croatian Motorways

Transactions in Assets and Liabilities

The nonfinancial assets amounted to HRK 3.9 billion in 2005. The largest contribution to these developments was made by the acquisition of fixed assets in the amount of HRK 3.8 billion, which 99% refers to acquisition of buildings and structures and the rest of the sum refers to acquisition of machinery and equipment and other fixed assets. The acquisition of nonproduced assets was realized at the level of HRK 116.8 million, which resulted from land acquisition and the acquisition of intangible nonproduced assets.

Transactions in financial assets were conducted only on domestic market in 2005 recording the amount of HRK -42.8 million of net financial assets. This balance is the result of an increase of HRK 18.4 million in currency and deposits and disposal of loans in the amount of HRK 61.1 million.

Net liabilities of the Croatian Motorways stood at HRK 2.4 billion in 2005. Not less than 70% of total liabilities relates to domestic indebtedness, which amounted to HRK 1.7 billion as a result of higher incurrence of loans (HRK 1.8 billion) than repayments on the same basis (HRK 149.6 million). In the same time, foreign loans of Croatian Motorways increased in the amount of HRK 743.4 million.

3.1.7 The Croatian Roads Ltd.

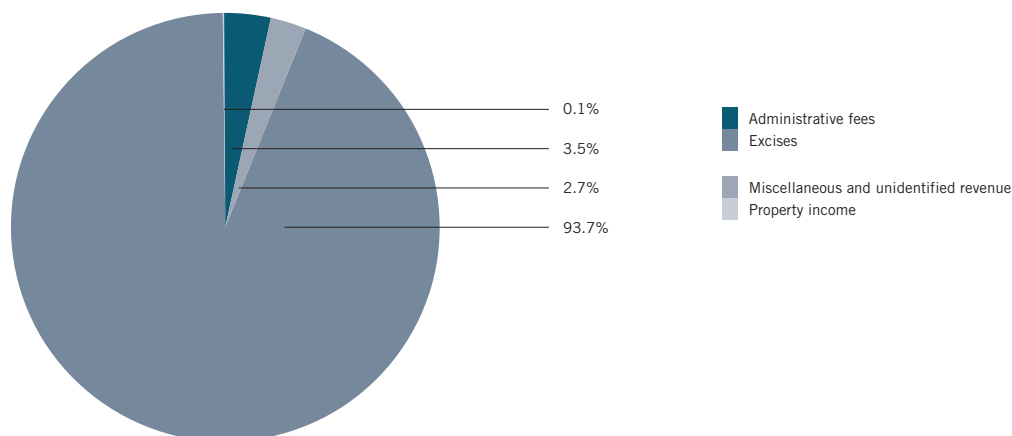
The Croatian Roads Ltd is limited liability company for management, construction and maintenance of the state roads. The company's profit is used for the construction and maintenance of the state roads.

Revenue

Total revenue of the Croatian Roads recorded the level of HRK 1.5 billion in 2005. The largest contribution to this outturn was made by tax revenue, i.e. by excises collected in the amount HRK 1.4 billion. The excises accounted for not less than 93.6% of total revenue. The remaining 6.4% of total revenue of the Croatian Roads relates to other revenue, which amounted to HRK 94 million. 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 56.3 million. The miscellaneous and unidentified revenue stood at HRK 36.9 million, while the property income amounted to HRK 864 million in 2005.



Figure 3.12 Revenue Structure of the Croatian Roads in 2005

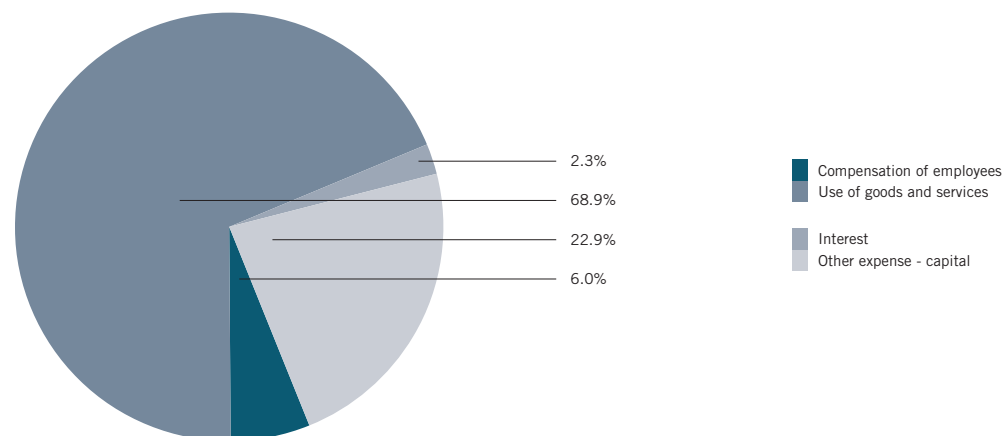


Source: Croatian Roads

Expense

Total expenses of the Croatian Roads were realized at the level of HRK 1.1 billion in 2005. The largest share of total expense relates to the use of goods and services, which amounted to HRK 726.5 million, followed by the capital other expense in the amount of HRK 258.8 million. The compensation of employees of the Croatian Roads was realized at the level of HRK 61.1 million, of which 85.9% relates to wages and salaries and the rest to social contributions. In other words, Croatian Roads spent HRK 52.4 million on wages and salaries and remaining HRK 8.6 million on social contributions. The Croatian Roads spent HRK 16.1 million for interest payments in 2005. Within its structure interests for nonresidents amounted to HRK 8.3 million and interests to resident other than general government amounted to HRK 7.8 million.

Figure 3.13 Expense Structure of the Croatian Roads in 2005



Source: Croatian Roads

Transactions in Assets and Liabilities

Net nonfinancial assets of the Croatian Roads are recorded in the amount of HRK 923.2 million in 2005, which is the result of the acquisition of nonfinancial assets in the amount of HRK 926.4 million and its disposal of HRK 3.2 million. The acquisition of nonfinancial assets is mostly related to the acquisition of fixed assets, which is basically the investment in state roads. Namely, acquisition of buildings and structures amounted to HRK 798.5 million and acquisition of machinery and equipment stood at HRK 38.5 million. In the same time, acquisition of nonproduced assets amounted to HRK 89.4 million and refers completely to acquisition of land. On the other hand, disposal of nonfinancial assets, which in its whole amount refers to disposal of fixed assets, i.e. disposal of buildings and structures in the amount of HRK 944 thousands and disposal of machinery and equipment in the amount of HRK 2.2 million.



Net financial assets of the Croatian Roads amounted to only HRK 50.3 million in 2005, which resulted from the transactions on the domestic market. This amount is the result of currency and deposits recorded at the level of HRK 72.2 million, disposals of loans (HRK 71 million), acquisition of loans (HRK 55.1 million) and the disposal of shares and other equity in the amount of HRK 6 million.

Net liabilities of the Croatian Roads in the amount of HRK 561.2 million resulted from the net incurrence of liabilities on the foreign market at the level of HRK 258.8 million and on the domestic market at the level of HRK 302.4 million. Net indebtedness on the foreign market and also on the domestic market is a sole consequence of the incurrence of liabilities based on loans.

3.1.8 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.

Revenues

Total revenues of the State Agency for Deposit Insurance and Banks Rehabilitation were realized at the amount of HRK 367.4 million in 2005, exclusively as the result of collected other revenue. The largest share of 83.4% relates to the property income realized at the level of HRK 306.5 million. Within their structure, the largest amount of HRK 291.6 million was collected by withdrawals from income of quasi-corporations (premiums) while the remaining share relates to the dividends recorded in the amount of HRK 10.8 million, interest revenue in the amount of HRK 2.7 million and revenues from rent in the amount of HRK 1.4 million. The miscellaneous and unidentified revenues were realized at the level of HRK 61 million.

Expense

The State Agency for Deposit Insurance and Banks Rehabilitation recorded HRK 183 million of total expense in 2005. The largest amount of HRK 121.9 million was spent for interest to residents other than general government. The use of goods and services follows with HRK 21.1 million and social benefits which amounted to HRK 1.5 million. Compensation of employees was recorded in the amount of HRK 5.6 million. Within the structure of the compensation of employees, structure 85.8% (HRK 4.8 million) refers to wages and salaries and the rest of the sum refers to social contributions. Other expense was recorded at the amount of HRK 32.8 million.

Transactions in Assets and Liabilities

Net financial assets amounted to HRK 14.1 million, which is mostly the result of the acquisition of fixed assets (HRK 11.2 million). Within its structure, the largest amount of the acquisition of HRK 5.8 million relates to buildings and structures, HRK 4.3 million to acquisition to machinery and equipment while the remaining HRK 1.1 million relates to the acquisition of other fixed assets. Acquisition of nonproduced assets amounted to HRK 3 million. Disposal of nonfinancial assets refers completely machinery and equipment (HRK 101 thousand).

Transactions in financial assets were made exclusively on the domestic market. There was a decrease in financial assets in the amount of HRK 349.3 million in 2005. Namely, the State Agency for Deposit Insurance and Banks Rehabilitation recorded a decrease in currency and deposits in the amount of HRK 59.2 million as well as the disposal of shares and other equity in the amount of HRK 296.5 million and its acquisition of only HRK 6.5 million.

The State Agency for Deposit Insurance and Banks Rehabilitation recorded no incurrence in liabilities in 2005. On the domestic market, it repaid HRK 519.6 million of liabilities, of which HRK 263.8 million relates to the repayments of securities other than shares, HRK 104 million to the repayments of loans and HRK 151.7 million on the basis of other accounts payable.

3.1.9 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. The main funds of the Croatian Privatization Fund are collected from the dividends from its equities in the companies

**Revenue**

Total revenues of the Croatian Privatization Fund in the amount of HRK 237 million were realized solely on the basis of collected other revenue. Within their structure, miscellaneous and unidentified revenue in the amount of HRK 198.8 million account for the share of 83.9%, while the remaining 16.1% (HRK 38.2 million) relates to property income. The biggest part of property income are revenues from dividends which amounted to HRK 35.8 million while the rest of the sum refers to revenues from rent and interest.

Expense

The Croatian Privatization Fund recorded total expense in the amount of HRK 182.1 million in 2005. The resources were spent for the other current expense in the amount of HRK 112.6 million. Compensation for employees were recorded at the level of HRK 36 million, of which 86.9% refers to wages and salaries and the rest of the sum to social contributions. In other words, wages and salaries amounted to HRK 31.3 million and social contributions amounted to HRK 4.7 million. Use of goods and services was recorded at the level of HRK 33.5 million.

Transactions in Assets and Liabilities

Net nonfinancial assets of the Croatian Privatization Fund were realized at the level of HRK -40.3 million as the result of the disposal of fixed assets in the amount of HRK 42.3 million and its acquisition in the amount of HRK 2.1 million. 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 2 million and the acquisition of buildings and structures of only HRK 96 thousand.

Transactions in financial assets were made only on the domestic market where HRK 100.4 million of net financial assets of the Croatian Privatization Fund was realized in 2005. The Currency and deposits of the Fund amounted to HRK 228.2 million. Net loans were recorded in the amount of HRK 28 million as a result of disposal of loans in the amount of HRK 39.8 million and its acquisition in the amount of HRK 67.8 million. Disposals of shares and other equity amounted to HRK 186.4 million while its acquisition recorded the amount of HRK 30.5 million, which resulted in net shares and other equity in the amount of HRK -155.8 million.

Net liabilities amounted to HRK 5.2 million in 2005, which resulted from the transactions in loans on the domestic market. Namely, the Fund recorded the incurrance of liabilities based on loans in the amount of HRK 90 million, while it repaid HRK 84.8 million of loans.



3.2 CONSOLIDATED CENTRAL GOVERNMENT

In this section consolidated central government is presented with the intention of more realistic review of connection between budgetary central government and extrabudgetary funds and agencies.

The share of total revenue of consolidated central government in nominal GDP decreased from 40.9% in 2004 to 40.4% in 2005 as a result of slight decrease in total revenue of budgetary central government while the total revenue of extrabudgetary funds and agencies stayed at approximately same level as the year earlier (3.1% of GDP). This trend resulted in slower increase of total revenues of consolidated central government (6.5%) when compared to 2004 when they recorded growth of 7.7%. In absolute amount, total revenues of consolidated central government stood at HRK 92.6 billion. On the other hand, total expense of consolidated central government, also, recorded a downturn of its share in GDP from 40.9% of GDP in 2004 to 40.3% of GDP in 2005. This is a result of decrease of expense of budgetary central government in the amount of 0.6 percentage points of GDP on the level of 37.9% of GDP (HRK 92.3 billion). In the same time, expense of extrabudgetary funds and agencies recorded share of 2.5% of nominal GDP. When comparing expense of consolidated central government on annual level we can perceive their slower growth in 2005 (6.2%) than in 2004 (7.7%), which reflected in decrease in its share in total expense.

Consolidated central government net acquisition of nonfinancial assets was realized at the level of HRK 6.7 billion as a result of greater acquisition of nonfinancial assets (HRK 7 billion) than its disposal (HRK 324.7 million). This resulted in decrease of nonfinancial assets from 3.9% of GDP in 2004 to 2.9% of GDP in 2005 which is based on decrease of acquisition of extrabudgetary funds and agencies, especially Croatian Motorways and Croatian Roads, while the acquisition of budgetary central government remained at the approximately same level as it was in 2004 (0.8% of GDP). In the same time, total disposal stayed at the same level as it was in 2004.

Net acquisition of financial assets of consolidated central government recorded an increase of 1.6 billion which is mainly a result of increase of domestic financial assets in the amount of HRK 1.6 billion and insignificant decrease of foreign financial assets of budgetary central government in the amount of HRK 4.9 million. It is worth to mention that extrabudgetary funds and agencies recorded a decrease of its domestic financial assets while in the same time, budgetary central government recorded significant increase of this item (0.7% of GDP).

Net liabilities of consolidated central government increased to HRK 8 billion in order to collect sufficient financial funds. Domestic liabilities amounted to HRK 12 billion while foreign liabilities amounted to HRK -4 billion. Budgetary central government collected necessary financial funds on domestic market, while in the same time extrabudgetary funds and agencies collected their funds partly on domestic market (58.3%) and partly on foreign market (41.7%).

When observing the text above, it can be concluded that decrease of acquisition of fixed assets and greater revenues than expenses resulted in significant decrease of category net lending/borrowing in the amount of HRK 1.9 billion.



3.5 Consolidated central government according to government level, 2003 - 2005

	(000 HRK)	2003	% GDP	2004	% GDP	2005	% GDP
1	REVENUE	80,786,554.7	40.7	87,019,284.2	40.9	92,642,473.2	40.4
	Budgetary Central Government	74,677,473.7	37.6	80,463,518.2	37.8	85,653,010.2	37.4
	Extrabudgetary Funds	6,109,081.0	3.1	6,555,766.0	3.1	6,989,463.0	3.1
	Croatian Institute for Pension Insurance	103,501.0	0.1	129,892.0	0.1	38,010.0	0.0
	Croatian Health Insurance Institute	822,183.0	0.4	663,139.0	0.3	863,868.0	0.4
	Croatian Employment Service	17,573.0	0.0	15,507.0	0.0	18,855.0	0.0
	Croatian Waters	1,150,333.0	0.6	1,224,431.0	0.6	1,227,794.0	0.5
	Environment Protection Fund	-	-	170,748.0	0.1	214,737.0	0.1
	Development and Employment Fund	-	-	-	-	-	-
	Regional Development Fund	-	-	-	-	-	-
	Croatian Motorways Ltd.	1,927,787.0	1.0	2,295,423.0	1.1	2,547,003.0	1.1
	Croatian Roads Ltd.	1,379,782.0	0.7	1,417,787.0	0.7	1,474,714.0	0.6
	State Agency for Deposit Insurance and Bank Rehabilitation	581,931.0	0.3	575,893.0	0.3	367,438.0	0.2
	Croatian Privatization Fund	125,991.0	0.1	62,946.0	0.0	237,044.0	0.1
2	EXPENSE	80,715,286.4	40.7	86,941,437.4	40.9	92,332,139.9	40.3
	Budgetary Central Government	74,579,743.4	37.6	81,861,164.4	38.5	86,715,597.9	37.9
	Extrabudgetary Funds	6,135,543.0	3.1	5,080,273.0	2.4	5,616,542.0	2.5
	Croatian Institute for Pension Insurance	1,844,077.0	0.9	587,420.0	0.3	382,162.0	0.2
	Croatian Health Insurance Institute	888,105.0	0.4	831,295.0	0.4	914,345.0	0.4
	Croatian Employment Service	140,387.0	0.1	141,333.0	0.1	145,931.0	0.1
	Croatian Waters	1,427,067.0	0.7	1,426,283.0	0.7	1,489,465.0	0.7
	Environment Protection Fund	-	-	32,443.0	0.0	172,045.0	0.1
	Development and Employment Fund	-	-	-	-	-	-
	Regional Development Fund	-	-	-	-	-	-
	Croatian Motorways Ltd.	692,490.0	0.3	752,254.0	0.4	1,085,077.0	0.5
	Croatian Roads Ltd.	840,372.0	0.4	934,630.0	0.4	1,062,405.0	0.5
	State Agency for Deposit Insurance and Bank Rehabilitation	251,360.0	0.1	314,474.0	0.1	182,993.0	0.1
	Croatian Privatization Fund	51,685.0	0.0	60,141.0	0.0	182,119.0	0.1
31	NET ACQUISITION OF NONFINANCIAL ASSETS	7,996,013.6	4.0	8,373,462.9	3.9	6,699,416.4	2.9
	Acquisition	8,271,515.4	4.2	8,648,382.9	4.1	7,024,179.8	3.1
	Budgetary Central Government	2,054,989.4	1.0	1,663,867.9	0.8	1,828,817.8	0.8
	Extrabudgetary Funds	6,216,526.0	3.1	6,984,515.0	3.3	5,195,362.0	2.3
	Disposals	275,501.8	0.1	274,920.0	0.1	324,763.4	0.1
	Budgetary Central Government	242,585.8	0.1	244,401.0	0.1	275,149.4	0.1
	Extrabudgetary Funds	32,916.0	0.0	30,519.0	0.0	49,614.0	0.0
32	NET ACQUISITION OF FINANCIAL ASSETS	-963,227.6	-	28,384.3	0.0	1,609,759.5	0.7
321	Domestic	-973,153.7	-	18,598.5	0.0	1,614,616.4	0.7
	Budgetary Central Government	-1,330,054.7	-	138,577.5	0.1	1,747,681.4	0.8
	Extrabudgetary Funds	356,901.0	0.2	-119,979.0	-	-133,065.0	-
322	Foreign	9,926.1	0.0	9,785.8	0.0	-4,856.9	-
	Budgetary Central Government	9,926.1	0.0	9,785.8	0.0	-4,856.9	-
	Extrabudgetary Funds	0.0	-	0.0	-	0.0	-
33	NET INCURRENCE OF LIABILITIES	6,961,517.7	3.5	8,324,000.4	3.9	7,998,842.6	3.5
331	Domestic	948,883.8	0.5	4,107,680.1	1.9	12,041,677.7	5.3
	Budgetary Central Government	-159,690.2	-	4,038,705.1	1.9	10,591,559.7	4.6
	Extrabudgetary Funds	1,108,574.0	0.6	68,975.0	0.0	1,450,118.0	0.6
332	Foreign	6,012,633.9	3.0	4,216,320.3	2.0	-4,042,835.1	-
	Budgetary Central Government	3,049,978.9	1.5	270,335.3	0.1	-5,080,612.1	-
	Extrabudgetary Funds	2,962,655.0	1.5	3,945,985.0	1.9	1,037,777.0	0.5

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

4

FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT IN 2005



4.1 TERRITORIAL ORGANISATION 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 on Local and Regional Self-government Units², the Budget Law, the Law on the Financing of Local and Regional Self-government Units³, the Law on the Areas of Special State Concern⁴, the Law on Hilly and Mountainous areas, the Law on the City of Zagreb, the Law on Islands, the Law on the Execution of the State Budget, annual directives for financing decentralized function and other special laws which regulate certain activities.

Pursuant to the Law⁵ the territory of the Republic of Croatia consists of 570 local units:

- 426 municipalities i 123 cities as local self-government units,
- 20 counties as regional self-government units,
- City of Zagreb (it has the status of the city and the county).

During the recent years, already commenced process of decentralisation of activities from the government to local self-government units, transfer of certain competences, funds as well as responsibilities in increasing the quality of public services provision is being implemented in order to strengthen the local self-government units.

In the Government's Programme for the period 2004-2007 one of the key objectives was further decentralisation of activities, which are now being financed from the state budget, to the municipalities, cities and counties in order to increase the citizens' quality of living and achieve more equalized development.

With an aim of implementing the Programme and by adopting the Amendments to the Law on Local and Regional Self-government Units at the end-2005 a different field of work of the local self-government units (municipalities and cities, large cities and cities which are county centres) was prescribed for the first time. The activities which large cities and counties are obligated to organize as well as the activities which they can perform will be determined by special laws.

In line with the abovementioned, municipalities and cities within their scope of competences deal with the affairs of local importance, which directly fulfil the needs of citizens and which are not assigned to the government bodies by the Constitution or the law. These affairs especially include: settlement regulation and housing, space and urban planning, utility services, care for children, social welfare, primary health care, primary school education, culture, physical culture and sport, consumer protection, environmental protection and promotion, fire and civil protection, transport on their area and other affairs in accordance with special laws.

Pursuant to the Law, large cities are local self-government units which are at the same time the economic, financial, cultural, health, transport and science centres of development of the wider surrounding and which have more than 35,000 inhabitants. A status of large cities is also given to the county centres dealing with the affairs of local importance which directly fulfil the citizens' needs, notably the affairs related to: settlement regulation and housing, space and urban planning, utility services, care for children, social welfare, primary health care, education, culture, physical culture and sport, consumer protection, environmental protection and promotion, fire and civil protection, transport on their area, maintenance of public roads, issuance of construction and location licences, other official records related to construction and implementation of urban planning documents, as well as other affairs in accordance with special laws.

Pursuant to the law, the county within its scope of competences, deals with the affairs of regional importance, notable the affairs related to: education, health care, space and urban planning, economic development, transport and transport infrastructure, maintenance of public roads, planning and development of the network of educational, health, social and cultural institutions, issuance of construction and location licences, other official records related to construction and implementation of urban planning documents for the county area outside the area of the large city, as well as other affairs in accordance with special laws.

Large cities which have more than 35,000 inhabitants and county centres can also, on their area, deal with the affairs which are within the scope of competences of the counties.

Beside the mentioned affairs, municipalities, cities and counties deal with the affairs of the government administration which are transferred to them by special laws and for which the fund are secured in the state budget. These units in principle finance the affairs which are within their scope of competences by their

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

² Law on Local and Regional Self-government Units (Official Gazette, No 33/01, 60/01 and 129/05)

³ Law on the Financing of Local and Regional Self-government Units (Official Gazette, No 117/93, 69/97, 33/00, 127/00, 59/01, 107/01, 117/01, 150/02, 147/03)

⁴ Law on the Areas of Special State Concern (consolidated text) (Official Gazette, No. 26/03)

⁵ 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 and 107/03)



own resources and grants from the state budget. However, due to the large differences between the units in their demographic structure, economic development and fiscal capacity, larger number of units do not have sufficient own resources for performing activities within their scope of competences, and therefore special laws and incentive measures for their reconstruction and development have been adopted.

The areas of special state concern are divided into three groups with an aim of encouraging more equalized development of all areas of the Republic of Croatia.

Within the total number of municipalities/cities, 180 of them have the status of the areas of special state concern (111 municipalities/cities are inside the first and the second group and 69 municipalities are included in the third group).

The law prescribes the marginal value for gaining the mentioned concern status. Namely, all three groups can cover up to 15% of total population of the Republic of Croatia.

Pursuant to the law, a part of the personal income tax and corporate income tax collected on the units' territory and which belongs to the state budget is given to those units and as such it is the revenue of their budgets. Also, different tax reliefs on the basis of real estate transactions are introduced as well as the privileges based on the benefits for the exploitation of raw material and other different privileges to physical and legal entities which have their place of residence on the special state concern territory.

With an aim of island protection⁶ and faster economic and demographic development, programmes of sustainable island development are defined. The government supports the development of the islands through its programmes and the number of incentive measures (improvement of connections between island and continent, privileges during the purchase or renting of the agricultural land, water consumption, financing of water supply capital projects, spatial planning and improvement of transport infrastructure) with a purpose of mitigating the problems which arouse from geographical characteristics (height, slope, climate, etc.) and in order to create preconditions for raising the standard of living. Beside the already mentioned areas, the Law⁷ also defines the hilly and mountainous areas which are of special concern. 45 of the local self-government units have the status of hilly and mountainous areas. Tax and other reliefs for the areas of special state concern are also applicable to hilly and mountainous areas.

Furthermore, with a purpose of faster and more equalized regional development of the areas whose gross domestic product is below 65% of the average gross domestic product in the Republic of Croatia and pursuant to the Law⁸, a budgetary Fund for Regional Development is established. The Fund generates its resources from the state budget, privatisation, bonds, loans, grants and other sources and it directs them to capital projects which are of interest to the development of the certain unit as non-refundable resources or in a form of a loan.

The Law on Local and Regional Self-government Units created the preconditions for more efficacious decentralisation process. By the decentralisation, i.e. by transferring the resources and functions from the government to the local level, the authorities, besides the territorial organisation, wish to establish an efficient public sector which will be in closer touch with the citizens and their needs, and also to strengthen the responsibility of the local authorities for performing the activities from their scope of competences. The size of the importance of the present decentralised functions (school education, health care, social welfare and public fire brigade) is shown in the growth of expenditures for the decentralised functions which is much higher than the growth of the state budget expenditures and inflation rate.

Decentralisation process from 2001 (decentralisation of school education, health care, social welfare on the counties (21) and cities (32)) and the decentralised financing of the regular activities of public fire brigades⁹ (total of 89 municipalities/cities for 57 public fire brigades) was being implemented also in 2005.

The Law on the Financing of Local and Regional Self-government Units prescribes the sources and forms of financing, while the special laws and other regulations define the functions and subjects of decentralisation. An additional share of the personal income tax which is collected on the units' area for the settlement of minimum financial standards, as well as the right for the equalization grants from the state budget, are increased for the transferred functions. Additional shares for the decentralised functions are shown in table 4.1.

⁶ Law on Islands (Official Gazette, No 34/99 and 32/02)

⁷ Law on Hilly and Mountainous Areas (Official Gazette, No 12/02, 32/02 and 117/03)

⁸ Law on the Regional Development Fund of Republic of Croatia (Official Gazette, No 107/01)

⁹ Law on Fire-fighting (official Gazette, No 139/04)



Table 4.1: Additional Shares of the Personal Income Tax Allocated for Decentralised Functions

FUNCTIONS	ADDITIONAL SHARES
SCHOOL EDUCATION	
Primary Education	2.9%
Secondary Education	2.0%
SOCIAL WELFARE	
Centres for social welfare	0.4%
Homes for elderly and disabled persons	1.6%
HEALTH CARE	
Health care institutions	2.5%
FIRE-FIGHTING	
Public fire brigades	1.0%

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

By the Decree¹⁰ the Government of the Republic of Croatia regulates the method of calculation of the amount of equalization grants for 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 prescribed by the Decree and the Decisions of the Government on the minimum financial standards for a respective function in a particular year.

The equalization grants are allocated depending on the expense category: for expenses for primary and secondary education and fire-fighting, it is paid for current month and the monthly difference is being adjusted with the payments for the next month, while the grant for acquisition of nonfinancial assets and additional investments in nonfinancial assets is allocated on the basis of delivered documentation verified by the line ministry, for the due accounts and the accounts coming due in the month in which the grant is given.

Based on their own decision, the beneficiaries of the primary and secondary education grants can join the funds for the acquisition of fixed assets and additional investments in nonfinancial assets up to the level of balanced rights. In this way the local and regional self-government gains more space for independent decision-making as well as the possibility to reallocate funds between the institutions within specific functions, whereat this reallocation should be based on the plan published two months before the adoption.

Besides additional sources of financing, cities, municipalities and counties, holders of the decentralized functions, have also taken over the obligation to allocate the funds to final users as well as the obligation of their earmarked use. The legality of performing the functions and earmarked use of funds is, by priority, controlled by counties and cities, while, when there is a special request, the control is done by 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 on the amount of spent funds of the user from their scope of competence. Counties, cities and municipalities that achieve more funds than prescribed by the Decisions and the Decree, have to return the excess funds to the state budget of the Republic of Croatia.

¹⁰ - Decision on criteria and benchmarks for determining balance rights for financing minimum financial standards of public needs for primary education, secondary education and student homes in 2005;
 - Decision on minimum financial standards of material and financial expenses for Centres for social welfare and grants for settlement of the costs of living to users which used firewood in 2005;
 - Decision on minimum financial standards for decentralized financing of homes for elderly and disabled persons in 2005;
 - Decision on minimum financial standards for decentralized functions for health institutions in 2005 (Official Gazette, No 185/04);
 - Decision on minimum financial standards for decentralized financing of regular activity of public fire brigades in 2005 (Official Gazette, No 187/04).

¹¹ The Decree on the Method of Calculating the Amount of Equalization Grants for Decentralized Functions of Local and Regional Self-government (Official Gazette, No 185/04)



4.2 FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

The Law on Financing of Local and Regional Self-government Units regulates more in detail sources of revenue for financing the activities from the scope of competences of municipalities, cities and counties. This Law determines the revenues of the local and regional self-government units, their distribution, rates, i.e. limits within which they are prescribed. In addition to this regulation, local units must comply with other special laws and regulations which regulate different areas of public spending.

Local units generate revenue from their own revenue, joint revenues (taxes and other revenue) which are divided between the government, municipalities/cities and counties, grants from the state and county budget and the receipts on the basis of borrowing in accordance with a special law.

Counties' own revenue include: revenue from their own assets, county taxes (inheritance and gifts tax, road motor vehicles tax, boat tax, slot machine tax) and other revenues determined by a special law. Own revenue of municipalities/cities are: revenue from their own assets, taxes (surtax on personal income tax, sales tax, second home tax, uncultivated agricultural land tax, unused enterprise real estate tax, unused construction land tax, trading name tax, tax on public land use), administrative charges, residence charges, utility and other fees.

Joint revenues of the government, municipality and a city from the contracted annual concession fees for the exploitation of mineral and thermal waters and for the use of water for public water supply are divided so that municipality/city as well as the government each account for 50% of the revenue from the fees for the exploitation of mineral and thermal waters, while the share of the municipality/city in the revenue from the fees for the use of water for public water supply is 30%, whereas the government share is 70%.

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

Local and regional self-government units receive the percentage of the joint taxes collected on their territory (see Table 4.2) which is determined by the mentioned Law.

Table 4.2: Redistribution of Joint Tax Revenues

	State Budget	Counties	Municipalities/Cities
Personal income tax	25.60%	10% increased by the	34%, increased by the
	share of equalization item 21%	share for transferred functions (9,4%)	share for transferred functions
Corporate income tax	70%	10%	20%
Tax on real estate transactions	40%	-	60%

Note: The share of the City of Zagreb in the 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 amounts to 34%, increased by the part of personal income tax for decentralized functions taken over by the unit (2.9% share for primary education and 1% share for public fire brigades).

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

In the areas of special state concern 90% of the personal income tax and corporate income tax are allocated to municipality/city budget, while 10% is allocated to the county budget.

Namely, the government has ceded part of the personal income tax to the areas of special state concern and islands in the amount of HRK 540 million, which represents more than 50% of the total surtax collected in all units in 2005.

The government cedes the share of the personal income tax (25.6%) to the municipalities and cities on islands which signed the agreement on financing projects of mutual interest for the island development. The amount of HRK 47 million was allocated to these areas in 2005. It is mostly intended for the projects related to water supply, spatial planning and transport infrastructure improvement.

Taking into account the significance of the personal income tax share in local budgets and the fact that the same allocation is applied with the return of the personal income tax by the annual application as well as with the payment, in order that the units at the areas of special state concern would not confront financial difficulties and impossibility of performing the regular functions, the state has, like the last year, taken over the obligation of the return of personal income tax to the citizens, taxpayers from the areas of special state concern, with the funds from the state budget for: 111 municipalities and cities (group I and II of the areas of special state concern), 69 municipalities within the group III and 45 municipalities which have status of hilly-mountainous areas as well as



20 counties for the citizens from the mentioned areas. As the personal income tax return HRK 374 million was returned in 2004. The return of the personal income tax to the citizens that the state has paid out instead of the units amounted to HRK 442 million, which is 18% higher than in 2004.

Even though, since 2001, the Law on Financing the Cities and Municipalities gives the possibility of introducing new taxes (uncultivated agricultural land tax, unused enterprise real estate tax, unused construction land tax) and surtaxes, the revenue outturn on this basis, besides the surtax on personal income tax, is negligible which indicates that majority of units have not introduced mentioned taxes or they are not collecting them in sufficient extent.

Surtax on personal income tax represents the revenue of the city or the municipality on whose territory the tax payer has its place of residence. Surtax is the additional tax and the base for its calculation is personal income tax. Municipalities and cities determine by their decisions the surtax rate within legally prescribed limits (up to 10% for municipalities, up to 12% for cities with the population under 30,000, up to 15% for cities with the population above 30,000 and up to 30% for the City of Zagreb). Since the possibility of introducing surtax on personal income tax was given to all municipalities/cities, by the end of 2005, 218 local self-government units issued the decision on introducing the surtax on personal income tax. Total amount of the surtax on personal income tax of all municipalities/cities was HRK 899 million in 2005 (surtax revenue of the City of Zagreb amounted to HRK 588 million) which represents an increase of 1% compared to 2004.

Beside the abovementioned, it is also necessary to mention the subsidies, refundable and non-refundable resources and direct capital investments from the state budget of the Republic of Croatia through the Regional Development Fund. In 2005, the amount of HRK 112 million was allocated to the local and regional self-government units for utility infrastructure - regional water-supply network, road infrastructure, entrepreneurial zones, co-financing of the construction of regional operational plans and other.

In addition, pursuant to the Law on the Execution of the State Budget of the Republic of Croatia, grants are ensured for the units in the group I and II of the areas of special state concern, which equal the difference between possible grants and projected returns of the personal income tax based on annual application.

Legal criteria for the calculation of the grants are determined and applied for municipalities, cities and counties. The ensured grants to counties refer to incentives for development programmes (for the acquisition of nonfinancial assets) and grants to municipalities and cities are for encouraging investments in development programmes.

The used criteria for the calculation and allocation of grants to counties include the population number, average revenue of counties' budgets per capita on the state level (state average) and revenue of the county budget per capita on county level, population of Croatia, without the City of Zagreb, per 1 km² and the county population per 1 km² of the county territory.

At least 75% of the grants counties allocate to the municipalities and cities which are not the direct beneficiaries of the grants from the state budget. The counties themselves prescribe their criteria for the allocation of grants on their territory and the obligation of reporting on the use of grants. In addition to the grants from the state budget, counties ensure grants to units on their territory or co-finance expenditures for nonfinancial assets from their own resources.

Criteria, which are applied on calculation of the grants to municipalities and cities in the special state concern area, include: population number, average revenues per capita of municipalities and cities on the state level, average revenues per capita of the group, population per 1 km² in the areas of special state concern, population per 1 km² of specific municipality or city, share of expenses for capital programmes in total expenses, rationality funds for expenses for employees and funds for covering the functions of cities of the population below 30,000.

On the basis of financial statements of the local and regional self-government units, it is determined whether the certain unit fulfils the set criteria for receiving the grant and its amount is determined as well.

Grants to municipalities and cities amounted to HRK 32 million, while grants to counties for stimulating capital projects amounted to HRK 40 million in 2005.

When observing it altogether, when this direct amount of the state budget grants is added to the ceded share of the personal income tax to budgets of the municipalities/cities in the area of special state concern and islands and to the return of the personal income tax based on the annual application to the citizens of this areas and hilly and mountainous area, the government ceded around HRK 1 billion of its share of the personal income tax to this areas in 2005.

One of the indicators of the size and the significance of the local self-government is the share of the local and regional self-government revenues in gross domestic product, as well as in total revenues of the general government. Share of the local and regional self-government revenues (53 units) in GDP, in 2005 compared to the previous year, increased from 5.2% to 5.3%, while its share in total revenue of the general government increased from 11.2% to 11.8%.



4.3. BUDGET REVENUES OF LOCAL AND REGIONAL SELF-GOVERNMENT

The analysis includes the budget revenue outturn for a total of 53 units (32 cities, 20 counties and the City of Zagreb) which have taken over the financing of decentralized functions according to the GFS 2001 methodology. It is important to indicate that 53 units of the local and regional self-government participate with 70-80% in total revenues of all units of the local and regional self-government.

Unlike previous years when budget execution was monitored using the methodology of the International Monetary Fund for the public finance statistics GFS 1986, reports for 2004 and 2005 are analyzed in accordance to the new classification GFS 2001. In order to have complete information on financial situation of the units in comparison to GFS 1986, it should be noted that there are differences in the coverage of total revenues, total expenses and net lending.

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

Revenues according to GFS 2001 classification are observed through basic categories: taxes, grants and other revenues.

Table 4.3: Budget Revenue Outturn in 2004 and 2005 for 53 units (32 cities, 20 counties and the City of Zagreb)

(000 HRK)	Outturn 2004	Structure 2004	Outturn 2005	Structure 2005	Index 2005/2004
REVENUES	10,828,868	100.00	12,162,401	100.00	112.31
Tax Revenues	6,592,061	60.87	7,072,350	58.15	107.29
Grants	1,425,056	13.16	1,704,577	14.02	119.61
Other Revenues	2,811,751	25.97	3,385,474	27.84	120.40

Note: According to the GFS 2001 methodology

Source: Ministry of Finance

Total revenues of cities and counties in 2005 amounted to HRK 12.1 billion, which represents an increase of 12% compared to 2004. Within the structure of total revenues in 2005, tax revenues were dominant, realised in the amount of HRK 7 billion which is an increase of 7% compared to 2004 and they accounted for the share of 58% in total revenues. The share of other revenues, which have increased by 20%, was 28%, while the share of grants in the revenue structure in 2005 amounted to 14% of total revenues.

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

Table 4.4: Financing of Decentralized Functions in 2005

Function	Counties and City of Zagreb	Cities (32)	Cities/Municipalities	Total (000 HRK)
Primary education	612,701	225,397		838,098
Secondary education	426,905			426,905
Health care	398,060			398,060
Social welfare	280,187			280,187
Public fire brigades	37,893	163,147	63,217	264,257
Total liabilities	1,755,746	388,544	63,217	2,207,507

Total liabilities for transferred decentralised functions amounted to HRK 2.2 billion which represents an increase of 10%. More significant increase was recorded by the functions of primary and secondary education, amounting to 13% and 16%, respectively. The structure of functions and the annual increase is shown in Figure 4.1.



Figure 4.1: Structure of Decentralised Functions in 2005

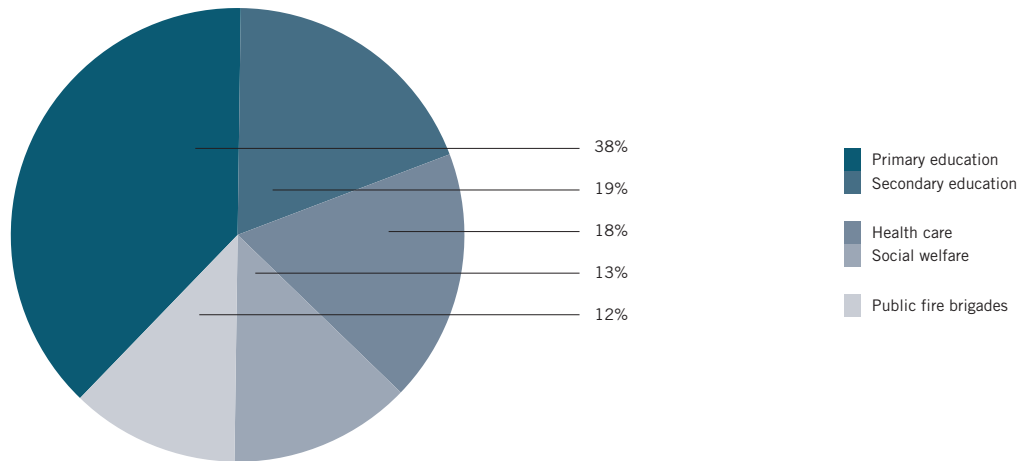
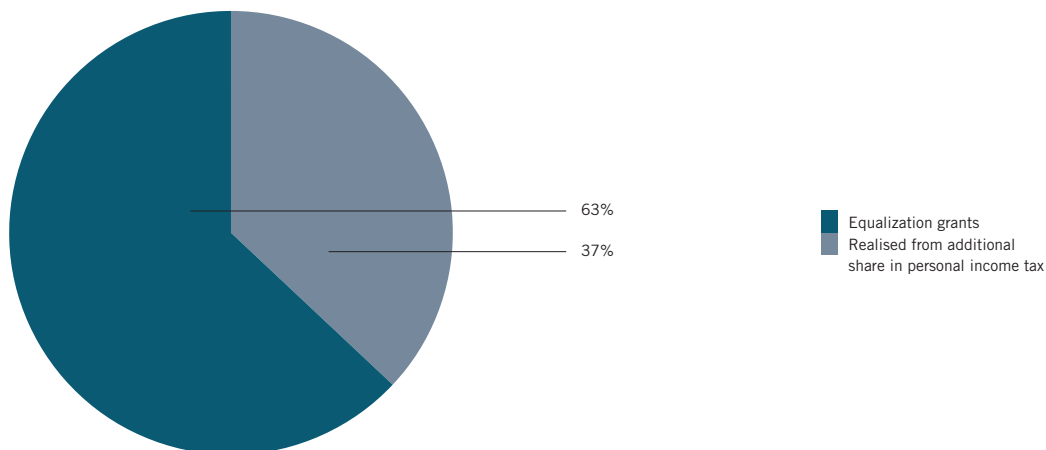


Figure 4.2: Structure of the Revenue Outturn for Decentralised Functions in 2005



The realised share of personal income tax from the additional share in 2005 (Figure 4.2) amounted to HRK 810 million, which was enough for financing 37% of total transferred expenses. The rest of the transferred liabilities were settled from the equalization grants. Since the increase of personal income tax did not follow the increase of expenses for decentralized functions and since the number of units, that total share of the personal income tax is ceded to, has increased, more and more funds are allocated from the equalization grants position. The unequal economic power and the coverage of the institution network, which is usually not in proportion to the units' fiscal capacity, can also be seen from the relation between the realisation of the additional shares in personal income tax for decentralized functions and the allocated equalization grants.

In 2005, Zagreb County, Istria County and Primorje-Gorski Kotar County recorded the highest outturn of resources on the basis of the additional share in personal income tax, around 50%, which corresponds to their real fiscal capacity in comparison to the other counties. On the other hand, the City of Zagreb, which realised around 95% of revenues from the additional share in personal income tax, had the least need for the equalization grants for settling the decentralized liabilities, while Lika-Senj County (98%) and Vukovar-Srijem County (91%) had the most need for the equalization grants.

It should be noted that the liabilities for decentralized functions of counties, cities and municipalities were fully settled from the additional share and the equalization funds. The units of the local and regional self-government gain more and more space for autonomous decision-making related to the redistribution of funds for the functions which are being decentralized (joining funds within primary and secondary education) and a positive development can be seen in better perception of needs as well as in rational use of funds.



4.3.1 Taxes

The most important budget revenue category of local and regional self-government units is tax revenue which accounts for 58% of total revenue. In 2005, tax revenue amounted to HRK 7.1 billion and recorded an increase of 7%. Units realise their tax revenues from own and joint tax revenues. Within the structure of total budget revenues of local and regional self-government units (Figures 4.3 and 4.4), the most important are the joint tax revenues realised from personal income tax and corporate income tax. The largest share of tax revenues is realised from surtax and tax on personal income which is additionally increased by the part of the personal income tax for decentralised functions. Surtax and tax on personal income amounted to HRK 6.3 billion and within the structure of total revenues they account for the share of 39% which represents an increase of 2% in comparison to the previous year.

Figure 4.3: Structure of Total Revenues of 32 Cities, Counties and the City of Zagreb in 2005

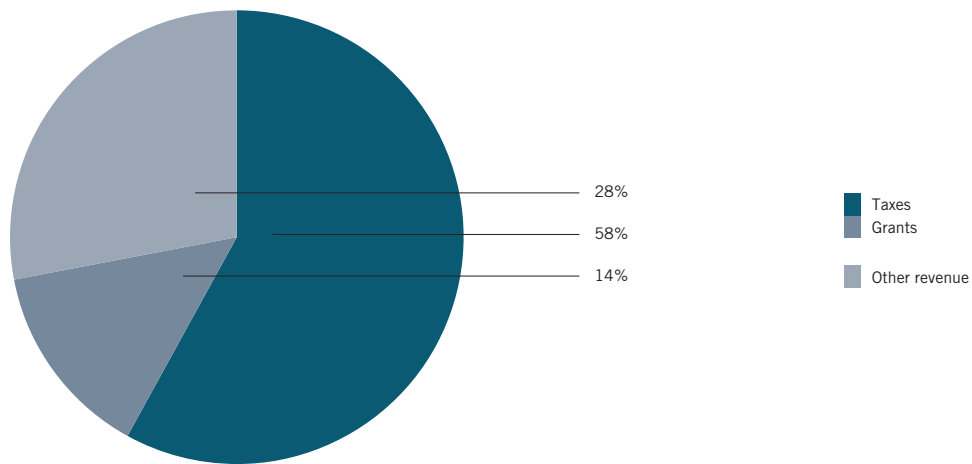
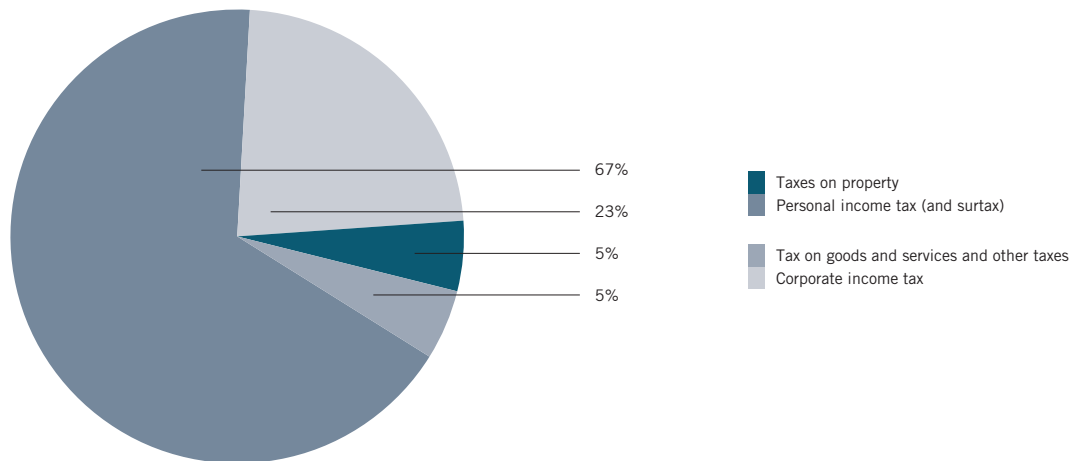


Figure 4.4: Structure of Tax Revenues of 32 Cities, Counties and the City of Zagreb in 2005



The personal income tax also includes the units' own revenue - surtax on personal income tax, which is reported together with the personal income tax due to the specific tax collection technique.

While observing the structure of tax revenues (see Figure 4.4) it can be noticed that the most revenue is collected on the basis of joint tax revenue (surtax and tax on personal income with a share of 67% and corporate income tax with a share of 23%), while the share of all other taxes (tax on goods and services and other taxes) amounts to 10% of total tax revenues.

In comparison to 2004, revenue from corporate income tax grew by 28% in 2005, which is significant increase compared to the previous year. Corporate income tax, as one of the most significant sources of total revenue, is realised in the amount of HRK 1.62 billion and it accounts for the share of 13% of total revenue.



In comparison to the joint taxes, revenues collected on the basis of local taxes are poorly represented within the budget revenue structure of local units, even though they have recorded an annual increase of 5% on average. Taxes on property and taxes on goods and services, which 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, unused construction land tax, tax on public land use, consumption tax, trading name tax and other taxes) account for only 6% of total revenues.

4.3.2 Grants

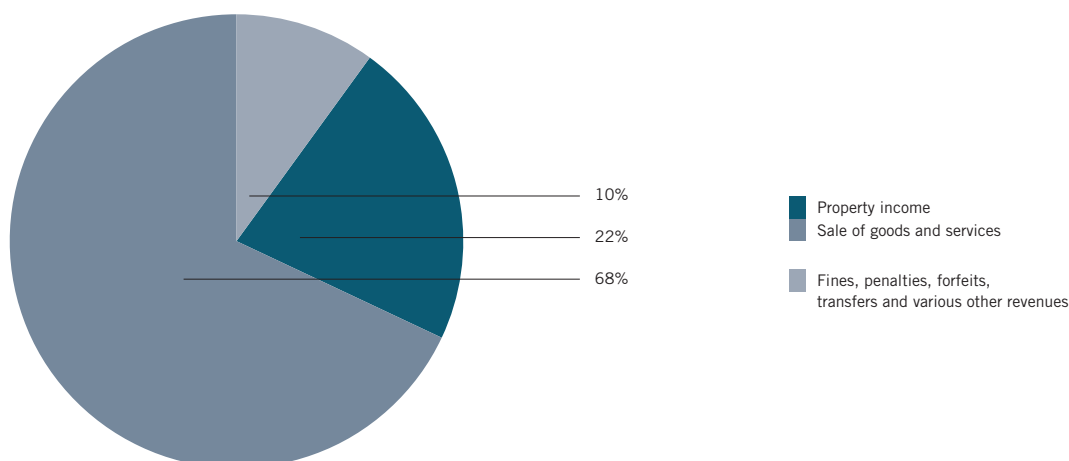
Grants were realised in the amount of HRK 1.7 billion in 2005, which represents an increase of 20% compared to 2004. They include current and capital transfers which budgets and budgetary users receive from foreign governments, international organisations and other entities within the general government. The share of the grants in total revenues realized in 53 units of local and regional self-government amounted to 14%. The total amount of grants, except the direct grants for the areas of special state concern (for counties), grants from line ministries, Croatian Waters, Regional Development Fund and other, also includes a part of personal income tax received as an equalization grant from the state budget for decentralised functions which, in accordance to GFS methodology, has the status of received grant within general government and not the status of tax revenue.

4.3.3 Other Revenues

Other revenues, realised in the amount of HRK 3.4 billion, represent the second most abundant revenue of local budgets (see Figures 4.2 to 4.5) accounting for the share of 28% of total revenues. On an annual basis, it represents an increase of 20%, just like the increase of revenue from grants.

In line with the special laws, fees and charges collected on the basis of these laws belong to counties, cities and municipalities and they are included in other revenue of their budgets. Units themselves prescribe the introduction of revenues and their levels within the legal limits. However, it should be noted that these are earmarked revenue which can only be used for activities for which they are introduced. More significant share is related to the utility contribution and utility fee which, among other things, finance the maintenance of the utility infrastructure and street-lighting as one of the leading expenses of the local budgets.

Figure 4.5: Structure of Other Revenues of 32 Cities, Counties and the City of Zagreb in 2005



Other revenues, according to GFS 2001 methodology, can be divided into three main categories as follows:

1. property income (revenues from moveable and immoveable objects, concessions, fees for the use of the space of power plants, mineral raw materials, for the use of public areas, etc.) which are realized in the amount of HRK 760 million and account for the share of 22% of other revenues,
2. revenues from the sale of goods and services, realized in the amount of HRK 2.3 billion (revenues from sale of duty stamps, revenues from tourist fees, utility fees, utility contributions and other fees) with a 66% share, and
3. fines, penalties, forfeits and various other revenues, with a share of 10%.



4.4 BUDGET EXPENSES OF 53 LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

The expenses, according to GFS 2001 methodology, are divided into main categories: compensation of employees, 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 the units, whereas the execution is ensured by the decisions on the execution of the budget, with the obligation of the budget users to use the funds for earmarked purposes rationally and efficiently, on the basis of revenues planned in the budget. Expenses of local units are related to the activities performed within the scope of competences of local and regional self-government units.

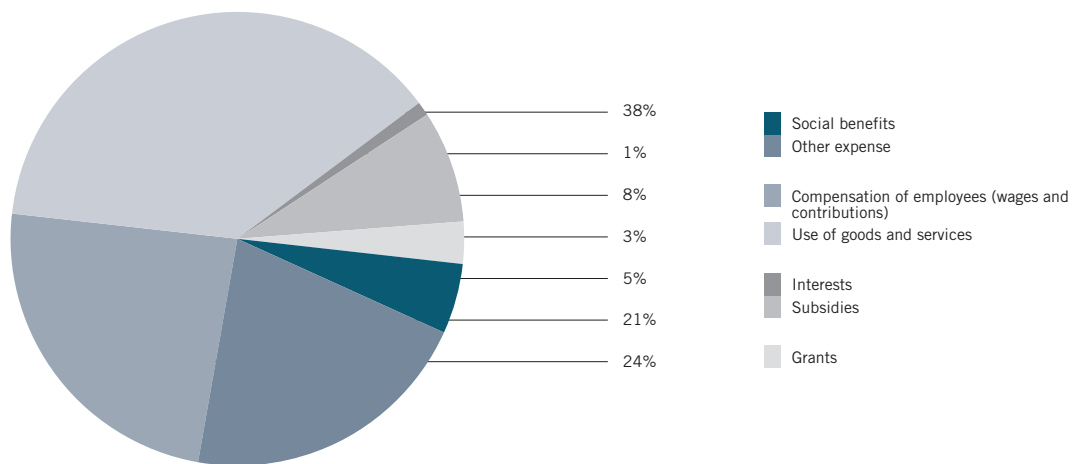
Table 4.5: Budget Expenses in 2004 and 2005 for 53 Local Units (32 cities, 20 counties and the City of Zagreb)

(000 HRK)	Outturn	Structure	Outturn	Structure	Index
	2004	2004	2005	2005	2005/2004
EXPENSES	8,766,249	100.00	9,882,542	100.00	112.73
Compensation of employees	2,239,472	25.55	2,379,585	24.08	106.26
Wages and salaries	1,972,800	22.50	2,065,605	20.90	104.70
Social contributions	266,672	3.04	313,980	3.18	117.74
Use of goods and services	3,351,575	38.23	3,775,863	38.21	112.66
Interests	79,559	0.91	98,047	0.99	123.24
Subsidies	726,356	8.29	746,131	7.55	102.72
Grants	267,077	3.05	289,638	2.93	108.45
Social benefits	376,014	4.29	538,720	5.45	143.27
Other expense	1,726,196	19.69	2,054,558	20.79	119.02

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

Total expenses in 2005 amounted to HRK 9.9 billion and have increased by 13% in comparison to the previous year. Expense structure is shown in Figure 4.6.

Figure 4.6: Structure of Total Expenses of 32 Cities, Counties and the City of Zagreb in 2005



The share of compensation of employees in total expenses amounted to 24%, expenses for use of goods and services 38%, other expenses (donations) 21% and the share of all other (subsidies, grants, social benefits and interests) amounted to 17%. Out of total expenses executed in 2005, the most funds were spend on use of goods and services, HRK 3.78 billion, which was primarily the result of the decentralization process by which the financing commitments were transferred to the lower level, in the largest part the commitments for current operations within the functions of education and social welfare. The expenses for the use of goods and services include the expenses which are necessary for the regular functioning of all budget users. Funds were spent on material, energy, street-lighting, cleaning, public areas, utility and other services for regular needs and expenses for current maintenance of buildings and equipment. The expenses for the use of goods and services have increased by 13% in comparison to 2004.



Compensation of employees (wages and contributions), realized in the amount of HRK 2.38 billion, grew at the rate of 6%. Beside the wages of employees in the bodies of the local and regional self-government, it mostly includes also the wages of their budget users (theatres, museums, libraries, kindergartens, etc.). Financial expenses relate to interest paid, which have the least share of 1% in total expenses of local budget. Interests refer in most part to the settlement of the liabilities based on loans of the local and regional self-government units from the previous years. Subsidies are current fund transfers which are given on one-time or regular basis and can be used as: interest subsidies, subsidies for employee training programmes, etc. They are executed in the total amount of HRK 746 million and account for a share of 8% of total expenses. Primarily they are intended for public enterprises, while a smaller share is earmarked for companies outside the public sector. Subsidies for entities outside the private sector are mostly given to farmers, craftsmen and small and medium size enterprises.

Grants are non-compulsory current or capital transfers which are given to other general government units. They are mostly allocated for co-financing of current and capital expenses of state or local budget users. In 2005, the mentioned expenses were executed in the amount of HRK 290 million, i.e. 3% of total expenses. The largest part, i.e. 57% of grants, is allocated for capital grants within the general government (construction of roads, spatial plans, water supply, etc.). In comparison to the previous year, grants have increased by 8%.

The highest increase of 43% in comparison to the year 2004 is related to social benefits - benefits to the citizens which account for the share of 5% of total expenses of 53 local and regional self-government units. Social benefits were realized in the total amount of HRK 539 million. This is primarily related to expenses for co-financing the costs for students' transport, accommodation and meals and co-financing of the costs for firewood for the users of social welfare.

Other expenses (donations) include current and capital expenses which amounted to HRK 2 billion in 2005 and had a share of 21% of total expenses. Donations are mostly intended for non-profit organisations for non-economy related investments, reparations after natural disasters, acquisition of equipment and for companies and non-profit institutions in the ownership of local and regional self-government for the acquisition of nonfinancial assets. Other expenses in 2005 have increased by 20% in comparison to the year 2004.



4.5 TRANSACTIONS IN NONFINANCIAL ASSETS

Table 4.6: Changes in Net Worth of Nonfinancial Assets in 2005 for 53 Units (32 Cities, 20 Counties and the City of Zagreb)

NET ACQUISITION NONFINANCIAL ASSETS	2,360,290
Fixed assets	2,460,334
Acquisition: fixed assets	2,683,185
Disposal: fixed assets	222,185
Valuables	209
Acquisition: valuables	209
Disposal: valuables	0
Nonproduced assets	-100,253
Acquisition: nonproduced assets	216,903
Disposal, nonproduced assets	317,156

Note: According to GFS 2001 methodology

Source: Ministry of Finance

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 increased by 7% compared to 2004 and amounted to HRK 2.7 million (utility infrastructures, school and health institutions, cultural facilities, preschool institutions, entrepreneurial zones, business buildings, reconstruction and construction of roads, sport and recreational centres, furniture and equipment, etc.) while the disposal of fixed assets (business facilities, revenue from the sale of flats and other structures) decreased by 22% in comparison to the previous year and stood at only HRK 222 million.

Nonproduced assets comprise land, subsoil assets, other naturally occurring assets and other rights (concessions, licences, patents, etc.). Acquisition and disposal of nonproduced assets in 2005 was almost fully realized on the basis of land disposal.

Net nonfinancial assets recorded an annual growth of 11% and amounted to HRK 2.36 billion which is the result of the acquisition and the disposal of nonfinancial assets.

The acquisition of fixed assets was financed not only from the disposal of these assets but mostly from the realized other revenues and receipts from incurrence of liabilities.



4.6 TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES

Table 4.7: Changes in Net Acquisition of Financial Assets and Liabilities in 2005 for 53 Units
(32 Cities, 20 Counties and the City of Zagreb)

NET ACQUISITION OF FINANCIAL ASSETS	-303,883
Domestic	-303,883
Foreign	0
NET INCURRENCE OF LIABILITIES	-223,452
Domestic	-130,446
Foreign	-93,006

Note: According to GFS 2001 methodology

Source: Ministry of Finance

In the course of 2005, transaction in financial assets and liabilities resulted in a reduction of financial assets and, at the same time, in a reduction of liabilities of the local and regional self-government units.

Transactions in financial assets represent the result of the relation between:

- expenditures for given domestic loans in the amount of HRK 83 million; for shares and purchase of equities in companies' capital in the amount of HRK 28.5 million and other claims in the amount of HRK 18 million
- and receipts from the repayment of given loans in the amount of HRK 78 million, receipts from the sale of shares and equities in companies in the amount of HRK 14.4 million and the reduction of deposits by HRK 340.8 million.

Given loans are mostly intended for public companies, small and medium size enterprises or banks as a guarantee for the loan repayment of entrepreneurs on the units' territory.

Transactions in liabilities are the result of incurrence of liabilities and repayments of received loans and on the basis of issued securities.

In case of the lack of revenues for the acquisition of nonfinancial assets and with an aim of financing capital projects, local and regional self-government units are given the possibility of incurrence of liabilities in accordance with the provisions of the laws¹¹ and subordinate legislation¹². Counties, cities and municipalities can record incurrence of liabilities by taking loans and issuing securities only in banks on the territory of the Republic of Croatia for capital projects which are financed from their budgets and which are approved by the representative body, with a prior Government's consent.

The law prescribes the limit of liabilities, annuity and the base for determining the scope for incurrence of liabilities. Annuity of loans, guarantees and other arrears can amount up to 20% of unit's revenues realized in the year preceding the year in which liabilities incurred.

Units are also allowed to refinance present loan liabilities because of more favourable loan conditions, in the first place because of the decrease of interest rates on the capital market. Loan for which the Government of the Republic of Croatia gave its consent can be refinanced under the condition that the refinanced amount is smaller than the rest of the debt from the previous Government Decision.

The stated Law prescribes restriction measures to which the Government of the Republic of Croatia can give its consent on the incurrence of liabilities to the local and regional self-government units for 2005, up to the level of 2% of the revenues of all local and regional self-government units, presented in the financial report for the year 2004. The provisions did not refer to units from the areas of special state concern nor to the units which receive credit funds from the resources of the Republic of Croatia Regional Development Fund and the Development and Employment Fund.

Municipalities, cities and counties were allowed to make a request for the incurrence of liabilities if their revenues were higher than their expenses in the financial reports for 2004.

Transactions in liabilities were decreased in 2005. Incurrence of liabilities based on received loans from domestic retail banks and issued bonds for financing capital projects stood at HRK 219 million, but at the same time the repayments were twice as high, i.e. HRK 442 million.

Pursuant to the Budget Law, municipalities, cities and counties can independently give guarantees for the incurrence of liabilities of the public institution or public company whose founders and majority owners they are. Mentioned guarantees are included in the stated limit of 20% for annual incurrence of liabilities of certain unit.

¹² Budget Law (Official Gazette, No. 96/03), Law on the Execution of the State Budget (Official Gazette, No. 171/04 and 89/05)

¹² Ordinance on the procedure of incurrence of liabilities of the local and regional self-government units and giving guarantees to the local and regional self-government units (Official Gazette, No. 55/04)

5
CONSOLIDATED GENERAL
GOVERNMENT IN 2005



5.1 SIGNIFICANT FISCAL POLICY FEATURES IN 2005

During 2005 substantial fiscal adjustment continued after it was initiated in 2004 when general government deficit was reduced by 1.3 percentage points, i.e. from 6.2% of GDP to 4.9% of GDP and then additionally by 0.8 percentage points, i.e. to 4.1% of GDP in 2005. Such trends demonstrate substantial fiscal consolidation accompanied by significant progress in the field of fiscal management and transparency. First of all, it should be noted here the elimination of hidden subsidies to the Croatian Railways, than control over quasifiscal operations and potential liabilities was introduced, a single State Treasury account was expanded, publication of data was enhanced, internal audit units were set up in all budget beneficiaries in the central government, financing from external sources was reduced substantially, public debt management was improved. Numerous additional measures were taken with a view to enhance tax administration: offices for large tax payers were established, the time period for processing VAT refund applications was extended from 15 to 30 days in compliance with the EU standards and the focus on monitoring revenues collection was enhanced. Issuing of government loan guarantees was limited and borrowing requirements of a group of large public corporations were reduced.

An important feature of the 2005 budget were high social transfers directed at pensions, healthcare system, demographic and family policy measures, unemployment benefits, social welfare and care for Croatian war veterans and members of their families. Also, significant investment projects were recorded, although investments of extrabudgetary funds and agencies were slightly decreased, particularly because of the decline in the intensity of investments into road infrastructure, notably of the Croatian Motorways and Croatian Roads. Fiscal deficit decrease signed a lower need for incurrence, so we can see a deceleration of growth of general government debt, from 14% in 2004 to 9% in 2005.

First Review of Stand-by Arrangement that was approved by International Monetary Fund in August 2004 was efficiently closed in September 2005. The main program goals are based on continuing the macroeconomic stability, limiting external vulnerability and preparing Croatia for EU accession. In this context, the Government of Republic of Croatia efficiently closed first and then at the beginning of the year 2006 also a Second Review of Stand-by Arrangement as well as requested its extension until November 15, 2006 for the purpose of providing support in pursuit of economic policy and structural reforms. Thus, the state role in economy will be reduced and private sector activity will be improved.



5.2 CONSOLIDATED GENERAL GOVERNMENT BY ECONOMIC CLASSIFICATION

5.2.1 Consolidated General Government Revenues

During 2005, consolidated general government revenues were collected in the amount of HRK 103.1 billion, that is increase of HRK 6.7 billion or 6.9% compared with the year before. Thus, the revenue plan was exceed by HRK 372.4 million. At the same time, the share of total revenues of consolidated general government in the value of nominal gross domestic product decreased from 45.3% in 2004 to 45.0% in 2005.

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

Table 5.1: Consolidated General Government Revenues in 2003 - 2005

	(000 HRK)	2003	% GDP	2004	% GDP	2005	% GDP
1	REVENUES	89,314,500.8	45.0	96,426,967.1	45.3	103,100,940.9	45.0
11	Taxes	53,834,653.3	27.1	56,425,728.1	26.5	60,521,399.0	26.4
111	Taxes of income, profits and capital gains	11,516,423.2	5.8	12,160,712.0	5.7	13,396,909.8	5.8
1111	Taxes on individual income	7,197,917.0	3.6	7,764,614.8	3.6	7,824,668.1	3.4
1112	Taxes on corporate income	4,318,506.2	2.2	4,396,097.2	2.1	5,572,241.7	2.4
113	Taxes on property	605,840.0	0.3	730,912.8	0.3	763,635.2	0.3
114	Taxes on goods and services	39,547,168.8	19.9	41,587,966.2	19.5	44,414,502.5	19.4
1141	General taxes on goods and services	28,302,815.6	14.3	30,057,274.5	14.1	32,446,852.9	14.2
11411	Value-added taxes	28,129,299.9	14.2	29,864,904.7	14.0	32,243,371.6	14.1
11412	Sales taxes	173,515.7	0.1	192,369.8	0.1	203,481.3	0.1
1142	Excises	10,482,097.1	5.3	10,625,357.7	5.0	10,939,144.1	4.8
1144	Taxes on specific services	20,682.1	0.0	41,562.3	0.0	33,881.4	0.0
1145	Taxes on use of goods, permission to use	388,443.4	0.2	465,692.5	0.2	564,149.9	0.2
1146	Other taxes on goods and services	353,130.6	0.2	398,079.2	0.2	430,474.2	0.2
115	Taxes on international trade and transactions	1,810,866.2	0.9	1,590,727.3	0.7	1,562,930.2	0.7
116	Other taxes	354,355.1	0.2	355,409.8	0.2	383,421.3	0.2
12	Social contributions	27,424,607.5	13.8	29,477,597.2	13.9	31,301,339.6	13.7
13	Grants	12,034.1	0.0	13,991.7	0.0	28,149.2	0.0
131	From foreign governments	1,612.9	0.0	4,554.3	0.0	314.2	0.0
132	From international organizations	10,421.2	0.0	9,437.4	0.0	27,835.0	0.0
133	From other general government units	0.0	-	0.0	-	0.0	-
14	Other revenues	8,043,205.9	4.1	10,509,650.1	4.9	11,250,053.1	4.9

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

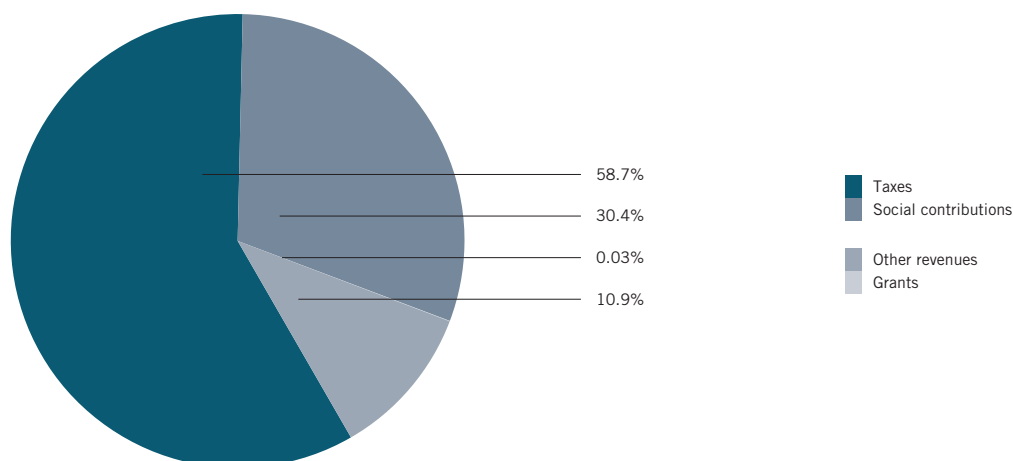
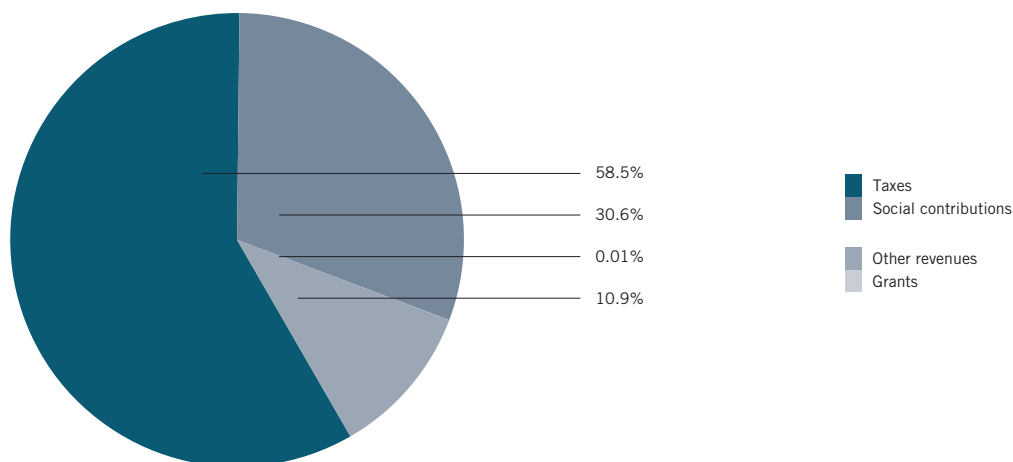
Tax burden, measured by the share of consolidated general government tax revenues in GDP, including social contributions, indicated a reducing tendency. In observed period, new tax measures have been introduced to attract foreign investors and to raise the strengthening economic development. Specified, tax revenues, as the most important revenue source of the consolidated general government, in 2005 recorded almost the same share as in 2004 (26.5% of GDP) while the share of social contributions decreased for 0.2 percentage points of GDP. Other revenues retained the same share as in 2004 (4.9% of GDP).

The structure of consolidated general government revenues in 2004 and 2005 is illustrated in Figures 5.1 and 5.2.

The general government revenues structure remained nearly unchanged in comparison with 2004. Namely, the tax revenues had a 58.7% share, notably because of better tax revenues collection but also measures that were directed to prevent tax evasion. Social contributions make up the 30.4% share while the other revenues have the 10.9% share in total revenues structure.



Figures 5.1 and 5.2: Structure of Consolidated General Government Revenues in 2004 and 2005



Figures 5.3 and 5.4 indicate the structure of consolidated general government tax revenues in 2004 and 2005, according to economic classification.

Value added tax revenues, which make up more than a half of all consolidated general government tax revenues, did not significantly change their share in comparison with the previous fiscal year (52.9% opposite to 53.3%). They were collected in the amount of HRK 32.2 billion, that is HRK 537.2 million over the 2005 budget plan. Thereby, they increased by 8.0%, which is considerably more in comparison with 2004, when they increased by 6.2% rate. That was mostly contributed by the favourable tourism and retail indicators.

Revenues from excises, collected in the amount of HRK 10.9 billion, had the share of 18.1% in the tax revenue structure. Compared with the previous fiscal year, excises increased by 3.0% while in 2004 they increased by 1.4%. This was result of the components of all excises, which were collected better, except for excises on beer and alcohol. However, compared with the budget 2005 plan, excise revenues fell short in the total amount of HRK 241.3 million. The main reason were excises on oil derivatives, which stood at 55.8% of total excise and at the level of 97.1% compared to the plan. Regarding the sources of collected excises in 2005, budgetary central government recorded the amount of HRK 8.18 billion, while extrabudgetary funds and agencies, i.e. Croatian Motorways and Croatian Roads collected HRK 2.76 billion. Earmarked setting aside of a portion of excises on oil and oil derivatives for construction of roads and motorways was regulated by law in 2001.



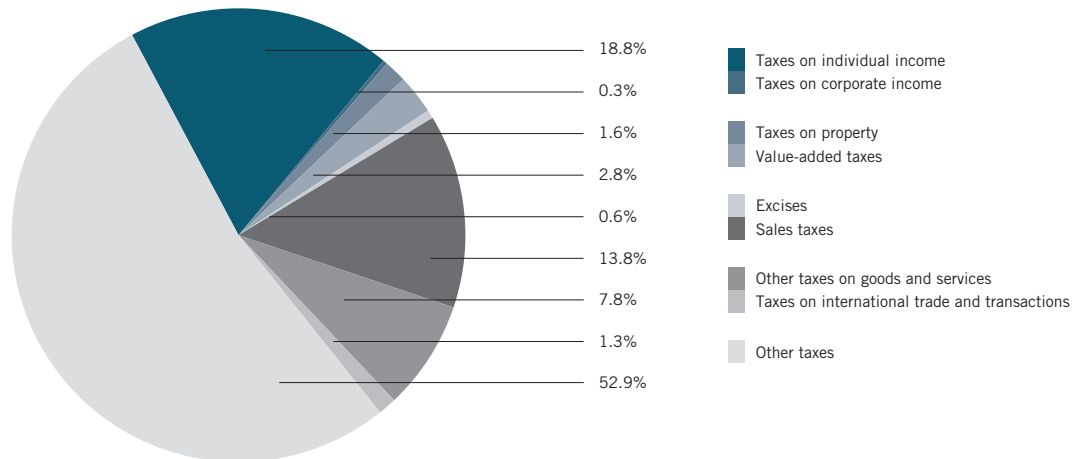
The share of personal income tax revenues in total tax revenues decreased from 13.8% in 2004 to 12.9% in 2005. They recorded the amount of HRK 7.8 billion, 0.8% more than the year before i.e. 5.2% less than planned. Weak personal income tax revenues growth may partly be attributed to the implementation of the new Income Tax Act. Budgetary central government and local government units collected HRK 3.1 billion, i.e. HRK 4.7 billion of total consolidated general government personal income tax.

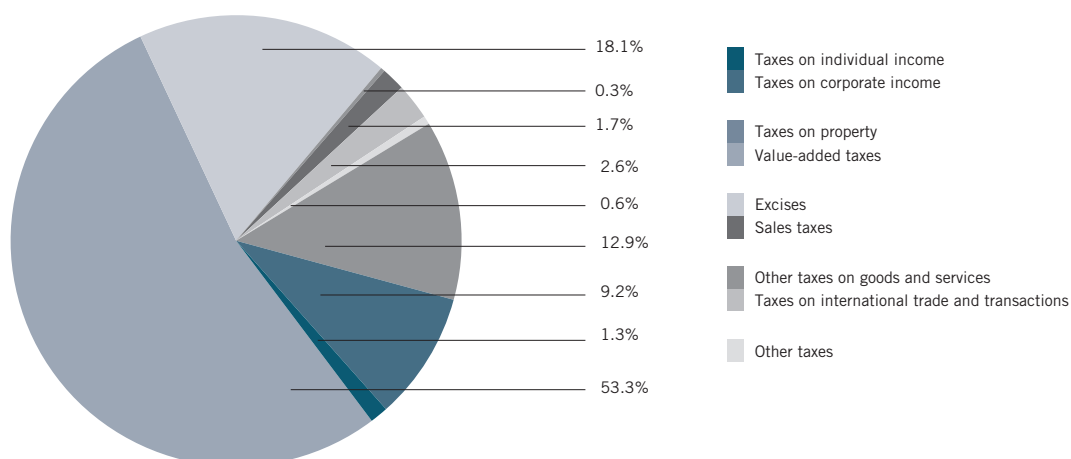
In 2005 tax revenues profit increased by high rate of 26.8%, which influenced on their share in the tax revenues that increased from 7.8% in 2004 to 9.2% in 2005. Regarding absolute amount, revenues from profit tax amounted HRK 5.6 billion, of which HRK 3.9 billion concerned to budgetary central government and HRK 1.6 billion to local government units. In this way, profit tax revenues reached the annual plan. This high growth rate may be explained by the good business activity of Croatian companies in 2004, since profit tax payments are determined on the basis of the tax liability for the previous year. As previously mentioned in Chapter II, the fact that there was no clearing of companies' balance sheets aimed at reducing the profit tax base and no one of writte of receivables at the end of 2004, also contributed to collection of profit tax revenues.

The decline in the share of revenues from taxes on international trade and transactions in total tax revenues continued in 2005 due to the liberalization of trade transactions. So, the share of 2.8% in 2004 decreased to 2.6% in 2005, which resulted in annual decreasing from 12.2% in 2004 i.e. 1.7% in 2005. Or, HRK 1.6 billion was collected as planned and this completely belonged to budgetary central government.

Within the structure of tax revenues, in 2005 the share of revenues from taxes on property remained identical as in 2004 (0.3%). They were collected in the amount of HRK 736.6 million, i.e. recorded an increase of 4.5% year-on-year. The budgetary central government collected HRK 375.5 million while the rest of HRK 388.1 million refers to local government units. It's important to emphasize that revenues from taxes on property of budgetary central government are completely collected from taxes on real estate transactions while the revenues from taxes on property of local government units mainly refer to revenues from taxes on financial and capital transactions and partly to revenues from taxes on estate, inheritance and gifts.

Figures 5.3 and 5.4: Structure of Consolidated General Government Tax Revenues in 2004 and 2005





Social contributions, which are the second most important revenue of budgetary central government, represent about 30.4% in the structure of total revenues. During 2005 they were increasing slower than in 2004 (6.2% opposite to 7.5), i.e. they amounted HRK 31.3 billion, as a result of the growth in the average gross monthly wage.

Other revenues of consolidated general government were recorded in the amount of HRK 11.2 billion, representing an annual increase of 7.0%, i.e. an identical share of total revenues as in the previous fiscal year (10.9%). Thus, its' plan was exceeded by a high HRK 785.4 million. This was mostly the result of collected revenues from taxes on goods and services, i.e. administrative fee revenues in the amount of HRK 4.1 billion (an annual growth of 17.2%), of which local government units collected HRK 2.2 billion, extrabudgetary funds and agencies HRK 1.4 billion and budgetary central government HRK 397.1 million. Revenues from rent and concession (HRK 1.5 billion) and dividends (HRK 1.2 billion) represent the largest part of property revenues. So, budgetary central government collected HRK 848 million from rents and concessions, extrabudgetary funds and agencies HRK 5.9 million and local government units HRK 624 million. Miscellaneous and unidentified revenues of consolidated general government totalled HRK 2.6 billion or high 26.5% more than in 2004.

5.2.2 Consolidated General Government Expense

Consolidated general government expense totalled HRK 100.5 billion in 2005, exceeding the annual plan by 0.5% or HRK 465.7 million. At the same time, total expense reached a rise of 6.6% year-on-year, which is slower than in 2004 (8.0%). According to this, the share of consolidated general government total expense in the value of GDP decreased from 44.3% in 2004 to 43.9% in 2005.

Table 5.2 indicates basic categories of consolidated general government expense, reported according to economic classification and as a share of GDP in the period of 2003-2005



5 CONSOLIDATED GENERAL GOVERNMENT IN 2005

Table 5.2: Consolidated General Government Expense in 2003-2005

	(000 HRK)	2003	% GDP	2004	% GDP	2005	% GDP
2	EXPENSE	87,295,862.7	44.0	94,286,501.1	44.3	100,510,748.2	43.9
21	Compensation of employees	24,065,457.3	12.1	25,505,196.0	12.0	26,679,699.7	11.6
211	Wages and salaries	20,495,806.7	10.3	21,723,668.4	10.2	22,731,437.0	9.9
212	Social contributions	3,569,650.6	1.8	3,781,527.6	1.8	3,948,262.7	1.7
22	Use of goods and services	9,494,184.1	4.8	9,679,315.7	4.5	10,876,095.4	4.7
24	Interest	4,039,182.1	2.0	4,423,238.9	2.1	5,102,696.5	2.2
241	To nonresidents	2,071,500.4	1.0	2,201,889.8	1.0	2,402,223.1	1.0
242	To residents other than general government	1,967,681.7	1.0	2,221,349.1	1.0	2,700,339.0	1.2
243	To other general government units	0.0	-	0.0	-	134.4	0.0
25	Subsidies	4,915,835.0	2.5	5,694,424.8	2.7	6,000,064.2	2.6
251	To public corporations	2,513,649.6	1.3	3,420,618.6	1.6	3,438,743.6	1.5
252	To private enterprises	2,402,185.4	1.2	2,273,806.2	1.1	2,561,320.6	1.1
26	Grants	557,296.9	0.3	1,008,884.4	0.5	1,390,464.0	0.6
261	To foreign governments	43,918.0	0.0	76,464.4	0.0	73,639.3	0.0
262	To international organizations	41,239.1	0.0	83,433.8	0.0	93,831.7	0.0
263	To other general government units	472,139.8	0.2	848,986.2	0.4	1,222,993.0	0.5
27	Social benefits	38,254,499.6	19.3	41,021,807.6	19.3	42,468,952.0	18.5
271	Social security benefits	30,639,144.5	15.4	29,100,970.6	13.7	29,879,823.4	13.0
272	Social assistance benefits	7,056,206.2	3.6	11,552,422.5	5.4	12,318,373.1	5.4
273	Employer social benefits	559,148.9	0.3	368,414.5	0.2	270,755.5	0.1
28	Other expense	5,969,407.7	3.0	6,953,633.7	3.3	7,992,776.4	3.5

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

The biggest contribution to decrease of consolidated general government expense in the value of GDP came from the social benefits and compensation of employees. Namely, the share of social benefits decreased from 19.3% of GDP in 2004 to 18.5% of GDP in 2005 while the share of compensation of employees decreased from 12.0% of GDP in 2004 to 11.6% of GDP in 2005. Also, expense for subsidies decreased in 0.1 percentage points of GDP. On the other hand, the share for the use of goods and services increased from 4.5% of GDP to 4.7% of GDP while grants reached the level of 0.6% of GDP in 2005.

Figures 5.5 and 5.6 indicate the structure of consolidated general government expense in 2004 and 2005.

During the year 2005 expense for social benefits totalled HRK 42.5 billion as planned, decreasing their share in the structure of total expense from 43.5% in 2004 to 42.3% in 2005. This was a result of social benefits annual growth deceleration in 3.7 percentage points, i.e. from 7.2% in 2004 to 3.5% in 2005. At the same time, 70.4% worth of social benefits were paid out in the form of social security benefits, 29.0% in the form of social assistance benefits and 0.6% in the form of social benefits to employees. The growth of social benefits was mostly caused by the expense on pensions, healthcare system, maternity leaves, child allowance and unemployment benefits (described in Chapter II).

The following is compensation of employees (the share of 26.5%) in the amount of HRK 26.7 billion, almost identical to plan and 4.6% more compared to the year 2004 (6.0%). Out of this, wages and salaries totalled HRK 22.7 billion while social contributions, paid by the government, amounted HRK 3.9 billion.

A high third place in total expense structure has expense for use of goods and services share of which increased by 0.5 percentage points during 2005 reaching the level of 10.8%. They stood at HRK 10.9 billion, representing 12.4% more than in 2004, when they recorded the annual growth of low 1.9%.

The share of other expense of consolidated general government increased from 7.4% in 2004 to 8.0% in 2005, although they were increasing slower (14.9%) than the year before (16.5%). They stood at almost HRK 8 billion, i.e. at 96.6% of plan, whereat capital expense totalled HRK 4.2 billion while current expense totalled HRK 3.7 billion. Or, both capital and current expense exceeded their last year amount by 11.3%, i.e. 19.3%. Around HRK 2.8 billion of capital expenses refer to budgetary central government, almost HRK 860 million to extrabudgetary funds and agencies (particularly Croatian Waters and Croatian Roads) and HRK 603.8 million to local government units. At the same time, budgetary central government totalled HRK 2.2 billion of current expenses, local government units HRK 1.4 billion and the least extrabudgetary funds and agencies (HRK 146.3 million).

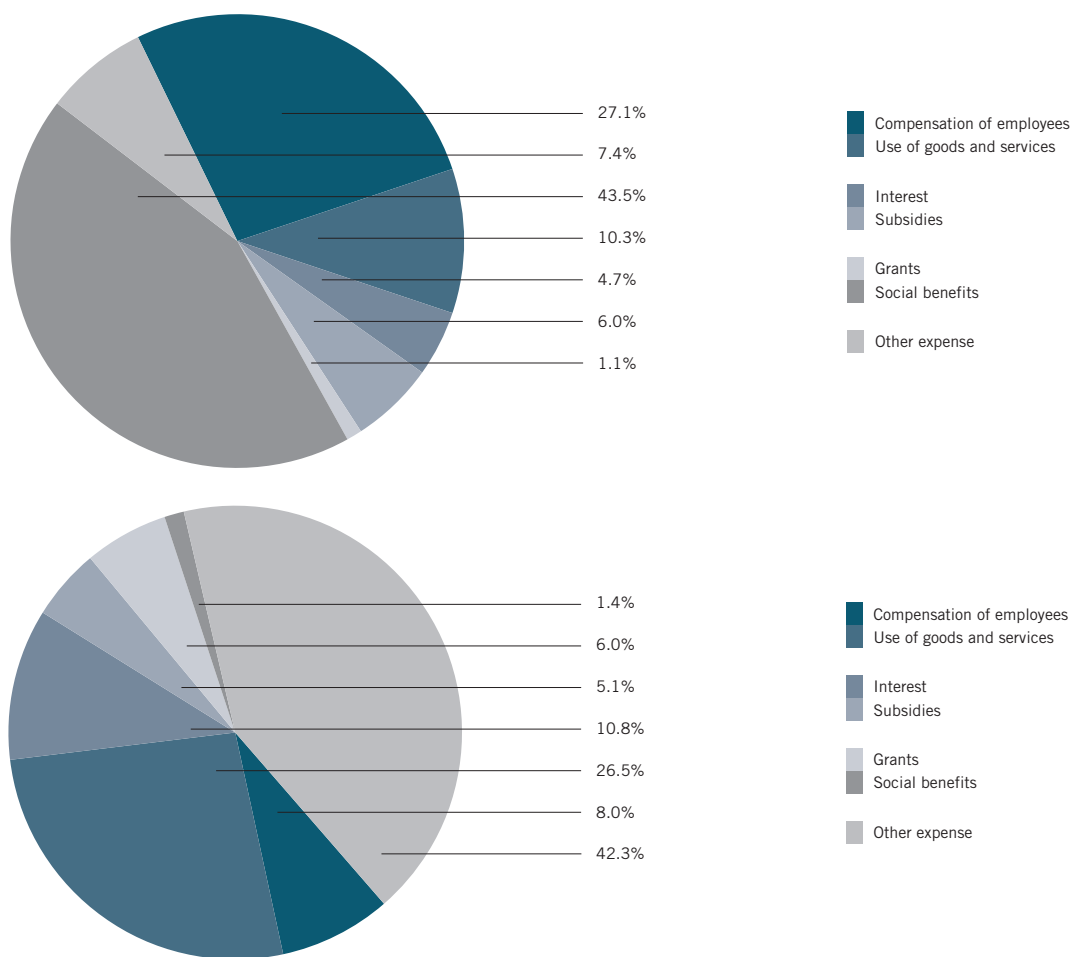
In 2005 expense for subsidies reached the amount of HRK 6 billion as planned, i.e. 5.4% more than in 2004, when they recorded a growth of 15.8%. Thus in the structure of total expenses they had an identical



share as in the previous year (6.0%). More than half of total paid out subsidies refer to companies in the public sector (HRK 3.4 billion), whereat the biggest part was made up by subsidies to Croatian Railways which were granted to maintenance of railway infrastructure and traffic regulation. The rest of the sum of total subsidies was paid out to companies outside the public sector (HRK 2.6 billion), including subsidies granted to farmers, craftsmen and small and medium - sized enterprises.

Expense for interest payments totalled HRK 5.1 billion, which is 15.4% more than in the previous year, i.e. 3.4% higher than planned. Interest to residents increased much faster (21.6%) than interest to nonresidents (9.1%). Regarding the absolute amount, interest to residents totalled HRK 2.7 billion while interest to nonresidents totalled HRK 2.4 billion. This government financing policy which indicates more intensive government borrowing in the domestic market also reflected itself in the structure of interest expense. In this way, interest to residents increased its share from 50.2% in 2004 to 52.9% in 2005, while, according to this, interest to nonresidents decreased it.

Figure 5.5 and 5.6: Structure of Consolidated General Government Expense in 2004 and 2005





5.2.3 Transactions in Nonfinancial Assets of Consolidated General Government

The overview of nonfinancial assets and the share in GDP from 2003 to 2005 is provided in the Table 6.3. Nonfinancial assets of the consolidated general government increased by HRK 9.1 billion in 2005, that is HRK 1.4 billion less than the year before. Acquisition of nonfinancial assets in the amount of HRK 9.9 billion exceeded their disposal (for HRK 864.4 million), which remained at almost identical level as in year 2004. Extrabudgetary funds and agencies participated with 52.3% in total acquisition, local government units with 29.2% and budgetary users with 18.4%. The acquisition reduced 12.6% year-on-year, due to weaker activity of government in the segment of motorway construction, particularly Croatian Motorways and Croatian Roads. More than 95% of total acquisitions refer to acquisition of financial assets, which dominates acquisition of buildings and structures and partly acquisition of machinery and equipment. Thereby, extrabudgetary funds and agencies, particularly Croatian Motorways and Croatian Roads invested significant funds in acquisition of buildings and structures (HRK 4.6 billion), as well as budgetary central government (HRK 1.1 billion). Croatian Motorways and Croatian Roads spent HRK 202 million in the acquisition of land, as the biggest component of nonproduced assets, while local government units invested HRK 172.6 million. Opposite of that, local government units and budgetary users mostly participated in disposals of nonfinancial assets. Disposals of buildings and structures mostly came from the activities of budgetary central government (49.5%) and local government units (41.6 %), while local government units pursued the activities of land disposals.

Table 5.3: Transactions in Nonfinancial Assets of the Consolidated General Government in 2003-2005

	(000 HRK)	2003	% GDP	2004	% GDP	2005	% GDP
31	NET ACQUISITION OF NONFINANCIAL ASSETS	9,664,413.9	4.9	10,494,817.9	4.9	9,059,706.4	4.0
311	Fixed assets	9,543,004.8	4.8	10,371,226.7	4.9	8,900,042.8	3.9
312	Inventories	0.0	-	0.0	-	0.0	-
313	Valuables	6,884.6	0.0	7,682.5	0.0	7,429.4	0.0
314	Nonproduced assets	114,524.5	0.1	115,908.7	0.1	152,234.2	0.1

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

5.2.4 Transactions in Financial Assets and Liabilities of Consolidated General Government

The overview of financial assets and liabilities and the share in GDP from 2003 to 2005 is provided in the Table 5.4.

During the year 2005 net acquisition of financial assets of the consolidated general government amounted HRK 1.3 billion, whereat domestic financial assets increased by HRK 1.3 billion while foreign financial assets decreased by HRK -4.9 million. The biggest part of financial assets came from transactions in loans, currency and deposits as well as shares and other equity. Acquisition of loans (HRK 1.2 billion) given to companies in public sector, craftsmen and small and medium-sized enterprises exceeded their disposals (HRK 468 million), what influenced the net increase in loans by HRK 774.3 million. The rise in net loans was a result of the net increase in budgetary central government (HRK 847.6 million) and local government units (HRK 4.9 million) while at the level of extrabudgetary funds and agencies they decreased by HRK 68.2 million. Further, the rise in net currency and deposits in the amount of HRK 737.4 million came from their growth at the level of budgetary central government (HRK 688.2 million) and extrabudgetary funds and agencies (HRK 390 million) as well as their decrease in local government units (HRK -340,8 million). On the other hand, financial assets of the consolidated general government in shares and other equity were decreased by HRK 218.9 million as a result of the increase in disposals (HRK 519.5 million) more than in acquisitions (HRK 300.6 million). Extrabudgetary funds and agencies recorded the biggest decrease of shares and other equity, with shares from State Agency for Deposit Insurance and Banks Rehabilitation (DAB)'s and Croatian Privatization Fund (HFP)'s portfolio accounting for almost the entire amount. Budgetary central government increased the net shares and other equity by HRK 221.9 million, whereat majority of acquisition of shares and other equity related to founding capital payment by the Croatian Bank for Reconstruction and Development (HBOR). At the same time, local government units recorded the net increase in shares and other equity in the amount of HRK 14.1 million.

The reduction of foreign financial assets in the amount of HRK 4.9 million, above mentioned, was only a result of the budgetary increase in disposals of shares and other equity (HRK 7.6 million) which exceeded their acquisitions (HRK 2.7 million).



Table 5.4: Transactions in Financial Assets and Liabilities of the Consolidated General Government in 2003-2005

(000 HRK)		2003	% GDP	2004	% GDP	2005	% GDP
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES							
32	NET ACQUISITION OF FINANCIAL ASSETS	-767,908.2	-	104,241.8	0.0	1,305,876.1	0.6
321	Domestic	-771,136.3	-	96,150.2	0.0	1,310,733.0	0.6
3212	Currency and deposits	1,651,081.9	0.8	-878,660.0	-	737,398.9	0.3
3214	Loans	371,798.9	0.2	794,074.1	0.4	774,287.3	0.3
3215	Shares and other equity	-2,836,335.3	-	169,766.3	0.1	-218,890.3	-
3218	Other accounts receivable	42,318.2	0.0	10,969.8	0.0	17,937.1	0.0
322	Foreign	3,228.1	0.0	8,091.6	0.0	-4,856.9	-
3224	Loans	-6,698.0	-	-1,694.2	-	0.0	-
3225	Shares and other equity	9,926.1	0.0	9,785.8	0.0	-4,856.9	-
33	NET LIABILITIES	6,877,867.6	3.5	8,458,593.7	4.0	7,775,389.8	3.4
331	Domestic	954,394.5	0.5	4,339,219.2	2.0	11,911,230.9	5.2
3313	Securities other than shares	1,169,229.3	0.6	6,558,484.6	3.1	9,369,420.6	4.1
3314	Loans	-214,834.8	-	-2,219,265.4	-	2,693,551.3	1.2
332	Foreign	5,923,473.1	3.0	4,119,374.5	1.9	-4,135,841.1	-
3323	Securities other than shares	5,175,750.1	2.6	1,215,439.1	0.6	-3,713,935.0	-
3324	Loans	747,723.0	0.4	2,903,935.4	1.4	-421,906.1	-

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

In the previous fiscal year net liabilities of the consolidated general government increased by HRK 7.8 billion which represents HRK 683.2 million less than in 2004. The government realized more than 90% of total incurrence in the domestic market. Domestic liabilities were increased by HRK 11.9 billion, primarily due to increase in liabilities of securities other than shares (HRK 9.4 billion) and loans (HRK 2.7 billion) as well as decrease in other liabilities (HRK 151.7 million). The incurrence of securities other than shares (bonds and Treasury bills) stood at HRK 12.5 billion which is mostly the result of budgetary central government incurrence since the incurrence of local government units was much lower (HRK 6.6 million). At the same time, repayments of the principal of securities other than shares totalled HRK 3.1 billion, out of which the budgetary central government repaid HRK 2.8 billion, extra budgetary funds and agencies HRK 263.8 million and local government units HRK 9.7 million. The incurrence of loans totalled HRK 5 billion in the domestic market out of which the budgetary central government accounted for HRK 2.5 billion, extrabudgetary funds and agencies HRK 2.3 billion, while the local government units accounted for HRK 211.9 million. Repayments of loans of the consolidated general government were HRK 2.7 billion less than incurrence, i.e. totalled HRK 2.3 billion. The largest repayments were made by the budgetary central government (HRK 1.5 billion), while the extrabudgetary central government and local government units had much lower repayments in the amount of HRK 439.7 million, i.e. HRK 339.2 million.

The reduction of foreign liabilities of the consolidated general government in 2005 was a result of much lower incurrence than repayments of liabilities. Repayments of the principal of securities other than shares in the amount of HRK 3.7 billion were only a result of budgetary central government repayments. Then, repayments of foreign loans (HRK 2.3 billion) refer to budgetary central government (HRK 2.1 billion) and extrabudgetary funds and agencies (HRK 39.5 million) as well as partly to local government units (HRK 93 million). At the same time, the incurrence of loans (HRK 1.9 billion) was a result of incurrence of extrabudgetary funds and agencies (HRK 1.1 billion), especially Croatian Motorways, Croatian Roads and Croatian Waters, as well as the budgetary central government users (HRK 783.6 million).

5.2.5 Measures of Deficit/Surplus and Financing of the Consolidated General Government

The overview of different measures of deficit/surplus of the consolidated general government and the calculation of net lending/borrowing in 2005, according to GFS 2001 methodology, is provided in the Table 5.6.

Net operating balance of the consolidated general government, which is defined as a residual between total revenues and total expenses, in 2005 recorded the amount of HRK 2.6 billion.

Primary operating balance, which is used as an indicator of current fiscal policy, excludes the interest from calculation and thereby eliminates the previous fiscal impacts and also the impact of accumulative public debt. In 2005 primary operating balance totalled HRK 7.7 billion which represents the increase of HRK 1.1 billion due to increase in interest of HRK 679.4 million compared to the year before.



5 CONSOLIDATED GENERAL GOVERNMENT IN 2005

When reducing the net operating balance of the consolidated general government for the value of net acquisition of nonfinancial assets (HRK 9.1 billion), a category net lending/borrowing is obtained, amounting to HRK -6.5 billion. Compared with the year 2004, net lending/borrowing was reduced by the high 22.6%, to the greatest extent due to the significant reduction in the acquisition of nonfinancial assets and the increase in net operating balance.

Total financing of this measure resulted, by the already described transactions, in the increase of the financial assets (HRK 1.3 billion) and liabilities (HRK 7.8 billion).

Table 5.5: Measures of the Consolidated General Government Deficit/Surplus and Financing in the Period from 2003 to 2005

(000 HRK)	2003	% GDP	2004	% GDP	2005	% GDP
TRANSACTIONS AFFECTING NET WORTH						
1 Revenues	89,314,500.8	45.0	96,426,967.1	45.3	103,100,940.9	45.0
2 Expense	87,295,862.7	44.0	94,286,501.1	44.3	100,510,748.2	43.9
24 Interest	4,039,182.1	2.0	4,423,238.9	2.1	5,102,696.5	2.2
Net-gross operating balance (1 - 2)	2,018,638.1	1.0	2,140,466.0	1.0	2,590,192.7	1.1
Primary operating balance (1 - 2 + 24)	6,057,820.2	3.1	6,563,704.9	3.1	7,692,889.2	3.4
TRANSACTIONS IN NONFINANCIAL ASSETS						
31 Net acquisition of nonfinancial assets	9,664,413.9	4.9	10,494,817.9	4.9	9,059,706.4	4.0
Net lending-borrowing (1 - 2 - 31)	-7,645,775.8	-	-8,354,351.9	-	-6,469,513.7	-
Financing (33-32)	7,645,775.8	3.9	8,354,351.9	3.9	6,469,513.7	2.8
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES						
32 Net acquisition of financial assets	-767,908.2	-	104,241.8	0.0	1,305,876.1	0.6
33 Net acquisition of liabilities	6,877,867.6	3.5	8,458,593.7	4.0	7,775,389.8	3.4

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



5.3 CONSOLIDATED GENERAL GOVERNMENT ACCORDING TO GOVERNMENT LEVEL

Table 5.6 indicates the trend of total revenues and expenses, nonfinancial assets, financial assets and liabilities as a share in GDP, for each level of government from 2003 to 2005.

Compared with 2004 and 2005, the reduction of share of total revenues and expenses of the consolidated general government is mostly result of decrease in their share at the level of budgetary central government. Extrabudgetary funds and agencies remained at the same level as in the year before, while local government units slightly increased its' share. The share of nonfinancial assets value in GDP decreased from 4.9% in 2004 to 4.0% in 2005 whereat extrabudgetary funds and agencies recorded the biggest reduction in the acquisition of nonfinancial assets.

Table 5.6: Consolidated General Government According to Government Level from 2003 to 2005

	(000 HRK)	2003	% GDP	2004	% GDP	2005	% GDP
1	REVENUES	89,314,500.8	45.0	96,426,967.1	45.3	103,100,940.9	45.0
	Budgetary Central Government	74,677,473.7	37.6	80,463,518.2	37.8	85,653,010.2	37.4
	Extrabudgetary Funds	6,109,081.0	3.1	6,555,766.0	3.1	6,989,463.0	3.1
	Croatian Institute for Pension Insurance	103,501.0	0.1	129,892.0	0.1	38,010.0	0.0
	Croatian Health Insurance Institute	822,183.0	0.4	663,139.0	0.3	863,868.0	0.4
	Croatian Employment Service	17,573.0	0.0	15,507.0	0.0	18,855.0	0.0
	Croatian Waters	1,150,333.0	0.6	1,224,431.0	0.6	1,227,794.0	0.5
	Environment Protection Fund	-	-	170,748.0	0.1	214,737.0	0.1
	Development and Employment Fund	-	-	-	-	-	-
	Regional Development Fund	-	-	-	-	-	-
	Croatian Motorways Ltd.	1,927,787.0	1.0	2,295,423.0	1.1	2,547,003.0	1.1
	Croatian Roads Ltd.	1,379,782.0	0.7	1,417,787.0	0.7	1,474,714.0	0.6
	State Agency for Deposit Insurance and Bank Rehabilitation	581,931.0	0.3	575,893.0	0.3	367,438.0	0.2
	Croatian Privatization Fund	125,991.0	0.1	62,946.0	0.0	237,044.0	0.1
	Budgetary Local Government	8,527,946.1	4.3	9,407,682.9	4.4	10,458,467.7	4.6
2	EXPENSE	87,295,862.7	44.0	94,286,501.1	44.3	100,510,748.2	43.9
	Budgetary Central Government	73,257,177.3	36.9	80,607,175.9	37.9	85,239,871.8	37.2
	Extrabudgetary Funds	6,135,543.0	3.1	5,080,273.0	2.4	5,556,949.6	2.4
	Croatian Institute for Pension Insurance	1,844,077.0	0.9	587,420.0	0.3	382,162.0	0.2
	Croatian Health Insurance Institute	888,105.0	0.4	831,295.0	0.4	914,345.0	0.4
	Croatian Employment Service	140,387.0	0.1	141,333.0	0.1	145,931.0	0.1
	Croatian Waters	1,427,067.0	0.7	1,426,283.0	0.7	1,489,465.0	0.7
	Environment Protection Fund	-	-	32,443.0	0.0	112,452.6	0.0
	Development and Employment Fund	-	-	-	-	-	-
	Regional Development Fund	-	-	-	-	-	-
	Croatian Motorways Ltd.	692,490.0	0.3	752,254.0	0.4	1,085,077.0	0.5
	Croatian Roads Ltd.	840,372.0	0.4	934,630.0	0.4	1,062,405.0	0.5
	State Agency for Deposit Insurance and Bank Rehabilitation	251,360.0	0.1	314,474.0	0.1	182,993.0	0.1
	Croatian Privatization Fund	51,685.0	0.0	60,141.0	0.0	182,119.0	0.1
	Budgetary Local Government	7,903,142.4	4.0	8,599,052.2	4.0	9,713,926.8	4.2
31	NET ACQUISITION OF NONFINANCIAL ASSETS	9,664,413.9	4.9	10,494,817.9	4.9	9,059,706.4	4.0
	Acquisition	10,398,245.9	5.2	11,359,790.1	5.3	9,924,476.9	4.3
	Budgetary Central Government	2,054,989.4	1.0	1,663,867.9	0.8	1,828,817.8	0.8
	Extrabudgetary Funds	6,216,526.0	3.1	6,984,515.0	3.3	5,195,362.0	2.3
	Budgetary Local Government	2,126,730.5	1.1	2,711,407.2	1.3	2,900,297.1	1.3
	Disposals	733,832.0	0.4	864,972.2	0.4	864,770.5	0.4
	Budgetary Central Government	242,585.8	0.1	244,401.0	0.1	275,149.4	0.1
	Extrabudgetary Funds	32,916.0	0.0	30,519.0	0.0	49,614.0	0.0
	Budgetary Local Government	458,330.2	0.2	590,052.2	0.3	540,007.1	0.2
32	NET ACQUISITION OF FINANCIAL ASSETS	-767,908.2	-	104,241.8	0.0	1,305,876.1	0.6
321	Domestic	-771,136.3	-	96,150.2	0.0	1,310,733.0	0.6
	Budgetary Central Government	-1,384,115.1	-	138,090.4	0.1	1,747,681.4	0.8
	Extrabudgetary Funds	409,057.0	0.2	-119,979.0	-	-133,065.0	-
	Budgetary Local Government	203,921.8	0.1	78,038.8	0.0	-303,883.4	-
322	Foreign	3,228.1	0.0	8,091.6	0.0	-4,856.9	-
	Budgetary Central Government	9,926.1	0.0	9,785.8	0.0	-4,856.9	-
	Extrabudgetary Funds	0.0	-	0.0	-	0.0	-
	Budgetary Local Government	-6,698.0	-	-1,694.2	-	0.0	-
33	NET INCURRENCE OF LIABILITIES	6,877,867.6	3.5	8,458,593.7	4.0	7,775,389.8	3.4
331	Domestic	954,394.5	0.5	4,339,219.2	2.0	11,911,230.9	5.2
	Budgetary Central Government	-159,690.2	-	4,038,705.1	1.9	10,591,559.7	4.6
	Extrabudgetary Funds	1,108,574.0	0.6	68,975.0	0.0	1,450,118.0	0.6
	Budgetary Local Government	5,510.7	0.0	231,539.1	0.1	-130,446.8	-
332	Foreign	5,923,473.1	3.0	4,119,374.5	1.9	-4,135,841.1	-
	Budgetary Central Government	3,049,978.9	1.5	270,335.3	0.1	-5,080,612.1	-
	Extrabudgetary Funds	2,962,655.0	1.5	3,945,985.0	1.9	1,037,777.0	0.5
	Budgetary Local Government	-89,160.8	-	-96,945.8	-	-93,006.0	-

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



5.4 DEFICIT OF THE CONSOLIDATED GENERAL GOVERNMENT ACCORDING TO MODIFIED ACCRUAL PRINCIPLE

The implementation of modified accrual principle, which was agreed by Stand-by Arrangement, implies the evidence of all expenses that happened in that year, regardless the period of their final payments, unlike the cash basis of recording the budget transactions. This means that the consolidated general government deficit defined on cash basis corrects for the change of arrears of central budgetary government and local government units. However, the cash data of the consolidated general government includes the Croatian Motorways and Croatian Roads transactions on accrual basis.

Consolidated general government deficit on modified accrual basis totalled HRK 9.3 billion or 4.1% of GDP in 2005, as planned. The consolidated general government deficit was reduced by 0.8 percentage points or HRK 1 billion compared with the previous fiscal year. According to the government level, one can notice a significant decrease in the budgetary central government deficit from 2.8% of GDP in 2004 to 2.5% of GDP in 2005. At the same time, the most significant fiscal adjustment of HRK 818.1 million or 0.4 percentage points of GDP was carried out at the level of extrabudgetary funds and agencies, primarily due to weaker, although still strong activity of Croatian Motorways and Croatian Roads in the segment of motorway construction. The deficit of local government units was also reduced by HRK 101.1 million compared with 2004, i.e. reached the level of 0.3% of GDP.

This confirms the implementation of significant fiscal consolidation during 2004 and 2005, accompanied by measures aimed at strengthening tax administration and achieving permanent fiscal savings. It is worth mentioning that the improved process of budget planning and control also contributed to the outturn of the planned deficit at the level of 4.1% of GDP in 2005 which, finally, provides a strong basis for the further fiscal consolidation in the forthcoming medium term.

The calculation of consolidated general government deficit in 2004 and 2005, according to modified accrual basis, is provided in Table 5.7.

Table 5.7: The calculation of Consolidated General Government Deficit According to Modified Accrual Principle in 2004 and 2005

	(000 HRK)	2004	2005
1. Revenues *		96,553,309.1	102,868,439.9
2. Expense GFS 1986		106,494,781.7	111,714,102.7
Expense GFS 2001 *		94,559,425.1	100,476,847.2
Net acquisition of nonfinancial assets *		10,494,365.1	10,064,643.9
Net loans (total acquisition minus disposals of loans) *		891,011.9	851,349.3
Acquisition of shares and other equity *		539,009.8	303,325.2
Other accounts receivable *		10,969.8	17,937.1
3. Consolidated General Government Deficit without capital revenues * (1-2)		-9,941,472.6	-8,845,662.8
4. Change in arrears		-384,028.8	-455,823.7
5. Consolidated General Government Deficit - modified accrual basis (3+4+5)		-10,325,501.4	-9,301,486.5
Deficit as a share of GDP, %		-4.9	-4.1

Note: Total revenues of Consolidated General Government in 2004 are increased for the amount of concession fee (HRK 196.7 million). In accordance with this, total revenues in 2005 are decreased for the same amount.

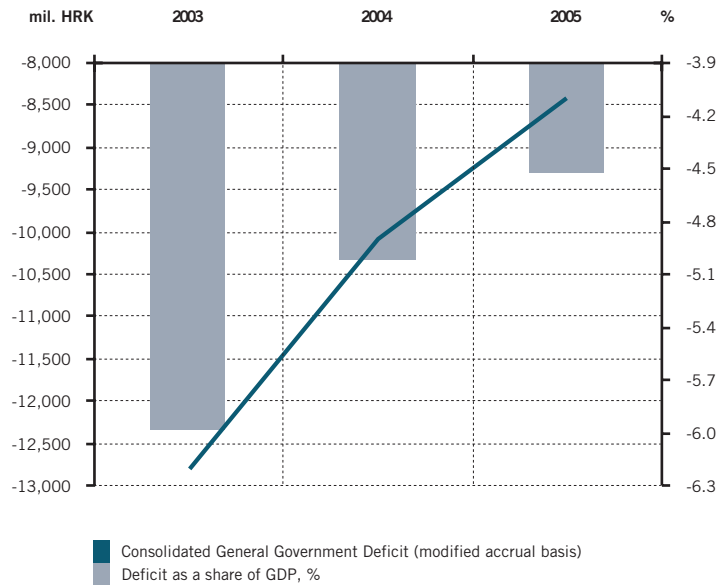
* HAC and HC are on accrual basis

Source: Ministry of Finance

The deficit of the consolidated general government on cash basis totalled HRK 8.6 billion or 3.8% of GDP in 2005, including the transactions of Croatian Motorways and Croatian Roads on accrual basis. However, this deficit should be enlarged by the concession revenue, which was collected in February 2005, but following the accrual basis they belong to the revenues in 2004. Thus, the deficit of the consolidated general government reached the level of HRK 8.8 billion or 3.9% of GDP. By adding the arrears accumulated in 2005 (HRK 455.8 million), the deficit of the consolidated general government, according to modified accrual basis, records a level of HRK 9.3 billion or 4.1% of GDP.



Figure 5.7. Outturn of the Consolidated General Government Deficit from 2003 to 2005



6
PUBLIC DEBT OF THE REPUBLIC
OF CROATIA IN 2005



According to the Budget Act (official journal "Narodne Novine" no. 96/2003) state debt is defined as debt of the consolidated central budget excluding state guarantees. With the addition of state guarantees, the state debt is defined as public debt.

Table 6.1 shows the developments of the public debt of the Republic of Croatia in the period from 2001 to 2005:

Table 6.1: General government debt

GENERAL GOVERNMENT DEBT end of period, HRK million	2001	2002	2003	2004	2005
1. Domestic general government debt	26,128.30	32,012.30	35,314.40	42,721.00	56,046.50
1.1 Domestic debt of the Republic of Croatia	21,467.90	23,320.00	28,160.80	37,223.70	50,559.50
Treasury bills	4,892.30	5,632.70	6,548.10	9,022.50	12,533.40
Money market instruments	7.4	0.1	0.3		0.9
Bonds	15,415.80	15,887.90	17,422.00	23,080.10	30,716.00
Loans of the Croatian National Bank	-	0.5	1.4	3.3	1.4
Bank loans	1,152.40	1,798.80	4,189.10	5,117.80	7,307.80
1.2 Domestic debt of extrabudgetary funds	3,380.50	7,659.10	6,247.50	3,911.20	3,935.00
Money market instruments	-	-	-	-	-
Bonds	1,636.10	4,108.10	3,418.20	1,726.00	-
Bank loans	1,744.30	3,551.00	2,829.30	2,185.10	3,935.00
1.3 Domestic debt of the local government	1,280.00	1,033.10	906.1	1,586.20	1,551.90
Money market instruments	30.5	30.2	16.9	6.6	40.7
Bonds	1.2	-	-	204.4	196.4
Bank loans	1,248.20	1,002.90	889.2	1,375.10	1,314.70
2. Foreign general government debt	41,089.00	40,538.40	45,832.80	50,266.60	45,377.80
2.1 Foreign debt of the Republic of Croatia	39,487.30	37,388.30	41,048.80	42,095.70	36,433.60
Money market instruments	-	-	-	-	-
Bonds	30,746.70	28,694.20	32,144.80	32,899.30	27,112.30
Loans	8,740.60	8,694.10	8,904.10	9,196.40	9,321.20
2.2 Foreign debt of extrabudgetary funds	1,124.90	2,755.40	4,463.20	7,925.30	8,725.80
Money market instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Loans	1,124.90	2,755.40	4,463.20	7,925.30	8,725.80
2.3 Foreign debt of the local government	476.9	394.6	320.8	245.7	218.5
Money market instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Loans	476.9	394.6	320.8	245.7	218.5
3. Total (1+2)	67,217.40	72,550.70	81,147.20	92,987.70	101,424.30
Addendum: Issued guarantees of the Republic of Croatia					
1. Domestic	5,957.80	7,423.80	6,796.50	4,542.20	5,268.50
2. Foreign	8,619.10	8,155.00	8,530.10	7,592.30	7,115.30
3. Total debt of the HBOR	2,765.90	3,816.10	4,954.00	5,745.60	7,135.50
Total: Issued guarantees (1+2+3)	17,342.80	19,394.90	20,280.60	17,880.20	19,519.20
GRAND TOTAL	84,560.20	91,945.30	101,427.80	110,868.00	120,943.50
GDP	165,639.50	181,231.00	198,422.00	212,826.00	229,031.00
TOTAL GENERAL GOVERNMENT DEBT (as % of GDP)	51.05	50.73	51.12	52.09	52.81

Source: Ministry of Finance, CNB

The content and coverage of the data in the previous table is defined under the term "General government" and means the debt of:

1. Central government and former extrabudgetary funds
2. Croatian Motorways and Croatian Roads
3. Government funds and agencies (DAB, HFP)
4. Debt originated from the issuance of state guarantees to beneficiaries outside the general government sector
5. Debt of 53 units of local administration and self-administration
6. Direct debt of the Croatian Bank for Reconstruction and Development (HBOR).

This coverage includes the direct debt of the HBOR and excludes all the state guarantees granted to the HBOR (the mentioned was done in order to avoid double reporting of debt since in numerous cases the state is guaranteeing for HBOR's borrowings and placements).



6.1 CREDIT RATING OF THE REPUBLIC OF CROATIA

Four leading world rating agencies, Standard & Poors, Moody's Investors Service, Fitch Ratings as well as Rating and Investment Information (R&I), have performed the usual annual verification of the credit rating granted to the Republic of Croatia and the verification in 2005 resulted in the confirmation of the investment grade rating by all four agencies.

Table 6.2: Overview of credit ratings of the Republic of Croatia

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

Source: Ministry of Finance

Table 6.3 gives a comparison of credit ratings among leading transition countries.

Table 6.3: Comparison of credit ratings at the end of 2005

Country	Moody's Investors Service	Standard & Poors
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	BBB- / positive outlook
Slovakia	A2 / stable outlook	A / positive outlook
Slovenia	Aa3 / stable outlook	AA- / stable outlook

Source: Ministry of Finance



6.2 DOMESTIC DEBT OF THE CENTRAL BUDGET IN 2005

6.2.1 Categories of Domestic Debt

The structure by category of domestic debt with the debt outstanding as of end 2004 and 2005 is given in Table 6.4. The domestic debt redemption plan and plan of interest payments for the period from 2006 to 2019 is given in Table 6.5.

Total domestic debt amounted to HRK 47,243.37 million at the end of 2005, while at the end of 2004 stood at HRK 35,788.64 million. The increase of the debt during 2005 was to a major part result of bond issuance on the domestic market and increased net issuance of treasury bills.

Table 6.4: Domestic debt of the Republic of Croatia in HRK thousand, as of December 31

Debt item	Org. curr.	2004		2005		Maturity	Coupon
		Amount in orig. curr.	Amount in HRK	Amount in orig. curr.	Amount in HRK		
Frozen foreign exchange deposits	EUR	72,862	558,944			2005	5.00%
Big bonds I	HRK	1,810,891	1,810,891	1,838,080	1,838,080	2011	5.00%
Big bonds II	EUR	65,931	505,771	58,515	431,583	2011	7.20%
Big bonds III	EUR	65,954	505,948	59,048	435,519	2012	7.20%
Bonds - Series 02 D-08	EUR	200,000	1,534,247	200,000	1,475,125	2008	6.88%
Bonds - Series 03 D-12	EUR	500,000	3,835,617	500,000	3,687,813	2012	6.88%
Bonds - Series 04 D-8	HRK	1,000,000	1,000,000	1,000,000	1,000,000	2008	6.13%
Bonds - Series 05 D-14	EUR	650,000	4,986,302	650,000	4,794,157	2014	5.50%
Bonds - Series 06 D-07	EUR	400,000	3,068,494	400,000	2,950,250	2007	3.88%
Bonds - Series 07 D-19	EUR	200,000	1,534,247	200,000	1,475,125	2019	5.38%
Bonds - Series 08 D-10	HRK			3,000,000	3,000,000	2010	6.75%
Bonds - Series 09 D-15	EUR			350,000	2,581,469	2015	4.25%
Bonds - Series 10 D-15	HRK			3,500,000	3,500,000	2015	5.25%
BRA bonds - Series I	EUR	57,277	439,387	39,302	289,877	2007	6.00%
BRA bonds - Series II	EUR	26,150	200,605	23,197	171,095	2012	5.00%
BRA bonds - Series III	EUR	68,389	524,628	61,229	451,599	2012	7.20%
BRA bonds - Series IV	EUR	35,796	274,597	31,754	234,202	2012	5.00%
BRA bonds - Series V-A	EUR	1,587	12,174	1,089	8,032	2007	6.00%
BRA bonds - Series V-B	EUR	105,000	805,482	81,394	600,332	2008	7.00%
Club loan	EUR	231,360	1,774,817	231,360	1,706,425	2006	3.65%
Syndicated FX loan	EUR			500,000	3,687,813	2010	2.63%
Medium-term and long-term debt			23,372,148		34,318,496		
Treasury bills	HRK	8,259,100	8,259,100	11,718,000	11,718,000		
	EUR	99,510	763,364	110,560	815,449		
Other short-term debt	HRK	1,668,000	1,668,000	391,425	391,425		
Short-term debt			10 690,464		12,924,874		
DAB bonds for insured savings II	EUR	225,000	1,726,028				
Bonds issued with government guarantee			1,726,028				
Total debt			35,788,641		47,243,370		

Source: Ministry of Finance



6 PUBLIC DEBT OF THE REPUBLIC OF CROATIA IN 2005

Table 6.5: Amortisation of domestic debt (HRK million)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Repayment of principle	557.15	3,544.36	2,946.50	2,118.35	5,136.42	2,123.91	3,807.74	0.00	4,794.16	6,081.47	0.00	0.00	0.00	1,475.13
Big bonds I	0.00	0.00	0.00	0.00	0.00	1,810.89	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds II	60.63	64.83	69.26	73.90	78.77	85.19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds III	54.65	58.64	62.99	67.56	72.50	77.81	41.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series I	140.58	148.91	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	22.86	24.04	25.22	26.55	27.88	29.28	15.19	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series III	56.64	60.85	65.27	70.07	75.23	80.69	42.70	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series IV	31.35	32.90	34.59	36.36	38.13	40.05	20.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series V-A	3.91	4.13	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 V-B	186.53	199.81	214.04	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	1,475.13	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	3,687.81	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 04 D-8	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	4,794.16	0.00	0.00	0.00	0.00	0.00
Bonds - Series 06 D-07	0.00	2,950.25	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	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	1,475.13
Bonds - Series 08 D-10	0.00	0.00	0.00	0.00	3,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 09 D-15	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,581.47	0.00	0.00	0.00	0.00	0.00
Bonds - Series 10 D-15	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3,500.00	0.00	0.00	0.00	0.00	0.00
Syndicated FX loan	0.00	0.00	0.00	1,843.91	1,843.91	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest payments	1,729.71	1,115.02	1,569.61	1,345.47	1,158.06	1,000.78	767.13	636.43	504.59	372.75	79.29	79.29	79.29	79.29
Big bonds I	87.03	87.03	87.03	87.03	87.03	87.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds II	29.87	25.59	21.09	16.37	11.43	4.65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds III	30.39	26.40	22.05	17.48	12.54	7.23	1.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series I	15.42	7.08	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	8.26	7.08	5.90	4.65	3.25	1.84	0.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series III	31.49	27.36	22.86	18.07	12.98	7.45	1.55	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series IV	11.36	9.74	8.04	6.34	4.50	2.58	0.52	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds - Series V-A	0.44	0.22	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 V-B	38.80	25.52	11.28	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	101.41	101.41	101.41	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	253.57	253.57	253.57	253.57	253.57	253.57	126.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 04 D-8	61.25	61.25	61.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 05 D-14	263.68	263.68	263.68	263.68	263.68	263.68	263.68	131.84	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 06 D-07	114.32	114.32	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	79.29	79.29	79.29	79.29	79.29	79.29	79.29	79.29	79.29	79.29	79.29	79.29	79.29	79.29
Bonds - Series 08 D-10	202.50	202.50	202.50	202.50	101.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 09 D-15	109.71	109.71	109.71	109.71	109.71	109.71	109.71	109.71	109.71	109.71	109.71	109.71	109.71	109.71
Bonds - Series 10 D-15	183.75	183.75	183.75	183.75	183.75	183.75	183.75	183.75	183.75	183.75	183.75	183.75	183.75	183.75
Syndicated FX loan	107.16	129.50	136.18	103.02	35.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total debt service	2,286.86	5,259.38	4,516.11	3,463.83	6,294.48	3,124.70	4,574.87	636.43	5,298.75	6,454.22	79.29	79.29	79.29	1,554.41

Exchange rate: Mid rate of the CNB as of December 31, 2005. Source: Ministry of Finance



At the end of 2005, a total of 9 bonds were quoted on the domestic market, whose list with the conditions is given in Table 6.6.

With the purpose of domestic market development and in line with the fiscal policy objective to fund a major part of the foreign debt on the domestic market, the Republic of Croatia has issued during 2005 three series of government bonds on the domestic market.

Bond of the Series 07 D-10 were issued in March 2005 in the amount of HRK 3 billion, with a fixed annual coupon of 6.75%. The bond coupons will be paid semi-annually, while the principle will be paid at maturity (March 8, 2010). The bond was placed on the market with Privredna banka Zagreb d.d. Zagreb, Zagrebačka banka d.d. Zagreb and Raiffeisenbank Austria d.d. Zagreb as lead managers. The bond is listed within the first quotation of the Zagreb Stock Exchange (Zagrebačka burza d.d. Zagreb) and Varaždin Stock Exchange (Varaždinska burza d.d. Varaždin).

The Republic of Croatia issued in July 2005 a bond of the Series 09 D-15 in the amount of EUR 350 million, with a fixed coupon of 4.25% annually. The bond was subscribed on July 14, 2005. The bond coupon will be paid semi-annually, while the principal will be completely repaid at maturity (July 14, 2015). The bond was issued with Erste & Steiermarkische Bank dd. as lead manager. It is listed within the first quotation of the Zagreb Stock Exchange and Varaždin Stock Exchange.

In December 2005 the Republic of Croatia issued a bond of the Series 10 D-15 in the amount of HRK 3.5 billion with a 10-year maturity and fixed annual coupon of 5.25%. This is the government bond with the longest maturity up to now, which is particularly important for the development of the domestic market. The bond coupon will be paid semi-annually, while the principal will be repaid completely at maturity (December 15, 2015). The bond was placed on the market by agents and issue sponsors Erste & Steiermarkische Bank d.d., Privredna banka Zagreb d.d. Zagreb, Raiffeisenbank d.d. Zagreb, Zagrebačka banka d.d. Zagreb and HVB Splitska banka d.d. Split. The receipts from this series of bonds were largely used for the redemption of the matured EUR 225 million DAB bonds for insured savings issued in December 2000.



Table 6.6: Overview of domestic bonds issued by the Republic of Croatia or with the guarantee of the Republic of Croatia

DAB Bonds for insured savings I	DAB Bonds for insured savings II
Issuer: State Agency for Deposit Insurance and Bank Rehabilitation	Issuer: 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: ZSE	Listing: ZSE
Date of issue: 19/12/2000	Date of issue: 19/12/2000
Date of maturity: 19/12/2003	Date of maturity: 19/12/2005
The bond was fully repaid on maturity.	The bond was fully repaid on maturity.
HZZO Bonds	Bonds - Series 01 D-04
Issuer: Croatian Institute for Health Insurance (HZZO)	Issuer: 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: ZSE	Listing: ZSE
Date of issue: 19/07/2000	Date of issue: 20/09/2001
Date of maturity: 19/07/2004	Date of maturity: 20/09/2004
The bond was fully repaid on maturity.	The bond was fully repaid on maturity.
Bonds - Series 02 D-08	Bonds - Series 03 D-12
Issuer: Republic of Croatia	Issuer: 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. and Zagrebačka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb
Listing: ZSE	Listing: ZSE
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
Issuer: Republic of Croatia	Issuer: 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. and Zagrebačka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb
Listing: ZSE	Listing: ZSE
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
Issuer: Republic of Croatia	Issuer: 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. and Zagrebačka banka d.d. Zagreb	Lead manager(s): Erste & Steiermarkische Bank d.d. and Privredna banka Zagreb d.d. and Zagrebačka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb
Listing: ZSE	Listing: ZSE
Date of issue: 07/07/2004	Date of issue: 29/11/2004
Date of maturity: 07/07/2007	Date of maturity: 29/11/2019



Bonds - Series 08 D-10	Bonds - Series 09 D-15
Issuer: Republic of Croatia	Issuer: Republic of Croatia
HRK 3,000,000,000	EUR 350,000,000
5 years	10 years
6.750% coupon	4.25% 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.
Listing: ZSE and VSE	Listing: ZSE and VSE
Date of issue: 08/03/2005	Date of issue: 14/07/2005
Date of maturity: 08/03/2010	Date of maturity: 14/07/2015
Bonds - Series 10 D-15	
Issuer: Republic of Croatia	
EUR 3,500,000,000	
10 years	
5.25% coupon	
Lead manager(s): Privredna banka Zagreb d.d., Zagrebačka banka d.d. Zagreb, Raiffeisenbank d.d. Zagreb, Erste & Steiermarkische Bank d.d. and HVB Splitska banka d.d.	
Listing: ZSE and VSE	
Date of issue: 15/12/2005	
Date of maturity: 15/12/2015	

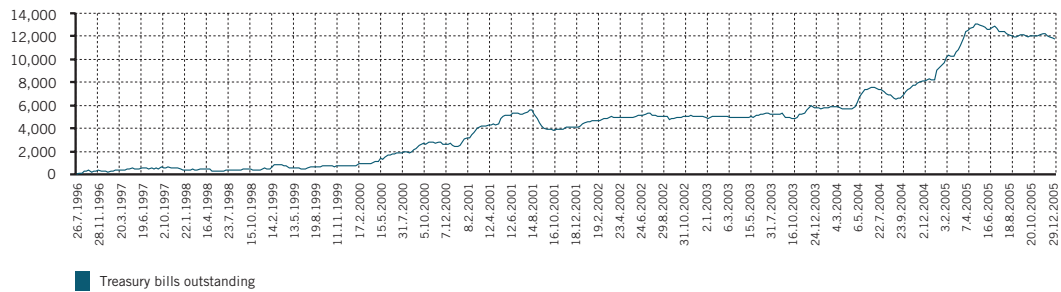
Source: Ministry of Finance



6.2.2 Treasury Bills

Treasury bills outstanding as of December 31, 2005 amounted to HRK 11,718 million, while at the end of 2004 they amounted to HRK 8,259.1 million, i.e. the volume of subscribed treasury bills increased in 2005 for HRK 3,458.9 million compared to end 2004. The amount of treasury bills continuously increased during the first half of the year with the highest amount of subscribed treasury bills being recorded in May, which decreased gradually to the end of the year. The development of obligations for treasury bills is depicted in Figure 6.1.

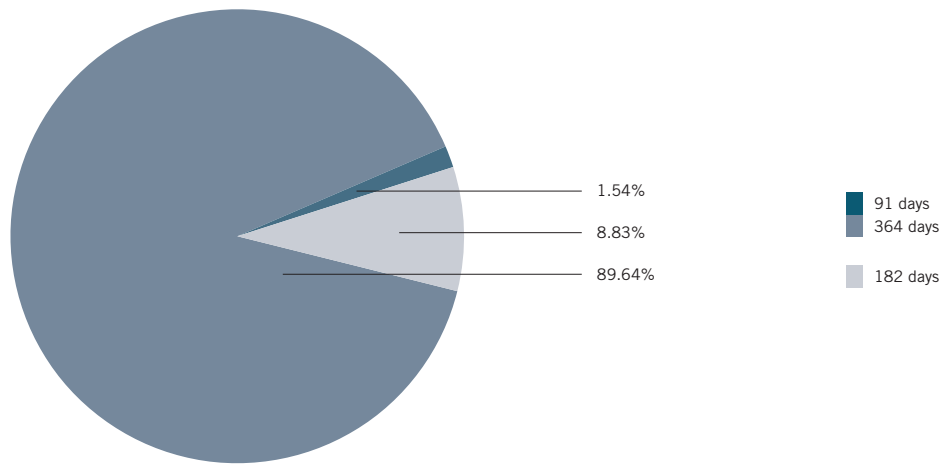
Figure 6.1: Treasury bills outstanding (HRK million)



Source: Ministry of Finance

Figure 6.2 shows the structure of treasury bills outstanding as of December 31, 2005, while Figure 6.3 depicts their structure as of December 31, 2004. Within the structure of treasury bills, the one-year maturity bills prevail with a share of 89.64% (HRK 10,503.7 million) out of total treasury bills at the end of 2005, while 8.83% referred to bills with the maturity of 182 days and 1.54% with the maturity of 91 days.

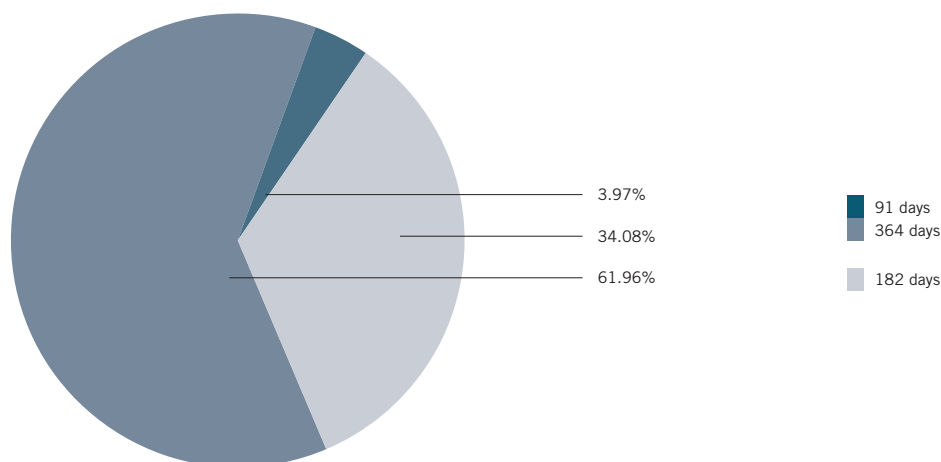
Figure 6.2: Maturity structure of treasury bills as of 31/12/2005



Source: Ministry of Finance



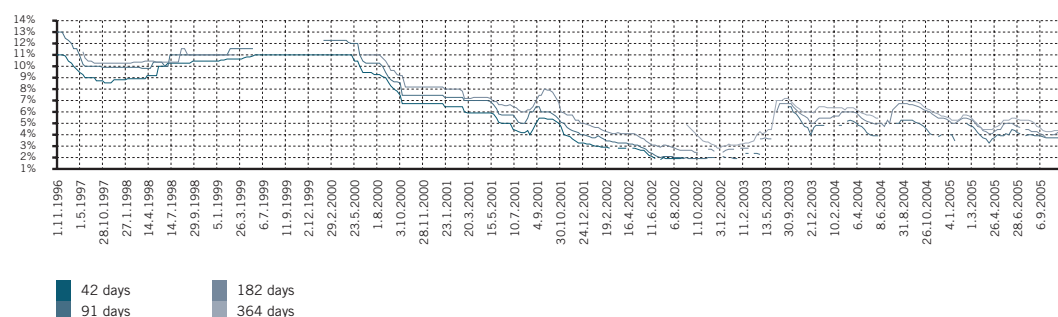
Figure 6.3: Maturity structure of treasury bills as of 31/12/2004



Source: Ministry of Finance

Interest rates on treasury bills, as shown by Figure 6.4, increased in the first half of 2005 in order to gradually decline to the end of the year and at the end of 2005 stood at a lower level than in 2004. At the end of 2005, interest rates on 364-days treasury bills stood at 4.4% (5.8% - end 2004), 4.15% for 182-days treasury bills (5.5% - end 2004) and 3.7% for treasury bills 91-days maturity (3.8% - end 2004).

Figure 6.4: Interest rates on treasury bills

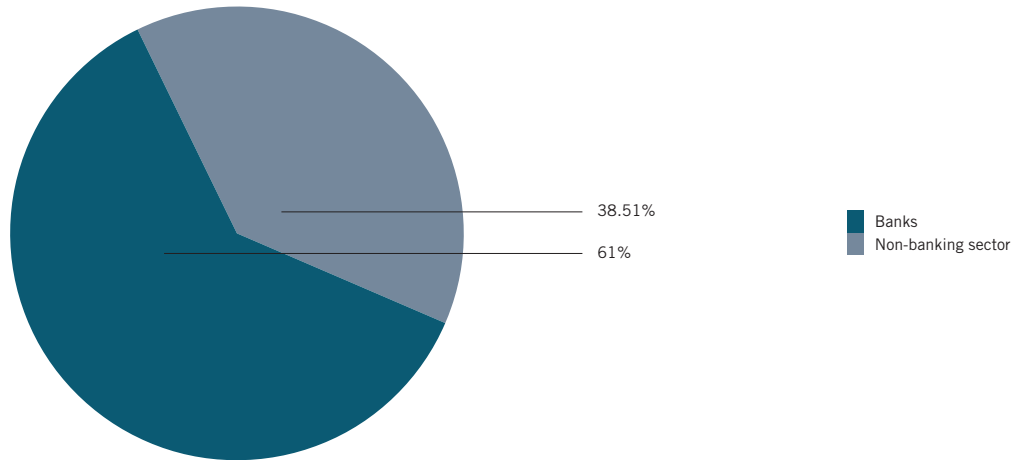


Source: Ministry of Finance

During 2005 the share of banking sector increased within the structure of investors into treasury bills compared to 2004, which is visible on Figures 6.5 and 6.6. The share of the banking sector in total treasury bills amounted to 61.49% at the end of 2005, while at the end of 2004 it was 56%.

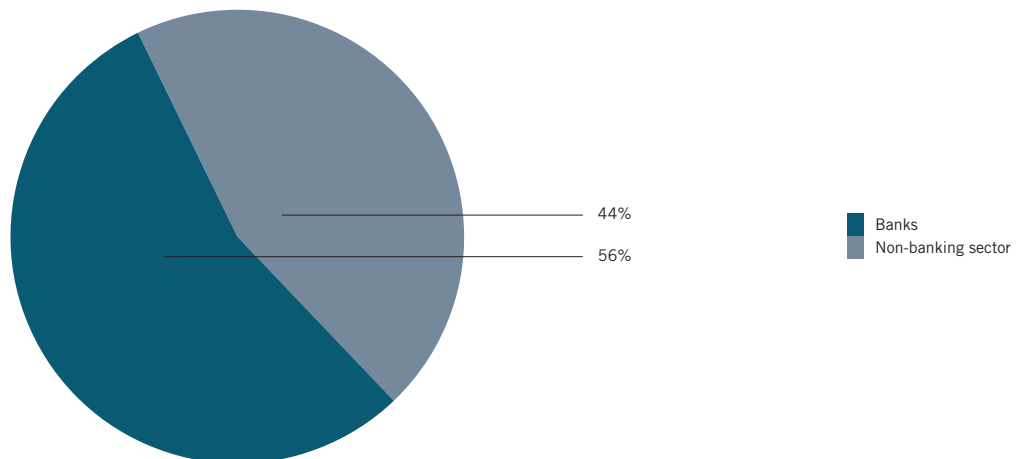


Figure 6.5: Structure of treasury bills by investor as of 31/12/2005



Source: Ministry of Finance

Figure 6.6: Structure of treasury bills by investor as of 31/12/2004



Source: Ministry of Finance



6.3 FOREIGN DEBT OF THE REPUBLIC OF CROATIA

6.3.1 International Bonds of the Republic of Croatia

At the end of 2005 there were a total of 11 bonds issued by the Republic of Croatia listed on international markets, which is one bond less than at the end of 2004. The overall list of international bonds with their conditions of issue is given in Table 6.7.

The Eurobonds issued in March 2000 in the amount of EUR 500 million were completely repaid in March 2005.

Table 6.7: 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 repayment	10 years repayment
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 over 5-year Treasuries)	(95 bps over the 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
The bond was fully repaid on maturity.	The bond was fully repaid on 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 over relevant Spanish bonds)	(375 bps over 7-year German Bund)
Lead Manager(s): 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
The bond was fully repaid on maturity.	
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 over 5-year Yen LIBOR)	(210 bps over 5-year German Bund)
Lead Manager(s): Daiwa securities SB	Lead Manager(s): 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
The bond was fully repaid on maturity.	The bond was fully repaid on 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 over 7-year LIBOR)	(152 bps over 5-year Yen LIBOR)
Lead Manager(s): Daiwa securities SB	Lead Manager(s): 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



6 PUBLIC DEBT OF THE REPUBLIC OF CROATIA IN 2005

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 over 10-year German Bund)	(158 bps over 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 over 6-year Yen LIBOR)	(95 bps over 7-year Euribor)
Lead Manager(s): 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 over 6-year Yen LIBOR)	(100 bps over 10-year Euribor)
Lead Manager(s): 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 6.8: International bonds issued by the Republic of Croatia

	Currency	Amount orig. curr.	Amount USD*	2006	2007	2008	2009	2010	2011	2012	2013	2014
London Club Series A	USD	857,796,000	857,796,000	77,981,454	77,981,454	77,981,454	77,981,454	77,981,454	0			
- coupon: 6m LB+13/16				20,418,956	16,120,229	11,821,501	7,522,773	3,224,046	0			
London Club Series B	USD	604,426,000	604,426,000	83,219,640								
- coupon: 6m LB+13/16				12,615,577								
EURO bond	EUR	300,000,000	354,959,986	354,959,986								
- coupon: 7.375%				26,178,299								
Samurai bond / II	JPY	40,000,000,000	340,611,708	0	340,611,708							
- coupon: 3%				10,218,351	10,218,351							
Samurai bond / III	JPY	25,000,000,000	212,882,318	212,882,318								
- coupon: 2.5%				2,661,029								
EURO bond	EUR	750,000,000	887,399,966	0	0	0	0	0	887,399,966			
- coupon: 6.75%				59,899,498	59,899,498	59,899,498	59,899,498	59,899,498	59,899,498			
EURO bond	EUR	500,000,000	591,599,977				591,599,977					
- coupon: 6.25%				36,974,999	36,974,999	36,974,999	36,974,999					
Samurai bond / IV	JPY	25,000,000,000	212,882,318		212,882,318							
- coupon: 2.15%				4,576,970	4,576,970	2,288,485						
EURO bond	EUR	500,000,000	591,599,977					591,599,977				
- coupon: 4.625%				27,361,499	27,361,499	27,361,499	27,361,499	27,361,499				
Samurai bond / V	JPY	25,000,000,000	212,882,318				212,882,318					
- coupon: 1.23%				2,618,453	2,618,453	2,618,453	1,309,226					
EURO bond	EUR	500,000,000	591,599,977									591,599,977
- coupon: 5.0%				29,579,999	29,579,999	29,579,999	29,579,999	29,579,999	29,579,999	29,579,999	29,579,999	29,579,999
Repayment	USD			729,043,398	418,593,162	290,863,772	882,463,749	669,581,431	887,399,966	0	0	591,599,977
Interest payment	USD			233,103,630	187,349,998	170,544,434	162,647,994	120,065,042	89,479,497	29,579,999	29,579,999	29,579,999
Total servicing costs	USD			962,147,028	605,943,160	461,408,206	1,045,111,743	789,646,473	976,879,463	29,579,999	29,579,999	621,179,976
Outstanding (end year)	USD			3,740,502,057	3,321,908,895	3,031,045,123	2,148,561,374	1,478,999,943	591,599,977	591,599,977	591,599,977	0

* exchange rate as of 31/12/2005.

6m USD LIBOR 4,7 (31/12/2005)

7

RELATIONS OF THE REPUBLIC OF CROATIA WITH INTERNATIONAL FINANCIAL INSTITUTIONS



7.1 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

The Republic of Croatia has been a full member of the International Bank for Reconstruction and Development (IBRD) since February 25, 1993. In the total shareholder capital of the IBRD Croatia owns 0.15% of shares and attains 0.16% of the voting power. The cooperation between Croatia and the IBRD in 2005 was achieved within the framework of the Programme of the Government of the Republic of Croatia for the 2003-2007 Mandate (adopted on December 23, 2003), the Pre-accession Economic Programme 2005-2007 (adopted on October 14, 2004), supported by the Stand-by arrangement of the International Monetary Fund, and the Country Assistance Strategy (CAS) of the World Bank. The main goal aimed in all the documents is to achieve and maintain macroeconomic stability and to strengthen the economy through structural reforms, continued privatisation, reduction of public spending and decrease in borrowing, all in line with the strategic goal of the Croatian government to successfully complete the accession of Croatia to the EU. The CAS represents the basis for all IBRD activities in Croatia and for the first time it is not a unilateral document of the IBRD but it reflects the joint work and agreement between IBRD and Croatia. The Ministry of Finance of Croatia (MoF) actively participated in each of the elaboration phases and the Strategy was for the first time discussed also by the government. Besides the tight cooperation with the government of Croatia, the CAS was prepared in consultation with other stakeholders - the International Monetary Fund (IMF), the European Commission (EC), other regional development institutions, non-governmental organisations, experts and the public through a series of seminars and interviews held during 2004. The result of these actions was the acceptance of the CAS by the government of Croatia on November 11, 2004, and the subsequent unanimous acceptance at the meeting of the World Bank's Board of Executive Directors in Washington on December 21, 2004. This CAS is a joint strategy of all World Bank affiliates: the IBRD, through which loans are granted to Croatia; the International Finance Corporation (IFC), which primarily invests in the private sector; and Multilateral Investment Guarantee Agency (MIGA), which primarily offers help to the Croatian Bank for Reconstruction and Development (HBOR) in the reinsurance of Croatian companies' investments abroad, therefore reducing their business costs. This ensures that all World Bank branches coordinate their work in Croatia, primarily through the support of the World Bank Regional Office in Zagreb. The Strategy foresees a four-year lending programme to Croatia within three coherent scenarios: low, medium and high. Such a lending programme focuses on the implementation of different structural reforms necessary for the accession of Croatia to the EU. The amount of funds that the IBRD is willing to lend largely depends upon the successful implementation of structural reforms. According to the base scenario, the IBRD will provide USD 1 billion with additional USD 0.5 billion in the high scenario, which is almost twice the amount available in the previous CAS (USD 660 million). The mentioned amount shows the World Bank's exceptional confidence in the MoF and in the government in general. The lending programme is based on a series of programmatic adjustment loans (PALs) which are aimed at the improvement of the business environment, fiscal consolidation and rationalisation of the public sector; more accurately, to help the acceleration of difficult and expensive structural reforms and institutional building in the period of EU accession. Apart from the structural loans, the IBRD plans sectoral and investment loans as well as the analytical and technical support to Croatia. During 2005 the IBRD has elaborated, within its programme of analytical and advisory services, Country Financial Accountability Assessment (CFAA) and the Country Procurement Assessment Report (CPAR). The CFAA was developed in cooperation with government administrative bodies, in particular the MoF. The report includes the following topics: Treasury and cash management; budgeting; accounting and financial reporting; internal control and internal audit; financial accountability arrangements for sub-national government; capacity development of existing procedures and institutions. The study has shown that in Croatia still exists a considerable amount of distrust in the processes and institutions due to the lack of accountability and the risk linked to such behaviour. The CPAR gives an overview of the legal framework and procedures in Croatia since the independence to the present. In 1999 the IBRD evaluated the public procurement in Croatia and since then it has constantly helped Croatia in the building of a transparent and accountable system of public procurement. Since the new CAS foresees new lending modalities (Sector Wide Approach - SWAp), the IBRD agreed to consider the possibility to perform some of the loans related activities according to the Croatian legislation.



7.1.1 New Loans and Grants Contracted in 2005

In 2005 the Republic of Croatia and the IBRD stipulated contracts in the total amount of EUR 327.3 million¹ which include five loans, two Project Preparation Facilities (PPF)² and five grants. In the context of total amount of loans contracted in 2005, the cooperation with the IBRD marked the most intensive field. Within the structure of loans contracted with the IBRD, three loans, amounting to a total of EUR 97 million, were contracted for the financing of projects individually aimed at social and economic recovery, development of social welfare systems as well as technological development. One of the loans, amounting EUR 150 million, was contracted to finance the implementation of measures, goals and policies for the achievement and maintaining the structural adjustment of the Croatian economy in the period from 2004 to 2007. It represents the largest loan amount contracted in 2005 and it should also be emphasised due to the coverage of reforms to be financed by it. Another feature of the structure of loans concluded in 2005 is the loan contracted in the amount of EUR 67.8 million for the financing of the education sector, whose financing model represents a novelty in Croatia.³ All the mentioned loans are of public character, which means that in 2005 all loans with the IBRD were contracted without a state guarantee of the Republic of Croatia. For the preparation of two separate projects, two PPFs were contracted, amounting to a total of EUR 3 million: the first one for the preparation of a project in the field of harmonisation of legislation in agriculture with the *acquis communautaire* of the EU, and the second one in the field of integration of trade and transport and related to the port of Ploče.

The Republic of Croatia and the IBRD signed in 2005 five grant contracts amounting to a total of USD 6.2 million and EUR 4.4 million. The grants were approved by the IBRD which is the administrator of financial resources for: the Trust Fund for Statistical Capacity Building (TFSCB), the Global Environment Facility (GEF), the EU CARDS programme, the Policy and Human Resources Development Fund (PHRD), the Small Grants Programme (financial resources of the Kingdom of Norway) and from the grant resources of the governments of Japan, United Kingdom and the Netherlands.

More details upon concluded contracts in 2005 are given in the following chapters.

Loan for the Project of Social and Economic Recovery (loan no. 7283-HR FSL)

The loan for the financing of the Project of Social and Economic Recovery, whose aim is to support the economic and social revitalisation of underdeveloped and war-affected areas in Croatia as well as the increase of social cohesion, was stipulated by contract between the Republic of Croatia and the IBRD on May 2, 2005 in the amount of EUR 35 million. The project, whose preparation has involved resources from the Japanese government grant (grant no. 050513) and it is implemented by the Ministry of Sea, Tourism, Transport and Development (MSTTD), is divided into components which will include: allocation of grants from the loan resources for subprojects which will foster the development of services in the local community, support initiatives on Areas of Special State Concern, de-mining and procurement of equipment for the Croatian Mine Action Center (HCR), capacity building of the MSTTD and other ministries and institutions directly involved in the implementation of regional development policy and supporting bodies for the implementation, coordination and monitoring of the project. It is expected that the project will be implemented until 2008. The loan, which became effective on September 30, 2005, was granted for a period of fifteen years with a semi-annual amortisation after a five-year grace period, while the interest rate, based on a 6-month LIBOR (plus spread), is paid during all the repayment period. Additional costs of borrowing include a one-off initial fee and a fee on undisbursed resources which are paid on principal repayment dates and/or interest payments as long as there are undrawn resources. In 2005 there were no withdrawals of resources regarding this loan.

¹ Within that amount, two project preparation facilities (PPF) were contracted, amounting to a total of USD 3.6 million, as well as four grants amounting to a total of USD 6.2 million.

² The special feature of project preparation facilities (PPF) is that they are granted for the preparation of projects, as some kind of advance payment, in cases when the Bank assesses that there is a high likelihood that the prepared project will be financed by a loan contracted with the Bank, and are eventually repaid within the granted loan for the financing of the project. The repayment is realised by means of treating the withdrawn PPF resources and relative interest obligations as withdrawn resources of the loan at the date the new loan becomes effective, and therefore is treated as debt obligation of the new loan which will be repaid, jointly with the original debt obligation of the loan, on dates defined in the loan contract. In the case the prepared project is not realised by a new loan contracted with the Bank, the PPF is repaid, with all the relative interest payments and fees, by means of 10 semi-annual instalments.

³ It concerns the so-called SWAp - see the characteristics of the IBRD loan no. 7332 HR further in the text.



PPF for the Preparation of the Project of Agriculture Acquis Cohesion (PPF no. P4180 HR - FSL)

The Republic of Croatia has signed on June 24, 2005 with the IBRD the contract for a PPF for the preparation of the project aimed at the development of a sustainable system and capacity in the Ministry of Agriculture, Forestry and Water Management (MAFWM), in order to ensure the timely harmonisation with the EU acquis in the sector of agriculture. The PPF is contracted in the amount of USD 1.9 million and is used to finance, in a larger part, the consultant services and procurement in the preparation of the project which is planned to be financed in 2006 by an IBRD loan amounting EUR 25.5 million. The project which is prepared by an internal unit within the MAFWM includes: capacity building in the pre-accession period in order to foster the acceptance of the Common Agricultural Policy of the EU, strengthening of the MAFWM administration and management, harmonisation with the sanitary and phito-sanitary criteria of the EU and fostering the development of the Croatian Food Agency as well as the financing of the project implementation unit. During 2005 the PPF resources has not been withdrawn. The PPF will be repaid within the resources of mentioned loan for the financing of the prepared project.

Loan for the Project of Social Welfare Development (loan no. 7307-HR FSL)

The loan for the financing of the Project of Social Welfare Development, whose aim is to improve the quality, targeting and administration of social benefits and services at disposal to the public, was contracted by the Republic of Croatia and the IBRD the July 6, 2005 in the amount of EUR 31 million. Croatia will receive a grant from the Swedish International Development Cooperation Agency (SIDA) in the amount of USD 2 million as assistance in the financing of the project. The project is implemented by the Ministry of Health and Social Welfare (MHSW) and includes the following: rationalisation and reorganisation of the social welfare system (provision of advisory services and training aimed at the development of the organisation of planning and provision of social services, development of the concept of One-Stop-Shop offices for the beneficiaries of social welfare programmes and the development of the concept of methodological centres as well as technical assistance and training to the MHSW in the implementation of the project), support to the implementation of government policies for a more quality-oriented and cost-effective provision of social services, enforcement of new administrative organisation in social welfare centres, adoption of a new management-information system in the MHSW and improvement of infrastructure in social welfare institutions. The project is expected to last until March 31, 2009. The loan is granted for a period of fifteen years with semi-annual principal repayment schedule after a five-year grace period. The interest is based on a 6-month LIBOR (plus spread) and it is paid during the whole period. Additional costs include a one-off initial fee and a fee on undrawn loan resources which matures at principal repayment and/or interest payments due dates as long as there are undrawn resources.

PPF for the Project of Trade and Transport Integration - Port of Ploče (PPF no. P4220-HR FSL)

The PPF for the financing of the preparation expenses for the project of Trade and Transport Integration - Port of Ploče, aimed at the increase of capacity, efficiency and quality of services in the transport corridor Vc in order to satisfy the planned transport requirements, was contracted by the Republic of Croatia and the IBRD on September 3, 2005, in the amount of USD 1.7 million. The IBRD approved a grant in the amount of USD 250 thousand for the elaboration of the technical documentation, and the same is intended by the European Bank for Reconstruction and Development (EBRD) in the amount of EUR 50 thousand. The activities covered by the PPF include the preparation and completion of detailed plans and tender documentation for the proposed infrastructure of the Port of Ploče (bulk cargo terminal, container/multi-functional terminal and other infrastructure objects), the conduct of additional geo-mechanical examinations, the performance of a detailed systemic analysis of information flows for the port-corridor linking system as well as the support for translation, financial management and procurement during the preparation of the project. The PPF will be repaid within the framework of the loan for the financing of the prepared project which should be concluded in autumn 2006.

Loan for the Project of Science and Technology Development (loan no. 7320-HR FSL)

The loan for the financing of the Croatian Project of Technology Development, whose aim is to strengthen and reorganise the research and development institutions and to promote the commercial use of research results as well as to improve the technological capacity of enterprises, was contracted between the Republic of Croatia and the IBRD on September 16, 2005, in the amount of EUR 31 million. The project is implemented by the Ministry of Science, Education and Sport (MSES) and it comprises: provision of equipment, advisory services and education to the Brodarski Institute (BI) and selected research and development (R&D) institutions; development and introduction of up-to-date budgetary and accounting systems as well as of an information management system (IMS); establishment of science parks and profit centres, education of the staff, improvement of physical infrastructure and establishment of virtual science parks; financing of increased operative costs of the BI and selected R&D institutions related to the reorganisation of those subjects including personnel reduction programmes and severance payments to the staffs of the BI and other R&D institutions; strengthening the institutional capacity of the Business Innovation Centre of Croatia (BICRO) including the RAZUM programme of innovative technologies; provision of financial resources for financing and technical assistance of venture capital funds and the sponsored



programme of research and development (SPREAD); establishment of the Unity Through Knowledge Fund in order to promote professional exchange and contacts between Croatian scientists and researchers working abroad and their colleagues in Croatia; capacity building of the Project Management Unit. The project is expected to end on June 30, 2009. The loan was granted for a period of fifteen years with semi-annual principal repayments after a grace period of five years. The interest payments are based on 6-month LIBOR (plus spread) paid during the whole duration of the loan. Additional loan costs include a one-off initial fee and fees on undrawn loan resources which are due along with principal repayments and/or interest payments as long as there are undrawn resources. The drawdowns will be performed up to November 30, 2009.

Programmatic Adjustment Loan (loan no. 7330 - HR FSL)

Programmatic Adjustment Loan (PAL) is an instrument of the World Bank which supports the efforts of the Croatian government in implementing structural reforms of both public and private sector and therefore represents a support in the process of accession to the EU. The loan, contracted between the Republic of Croatia and the IBRD on September 20, 2005 in the amount of EUR 150 million, aims at the strengthening of economic growth in Croatia. The PAL includes: finalisation of the enterprise privatisation (including agriculture conglomerates or "kombinats") and disposal of remaining assets that doesn't generate revenue; reintroduction of the state subsidy reduction plan; further prevention of non-payment of public services and limiting the issuance of government guarantees; reduction of enterprise start-up costs and operational costs (as location permits, building permits and reconstruction permits, infrastructure connection fees); promotion of export competitiveness and innovation; amendment of the Law on investment funds; reform of the labour legislation as well as of the system of salaries and remunerations (civil servants and wider public services); reform of the guidelines for the adoption of legal acts (introduction of estimates of the fiscal, social and environmental impact of the proposed laws); medium-term planning and budget execution; improvement of internal audit and financial control as well as the strengthening of public debt management (establishment of a risk management function, finalisation of the debt register which includes the central administration, local self-administration and utility enterprises); rationalisation of the judiciary system structure; efficiency and acceleration of judicial processes; implementation of an automated system for the management of judicial cases; reform of the system of administrative rights; strengthening the enforcement of legal sentences and restraints as well as of contracts and property rights; strengthening the role and function of bankruptcy managers; re-establishment of the pension system sustainability; consolidation of money social benefits; introduction of a result-based payment system in the health sector, financing based on head-tax and transferring supplementary health insurance to the private sector. The loan was granted for a period of ten years with a bullet repayment of the principal. The interest payments are based on 6-month LIBOR (plus spread) and are paid during the whole period. Additional loan costs include a one-off initial fee and fees on undrawn resources falling on due dates of principal repayment and/or interest payments as long as there are undrawn resources. The loan was closed for withdrawal on June 30, 2006.

Loan for the Project of Education Sector Development (loan no. 7332 HR - FSL)

In accordance with the Plan of Educational System Development from June 9, 2005 and the Programme of Activities for the Development of the Educational System in 2005-2010 (the Programme), the IBRD has granted to the Republic of Croatia a loan in the amount of EUR 67.8 million which was contracted on October 17, 2005. The loan is aimed to financing of the project whose main objectives are the improvement of the knowledge acquiring process at student level as well as the upgrade of the educational system by introducing a wider span of teaching and learning methods. An important objective is the improvement of the educational system management. The preparation of this project was also financed by the grant of the Japanese government (grant no. TF 053149). The project includes: the transformation of school plans and programmes into a school curriculum, directing the tuition towards active learning, professional training of teachers and masters and building of new teaching and learning objects, establishment of a system of external valuation, introduction of a state baccalaureate and related logistics, support to the development of an educational policy, improvement of management in the educational system on a central and regional level as well as on the level of schools, abolition of three-shift classes and reduction of two-shift classes, increase of different optional and extracurricular activities. The project is expected to terminate on September 30, 2009. The project is supervised by the MSES and implemented within the Programme by allocations for each fiscal year in accordance to the Annual Development Plans (ADP). In relation to the loan with which the project is financed this concretely means withdrawal of funds in the form of IBRD assignments through the Ministry of Finance to the budget of the MSES. Such a financing model, know as Sector-Wide Approach (SWAp), represents a shift from usual models offered by the IBRD and is the first instance of such financing in Croatia. The loan, which became effective on March 15, 2006, was granted for a period of fifteen years with a semi-annual principal repayment after a grace period of five years, while the interest payments are based on a 6-month LIBOR and are paid during the whole duration of the loan. Additional costs of the loan include a one-off initial fee and fees on undrawn loan resources which fall on due dates of principal repayments and/or interest payments as long as there are undisbursed resources. During 2005, no funds were disbursed.



Japanese Grant for the Preparation of the Project of Sustainable Health Care System (PHRD TF 053150)

The contract between the Republic of Croatia and the IBRD on the grant no. TF 053150 for the preparation of the Project of Sustainable Health Care System was signed on February 11, 2005 in the amount of USD 425 thousand out of the resources of the PHRD fund. The objective of the grant is to improve the results of the health system in Croatia through the increase in efficiency, strengthening the financing sustainability and adequate financial protection for the population as well as by introducing new incentives which would have the role of change catalysers within the service provision system. The grant is intended for the activities: strengthening of institutional capacities; identifying of priority interventions within the health care system; evaluation of service providers' capacities for reaction on project incentives; and support to project management. The beneficiary of the grant funds is the MHSW which will withdraw them up to June 15, 2007.

Grant of the Kingdom of Norway for the Co-financing of the Project of Karst Ecosystem Conservation: Small Grants Programme (TF 053242)

The contract between the Republic of Croatia and the IBRD on the grant no. TF 053242 for the co-financing of the Project of Karst Ecosystem Conservation: Programme of small grants, was signed on February 11, 2005, in the amount of USD 200 thousand. The grant funds, provided by the Kingdom of Norway, will be used through the Ministry of Culture for the financing of the Programme of Karst Ecosystem Conservation (GEF grant number TF 050539) aimed at: strengthening of institutional and technical capacities for the conservation of biological diversity in the karst environment; integrating the conservation of biodiversity into physical planning and sectoral strategies; strengthening of the management of protected areas and promotion of entrepreneurial and tourist activities which support sustainable use and conservation of natural resources. The same project was previously financed by the GEF Trust Fund grant no. TF 023163 contracted in 1999 in the amount of USD 230 thousand. The activity for which the grant was approved is sub-granting to beneficiaries who will implement the programme of grants for the conservation and revitalisation of rural areas aimed at supporting entrepreneurial projects for the conservation of biodiversity and sustainable use of biological resources in karst areas. The beneficiary of the grant is the Ministry of Environmental Protection, Physical Planning and Construction (MEPPPC) which will withdraw the funds up to December 31, 2006.

Grant of the GEF for the Project Renewable Energy Resources (TF 054973)

The contract between the Republic of Croatia and the IBRD on the grant no. TF 054973 for the Project of Renewable Energy Resources was signed on July 27, 2005 in the amount of USD 5.5 million from the resources of the GEF Trust Fund. The objective of the project, whose preparation also involved funding of the GEF Trust Fund grant (grant no. TF 051107) is the support to development of a dynamic and environmentally sustainable market of renewable energy resources in Croatia. The projects includes: technical assistance aimed at planning and implementation of policy and secondary legislation encompassing renewable energy into the electric sector as well as the development of a renewable energy production unit; financing of project management costs; establishment of a credit programme for the financing of renewable energy resources projects; support to the establishment of an advisory body for renewable energy on a national and, possibly, on a regional level. The grant funds will be available until March 31, 2010. The project is implemented by the Croatian Bank for Reconstruction and Development (HBOR).

EU CARDS Grant for the Project of Real Property Registration and Cadastre, phase II support (TF 055104)

The contract between the Republic of Croatia and the IBRD on the EU CARDS grant no. TF 055104 for the Project of Real Property Registration and Cadastre, phase II support was concluded on December 20, 2005 in the amount of EUR 4.4 million, as support to Croatia in the co-financing of the Project of Real Property Registration and Cadastre in Croatia. The main objective of the project is to establish an efficient system of real property administration with the intent to develop an efficient real estate market. The project was also financed by the EU CARDS grants no. TF 051781 from 2003 in the amount of EUR 4.9 million and no. TF 052657 from 2004 in the amount of EUR 1.9 million. The activities for which the grant was approved include: further support to the establishment of a multifunctional information system of spatial data in the State Geodesic Directorate (SGD) including technical assistance, digital orthophoto and equipment; professional education and technical assistance to SGD; education and technical assistance to the Ministry of Justice and real propriety registries within municipal courts; further support to the information campaign aimed at raising the knowledge of the public on the cadastre and systems of real estate registration. Both the Ministry of Justice and SGD are beneficiaries of the project and are entitled to withdraw the funds up to December 31, 2008.

Grant for the Strengthening of Statistical Capacities for the Development of the Statistical Master-Plan (TF 055789)

The contract between the government of the Republic of Croatia and the IBRD on the grant no. TF 055789 for the strengthening of statistical capacities for the development of a Statistical Master Plan was concluded on December



21, 2005 in the amount of USD 89.7 out of the resources of the Statistical Capacity Building Trust Fund (TFSCB). The purpose of the grant is the strengthening of statistical capacities by means of developing a Statistical Master Plan (SMP) as action plan for the reorganisation and strengthening of the National Statistical System (NSS) which should provide the appropriate statistical data necessary for the EU accession process in a cost-effective way. The grant was approved for the implementation of the following activities: development of the SMP, i.e. the medium-term strategic plan which will form the basis of a sustainable statistical infrastructure in all the sectors of the economy; elaboration of a well-planned budget for statistical activities in order support policy makers in evaluating the costs and benefits related to the broadening of statistical activities as well as in decision making. The beneficiary of the grant is the Croatian Bureau for Statistics (CBS) which will withdraw the resources until December 2007.

7.1.2 Overview of Loans, Disbursement of Funds and Outstanding Debt Owed to IBRD

In the period from 1994 to the end of 2005, the IBRD has granted to the Republic of Croatia 33 long-term loans for the financing of programmes and projects and two PPF in 2005 for the preparation of loans. To the long-term loans should be added the repaid loan for the Project of Water Supply and Sewerage in the Region of Istria granted in 1990 and assumed in 1994 with the guarantee of the state.⁴ By means of these 36 loans, the IBRD has provided a total of EUR 831.6 million⁵ and USD 658.3 million (see Table 7.1 Overview of IBRD loans contracted in the period from 1994 to 2005 with debt outstanding and fund withdrawal, as of December 31, 2005 and withdrawals in 2005, in thousands). Within the structure of those loans, 24 are public loans⁶, 2 are PPFs settled in 2005, 9 loans settled with state guarantee and one assumed loan with state guarantee. As of December 31 2005, a total of EUR 398.7 million and USD 595.3 million was withdrawn. That means that approximately 52% of the loan funds denominated in euro and about 10% of US dollar loan funds has been undrawn. During 2005, all funds aimed at the financing of projects of reconstruction of Eastern Slavonija, Baranja and Western Srijem, modernisation and restructuring of railways as well as of fostering of trade and transport in South-East Europe were withdrawn. The bulk of the funds was withdrawn for the financing of the Project of Rijeka Gateway (EUR 26.6 million and USD 7.5 million), the Project of Health System (USD 10.9 million), the mentioned Project of Real Propriety Register and Cadastre (EUR 4.7 million), and significant funds were invested in environmental protection by means of the Project of Coastal Cities Pollution Control (EUR 3.6 million). The funds of newly contracted loans were not withdrawn in 2005, mostly due to failures to fulfil the conditions for loan effectuation⁷. As result of loans contracted in the period from 1994 to 2005, the outstanding debt of Croatia, whether in form of debtor or guarantor, towards the IBRD amounted to EUR 305.8 million and USD 434.8 million as of December 31, 2005. Within that amount, the newly contracted loans increased the outstanding debt towards the IBRD for EUR 375 thousand and USD 275 thousand. The due obligations towards the IBRD were paid orderly and in time. In line with IBRD practices for debtors who timely settle their loan obligations, the IBRD has renounced in the fiscal year 2005⁸ from part of interest payments and fees that the member countries, including Croatia, would otherwise had to pay. Croatia has achieved significant gains thanks to the timely settlement of its obligations. Within the Budget for 2005, a total of EUR 44.1 million and USD 15.3 million has been paid to settle obligations of 19 public loans and state guarantees (obligations of the Alpe Jadran d.d. bank from Split which is in liquidation). Interests on single currency loans in euro were paid at rates ranging from 2.21% to 3.12%. Interests on loans granted in US dollar were paid at rates ranging from 4.54% to 4.79% for a group of currencies (pool), while for single currency loans the range went from 2.86% to 3.77%. The initial fees were calculated and charged at a rate of 0.25% of the contracted loan amount, while the fees on undrawn funds were calculated and charged at rates of 0.25% and 0.35% yearly.

⁴ The loan no. 30690-HR granted in the amount of USD 28 million was assumed by means of the Law on Ratification of the Guarantee Agreement between the Republic of Croatia and the IBRD and the Loan Assumption Agreement between the Republic of Croatia and the IBRD, concluded on February 25, 1993 (Official Journal "Narodne novine - Međunarodni ugovori" no. 7/1994). In January 2001 the undrawn amount of about USD 1.98 million was cancelled and the loan was closed for withdrawal. The loan was repaid in 2004.

⁵ The provided amount in euro represents the sum of the loan amounts initially contracted in euro and loan amounts initially contracted in German mark and converted to euro.

⁶ Out of 24 directly contracted (public) loans concluded up to December 31, 2005, 13 of them were closed for withdrawal and 8 are effective for withdrawal. For the remaining 3 loans the deadline for effectuation is in 2006.

⁷ See note no. 9 in Table 7.1.

⁸ The IBRD fiscal year (FY) 2005 started in July 1, 2004, and lasted to June 30, 2005, while the second half of 2005 entered the IBRD FY 2006. For instance, in the FY 2006 a total of USD 1.2 million in gains was achieved thanks to IBRD waivers. More details on IBRD waivers on initial fees and fees on undrawn resources see at <http://treasury.worldbank.org/index.html>.



Tablica 7.1. Overview of IBRD loans contracted in the period from 1994 to 2005 with debt outstanding and fund withdrawal as of December 31, 2005 and withdrawals in 2005, in thousands

	Settlement data	Published in the NN/MU no.	Effectuation / Closing date	Currency	Loan amount	Withdrawn	Undisbursed	Debt outstanding	Principal repayment: first and last	Disbursed in 2005
PUBLIC (DIRECT) LOANS										
Emergency Reconstruction Project - loan no. 37600 - HR Pool	27.6.1994.	7/1994	19.8.1994. 31.12.1999.	USD	128,000.00	128,000.00	0.00	68,750.00	15.12.1998. 15.6.2011.	0.00
Health Project - loan no. 38430 - HR Pool (1)	8.3.1995.	7/1995	17.8.1995. 31.12.1999.	USD	38,925.50	38,925.50	0.00	19,433.50	15.6.2000. 15.12.2011.	0.00
Highway Sector Project - loan no. 38690 - HR Pool (2)	27.4.1995.	8/1995	26.7.1995. 30.6.2001.	USD	79,878.49	79,878.49	0.00	48,814.76	15.12.1999. 15.6.2012.	0.00
Capital Markets Development Project - loan no. 39990 - HR SCL	23.4.1996.	1/1996 and 9/1996	22.7.1996. 30.6.1999.	EUR	7,260.35	7,260.35	0.00	4,545.39	15.10.2001. 15.4.2013.	0.00
Farmer Support Services Project - loan no. 39880 - HR Pool (3)	23.4.1996.	1/1996 and 9/1996	22.7.1996. 31.12.2002.	USD	14,258.75	14,258.75	0.00	8,777.95	1.9.2001. 1.3.2013.	0.00
Technical Assistance Project in Support of Enterprise and Financial Sector Reform - loan no. 39890 - HR SCL	23.4.1996.	1/1996 and 8/1996	22.7.1996. 30.4.2000.	USD	5,000.00	5,000.00	0.00	3,110.00	15.10.2001. 15.4.2013.	0.00
Emergency Transport & Mine Clearing Project - loan no. 41040 - HR SCL (4)	4.12.1996.	3/1997	4.3.1997. 31.12.2001.	EUR	74,797.17	74,797.17	0.00	48,448.29	15.7.2002. 15.1.2012.	0.00
Coastal Forest Reconstruction & Protection Project - loan no. 41190 - HR Pool (5)	31.1.1997.	8/1997	31.7.1997. 30.6.2003.	USD	38,589.31	38,589.31	0.00	25,128.11	15.6.2002. 15.12.2013.	0.00
Enterprise & Financial Sector Adjustment Loan Project - loan no. 41590 - HR EFSAL SCL	4.6.1997.	17/1997	5.11.1997. 31.12.2001.	EUR	81,806.70	81,806.70	0.00	53,174.36	15.12.2002. 15.6.2012.	0.00
Reconstruction Project for Eastern Slavonia, Baranja and Western Srijem - loan no. 43510 - HR SCL (6)	8.9.1998.	15/1998	6.1.1999. 31.12.2004.	EUR	36,600.50	36,600.50	0.00	29,033.38	15.1.2004. 15.7.2013.	2,241.69
Railway Modernization & Restructuring Project - loan no. 44330 - HR SCL	2.1.1999.	4/1999	9.6.1999. 30.6.2005.	EUR	85,398.55	85,398.55	0.00	72,558.55	15.9.2004. 15.3.2014.	4,957.96
Technical Assistance for Institutional & Regulatory Reform for Private Sector Development Project - loan no. 44600 - HR SCL	5.5.1999.	8/1999	3.8.1999. 30.6.2006.	USD	7,300.00	6,675.32	624.68	5,580.32	15.10.2004. 15.4.2014.	1,798.94
Health System Project - loan no. 45130 - HR (7)	7.10.1999.	14/1999	28.3.2000. 30.12.2005.	USD	27,300.00	25,602.93	1,697.07	22,792.43	15.6.2005. 15.12.2014.	10,856.56
Trade & Transport Facilitation in South East Europe - loan no. 45820 - HR	27.10.2000.	5/2001	2.5.2001. 31.3.2005.	EUR	13,813.21	13,813.21	0.00	13,813.21	15.5.2006. 15.11.2015.	1,166.57
Court & Bankruptcy Administration Project - loan no. 46130 - HR	3.7.2001.	14/2001 and 5/2002	29.1.2002. 31.1.2007.	USD	5,000.00	1,754.14	3,245.87	1,754.14	15.12.2006. 15.6.2016.	633.33
Structural Adjustment Loan (SAL) - loan no. 46410 - HR (SAL)	5.12.2001.	2/2002 and 5/2002	8.2.2002. 31.10.2003.	USD	202,000.00	202,000.00	0.00	202,000.00	15.4.2007. 15.10.2016.	0.00
Pension System Investment Project - loan no. 46720 - HR (8)	17.9.2002.	2/2003 and 3/2003	20.2.2003. 31.12.2006.	USD	27,300.00	13,362.76	13,937.24	13,362.76	15.11.2007. 15.5.2017.	1,223.75
Real Property Registration & Cadastre Project - loan no. 46740 - HR	18.9.2002.	2/2003 and 6/2003	20.2.2003. 30.9.2008.	EUR	26,000.00	7,596.89	18,403.12	7,596.89	15.5.2008. 15.11.2017.	4,702.16
Coastal Cities Pollution Control Project - loan no. 72260 - HR	2.7.2004.	11/2004	17.12.2004. 30.11.2008.	EUR	40,000.00	3,578.61	36,421.39	3,578.61	15.10.2009. 15.4.2019.	3,578.61
Social & Economic Recovery Project - loan no. 72830 - HR	2.5.2005.	9/2005	30.9.2005. 30.6.2009.	EUR	35,000.00	0.00	35,000.00	0.00	15.5.2010. 15.11.2019.	0.00
Agricultural Acquis Cohesion Project - PPF no. P 4180 - HR	24.6.2005.		24.6.2005. 30.6.2006.	USD	1,850.00	200.00	1,650.00	200.00		200.00
Social Welfare Development Project - loan no. 73070 - HR	6.7.2005.	11/2005	not effective 30.9.2009.	EUR	31,000.00	0.00	31,000.00	0.00	15.11.2010. 15.5.2020.	0.00
Trade and Transport Integration Project - Port of Ploče - PPF no. P 4220 - HR	3.9.2005.		3.9.2005. 15.12.2006.	USD	1,750.00	75.00	1,675.00	75.00		75.00
Science & Technology Project - loan no. 73200 - HR	16.9.2005.	12/2005	not effective 30.9.2009.	EUR	31,000.00	0.00	31,000.00	0.00	15.11.2010. 15.5.2020.	0.00
Croatia Programmatic Adjustment Loan - loan no. 73300 - HR (PAL) (9)	20.9.2005.	12/2005	19.12.2005. 30.6.2006.	EUR	150,000.00	375.00	149,625.00	375.00	15.9.2015.	375.00
Education Sector Development Program Project - loan no. 73320 - HR	7.10.2005.	12/2005	not effective 31.3.2009.	EUR	67,800.00	0.00	67,800.00	0.00	15.11.2010. 15.5.2020.	0.00
TOTAL PUBLIC LOANS				USD	577,152.05	554,322.20	22,829.86	419,778.97		14,787.58
				EUR	680,476.48	311,226.98	369,249.51	233,123.68		17,021.99



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	Settlement data	Published in the NN/MU no.	Effectuation / Closing date	Currency	Loan amount	Withdrawn	Undisbursed	Debt outstanding	Principal repayment: first and last	Disbursed in 2005
LOANS GUARANTEED BY THE STATE										
Istria Water Supply & Sewerage Project - loan no. 30690 - HR (10)	1.2.1990.	7/1994	31.5.1990. 30.6.2000.	USD	26,016.29	26,016.29	0.00	0.00	15.10.1994. 15.4.2004.	0.00
Investment Recovery Project (4 loans) - loans no. 42460 - HR (Varaždinska banka - Zagrebačka banka d.d.), 42470 - HR (Dalmatinska banka d.d. - Nova banka), 42480 - HR (Slavonska banka d.d.) i 42490 - HR (Alpe Jadran banka d.d. in liquidation) (11)	4.12.1997.	3/1998	17.3.1998. 31.12.2002.	EUR	21,589.50	21,589.50	0.00	15,058.17	15.3.2003. 15.9.2012.	0.00
Municipal Environmental Infrastructure Project - loan no. 43520 - HR	25.9. 1998.	2/1999	28.6.1999. 30.6.2006.	EUR	33,233.97	19,412.73	13,821.24	11,104.24	15.11.2003. 15.5.2013.	1,707.77
Rijeka Gateway Project - loan no. 47140 - HR (Croatian Highways)	12.7.2003.	16/2003 and 18/2003	10.10.2003. 9.9.2009.	EUR	15,700.00	1,236.95	14,463.06	1,236.95	15.12.2008. 15.6.2018.	856.55
Rijeka Gateway Project - loan no. 47150 - HR (Port Authority Rijeka) (12)	12.7.2003.	16/2003 and 18/2003	10.10.2003. 9.9.2009.	USD	55,100.00	14,993.02	40,106.98	14,993.02	15.12.2008. 15.6.2018.	7,506.33
Rijeka Gateway Project - loan no. 47160 - HR (Croatian Roads)	12.7.2003.	16/2003 and 18/2003	10.10.2003. 9.9.2009.	EUR	76,200.00	45,125.21	31,074.79	45,125.21	15.12.2008. 15.6.2018.	26,629.16
Energy Efficiency Project - loan no. 71980 - HR (Hrvatska elektroprivreda)	10.11.2003.	3/2004	8.4.2004. 30.6.2010.	EUR	4,400.00	134.00	4,266.00	134.00	15.4. and 15.8. each year	50.00
TOTAL LOANS GUARANTEED				USD	81,116.29	41,009.31	40,106.98	14,993.02		7,506.33
BY THE STATE				EUR	151,123.47	87,498.39	63,625.09	72,658.57		29,243.48
GRAND TOTAL				USD	658,268.34	595,331.51	62,936.84	434,771.99		22,293.91
PUBLIC + GUARANTEED				EUR	831,599.95	398,725.37	432,874.60	305,782.25		46,265.47

Source: Ministry of Finance - Department for European Integrations and International Financial Relations

Notes:

Loans no. 39990, 41040, 41590, 43510, 42460, 42470, 42480, 42490 i 43520 were contracted in DEM and were converted to EUR as of November 11, 2001

- 1 - contracted loan amount USD 40 million; cancelled: USD 1,1 million
- 2 - contracted loan amount USD 80 million; cancelled: USD 121.5 thousand
- 3 - contracted loan amount USD 17 million; cancelled: USD 2 million
- 4 - cancelled: EUR 2.4 million
- 5 - MAFWM executed reimbursement of funds: USD 18.5 thousand, the IBRD informed about cancellation: USD 3.4 million
- 6 - cancelled: EUR 1.2 million
- 7 - contracted loan amount USD 29 million; cancelled: USD 1,7 million
- 8 - Pension System Investment Project was prepared by means of the USD 1,8 million PPF, but only USD 657,2 thousand was disbursed. That amount is included in the loans no. 46720 - HR
- 9 - the amount of disbursed funds represents the amount of the initial fee which was paid out of the loan and is therefore treated as loan disbursement
- 10 - contracted loan amount USD 28 million; cancelled: USD 1,9 million
- 11 - four loans were granted for the same project (the beneficiary banks are listed in the table)
- 12 - the Rijeka gateway Project was prepared by means of the USD 1,5 million PPF, but only USD 684,3 thousand was disbursed. That amount is included in the loan no. 47150 - HR.



7.1.3 Overview of Grants

In the period from year 1995 to 2005, for the implementation of projects in the area of infrastructure, environment protection, private sector development and structural adjustments in the sectors of health and social protection, agriculture, education, public finances and judiciary, in the Republic of Croatia 48 grant agreements were concluded (Table 7.1.a. Overview of IBRD and Dutch Constituency grants in the framework of IBRD, as of 31st of December 2005, in thousands). Grant agreements were concluded in four currencies in total amount of USD 27.5 million, JPY 270.5 million, GBP 352.8 thousand and EUR 11.3 million. Republic of Croatia concluded with IBRD 42 grant agreements in the total amount of USD 27.5 million, JPY 270.5 million, GBP 352.8 thousand and EUR 11.3 million and two grants in total amount of EUR 60 thousand were obtained from Dutch government in the framework of Dutch Constituency in which is Croatia a property of IBRD member. Five grants, which are not monitored by Ministry of Finance of Republic of Croatia, in total amount of USD 2.1 million were allocated to: Croatian Power Utility for the District Heating Project USD 187.9 thousand and for Energy Efficiency Project USD 350.0 thousand; Nongovernmental Organizations for the Program of Refugee Return in the areas of Zadar, Knin and Šibenik in amount of USD 1.0 million; Grant for the Operational focal point of Global Environment Fund USD 24.5 thousand and for co financing of experimental cultural heritage of Bosnia and Herzegovina - Old Bridge in amount of USD 500 thousand. Grant funds are mainly used for payments of consultant services, purchases of goods, experts training and producing the studies needed for better preparation of projects which are after finishing feasibility studies reported to the bank for financing the loans. The Republic of Croatia contracted 32 grants in US Dollars, in total amount of USD 27.5 millions of which 21 grants were closed for withdrawal while in the framework of 11 grants, as of 31st of December 2005, USD 15.5 million remained for withdrawals. In Japanese yens six grants were contracted in the total amount of JPY 270.5 million. As of 31st of December 2005 totally JPY 199.8 million was withdrawn, JPY 70.6 million was cancelled and grants were closed. In British Pounds one grant was contracted in amount of GBP 352.8 thousand. Remained funds of GBP 2.83 thousand were cancelled and grant was closed. Three grants were contracted in euros in the total amount of EUR 11.2 million while as of 31st of December 2005 EUR 9.5 million was left for withdrawals. Grant funds will be withdrawn in the period from year 2005 to 2010 as latest, according to agreed schedule of individual grants closure. Two grants which are financed by EU CARDS program, in total amount of EUR 6.8 million, will be withdrawn till the 31st of August 2007 and as of 31st of December 2005, EUR 5.1 million was left for withdrawal. Dutch grants, in total amount of EUR 60 thousand, were totally withdrawn at the end of year 2004.



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Table 7.1.a: Overview of grants and of Dutch Constituency within the IBRD (as of December 31, 2005)

No.	Year granted	Grant reference	Grant name	Currency	Contracted amount of the grant in 000 HRK	Cancelled amount in 000 HRK	Left for disbursement in 000 HRK
A. Grants contracted with the IBRD							
1	1995	28851 (closed)	Preparation for the Procurement Law	USD	148.00	101.47	0.00
2	1995	29116 (closed)	Farmer Support Services Project	JPY	56,600.00	13,888.31	0.00
3	1995	29117 (closed)	Coastal Forest Reconstruction & Protection	JPY	21,200.00	146.62	0.00
4	1995	29314 (closed)	Public Sector Adjustment - PSAL	JPY	75,600.00	5,504.82	0.00
5	1995	29315 (closed)	Structural Adjustment of Agriculture	JPY	29,400.00	24,096.29	0.00
6	1995	29316 (closed)	Croatian Railways Restructuring	JPY	58,800.00	5,457.69	0.00
7	1996	29486 (closed)	Municipal Environmental Infrastructure Investment Project	USD	500.00	0.44	0.00
8	1996	29674 (closed)	Reconstruction of Transport Infrastructure of the City of Zagreb	USD	800.00	0.00	0.00
9	1997	28360 (closed)	Biodiversity Strategy	USD	102.00	0.00	0.00
10	1997	27098 (closed)	Private Sector Development	USD	398.00	216.25	0.00
11	1997	28539 (closed)	Public Finance Management	USD	314.00	130.49	0.00
12	1997	25229 (closed)	Enterprise and Financial Sector Adjustment Loan Project	JPY	28,900.00	21,561.55	0.00
13	1998	27099 (closed)	Eastern Slavonia Flood Control	USD	200.00	3.05	0.00
14	1998	25139 (closed)	Health Sector Modernisation	USD	418.26	2.16	0.00
15	1998	25597 (closed)	Sava River Flood Component	USD	476.15	0.00	0.00
16	1999	20574 (closed)	Y2000 ("Millennium Bug")	USD	80.00	0.00	0.00
17	1999	27259 (closed)	Environmental Protection and Strengthening of Management Systems	USD	276.49	7.67	0.00
18	1999	22644 (closed)	Managing Marshlands of Kopacki Rit Nature Park	USD	750.00	0.44	0.00
19	1999	25799 (closed)	Municipal Environmental Infrastructure Project	USD	216.84	0.05	0.00
20	1999	26113 (closed)	Bankruptcy Law Adjustment	USD	253.70	110.26	0.00
21	1999	23163 (closed)	Karst Ecosystem Conservation Project	USD	230.00	107.82	0.00
22	1999	26112 (closed)	Port of Rijeka Modernisation	USD	337.50	0.01	0.00
23	2000	27386 (closed)	Capacity Building for Social and Economic Communications	USD	400.00	8.51	0.00
24	2001	26262 (closed)	Social Protection Project	USD	200.00	0.00	0.00
25	2001	26441 (closed)	Coastal Cities Pollution Protection Project	USD	325.00	0.00	0.00
26	2001	29810 (closed)	Social Protection Project	GBP	352.80	2.83	0.00
27	2003	52381 (closed)	Preparation of the City of Zagreb Wastewater Nutrient Reduction Project	USD	350.00	350.00	0.00
28	2002	50539	Karst Ecosystem Conservation Project	USD	5,070.00	0.00	2,220.85
29	2002	50513	Social and Economic Recovery Project	USD	425.36	0.00	33.89
30	2003	51107 (closed)	Renewable Energy Resources Project	USD	350.00	15.93	0.00
31	2003	52014	Monitoring Judicial Efficiency - Institutional Capacities Building Project	USD	350.00	0.00	325.00
32	2003	52062	Budget Management Strengthening Project	USD	368.00	0.00	149.96
33	2003	51781	Land Registry and Cadastre Project	EUR	4,900.00	0.00	3,403.12
34	2004	52141	Energy Efficiency Project	USD	7,000.00	0.00	6,264.10
35	2003	52844	Neretva and Trebišnjica Integrated Ecosystem Management Project	USD	145.00	0.00	24.42
36	2004	52657	Land Registry and Cadastre Project: Coastal Goods Registration Support	EUR	1,960.00	0.00	1,764.00
37	2004	53149	Preparation of Education System Reform	USD	766.15	0.00	464.41
38	2005	53150	Sustainable Health System Project	USD	425.00	0.00	375.00
39	2005	53242	Karst Ecosystem Conservation Project	USD	200.00	0.00	60.05
40	2005	54973	Renewable Energy Resources Project	USD	5,500.00	0.00	5,500.00
41	2005	55104	EU CARDS grant for Land Registry and Cadastre Project	EUR	4,410.00	0.00	4,410.00
42	2005	55789	Strengthening of Statistical Capacities for the Development of the Statistical Master-Plan	USD	89.75	0.00	89.75
TOTAL (1 - 42):				EUR	11,270.00	0.00	9,577.12
B. Grants of the Dutch Constituency within the IBRD							
1	2004	5105 CF	Project of Financial Management Information System Strategic Study	EUR	30.00	0.00	0.00
2	2004	5105 CF	Project of Rationalization of Financial Management Information System Strategic Study	EUR	30.00	0.00	0.00
TOTAL (1 - 2):				EUR	60.00	0.00	0.00
TOTAL (A. + B.):				USD	27,465.20	1,054.53	15,507.42
				JPY	270,500.00	70,655.27	0.00
				GBP	352.80	2.83	0.00
				EUR	11,330.00	0.00	9,577.12

Source: Ministry of Finance - Department for European Integrations and International Financial Relations



7.1.4 Projects under Preparation

During the year 2005 following projects/loans were prepared in line with Assistance Strategy for the period 2005-2008:

- 1.) Project of Agricultural Legislation Alignment with European Union Acquis Communautaire (EUR 25 million)
- 2.) Project of Internal Waters (EUR 50 million)
- 3.) Program Adjustment Loan 2 (EUR 120 million)
- 4.) Project of Trade and Transport Integration, Port of Ploče (EUR 58.8 million)
- 5.) Heating (EUR 24 million) - Guarantee to Croatian Power Utility
- 6.) Project of Health Reform (EUR 85 million) - following the conclusion of reforms in PAL 2 loan

7.1.5 Grants under Preparation

For the year 2006 five more grants are under preparation which will be contracted through IBRD:

- 1.) Grant of PHRD Fund (Japan) for preparation of Internal Waters Project (USD 500 thousand)
- 2.) SIDA grant for the support of Public Administration Reform (SEK 8.5 million)
- 3.) SIDA grant for co financing of Project for Social Protection System Development (SEK 15 million)
- 4.) Dutch grant for technical assistance and support of implementation of Project for Protection of Coastal Waters from Pollution (USD 2.5 million)
- 5.) Project for Managing of Rivers Neretva and Trebišnjica drains, grant of GEF (USD 10 million)



7.2 EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

Republic of Croatia became full right member of European Bank for Reconstruction and Development (EBRD) on 15th of April 1993. In the total EBRD capital Republic of Croatia owns 0.37% of shares and has the voting power of 0.37%. After the certain calm period of EBRD activities in Republic of Croatia, the duty of EBRD Office Director in Zagreb was taken by new person at the end of year 2004. After the coming of new director and few new EBRD bankers, new period of EBRD in Croatia started. Already by the end of year 2004 numerous mutual activities of Croatian Government and EBRD started with the purpose of making new Strategy for Croatia which covers period from 2005-2007. In identical way, as for Assistance Strategy of IBRD, in cooperation with state administration entities in Republic of Croatia the EBRD Strategy for Croatia was prepared. The Croatian Government adopted Strategy for Croatia on 24th of February 2005, which was followed by adoption of EBRD Board of Executive Directors on 3rd of March 2005. The main strategic determinant of EBRD Strategy for Croatia is tight cooperation of EBRD and Croatian Government in following years in order to undertake business activities which will support Croatian efforts for European Union accession. The Strategy includes basic guidelines and recommendations to achieve goals of transition in the Republic of Croatia, priority sectors in which EBRD will invest 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. EBRD forecasts that in the forthcoming period of two years it will invest in Croatian projects between EUR 150 million and EUR 250 million of which in infrastructural projects it plans to invest EUR 110 million. According to its' mandate EBRD invests over 60% of funds in private sector in Republic of Croatia and only minor part of EBRD activities concerns public sector. It is stated in the Strategy that this trend will continue. The priority sectors for investments in Croatian economy are: 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 fulfil EU standards. It will also 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; and 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 neighbour countries and vice versa, it will cooperate with foreign strategic investors in promotion of new projects and green field investments.

7.2.1 New Grants Agreed in Year 2005

Project of Port Dubrovnik Coastal Infrastructure Construction (Loan No. 13451)

The Loan Agreement for Coastal Infrastructure Construction of Port Dubrovnik was concluded at 1st of February 2005 between Port Administration Dubrovnik and EBRD. At the same day the Contract about Guarantee was concluded between Republic of Croatia and EBRD for latter mentioned Loan Agreement. The project plans include sanitation of 200 meters of existing coast and build 600 meters of new coast in the western part of Port Gruž to facilitate anchorage of large cruisers and acceptance up to 10,000 tourists (tri ships simultaneously). Infrastructural installation network (water supply, electric power, telecommunications, fire alarm, waste waters, etc.) and public lights will be constructed which makes base for construction of port tourist contents through private sector investments on the bases of concession model (passenger terminal, hotel, sales centre, garage, casino etc.). The project documentation was done by foreign consultants who were financed by EBRD grant and project was proved to be economically profitable. The project will partially be co financed by Republic of Croatia in first years of project (from 2005 to 2010) and up to the amount of HRK 27 million. The project is conducted through the Ministry of Sea, Tourism and Transport. The loan was obtained for thirteen years, including three years grace period, semi-annual repayments while interest rate is based on 6 months EURIBOR increased by 1%. Additional costs of loan are one off starting compensation of 1% and compensation for non withdrawn loan funds in amount of 0.5% on annual bases.



Project of Water Supply and Sewage System by Guarantee Of City Karlovac for Co Financing of ISPA Fund

In the May of 2005, EBRD approved Loan to the enterprise Water Supply and Sewage Karlovac (ViK), for the Project of Water Supply and Sewage System in Karlovac in the amount of EUR 10 million and by guarantee of City Karlovac. The Loan and Guarantee Contracts were signed on 13th of May 2005. Amount of EUR 10 million is a part of national component which Republic of Croatia had to provide for co financing of projects from ISPA program of European Union. For the stated loan City Karlovac obtained compliance for borrowing from Ministry of Finance of Croatia. This is the first project in Republic of Croatia where international financial institution co finances European Union fund and some further technical details should have been settled regarding that is planned to be continued. Therefore, after the signing of Financing Memorandum for mentioned project between Government of Croatia and European Commission on 30th of January 2006 agreement between EBRD and European Commission was reached that the principal of joint financing will be implemented and that public procurement will be conducted according to the rules of European Commission. Such agreement caused changes in existing Grant Agreement in the form of amendment which allowed that EBRD loan will be used according to the procurement rules of European Commission and by which EBRD certifies that it accepts Central Financing and Contracting Unit of Republic of Croatia as contractor i.e. signer of contract in the name of and account for ViK Karlovac. In the March 2006 it was adopted by EBRD Board of Executive Directors. According to the new rules, EBRD keeps the right of insight in all documentation. Concerning that this for Ministry of Finance (i.e. Central Financing and Contracting Unit) meant double (parallel) control system ("ex-ante approval" from European Commission and "no-objection" from EBRD), three parties agreement was signed between Ministry of Finance, ViK and EBRD which technically and legally regulates relations between interested parties, circulation of documentation and procedure of procurement.

7.2.2 Overview of Loans, Disbursement of Funds and Outstanding Debt owed to EBRD

Since the beginning of membership till the end of year 2005, EBRD secured EUR 1.6 billion to Republic of Croatia for financing total of 70 projects where around 28% of funds were directed for financing public sector. Fifteen loans⁹ were allocated to the Republic of Croatia: 3 direct loans and 12 loans by the state guarantee of the Republic of Croatia. It is totally 66.2 million on the bases of loans concluded in USD and 366.1 million on the bases of loans concluded or converted to EUR (see Table 7.2. Overview of EBRD Loans Concluded in the Period from year 1994 to the end of year 2005 with Overview of Debt Outstanding and Disbursed Funds as of 31st of December 2005 and Disbursed Funds during the year 2005, in thousand). During the year 2005 Republic of Croatia has concluded not even one direct new loan with EBRD. The reason is relatively high price of borrowing from EBRD and the intention of Croatian Government is to support projects by state guarantee for the sectors where EBRD has comparative advantages. Therefore, in the first quarter of year 2005, only one new loan was concluded with EBRD - with state guarantee of the Republic of Croatia. It concerns already mentioned loan of EUR 26.5 million for the Project of Coastal Infrastructure Construction of Port Dubrovnik. According to the situation on 31st of December 2005 totally USD 66.2 million and EUR 303.1 million was withdrawn, all loan funds concluded in USD were withdrawn while around 17.8% of non withdrawn loan funds remained concluded or converted in EUR. During the year 2005 most of funds were withdrawn on the bases of Project Completion of Highway on Corridor X in the Republic of Croatia (EUR 22.6 million) and Highway Reconstruction in Croatia Project (EUR 16.4 million), followed by the financing of Zagreb Centre of Regional Control Project (EUR 7.9 million) and EUR 4.4 million for the Highway Rijeka-Zagreb. Till the end of year 2005 only the loan for Ecological Projects in INA was closed for withdrawals. During the year 2005 on the bases of new concluded loan for the Project of Coastal Infrastructure Construction of Port Dubrovnik EUR 4.1 million was withdrawn. The Republic of Croatia debt in the property of debtor and guarantor towards EBRD on the 31st of December 2005 amounted to USD 23.3 million and EUR 195.5 million. Till the end of year 2005, five EBRD loans¹⁰ were fully repaid. From the State Budget of the Republic of Croatia for year 2005 all matured obligations toward EBRD on the bases of public loans and loan given to Croatian Railways by state guarantee in the total amount of around EUR 4 million and around USD 4 million were settled. The beneficiaries of EBRD loans, HEP, HBOR, INA, Air Navigation System, Highway Rijeka-Zagreb and Croatian Highways, timely repaid their obligations toward EBRD during the year 2005 and guarantees of the Republic of Croatia for those loans weren't activated. Interest rates for loans concluded or converted to EUR were paid by annual rate in span from the lowest of 3.104% to the highest of 7.44% while interest rates for the loans obtained in USD were paid by the rates in the span from 3.54% to 4.49%. Starting compensations were calculated by the rate of 1% on the contracted amount of loan while compensations for non withdrawn loan funds were calculated and collected by the rates of 0.50% annually. For the premature repayment, compensation by the rate of 0.125% was calculated for the remained amount of non withdrawn loan.

⁹ As of 31st of December 2006 10 loans were closed for withdrawals

¹⁰ Loan No. 923 for Financing the Investments of Small and Medium Size Enterprises HBOR repaid before schedule in year 2005. Guarantees for the Loan No. 18149 for Construction of Tanker No. 450 were also settled before schedule in year 2005.



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Tablica 7.2. Overview of EBRD loans contracted in the period from 1994 to the end of 2005 with debt outstanding and disbursed funds as of December 31, 2005 and disbursed funds in 2005, in thousands

	Settlement date	Published in the NN/MU no.	Effectuation / Closing data	Currency	Loan amount	Withdrawn	Undisbursed	Debt outstanding	Principal repayment: first and last	Disbursed in 2005
DIRECT LOANS										
Air Navigation System Project - Loan No. 231 (1)	21.9.1994.	13/1994	31.12.2001.	USD	19,735.52	19,735.52	0.00	0.00	21.9.1996. 21.3.2004.	0.00
Highway Reconstruction Project (HC) - Loan No. 286 (2)	17.1.1995.	6/1995	28.2.1999.	EUR	36,195.88	36,195.88	0.00	12,063.63	10.4.1998. 10.10.2009.	0.00
Wholesale Market Project (Nacionalne veletrznice d.d.) - Loan No. 627 (3)	8.12.1997.	7/1998	24.3.2002.	EUR	3,203.56	3,203.56	0.00	1,922.14	24.5.2002.	0.00 24.11.2011.
TOTAL DIRECT LOANS				USD	19,735.52	19,735.52	0.00	0.00		0.00
				EUR	39,399.43	39,399.43	0.00	13,985.77		0.00
LOANS OBTAINED WITH GUARANTEE OF RC										
Power Supply and Distribution Network Project (HEP) - Loan No. 283	2.2.1995.	6/1995	30.6.2000.	EUR	32,211.39	32,211.39	0.00	0.00	10.3.1998. 10.3.2005.	0.00
Credit Line for Tourism (HBOR) - Loan No. 443	26.6.1996.	1/1996 and 10/1996	1.5.1998.	EUR	25,564.59	25,564.59	0.00	0.00	23.12.1998. 23.12.2002.	0.00
Program of Investment into Local Infrastructure and Environmental Protection (HBOR) - Loan No. 494 (4)	9.12.1996.	4/1997	31.1.2004.	EUR	31,575.22	31,575.22	0.00	20,445.12	10.4.2001. 10.10.2011.	0.00
Railway Locomotive Reconstruction Project (HŽ) - Loan No. 733	8.12.1998.	4/1999	5.2.2004.	USD	35,000.00	35,000.00	0.00	23,333.33	20.5.2002. 20.11.2013.	0.00
Small and Medium Entrepreneurship (HBOR) - Loan No. 923 (5)	20.3.2001.	9/2001 i 5/2002	19.9.2004.	EUR	4,685.36	4,685.36	0.00	0.00	Repaid before maturiti 5.8.2005.	0.00
Ecological Projects in INA d.d. - Loan No. 935 (6)	10.5.2001.	11/2001 i 1/2002	31.12.2005.	EUR	29,694.21	29,694.21	0.00	28,711.75	30.9.2005. 30.3.2011.	5,778.00
Rijeka - Zagreb Motorway (ARZ) - Loan No. 975 (7)	22.10.2001.	8/2002	31.12.2007.	EUR	60,000.00	46,457.87	13,542.13	42,457.87	12.5. 2005. 12.11. 2019.	4,400.00
Uljanik Shipyard d.d. Pula - Tanker Construction No. 450 - advance guarantee EBRD with gurantee of RC - Loan No. 18149	26.2.2002.	7/2002 and 11/2002	4 guarantees till 7.12.2004.	USD	11,490.00	11,490.00	0.00	0.00	Guarantees returned 3.3.2005.	0.00
Zagreb Center for Regional Control Project - Loan No. 25800	5.9.2002.	14/2002	30.3.2006.	EUR	25,000.00	24,868.41	131.59	23,305.91	20.11.2005. 20.5.2013.	7,881.28
Highway Reconstruction in Croatia Project (HAC) - Loan No. 27171	13.12.2002.	10/2003	30.4.2006.	EUR	46,500.00	39,489.15	7,010.85	39,489.15	20.5.2006.	16,430.05 20.11.2017.
Project Completion of Highway on Corridor X in RC (Županija-Lipovac)(HAC) - Loan No. 31848	12.11. 2003.	6/2004	20.11.2006.	EUR	45,000.00	23,042.89	21,957.11	23,042.89	20.5.2007. 20.11.2021.	22,592.90
Coastal Infrastructure of Port Dubrovnik Construction Project - Loan No. 13451	1.2.2005.	7/2005 and 11 /2005	31.3. 2008.	EUR	26,500.00	4,056.73	22,443.27	4,056.73	10.4.2008. 10.10.2017.	4,056.73
TOTAL LOANS GUARANTEED BY RC				USD	46,490.00	46,490.00	0.00	23,333.33		0.00
				EUR	326,730.77	261,645.83	65,084.94	181,509.43		61,138.96
GRAND TOTAL PUBLIC + GUARANTEED				USD	66,225.52	66,225.52	0.00	23,333.33		0.00
				EUR	366,130.21	301,045.26	65,084.94	195,495.20		61,138.96

Source: Ministry of Finance of the Republic of Croatia - Department for European Integrations and International Financial Relations

Notes:

- 1 - Contracted loan amount USD 22 million; cancelled: USD 2.3 million.
- 2 - Contracted loan amount DEM 70.9 million; cancelled: DEM 107 thousands. The loan was converted in EUR.
- 3 - Contracted loan amount DEM 33.5million; cancelled: total of DEM 27.2 million. The loan was converted in EUR.
- 4 - Contracted loan amount DEM 105 million; cancelled: total of DEM 34.1 million. The loan was converted in EUR.
- 5 - Contracted loan amount EUR 12 million; cancelled: EUR 6 million. Funds on the special account, EUR 1.3 million, HBOR cancelled in year 2005.
- 6 - Contracted loan amount EUR 36 million; cancelled: EUR 4.3 million; returned from the special account: million EUR.
- 7 - Contracted loan amount EUR 90 million; EBRD decreased the loan in year 2002 by EUR 30 million.



7.2.3 Projects under Preparation

EBRD plans below stated projects by the state guarantee and by the guarantees of cities but also plans approval of loans to the cities without guarantees by the special type of contracts, so called Municipal Support Agreements (MSA). The state and meaning of MSA contracts is currently being considered by the Ministry of Finance of the Republic of Croatia, with respect whether such contract will be considered as guarantee and therefore be part of legal limits of municipal units borrowings.

- a) Projects guaranteed by the state
 - 1) Beltway around Rijeka, Croatian roads - EUR 40 million
 - 2) Completion of Highway Rijeka-Zagreb Project - EUR 50 million
 - 3) Project of Transport and Trade Integration / Dissipated Cargo Terminal - Port Ploče - EUR 11.2 million

Strategy for Croatia planned two projects for Croatian Railways but because Croatian Government started drafting of the perennial plan of modernization and construction of railway net and the plan of restructuring and privatization of Croatian Railways, these projects will wait until mentioned studies become available.

- b) Projects of Communal Infrastructure Guaranteed by Cities:
 - 1) City of Pula - Construction of Waste Waters Facilities and Improvement of Waste Waters Treatment - EUR 10 million
 - 2) City of Split - Public Transportation. EUR 10 million
 - 3) City of Osijek - Waste Waters - EUR 7 million (ISPA co financing)
 - 4) City of Sisak - Multi Sector Project - EUR 6 million
 - 5) City of Bjelovar - Waste Waters - EUR 7 million
 - 6) City of Poreč - Beltway - EUR 15 million



7.3 COUNCIL OF EUROPE DEVELOPMENT BANK-CEB

The Republic of Croatia became full right member of Council of Europe Development Bank on 24th of June 1997. By becoming a member of Council of Europe on 6th of November 1996, Republic of Croatia obtained right to become a full right member of CEB according to the procedure established for Council of Europe member states (according to Article III.a. of CEB Statute). Republic of Croatia has the share of 0.4% in the total capital and voting rights managing CEB. Till the year 1999 Bank was named Council of Europe Social Development Fund. On the common session of Banks' entities held on 1st of November 1999, conclusion about change of the name from Council of Europe Social Development Fund to Council of Europe Development Bank was adopted with the purpose of easier access to the funds and operations on international capital market. The objectives and priorities of organization stayed the same. CEB finances social projects in the member states and in that way helps improvement of living conditions and social cohesion in less developed parts of Europe. In the year 2005 after numerous common activities between Ministry of Finance of Republic of Croatia and CEB, the Croatian government accepted CEB Strategy for Croatia for the Period from 2005 to 2009 on the session held on 20th of May 2005. The strategy defines strategic framework for priority cooperation areas with CEB, the scope and direction of favourable long term loans and forms of technical assistance and miscellaneous arrangements for co financing with other international financial institutions. CEB financial support to Republic of Croatia will mainly be directed to support of national development programs and modernization in 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 CEB investments in the Republic of Croatia should amount to EUR 600 million in the period from 2005-2009 and even reach the level of EUR 900 million if that is the amount which Republic of Croatia will need.

7.3.1 New Loans Agreed in 2005

In year 2005 Republic of Croatia agreed with CEB only one new contract about framework loan for co financing of the Project "Research, Rehabilitation and Revitalisation of the Cultural Heritage in Ilok, Vukovar and Vučedol" in amount of HRK 169.7 million and five additional contracts in the total amount of EUR 45.6 million¹¹ for withdrawals of framework loans tranches concluded in previous years. These loans were used for refinancing the costs of the Sustainable Return of Displaced Persons and Refugees - return of assets and housing caring, Project of Building and Reconstruction of School objects in the Republic of Croatia, Project of Construction of Utility and Social Infrastructure Objects on the Croatian Islands and Project for Schools Reconstruction which implementation was finished in year 2004 but the loan by which the project was co-financed was closed with last tranche withdrawal at the end of year 2005.

The Loan for the Project "Research, Rehabilitation and Revitalisation of the Cultural Heritage in Ilok, Vukovar and Vučedol" (Loan no. F/P 1511 (2005))

The Republic of Croatia and CEB agreed the framework loan on 23rd of May 2005 in amount of HRK 169.7 million for 75% financing of the project which purpose is research, rehabilitation and revitalisation of the cultural heritage in Ilok, Vukovar and Vučedol¹². Accordingly to CEB Resolution number 1480 (2004) CEB can co finance up to 50% of project costs (without VAT) and for higher shares of CEB special decision of Administrative Council of this institution is needed which is reached in the case of this Croatian project. The contract which came in to power on 22nd of September 2005 will contribute to renovation and protection of natural and historical heritage in Ilok and Vukovar and archaeological sights in Vučedol which will have effect for economic activity, employment and tourism and will contribute to region development and strengthening of social cohesion. It is expected that scientific researches and cultural events will attract not only foreign visitors, but that also local population will take a part in economic and cultural development of multicultural community. The project is being implemented under the jurisdiction of Ministry of Culture and it is expected that it will end by the end of year 2008¹³. Framework loan will be withdrawn in tranches and as commitments by framework loan and withdrawn tranches only repayment of interests and principals will be imposed. During the year 2005 there wasn't withdrawn funds.

¹¹ By tranches withdrawn during the year 2005 totally of Framework Loans HRK 307.4 million were withdrawn where kuna amounts were converted in euros i.e. in this currency real withdrawals were carried out. One additional contract was signed at the end of year 2005 but funds were effectively disbursed in year 2006.

¹² CEB finances projects related to historical and cultural heritage only in the cases when the heritage is recognized by UNESCO or if the country which receives the loan classifies it as a such.

¹³ Data according to the Report about the status of projects financed by Council of Europe Development Bank which was adopted by the conclusion of the Government of the Republic of Croatia from 10th of March, year 2006



7.3.2 Overview of Loans, Disbursement of Funds and Outstanding Debt owed to CEB

As it is presented in Table 7.3. Overview of CEB Loans Concluded in Period from 1998 to the end of 2005 with the Overview of Debt Outstanding and Disbursed Funds as of 31st of December 2005 and Disbursed Funds During year 2005, in the period from 1998 to 2005, in thousands, the Republic of Croatia concluded with CEB for co financing of projects 12 contracts about framework loans in total amount of HRK 1.9 billion and EUR 8 million. It concerns 11 direct loans and one loan which were concluded between CEB and HBOR by the state guarantee of the Republic of Croatia. All the framework loans were withdrawn in tranches of which each is treated as separate loan with maturity period of 10 to 15 years in the case of separate direct loans funds withdrawals i.e. with 8 years in the case of the loan guaranteed by the Republic of Croatia with 5 years grace period. The tranches withdrawn from direct loans, on the bases of concluded additional contracts are obtained by fix interest rate which was in the period from year 1998 to year 2005 between the lowest of 2.89% and the highest of 5.71% while the tranches withdrawn on the bases of the loan obtained by the guarantee of Republic of Croatia were taken by non fix interest rate based on EURIBOR plus 0.4% and 0.29% annually. The Republic of Croatia withdrawn on the bases of direct loans in the period up to 31st of December 2005 HRK 1.2 billion in the form of 28 tranches after what for withdrawals, i.e. refinancing of projects, remained 37.1% of funds. The loan obtained by guarantee of the Republic of Croatia had at the end of year 2005 50% of non withdrawn funds i.e. EUR 4 million was withdrawn in the form of two tranches. The withdrawals of direct loans were done in currencies: EUR 148.8 million and USD 7.5 million, or EUR 4 million in the case of loan by guarantee of the Republic of Croatia. During the year 2005 4 tranches in the total amount of EUR 41.6 million were withdrawn whereby the highest amount was used for the purpose of coverage of part of the costs of Project of Building and Reconstruction of School objects in the Republic of Croatia (EUR 19.5 million), then the Project of Sustainable Return of Displaced Persons and Refugees - return of assets and housing caring (EUR 14.3 million) Project of Construction of Utility and Social Infrastructure Objects on the Croatian Islands (EUR 6.5 million) and for the refinancing of part of the costs of the Project for Schools Reconstruction which finished in 2004 (EUR 1.3 million). The total outstanding debt of the Republic of Croatia to CEB on the bases of direct loans amounted on 31st of December 2005 to EUR 147.3 million and USD 6 million while debt on the bases of loan obtained by guarantee of the Republic of Croatia amounted to EUR 3.5 million. All obligations on the bases of CEB loans in year 2005 were settled whereby from the State Budget of the Republic of Croatia for year 2005, for the direct loans was given EUR 7 million and USD 1.9 million and for the loan guaranteed by the Republic of Croatia HBOR gave EUR 429.68 thousand.

7.3.3 Projects under Preparation

In the year 2005 plan for year 2006 there was only one framework loan for the project in the health sector, in the amount of about HRK 142 million. The precondition for negotiations with CEB under this matter was the adoption of Plan for Medical Waste Management in the medical institutions owned by Ministry of Health and Social Welfare. Loan funds would be used for reconstruction and modernization of health facilities.



7 RELATIONS OF THE REPUBLIC OF CROATIA WITH INTERNATIONAL FINANCIAL INSTITUTIONS

Table 7.3. Overview of CEB loans contracted in the period from 1998 to the end of 2005 with debt outstanding and disbursed funds as of December 31, 2005 and disbursed funds in 2005, in thousands

	Settlement date	Published in the NN/MU no.	Framework Loan Amount in HRK	Withdrawn in HRK	Undisbursed in HRK	Debt Outstanding in the Currency of Withdrawal (EUR)	Debt Outstanding in the Currency of Withdrawal (USD)	Disbursed in 2005
DIRECT LOANS								
Reconstruction of Health Infrastructure in Eastern Slavonia Project - Loan No. F/P 1278/1998	16.7.1998.	13/1998 and 15/1998	172,744.12	172,744.12	0.00	17,200.00	4,060.00	0.00
Reconstruction of Schools in Eastern Slavonia Project - Loan No. F/P 1279/1998 (1)	16.7.1998.	13/1998 and 15/1998	66,380.80	66,380.80	Cancelled 987.21	5,970.00	1,928.00	0.00
School Infrastructure Reconstruction - Loan No. F/P 1352/1999	19.1.2001.	7/2001	96,935.64	96,935.64	Cancelled 1,746.36	13,147.00	0.00	1,247.00
Return of Displaced Persons and Refugees in the RC Project - Loan No. F/P 1378/2000	2.2.2001.	7/2001	232,000.00	232,000.00	0.00	31,400.00	0.00	0.00
Reconstruction of the Franciscan Monastery Mala Braća in Dubrovnik Project - Loan No. F/P 1379/2000	19.6.2001.	14/2001 and 2/2002	10,325.45	9,265.85	1,059.60	1,260.70	0.00	
Reconstruction of the SPH "Andrija Štampar" Zagreb and the ICHM in Dubrovnik Project - Loan No. F/P 1419/2001	29.3.2002.	10/2002 and 12/2002	21,395.00	13,485.42	7,909.58	1,791.73	0.00	0.00
Health Infrastructure Reconstruction Project - Loan No. F/P 1351/1999	30.10.2001.	9/2002 and 12/2002	186,837.03	112,328.26	74,508.77	14,578.00	0.00	0.00
Project of Sustainable Return of Displaced Persons and Refugees - Return of Property and Housing Care - Loan No. F/P 1435/2002	30.1.2004.	6/2004	292,351.00	263,010.03	29,340.97	35,901.00	0.00	14,276.00
Project of Building and Reconstruction of School Objects in the Republic of Croatia - Loan No. F/P 1456/2004	15.12.2004.	5/2005 and 8/2005	402,456.00	145,404.58	257,051.42	19,541.00	0.00	19,541.00
Project of Construction of Utility and Social Infrastructure Objects on the Croatian Islands - Loan No. F/P 1498/2004	15.12.2004.	5/2005 and 8/2005	193,364.37	48,359.06	145,005.31	6,499.00	0.00	6,499.00
Project "Research, Rehabilitation and Revitalisation of the Cultural Heritage in Ilok, Vukovar and Vučedol" - Loan No. F/P 1511/2005	23.5.2005.	8/2005 and 9/2005	169,716.27	0.00	169,716.27	0.00	0.00	0.00
TOTAL DIRECT LOANS			1,844,505.68	1,159,913.76	684,591.92	147,288.43	5,988.00	41,563.00
LOANS OBTAINED WITH GUARANTEE OF RC								
Financing of Credit Programme for Small and Medium Enterprises Project (HBOR) - Loan No. F/P 1392/2000	16. i 21.2. and 15.3.2001.	9/2001 and 5/2002	8,000.00	4,000.00	4,000.00	3,500.00		0.00
TOTAL LOANS GUARANTEED BY RC			8,000.00	4,000.00	4,000.00	3,500.00		0.00
GRAND TOTAL PUBLIC + GUARANTEED					EUR	150,788.43		
					USD	5,988.00		

Source: Ministry of Finance of the Republic of Croatia - Department for European Integrations and International Financial Relations

Notes:

- 1 - Contracted loan amount HRK 67,4 million
- 2 - Contracted loan amount HRK 98,6 million



7.4 EUROPEAN INVESTMENT BANK (EIB)

The European Investment Bank was founded in the year 1958 by the Rome Agreement in the same time when other institutions known by the common name of European Economic Community were founded which was later renamed to European Union. European Investment Bank is financial institution of European Union with headquarters in Luxembourg. The basic role of EIB is to provide funds for capital investments related to development and integration of European Union. Full right member of EIB can only be full right member of European Union but EIB also has mandate to grant loans in certain Mediterranean states, some African states, Caribbean and Pacific states, South African Republic, some Asian and Latin American states and to South Eastern Europe. The cooperation of the Republic of Croatia and EIB started in nineties but due to the war activities it was interrupted. Cooperation was renewed after the Ministerial Council of European Union approved in year 2000 mandate of EIB to financially support infrastructural and development projects of private sector in the Republic of Croatia. Therefore on 13th of December 2000 Republic of Croatia and EIB concluded Framework Agreement (Official Gazette - International Agreements, No. 6/2001) which regulates EIB activities in the Republic of Croatia, and on the bases of which EIB Governor Committee on 6th of February 2001 approved granting of loans for investment projects in the Republic of Croatia which enabled conclusions of first loan agreements.

7.4.1 New Loans Agreed in year 2005 - Project "Croatian Roads - Split Beltway" (Loan No. FINo. 23.135)

EIB continued in year 2005 with the trend of long term loans approvals to Republic of Croatia under favourable conditions, i.e. at the same margins as for European Union countries. This time it is about the loan in amount of EUR 60 million concluded on 20th of July 2005 for the Project "Croatian Roads-Split Beltway". The objective of the project is construction of four line fast road from Trogir to Omiš which should be opened for traffic by the end of year 2008. The total cost of the project amounts to about EUR 203 million and is accounted as one of the biggest and technically the most demanding projects of Croatian Roads. The beltway of the total length of 31.3 kilometres will facilitate disburden of Split and its' surroundings as the nearby coastal area from the dense traffic which will contribute to time savings of beltway users, decrease of transport costs, decrease of traffic accidents and protection of unwanted consequences of heavy traffic. Concerning the transit property of the Republic of Croatia, this project will contribute to the development of tourism and regional development. The loan which will co finance this project is approved for 25 years with 5 years grace period for principal repayment with interest rate of 3.89%. Loan funds will be withdrawn in tranches in the lowest amount of EUR 3 million. The loan agreement became effective at the beginning of year 2006.

7.4.2 Overview of Loans, Disbursement of Funds and Outstanding Debt Owed to EIB

EIB is present in the Republic of Croatia with its' long term loans from the year 2001. According to the Framework Agreement between EIB and the Republic of Croatia, up to the end of year 2005 EIB approved to the Republic of Croatia totally EUR 701 million by 15 long term loans (see Table 9.4. Overview of EIB Loans Concluded in the Period from year 2001 to the end of year 2005 with Overview of Debt Outstanding and Disbursed Funds as of 31st of December 2005 and Disburse Funds during the year 2005, in thousands¹⁴). In the structure of these loans there are 3 direct loans (in total amount of EUR 240 million), 8 loans by state guarantee of the Republic of Croatia (in the total amount of EUR 395 million) and 4 global loans without state guarantee approved to commercial banks for financing of small and medium enterprises in the total amount of EUR 66 million (see Footnote 16). Of totally 11 loans concluded directly or by state guarantee of the Republic of Croatia, on the day of 31st December 2005, 9 of them were effective and till then it was withdrawn totally EUR 188.9 million in the form of 34 tranches. Each tranche, except ones withdrawn for the implementation of the Project Highway Rijeka - Zagreb, was withdrawn with fix interest rate which from 2001 moved from the lowest one of 3.479% to the highest one of 5.26%. During year 2005 it was withdrawn 14 tranches in the total amount of EUR 77.1 million. In the case of withdrawals by fix interest rate, it moved in year 2005 from 3.479% to 4.29% while tranches withdrawn by non fix interest

¹⁴ The Table 7.4 doesn't contain data about disbursed loans without state guarantee of RC to commercial banks and leasing company: to PBZ EUR 16 million by the contract from year 2001, to HVB Croatia EUR 20 million by the contract from year 2001, to RBA Austria EUR 20 million by the contract from year 2003 and EUR 10 million to RBA Leasing by the contract from year 2003. Totally EUR 66 million.



rate were repaid during the year 2005 quarterly by the rates between 2.37% and 2.42%. In the year 2005 the highest share of EIB loan funds was invested in implementation of Project Completion of Highway on Corridor X (part of the highway Županja-Lipovac) (EUR 23 million) following by the Highway Reconstruction in Croatia Project (EUR 16 million) and Construction of the Gas Pipeline System in the Republic of Croatia Project (EUR 15 million). Following the railways in which it was invested EUR 10.5 million through the Project of Infrastructure Reconstruction and Modernization of the Signalization and Telecommunication System within Sections of the Pan-European Vc Corridor, there was additional EUR 10 million invested in roads by the Project of Reconstruction of State Roads. Although effective, loan funds concluded for the implementation of the Project of Utilities Infrastructure Reconstruction on the Areas of Special State Concern and funds of the Framework Multisectoral Loan for the Utilities Infrastructure - Integral Development of the Local Community Project weren't withdrawn. According to the situation on 31st of December 2005 for the withdrawals of direct funds and funds with state guarantee of the Republic of Croatia there were around 70.3% of funds available for withdrawals. Taking into account that in year 2005 started repayment of principal for Global Loan for HBOR, which was already closed for withdrawals, total outstanding debt by the direct loans and loans guaranteed by the state amounted on the 31st of December 2005 to EUR 188.3 million. For all these loans in year 2005, beside the part of the principal repaid on the bases of previously mentioned loan, interest rates were also timely paid in the total amount of EUR 5.6 million of which EIB loans users (HC HBOR, ARZ, HKZP, HAC and Plinacro) settled totally EUR 4.8 million. From the State Budget of the Republic of Croatia for year 2005 were also paid obligations of inherited long term loans allocated in the period from year 1982 to 1989, i.e. two loans for financing of roads and railways (see Table 9.5. Overview of Assumed EIB Loans and Debt Outstanding as of 31st of December 2005, in thousands). On the 31st of December 2005 assumed debt in EUR and four other currencies converted to kunas amounted to HRK 178.8 million.

7.4.3 New Projects under Preparation

During the year 2005 two projects under state guarantee were under preparation:

- 1.) Project Completion of Highway Rijeka-Zagreb, ARZ EUR 210 million
- 2.) Project of Reconstruction of State Roads 2, HC - EUR 60 million.



Table 7.4. Overview of EIB loans contracted in the period from 2001 to the end of 2005 with debt outstanding and disbursed funds as of December 31, 2005 and disbursed funds in 2005, in thousands

	Settlement date	Published in the NN/MU no.	Loan amount in EUR	Withdrawn in EUR	Undisbursed in EUR	Debt Outstanding in the Currency of Withdrawal (EUR)	Term for Withdrawal	Disbursed in 2005
DIRECT LOANS								
Project of Infrastructure Reconstruction and Modernization of the Signalization and Telecommunication Systems within Sections of the Vc Pan-European Corridor - Loan No. FINo. 21.051	24. and 31.5.2001.	2/2002	40,000.00	19,000.00	21,000.00	19,000.00	30.9.2006.	10,500.00
Project of Utilities Infrastructure Reconstruction on the Areas of Special State Concern - Loan No. FINo. 22.165	30.7.2003.	16/2003	50,000.00	8,000.00	42,000.00	8,000.00	30.9.2007.	0.00
Framework Multisectoral Loan for the Utilities Infrastructure - Integral Development of the Local Community Project - Loan No. FINo. 22.881	20. and 24.12.2004.	7/2005	150,000.00	0.00	150,000.00	0.00	31.7.2008.	0.00
TOTAL DIRECT LOANS			240,000.00	27,000.00	213,000.00	27,000.00		10,500.00
LOANS OBTAINED WITH GUARANTEE OF RC								
Project of Reconstruction of State Roads (HC) - Loan No. FINo. 21.262	29.10.2001.	7/2001	60,000.00	30,000.00	30,000.00	30,000.00	30.6.2006.	10,000.00
Global Loan to HBOR - Loan No. FINo. 21.316	26.11.2001.	14/2001 i 2/2002	10,000.00	10,000.00	0.00	9,411.77	26.5.2004.	0.00
Rijeka - Zagreb Highway Project (ARZ) - Loan No. FINo. 21.609	24.6.2002.	10/2002	60,000.00	43,362.48	16,637.52	43,362.48	30.12.2007.	1,362.48
Project for the Zagreb AIR Traffic Control (HKZP) - Loan No. FINo. 21.677	10. and 12.9.2002.	14/2002	20,000.00	17,500.00	2,500.00	17,500.00	30.6.2006.	1,250.00
Projects of Highways Repair in RC (HAC) - Loan No. FINo. 21.850	13.12.2002.	10/2003	50,000.00	23,000.00	27,000.00	23,000.00	31.12.2006.	16,000.00
Construction of the Gas Pipeline System in RC Project (Plinacro) - Loan No. FINo. 22.374	16.12.2003.	3/2004	90,000.00	15,000.00	75,000.00	15,000.00	1.12.2007.	15,000.00
Project of Completion of the Highway in the Corridor X within the RC (Section: Zupanja - Lipovac) (HAC) - Loan No. FINo. 22.639	22. and 29.7.2004.	1/2005	45,000.00	23,000.00	22,000.00	23,000.00	1.4.2007.	23,000.00
Project "Croatian Roads - Split Beltway" (HC) - Loan No. FINo. 23.135	20.7.2005.	2/2006	60,000.00	0.00	60,000.00	0.00	31.12.2009.	0.00
TOTAL LOANS GUARANTEED BY RC			395,000.00	161,862.48	233,137.52	161,274.25		66,612.48
GRAND TOTAL PUBLIC + GUARANTEED			635,000.00	188,862.48	446,137.52	188,274.25		77,112.48

Table 7.5. Overview of EIB assumed loans with debt outstanding as of December 31, 2005 in thousands

	Loan amount in EUR	Settlement date	Interest rate %	First maturity of principal	Last maturity of principal	Currencies of payments	Outstanding debt by currencies
ASSUMED LOANS							
Loan No. 16275 EEMS-HE CRO (HEP) - guarantee of RC	10,552.00	17.12.1982.	11.50	31.5.1992.	30.11.2001.	(1)	0
Loan No. 16279 TYH-II-HC CRO (HC)	16,000.00	21.7.1983.	10.50	15.1.1988.	15.7.2003.	(2)	0
Loan No. 16284 TYR-I-HZ CRO (HZ) - guarantee of RC	29,190.00	3.2. 1984.	10.75	31.1.1988.	31.1.2004.	(3)	0
Loan No. 16289 TYH-III-HC CRO (HC)	15,250.00	10.10.1984.	10.25	15.3.1990.	15.9.2004.	(4)	0
Loan No. 13554 TYH-IV-HC CRO (HC)	60,000.00	20.9.1988.	7.65	15.3.1994.	15.9.2008.	EUR	6,450.00
						CHF	5,593.30
						GBP	558.10
						JPY	923,815.80
Loan No. 14090 TYR-IIB-HZ CRO (HZ) - guarantee of RC	18,000.00	24.7.1989.	8.20	15.9.1994.	15.3.2009.	EUR	3,291.72
						GBP	827.46
						CHF	2,350.26
						USD	851.51
TOTAL:	148,992.50	Exchange rate list No. 253/2005., midpoint CNB exchange rate effective from 31.12.2005.=				HRK	178,782.89

Source: Ministry of Finance of the Republic of Croatia- Department for European Integrations and International Financial Relations

Notes:

(1) currencies of payments were EUR i GBP; (2) currencies of payments were EUR i USD; (3) currencies of payments were EUR, DKK, GBP i USD; (4) valute plaćanja su bile EUR, DKK, GBP, USD i CHF

8

**REPORT ON THE ACTIVITIES
OF THE DEPARTMENT FOR FINANCING
EU ASSISTANCE PROGRAMMES
AND PROJECTS IN 2005**



8.1 INTRODUCTION

Department for Financing EU Assistance Programmes and Projects - Central Finance and Contracting Unit (CFCU) is a department in Ministry of Finance which performs tasks connected with implementation of CARDS, PHARE and ISPA programs in accordance with Memorandum of understanding between European Commission and Government of Republic of Croatia on founding of Central Finance and Contracting Unit (CFCU) and Memorandum of founding of National Fund. CFCU will be in charge of financing, tendering, payment, supervision and revision of all decentralized programs and projects of support channelled from European Union to the Republic of Croatia.

During 2005 CFCU has conducted extensive preparation for obtaining of accreditation for *Decentralised implementation system - DIS* which would delegate responsibility and authorization over tendering and contracting from Delegation of European Commission in the Republic of Croatia to Beneficiary State. The Delegation of European Commission would still conduct ex-ante control and would give permissions for contracting. The purpose of DIS system is to gradually delegate responsibility on the Beneficiary State and thereby to transfer larger amount of responsibility at a lower levels of the system, which also refers to the final users.

CFCU cooperates with National Fund, Ministry of Foreign Affairs and European Integration, Delegation of European Commission in Republic of Croatia, project managers in line ministries and public administration bodies in preparing of proposals and in implementation of projects through programs of precession support (CARDS, PHARE, ISPA) in scope of DIS system and in ordinance with acts and rules of European Union. Administrative twinning office is part of the CFCU and it coordinates activities associated with conducting of twinning¹ process between European Commission, European Union member states and the Republic of Croatia.

Regarding to preparations for obtaining of accreditation for *Decentralised implementation system - DIS*, CFCU created manuals for PHARE and ISPA programs which consist of two parts *Programme implementation manual - PIM* and *Programme operational guide - POG*. *Programme implementation manual* describes all activities necessary to fulfill demands of European Commission for conducting of programs PHARE and ISPA. POG describes in details all procedures, control tables and forms that refer to activities described in PIM.

The complete content had to comply with strict requirements of European Commission based on existing legal frame (Council Regulation (EC) 1605/2002 of the 25th July 2002) and experience of European Commission. In order to achieve necessary conditions, CFCU made a reform of its organizational structure as follows:

- Segregation of responsibility between major factors in the system
- Segregation of responsibility within CFCU
- Establishment of internal control (with obligatory testing of its effectiveness, developing of controlling environment, defining of testing methodology for evaluating and managing of risks, control of accountant, information and reporting system)
- Registering of procedures and all transactions
- Employment of additional number of staff and implementation of education system which would include Analyses of burden and Analyses of requirements for specialization and education
- Implementation of reporting system and procedure instructions after perceiving irregularities
- Existing analytical system of comments from Delegation of European Commission (ex-ante statistics)

Standards, which CFCU had to achieve, are similar to standards, which are precondition to EDIS. It's worth mentioning; that in the moment of our preparation for DIS neither the one new Member State has complied demanded conditions for EDIS². The advantage of Croatia was significant progress in implementation of Public Internal Financial Control - PIFC. Of course, CFCU had to have an impeccable history on former decentralized CARDS 2002 projects.

¹ Twinning - an instrument developed by the European Commission whereby Member States' Public administrations develop partnership with counterparts' public administration in applicant or partner countries. Member States civil servants are seconded to serve as advisers in counterpart administration of the partner country. This instrument is mostly used for harmonization of legislation and transferring knowledge to partner country.

² EDIS - extended decentralized implementation system that assumes complete transfer of responsibilities to Beneficiary Countries.



In 2005 CFCU started with drafting of *Project implementation operational guidelines* that describe activities and procedures, which are delegated to implementation units in line ministries, and institutions, which are final users of the projects. In order to prepare them for future implementation of DIS system, CFCU employed 11 new workers during 2005 and started with preparation of several trainings for Project implementation units in line ministries and public administration. The intention of this training was to demonstrate activities and procedures, which will be conducted in the future (drafting of project documentation, holding meetings of evaluating committee, announcement system, risk controlling and monitoring of project implementation).



8.2 INSTITUTIONAL AND LEGAL FRAMEWORK FOR DECENTRALIZED MANAGEMENT OF EU SUPPORTING PROGRAMMES

8.2.1 Accreditation of Financial System of the Republic of Croatia for EU Supporting Programs Usage

As a precondition for using of approved funds from pre-accession EU programs, potential Beneficiary State, which refers also to Croatia, must get an approval for financial management and implementation of projects financed from pre-accession programs. European Commission gives the above-described approval.

Accreditation is defined as process of authorizing of overall system assigned for usage and management with supporting funds of EU. According to articles 53 and 56 of Financial Regulation³ from 2002, Decentralized Implementation System⁴ of usage supporting EU Funds should be accredited before usage started. Before sending an application for accreditation to EC, the procedure of self-assessment is being conducted. In this stage internal and external auditors give an objective and independent professional opinion on system performing in comparison to given criteria. After receiving application for accreditation, EC sends her auditors from different departments responsible for pre accession programs. They have to evaluate functioning of the system and afterward draft a report on capability of system for using and dispatching of Funds.

Accreditation package consists of; implementation contract between National Fund and Implementation Agency⁵, implementation contract between Implementation agency and line ministries, procedures handbook, control list, names of responsible persons, their functions, detailed job descriptions and organizational schemes.

European Council accepted on 18th June 2004 Ordinance on pre-accession strategy for Croatia with the suggestions for usage of financial instruments. The Strategy was adopted on 6th September 2004 in Bruxelles. The pre-accession strategy defines size, form and conditions of pre-accession support for Croatia and gives her access to ISPA, SAPARD and PHARE programs.

As a precondition for usage of Funds, Beneficiary States have to form a system that will monitor realization and efficiency of program execution. This program will also show institutional capability of candidate state for obtaining financial funds from structural funds that will be used after country enters the EU.

Several activities had to be done before realization of specific projects and the most important are:

- Establishing of National Fund⁶ in Ministry of Finance
- Specification of Implementation Agencies and their developing according to given criteria
- Defining of units for project realization in public administration bodies
- Regulation of rights and obligations of relevant participants in project cycles
- Defining of procedures for ex ante control, internal revision etc.

In line with the above mentioned, we can perceive complexity of pre-accession activities like establishing of institutions (National Fund, Central Financing and Contracting Unit), appointment of officials responsible for functioning of the system. Some other conditions must be also fulfilled; sufficient staff number, material conditions, forming of organizational schemes, drafting of manuals that describe work procedures, training of staff etc.

It's worth mentioning that all these procedures are strictly monitored by many institutions of EU hence institutional capability and strengthen administrative capacities are basic assumptions for entering the EU. Therefore the Republic of Croatia has to make a special effort to fulfill concrete assignments till given deadlines and therewith show that she is ready for beginning of negotiation, and in time, for entering as a partner state in European Union. Observing of the new member states could be useful in order to deal with possible barriers more effectively.

³ COUNCIL REGULATION (EC, Euratom) No 1605/2002 of 25 June on the Financial Regulation applicable to the general budget of the European Communities, page 17-18, article 35 Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities

⁴ Decentralised Implementation System implies transfer of responsibilities for the implementation of the EU funded projects to the partner country (The Republic of Croatia)

⁵ Implementation Agency in the context of Decentralized Implementation System is CFCU (under Ministry of Finance)

⁶ Legal base of National Fund is Memorandum of Understanding on the Establishment of the National Fund which was signed between EC and Croatia on 5th May 2005 and send to Croatian Parliament on ratification



8.2.2 Management of Pre-accession Programs

8.2.1.1 Implementation Agencies

Implementation Agency is entity of public administration responsible for conducting of procurement, contracting, payment and technical implementation of EU pre-accession support. *Memorandum of understanding between European Commission and Government of Republic of Croatia on founding of Central Finance and Contracting Unit (CFCU)* defines competent entity for implementation of programs and projects associated with decentralized implementation system which is in charge for effective tendering, contracting and payment. The CFCU is headed by the Director.

CFCU is Implementation Agency for PHARE and ISPA programs.

Ministry of Agriculture, Forestry and Water Management i.e. SAPARD Agency is authorized for pre-accession program SAPARD.

8.2.2.2 National Fund (NF)

National Fund is separate entity within the Treasury of Ministry of finance and it was founded on 30th August 2004. Through this entity all funds will be channeled towards the Republic of Croatia.

National Authorizing Office (NAO) is responsible for heading the National Fund (State Secretary of Ministry of Finance). The NAO has the overall responsibility for supporting funds management. *Memorandum of understanding between European Commission and Government of Republic of Croatia on founding of National Fund* regulates obligations and responsibilities of National Fund, mutual influences between NF and CFCU and other factors claims and obligations, which participate in realization of pre-accession programs in Republic of Croatia.

8.2.2.3 Project Implementation Units (PIU)

Project Implementation Units are bodies that are established within the public administration for implementation of CARDS. Those bodies will also be used for pre-accessional programs. Their obligation was strengthening of the structure, redefining of obligations and duties in the programming process under the coordination of Ministry of Foreign affairs and European Integration.

The responsibility of PIU refers to procedure of proposing project suggestions, participating in drafting of procurement documentation and technical implementation of project. They are responsible to program leader (public administration official which was appointed by the Government of the Republic of Croatia).

8.2.3 Legal Frame of Implementation of EU Support Programs

Within the European legislation that regulates programs financed by the EU funds, the most important are *Memorandum of understanding between European Commission and Government of Republic of Croatia in participating of Croatian in EU supporting programs, Stabilization and supporting program between EU, her member states and the Republic of Croatia* and some other acts and decisions. The above mentioned subjects are also described in following documents:

1. Memorandum of understanding between European Commission and Government of Republic of Croatia on founding of National Fund (NF)
2. Memorandum of understanding between European Commission and Government of Republic of Croatia on founding of Central Finance and Contracting Unit (CFCU)

and several other agreements:

1. Implementation agreement between National Authorizing Officer - NAO and Programme Authorising Officer - PAO for implementation of PHARE projects throu Project Implementation Unit
2. Implementation agreement between National Authorizing Officer - NAO and Sectoral Authorising Officer - SAO
3. Operational agreement between Programme Authorising Officer - PAO and Senior Programme Officer - SPO which are in charge for implementation of decentralized CARDS projects and implementation of PHARE project



4. Operational agreement between *Sectoral Authorising Officer - SAO*, *Sectoral Coordinating Officer - SCO* and Final beneficiaries - FB
5. Operational agreement between Sectoral Coordinating Officer - SCO for ISPA implementation and Final beneficiary for ISPA measures implementation.

8.2.4 Key Terms and Factors of Decentralized EU Supporting Funds

Decentralized implementation system refers to implementation system of the EU external support programme where part of the management and responsibilities have been transferred to the Partner Country whilst the Commission retains the final responsibility under the EC Treaties.

National Aid Coordinator - NAC is the State Minister responsible for EU affairs, in charge of the programming within the Recipient.

National Authorising Officer - NAO is the State Minister responsible for the Treasury heading the National Fund, in cases where the letter is set up. In such a case, the NAO has the overall responsibility for the financial management of EU funds.

Programme Authorising Officer - PAO is an official of the national administration responsible for the operations of the CFCU and for the sound financial and technical management of the projects, which are implemented by CFCU (tender procedure, procedure of contracting and monitoring of projects).

National ISPA Coordinator - NIC is an official of the national administration in charge of the operational programming, implementation and monitoring of projects within the Recipient. The NIC also ensures a close link between general accession process and the use of EU financial support and is responsible for monitoring of ISPA projects.

Sectoral Authorising Officer - SAO is an official of ISPA Implementing Agency, which is responsible for functioning and financial management of the projects to be implemented.

Sectoral Coordinating Officer - SCO is an official of public administration in line ministries. In Republic of Croatia 3 SCO-s are appointed (for transportation, environment and water management).

Ex-ante control refers to prior control conducted by Delegation of European Commission in Zagreb. In order to carry out some tendering procedures and contracting we must have prior approval.



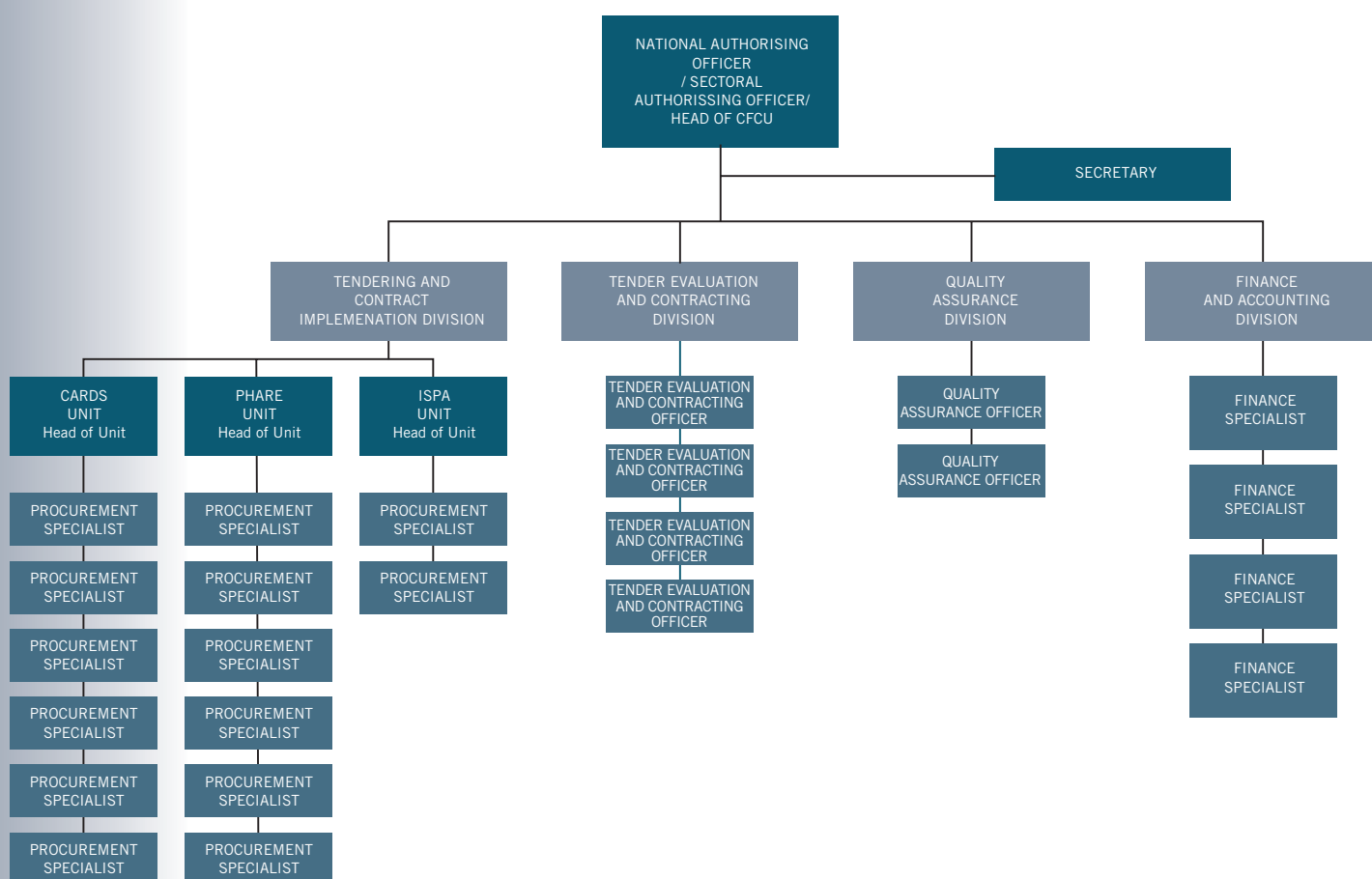
8.3 CFCU ORGANIZATION

CFCU Mission

CFCU employees assist National Authorising Officer - NAO/Sectoral Authorising Officer - SAO in efficient financial management of EU supporting projects:

- Reassuring efficient management of procurement, contracting and implementation,
- Reassuring objectiveness, precision and justification of payments on the basis of reliable system of internal control,
- Reassuring sustainable system of technical and financial reporting.

Annex 1: Flowchart CFCU





8.3.1 Working Procedures of CFCU

Department for Financing EU Assistance Programmes and Projects - Central Finance and Contracting Unit consists of 4 divisions:

1. Tendering and Contract Implementation Division
2. Tender Evaluation and Contracting Division
3. Finance and Accounting Division
4. Quality Assurance Division

Tendering and Contract Implementation Division deals with analyses of project propositions, drafting of procurement plans, announcing of procurement, drafting and editing of procurement documents, monitoring and informing of implementation, participating in bodies for implementation monitoring, education of staff in other public administration bodies which are involved in implementation of pre-accession programs and other EU decentralized programs, cooperating with responsible persons in other public administration bodies, users of supporting funds. It also cooperates with Independent division for finance management, internal supervision and control (Division under Ministry of Finance) and participates in drafting of instructions and methodology guidelines connected with procurement procedures and projects implementation for above-mentioned programmes.

Tendering and Contract Implementation Division consists of:

- CARDS unit
- PHARE unit
- ISPA unit

Tender Evaluation and Contracting Division deals with evaluating of offers, contracting, public administration staff education, coordination and cooperation with public administration bodies and beneficiaries of EU support funds. Division organizes and conducts the procedure of procurement and evaluation; drafts contracts according to procurement documentation for all kinds of contracts: goods, services etc. It drafts procurement documentation, different guidelines and explanations for procurement procedure, participates in drafting and implementing of methodology guidelines, coordinates different units and responsible persons in public administration bodies during implementation of above mentioned activities.

Finance and accounting division deals with finance, payment, control, accountancy, financial reports, maintaining of financial documentation and bank sub-accounts which are in competence of CFCU. It cooperates with National Fund (separate unit under State Treasury) and deals with sending requests for withdrawal of funds from single National Fund accounts corresponded to pre-accession EU funds; withdrawal of funds from single State Treasury account for payment of financial agreements contracts. Finance and accounting division sends monthly and quarterly reports dealing with financial implementation of EU financed projects. Accounting refers to: establishment and support of accounting system (accounting plan, main financial statement, sub-accounts under National Fund), bookkeeping for all programs, register of all payments specified by programs, projects, contracts, drafting of financial statements and register of all transactions according to EU requirements. Finance and accounting division conducts payments on the basis of contracts with suppliers (contractors) according to the financial agreements regulations.

Quality Assurance Division supervises implementation of Decentralized implementation system - DIS and organizes implementation of internal control system. It supervises Finance and accounting division, Tendering and Contract Implementation Division and Tender Evaluation and Contracting Division. It examines if prepared documents are in accordance with EU regulations and directives and ensures segregation of responsibilities. In order to additionally segregate responsibilities this division is also in charge of revision of job profile. It prepares internal procedures, instructions and methodologies for administration and EU supporting programs and projects.

8.3.2 Development of Human Resources

Training of CFCU staff is organized in accordance with Law on public officers and employees (Official Gazette 27/01) and procedures described in CFCU manuals. New employees learn from so called beginners package, which consists of all necessary information on functioning of CFCU, departments and their function in overall functioning of the system. Initial training includes general information and mentor and work colleges conduct it.



In six-month period employees fill out self-evaluation forms. In accordance with these forms analyses for training are being conducted and delivered to head of CFCU together with reports on past year trainings. The head of CFCU checks above mentioned analyses and evaluates employees. The head of CFCU also evaluates necessity for trainings of staff and adopts a yearly training plan. Every employer can use minimally 7 days of training in 1-year period related to his field of work and additionally 1 training, which is not closely, related to employees every day work assignments. Employees have to write a report on acquired knowledge no later than 5 days after training and deliver it to head of CFCU.

8.3.3 Measuring and Monitoring of Efficiency

Evaluating of CFCU staff is performed by head of CFCU according to direction of the Minister of Finance on evaluating of public administration employees and officers. The procedure and form for evaluation are described in the Law on public officers and employees (Official Gazette 27/01). First category of evaluating criteria consists of: capability in conducting of functions and duties, creativity and self-incentive. The second category consists of: work volume (quality, performing of regular and additional job assignments) and respecting of time limits. The third category consists of: respecting of working hours in CFCU. The process of evaluation for the current year must be completed by the 31st Mart of the following year. According to the EC instructions, CFCU started with development of indicator system which will display every work position and enable more »exible evaluating of staff.

8.3.4 Code of Ethics

In conducting their job employees of CFCU have to follow some professional and personal standards that include:

a) Respect

Employees of CFCU have to keep in mind on the mutual interest of CFCU and on union of all employees. They have to respect differences between them and work together in order to accomplish mutual goals. The management of CFCU has to ensure subjective and fair relation towards employees and therefore any form of protectionism is strictly forbidden. Also, discrimination in staffing and wages is forbidden. In defining of both above-mentioned criteria employer has to take into account professional skills, knowledge, results and motivation.

b) Integrity

Integrity of CFCU employers ensures confidence and base for relying on their decisions. CFCU employers will not cooperate with third parties (directly or indirectly) if it could harm to CFCU interests. Mutual relations with other public administration employers that includes filling out of reports, statements and other documents have to be ethical, fair, and sincere. They have to avoid all actions that could be reinterpreted as protectionism of some institution.

c) Objectivity

CFCU employees have to perform the highest level of professional objectivity in collecting and evaluating of data related to the activities that they are involved in. The decisions have to be based on balanced estimations of all relevant facts. They mustn't be affected by any personal or other interest.

d) Confidentiality

CFCU employees have to keep all information confidential. They may disclose the information only if they are legally obligated to do so. Also, they will not use information for their own or other people interest and in order to prove that, they have to sign declaration on confidentiality and impartiality.

e) Capability

CFCU employees will use knowledge, skills and experience that are acquired for performing of activities. They will actively upgrade their skills and participate in further trainings. Older employees are responsible for education of younger employees in order to gradually transmit higher responsibility and more complicated tasks on them.



8.3.5 Control System

8.3.5.1 Process

Control procedures are set of guidelines and procedures adopted to eliminate potential risks and achieve goals. Control activities are performed on all levels of CFCU. Programme implementation manual describes implemented procedures and activities on the field of internal control which include:

- System of control used by management which also includes internal control,
- Managing of human resources,
- Procedures and segregation of duties,
- Approve and control of documents and financial decisions,
- Comparison of internal and external data,
- Data accuracy control,
- Limitation of the direct data accessibility.

Auditing track is a set of information that records the activities and events that took place inside a certain organization, especially regarding the money and documents transactions. Information gathered from auditing track provides estimation of sequences of events that took place inside certain event. It divides process on smaller parts - activities and connects each activity with certain person that works on observed activity and with person that is responsible for the same activity. That information is useful for the auditing track in order to better evaluate functioning of the organization as one and basic process in organization.

8.3.5.2 System for Spotting and Reporting Irregularities

The irregularities in the terminology of the European Commission are represented as any disturbance of the laws of the European Union (including financial memorandums, financial agreements and contracts) or national laws which are a result of activities or neglecting by the economic operator (employee, private or legal entity), and which can result in loss in the budget of the European Union. The duty of all the employees of CFCU, on all the levels of responsibility is participating in discovering and reporting irregularities. This rule applies even if the irregularities have not yet occurred, even if there is only a doubt in their existence.

All the irregularities, without consideration of their size or if they were caused by a mistake or a fraud, have to be reported. But the mistakes that have been spotted by internal control and a valid act of control usually do not have to be reported as irregularities if the type of mistake can point out the need of another type of procedure or disciplinary action. The employee that discovered the irregularity must keep all the original documents (or attested copies if the original documents had to be returned) which point that an irregularity has occurred. When the employee suspects that there has been an irregularity he must report it to the person in charge of the irregularities in the CFCU. That person will investigate if there has really been an irregularity. If there is a doubt about the existence of an irregularity, the person in charge for the irregularities inside the CFCU will report it to the official authorized for program endorsement, namely the director of the CFCU. If there is a doubt that the director of the CFCU is involved in the irregularity, the person in charge of the irregularities in the CFCU will report the irregularity directly to the National Authorising Officer. In the first instance the report of the irregularity will be oral. The employee will be asked to confirm the report in writing if the National Authorising Officer conducts an investigation. After the irregularity has been reported, the employee that discovered it, the person in charge of the irregularities in the CFCU and the director of the CFCU will not talk about the irregularity with any third person without the direct permission of the National Authorising Officer.

8.3.5.3 Risk Management

Risk is defined as a possible danger that could be caused by a certain event, activity or not taking certain measures which could jeopardize the means and/or accomplishing goals in any part of the system. Risk evaluation is a general process of identifying, preventing and risk controlling. It also plans the alternative activities if a risk occurs. The risk control procedure inside the CFCU has the obligation of:

- insuring identification of possible risks;
- giving objective information about the risk level (the probability that a risk will occur, and the risk significance);
- enabling the decision of risk priority;
- enabling the preparation of a risk control action plan;
- ensuring the creation of a risk control action plan;
- ensuring the creation of a data base which will contain a record of risk changes and the internal control system efficiency in reference with risk evaluation.



Taking into account the internal and external factors, including the ones outside the CFCU jurisdiction, the National Authorising Officer must take measures for risk management, for example:

- implementation of a system for stopping, managing, and if possible removing the identified risk;
- monitoring revision results so that the errors inside the control system could be identified;
- ensuring the constant risk evaluation, including and monitoring the risk level so their occurrence trends could be classified;

The CFCU will maintain and update risk data bases during the regular meetings at least every four months, so that the risk changes and activities could be noted.

8.3.5.4 Financial Means Management and Accountant Monitoring

The National Fund prepares paying claims towards the European Union based on the information gathered from the CFCU. The CFCU submits a financial brief to the National Fund on a monthly basis. The brief contains payment projections, project overviews (financial liabilities/paid sums) and the future demand for financial funds. The CFCU submits payment demands for program funding (CARDS, PHARE and ISPA) to the National Fund on a regular basis. It also submits payment demands for national funds which are composed of a list of payments that the CFCU intends to carry through. None of the demands can be approved after the expiration of the payment limit, which is deterrent in the financial agreements for every program. Every payment demand submitted by the CFCU must be signed by a Programme Authorising Officer. When the CFCU receives the payment from the National Fund on its subaccounts, it can dispose with the means. The CFCU forwards reports regarding the payment agreements to the contracting parties on a monthly basis (monthly financial reports). As the contractor, the CFCU is obligated to make payments in time according to the received invoices from the contracting parties. The payments have to be made according to the rules and procedures of the European Union.

8.3.5.5 Procurement

Procurement consists of three main phases: making the procurement documentation, procurement execution and the act of contracting. During the phase when procurement documentation is drafted, all of the necessary documentation for starting the procurement is being made. Making of the description of the jobs for the service, the description of the jobs for twinning, the instruction for the application submitters for the non-refundable means, technical specification for the procurement of goods or services depend on the type of procurement. Help in the making of projects, i.e. for preparing projects for the procurement (making of job descriptions for services, the description of twinning jobs, etc.) is also possible if this form of help is foreseen in the summary of the project. Documentation made in the first phase are used to choose a contracting party during the procurement process controlled by administered by the CFCU. The type of procurement documentation and the specific steps that must be taken depend on the type of contract and the procedure used in the procurement.

Procedures and the standard documents are used in contracting for service; goods procurement and assignment of non-refundable means are published in "Practica Guide for contracting procedures for EC external actions" (PRAG⁷). Standard documents and forms are a part of the supplement in PRAG. Execution of the procurement is based on values of individual contracts, including co-financing. In exceptional cases deviation from the standard rules is allowed, but only with the approval of the Delegation of the European Commission. The procurement evaluation board is responsible for evaluation of the submitted tenders and the preparation and recommendation for contract assignment.

The evaluation board consists of:

- chairman (without right to vote) ;
- secretary (without right to vote);
- an odd number of members (with the right to vote) - (a minimal number of members for performing business is five, for the procurement of services, goods and non-refundable means there must be at least three members, for framework agreement contract there must be at least two members);
- estimators, that are not members of the evaluation board, can be hired in case of assignment of non-refundable means;

The project end user suggests the CFCU candidates for the evaluation board (the members with the right to vote)

⁷ Practica Guide for contracting procedures for EC external actions;
http://euceuropa.eu/comm/europeaid/tender/practical_guide_august2006/index_en.htm



8.3.5.6 Project Execution and Execution Monitoring

The CFCU, as the contractor, is responsible for the monitoring of progress in project execution, for execution of contract commitments, according to the appointed time period. The specialty of each phase of execution is in the description of jobs and/or technical specifications. They are confirmed in the beginning report of every project. Reports also contain information about the demands and time periods for the delivery of midreport and final reports.

The point of project execution is:

- assuring that the project is monitored from a technical and administrative point of view;
- assuring that the contract is executed in an appropriate way;
- assuring right time discovery of irregularities in project execution, and the application of measures for easing and removing irregularities or other contract deficiencies;

Monitoring activities include:

- approving reports assembled by contracting sides;
- visiting the projects;
- monitoring the activities in relation to the work plan which has been approved in the starting phase of the project;
- monitoring the costs in relation to the budget approved in the contract;
- contacting all the parties included in the project execution;
- monitoring and solving problems;
- preparing reports and decisions/recommendations deriving from them (i.e. demands for contract updates, etc.);
- changing the contract if necessary:

Procurement experts, who lead individual contracts, are responsible for the monitoring of contract execution. After the start of contract execution, procurement experts prepare an activity plan associated with execution monitoring (including project visiting) which is approved by the director of the CFCU

8.3.5.7 IT System

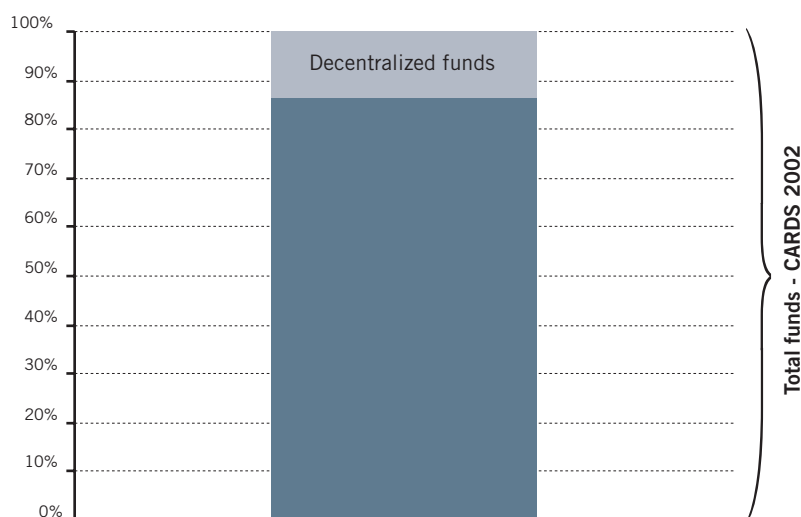
Application system for pre-accession programs management EU (CRO4EU) enables, for each of the 3 supporting programs of EU - CARDS, PHARE and ISPA, monitoring of programs and projects which are co-financed from above mentioned supporting programs, their realization and management of acquired funds. Application system enables monitoring of relevant transactions during all phases of procurement process (planning and registering of project, procurement, contracting, invoicing, payment, accountant monitoring and control) and thereby enables efficient supporting fund management and awareness of all relevant information regarding the achieved results. All above-mentioned presents a base for better decision making in the future. The application is designed according to legal regulations, procedures and terminology. It is divided in two main parts. The first part is connected to business activities and business effects in National Fund and second refers to assignments of CFCU. Every stated institution performs activities in her area with possibility of interaction if necessary. The authority domain is carefully segregated according to separate functions in order to protect the data integrity and ensure efficient functioning of the system. In narrow cooperation with Independent Information System Service and of the basis of recommendations of European Commission additional measures of safety were established.



8.4 STATISTICAL REVIEW

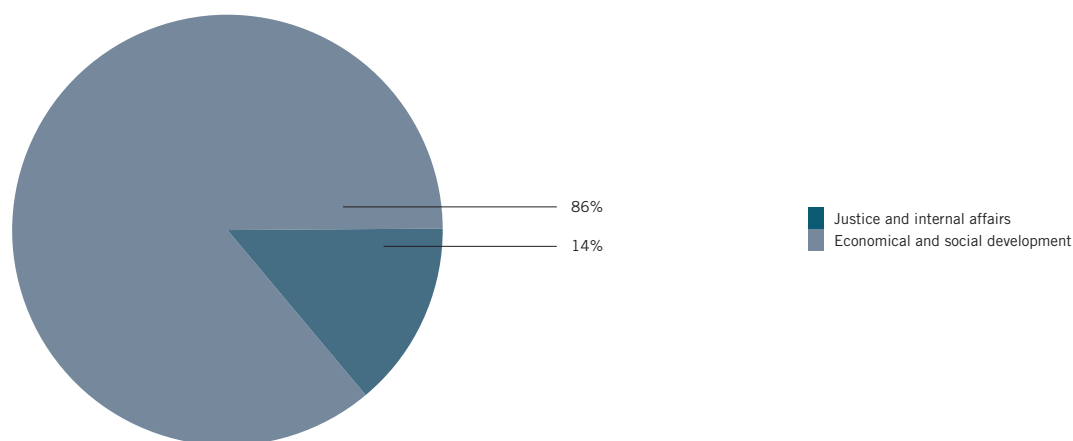
Based on established framework for partial decentralization and in accordance with financial agreement on financing of national program for 2002 (CARDS 2002), CFCU took an obligation to execution of procurement and technical execution of seven projects. Total value of those projects is HRK 55.3 million, in terms defined by agreement (contracting period: 31st December 2005, execution period: 31st December 2006).

Figure 8.1. CARDS 2002 - Budget structure - total/decentralized



When observing proportion of each sector in procedure of decentralization we can conclude that major part refers to field of economical and social (area of social cohesion and trade) development and minor part to the area of legal and internal affairs (projects connected to integrated borders management).

Figure 8.2. Structure of decentralized CARDS 2002 projects divided by sectors





In frame of above mentioned time-limits, CFCU has contracted all seven decentralized CARDS 2002 projects which resulted in 23 concluded contracts in total amount of HRK 51.9 million⁸. According to above-mentioned data, the percentage of procurement (defined as difference between total allocated funds and contracted funds) amounted to 93.9%. Due to size of sample, the significance of data is doubtful, but some indicators can be taken as indicative for following period. According to types of procurement, the largest share refers to services (twinning are described separately as a specific form of services providing). Investment components (procurement of equipment), in the same time, represented a smaller share of procurement (according to type and value of procurement).

Figure 8.3. CARDS 2002 Funds absorption - decentralized projects (in million € - on 31st December 2005)

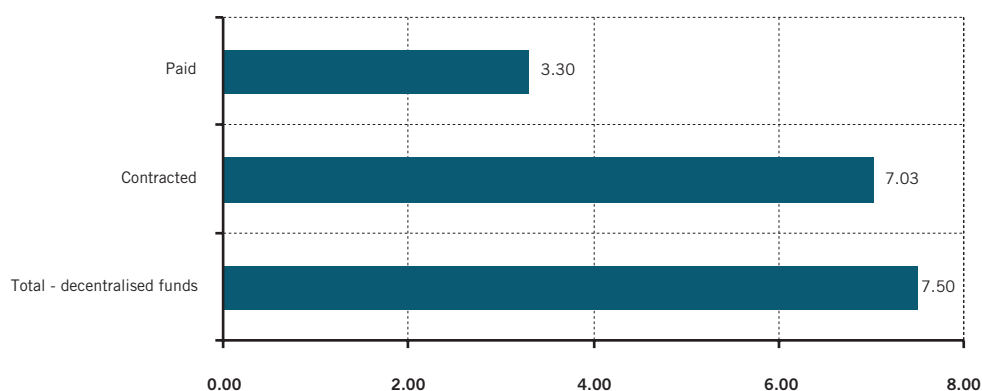
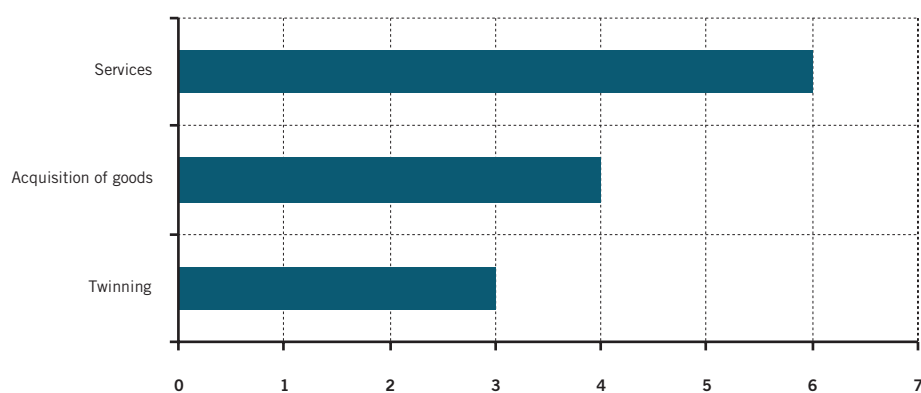


Figure 8.4. CARDS 2002 - Structure according to types of procurement



⁸ According to middle exchange rate of HNB on 31st December of 2005



Although, percentage of contracting (one of basic indicators of absorption) was relatively high - 93.9%, absorption of funds could have been even higher if unnecessary conditions of different components have been avoided in programming phase and if efficient system for reallocation of free funds (difference between the amount of allocated funds and funds which are predicted in signed contract for some component) has been established. Engagement of experts for drafting of technical specification on the bases of previously signed contract of technical assistance support, displayed as significant mistake due to fact that in most cases it was a process of procurement of standard computer equipment and specifications for those equipment could be drawn by final users. On the bases of previous experience it can be seen that more complex and financially stronger contracts on services require longer period for contracting which resulted in unnecessary grouping of contracting for shipment of goods at the end of time-limit (backlogging⁹ - another indicator of absorption). In case of decentralized projects, contracts on acquisition of goods (equipment, so called investment component) however had a significantly smaller share. (Figure 8.4)

8.4.1 Ex-ante statistics

As described in chapter 8.2.4, decentralized implementation system is based on ex-ante approach. Essentially, ex-ante system assumes getting of formal approval from responsible bodies (Delegation of European Commission in Croatia) before system becomes obligatory for parties specified in particular documents. A document cannot have legal effect on budget of EU before authorizing body explicit approval. Ex-ante system in case of CARDS 2002 is based on following juveniles:

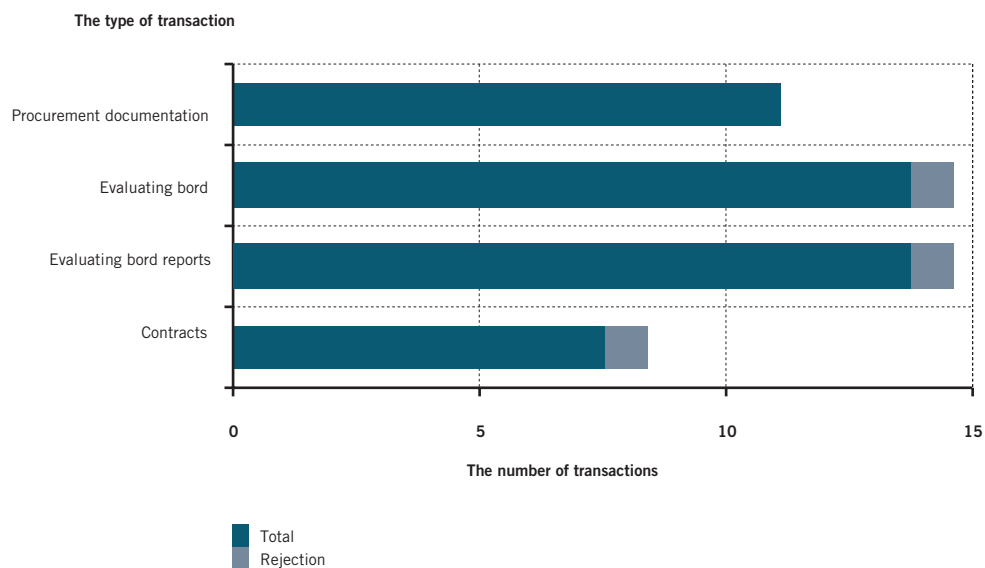
- Acceptance - document delivered on approval is unconditionally accepted; document becomes formal and in some cases executable (contract)
- Preconditioned acceptance - minor mistakes were noticed in documentation; after eliminating of mistakes (without commitment of new delivery for approval) the documents is accepted
- Rejection - the mistakes in documents are significant and relevant for meaning of the document; after conducting of required changes, document has to be delivered for approval

In accordance with above mentioned, CFCU has formed statistics of transactions based on ex-ante system. This is a starting point for drafting of controlling lists. The comments made by body competent for giving of ex-ante approval were taken into account and implemented in control system. Statistics demonstrated in figure 8.5 is based on the most common transactions. It is worth mentioning that there is significant number of documentation in ex-ante statistic that requires prior approval. For purpose of demonstration, modalities, preconditioned acceptance and acceptance are aggregated. It includes 85% of transactions (on 1st August of 2005).

⁹ An accumulation of procurements/contracts at the end of time-limit



Figure 8.5. CARDS 2002 EX-ANTE STATISTICS (on 1st August of 2005)



Demonstrated result can be considered as extraordinary successes considering the limited experience of CFCU. Reject was one of the indicators which DG Enlargement and DG Regional Policy (accreditation mission) took into consideration during their mission in the Republic of Croatia as a clear sign of the countries preparedness for accession to procedure of accreditation.

9

**REPORT ON THE WORK OF THE
DEPARTMENT OF ECONOMY IN 2005**



9.1 INTRODUCTION

Department of Economy implemented its activities in several different areas from its competence within the organization of Ministry of Finance during year 2005.

Activities from Department of Economy scope were oriented to a range of activities in the area of monitoring operation of public enterprises in state and predominantly state ownership, system of concessions and activities concerning fulfillment of obligations from state aid area, related to negotiations with EU and alignment of national legislation with Community acquis.

Within monitoring public enterprises' in state and predominantly state ownership operation, reporting through quarterly and semi-annual reports improved, with expanded evaluation scope and financial indicators monitoring. Department of Economy made Annual report on public enterprises' in state and predominantly state ownership operation for year 2004, which was adopted by the Government of the Republic of Croatia. Several activities were undertaken in order to improve quality of this report, in a way that it includes necessary financial indicators on public enterprises' operation which point out operation safety (liquidity, financial stability and indebtedness) and successfulness (economics, profitability, cost-effectiveness).

By organizing the register of concessions, system of concessions is being continuously advanced and special care is taken in collection of concession charge. The procedure of upgrading the register of concessions' functioning is continued and will also be conducted in 2006 (operational functioning of the register of concessions started in June 2006).

In the state aid area, activities were directed to upgrading the state aid system in the Republic of Croatia and its alignment with EU state aid system. Fulfillment of obligations taken over by Stabilization and Association Agreement (SAA) was one of conditions for opening Chapter 8 Market competition within the Screening. This obligation refers to additional alignment of State Aid Act and Regulation on State Aid with EU acquis. Obligation of Ministry of Finance in 2005 was making new State Aid Act. Ministry of Finance made new State Aid Act and completely fulfilled its task concerning internationally taken commitments. State Aid Act was brought in given time limit (foreseen in SAA), with high degree of alignment with Acquis Communautaire, on which positive review also gave European Commission.

Realization of commitment to IMF and World Bank concerning Stand-by Arrangement and PAL program continued during year 2005.

Pursuant to taken commitments from PAL program of the World Bank, data on state subventions are regularly monitored and updated, and monthly, quarterly and annual reports on amount and structure of state subventions and their share in GDP are made.

For the purpose of increased financial transparency and reduction of public enterprises' overdue trade payables, quarterly financial reports (balance sheet and profit and loss statement) for nine public enterprises and reports on overdue trade payables and overdue trade receivables, made by Department of Economy, were published in the Statistical Report of the Ministry of Finance.

On the basis of the IMF Stand-by Arrangement, Ministry of Finance, Department of Economy, monitored at monthly level status of repayments and indebtedness by loans for chosen public enterprises (7 of them), with a goal of continuous insight into movement of above mentioned categories, so that eventual discrepancy in indicative limits given by Stand-by Arrangement could be pointed out in time. Department of Economy made at monthly level tables Repayment and indebtedness for each public enterprise (7) and total. From expressed data it can be seen that in 2005 level of indebtedness with domestic and foreign banks (by long-term and short-term loans) decreased. At the same time, data on dynamics of repayment of existing loan commitments were monitored.

Department of Economy participated actively in making text of Pre-accession Economic Programme (PEP) for the period 2006 - 2008, especially in the area of structural reforms for the forthcoming period. With its remarks and quality proposals to line ministries, Department of Economy significantly contributed to the quality of making final version of PEP. Special engagement of Department of Economy was in the area of shipbuilding, metallurgy, small and medium-sized enterprises, railways restructuring, privatization and state aid area. The importance of this document results from the fact that it defines medium-term economic policy and priorities of the Republic of Croatia within planned structural reforms that we take commitment on, with a goal of achieving stronger economic growth and approaching EU economy.



9.2 REPORT ON OPERATION OF PUBLIC ENTERPRISES IN STATE AND PREDOMINANTLY STATE OWNERSHIP FOR THE YEAR 2005

On the basis of financial reports: Balance sheet, Profit and loss statement, Trade payables and trade receivables, analysis of the activities of 19 public enterprises in state and predominantly state ownership was made:

- ACI,
- Autocesta Rijeka -Zagreb,
- Croatia Airlines Ltd.,
- Croatia osiguranje,
- Hrvatska elektroprivreda,
- Hrvatska lutrija Ltd.,
- Croatian Post,
- Hrvatska radiotelevizija,
- Croatian Motorways Ltd.,
- Croatian Roads Ltd.,
- Croatian Waters,
- Hrvatske šume Ltd.,
- Croatian Railways Ltd.,
- INA Industrija nafte,
- Jadrolinija,
- Jadranski naftovod,
- Narodne novine,
- Plovput Ltd.,
- Vjesnik.

Analysis was made as a parallel overview of accounting periods for years 2004 and 2005.

The main characteristic of above mentioned enterprises' activities in 2005 is slight increase of profit by 1.9% when compared to 2004.

The highest profit in absolute amount was achieved by INA Matica, in amount of HRK 892.1 million, which makes 51.9% of total profit of all 19 companies. Following are Hrvatska elektroprivreda with profit of HRK 441.3 million and 25.7% share in total profit of all 19 companies, and Croatia osiguranje with 5.8% share.

Successful activities followed by profit increase in year 2005 were realized by following companies: Hrvatske šume (48.0%), Autocesta Rijeka - Zagreb (1,764.7%) and Jadranski naftovod (36.1%). Except from company INA, which achieved profit lower by 9.5% in 2005, profit decrease recorded following companies: Jadrolinija (42.7%), Narodne novine (22.3%), Hrvatska radiotelevizija (47.8%) and Hrvatska lutrija (14.1%).

Three companies expressed loss in 2005: Croatia Airlines Ltd. (HRK 22.8 million), Vjesnik (HRK 19.5 million) and Plovput Ltd. (HRK 3.6 million).

Croatian Railways Ltd. realized HRK 50.2 million of profit, which represents positive shift compared to year 2004, when company recorded HRK 180.6 million of loss. Positive trend also recorded Croatian Post, whose profit amounted to HRK 6.7 million in 2005, while in 2004 company recorded a loss of HRK 134.7 million. Company ACI also finished year 2005 with profit, in amount of HRK 12.8 million, in distinction of year 2004 when HRK 1.5 million of loss was achieved.

Activities of these 19 companies in 2005 were greatly determined by total income growth of 8.5%, with similar total expense growth of 8.7% when compared to 2004, which implies on positive trend of business activities of these companies.

9.2.1 Revenues Based on Subsidies and Donations from the State Budget in 2005

Revenues based on subsidies and donations from the state budget in year 2005 amounted to HRK 2,917.3 million, which is HRK 892.6 million or 23.4% less than in 2004, when they amounted to HRK 3,809.8 million. In total income structure, revenues based on subsidies and donations from the state budget made 6.0% in 2005 and 8.4% in 2004. Company which recorded the highest amount of revenues based on subsidies and donations in 2005 was Croatian Railways, in amount of HRK 2,330.9 million. Following were Jadrolinija (HRK 288.4 million) and Hrvatska radiotelevizija (HRK 99.0 million), while seven public enterprises didn't have such revenues in total income structure.



9.2.2 Staff Costs

Staff cost slightly increased and amounted to HRK 8.4 billion at the end of 2005, which is HRK 0.5 billion higher than in 2004.

The highest increase in staff costs expressed following companies: Hrvatska lutrija (27.7%), Vjesnik (9.3%), Croatian Roads (19.0%), INA (18.6%), Narodne novine (15.7%), Croatia Airlines (7.2%), Autocesta Rijeka - Zagreb (8.5%), Croatian Motorways (8.2%), Jadrolinija (5.2%), Croatian Railways (3.6%), Hrvatska elektroprivreda (3.1%) and Hrvatska radiotelevizija (1.7%).

The highest increase in number of permanently employed persons was recorded in companies Autocesta Rijeka - Zagreb, Hrvatska lutrija, Croatian Motorways and ACI. Decline in number of permanently employed persons was recorded in Croatian Railways, Hrvatske šume, Hrvatska elektroprivreda, Croatian Post, Croatia Airlines and Jadranski naftovod.

The highest net wage amounted to HRK 41,865 in 2005 and it was paid out by company Croatia osiguranje. Following were Janaf, with the highest net wage of HRK 30,723, Croatian Railways (HRK 25,179), Vjesnik (HRK 25,630) and Ploput (HRK 23,550).

The lowest net wage in 2005 was paid out by Hrvatske šume in amount of HRK 1,668. Following were Jadrolinija (HRK 1,723), Croatian Railways (HRK 1,817), ACI (HRK 2,214) and Hrvatska radiotelevizija (HRK 2,347).

9.2.3 Total Liabilities of Companies

Total liabilities of companies (long-term and short-term) amounted to HRK 37.4 million in 2005, which is 13.7% increase compared to 2004, when they were at level of HRK 32.9 million.

Total liabilities to credit institutions (indebtedness) for 19 analysed companies were HRK 26.2 million in 2005, which, compared to 2004 when they amounted to HRK 23.8 million, represents an increase of 10.1%.

The highest increase in liabilities by loans (indebtedness) recorded Hrvatska radiotelevizija in amount of 435.4% when compared to 2004. Croatian Roads' indebtedness by loan commitments went up by 142.0% and Croatian Motorways by 25.7%. Problem of indebtedness increase also recorded Jadrolinija (19.5%) and Vjesnik (2.9%), while other companies recorded a decline of indebtedness compared to 2004.

In observed period trend of negative net labour equity continued, which increased by 31.0% when compared to 2004. Companies had totally HRK 20.5 billion of current liabilities and HRK 14 billion of current assets on December 31 2005. Negative net labour equity was at level of HRK 6.5 billion, which means that this was the amount of funds that were lacking for maintaining ordinary activities. Situation was especially unfavourable in Hrvatska elektroprivreda (HRK 3.4 billion of negative net labour equity) and in Croatian Railways (HRK 3.4 billion of negative net labour equity). Current assets' structure is extremely unfavourable, because money and other financial assets have share of only 17.0% in total amount, while share of 43.0% of current assets refers to claims and 37.0% to inventory.

Status of money deficit/surplus at the end of 2005, as a difference between overdue trade payables and money and money equivalents, was more unfavourable than in the same period of the previous year. Total overdue liabilities were 87.0% higher, while sum of disposable cash assets increased by 17.0%, which resulted in money deficit increase of 174.0% compared to 2004. Situation worsened in INA, Croatian Roads, Croatia Airlines and Hrvatske šume, while unfavourable status is still present in Hrvatska elektroprivreda and Croatian Railways, although deficit considerably decreased compared to 2004. Surplus was recorded in Croatian Post, Narodne novine, Croatian Motorways, Autocesta Rijeka - Zagreb, Jadranski naftovod, Vjesnik and ACI. Collection of claims and large amount of mutual debts of particular state-owned companies still remain acute problem.

9.2.4 Investment Activities

Investment activities of public enterprises decreased in 2005 compared to 2004. Total funds spend on investment activities in 2005 were HRK 19,546.9 million, which is 3.0% less than in 2004, when they amounted to HRK 20,158.0 million. From totally nineteen (19) public enterprises analysed in this report, amount of investments decreased in 2005 at 10 of them. The highest reduction was expressed in Narodne novine, followed by Hrvatska lutrija, Croatian Post etc. At remaining 9 public enterprises increase in investment funds is recorded. Hrvatske šume enlarged investments by 34.0% compared to 2004, Ploput by 28.0%, Hrvatska elektroprivreda by 25.0%, Janaf by 14.0%, etc.



9.2.5 Annual Report on Activities of Companies in Majority State Ownership in 2005

ACI

ACI finished business year 2005 with HRK 12.8 million profit, which, concerning stated previous year's loss of HRK 1.5 million, shows positive business trend. Positive trend of financial indicators movement confirms previous statement. Total income amounted to HRK 126.8 million, which is 10.2% higher when compared to 2004, while total expense decreased by 2.2% and amounted to HRK 114.0 million. In year 2005, as well as in 2004, Company did not realize revenues from subsidies and donations from the state budget. Company has a total of HRK 5.1 million of trade payables, 28% less than in 2004. Net labour equity increased by 27% in 2005 when compared to 2004, but has still remained negative. Positive impression on enterprise created through financial reports analysis gives reason for optimistic perspective of further development and business of the company.

Autocesta Rijeka - Zagreb

Company Autocesta Rijeka - Zagreb realized a profit of HRK 37.5 million, which is 19 times higher than profit in 2004 of only HRK 2 million. This was a result of stronger operating and financial revenues increase than total expense increase. Total income went up by significant 34.7% and amounted to HRK 466.6 million at the end of 2005, while total expense increased by 24.5% compared to 2004 and amounted to HRK 429.1 million. The highest share in operating income refers to toll collection revenues which went up by 15.0% when compared to previous period. Revenues based on subsidies make 6.5% of total income (HRK 30.4 million) and slightly decreased when compared to 2004. In the structure of operating costs (91.3% of total expense), the highest share have amortization costs and staff costs. Indebtedness level is relatively low, which implies on the fact that total assets of the company Autocesta Rijeka - Zagreb was financed by 36.0% from outside resources. Company increased its profitability, cost-effectiveness and economics and activity in year 2005. Considerable decline in current liquidity indicator (from 3.45 in 2004 to 1.31 in 2005), along with simultaneous mild growth of financial stability coefficient (from 1.28 in 2004 to 1.30 in 2005) and decrease of net labour equity amount, points at solid liquidity and financial stability of the company in the observed period.

Croatia Airlines Ltd.

When compared to previous business periods, when it operated with profit, in 2005 Company registered change of business trend and recorded a loss of HRK 22.8 million. Turn in activities is a consequence of few important factors, among other, price growth of fuel in the world market, price growth of services of airports, from which many still have monopoly in the market, increase of competition during a year due to the introducing of new carriers in the Croatian market, strengthening of land transport inside country. Also lower number of passengers carried by 8.0% compared to plan was achieved. Total income amounted to HRK 1,465.0 million and increased slightly (2.5%) when compared to 2004, while, at the same time, total expense amounted to HRK 1,487.8 million and increased by 6.9%. In year 2005 almost 63.0% of liabilities were financed by outside resources, mostly from foreign credit institutions. Higher growth of current liabilities from current assets growth was recorded in 2005 (current liquidity coefficient decreased from 0.86 to 0.54).

Croatia osiguranje

Business year 2005 for company Croatia osiguranje was characterized by legal changes. New Insurance Act was adopted (introducing of liberalisation in insurance market), Act on Compulsory Insurance within the Transport Sector, and regulation which will define unification of non-banking financial institutions' supervision. It is considered that mentioned regulation would stimulate development of Croatian insurance market and arrange rather unordered market. Company ended year 2005 successfully, with increase in profit and underwritten premium. Net profit amounted to HRK 98.2 million in 2005, 11.0% higher than in previous year. Total income amounted to HRK 3,140.2 million, which is 5.3% higher compared to 2004. The underwritten gross premium, which makes the biggest item in the income structure (91.6%), increased by 3.3% in 2005. Non-life insurance went up by 2.4%, while life insurance rose by 12.7%. Total expense was HRK 3,026.8 million and 5.2% higher compared to 2004, where the increase was achieved by almost all categories of expenses. When observing structure, the highest share have expenses for damages (59.4% of total expense), which are 2.8% higher when compared to previous year. Company operated profitably in 2005, with high share of own resources and working capital, which was sufficient for current liabilities settlement.



Results achieved show that Company realized outlined goals through increased efficiency and steady growth based on strategy of development of sales network and offer of new life insurance products. Tendency and orientation of the Company is becoming regional leader in the insurance area.

Hrvatska elektroprivreda

In 2005 Hrvatska elektroprivreda realized HRK 441.3 million of profit after taxation, which is HRK 2.1 million higher than in 2004. Total income amounted to HRK 9,653.3 million and rose by 12.0% compared to previous year. In total income structure, revenues from electricity sales make 84.0% of total income. Sales revenues went up due to increased controls and significant increase in electricity export. Total expense was at level of HRK 9,108.9 million and increased by 13.8% compared to 2004. Raw material costs are HRK 972.3 million higher. Staff costs increased by 3.1% compared to previous year and amount to HRK 1,494 million. Total liabilities of the Company slightly decreased and amounted to HRK 6,581.5 million at the end of 2005. Total claims amounted to HRK 1,656.5 million, which is HRK 197.2 million higher than in 2004.

Hrvatska lutrija Ltd.

Company made profit of HRK 42.5 million in year 2005, which is HRK 7 million or 14.1% less than in 2004. Total income amounted to HRK 394.8 million and increased by 13.1% compared to previous year. Revenues from games of chance in coin operated machines increased by 26.7% and revenues from games in casinos by 9.9%, while revenues from lotteries decreased by 3.3% and revenues from casino entrance-tickets by 5.0%. Revenues from betting went up by 625.9% due to the fact that Hrvatska lutrija started to prepare betting game only in June 2004. Total expense increased by 19.0% and amounted to HRK 341.2 million at the end of 2005. Expenses based on legal obligations from coin operated machines and casinos and betting rose significantly (by 52.0%) and operating costs by 22.7%. Staff cost increased by 27.7% compared to 2004, as a result of increase in number of employed. Total trade payables decreased considerably compared to 2004, while for investments own resources were used. Company activities were stable and successful in 2005, although liquidity of the Company decreased when compared to 2004.

Croatian Post

Croatian Post activities in 2005 are characterized by positive business trend when compared to previous year. After loss in 2004 (HRK -134.7 million), Company achieved profit of HRK 6.1 million in 2005. Total income amounted to HRK 1,472.3 million and rose slightly by 1.8%. The highest growth was recorded in postal revenues (7%), while total number of Company's services increased by 4.0%. Subsidies from the state budget increased by 113.3% when compared to 2004 and amounted to HRK 16.9 million, so they don't have significant share in total income structure. Total expense amounted to HRK 1,466.2 million and was 7.2% lower, which was mostly influenced by staff costs decrease of 6% and other operating costs decrease in amount of 10%. Company increased liquidity and financial stability in 2005.

Hrvatska radiotelevizija (HRT)

HRT achieved positive operating result of HRK 1.4 million in 2005, which, compared to 2004 profit of HRK 2.7 million, represents a decrease of 47.8%. Total income amounted to HRK 1,459.8 million and rose by 6.1% compared to 2004, while total expense increased by 5.9% and was at level of HRK 1,454.2 million. Revenue from subscription fee, as fundamental revenue, went up by 8.5% compared to previous year, while, at the same time, revenues from marketing declined by 14.6%. Expense structure didn't change and the highest share in total expense have services costs and staff costs. In 2005 increase of wage per person employed of 7.1% and falling behind of investment activities by 37.4% was recorded, along with high costs of outside cooperation which burden additionally Company's activities. Due to mentioned problems, further rationalization of activities is obviously necessary.

Croatian Motorways Ltd.

Company applies capital approach when making financial reports, according to the Article 57 of Public Roads Act. Surplus of income over expense in amount of HRK 289.6 million, together with HRK 1,139 million of public good amortization is invested in construction and maintenance of motorways. By inflows from petrol fee Company increases the value of public capital as a source of financing public roads construction, while with the amount of public roads amortization, in the part that can be covered by own revenues, expenses of the Company are charged. Income of the Company is balanced with expense, so profit of the Company was zero in 2005. Total income and total expense in 2005 were at level of HRK 1,059 million, which is increase of 21.3% compared to 2004. Toll revenues, fees in prices of petrol and other sources amounted



to HRK 2,516.9 million, which was 6.0% higher than planned. Expenses for compensation of employees were at level of HRK 257 million (99.8% of the planned amount). Total liabilities of the Company increased and amounted to HRK 12,393.1 million (trade payables grew by 89.0%). Indebtedness increased because of the investments in new motorway sections construction. Investments in motorway construction were HRK 3,661.2 million, which is 5.0% higher than planned, while investments in repair and maintaining of motorways amounted to HRK 341.6 million or 99.0% of the planned amount.

Croatian Roads Ltd.

Croatian Roads applied capital approach when composing financial reports for 2005 (in accordance with provisions of Public Roads Act, Official Gazette No. 180/04), so the expressed result is zero. By appliance of mentioned Act provisions which regulate public roads' financing, resources of funds make public capital by which the Republic of Croatia finances construction and maintenance of public roads and out of which the difference between income and expense in the business year is compensated. According to the Article 67 of the Act, public capital was directly charged by costs of maintaining and cost of public roads amortization in amount of HRK 1,127.4 million. Total income and expense were HRK 125.5 million. Basic and the biggest resource of funds for financing activities - petrol fee, is not enough to cover the costs of maintaining, construction and amortization assurance, so the difference between income and expense is covered from the public capital. The result of the Company is measured by physical performance of the programme, deadlines in which the programme is accomplished, quality of work and by assurance of continuous liquidity and solvency. Croatian Roads managed to harmonise realization of the programmes with funds inflow and by using loan funds Company insured current liquidity. Annual programme realization was carried out in given frameworks and approved deficit wasn't exceeded.

Croatian Waters

According to the Croatian Waters Management plan for 2005, income and expense were realized within the planned amounts. Croatian Waters are non-profit organization, so activities objective isn't achieving profit, but doing socially necessary activity - complete management of water resources of the Republic of Croatia. Total income of the Company amounted to HRK 1,703.4 million in 2005 and it stayed at previous year's level. The most significant increase (6.3%) when compared to 2004 is on the basis of collection of catchment water charge. Total expense amounted to HRK 1,643.8 million and were 1.6% lower, which is a result of decrease in non-material costs (13.6%), investments costs (42.0%), and other costs (10.9%), along with rise of staff costs (7.2%) and investments transfers (6.5%). Realized surplus of income over expense in amount of HRK 59.6 million transfers into next accounting period and realizes through Waters Management Plan for year 2006. All trade receivables were overdue and charged and all trade payables were overdue and paid. Current liquidity increased compared to previous year and operating funds were used more successfully.

Hrvatske šume Ltd.

Basic characteristic of Hrvatske šume activities in 2005 is positive business trend, on which also imply financial indicators. Company achieved a profit of HRK 23.3 million in 2005, which is 48.0% better operating result than in 2004, when HRK 15.8 million of profit was achieved. Total income amounted to HRK 2,112.3 million (in line with business plan for that period) and increased by 8.5% compared to 2004, while total expense rose by 8.1% and equalled HRK 2,089.0 million. One of the reasons for total income growth is increased investments in biological reproduction of forests. On expense increase also influenced reservation of costs for risks of loosing started court disputes in which workers demand indemnity from the Company in amount of HRK 9.1 million. Increase of current liquidity coefficient and decrease of financial stability coefficient at the same time (and increase of net labour equity value) indicate satisfying ability of settlement of overdue short-term liabilities.

Croatian Railways Ltd.

In year 2005, as well as in few previous years, Croatian Railways were increasing its share in passengers and goods transport market. Increase in transport volume was followed by transport revenues growth. Naturally and financially expressed labour productivity is rising. After long-time loss, Croatian Railways made profit in 2005, in amount of HRK 50.2 million, as a result of increase of own revenues and revenues from the state budget. Total income amounted to HRK 3,895.0 million in 2005 and was 2.3% higher than in 2004, while total expense was at level of HRK 3,844.8 million and decreased by 3.6%. State budget funds for current operations went up by 9.4% and equalled HRK 2,330.8 million, with a share of 59.8% in the total income structure. Croatian Railways activities characteristic in 2005 is the fact that realized



investments were at much lower level than planned in 2005 and than realized in 2004. In order to stop trend of investments lagging, it is necessary to increase investments in the forthcoming planned period. Number of employed decreased in accordance with obligations from World Bank PAL program. Financial indicators analysis points at problems concerning liquidity management and liabilities settlement, along with trend of deterioration of financial stability of the Company (increase of financial stability coefficient and decrease of net labour equity value).

INA

Company INA Matica ended business year with HRK 892.1 million of profit. Total income of the Company amounted to HRK 20,013.8 million and increased significantly (21.0%) when compared to previous year. In total income structure, sales revenues went up by 19.5% due to the more favourable margins and active policy of price determining. Total expense grew by 23.7% and amounted to HRK 18,898.9 million in 2005. In total expense structure, increase was recorded in material costs (31.1%), primarily because of the oil prices growth in the world market, staff costs (18.9%) and financial expenses (91.1%).

Jadrolinija

Company ended business year with HRK 2.6 million of profit, which represents 42.7% decrease compared to 2004 when profit was HRK 4.5 million. Weaker operating result is the consequence of faster growth of total expense over total income. Total income of the Company was at level of HRK 752.4 million and recorded 6.2% growth when compared to 2004. In total income structure in 2005, more than 38% make subsidies and donations which record a growth from HRK 264.7 million in 2004 to HRK 288.4 million in 2005. Total expense was HRK 749.8 million and rose by 6.2% in comparison with 2004. In total expense structure, staff costs rose by 5.2%. Total liabilities of the Company went up by 9.0% when compared to the previous year, while total claims decreased by 18.0%. Financial indicators for 2005 show negative trend in comparison with previous year. Analysis of the Company's activities points at low level of financial and operational stability and decreased liquidity.

Janaf

Company finished business year 2005 with HRK 34.0 million profit, as a result of basic activities of the Company, in distinction from the previous year, when positive result was a consequence of net financial revenues and was at level of HRK 24.9 million. Total income rose by 4.4% when compared to 2004 and amounted to HRK 335.5 million, while total expense increased by 3.5% and equalled HRK 301.5 million at the end of the year. In total income structure, share of operating and financial revenues changed in comparison with previous year. Operating income rose significantly (30.6%), while financial revenues recorded exceptional decline (75.2%) at the same time. Other revenues increased by four times in 2005, since disputable outstanding debts were charged and revenues from oil inventory surpluses were realised. In both observed years, Company did not have revenues from subsidies and donations. Structure of total expense changed compared to 2004, due to notable US dollar exchange rate changes (so financial revenues increased significantly), while the highest share have operating expenses (84.5%), from which the highest increase was recorded in material costs and staff costs. Financial indicators point at positive trends, i.e. shifts in activities in comparison with the previous year. High current liquidity coefficient (3.45) shows high liquidity of the Company, but also shows that disposable money wasn't invested in Company's activities, along with significantly low degree of indebtedness in both years.

Narodne novine

Company ended the business year with HRK 17.9 million profit, what is 22.3% decline in comparison with 2004, as a result of higher growth of expense over income. Total income of the Company amounted to HRK 512.4 million and increased slightly (0.7%) in comparison with 2004, while total expense rose by 2.1% and equalled HRK 487.7 million. Total income structure remained unchanged when compared to 2004, but there were no revenues from subsidies in 2005. Staff costs share in total expense increased from 13.9 to 15.8%, as a consequence of including the entire employed in the third pension pillar. Company's activities in 2005 have positive trends, in spite of net profit decrease, which means that Company is operating stable and achieving good results. Company's liquidity increased compared to the previous year, along with high degree of self-financing and low degree of indebtedness at the same time.



Plovput Ltd.

Company ended the business year 2005 with HRK 3.6 million loss, which is 23.9% less than 2004 loss. Negative operating result was significantly influenced by decrease of revenues from yachts and boats, as well as increase in previous years' expenses, that is value adjustment of warehouse stock and increase in expenses for other services. Total income of the Company was HRK 59.7 million in 2005 and declined by 5.5% when compared to 2004, primarily due to the decrease of operating income of 5.6%, which has the highest share (98.0%) in total income. Subsidies and donations share increased by 31.8%. Total expense amounted to HRK 63.3 million and went down by 6.8% compared to previous year. Total liabilities of the Company on December 31, 2005 were significant 15.0% lower compared to 2004, as the consequence of simultaneous decrease in long-term and short-term liabilities. Company relies on own resources of funds in performing its activities and in big part on resources from the state budget, while indebtedness at credit institutions is negligible. Higher decrease of expense over income and lower loss achieved in comparison with 2004, resulted in positive shifts in Company's activities manifested through better financial indicators for year 2005.

Vjesnik

Within privatization preparations during 2005, previously started process of Company restructuring continued, by adjustment of organizational and personnel structure to essential technological modernisation. Company finished business year with HRK 19.5 million loss, which is almost twice higher than in 2004 when loss amounted to HRK 10.8 million, as a result of publishing activities and insufficient effects of Company restructuring. Basic printing activity gives positive operating results, while loss was achieved in publishing. Total income was HRK 281.0 million and rose by 3.1%, while total expense enlarged by 6.1% and amounted to HRK 300.5 million. Despite of increase in amount of subsidies from the state budget (from HRK 22.9 to HRK 30 million) positive shift did not happen. Staff costs rose by 9.3% and number of employees increased in comparison with previous year, at the same time. Investments went up by 85.0% in 2005 compared to 2004, but they are far below the Company needs. Technological unequipped became major restrictive factor of production increase and Company has problems that cannot be solved without implementation of operational and financial restructuring. Financial indicators' analysis shows that they worsened in 2005 and that Vjesnik has financial problems for longer time, which require more quality solution through restructuring process.



Table 9.1. Indicators on activities of enterprises in state and predominantly state ownership for I - XII 2005

(in 000 HRK)

No.	ENTERPRISES	TOTAL ASSETS	TOTAL LIABILITIES	PROFIT	LOSS	TOTAL INCOME	TOTAL EXPENSE
1.	Croatian Railways Ltd.	12,315,099	12,315,099	50,215		3,895,014	3,844,799
2.	Hrvatska elektroprivreda	28,154,557	28,154,557	441,315		9,653,326	9,108,896
3.	Hrvatske šume Ltd.	1,868,133	1,868,133	23,333		2,112,320	2,088,987
4.	Jadrolinija	964,919	964,919	2,594		752,412	749,818
5.	Croatian Post	1,268,771	1,268,771	6,148		1,472,342	1,466,194
6.	Narodne novine	416,769	416,769	17,883		512,416	487,738
7.	Hrvatska radiotelevizija	1,119,400	1,119,400	1,397		1,459,764	1,454,210
8.	INA industrija nafte	18,737,401	18,737,401	892,062		20,013,816	18,898,869
9.	Ploput Ltd.	137,608	137,608		-3,635	59,651	63,286
10.	Croatia Airlines Ltd.	2,148,054	2,148,054		-22,776	1,465,003	1,487,779
11.	Croatian Roads Ltd.	67,725,318	67,725,318	0		125,539	125,539
12.	Croatian Motorways Ltd.	35,853,063	35,853,063	0		1,059,088	1,059,088
13.	Autocesta Rijeka - Zagreb	5,090,394	5,090,394	37,517		466,634	429,117
14.	JANAF Jadranski naftovod	2,456,944	2,456,944	33,968		335,491	301,523
15.	Vjesnik	229,994	229,994		-19,526	280,976	300,502
16.	ACI (Adriatic Croatia International club)	447,405	447,405	12,756		126,768	114,012
17.	Hrvatska lutrija Ltd.	273,357	273,357	42,520		394,849	341,247
18.	Croatia osiguranje	5,708,707	5,708,707	98,220		3,140,252	3,026,755
19.	Croatian Waters	8,789,213	8,789,213	59,572		1,703,395	1,643,823
	TOTAL	193,705,106	193,705,106	1,719,500		49,029,056	46,992,182

Source: Financial reports of public enterprises



9.3 CONCESSIONS

9.3.1 Analysis of the Revenues from Concessions Charges in 2005

Total revenue from concessions charges in the period January - December 2005 amounted to HRK 318.4 million, which is 59.0% less than in 2004.

Extremely high rise of revenues from concessions charges on telecommunications was recorded in December 2004. At that time, HRK 540.0 million was paid into the state budget on the basis of these revenues, concessions granted for the third GSM network and two concessions granted for UMTS network.

There were no concessions granted for GSM and UMTS network in 2005, which accession (initial) fees are high, which influenced at revenues from concessions charges decline in 2005.

Planned revenues from concessions charges were HRK 441.7 million in 2005. Realization of revenues from concessions charges for January - December 2005 period amounts to HRK 318.4 million, which is 72.0% of the planned amount.

The highest share, of 62.0%, in the structure of revenues from concessions charges have revenues from charges for concessions on public telecommunications and use of radio frequency spectrum. These revenues were HRK 196.1 million in 2005 and 61.0% lower than achievement in 2004.

Decrease in revenues from charges for concessions on public telecommunications and use of radio frequency spectrum is a consequence of high rise of revenues in December 2004 (695.0%) compared to December 2005, when concessions for the third GSM network and UMTS network were granted. Revenues decline was also affected by decrease of charge for assigning concession for fixed operator. By modification of Regulation on assignment of concessions on telecommunications, charge decreased from HRK 8.0 million to symbolic HRK 20,000. Regulation was adopted with the meaning of telecommunication services market liberalisation - by increasing number of fixed operator services providers.

Revenues from charge for exploitation of mineral raw materials on the land owned by the Republic of Croatia amounted to HRK 25.8 million. This revenue is monitored from the beginning of 2005, in co-operation with Central State Administrative Office for State Property Management of the Government of the Republic of Croatia and Financial Agency. In 2004 there were no revenues achieved on this basis.

Revenues from charges for concessions on water and water estate were HRK 24.7 million, which is 4.0% less than in 2004.

Revenues from charges for concessions on gaming houses were realized in amount of HRK 23.5 million, which is a 6.0% decline when compared to 2004. The reason for this is decrease in gaming houses business recorded in February, June, July, October, November and December 2005.

When comparing observed periods, more substantial fall was also recorded in revenues from charges for concessions on maritime property (61.0%). This is due to the opening of new code for payments of charge for gas exploitation in continental shelf. This charge was paid in the state budget under the code on which charges for maritime property use were paid until the end of 2004, but this type of charge isn't charge for maritime property use, but charge for exploitation of mineral raw material.

Change resulted from appliance of new Law on maritime property and seaports (Official Gazette No. 158/03), according to which revenues from charges for concessions on maritime property are divided into three parts, between the state budget, county and city or municipality. By Contract on concession on gas exploitation in continental shelf it is clearly said that revenue from charge for concession on gas exploitation is the revenue of the state budget. Accordingly, Department of Economy attentively took care that this kind of revenue by Contract on concession shouldn't be shared, but it must be paid on special (new) code directly into state budget.

Congruently, Department of Economy asked for opening of the new code (5649) under which revenues from charges for concessions on gas exploitation in continental shelf should be paid in the state budget. In this way, from January 2005 this type of concession charge is separately monitored and analysed. It is important to mention that decline in revenues from charges for concession on maritime property is the result of above mentioned division of revenues from charges for concession in three parts, which is executed by provisions of the Law on maritime property and seaports.

Revenues from charge for concession on gas exploitation in continental shelf amounted to HRK 20.7 million in 2005, and they were on the fourth place regarding share in total revenues from concessions charges.

When analysing observed periods, slight increase was recorded in revenues from charges for concessions on hunting right, which amounted to HRK 3.5 million.

Revenues from charges for concessions on use of agricultural land owned by the Republic of Croatia amounted to HRK 3.6 million in 2005, which is significant increase (449.0%) when compared to 2004.

Revenues from charges for concessions on public roads and revenues from charges for concessions on opening duty free shops recorded small share in total revenues from concessions charges.



It is important to emphasize realization of revenues from charges for concession on exploitation of mineral raw materials on the land owned by the Republic of Croatia, which were at level of HRK 25.8 million in the observed period, then realization of revenues from charges for servitude on forest and forestry land owned by the Republic of Croatia in amount of HRK 6.4 million and revenue from annual rent of agricultural land owned by the Republic of Croatia in amount of HRK 4.1 million.

Within its activity in the Ministry of Finance, Department of Economy monitors this three new categories of revenues based on Contract on establishing servitude right because of the exploitation of mineral raw materials on the land owned by the Republic of Croatia, which, in the name of the Republic of Croatia assigns Central State Administrative Office for State Property Management of the Government of the Republic of Croatia. Contracts on establishing servitude right on the land owned by the Republic of Croatia are signed in the register of concessions.

In comparison with former monitoring of concessions charges, with beginning of year 2005 table on types of revenues from concession charges has been extended by four new types of revenues, which are:

- Charge for concessions on gas exploitation, which is granted by the Ministry of the Economy and refers to gas exploitation in Adriatic Sea in continental shelf. Congruently to signed contract, this charge is the revenue of the state budget. Accordingly, charge doesn't relinquish to the local and regional self-government units and authority in the area of exploitation, as regulated by Mining Act. This charge is paid in the state budget under code (5649) which was opened in May 2005.
- Annual rent on agricultural land is charge paid on the basis of Contract on establishing servitude right on the land owned by the Republic of Croatia because of the exploitation of mineral raw materials. This charge is the revenue of the state budget. Contract on establishing servitude right on the land owned by the Republic of Croatia assigns Central State Administrative Office for State Property Management of the Government of the Republic of Croatia. This charge is paid in under new code (5274).
- Charge for servitude on forest and forestry land also results from Contract on establishing servitude right on the land owned by the Republic of Croatia because of the exploitation of mineral raw materials. It is also the revenue of the state budget and it is paid in under new code (5614).
- Charge for exploitation of mineral raw materials on the land owned by the Republic of Croatia also results from Contract on establishing servitude right on the land owned by the Republic of Croatia because of the exploitation of mineral raw materials. Penalties for illegal exploitation of mineral raw materials are also paid into this account. This charge is the revenue of the state budget and it is paid in under new code (5630).



9 REPORT ON THE WORK OF THE DEPARTMENT OF ECONOMY IN 2005

Table 9.2. Overview of the revenues from concession charge by months in 2005

TYPE OF CONCESSION CHARGE	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	I-XII 2005
Charge for concessions on water and water estate	3,059.2	1,038.7	1,844.8	1,795.5	2,885.2	2,663.9	1,904.3	953.5	977.7	1,596.4	1,824.8	4,178.5	24,722.5
Charge for concessions on gaming houses	1,593.7	1,717.7	1,299.2	1,757.7	2,066.0	1,487.0	1,666.7	2,507.6	4,026.9	1,901.0	1,806.5	1,719.1	23,549.0
Charge for concessions on maritime property	419.2	1,024.6	1,548.6	762.5	1,762.0	315.1	343.0	1,586.8	1,425.2	465.1	110.0	179.4	9,941.3
Charge for concessions on public telecommunications and use of radio frequency spectrum	5,083.4	5,101.3	10,197.9	6,245.4	9,849.6	6,985.6	41,391.2	20,821.3	3,326.0	20,488.6	18,497.2	48,082.3	196,069.9
Charge for concessions on opening duty free shops	0.0	0.0	4.6	0.0	0.0	0.0	0.0	4.4	0.0	0.0	0.0	0.0	9.0
Charge for concessions on public roads	8.6	0.0	0.0	0.0	1.3	2.7	2.4	1.0	2.0	0.7	7.4	0.0	26.2
Charge for concession on use of agricultural land owned by the Republic of Croatia	32.6	44.1	4.9	549.4	983.4	39.6	7.8	3.2	198.9	39.6	0.0	1,709.0	3,612.4
Charge for concession on hunting right	24.5	0.0	1,196.0	0.0	263.1	18.1	0.0	0.0	0.0	1,880.5	48.8	102.5	3,533.4
Charge for concessions on gas exploitation	1,448.1	1,910.2	1,696.3	1,795.8	1,562.8	1,565.4	1,630.4	1,584.7	1,549.8	1,725.2	1,924.0	2,291.5	20,684.3
Annual rent on agricultural land	201.8	12.6	1,921.8	16.6	20.3	45.7	66.9	21.3	193.3	211.2	6.1	1,394.0	4,111.6
Charge for servitude on forest and forestry land owned by the Republic of Croatia	608.4	1,026.7	294.3	424.4	599.9	648.2	1,418.5	299.0	0.0	336.7	86.0	670.2	6,412.3
Charge for exploitation of mineral raw materials on the land owned by the Republic of Croatia	0.0	0.0	953.2	4,580.8	221.4	821.6	2,817.2	0.0	4,289.1	91.2	3,530.8	8,458.0	25,763.3
TOTAL	12,479.5	11,875.8	20,961.7	17,928.1	20,215.1	14,592.8	51,248.4	27,782.8	15,989.0	28,736.1	27,841.5	68,784.4	318,435.0
Cumulative	12,479.5	24,355.3	45,317.0	63,245.1	83,460.2	98,053.0	149,301.3	177,084.1	193,073.1	221,809.2	249,650.7	318,435.0	

Source: Financial Agency

(in 000 HRK)



Table 9.3. Overview of the revenues from concession charge by months in 2004

(in 000 HRK)

TYPE OF CONCESSION CHARGE	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	I-XII 2004
Charge for concessions on water and water estate	1,279.9	990.9	484.5	1,732.8	5,297.5	641.5	3,008.0	1,253.5	3,906.2	2,258.8	1,685.2	3,234.7	25,773.4
Charge for concessions on gaming houses	1,511.6	2,297.5	1,292.8	1,377.5	1,805.1	2,022.0	2,007.5	2,486.7	3,893.1	1,948.1	2,292.4	1,993.7	24,928.0
Charge for concessions on maritime property	2,168.5	3,714.1	7,166.3	2,664.5	6,326.7	1,500.1	1,455.1	1,998.5	3,398.6	1,685.2	1,778.7	1,342.5	35,198.5
Charge for concessions on public telecommunications and use of radio frequency spectrum	326.1	14,661.2	10,084.0	8,244.0	5,001.4	6,287.9	47,764.6	15,712.6	13,643.2	13,605.1	7,789.9	539,859.9	682,980.0
Charge for concessions on opening duty free shops	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	1.6
Charge for concessions on public roads	0.7	0.0	1.3	0.0	1.3	4.6	0.0	1.1	0.0	0.3	0.2	2.2	11.6
Charge for concession on use of agricultural land owned by the Republic of Croatia	16.2	0.4	0.5	0.4	0.0	0.0	0.0	3.2	82.3	292.8	83.1	176.4	655.4
Charge for concession on hunting right	16.6	105.9	833.4	249.0	435.1	107.8	20.9	0.0	29.2	1,054.5	87.8	262.6	3,202.7
Charge for concessions on gas exploitation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Annual rent on agricultural land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charge for servitude on forest and forestry land owned by the Republic of Croatia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charge for exploitation of mineral raw materials on the land owned by the Republic of Croatia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	5,319.6	21,770.6	19,862.8	14,268.3	18,867.1	10,564.0	54,256.1	21,456.5	24,952.6	20,844.7	13,717.1	546,871.9	772,751.2
Cumulative	5,319.6	27,090.1	46,952.9	61,221.2	80,088.2	90,652.3	144,908.3	166,364.8	191,317.4	212,162.2	225,879.3	772,751.2	

Source: Financial Agency



Table 9.4. Absolute changes 2005 - 2004 by single type of concession

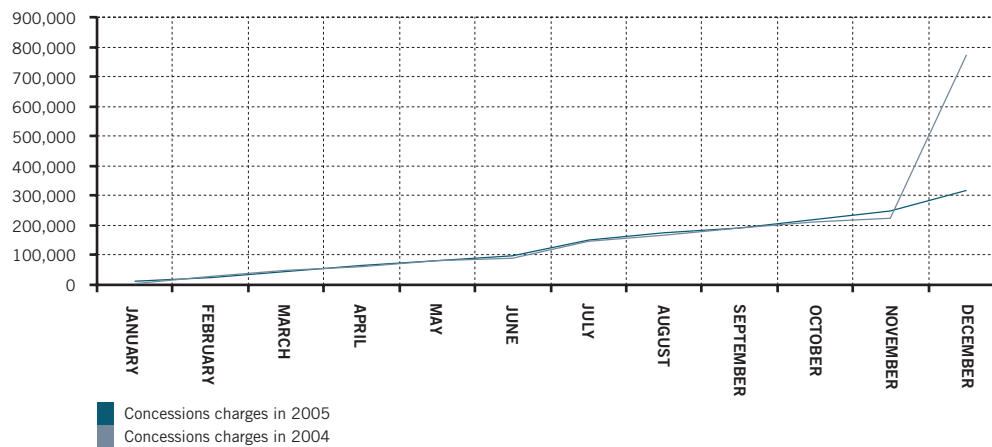
TYPE OF CONCESSION CHARGE	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	I-XII 05/04
Charge for concessions on water and water estate	1,779.4	47.9	1,360.3	62.7	-2,412.3	2,022.3	-1,103.7	-300.0	-2,928.5	-662.4	139.6	943.8	-1,050.9
Charge for concessions on gaming houses	82.1	-579.8	6.4	380.1	260.9	-535.0	-340.8	20.9	133.8	-47.2	-485.9	-274.6	-1,379.1
Charge for concessions on maritime property	-1,749.3	-2,689.5	-5,617.8	-1,902.0	-4,564.8	-1,185.0	-1,112.1	-411.6	-1,973.4	-1,220.0	-1,668.7	-1,163.1	-25,257.3
Charge for concessions on public telecommunications and use of radio frequency spectrum	4,757.3	-9,559.9	1,139	-1,998.6	4,848.2	697.6	-6,373.4	5,108.7	-10,317.2	6,883.5	10,707.3	-491,777.7	-486,910.1
Charge for concessions on opening duty free shops	0.0	-0.6	4.6	0.0	0.0	0.0	0.0	3.5	0.0	0.0	0.0	0.0	7.4
Charge for concessions on public roads	7.9	0.0	-1.3	0.0	0.0	-1.9	2.4	-0.1	2.0	0.4	7.2	-2.2	14.5
Charge for concession on use of agricultural land owned by the Republic of Croatia	16.3	43.6	4.4	549.0	983.4	39.6	7.8	0.0	116.6	-253.2	-83.1	1,532.6	2,957.0
Charge for concession on hunting right	7.9	-105.9	362.7	-249.0	-172.0	-89.8	-20.9	0.0	-29.2	826.0	-39.0	-160.1	330.7
Charge for concessions on gas exploitation	1,448.1	1,910.2	1,695.3	1,795.8	1,562.8	1,565.4	1,630.4	1,584.7	1,549.8	1,725.2	1,924.0	2,291.5	20,684.3
Annual rent on agricultural land	201.8	12.6	1,921.8	16.6	20.3	45.7	66.9	21.3	193.3	211.2	6.1	1,394.0	4,111.6
Charge for servitude on forest and forestry land owned by the Republic of Croatia	608.4	1,026.7	294.3	424.4	599.9	648.2	1,418.5	299.0	0.0	336.7	86.0	670.2	6,412.3
Charge for exploitation of mineral raw materials on the land owned by the Republic of Croatia	0.0	0.0	953.2	4,580.8	221.4	821.6	2,817.2	0.0	4,289.1	91.2	3,530.8	8,458.0	25,763.3
TOTAL (monthly level)	7,160.0	-9,894.8	1,098.9	3,659.8	1,348.0	4,028.8	-3,007.7	6,326.3	-8,963.6	7,891.3	14,124.4	-478,087.5	-454,316.2
DIFFERENCE (TOTAL 2005-2004 cumulative)	7,160.0	-2,734.8	-1,636.0	2,023.9	3,371.9	7,400.7	4,393.0	10,719.3	1,755.7	9,647.0	23,771.4	-454,316.2	
Share 2005/2004 total	234.6	89.9	96.5	103.3	104.2	108.2	103.0	106.4	100.9	104.5	110.5	41.2	

(in 000 HRK)

Source: Financial Agency



Figure 9.1. Parallel overview of concessions charges by months for 2005 and 2004





9.4 STATE AID

9.4.1 Introduction

By Stabilisation and Association Agreement (SAA) between the Republic of Croatia and the European Communities and their Member States, Republic of Croatia, among other, has taken over obligations concerning establishment and alignment of the state aid system with the EU state aid system. Mentioned alignments, congruently to SAA, had to be carried out until March 2006.

State aid supervision system in the Republic of Croatia is based on two regulations: State Aid Act and Regulation on State Aid.

According to mentioned internationally taken commitments and related to state aid area, Ministry of Finance was obliged to create new State Aid Act in 2005, additionally adjusted with Community acquis.

9.4.2 State Aid Act

By new State Aid Act (Official Gazette No. 140/2005) following amendments in the state aid system were carried out:

- 1) Direct associating of the state aid system arranged by this Act with obligations of the Republic of Croatia from Article 70 of the SAA,
- 2) nomotechnical modification of the term "privilege" into "advantage" due to the conceptual alignment with the Acquis Communautaire of the European Community and alignment of program definition, that is state aid schemes (according to nomenclature of European Community acquis) and individual aid with definitions from European Community acquis (Regulation 659/99),
- 3) further alignment of definition of general prohibition and exemptions to general prohibition with European Community acquis, according to European Commission recommendations,
- 4) number of nomotechnical alignments of terms, competences, introducing provisions on possibility of founding expert and advisory bodies and application of rules based on Article 70 of the SAA, according to European Commission recommendations,
- 5) exchange of provisions of old Articles 8 and 9 for the purpose of efficient proceeding of Croatian Competition Agency (CCA) in line with General Administrative Procedure Act and Budget Act, with exception of Article 266 of the General Administrative Procedure Act, on European Commission recommendation,
- 6) introduction of more flexible determining of delivery time limits and settlement of issue of repeating requests because of more efficient proceeding in front of CCA,
- 7) introducing more efficient procedure of delivery, approval, supervision of implementation and return of state aid in front of CCA; former procedure based on distinguishing general and individual state aid showed inefficient; now there are two possibilities: in the first case, if state aid proposition is contained in the legal proposal, on this legal proposal CCA issues obligatory preliminary opinion which is delivered to the Government of the Republic of Croatia and to the Croatian Parliament; in the second case, if state aid proposition is in the procedure in front of the Government of the Republic of Croatia or in the procedure in front of other governmental and other bodies, then CCA participates in the procedure by giving obligatory preliminary approval; modifications of other provisions represent alignment with mentioned objective; failure to submit the act proposal that contains provisions on state aid assignment on approval, or adoption of an act which contains provisions on state aid without CCA approval brings to illegality; in this case return of funds if they were used based on this nonexistent provisions is ordered; of course, there is a possibility of convalidation of mentioned provisions by subsequent CCA approval,
- 8) alignment with provisions on so-called appropriate measures from European Community acquis (Regulation 659/99),
- 9) publication of all acts by which CCA approves and supervises state aid implementation and orders return of unlawfully assigned state aid and also judgments of authorized court on this aid in Official Gazette, all with purpose of transparency of the state aid system,
- 10) nomotechnical alignment of provisions on official secret in accordance with European Commission recommendations,
- 11) new time limit for submitting annual report in line with European Commission recommendation, with purpose of alignment with European Commission time limits,
- 12) determining of the time limit for alignment of Regulation on State Aid with provisions of this Act,
- 13) arrangement where, on administrative procedures related to state aid started in CCA until this Act became effective, provisions which were valid until then apply.

10
REPORT ON THE WORK
OF THE DEPARTMENT FOR
HARMONISATION OF INTERNAL AUDIT
AND FINANCIAL CONTROL IN 2005



10.1 INTRODUCTION

In the Republic of Croatia it is necessary to establish and develop the system of internal financial control in order to enable the heads of budgetary users to manage, use and control public resources efficiently. By means of transparent, efficient management and control of public revenues, proceeds, expenses and disbursements as well as of assets and liabilities, the taxpayers are provided with the expected service. The internal financial control in Croatia has been developed since 2003, according to the approaches used in the European Union. It represents an overall integrated system established by budgetary users in order to control, audit and report upon the use of national budgetary resources and resources of the European Union.

The system of internal financial control in the public sector includes two components:

- financial management and control
- internal audit.

Financial management and control is a comprehensive system of internal controls established by the heads of budgetary users, who are also held responsible for them, which ensures, by means of management of risks and with a reasonable certainty, that the budgetary and other resources will be used in a proper, ethical, economic, effective and efficient way in accomplishing the goals. This means they will be used in accordance with the laws and other regulations, safeguarding the resources from loss, misuse and damage. This system encompasses all business transactions related to revenues/proceeds, expenses/disbursements, refunds of budgetary resources, assets and liabilities. The system of internal control is implemented by the heads and employees of budgetary users.

Internal audit is an independent activity which evaluates the systems of internal control, provides independent and objective professional opinion and advice for improvement of the business activity; supports the budgetary user to achieve its goals by means of introducing a methodical and disciplined approach as well as by evaluating and improving the efficiency of risk management, control and overall management processes.

The Department for the Harmonisation of Internal Audit and Financial Control of the Ministry of Finance (further in text: Central Harmonisation Unit) is responsible for the development of the methodology and for the coordination of activities of budgetary users related to the development of internal financial control systems, as well as for the education of employees.

The Central Harmonisation Unit was established within the Minister of Finance by the Decree on Internal Organisation of the Ministry of Finance in April 2005. It consists of two divisions:

- Division for Methodology and Coordination of Internal Audit
- Division for Methodology and Coordination of Financial Management and Control.

The responsibilities of both the divisions primarily relate to the establishment, coordination and development of systems of internal financial control in the public sector of Croatia as well as to the assessment and development of the methodology and work standards for internal audit and financial management and internal control systems in line with international standards and best practice of the European Union. A basic task is also the education of internal auditors and persons involved in financial management and internal control.

All the activities in 2005 included the participation of experts from the CARDS 2002 project - Development of Internal Financial Control in the Public Sector and Internal Audit in Croatia (further in text: CARDS 2002). The project was finalised by the end of 2005, thanks to which good results were achieved in the field, while since April 2006 the new follow-up project CARDS 2004 - Strengthening of the Public Internal Financial Control Structure in the Republic of Croatia started, aimed at the improvement and further development of the achieved in the field of internal financial controls systems.



10.2 ACTIVITIES OF THE CENTRAL HARMONISATION UNIT IN 2005 RELATED TO THE SYSTEM OF INTERNAL FINANCIAL CONTROL

Within the activities implemented in 2005 by the Central Harmonisation Unit related to the adoption of certain acts and documents as well as to other activities, the following should be highlighted:

10.2.1 The Government of the Republic of Croatia adopted on June 15, 2005 the Strategy for the Development of Public Internal Financial Controls (PIFC) in the Republic of Croatia. The purpose of the strategic document on public internal financial control is to bring forward the key elements of the present situation as well as on the development strategy for the establishment of a comprehensive and efficient public internal financial control in Croatia.

The development strategy for the system of internal financial control, which is identical for national resources as well as for EU funds' resources, is of major importance for the accession of Croatia in the EU.

The principles of internal financial control systems described in the Strategy will be implemented in the Law on the System of Internal Financial Control which has to be adopted in 2006, according to the National Programme of the Republic of Croatia.

The document describes the current situation in the field of PIFC along with the overall control environment and legislative framework regulating this subject, describes the system to be achieved, designating the goals to realise and suggesting a time framework for individual activities in PIFC development related to the accomplishment of objectives within individual development stages, and gives conclusion remarks.

Prior to the submission for approval to the Croatian government, the document received a positive opinion from the European Commission - DG Budget and it is essentially important in the evaluation of the process of Croatia's accession to the European Union, linked to the answers in the chapter 32 of the Questionnaire of the European Commission.

10.2.2 The Minister of Finance adopted the Rulebook on Internal Control of Budgetary Users¹ which stipulates the conditions that an internal auditor must fulfil, the standards and methodology for internal audit, common criteria upon which budgetary users organise the internal audit function, and the coordination of work of budgetary users' internal audit.

The Rulebook regulates the cooperation with the State Audit Office and other bodies, as well as the authorities and tasks of the Ministry of Finance, Central Harmonisation Unit.

10.2.3 The Code of Professional Ethics of Internal Auditors in the Republic of Croatia (further in text: the Code) was adopted by the Minister of Finance on August 3, 2005 and is based on the principles and rules of the Code of Ethics of the Institute of Internal Auditors (IIA).

The Code contains the principles and rules to which certified internal auditors must comply as well as officials involved in the training for the certification of internal auditors and other persons involved in internal audit activities. The adoption and implementation of the Code promotes the confidence in internal auditors and their work. Internal auditors must comply to the principles and rules of the Code in order to ensure the independence, objectiveness and integrity of their work and, at the same time, to constantly improve their knowledge with the aim of upgrading the quality of work.

The basic principles of professional ethics to which internal auditors must comply are as follows: integrity, independence, objectiveness, confidentiality and avoidance of conflict of interests.

10.2.4 The draft Charter of Internal Auditors (further in text: the Charter) was developed by the Central Harmonisation Unit.

The Charter highlights the stronger functional independence of the new profession of internal auditors in Croatia and describes the relationship between internal auditors and the audited subject. The Charter contains the auditor's competences, authorities, rights and obligations which are confided to each audit office or audit unit as well as to internal auditors. The heads of internal audit units as well as the heads of budgetary users sign the Charter as a kind of agreement on mutual rights and obligations of internal auditors and audited units.

The Charter is a document that can be adjusted to the needs of each individual budgetary user, while the Code of Ethics is unique for all internal auditors.

The Central Harmonisation Unit keeps the register of the Charters of Internal Auditors.

¹ Official journal "Narodne novine" no. 150/05



10.2.5 During 2005, the Handbook for Internal Auditors was prepared by both the employees of the Central Harmonisation Unit and experts of the CARDS 2002 project, and it is being used since. The Handbook prescribes the methodology for conducting internal audit and has been complemented in the second half of 2005 by two additional areas related to risk assessment and audit of pre-accession funds (funds of the European Union).

A Handbook of Financial Management System and Control is currently being developed which will describe in details the individual actions and procedures which have to be implemented in order to establish the system in all the budgetary users. The Handbook will be updated yearly, trying to address the potential problems that might arise during the establishment of the system.

10.2.6 Together with the CARDS 2002 project experts, training for internal auditors and persons involved in financial management and control was organised, which is described in more details in the chapter 10.4 of this report. The training of internal auditors is a continuous task of the Central Harmonisation Unit which is conducted by trained professionals, and is equally related to the training of persons involved in financial management and control.

10.2.7 For the purpose of conducting the training and organising the exam for the certification of internal auditors, the Minister of Finance promulgated in August 2005 the Programme for Professional Training and Examination for the Certification of Public Internal Auditors and the Instruction on Verification of Knowledge and Capacities and Examination for Certified Public Internal Auditor which prescribe the necessary training and modalities of achieving the professional certificate.

10.2.8 The education of internal auditors doesn't stop by earning the profession of certified internal auditor. The profession of internal auditor requires constant improvement and acquisition of new knowledge. Therefore, several study tours to the Netherlands, Finland, Latvia and Slovenia were organised within the CARDS 2002 project in order to familiarise with the establishment, organisation and development of internal financial control systems in those countries.

10.2.9 In October 2005, the first joint seminar of internal auditors was organised in Umag. The seminar addressed three topics of particular concern related to strategic planning, compilation of reports on conducted audit as well as the compilation of the annual report for the purpose of reporting to the government of Croatia. The aim of the seminar wasn't only the acquisition of new knowledge, but also the formation of a network of internal auditors as well as the development and strengthening of the internal audit profession.

10.2.10 With the aim of establishing systems of internal financial controls (internal audit and financial management and control) within budgetary users, the Central Harmonisation Unit went to almost all ministries and other budgetary users in order to present to the heads of users the importance and need to introduce the systems of internal financial control and the benefits that such internal controls gain. The establishment of systems of internal financial control is not just a requirement of the European Union, but primarily a necessity imposed for the purpose of efficient management and control on public resources.



10.3 ESTABLISHMENT OF SYSTEMS OF INTERNAL FINANCIAL CONTROLS IN CROATIA

The Budget Act stipulates the definition of internal audit and its task. It is prescribed that budgetary users at central and local level must organise an internal audit unit and that this is within the responsibility of the head of the budgetary user. The law regulates the competences of the internal auditor, but it also stipulates that the Minister of Finance should prescribe by a rulebook the conditions which an internal auditor must fulfil, the work methodology, the common criteria based on which budgetary users should establish the internal audit.

Among other, the Budget Act regulates the competence of the head of the budgetary user which is responsible for the lawful, efficient, economical and on purpose disposal of budgetary resources.

Also, the role of financial controller and accountable person is prescribed which is important for the establishment of internal controls.

The Law on the Organisation and Domain of Central Governmental Administration Bodies regulates the organisation, authority and tasks of central governmental administration bodies. The Law on the Organisation and Domain of Central Governmental Administration Bodies was changed and supplemented in March 2004 when the Ministry of Finance became responsible for the development of public internal financial controls in line with international standards and best European practice. Therefore, this task fell within the competence of the Central Harmonisation Unit of the Ministry of Finance which has also become the primary task of this unit.

The Central Harmonisation Unit has the task to coordinate all the activities related to the establishment of internal audit and financial management and control units within budgetary users. Therefore, it is involved in the adoption of decrees regulating the internal organisation of certain public bodies, i.e. budgetary users. Namely, each draft decree of an individual body, prior to submission for approval to the government of Croatia, was discussed by the Central Harmonisation Unit and an opinion was given.

A description and a list of activities for internal auditors and persons involved in financial management and control was developed as well as job descriptions of individual divisions in order to ensure a relatively equal description of the jobs of those posts and divisions in all the acts of budgetary users and other governmental bodies. In that way, an equal level in the normative regulation of internal audit and internal financial control is achieved as well as ensured to a certain level that the tasks of PIFC or internal audit are well established and described and that the internal audit unit is situated directly next to the head to which is accountable.

From time to time, the Central Harmonisation Unit visits the heads of budgetary users and informs them on the establishment of PIFC in Croatia as well as on their further obligations in this area.

The internal organisation and the required number of internal auditors within an internal audit unit is designated by the budgetary user by its acts of internal organisation, depending on the number of employees, business processes by which it accomplishes its goals and the budgetary and other resources it disposes with.

In 2005, a total of 32 budgetary users, financed directly from the central budget, were obligated to establish internal audit units, out of which 13 ministries and 19 other government administration bodies among which the Croatian Pension Fund, Croatian Health Institute and Croatian Employment Service.

The normative organisation of internal audit units was defined in 12 out of 13 ministries, however all the ministries and 9 other government administration bodies started with internal audit activities. Therefore, out of a total of 33 budgetary users included in the questionnaire on internal audit activities in 2005, within 21 users (64%) there were activities of internal audit performed. The process of establishing internal audit units started in 2005 and it is therefore in its beginnings.

All the internal audit units that have been established (and the budgetary users are financed from central budget) were linked directly to the head of the user, i.e. organised as independent departments or standalone departments directly responsible to the head. The departments are headed by directors i.e. head of units who are exclusively responsible to the head of the user for both the activities in his/her competence and for the activities and responsibility of internal auditors.

The establishment of financial management and control is at its start as well and has to be established at each budgetary user or other public administration body. The establishment of this system is an obligation and responsibility of the head of the user.

In order to set up the mentioned system in public administration bodies it is necessary to appoint in each body persons responsible for the implementation of a financial management and control system. The Central Harmonisation Unit has during 2005 started the cooperation with budgetary users and has organised presentations and meetings with representatives and responsible persons in order to raise the awareness on the need to establish a system of financial management, internal control and internal audit. The mentioned is necessary in order to decline the present vagueness and misunderstanding and to continue the activities



for the establishment of internal financial control systems. Both the Strategy for the development of internal financial controls adopted by the government of Croatia and the Law on Public Internal Financial Control foresee the responsible persons for the establishment and development of financial management and internal control systems (the director for financial management and control and the coordinator for financial management and control). Moreover, it foresees the persons who will perform prior and subsequent control activities (financial and other controllers).

In order to establish the overall system of internal financial control it is necessary to train internal auditor as well as the persons involved in financial management and control which is one of the basic tasks of the Central Harmonisation Unit.



10.4 EDUCATION OF PERSONS INVOLVED IN THE ESTABLISHMENT AND IMPLEMENTATION OF INTERNAL FINANCIAL CONTROL SYSTEMS

10.4.1 Education of Internal Auditors and Achievement of a Professional Certificate

The education of internal auditors started in April 2004 within the framework of the CARDS 2002 project. The lecturers were international experts which have simultaneously established the programme and methodology of education for the new profession of public internal auditors.

For the purpose of training and organisation of an exam for the achievement of a professional internal auditor certificate as well as for the implementation of the Strategy for the development of PIFC, in August 2005 the Minister of Finance promulgated, on a proposal of the Central Harmonisation Unit, the Programme for the education and examination for the public internal auditor certificate and the Instruction for the verification of knowledge and capacity and examination for public internal auditor which prescribe the training and modalities of achieving the professional certificate.

The Instruction prescribes the modalities of verification of knowledge and capacities and the organisation of the exam for certified public internal auditor, while the education, capacity verification and examination for certified public internal auditor is conducted according the Programme.

Certified public internal Auditors are persons that fulfil the following criteria:

- University degree or higher
- prerequisites for the employment as civil servant
- professional certificate of the Minister of Finance to perform the activities of public internal audit, achieved by the programme and procedure adopted by the Minister of Finance.

Officials who opt for internal audit training and profession should append the approval of the head of the unit to their application, after which are called for an interview in order to realize their motivation, understanding and attitude towards internal audit.

The training programme is composed of a theoretical and practical part.

The theoretical part consists of seven modules or basic subjects which refer to the following areas:

1. Best practice in public internal audit
2. Audit in practice - performing audit
3. Communication skills and interpersonal relations
4. Risk management and control
5. Advanced (complex) audit
6. Accountancy and finance
7. Information technology in service of audit and basic elements of information technology audit.

The training within each module lasts approximately five working days. The theoretical part of the training (mandatory) comprises a total of seven weeks. After the third module, the training participants take a written exam of knowledge and capacity for internal audit in the form of essay which has to be compiled and presented.

After the presentation of the written task - essay, the candidate is evaluated as for the capacity and readiness for the performance of internal audit activities.

After the verification, the candidates are granted the authorisation - Certificate I on which basis they are authorised to perform internal audit activities in practice, with the mentorship of certified internal auditors.

After receiving the Certificate I, the participants may continue the education within further modules and take an exam for certified internal auditor after the seventh module. The final exam consists of five examination areas or five separate sections.

After passed the exam, the candidate is granted the authorisation - Certificate II to perform activities of internal audit which confirms that the candidates have completed the theoretical skills acquired through seven modules.

Besides theoretical skills, it is necessary that internal auditors also acquire practical experience. The practical part of the education consists of at least two performed audits. The theoretical and practical parts of the education may last from 12 to 18 months and it is usually performed in parallel.

After the participants receive the Certificate I and Certificate II and perform at least two audits, they are granted the professional authorisation for the performance of internal audit and acquire the profession of certified internal auditor. The professional authorisation is granted by the Minister of Finance.

By the end of 2005 five training cycles were held in which 100 internal auditors were involved. As many as 67 out of them has passed the written exam and 34 has achieved the professional authorisation by the Minister of Finance.

The Central Harmonisation Unit keeps the register of internal auditors (as a relations database). The register contains data on each registered training participant or internal auditor. From the register it can be retrieved



the data on individual internal auditors as well as specific data common to all internal auditors. In that way, the register fosters the establishment and maintenance of the internal auditors' network.

10.4.2 Mentorship of Internal Auditors

The procedure for the achievement of the professional authorisation for internal auditor was developed in cooperation of the Central Harmonisation Unit and the CARDS 2002 project. The professional authorisation for internal auditor certifies the acquired knowledge and skills, the capability of implementing international standards and best practices in internal audit as well as the relative experience in internal audit.

Internal auditors that were granted the professional authorisation by the Minister of Finance act as mentors to new participants trained for internal auditors within their internal audit units. In the case the internal audit unit is established within the budgetary user that lack an professionally authorised internal auditor, internal audits are performed with the mentorship of certified internal auditors (mentors) from the CHU or with the support of experts from the CARDS 2004 project. For that job the mentors are trained separately and will be further trained within the CARDS 2004 project.

During 2005 and within the framework of the CARDS 2002 project, the internal audit experts have mentored a total of 24 pilot audits with persons involved in the process of education for internal auditors.

At the end of 2005 two employees of the Central Harmonisation Unit were included into the mentorship. In future, even a stronger involvement of CHU employees into mentorship it is envisaged, in cooperation with the CARDS 2004 project.

10.4.3 Education of Persons Involved in Financial Management and Control

The system of financial management and control will be implemented in line with international standards for internal control and therefore one of the main tasks of the CHU is the education of persons involved in financial management and control. During 2005 a total of 31 budgetary users (ministries, institutes, central offices of the government of Croatia and state administrative organisations) were included into the process of education.

For the managers of financial management and control, appointed as responsible persons within budgetary users for the organisation and implementation of those activities, a total of six workshops was held related to the establishment of systems of financial management and controls as well as to the risk assessment (Risk assessment for Managers).

At two workshops on the implementation of systems of financial management and control there were a total of 44 budgetary users' representatives, while on two workshops organised as advanced level of education a total of 31 participants was present. Two two-day workshops were held for financial management and control managers related to the risk assessment where a total of 35 participants were present.

Two workshops at which 35 participants were present were held with the aim of introducing to budgetary users the elaboration of flow charts and audit traces.

Four workshops were held for financial controllers i.e. persons involved in prior controls during 2005. As many as 32 controllers participated at two two-day workshops, while two three-day workshops were attended by 34 participants.

The Department keeps register on the workshop participants, financial management and control managers and on financial controllers.

The monitoring of international internal control standards and best practices represents a need and task of the Central Harmonisation Unit. Therefore, international cooperation is foreseen in the form of participation to seminars and workshops related to the establishment of internal control systems.

10.4.4 Continuous Professional Improvement of Internal Auditors and Persons Involved in Financial Management and Control

The education of internal auditors doesn't terminate with the achievement of certified internal auditor profession title. The profession of internal auditor requires constant improvement and acquisition of new knowledge. The same applies to persons involved in financial management and control. That is the reason why the Central Harmonisation Unit, together with the CARDS 2002 project, organised in the end of 2005 study tours in the Netherlands, Finland, Latvia and Slovenia in order to study the establishment, organisation and development of internal financial control systems in those countries. The experience from those European countries will be used in the implementation of financial management and control in Croatia.



The Central Harmonisation Unit organised the first seminar for public internal auditors (Umag, October 2005) which comprised two segments: the introduction part on the current and future development of the internal audit profession in Croatia and the work in workshops. The introduction part informed internal auditors on the current situation, development and future tasks in the field of internal audit. The workshops were about strategic planning, audit reports and annual reports of internal audit units upon performed audits. The aim of the seminar was not only the acquisition of new knowledge but also the development of the internal audit profession and strengthening of the internal auditors' network.

The CARDS 2002 project put strong emphasis on the establishment and sustainability of the internal auditors' network, which was later taken as task of the Central Harmonisation Unit. Those actions will be in the future directed into the cooperation with the Croatian Institute for Internal Audit, which is currently being established.

Moreover, the continuous education can be performed within other institutions, for instance: seminars and symposiums organised by the Croatian Community of Accountants and Financial Professionals, seminars organised by the "Centre of Excellence in Finance", conference for the Central Harmonisation Unit in the European Commission and other.



10.5 INTERNAL AUDIT COUNCIL

The Internal Audit Council was established with the aim of strengthening the development and monitoring of internal financial control and internal audit. The Council is an advisory body to the Central Harmonisation Unit.

The Council convenes at least two times a year for the purpose of:

- giving opinion on the consolidated annual internal audit report prior its submission to the government of Croatia,
- giving advice upon problems which might arise within certain audits, internal auditors or internal audit units,
- advising on appointments or dismissal of internal audit unit managers.

The Internal Audit Council was appointed in December 2005 by a decision of the government of Croatia. The Minister of Finance is the president of the Council, while the members of the Council are ministers, heads of other institutions as well as managers of certain internal audit units.

The first meeting of the Internal Audit Council was held in the beginning of 2006 when the consolidated annual internal audit report for 2005 was discussed prior to its submission to the government of Croatia. In line with the proposed Law on Public Internal Financial Control Systems it is foreseen that the Council addresses the overall system of internal financial control and not only the activities of internal audit.



10.6 COOPERATION WITH OTHER INSTITUTIONS

The Central Harmonisation Unit cooperates with numerous budgetary users, but also with other institutions, state-owned enterprises and associations whose activities are linked to audit (commercial audit, state audit, and internal audit).

The cooperation is necessary in order to improve the system of internal financial control.

The Strategy and Rulebook prescribe that the cooperation with the State Audit Office is necessary in order to establish a common approach to the most important audit issues, but keeping in mind the independence and autonomy of state and internal auditors.

As stipulated by the Rulebook, internal auditors are obligated to cooperate with state auditors and provide them with all the information related to the content of terminated internal audits.

The joint education of internal and state auditors represents one of the most important forms of cooperation which will develop even more in the following years.

During 2005, a considerable cooperation between the State Audit Office and internal auditors failed to establish, however important shifts were achieved in 2006 when the internal auditors of the Ministry of Finance were involved in the education of state auditors on the topic of audit of pre-accession fund resources. The education was organised within the framework of the twinning project of the State Audit Office and representatives of the state audit institution of the United Kingdom.

A joint seminar for state audit representatives and internal auditors was organised by the Central Harmonisation Unit in order to present the methodology and modalities of work of state and internal auditors. Such workshops and seminars will be held in future with the aim of providing the best education and better relations between the two professions.

The Central Harmonisation Unit will be involved in the activities of the Institute of Internal Auditors (IIA) which is currently being established in Croatia as a branch of the American Institute of Internal Auditors. Cooperation has been established also with the Croatian Community of Accountants and Financial Professionals i.e. the Internal Audit Section which once a year convenes internal auditors from all the institutions for a joint seminar

Each piece of cooperation may help in the building and further development of system of internal financial controls being established



10.7 OTHER ACTIVITIES IN 2005

- The development of the Law on Audit (official journal "Narodne novine" 146/05) was one of the hardest tasks of the Central Harmonisation Unit. The work on the harmonisation of the Law with the acquis of the European Union and the normative definition of the performance of legal audit in Croatia took more than half a year and was done in cooperation with the representatives of the auditor associations. The Law stipulates who can perform the audit and who is subject to audit, defines the tasks and authorities of the Croatian Chamber of Auditors as well as other issues related to the performance of legal audit.
- Issuance of decisions to companies, i.e. work permits for the performance of audit of annual financial reports,
- Submission of regular reports on performed activities in the field of internal financial control systems Chapter 32 - Financial Surveillance and Chapter 6 - Company Law in the Field of Commercial Audit,
- Compilation of an instruction for the purpose of elaboration of the annual consolidated report on internal financial control systems,
- In the use of pre-accession funds for the preparation of Croatia for the accession in the European Union certain activities were organised related to the audit of those resources and an action plan of use of "internal auditors' capacities" was developed which was approved by the government of Croatia and adopted in May 2005,
- Responses to different enquiries, meetings, participation to seminars and other activities linked to the regular conduct of work,
- Giving opinion to proposals of laws and other budgetary users' regulations,
- Participation in the elaboration and maintenance of a glossary or dictionary related to the system of internal financial control,
- Meetings with foreign representatives and consultants as well as auditors from the European Union and domestic audit companies,
- Development of a web page for internal audit and financial management and control,
- Preparation and consolidation of answers to the findings of the State Audit Office and consolidation and compilation of materials for the parliament according the findings of the State Audit Office for 2003. The materials referred to the measures taken and action plan for the next period.
- Participation in the preparation and maintenance of the final event of the CARDS 2002 project,
- Compilation of the Terms of Reference for the CARDS 2004 project and preparatory activities for its inception.

All the mentioned activities were performed during 2005 with the participation of six employees who bore completely the burden of establishment and development of the system of internal financial control in Croatia. Therefore the Central Harmonisation Unit should be strengthened by new young professionals, with knowledge of foreign languages who will continue the building and development of this system not only on central, but also on local levels.



10.8 CONCLUSION

The mentioned activities and results of the Ministry of Finance, Central Harmonisation Unit were achieved with the support of the European Union i.e. the CARDS 2002 and CARDS 2004 projects which authority and task is to provide support in the establishment and development of internal financial control systems. In fact, what the European Union requires from Croatia and what is, accordingly, being implemented, is expressed in the "Opinion on the application of the Republic of Croatia for membership in the European Union":

"In this area, Croatia shall develop general policies and a harmonised legal framework. It shall establish or strengthen administrative capacities, including the functionally independent internal audit units within government institutions, and train the necessary staff. The State Audit Office has the necessary legal and organisational basis for its further development into an appropriate external audit body, but has to be strengthened. In the area of control of EU funds, it will be necessary to develop efficient monitoring, control and audit mechanisms. Moreover, it will be necessary to ensure that the Croatian administration disposes of capacities to provide efficient and uniform protection of interest of the European Communities.

Under the condition that Croatia made additional efforts in the reorganisation and capacity building for public internal financial control, external audit and fraud prevention, it should be capable to meet in the medium term the requirements of the EU in this field"

The Republic of Croatia is committed to the fulfilment of the EU requirements in this segment, not only in order to harmonise to the *acquis*, but also due to real needs and benefits resulting from the establishment of a system of internal financial control. Therefore the Central Harmonisation Unit has performed all the mentioned activities with the aim of a sooner accession i.e. the realisation of membership in the European Union.

Raising the awareness of the managers for the need of establishing and developing a system of internal financial control as a "tool" for efficient management of public resources represents one of the priority tasks. Therefore one of the main tasks of the Central Harmonisation Unit in the forthcoming period represents raising the awareness and responsibility of the highest officials in establishing this system, particularly in the segment of financial management and control.

11
REPORT ON THE ACTIVITIES
OF THE DEPARTMENT FOR FINANCIAL
SYSTEM IN 2005



In this chapter, the role of Ministry of Finance in year 2005 is pointed out, which concerns the development of financial market through establishment of overall legal framework that stimulates development of financial system and market, new business prosperity, but also through improved protection of consumers, investors, market subjects and system as a whole. In year 2005, Department for Financial System of Ministry of Finance prepared number of drafts of legal acts and subordinate legislation from the area of financial system which were adopted by Croatian Parliament:

Act on Croatian Financial Services Supervisory Agency

Act on Croatian Financial Services Supervisory Agency was adopted by Croatian Parliament on 17th of November 2005 and Act has been implemented since 1st of January 2006.

By this Act following institutions have been merged: Croatian Securities Commission, Agency for Supervision of Pension Funds and Insurance and Insurance Companies Supervisory Authority.

Agency is organized as independent, sovereign legal entity responsible to Croatian Parliament. Basic objectives of the Agency are promotion and preservation of financial system stability and supervision of legality of operation of supervised subjects.

Merging of supervisory institutions contributes to preserving of financial system stability and forestalling of transformation of specific risks to systemic risks of the whole financial sector.

The Act enables efficient supervision of financial intermediaries and subjects with the particular goal of consumer protection.

Insurance Act

The legal framework of insurance system in the Republic of Croatia is defined by the Insurance Act and Mandatory Motoring Insurance Act. The Acts are aligned with European Union directives and recommendations and they regulate better protection of insured, increase of insurance companies solvency and better risk management.

Croatian Parliament adopted on 9th of December 2005 Insurance Act and Act came into force on 1st of January 2006.

The Insurance Act determines modalities of activation and rules of operation of insurance companies, in the sense of provision of services, exchange of information with supervisory entities of member states and European Commission. The Act determines risks and categories of insurance according to the principle of risk coverage, modality of insurance company as joint-stock company and company for mutual insurance, the way and rules of risk management in insurance, forms of technical reserves for insurance and assets for coverage technical reserves for insurance, regulations for reinsurance and insurance, calculation of solvency limit, procedures and supervision rules, forms and means of financial reporting, internal revision rules, and procedures and means of revision, rules and forms of intermediaries in insurance, form of dispute settlements of insured.

The Insurance Act will have positive impact on financial stability of insurance companies which will contribute to increased confidence of insurance contractors and insured through: defined set of rules of operations of insurance companies and intermediaries in doing business and transparent way of reporting to supervisory body.

Mandatory Motoring Insurance Act

The Mandatory Motoring Insurance Act was adopted by Croatian Parliament on 9th of December 2005 and came into force from 1st of January 2006.

The Mandatory Motoring Insurance Act defines liberalization of mandatory motoring insurance premiums, improves material protection of motor traffic participators and more efficient implementation of requests for compensations of harmed persons with special emphasis on the deadlines for their settlements.

In this way, harmed persons will in more simple way obtain their rights.

Investment funds Act

The Croatian Parliament adopted on 9th of December 2005 The Investment Funds Act which came into force from the 1st January 2006.

The capital market in last several years, and especially in 2004, records strong growth; indices of Zagreb and Varaždin Stock Exchange and indicators of turnover and capitalization are permanently growing.



The particular progress and dynamics of stock exchange was recorded after implementation of pension reform and foundation of pension funds while in last several years positive trend was also recorded in development of investment funds.

The appearance of investment and pension funds had positive impact on Croatian capital market. Since year 1999 when there only two investment funds existed, their number have increased to 40 which operated in August 2005 and they managed the assets worth almost HRK 7 billion. Although scale of investments of pension funds is limited by law, their role in development of capital market, especially the market of government securities, is significant. It is important to mention appearance of first closed-end voluntary pension funds.

The legal framework of fund industry is constituted of Investment Funds Act and decisions which are based on it. In the fourth quarter 2005 new Investment Funds Act was adopted that defines open, closed-end and venture capital funds. It is fully aligned with EU directives.

The Act came into force on 1st of January 2006.

Accounting Act

The Accounting Act was adopted in December 2005 with coming into force from 1st of January 2006. The Act regulates implementation of International Financial Reporting Standards (IFRS).

The Accounting Act regulates higher level and more transparent reporting of business entities about their financial situation which has effects on protection of shareholders and potential investors of separate business entity.

Amendment of the Foreign Exchange Act

The amendments of the Foreign Exchange Act were adopted in line with Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval) of Council of Europe.

This amendments and supplements determine that authorized changer for carrying out exchange activities must, beside the obligation of usage of protected software and contract with bank, obtain approval of Croatian National Bank to carry out these activities. Also, there are regulations which resident, that applies for carrying out exchange activities, has to fulfill.

It is determined more efficient surveillance of foreign exchange transactions and exchange activities.

By this, the obligations from National Program with the purpose of anti money laundering are fulfilled.

Amendment Act on the Housing Savings and State Incentives for Housing Savings Act

Amendment Act on the Housing Savings and State Incentives for Housing Savings Act was adopted by Croatian Parliament on 15th of July 2005.

The Act gives an opportunity to housing savers to obtain a loan from housing savings institution before the end of saving period by amending the Act with provisions which gives opportunity to housing savings institutions for intrafinancing. By introduction of intrafinancing the savings period for all housing savers would be shortened for all savers which would like to realize the housing loan. This opens the possibility of faster settlement of housing issue for housing savers.

Beside the preparation of Drafts of Legal Acts and Subordinate Legislation from the area of financial system, the Department for Financial System also successfully carried out other activities under its jurisdiction which were concerned with:

- analyses of subjects on financial market
- proposals of provisions for improvement of financial system
- analyses and determination of amounts of state incentives funds for housing savings
- analyses and determination of amounts of state incentive funds for members of voluntary pension funds
- issuance of permissions and release into circulation and distribution of bills of exchange
- issuance of work permits for savings and loan co-operatives
- supervision of operations of financial institutions (housing savings institutions, savings and loan co-operatives)
- issuance of statements
- giving of opinions and interpretations of legal acts and subordinate legislation from the area of financial system

12
REPORT ON TAX ADMINISTRATION
ACTIVITIES IN 2005



12.1 INTRODUCTION

The Tax Administration is the administrative organization within the Ministry of Finance whose basic task is to implement tax regulations and regulations concerning the payment of obligatory contributions as well as fees and other public charges regulations. Duties specified, Tax Administration performs in order to collect State Budget revenues, Local and Regional Self-Government Units revenues (for those units which delegated these activities on Tax Administration based on the Law on Financing Local and Regional Self-Government Units and permission of the Minister of Finance), common taxes, tourist board membership fees, contributions to Croatian Chamber of Trades and Crafts, contributions and membership fees for Croatian Chamber of Commerce and monuments rent which are paid by rate to a total revenue.

The general organizational scheme, main duties and the way of performing activities are defined by Tax Administration Law and Decree on the Internal Organization of the Ministry of Finance. According to regulations specified, Tax Administration performs administrative and other professional duties through a Central Office, 20 Regional Offices set up according to the counties and 122 Local Offices belonging to the Regional Offices.

According to Report on Tax Administration Activities in 2005, Croatian Tax Administration completely matches the structure of other developed countries Tax Administrations concerning the issues of organization, employment structure and goal achievement.



12.2 DEVELOPMENT OF COMMUNICATION BETWEEN TAX ADMINISTRATION AND TAXPAYERS

During the 2005 Tax Administration, representing the organization in charged of tax and obligatory payment regulations implementation, has done some major steps in providing its services to taxpayers in order to help them achieve their rights as well as to fulfil their obligations. These services can be divided into four different groups: Internet publications, electronic entering of tax return form and free phone (Contact Center).

Through Tax Administration web page (www.pu.mfin.hr) all tax payers can, on every day basis, obtain up-to-day information on the news concerning the taxes in general, Croatian tax system, tax calendar that can be used as a reminder to deadline for tax return fulfilment set by law determinations, tax return, tax and other regulations (around 850 reduced consolidated text on laws, regulations, directives, instructions, decisions, contracts, etc.), data concerning the double taxation as well as those concerning relevant tax forms. Tax Administration web page also contains Tax Administration - Central Office opinions which in addition explain certain law regulations and induce official standings on certain issues. Web sites are also updated in English language. Through its links one can connect to various web sites of other Ministries, foreign Tax Administrations and European Union web sites.

In 2005 Tax Administration issued 22 brochures and guide lines which, in a simple and understandable way, explain to taxpayers their rights and liabilities, as well as CD containing 850 reduced consolidated text on regulations and manual "Croatia Tax System" printed in English.

Publications mentioned above are distributed for free to taxpayers in local offices and branches.

Furthermore, in 2005 all preconditions for revival the eTaxAdministration project in 2006 were fulfilled. This project enables taxpayers to file their tax return forms using the Internet. Project started in 2006 by a first electronic Value added tax return. It is important to stress out issues that eTaxAdministration includes:

- "ePDV" - filing in and committing VAT forms through Internet
- "ePKK" - access to a status of taxpayer's tax account through Internet
- "eID" - filing in and committing ID forms through Internet
- "eIP" - filing in and committing tax card forms through Internet
- "eDOH" - filing in and committing annual income tax return through Internet
- "eDOB" - filing in and committing annual profit tax return through Internet

The Tax Administration Contact Center has also maintained its continuing development which provides free phone services to taxpayers from 9 to 15 concerning the issues on tax malversations, invoice non-issuing, moonlighting, violations on tax regulations and complaints on Tax Administration working staff as well as information on tax reliefs and benefits.



12.3 THE TAX ADMINISTRATION LEGISLATIVE ACTIVITIES IN 2005

By the end of the year 2004 new regulations - Income Tax Law ("Official Gazette", No. 177/04) and Profit Tax Law ("Official Gazette", No. 177/04) had been issued as well as numerous implementing books of regulations in 2005.

- The Regulations concerning Income Tax ("Official Gazette", No. 1/05 and 95/05)
- The Regulations concerning services of accommodation of flats, rooms and beds to travellers and tourists as well as services of camping that are to be assessed by a flat rate determining the size and ways of payment of flat rate tax ("Official Gazette, No. 48/05)
- The Regulations concerning Profit Tax ("Official Gazette", No. 1/05 and 95/05).

Main characteristic of a new Income Tax Law is emphasized social component, especially when talking about regulations concerning the size of a personal wage deduction, while new Profit Tax Law have significantly simplified the way of determining tax basis as well as adjusted law regulations to European Union directions.

Results of a new law regulation implementation in 2005 are already to be viewed in 2006. Despite reduction in tax burden of income taxpayer accomplished through wage deduction regulations; there was an increase in revenues based on income tax in 2005 compared to 2004, which had been reached through detailed coverage of tax basis and all taxable receipts.

Also, simplification of a profit tax basis and precise law regulations on tax basis determination resulted in increased profit tax revenues in 2005 compared to 2004.

Regarding the implementation of The Law on Obligatory Contributions, in 2005 The Regulations concerning Obligatory Contributions ("Official Gazette", No. 1/05 and 14/05) were issued. Also, there had been a continuous development in joint work and data exchange with institutions responsible for obligatory contributions tracking. During the 2005 Act on the Amendments to the Value Added Tax Law had been issued ("Official Gazette", No. 90/05) which is to be implemented from January 1, 2006.

The most important change of Act on the Amendments to the Value Added Tax Law is a elimination of a VAT rate of 0% on the services of organize accommodation which are to be paid by assignment abroad and implementation of a lower tax rate of 10% on the services of accommodation or accommodation and breakfast, half-board or full-board in all kinds of commercial hospitality facilities and on the services of agency commission for the services cited above.

The effect of law regulation mentioned above is yet to be viewed in 2007. Related to law measures issued, Regulation concerning VAT was also changed. Regulation named prescribes new forms of tax files (form U-RA, I-RA), VAT tax return form and final tax return form (PDV-K).

On international plan in 2005 treaties for concluding agreements on the Avoidance of Double Taxation were concluded with Iceland, Tunisia and Slovenia and started with Vietnam. An Agreement on the Avoidance of Double Taxation and Prevention of Avoidance of Income Tax Payment was signed with Arabian Republic of Egypt as well as Agreement on the Avoidance of Double Taxation and Prevention of Avoidance of Income Tax Payment and Property Tax Payment with the Republic of Moldova, Agreement on the Avoidance of Double Taxation and Prevention of Avoidance of Income Tax Payment and Property Tax Payment with the Republic of Slovenia and Agreement on the Avoidance of Double Taxation and Prevention of Avoidance of Income Tax Payment and Property Tax Payment with the Kingdom of Spain. Draft of final proposal of Agreement on the Avoidance of Double Taxation has been drawn up with Egypt, Jordan, Moldova, Slovenia and Spain.

Table 12.1: Agreements on the Avoidance of Double Taxation Concluded in 2005

State	Subject of agreement
Egypt	Income
Moldova	Income and property
Slovenia	Income and property
Spain	Income and property

Source: Tax Administration - Central Office

Table 12.2: Negotiations Accomplished in 2005

State	Subject of a contract
Iceland	Income
Slovenia	Income and property
Tunisia	Income

Source: Tax Administration - Central Office



Regarding the area of lottery taxes in 2005, 12 Agreements on business plans of Organizer of game of chance in casinos were issued as well as 44 Agreements on Concession concerning the organization of games of chance in coin operated machines, 9 Agreements on Regulations concerning the organization of games by bookmakers, 30 Agreements on Regulations concerning the rules of lotteries as well as 779 Agreements on games of chance rules. During the 2005 Concessions on organization of games of chance in casinos were withdrawn, bank guarantees were activated and actions of determination technical conditions in casinos and coin operated machines clubs were conducted. All actions taken have resulted in increased growth revenue index for 121.71 in 2005 compared to 2004.

Table 12.3: Lottery taxes

(000 HRK)		
Total Revenues in 2004	Total Revenues in 2005	Growth index
290,890	354,056	121.71

Source: Tax Administration - Central Office



12.4 INSPECTION SUPERVISION OF TAX ADMINISTRATION IN 2005

In 2005 709 authorized officers conducted supervision, which means 11 authorized officers less than in 2004. Nevertheless, more thorough approach in supervision, supervision focused on a cash flow and company businesses control have resulted in improved financial indicators.

Therefore, in 2005 12.626 inspection supervision orders were issued out of 55.0% referred to companies and 45.0% to natural persons. In 2004 relation cited above looked completely different, i.e. 46.1% of orders were related to companies and 53.9% to natural persons.

Average duration of supervision in 2005 was 8.11 days which is longer for 18% than in 2004. It is important to stress out that this average duration increase came out of thorough selection of taxpayers adequate for supervision which, in the end, resulted in complex supervision of companies and cash holders.

Extended supervision increases efficiency in detecting irregularities, estimated tax basis and charged overdue tax debt. In 2005, 50.2% of inspection supervisions discovered irregularities, while in 2004 given percentage amounted 40.5%, which is a significant increase (index 124). New liabilities of HRK 1.4 billion determined in 2005 represent the growth of 27%, or according to inspectorate, of 29% compared to 2004.

In order to repress the grey economy, in 2005 Tax Administration conducted continuous supervision of invoice issuing and transactions evidence of those taxpayers who deal with cash. Indicators of a different, more thorough and repayment oriented approach are: total coverage of taxpayers are less per 31% but supervisions conducted are higher per 8%, new VAT liabilities estimated (HRK 39.3 million) are higher per 35% compared to 2004 while charged overdue tax debt records its increase per 64 % (HRK 56.3 million in 2005 compared to HRK 34.3 million in 2004).

It is important to mention the engagement of Tax Administration inspectors on a supervision of oil distributors and big trading chains as well as a constant cooperation with the Ministry of Sea, Tourism, Traffic and Development concerning the supervision of those taxpayers which are into rent-a-boat business (charter companies).

With the purpose of everyday VAT control and tracking, as VAT being the most important National budget income, a special Department for VAT supervision was established in Central Office and in Regional Office in Zagreb.



12.5 TAX ADMINISTRATION DISTRAINT ACTIVITIES

Distraint, as a special form of repayment, is initiated by a Tax Administration when all other actions could not provide charge in a period of time determined by law. Distraint activities are based on a General Tax Law regulation ("Official Gazette", No. 127/00, 86/01 and 150/02) and are conducted on a complete tax obligator's property: movable property, claims and other property rights, while real-estate distraint are conducted by a court authorized under the Tax Administration suggestion.

In 2005 complete sum charged through distraint activities amounted HRK 1.8 billion, while, in the same period in 2004, sum mentioned above amounted HRK 1.7 billion.

Therefore, in 2005 distraint activities charge was higher per 8.2% than in 2004.

Table 12.4: View of Distraint Charges According to Distraint Measures

(000 HRK)

Distraint measure	Charges in 2004	Charges in 2005	Index 2005/2004
Decision on distraint by cash assets seizure	1,186,268,120.91	1,186,256,642.33	100.0
Decision on distraint by execution debtor's claims seizure	114,703,755.75	131,056,246.41	114.3
Decision on distraint by seizure of claims on the grounds of portion in capital	28,930,686.36	107,521,615.71	371.7
Decision on distraint by movable property seizure	316,512,851.66	351,800,244.25	111.1
Real-estate distraints	29,664,709.14	30,956,814.91	104.4
1. Total amount charged through distraint proceedings	1,676,080,123.82	1,807,591,563.61	107.8
2. Amount charged on the grounds of other Government bodies requests	14,682,847.52	22,439,506.60	152.8
3. TOTAL AMOUNT CHARGED (1+2)	1,690,762,971.34	1,830,031,070.21	108.2

Source: Tax Administration - Central Office

Concerning the number of real-estate distraint claims submitted to court in 2005, the number mentioned above increased for 510 or per 46.6% compared to 2004, out of 58 or 64.4% related to claims for distraint from companies and 452 or 44.98% related to claims for distraint from a natural person. Total number of claims submitted in 2005 compared to 2003 increased for 893 or 125.4% out of 57 or 62.6% related to claims for distraint from companies and 836 or 134.6% related to claims for distraint from a natural person.

Table 12.5: Real-estate Distraint Claims Submitted to State Attorney's Office

Opis	2003	2004	Index 2004/2003	2005	Index 2005/2004	Index 2005/2003
Legal persons	91	90	98.9	148	164.4	162.6
Natural persons	621	1,005	161.8	1,457	145.0	234.6
Total	712	1,095	153.8	1,605	146.6	225.4

Source: Tax Administration - Central Office



In regard of activities of insolvency and liquidation it is important to stress out:

- In 2003 Tax Administration reported claims for bankruptcy weight of HRK 470.9 million. At the same time, total charge amounted HRK 80.99 million. During the same period, Tax Administration reported liquidation claims of HRK 20.6 million. It was charged HRK 1.8 million.
- In 2004 Tax Administration reported claims for bankruptcy weight of HRK 487.6 million. At the same time, total charge amounted HRK 117.2 million. During the same period, Tax Administration reported liquidation claims of HRK 56 million. It was charged HRK 1.8 million.
- In 2005 Tax Administration reported claims for bankruptcy weight of HRK 320.1 million. At the same time, total charge amounted HRK 103.5 million. During the same period, Tax Administration reported liquidation claims of HRK 11.1 million. It was charged HRK 1.4 million.

Therefore, in 2004 compared to 2003 11% more claims based on tax and other public charges in an insolvency and liquidation activities were reported and 44% more were charged. In 2005 compared to 2003 33% less claims based on tax and other public charges in an insolvency and liquidation activities were reported and 27% more were charged.

Table 12.6: Analysis of claims reported and charged on basis of taxes and other public charges in insolvency and liquidation procedures for a period from 2003 to 2005

(000 HRK)

Ordinal	Year	CLAIMS REPORTED ON BASIS OF TAX AND OTHER PUBLIC CHARGES				CHARGES OF CLAIMS BASED ON TAXES AND PUBLIC CHARGES			
		Insolvency procedure	Liquidation procedure	Total	Index 2003= 100	Insolvency procedure	Liquidation procedure	Total	Index 2003= 100
1	2	3	4	5=3+4	6.	7.	8.	9=7+8	10.
1.	2003	470,954,377	20,550,555	491,504,931	100.0	80,998,999	1,770,815	82,769,814	100.0
2.	2004	487,590,756	56,050,245	543,641,000	111.0	117,211,368	1,812,937	119,024,305	144.0
3.	2005	320,152,078	11,094,015	331,246,093	67.0	103,537,811	1,433,524	104,971,335	127.0

Source: Tax Administration - Central Office



12.6 INTERNATIONAL COOPERATION

With regard to European Union demands and future Croatian membership in European Union, Tax Administration reorganized according to requests set. Therefore, in 2005 an International Cooperation and European Integration Office completely oriented to demand requested was established. International Cooperation and European Integration Office conducts legal and other expert activities related to international cooperation and communication with Tax Administrations abroad as well as with international organizations, activities related to performance and organization of activities of preparation Croatian accession to European Union in a fields of Tax Administration surveillance; analysis and coordination of Croatian tax laws and regulations to those of European Union; organization, conduction and maintenance of VAT data exchange system (further on as: VIES) and data exchange with other European Union members (further on as: CLO); cooperation tracking and improving and data exchange with other countries, integrations and regional activities; coordination of programs and projects of international technical help performance.

In 2005, Tax Administration started an active cooperation with European Commission - DGTAXUD which continued in 2006 as well. Also, it started Tax Legislative adjustment to the European Union acquis. In that way, in 2006 the first faze of National Legislative analysis for chapter 16 Taxation with European Union acquis was successfully completed. Concerning the usage of pre-accession funds of European Union, Tax Administration completed all the activities for getting the funds from technical support program CARDS 2004. Project from CARD 2004 program started in January 2006 and it represents the first faze of preparing the implementation of VIES system (informatics' system for VAT data exchange). Through the programs of PHARE 2005 and PHARE 2006, implementation of VIES system is going to be completed.



12.7 TAX ADMINISTRATIONS INTERNAL SUPERVISION AND CONTROL

For reasons of internal supervision and control of Tax Administration work, Independent Department for Financial Management and Control executes continues controls of Tax Administration, namely:

- Control of certain tax activities and promptness of tax activities performance
- Controls of Tax Administration working staff based on complaints received
- Controls of civil servants practice legitimacy

Results of controls enforced are shown in Tables.

Table 12.7: Control of Tax Activities Performance

Ordinal	DESCRIPTION	Count	Controls performed on grounds of requests						
			Annual	Upon leader's order	Requests	Croatian Government	State Attorney's Office	Police	Rest
1.	Tax Administration supervision Tax forms issuing	750	750	--	--	--	--	--	--
2.	Tax Administration supervision PDV i PDV-K forms	105	105	--	--	--	--	--	--
3.	Analysis of disposed results of Tax Administration's inspectors in 2004	20	--	20	--	--	--	--	--
4.	Tax Administration subject processing Department for supervision	30	--	4	6	10	5	3	2
5.	Total	905	855	24	6	10	5	3	2

Source: Tax Administration - Central Office

Table 12.8: Controls of Tax Administration Working Staff based on Complaints Received

Ordinal	DESCRIPTION	Count	Submitted petitions against civil servants			Petition submitters		
			Central Office	Regional Office	Branches	Anonymous	Citizens	Taxpayers
1.	Petitions against unkindliness and arrogance of tax Administration's officers	3	--	--	3	--	2	1
2.	Petitions against unprompt problem solving	36	--	8	28	6	6	24
3.	Petitions on tax refund based on tax refund forms	10	--	--	10	2	3	5
4.	Petitions on inspector's work during the supervision	19	--	19	--	11	--	8
5.	Petitions against bribe and corruption	3	1	--	2	2	1	--
6.	Rest	9	--	--	9	4	4	1
7.	TOTAL	80	1	27	52	25	16	39
8.	Subject performance	80	1	27	52	25	16	39
9.	Anomalities determined on basis of petitions control	13	--	--	--	1	9	3

Source: Tax Administration - Central Office



Table 12.9: Controls of Legitimacy of Civil Servants Practice

Ordinal	Description	Count	Civil servants			Resources				
			Central Office	Regional Office	Branches	Upon official duty	Upon citizens requests	Anonymous	Tax-payer's request	Government bodies
1.	Unknowingly performance of official duties	36	--	8	28	1	--	2	33	--
2.	Irregularities in work	22	--	10	12	2	1	11	6	2
3.	Providing incorrect information	2	--	--	2	--	--	--	2	--
4.	Malpractice	5	1	1	3	--	--	5	--	--
5.	Performing activities that are opposite to activities of a workplace	1	--	1	--	--	--	1	--	--
6.	Impolite behaviour	4	--	1	3	1	1	2	--	--
7.	TOTAL	70	1	21	48	4	2	21	41	2
8.	Proceedings performed	Disciplinary	8	1	3	4	--	--	--	--
		Criminal	2	--	1	1	--	--	--	--

Source: Tax Administration - Central Office

13
**REPORT ON THE WORK OF CUSTOMS
ADMINISTRATION IN 2005**



13.1 CUSTOMS ADMINISTRATION SCOPE OF ACTIVITY

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 offences in excise taxes and performs other tasks requested by the Minister.



13.2 CUSTOMS ADMINISTRATION LEGISLATION

Within the process of alignment of Croatian customs regulations and practices with European Union customs regulations, modifications in customs legislation and practices of European Union countries have been followed.

Concerning alignment of Croatian legislation with EU acquis and regulative frame within twinning project CARDS 2001 "Integrated Border Management - Customs" legal analyses of shortages and needs has been made and legal advices were provided in order to insure alignment with European Union legislation.

As a result of process of alignment of Croatian regulations with European regulations, Law on amendments to the Customs Act has been brought (Official Gazette No. 140/05 from November 28, 2005), which applies from January 1, 2006.

By mentioned amendments comprehensive modification of provisions on transit procedure has been carried out, by which preconditions for accessing common transit procedure of the states of EU and EFTA have been created, as well as preconditions for implementation of New Computerised Transit System (NCTS) and additional alignment of basic terms, binding opinions, customs procedures with economic effect and debtor and debt definition.

Mentioned amendment also partially includes the latest modifications of European Customs Code, in part which refers to names and authorities of customs service organisational units, determining of the term "customs control" and introducing terms "risk" and "risk management" and establishment of "authorized economic subject" status and criteria for gaining this status.

Along with conducted modifications of Customs Act, proposal of amendments to Regulation for implementation of Customs Act was made, which follows conducted modifications in the mentioned Act. Bringing new regulation which would regulate issues of authority of Customs Administration of the Republic of Croatia in the protection of intellectual property right was also prepared during 2005, as well as conditions under which Customs Administration takes measures concerning goods which are the subject of customs procedures and for which there is a suspicion that they violate intellectual property right, and procedure for implementation of those measures.

Proposal of Regulation on implementation of customs measures concerning goods for which there is a suspicion that they violate certain intellectual property rights was made in 2005, which is brought and published in Official Gazette No. 50/2006 from May 5, 2006. By this Regulation wildy alignment with now valid relevant European regulations, that is Council Regulation (EEC) No. 1383/2003 and Commission Regulation (EC) No. 1891/2004 was carried out. As well, by above mentioned Regulation it is foreseen that customs measures for protection of intellectual property right are also applied in transit procedure, which wasn't the case until adopting of new Regulation, and in definition of goods which violate intellectual property right, goods which violate supplementary protection certificate and vegetable species are also included. Moreover, in distinction from regulations which were in use until Regulation entered into force, Regulation doesn't order obligation of collateral as a condition for taking measures and obligation of paying administrative fees on submission of demand for taking customs measures for intellectual property protection. By mentioned and other modifications European customs and legal standards and institutes from the area of customs intellectual property right protection are taken, by which conditions are created that practical implementation of customs measures for intellectual property right protection fully aligns with practice in EU member states.



13.3 THE MOST IMPORTANT ACTIVITIES AND PROJECTS OF CUSTOMS ADMINISTRATION IN 2005

Customs Administration of the Republic of Croatia, within pre-accession CARDS projects, has taken a range of activities in 2005. Twinning project CARDS 2001 “Integrated Border Management - Customs” was finished successfully, under which legal advices concerning alignment of Croatian regulations with EU legislation have been given. In order to strengthen administrative and operational capacities and efficiency, significant progress has been achieved in the area of management of additional control, through training of customs officers that use modern technologies of additional control, and significant improvement has been achieved in management of measures against disclosure of customs frauds through special mobile control groups reinstatement. Within this project, initiative for founding Customs centre for training has been given, which is established on April 29, 2005, with regional centres for training, with head office in Zagreb, Avenija Gojka Šuška 1. With a view to development of continued system of customs officers’ education and training, strategic concept of training, program of lecturers training and the first annual training plan have been made. Except twinning project, programme “Integrated Border Management - Customs” consisted of investment component in amount of EUR 800,000.00, which was used for acquisition of equipment and furniture for furnishing of newly established Customs centre for training (and for regional centres). By these funds, acquisition of other necessary equipment, such as vehicles and equipment for needs of fighting smuggling was also made. Proposal of Ethical codex for customs officers has been made as well. As equal partner to all the other services which have legal authorities to operate on border, Customs Administration participated in implementation of the project CARDS 2001 “Integrated Border Management - Strengthening of Interagency Cooperation”, which was realized during 2004 and 2005. Along with strengthening of institutional and administrative capacities of different services which operate on border, including Customs Administration, and strengthening of co-operation and coordination between services, one of the most important results of this project is making Strategy on Integrated Border Management of the Republic of Croatia with associate Action plan, which was adopted by the Government of the Republic of Croatia in April 2005. Moreover, in Customs Administration implementation of two more CARDS twinning projects started successfully in 2005, which are the part of the programme of reinstatement of interoperability and interconnectivity with customs informational systems which operate within the European Union, from which the most important include Integrated Tariff Management System (ITMS), which is necessary for insuring application of prescribed tariffs rates and economic measures, and New Computerised Transit System (NCTS). This is about so called preparatory twinning projects which, first of all, include business aspects, in other words, legislation modifications and changes in procedure, training, organization and trade conscience, but these are at the same time projects that also include preparation of IT structures for their integration with European Union systems. These are the following projects:

- 1) CARDS 2002 (NCTS) “Community Transit - Conform Customs Procedures and IT Interconnectivity System” is a twinning project which consists of business and IT component. The first component refers to making adequate analyses of shortages and needs, contributes to the alignment of the present and making new legislative acts and subordinate legislation which regulate transit system, contributes to the reinstatement of efficacious business teams of employees in charge of planning and operational implementation which will have adequate IT support and preparation and implementation of adequate training. The second component refers to preparation of development of NCTS compatible IT customs transit system. With a view to project implementation, business and IT team of Customs Administration employees has been formed. Project started with implementation on July 25, 2005 and it will continue until December 31, 2006.
- 2) CARDS 2004 (ITMS) “Modernization of the Customs Administration in view of preparing for the Integrated Tariff Management System (ITMS)” is a twinning project directed towards implementation of activities concerning use of common customs tariffs of the European Union (TARIC) and issues related to this tariff, such as: classification of goods, value of goods, binding opinions on customs tariff classification, EU customs procedures with economic effect, EU simplified customs procedures (except from common transit), quotas. Moreover, project contributes to the legislative alignment, employees training and strengthening of Customs Administration administrative capacities to manage new procedures from the area of the common tariff. Business and IT team of Customs administration employees have been formed for project implementation. Project started with implementation on November 7, 2005 and it will continue until September 2007.

Besides that, within programming projects for the programme year Phare 2005, Customs Administration proposed programme “Interoperability of customs IT systems with EU customs systems”, which consists of totally 6 projects, from which 3 twinning projects and 3 contracts on software development services (development of customs IT systems NCTS, TARIC, EMCS). Proposed projects represent continuation of activities from CARDS preparatory twinning projects and focus to the development of the customs IT systems and their linking by interface with EU IT systems (interconnectivity).



13.4 INTERNATIONAL CUSTOMS CO-OPERATION

Regarding international customs co-operation in 2005, Customs Administration activities were oriented towards reinstatement of co-operation with other customs services, maintenance of direct contacts and offering mutual assistance implemented on the basis of Convention on mutual assistance, so Conventions on mutual assistance in customs issues with the Republic of Moldova (May 30, 2005), Republic of Slovenia (June 10, 2005), Republic of Montenegro (December 9, 2005) and Republic of Serbia (December 15, 2005) have been made and procedures for making conventions with the Republic of France, Republic of Austria, Republic of Latvia, Ukraine and Russian Federation were started. On the basis of made Conventions, co-operation between customs services in the area of fighting smuggling and customs offences became easier and improved, preconditions for efficacious fight against illicit traffic of narcotics and psychotropic substances and different kinds of waste and dangerous substances which jeopardize life and health of people and environment have been made, common actions were taken with an aim to prevent customs regulations violation, in which considerable quantities of smuggled goods were uncovered and confiscated. Co-operation with neighbouring countries intensified and in June 2005 Memorandum of understanding between customs services of the Republic of Croatia, Republic of Hungary and Republic of Serbia on organization of information exchange was concluded, with a view to fast information exchange, fighting smuggling and facilitation of traffic control on Danube river international waterway, and many working meetings of border crossing leaders were held, which are held once in the month and more often if necessary, and this provide evidence of close co-operation in fighting against customs regulations violation.

Furthermore, participation of Customs Administration in activities of the World Customs Organization (WCO) reinforced, as through Ministry of Finance representatives in Permanent Mission of the Republic of Croatia with European Community in Bruxelles, as by Customs Administration's employees participation in WCO expertly sessions (Committee for Implementation, Technical Committee for Customs Value, Intellectual Property Protection, Annual Meeting). In 2005 Customs Administration employees participated in many international congresses, seminars and workshops (Development of reliable and functional police systems and strengthening of the fight against criminal activities, SECI Center Common committee for co-operation and SECI Center Working group for fighting against frauds and smuggling, Tax frauds in OLAF organization, Fighting against smuggling and cigarettes falsification, Trade improvement in the region, Development of the regional co-operation in CITES Convention implementation, Trade facilitation in WTO organization, Co-operation of the Corridor X countries, Initiative for preventing expansion of weapons of mass destruction, equipment, technology and materials related to this weapons, Regional co-operation in fight against illicit traffic of drugs, weapons and people and Fight against illegal nuclear and radio-active materials trade), they were appointed for members of different committees and negotiating groups (Expertly committee for border crossings between Croatia and Bosnia and Herzegovina, Permanent mixed committee for implementation of Agreement on border traffic and co-operation between Croatia and Bosnia and Herzegovina, Negotiating group for Project of expanding CEFTA), they participated in implementation of projects whose bearers were other ministries and in common operations taken in co-operation with Ministry of the Interior ("Roots", "Shadow" and "Black Pearl") and during study tours (Austria and Great Britain) they met way of working and equipment of other customs services.



13.5 CUSTOMS ADMINISTRATION RESULTS IN FIGHTING FRAUDS - SMUGGLING

With a view to more efficient Customs Administration work in fighting frauds - smuggling, important project in Customs Administration is implemented, called "Development and implementation of the risks management system", which started in 2005 as a continuation of the project "Risks management process", where new knowledge was adopted and risks management system tested on four pilot customs branch offices was established. Subsequently, terms "risk" and "risk management" are included into Customs Act of the Republic of Croatia. Continuation of the project which would have for goal expansion, implementation and education of users in the area of the Republic of Croatia is planned. Within international co-operation between Customs Administration of the Republic of Croatia and U.S. Embassy in Croatia, donations of funds and equipment for fighting illegal trade of radio-active materials, weapons of mass destruction and dual-use good (PRDP, PASS, BUSTER, PORTAL MONITORS) were realized, and customs officers education concerning mentioned equipment use has been carried out, in value of USD 260,000,00. Joint mobile units made of employees of Department for state frontier supervision, Ministry of the Interior and customs officers of the Department for fighting smuggling of Customs Administration were organized in 2005. Duty of these mobile units is fighting against all kinds of cross-border criminal in the entire area of the Republic of Croatia, with emphasis on insuring state frontier. There were fifty common actions and controls carried out, which resulted in many uncovered offences, goods confiscation in illicit traffic and starting adequate misdemeanour and criminal reports. Subsequently, we single out narcotics confiscations in 2005:

- the biggest narcotic confiscation was realized in the area of Dubrovnik custom office (customs branch office Karasovići) when 705.5 kg of narcotics type marihuana, approximate value of HRK 14,110,000.00. Significant confiscations were also made in the area of Osijek custom office (customs branch office Bajakovo) in amount of 87.5 kg of marihuana approximate value of HRK 1,750,000.00 and 43.7 kg of hashish, approximate value of HRK 2,189,000.00;

Table 13.1. Narcotics confiscations in 2005

TYPE	QUANTITY IN GRAMMES
HEROIN	3.00
MARIJUANA	796,286.90
HASHISH	43,835.50
COCAINE	3,500
SYNTHETIC DRUGS, AMPHETAMINES	956 tablets; 50 ampoules
HASHISH OIL	2 l

Source: Supervision Service

and cigarettes confiscations as follows:

- Customs Administration of the Republic of Croatia confiscated in 2005 totally 12,482,161 pieces of cigarettes on the area of the Republic of Croatia, which are 624,108 packets or 62,410.8 cartons of cigarettes of different brands. When confiscating cigarettes, the most represented was domestic brand RONHILL LIGHTS, and from foreign brands SUPERKINGS, MARLBORO and MEMPHIS RED. The most of confiscations were done in the area of Osijek custom office (primarily customs branch office Bajakovo), where the largest total amount of cigarettes was confiscated, while the biggest single confiscation in 2005 was done in the area of Rijeka custom office (customs branch office Pasjak), where attempt of cigarettes confiscation in the container from China in amount of 8,000,000 pieces (400,000 packets or 40,000 cartons of cigarettes), brand SUPERKINGS, was uncovered.

Within international co-operation, co-operation with foreign bodies, especially customs, is executed constantly, in a way to participate in organization and implementation of international operative actions, focused on fighting against particular types of smuggling of high-risk goods and application of intensive control in customs procedures.

Following international operations were organized and successfully implemented in 2005:

- operation "ROOTS" (in which Customs Administration of the Republic of Croatia confiscated EUR 120,000,00)
- operation "SHADOW"
- operation "BLACK PEARL"
- operation "CONTAIMENT"
- operation "ROAD SHOW"

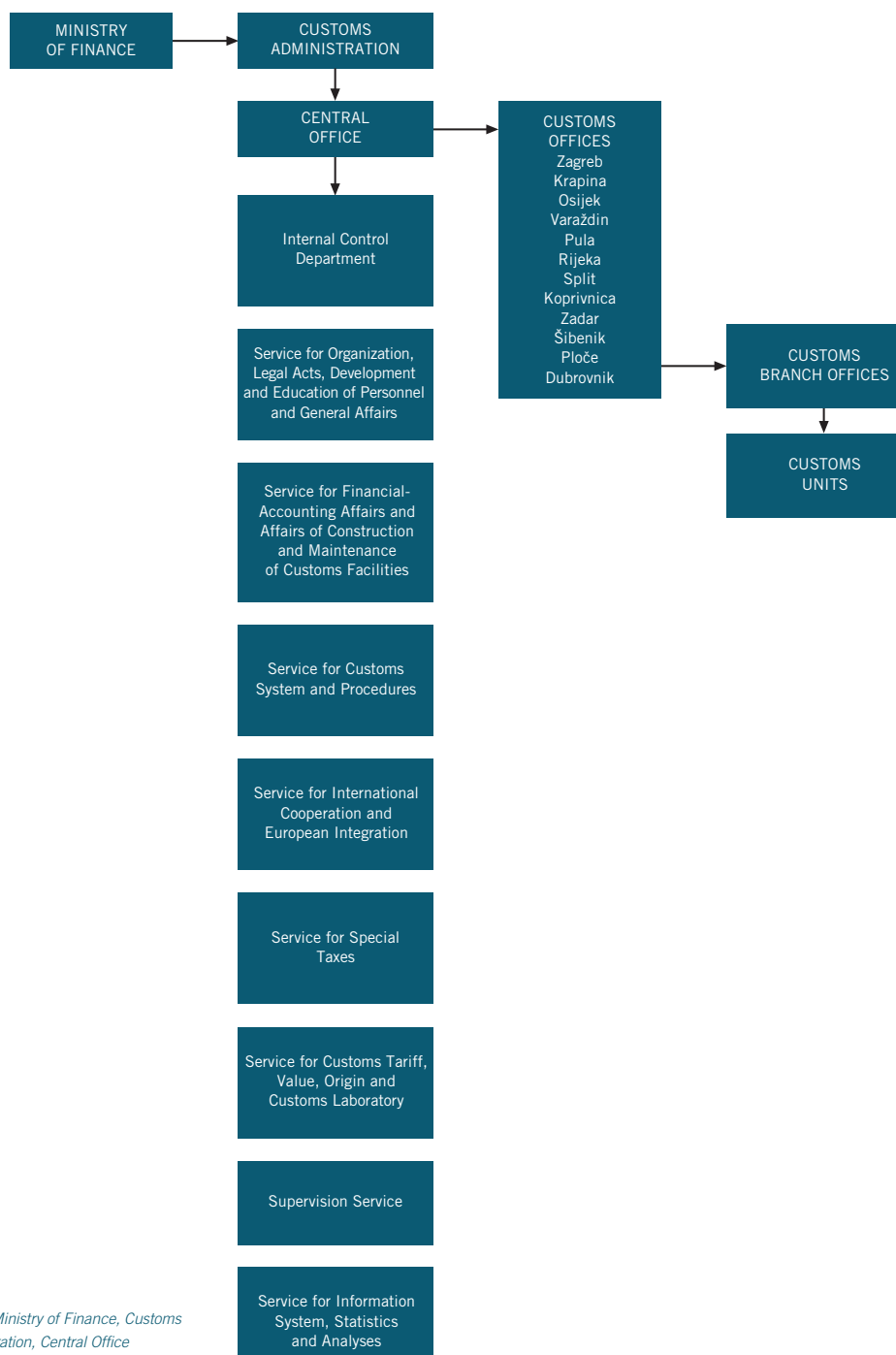
Similarly, by customs liaison officer in SECI Center in Bucharest almost daily information exchange between member states was done, which resulted in many timely procedures of entitled services, to which Customs Administration of the Republic of Croatia delivered information on doubts in possibility of illegal actions of international character.



13.6 ORGANIZATION OF THE MINISTRY OF FINANCE - CUSTOMS ADMINISTRATION

Towards more efficient Customs Administration work, Government of the Republic of Croatia brought Decree on the internal organization of the Ministry of Finance (Official Gazette No. 43/05 from April 4, 2005), based on which Minister of Finance brought Book of rules on the internal organization of the Ministry of Finance, from April 26, 2005, and congruently to this Book of rules, Job systematization of officers and employees in the Ministry of Finance, Customs Administration was brought. There were totally 3,028 officers and employees employed in Customs Administration on December 31, 2005. Organization indicators can be seen in flowchart 13.1. Organization of the Ministry of Finance - Customs Administration and 13.2. Organization of the Central Office of the Customs Administration.

Flowchart 13.1. Organization of the Ministry of Finance - Customs Administration



Source: Ministry of Finance, Customs Administration, Central Office



Flowchart 13.2. Organization of the Central Office of the Customs Administration



Source: Ministry of Finance, Customs Administration, Central Office

14

**REPORT ON THE WORK
OF THE FOREIGN EXCHANGE
INSPECTORATE IN 2005**



14.1 LEGISLATION COMPETENCY

Croatian Foreign Exchange Inspectorate was established in 1992 as a special Government body within the Ministry of Finance. Law on Foreign Exchange Inspectorate and Law on Foreign Exchange Operations (further on as the Law) are basic laws which regulate Foreign Exchange Inspectorate's area of work, authority and ways of acting, but its legislative competency is autonomously extended by Trade Law and Law on the Prevention of Money Laundering determinations.

Main responsibility of Foreign Exchange Inspectorate is primarily related to inspection supervision of residents and non-residents concerning the implementation of regulations in the areas of foreign exchange operations, credit relations and foreign trade. Along with the inspection supervision, Foreign Exchange Inspectorate is as well authorized to conduct misdemeanor practice in the first degree.

During the period after Croatia gain its independence, regulative frame of foreign exchange, credit and foreign trade business of residents has been liberalized primarily as a result of transition towards business market economy. We remind that Croatia, since 1995, when she formally took the status according to Article VIII of the International Monetary Fund's Statute, completely liberalized current abroad business; by entering WTO in 2000, adjusted its legislation on foreign trade of goods and services and, after committing to liberalization of cash flow according to terms defined by Stabilization and Association Agreement (further on as SAA) in 2003, adopted liberal foreign exchange legislation.

With the changes in legislation regulation, contest, goal and foreign exchange performance approach changed as well, but Foreign Exchange Inspectorate kept its specific and encircled area of competency. In new foreign exchange legislation, Foreign Exchange Inspectorate is defined as a major supervisor of capital regime implementation with a focus on controls oriented on discovering and punishing illegal transfers with foreign countries. According to Law regulations, under Foreign Exchange Inspectorate's supervision reside residents and non-residents that conduct business and other activities on the territory of the Republic of Croatia.

Croatian National Bank and Foreign Exchange Inspectorate have common competency in bank activities control while supervision of authorized exchange offices is in exclusive competency of Foreign Exchange Inspectorate.

Same as other supervisory bodies within the Ministry of Finance, Foreign Exchange Inspectorate as well controls implementation of actions set by Law on the Prevention of Money Laundering within the area of its competency. With the regard of being the major exchange offices supervisor, Foreign Exchange Inspectorate is also main supervisor of preventive actions implementation and actions focused on prevention of money laundering within the Foreign Exchange Sector.



14.2 INSTITUTIONAL STRUCTURE

Under the influence of deregulation and liberalization of foreign trade, during the last couple of years, the number of participants in trading and credit financial transactions and in various forms of capital transfers abroad sharply increased. Intensity of cross-border payments increased and new forms of doing illegal transactions with foreign countries developed.

Faced with problems named and in order to conduct tasks set in a more quality and efficient way, in 2005, based on Decree on the Internal Organization of the Ministry of Finance started new reorganization of Foreign Exchange Inspectorate. As we can see from Table 14.1, Sector for Foreign Exchange Supervision has been promoted the most and, based on the category of inspection tributary, organized into three sections: Department of Foreign Exchange Supervision of Economic Operators, Department of Foreign Exchange Supervision of Financial Institutions and Department of Foreign Exchange Supervision of Exchange Offices. In this way, presumptions for more efficient control planning and organization under the specific principles as well as presumptions for more intensive expert training and grading of Foreign Exchange Inspectorate were generated.

By the end of 2005, Foreign Exchange Inspectorate counted 42 employees in the structure of employees. 70% are inspectors, out of 24 works in a Department of Supervision and 6 in a Department of Misdemeanor while rest of them represents administrative working staff.



14.3 CAPITAL REGIME

Basic subject of regulation and restriction under the Law on Foreign Exchange Operations are capital activities.

Regulation of cash-flow presents basics of the Law, as the most crucial problem of foreign exchange adjustment regulation to European Union legislation is a problem of capital account liberalization.

Therefore, legal solutions are created according to drafts based on European Union directions which form normative frame of liberalization process and define dynamics of such process on the basis of SAA regulations.

According to SAA, Croatia committed to a gradual liberalization of parts of capital account in accordance with deadlines accepted, taking into account the fact that complete liberalization of capital transactions should be conducted no later than achieving the full membership within the European Union. The Law on Foreign Exchange Operations accepted the model of gradual liberalization of capital account and wherever SAA gives transition period for harmonization, it is accepted by the Law as well. Furthermore, by entering the Law into force, all commitments related to liberalization that Croatia was due to enforce on the day of making the Law valid were accepted, whereupon, by ratification of the Agreement in February 2005, changes of legal directions weren't necessary. It is primarily related to liberalization of long-term and middle-term forms of cash-flow while foreign trade and service market had already been liberalized.

The Law contains restriction regime (prohibitions and limitations) on capital transactions with payment due no longer than one year. Croatia is allowed to keep that regime for four years since the day of SAA enforcement. Mechanism of limitations removal is arranged in the way that most limitations belong to regulations so that regimes could be modified by modification of regulations, instead of modifying the Law itself. In that way, by regulation's modification in the first half of 2005, liberalization of securities investments of non-residents was carried through, as well as liberalization of securities investments of residents on capital market and money market abroad.



14.4 SUBJECT OF SUPERVISION

Foreign Exchange Inspectorate Supervision subject relates to enforcement and implementation of capital regime determined and to respecting the prohibitions concerning the payments abroad based on false claims and simulated contracts.

Capital regime implies the group of various legal and/or administrative restrictions that limit possibilities, ways and terms of capital business performance. Capital restriction regime set by Law on Foreign Exchange Operations and its regulations, is primarily focused on faze of business conclusion and subsequently on its realization through payments and transactions. The Law particularly applies international principle which says that business performance is allowed (forbidden) if business conclusion itself is allowed (forbidden), i.e. if business is concluded in a way assumed by the Law.

Residents payments toward foreign countries based on simulated contracts or false invoices are those payments on ground of which bidder didn't get the proper obligation Meaning of a misdemeanor disposition from article 60 of the Law is protection of residents' property, i.e. disabling the Board of directors' incorrect business activities towards non-residents which cause significant damages to legal persons' property.



14.5 CONTROL ENFORCEMENT

Control planning and enforcement which Foreign Exchange Inspectorate performed during the 2005 was primarily focused on discovering and punishing illegal over-board payments and payments based on imaginary businesses and contracts with non-residents which hadn't declared the actual price.

Non-goods payments, advanced payments, deposit transfers on non-resident accounts, business with off-shore companies and owner connected societies abroad had been supervised the most. Meaning of such priority definitions and foreign exchange supervision projects according to risk indicators was creating the basis of more efficient tax and custom supervision of transactions with foreign countries. We can notice that such improvement in taxation of financial activities, income and property is usually pointed out as a reason for controlling the capital transactions with foreign countries.

As reflected in working plans, inspectors of Foreign Exchange Inspectorate performed total of 710 direct controls in 2005. According to obliged person category, control structure constitutes controls of resident and non-resident companies and branch offices (152); bank and other financial institution controls (52) and authorized exchange offices control (553).

As a result of all inspections performed, 354 misdemeanor requests have been submitted with 572 misdemeanors determined. 101 conclusions for documentation delivery and/or business irregularities elimination have been issued while 47 informations on practice from their jurisdiction have been forwarded to a Money Laundering Prevention Department, Ministry of Interior and State Attorney's Office.

Due to determined tax facts, Foreign Exchange Inspectorate, on grounds of article 96 of General Tax Law, referred to Tax Administration 56 initiatives for additional control and account of tax charges with total of 350 millions of Kuna's of opposed payments towards foreign countries. At the same time, 5 initiatives for custom duty account on those costs that hadn't been included in base for custom duty and VAT calculation of 45 millions of Kuna's were referred to Customs Administration.



14.6 MISDEMEANOUR PROCEEDINGS ENFORCEMENT

Foreign Exchange Inspectorate enforces misdemeanor proceedings in the first degree for misdemeanors set by Law on Foreign Exchange Operations, Law on Trade and Law on Foreign Exchange Inspectorate of Republic of Croatia. Misdemeanor proceedings are to be initiated based on the claims of Foreign Exchange Inspectorate authorized personnel, Croatian National Bank, Police, Customs Administration, Tax Administration and other Departments authorized by law.

Concerning the appeals on Foreign Exchange Inspectorate resolutions, High Misdemeanor court is in charged for adjudging in second degree.

In 2005 Department for Prosecutable Tax Misdemeanor Detection solved 518 subjects based on authorized submitter claims. Approximately 18 millions of Kuna's of fines and proceedings costs were sentenced. In favour of State Budget, 316 thousands of Euros were sized on grounds of proceeding resolutions. At the same time, reimbursement of taken foreign means of 293 thousands of Euros was conducted.

Amount of fines sentenced and charged indicates the complexity of and efficiency in misdemeanor proceedings performance as well as heaviness of misdemeanors detected mostly during the foreign exchange inspectorate controls where fines adjusted sometimes reached the total amount of 1 million of Kuna's.



14.7 LEGISLATION ACTIVITIES

Intensive cooperation of Foreign Exchange Inspectorate and Croatia National Bank concerning the area of foreign exchange regulation adopting has been continuously going on since 1997. Therefore, Foreign Exchange Inspectorate has been involved in drafting most of the regulations from this area.

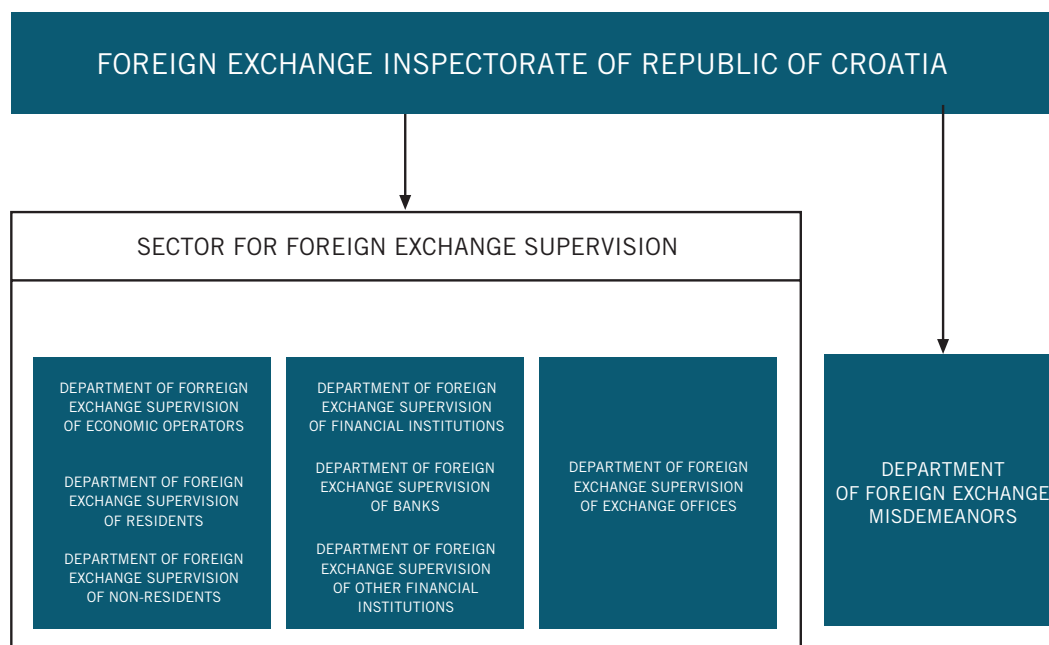
During the 2005 Foreign Exchange Inspectorate representatives were actively involved in drafting regulations from the area of money transfers with foreign countries as well as in drafting regulations that define payments in foreign means of payment in the country and cash payments between residents and non-residents in Kuna's, foreign means of payments and by cheques.

Foreign Exchange Inspectorate, based on results of bank controls, initiated the change of Decision on data collection for the purposes of balance payments projections, foreign debt state and international investments state with the purpose of registration in the foreign debt statistics and statistics of those transactions that are concluded between residents and non-residents which are, by its economic essences and effects, similar to financial loans with foreign countries (repurchase of claims by non-residents from transactions between residents, repurchase of claims by residents from transactions between non-residents).

Nevertheless, the most important activity of Foreign Exchange Inspectorate on a project of foreign exchange regulations change was participation in drafting the Act on the Amendments of the Law on Foreign Exchange Operations which entered into force in December 2005.

With the purpose of adjustment to European Union criteria's and practice in the area of prevention of money laundering, the Law has been updated with regulations on exchange offices licensing and ability criteria's of exchange office owners. In order to provide data and information »ow between Croatian National Bank and Foreign Exchange Inspectorate, the Law has been updated by regulations which ensure secrecy obligation i.e. principle of statistic confidentiality if data collected by Croatia National Bank are to be used for foreign exchange supervision reasons as well. Finally, in order to reach more transparency in capital transactions between residents and off-shore companies, the Law regulates commitment of residents to present informations on real owners of off-shore companies upon request of Foreign Exchange Inspectorate.

Table 14.1. Organization of Foreign Exchange Inspectorate of Republic of Croatia



15
FINANCIAL POLICE



The Law on Financial Police is published in the Official Gazette, No. 177/04, and it has come into effect on 23 December 2004. The constitutional basis for the adoption of this Law is provided in the provisions of Article 2, paragraph 4, and Article 116 of the Constitution of the Republic of Croatia. During 2005, all necessary preparations were made for establishing the Financial Police as of 1 January 2006.



15.1 THE PURPOSE OF ESTABLISHING FINANCIAL POLICE AND ITS EFFECTS ON THE STATE BUDGET

The main task of the Financial Police is financial control for the purpose of strengthening financial discipline of budget payers, combating unofficial economy and preventing the evasion of budgetary obligations with an aim of realizing budget revenue.

One of the priorities of the tax reform is to increase economic activity because the strengthening of control prevents a taxpayer who does not properly fulfil its tax obligations to be in equal or better position as a regular taxpayer. In order to achieve this task, besides ensuring the stability of the tax system, it is necessary to ensure prevention and punishment for tax evasion.

Accelerating transition process with its dynamics and a number of changes in tax and economic system strengthens the causes for tendency towards unofficial economy and tax evasion.

The purpose of establishing the Financial Police is to solely ensure an efficient system of control and collection of budgetary revenue, as a small and operative body, because a firm control system is a way towards strengthening financial discipline with an aim of collecting budgetary revenue.

The excises revenue outturn analysis of the state budget in comparison to the planned amounts shows that the revenue outturn of the state budget is below the expected revenue from excises. Since the number of users and products which are taxed by excises is increasing on the market, it can be concluded that tax revenues do not follow this increasing trend.

Collection of this significant budgetary revenue, due to its share in total revenue of the state budget, requires special expert knowledge, thorough and continuous control of producers which are taxed by excises.



15.2 THE SCOPE OF COMPETENCES OF THE FINANCIAL POLICE

Since a large number of products which are taxed by excises are available daily on the market as goods without the precise production and procurement origin, an increased control through a system which will prevent such cases is required. In the case of excises which are charged on the products' quantity, a fast action of a control body, frequent visits to a taxpayer and, in some cases, constant presence is important. This is exactly what is ensured by the establishment of the Financial Police whose operability derives from the Law on Financial Police.

Tax evasion and work without a licence are almost always followed by the evasion of paying contributions for compulsory insurances. The analysis of payments of contributions for compulsory insurances shows that this area also requires introduction of financial discipline through increased control of contribution payers.

Concessions, as contracted commitments to the budget, are not adequately controlled by the government bodies in the present system of control of regularity and payments of public fees.



15.3 CONCLUSION

Provisions of Article 1 of the Law define the main task of the Financial Police. Among other things, it is prescribed that a main task of the Financial Police is financial control for the purpose of strengthening financial discipline of budget payers, combating unofficial economy and preventing the evasion of budgetary obligations with an aim of realizing budget revenue.

Provisions of Article 5 of the Law determine the scope of competences of the Financial Police. It is prescribed that the Financial Police conducts a financial control of legality, regularity of calculation, entry and payments of budgetary revenue and fees prescribed by special laws, while it controls in particular the following:

- production and transport of petroleum products, tobacco products, beer, alcohol, coffee and nonalcoholic beverages with an aim of determining the regularity of calculation and timeliness of payments of the excise,
- fulfilment of the obligation of calculation and payments of contributions for compulsory insurances,
- fulfilment of the obligations to the budget, taken over by the concession contract or leasing contract.

Financial Police, while conducting its work, cooperates with other control bodies of the government administration and provides professional assistance for determining the facts and collecting or ensuring the evidence.

With a purpose of detecting and processing a criminal activity, which is directed to the state budget, authorised officials of the Financial Police act according to the provisions of the Law on Financial Police, Law on Criminal Procedure and the Law on the Responsibility of Legal Entities for Criminal Activity.

Pursuant to the provisions of Article 8 of the Law, it is prescribed, among other things, that the Financial Police (Central Office) performs activities for ensuring the international legal assistance and cooperation with international organisations and professional associations.

Provisions of Article 22 of the Law prescribe the competences of the authorised officials of the Financial Police. Among other things, it is prescribed that they are authorised to check and determine the identity of persons and objects, collect statements of the responsible persons as well as statements and information from third parties, collect documentation, conduct investigation and assign an expert when needed, examine business and living spaces in which a business activity is conducted, take necessary documentation, temporary or occasionally forbid or limit the conduction of activity, examine goods, determine the origin of goods, money and valuables and take them away temporarily, implement measures for ensuring payment, stop and search vehicles and vessels and carry out other activities prescribed by the Law and other regulations.

Authorised officials of the Financial Police (senior inspector and inspector), within their working activities, conduct especially complex tasks of the control of excises and other indirect and direct taxes, contributions, concessions and other budgetary revenue. Furthermore, they carry out the control of the implementation of the law and other regulations, submit notifications to competent bodies on the activities which have characteristics of violation or criminal activity, cooperate in the most complex work of computer and communication system, monitor technological processes and make their analysis and carry out other tasks requested by the superiors.

Authorised official of the Financial Police is obliged to always take necessary actions, in line with its competences prescribed by this Law, with an aim of preventing hard violation of the law which has a consequence on the state budget.

Therefore, the main purpose of the Financial Police is to contribute by its work to:

- strengthening of financial discipline of budget payers related to payments of budgetary obligations with an aim of realizing budget revenue,
- combating unofficial economy,
- combating corruption.

16
REPORT ON THE ACTIVITIES
OF THE MONEY LAUNDERING
PREVENTION DEPARTMENT
IN 2005



16.1 PURPOSE OF THE LAW ON MONEY LAUNDERING PREVENTION

This Law is of preventive character and the key component of the system is the obligation of banks and other obliged entities defined by the Law to report to the Department on cash and suspicious transactions prescribed by the Law, which includes:

- cash transactions if the transaction value is equal to or exceeds HRK 200,000.00,
- all other cash and non-cash transactions if there is a suspicion of money laundering, according to specific indicators.

16.1.1 Confidentiality and Secrecy of Received Information

Pursuant to the Law (Article 15) all information gathered on the basis of this Law are of confidential and secret significance and can only be used for the prescribed purposes.

Due to the fact that notification on transactions, which the Department receives, contains transaction data which are banking secret, as well as personal data related to the suspicion of money laundering, which can turn out to be unfounded, one of the main elements of the Department's conduct is data protection and secrecy of the procedure (Articles 15 and 17 of the Law).



16.2. DEPARTMENT'S DUTIES

16.2.1 Department as a Financial Intelligence Unit

The Department, within the Ministry of Finance, is organised in accordance to the Law, the model Law of the UN and international standards as an independent financial intelligence unit (FIU) of the administrative type without investigation competences. The Department (FIU) has a task of collecting, processing, analysing and storing data prescribed by the Law on cash, cash-related and suspicious financial transactions.

If, after the analytical processing of received transactions, the Department states that a suspicion of money laundering exists or if it believes there is a basis for relating it to criminal activities and/or typologies of money laundering in the Republic of Croatia, which are clear and very precise, the Department submits the cases for which there is a suspicion of money laundering, Notifications on Suspicious Transactions (NST), to the competent government bodies: primarily to the State Attorney's Office of the Republic of Croatia and/or the Ministry of the Interior, as well as to the control departments of the Ministry of Finance and foreign offices for further procedures and processing.

The Department has legal authorisation to temporary postpone the execution of suspicious transaction for maximum 72 hours and it is obliged to report it to the State Attorney Office immediately.

16.2.2 Department's Information System

Department's information system (DIS) is a system which, given the high degree of the use of the modern information technology, is used, on one hand, for the collection, transfer, storage, processing and analysis of data and information on cash and suspicious transactions with a purpose of determining whether there is a suspicion of money laundering on the basis of certain indicators and, on the other hand, for the access to the computer system "Egmont Secure Web" with an aim of faster and simpler international exchange of data which serves for detecting money laundering.

16.2.3 Analytical System for Automatic Processing of Transactions (NAOS)

During 2005 the new analytical system for analytical intelligence work of the Department was worked upon and tested with a purpose of more efficient operational work on prevention of money laundering and terrorist financing. Technological basis for the construction of the new analytical system is the latest program equipment of the eminent American and world known producers of such technologies (Oracle, I2, Computhink, Quest, etc.)

Obligated entities - banks submit information on transactions to the Department through telecommunications and digital form with a signature authorisation (electronic form).



16.3 INTERNATIONAL COOPERATION OF THE DEPARTMENT

The Law (Article 14) prescribes that the Department can submit the information, gathered on the basis of the same Law, to the respective bodies and organisations of particular countries and international organisations which deal with the money laundering prevention on their request, under the condition of reciprocity.

16.3.1 International Bodies and Organisations

With a purpose of more efficient international cooperation in the field of a fight against money laundering, the Republic of Croatia became a full member of the Egmont group in June 1998:

16.3.1.1 Egmont group is a global organisation of national offices for money laundering prevention which comprises 101 national financial intelligence units (FIU) which deal with prevention and detection of money laundering. Among other things, the status of a full member in the Egmont group enables Croatian Department the following:

- faster and simpler exchange of information between respective bodies and organisations of particular countries,
- participation in decision-making on the politics of the Egmont group,
- possibility of work within the Egmont group working groups (legal, technical and sponsor working group),
- access of the Croatian Department to the computer system "Egmont Secure Web", which was installed by the experts from the American Department (FinCEN) during January 1999.

Croatian Department provided support for establishing departments in Albania, Montenegro, Macedonia and Bosnia and Herzegovina.

16.3.1.2 Special Committee of the Council of Europe for the Assessment of Measures against Money Laundering (MONEYVAL)

The Republic of Croatia is a permanent member of a special Committee of the Council of Europe for the Assessment of Measures against Money Laundering (Moneyval, before PC-R-EV).

Department's representative is a member of the permanent delegation of the Republic of Croatia to the mentioned Committee.

16.3.2 Overview of the Signed Memoranda of Understanding in 2005

During 2005 Croatian Department signed Memoranda of Understanding with an aim of more efficient exchange of data with the departments of the following countries:

Table 16.1: Overview of the Signed Memoranda of Understanding in 2005

YEAR	COUNTRY
2005	BOSNIA AND HERZEGOVINA
	MONTENEGRO
	POLAND
	SERBIA

16.3.3 Regional Cooperation

Regional cooperation is a necessity and a need due to the geographical closeness and intense economic activity which is associated with money and capital flows. However, it is also a fact that economic flows are inevitably associated with criminal flows.

The Department fully cooperates and exchanges information with the departments in Slovenia, Albania, Bosnia and Herzegovina, Montenegro and Serbia and there are no problems or delays in this cooperation. Working meetings are being held and, when there is a need, meetings concerning specific cases are held as well. It was also agreed that regular regional meetings would be held where a specific cases and open questions would be discussed. It is important to mention that the Department was a sponsor of the accession of the departments from Albania, Macedonia and Bosnia and Herzegovina to the Egmont group.

16.3.4 International Conferences, Seminars and Meetings in 2005

The Department's representatives were present and actively participated in specialized international meetings, conferences and seminars organised by the Council of Europe, Egmont group and other international organisations or countries.

The Department prepares a report on all international activities for the Minister of Finance and it submits a copy to the Ministry of Foreign Affairs and European Integration.



16.4 DEPARTMENT'S COOPERATION WITH THE STATE ATTORNEY'S OFFICE, MINISTRY OF THE INTERIOR AND OTHER CONTROL BODIES IN THE REPUBLIC OF CROATIA

The Department interactively cooperates in the field of prevention and detection of money laundering cases with the State Attorney's Office, the Office for the Suppression of Corruption and Organized Crime (USKOK), Police and other control departments within the Ministry of Finance (Customs Administration, Tax Administration and Foreign Exchange Inspectorate). These bodies also supply the Department with data concerning unusual and suspicious transactions which they have identified while performing tasks within their scope of competence.

Beside the abovementioned, the Department cooperates with other supervisory bodies (Croatian National Bank and Croatian Financial Services Supervisory Agency) which monitor the implementation of the Law on Money Laundering Prevention by the obliged entities. These supervisory bodies also report to the Department on unusual and suspicious transactions which they have identified while performing tasks within their scope of competence.

This cooperation is carried out by liaison officers from the mentioned bodies and through regular working meetings which are being held in order to resolve specific cases of money laundering and on the basis of signed Cooperation Agreements, all with an aim of interactive exchange of information needed for money laundering detection.

There are no specialised units within the respective bodies and judiciary which would only deal with the money laundering cases.

- Since the Department is only one part of the chain in a fight against money laundering, a cooperation is required between the Department and the control departments of the Ministry of Finance (Customs Administration, Tax Administration and Foreign Exchange Inspectorate) on one hand and the State Attorney's Office, Office for the Suppression of Corruption and Organized Crime, Police, judiciary and Croatian National Bank on the other.

With this purpose, an Interministerial Coordination, headed by the Minister of Finance and composed of the representatives of the mentioned bodies and institutions involved in the money laundering prevention, has also been established with an aim of operational and strategic cooperation between these bodies.

16.4.1 Interministerial Coordination consists of:

- For prevention: the Department, Croatian National Bank, Croatian Financial Services Supervisory Agency and control departments of the Ministry of Finance (Customs Administration, Tax Administration and Foreign Exchange Inspectorate),
- For repression: State Attorney's Office of the Republic of Croatia, Office for the Suppression of Corruption and Organized Crime, Police and the Department:
- On 22 November 2005 there was a meeting of the representatives of the Interministerial Coordination at the State Attorney's premises with an aim of reaching an agreement on the way of work and practice of the competent bodies in the field of resolving specific money laundering cases.



16.5 MONEY LAUNDERING PREVENTION WITHIN THE ACCESSION PROCESS OF THE REPUBLIC OF CROATIA TO THE EUROPEAN UNION

In connection with the money laundering prevention, an Experts Mission of the European Commission (EC), which was assessing the overall system in the area of a fight against money laundering and terrorist financing, visited the Republic of Croatia in the period 23-27 May 2005.

Following the assessment, the Experts Mission submitted a main Report which, among other things, includes the area of money laundering, stating:

General assessment:

Croatian authorities have achieved large progress in the harmonisation and the development of their own system. The relevant framework for a fight against crime and corruption, including money laundering, is almost fully completed. Croatia has signed and ratified the most important international conventions and protocols and has properly included them in its national legislation.

16.5.1 Analytical Overview of the *Acquis Communautaire* (screening) for Chapter 4: Free Movement of Capital

Money laundering prevention in the Republic of Croatia, within the screening process, has been examined within Chapter 4: Free Movement of Capital.

The first phase of the screening (explanatory screening) related to this area took place on 25 November 2005 in Brussels when the representatives of the EC presented and explained the *acquis* with an emphasis on the most complex legislation in the field of money laundering prevention as well as in the field of money laundering repression.

The second phase of the screening (bilateral screening) took place in Brussels on 21 December 2005. On this meeting the representatives of the Money Laundering Prevention Department presented the Croatian money laundering prevention system, including the following:

- Comparative overview of the degree of harmonisation of national legislation with the *acquis communautaire* in the field of money laundering prevention (screening lists),
- Written presentation (statement of the Republic of Croatia on the degree of harmonisation of its legislation and on its readiness for the implementation of the *acquis* in the field of money laundering prevention),
- PowerPoint presentation which accompanied the oral presentation of the Croatian delegation at the bilateral screening meeting, according to the agenda.

It is important to mention that, beside the representatives of the Ministry of Finance, Money Laundering Prevention Department, a representative of the Ministry of the Interior participated in the bilateral meeting and presented the repression part of the system for the fight against money laundering. This has additionally emphasised the cooperation between those bodies in the field of fight against money laundering and terrorist financing.



16.6 SUSPICIOUS TRANSACTIONS ACCORDING TO SECTORS RECEIVED IN THE PERIOD 2004-2005

Table 16.2: Suspicious Transactions According to Sectors Received in the Period 2004-2005

OBLIGED ENTITIES	2004	2005
1. OBLIGED ENTITIES FROM ARTICLE 2 OF THE LAW ON MONEY LAUNDERING PREVENTION	2,063	2,748
Banks and building societies	**2,024	**2,622
Credit unions	15	34
Investment funds and investment fund management companies		1
Financial Agency and Croatian Postal Service	3	9
Insurance companies	1	4
Brokers	3	2
Authorised exchange offices	3	5
Organisers of lottery games, casino games, betting and slot machines	1	12
Other obliged entities from Article 2, paragraph 3: real estate transactions, leasing and other	13	59
2. OBLIGED ENTITIES FROM ARTICLE 9a	2	6
Attorneys	1	2
Public notaries	1	4
3. GOVERNMENT BODIES	74	117
Ministry of the Interior of the Republic of Croatia/Interpol	26	55
State Attorney's Office of the Republic of Croatia	1	2
Office for the Suppression of Corruption and Organized Crime (USKOK)	5	3
Ministry of Finance, Tax Administration	4	3
Ministry of Finance, Customs Administration	15	29
Ministry of Finance, Foreign Exchange Inspectorate	19	15
Croatian National Bank		2
Intelligence Agency		5
Croatian Securities Commission		
Insurance Companies Supervisory Authority		
Croatian Financial Services Supervisory Agency (as of 1 January 2006)		
State Audit Office		
State Inspector's Office		
Ministry of Justice		
County court		
Open sources	4	3
4. DEPARTMENTS OF OTHER COUNTRIES (FIU)	35	46
TOTAL	2,174	2,917

**** Note:** With the adoption of a new Ordinance on the implementation of the Law on Money Laundering Prevention (1 January 2004) a new list of indicators for identifying suspicious transactions was formed and since then the obliged entities report to the Department as suspicious transactions only such transactions for which they have identified that there is a suspicion or reasonable doubt that the funds in those transactions represent revenue from illegal activities, including the revenue related to taxation, i.e. they report transactions as suspicious in subjective manner, stating in the report the reasons for subjective suspicion.

In 2005, the Department has received:

- 2622 suspicious transactions of subjective character from the banking system,
- 126 suspicious transactions from the obliged entities from the non-banking financial sector,
- 2 suspicious transactions from attorneys,
- 4 suspicious transactions from public notaries,
- 117 suspicious transactions from other government bodies, and
- 46 suspicious transactions from foreign departments.



16.7 KEY INDICATORS OF THE WORK OF THE DEPARTMENT IN 2005

Notifications on suspicious and all other transactions and the Department's decisions concerning the same are statistically analysed as follows:

Table 16.3: Key Indicators of the Work of the Department in 2005

	2005
NUMBER OF OPEN CASES WITH A SUSPICION OF MONEY LAUNDERING	282
NUMBER OF PROCESSED SUSPICIOUS TRANSACTIONS IN OPEN CASES	3,384
TOTAL AMOUNT IN SUSPICIOUS TRANSACTIONS IN OPEN CASES (HRK)	1,543,721,861
NUMBER OF CASES WITH A SUSPICION OF MONEY LAUNDERING SUBMITTED TO COMPETENT BODIES AND FOREIGN DEPARTMENTS FOR FURTHER PROCESSING	70
TOTAL AMOUNT IN CASES WITH A SUSPICION OF MONEY LAUNDERING SUBMITTED TO COMPETENT BODIES FOR FURTHER PROCESSING (HRK)	747,698,102
NUMBER OF ORDERS FOR POSTPONMENT OF COMPLETION OF SUSPICIOUS TRANSACTIONS FOR 72 HOURS (ACCORDING TO ARTICLE 10, PARAGRAPH 2 OF THE LAW) ISSUED BY THE DEPARTMENT	1
TOTAL AMOUNT OF SUSPICIOUS TRANSACTIONS WHICH WERE POSTPONED BY THE DEPARTMENT'S ORDER (HRK)	4,260,068

16.7.1 Cases Submitted to Competent Bodies for Further Processing

Table 16.4: Total Number of NST Submitted to Competent Bodies for Further Processing in 2005

COMPETENT BODY	2005
State Attorney's Office of the Republic of Croatia	26
Office for the Suppression of Corruption and Organized Crime	2
Ministry of the Interior	20
Tax Administration	11
Foreign Exchange Inspectorate	10
Departments of other countries (FIU)	1
TOTAL	70

During 2005, the Department has submitted to competent bodies and foreign departments a total of 70 cases (NST) with a total amount in suspicious transactions of HRK 747,698,102.00.

An increase in cases submitted to the State Attorney's Office and other competent government bodies in the reporting period compared to the previous periods is primarily the result of acquired specific experience in intelligence analytics during the case analysis as well as of the increased number of inspector-analysts in the Department and the improvements of the Department's information system.

16.7.2 Department's Authority to Postpone the Completion of Suspicious Transaction (Article 10, paragraph 2 of the Law)

In 2005, the Department has, in line with its legal authority, issued orders to banks for temporary suspension of completion of suspicious transactions in the amount HRK 4,260,068.00 because of the suspicion of money laundering.

16.7.3 Comparison of the Key Indicators of the Work of Croatian Department and Foreign Departments

On the basis of the evaluations of the Republic of Croatia in the Reports of the Council of Europe (Moneyval) and the comparison between the key indicators of the work of our Department and alike indicators of the work of particular foreign departments (e.g. departments in Croatian surroundings and beyond), it can be stated that our Department, by its efficiency, can measure up to other foreign departments.

However, the Department is only one part of the chain in money laundering prevention, which can only in interactive cooperation with other competent bodies and foreign departments make its full contribution to further development of money laundering prevention strategy in the Republic of Croatia.

16.7.4 Department's Activities in the Field of Terrorist Financing Prevention in 2005

The Department is at the head of the permanent coordination in the Ministry of Finance for the implementation of the UN Resolution 1373.

In line with its competences and with an aim of combating terrorist financing, the Department is carrying out the following activities:



- control of transactions recorded in the Department's databases and the financial system of the Republic of Croatia,
- improvements of international cooperation.

During 2005, the Department has received a total of 13 lists of names of natural persons and entities suspected of terrorism from the Ministry of Foreign Affairs, State Attorney's Office or USA financial intelligence unit (FinCEN). On the basis of these lists, the Department checked a total of 44 natural persons and 17 entities in its databases and through the banking system of the Republic of Croatia. The Department has been reporting in a timely manner to the competent bodies on the results of the control.

16.7.5 Department's Activities in the Field of Eliminating Unofficial Economy in 2005

Profits gained from certain types of unofficial economy or certain illegal activities connected to unofficial economy, for example tax evasion and evasion of other contributions, customs control avoidance, non-permitted trade, etc., appear in a form of cash. This cash is tried to be placed into the legal banking and economic system of the Republic of Croatia through different transactions in order to cover the real source of money.

The Department has submitted 11 cases (NST) connected to some types of unofficial economy to Tax Administration.

The Department has submitted 10 cases (NST) to the Foreign Exchange Inspectorate.

So far, 4 cases (NST) have been submitted to Customs administration.

International cooperation in the field of exchange of financial intelligence information is essential for the purpose of tracing funds which come from any type of the unofficial economy and which are the result of the evasion of customs, tax and other contributions as well as of covering traces of funds which come from illegal activities and which are transferred abroad in different ways. The Department has well developed international cooperation in this area. This cooperation also resulted in Department's requests to competent bodies for temporary blockage of illegal funds.

16.7.6 Other Activities of the Department in 2005

- In cooperation with TAIEX, the Department has organised thematic seminars for the Department's employees and specific groups of obliged entities, related to:
- electronic banking and money laundering (8 and 9 December 2005 in Zagreb),
- participation of Department's representatives in drafting the National Strategy for Combating Corruption in line with the Programme of the Government of the Republic of Croatia 2006-2008,
- participation of Department's representatives in the work of the Intersectoral working group for combating terrorism,
- organising training seminars for the obliged entities and other competent bodies which participate in the fight against money laundering and terrorist financing,
- participating in the CARDS program of the EU for 2002, together with the Office for the Suppression of Corruption and Organized Crime and the Ministry of the Interior, related to capacity strengthening of the Office for the Suppression of Corruption and Organized Crime and in the CARDS program for 2003 related to development of interinstitutional cooperation between the State Attorney's Office, Ministry of the Interior and the Department,
- participating in CARPO (Cards Police) project for financial investigations,
- second round of GRECO evaluation (Council of Europe Committee for Combating Corruption),
- bilateral working meetings and working visits with the representatives of the departments from Bosnia and Herzegovina and Slovenia.

16.7.7 Assessment (Evaluation) of the Department's Work by International bodies

The Department's work as well as the whole system for combating money laundering in the Republic of Croatia is a subject of continuous and periodical assessments by:

- Council of Europe, Special Experts Committee for the Assessment of Measures against Money Laundering (Moneyval): in two occasions (in 1999 and 2002),
- International Monetary Fund,
- Group for Financial Action (FATF-OECD),
- World Bank,
- GRECO (Group of European Countries against Corruption).

In their reports on the evaluation of the measures for the prevention of money laundering and terrorist financing in the Republic of Croatia, international organisations and institutions have assessed Croatian model and prevention system as modern and mainly in line with the international standards.

The efforts of the Money Laundering Prevention Department put in the implementation of its legal duties in the field of prevention of money laundering and terrorist financing have been positively assessed in these reports.



16.8 DESCRIPTION OF A CASE SUBMITTED BY THE DEPARTMENT TO COMPETENT BODIES FOR FURTHER PROCESSING

Suspicious transactions related to transfers to/from the Republic of Croatia via non-residential account of the off shore company from Ireland

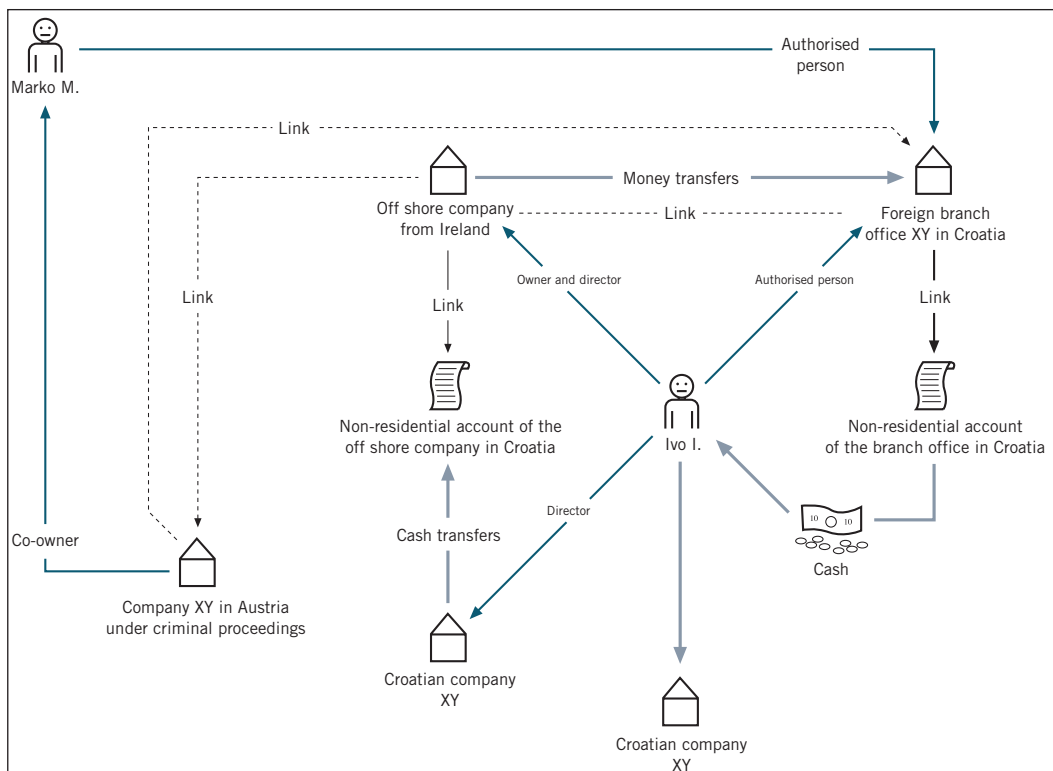
The case is initiated by the data from the Department's database on suspicious transactions which has records of the payment transactions, remittances to and from abroad, related to a natural person - Ivo I, off shore company and Croatian company XY.

- The mentioned off shore company is registered in Ireland and one of the owners and directors is a natural person - Croatian citizen Ivo I. The company, shortly after it has been registered, opened a non-residential account in Croatia. During the period 2002-2004 payments have been made to this non-residential account of the off shore company by the Croatian company XY, whose director is the same Ivo I, in the total amount of HRK 9,107,116.81.
- By further investigation through international cooperation with the Austrian department, the Department has determined that there is a company with a similar name as the off shore company in question which is a subject of a criminal proceedings in Austria and which is connected to the same Ivo I.

Therefore, the Department assumes that unfounded money transfer has been made through transactions - in the amount of HRK 9,107,116.81 onto the account of the off shore company by the request of the Croatian company.

However, regarding the same non-residential account, besides Ivo I, there is another authorised person, Marko M, who is, at the same time, a co-owner of the Austrian company which is under criminal procedure.

Notification on suspicious transactions is submitted for further processing to the State Attorney's Office of the Republic of Croatia on the basis of suspicion of concealment of real source of money coming from certain illegal activities of the mentioned natural persons and legal entities in the Republic of Croatia and in Austria.



17
INTERNAL ORGANIZATION
OF THE MINISTRY OF FINANCE



17.1 INTERNAL ORGANIZATION OF THE MINISTRY OF FINANCE IN 2005

Decree on the Internal Organization of the Ministry of Finance - "The Official Gazette" No. 70/01, 71/03 and 198/03
Decree on the Internal Organization of the Ministry of Finance - "The Official Gazette" No. 43/05 and 114/05

The internal organizational structure of the Ministry of Finance was regulated by the Decree on the Internal Organization of the Ministry of Finance ("The Official Gazette", No. 70/01, 71/03 and 198/03) until April 11, 2005. A new Decree on the Internal Organization of the Ministry of Finance has been adopted since April 12, 2005 ("The Official Gazette", No. 43/05) with minor changes in September, 2006 ("The Official Gazette", No. 114/05).

The following administrative organizations and other internal organizational units had been set up in the Ministry of Finance until April, 2005.

1. Bureau for Macroeconomic Analyses and Planning
2. State Treasury
3. Department for International Financial Institutions and European Integration
4. Department for EU Assistance Programs and Projects Financing
5. Department of Economy
6. Financial System Department
7. Independent Service for the Construction and Maintenance of Border Crossing and Customs Facilities
8. Internal Audit and Control Department
9. Independent Service for Second-Instance Administrative Procedure
10. Cabinet of the Ministry of Finance
11. Secretariat General of the Ministry

Administrative organizations of the Ministry and organizational unit established pursuant to a special act are the following:

1. Tax Administration
2. Customs Administration
3. Foreign Exchange Inspectorate
4. Money Laundry Prevention Service

According to the new Decree on internal organization of the Ministry of Finance ("The Official Gazette", No. 43/05) the following administrative organizations and other internal organizational units had been set up in the Ministry of Finance:

1. Cabinet of the Ministry of Finance
- 2. Independent Public Relations and Communications Division ***
- 3. Independent Department of Internal Auditing**
- 4. Independent Financial Management, Internal Monitoring and Control Division**
5. Secretariat General of the Ministry
6. Bureau for Macroeconomic Analyses and Planning
7. State Treasury
8. Department of Economy
9. Financial System Department
10. Department for European Integration and International Financial Institutions
11. Department for EU Assistance Programs and Projects Financing
12. Department for the Harmonisation of Internal Audit and Financial Control
13. Independent Service for Second-Instance Administrative Procedure
- 14. Independent Information System Service**
15. Independent Service for the Construction and Maintenance of Border Crossing

The administrative organizations of the Ministry and the organizational unit established by a special act are following:

1. Tax Administration
2. Customs Administration
- 3. Finance police**
4. Foreign Exchange Inspectorate
5. Money Laundry Prevention Department

* - The new organizational units and administrative organizations are marked with bold letters.



17.2 THE SCOPE OF THE INTERNAL ORGANIZATIONAL UNITS OF THE MINISTRY OF FINANCE

The Cabinet of the Minister of Finance performs protocol-related activities for the purpose of the Minister and State Secretary, collects documentation and materials from internal organizations in the Ministry, provides timely delivery of materials for the Government of the Republic of Croatia and the Croatian Parliament, performs translations and editorial activities, performs also other professional and administrative activities for the official purposes of Minister and State Secretary.

The Independent Public Relations and Communications Division performs the activities related to media communication and presentation of activities of the Ministry, activities of planning, directing, auditing and implementing the communication strategy and public relations, prepares the public action of the Minister, State Secretary and other officials of the Ministry of Finance, cooperates with the Government Public Relations Department and other entities, responds on citizens' complaints, performs also other tasks requested by the Minister of Finance.

The Independent Department of Internal Auditing performs internal auditing for the Ministry in general, gives professional opinions and has advisory role towards business improvements, estimates systems, processes and internal control system on the base of risk management, provides auditing of utilization of the European Union funds and funds of the other international organizations and institutions, creates the performed internal auditing reports, cooperates with the Department for the Harmonisation of Internal Audit and Financial Control.

The Independent Financial Management, Internal Monitoring and Control Division (FMC) coordinates the establishment and development of financial management methodology and internal control system in Ministry, primary related to previous and subsequent financial controls, accounting functions and financial reporting, participates and helps the organizational unit's heads in their activities, establishment and development procedures and processes related to preparing, editing, progress and storage of financial and other documents, works on establishment of the internal controls and risk analyses, particularly in the area of revenues and receipts monitoring, expenditures and expenses execution, provides the monitoring activities of regularity, timeliness and legality of the work in administrative organizations and organizational units in the Ministry of Finance, implements the inspectorate control in certain subjects according to supervisory power, implements the procedure for estimation of official responsibility damage, coordinates the internal monitoring activities of appropriate authorities in Tax and Customs Administration, cooperates with Department for the Harmonisation of Internal Audit and Financial Control.

The Secretariat General of the Ministry performs the activities related to the working harmonization of internal organizational units and administrative organizations in the Ministry, preparation activities and monitoring of Ministry's plan achievement, participates in draft proposals of laws and regulations in the scope of competence of the Ministry, manages personnel policy, performs professional activities in the area of official relations, develops the proposal of the plan of professional improvement and training of civil servants and employees, operates with human resources, is in charge of regular and timely use of assets and means of labour and performs accounting, general, technical and auxiliary activities, as well as other tasks requested by the Minister.

The Bureau for Macroeconomic Analysis and Planning performs the activities of macroeconomic trends and forecasts, particularly it analysis and plans fiscal policy of the state budget, extrabudgetary funds as well as local government and self-government units, analyses monetary policy and exchange rate policy, participates in the activities of the state cooperation with international institutions and activities related to the appearance of the Republic of Croatia on the international financial market and rating agencies providing rating of the Republic of Croatia, prepares the Monthly Statistical Review and Annual Report of the Ministry of Finance and performs other tasks requested by the Minister.

The State Treasury performs the activities related to the budget preparation and consolidation, state budget execution, state accounting and public debt management as well as the affairs of financial management of European Union funds through the National fund.

The following are organized in the State Treasury: Sector for Budget Preparation, Sector for Budget Execution, Unit for State Treasury System development and supporting, Budget Oversight Unit and National Fund Activity Unit.

The Sector for Budget Preparation performs the activities regarding planning, preparation and adoption of state budget and consolidated state budget due to improvement of public finance management system, monitoring and analyzing revenues and receipts as well as expenditure and expenses by areas of public spending which is financed from state budget, also deals with budget preparation activities, development and follow-up by programs. This Sector participates in drafting legal and by-law regulation proposals which



provide for rights and define state budget duties and it also performs other tasks requested by the Minister and the State Treasurer.

The Sector for Budget Execution performs the payments in domestic and foreign currency based on budgetary beneficiaries requests, estimates the cash flow quantity and dynamics on the state budget account as well as all budgetary beneficiaries accounts. It makes the Proposal draft of the Budget Execution Law and drafts of regulations, gives opinions and proposals related to advance payments, performs the activities of normative regulation and development of the accounting, consolidates and analyses financial reports, prepares the reports for internal and external beneficiaries and also performs other tasks requested by the Minister and the State Treasurer.

The Public Debt and Cash Management Department manages the public debt portfolio according to sources, maturity, currency and interest structure based on public debt management strategy as well as measures and instruments of risks and repayment costs minimization, prepares contracts of borrowing, performs the activities related to the issuance of securities in the domestic and foreign markets, makes three-year strategy of debt management, keeps on register debt, the issuance of guarantees and loans, implements bonito analysis of state guarantees seeker, monitors the decision implementation of guarantees and performs other tasks requested by the Minister and the State Treasurer.

The Treasury System Development and Support Department performs the activities of projecting, optimizations, analyses, improvements and business process standardization within the State Treasury System, the activities of setting up the technical union and full integration of the State Treasury informatics' system with financial-information systems of all State Administration entities, the activities of application and operational support to the business processes of State Treasury System and provides support to the State Treasury System users.

The Budget Supervision Unit performs budget supervision activities for purpose of providing the legal utilization of budget resources and for earmarked purposes.

The National Fund Unit performs the activities of receipts and financial management with all European Union programs, creates the special bank's accounts for acceptance of the European Union funds, prepares the requests for the funds withdrawal from the European Commission and funds based on co-financing from the state budget and other domestic sources, transfers the funds on the accounts of agencies of implementation, organizes and implements the managing and control system in the areas within their competence, prepares the financial reports about their business activity and also maintains the European Commission reporting system.

The Department of Economy analyses the financial statement of public enterprises and state own enterprises, performs activities related to restructuring and consolidation of business subjects, participates in activities related to the issuance of state guaranties, keeps on and monitors the register of concessions, improves the non-tax revenues collection system, monitors and analyses the state aid policy, analyses property damage and rights caused by natural disasters, participates in drafting laws and other regulations in its' own scope and other tasks requested by the Minister.

The Financial System Department participates in drafting of legal regulation in the areas of banking and foreign-exchange system, insurance system and payment operations, money market and capital market, analysis and recommends measures for the improvement of those systems, performs inspection supervision of specific financial institutions and other tasks requested by the Minister.

The Department for European Integration and International Financial Relations prepares legal regulations related to the financial relations with international financial institutions, performs activities in the area of bilateral and multilateral financial relations of the Republic of Croatia in the scope of the Ministry of Finance. It is also developing and implementing the cooperation with international financial institutions related to solving the structural and development problems as well as sustainable growth achievement, makes financial obligations arising from the membership of the Republic of Croatia in international financial institutions based on concluded contracts of loans and donations and technical grants received by those institutions, performs the activities in the scope of the Ministry of Finance related to cooperation, preparation and negotiations for membership of the Republic of Croatia in the European Union and performs other tasks requested by the Minister.

The Department for EU Assistance Programs and Projects Financing performs the activities related to 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 the programs and projects financing, implementing bidding procedure and concludes contracts on the procurement services, goods and



works, manages the system of financial monitoring of the implementation of the projects and financial fund flows as well as performs other tasks requested by the Minister.

The Department for the Harmonisation of Internal Audit and Financial Control is defining and developing a comprehensive internal financial control system in public sector (PIFC) related to internal audit as well as financial management and controls.

The Independent Service for Second - Instance Administrative Procedure decides on the complaints of the administrative act, Tax Administration, Customs Administration and Finance Police in the area of tax operation, customs operation and financial supervision operation over the legitimacy of accounts and budget revenues payments and fees prescribed by other special laws, implements the procedure due to extraordinary legal remedies in its own scope of competence, brings the settlements in the implementation of administrative supervision over the legitimacy of first-instance acts of Tax Administration, Customs Administration and Finance Police, cooperates in the preparation of the draft proposals of laws and international agreements in the area of taxes and customs duties.

The Independent Information System Service organizes and implements the joint information system of all organizational units of the Ministry, plans and implements the informatization of the Ministry as well as system maintenance of information services in the Ministry. It takes care of public and internal information service regulation and also concerns about Ministry promotion in electronic and other media, plans the procurement of computer and network equipment, concerns about officials informatics' education and also about continuous maintenance of all informatics' resources.

The Independent Border Crossing Construction and Maintenance Service has been entrusted with the preparation, construction, reconstruction and approval for use of the new border crossing, as well as investment and current maintenance of the newly built and existing border crossing 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 crossing, participates in the work of joint committees and working groups with representatives from the neighbouring countries. It also performs other tasks related to the management of state assets on border crossing.

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 offences in excise taxes and performs other tasks requested by the Minister.

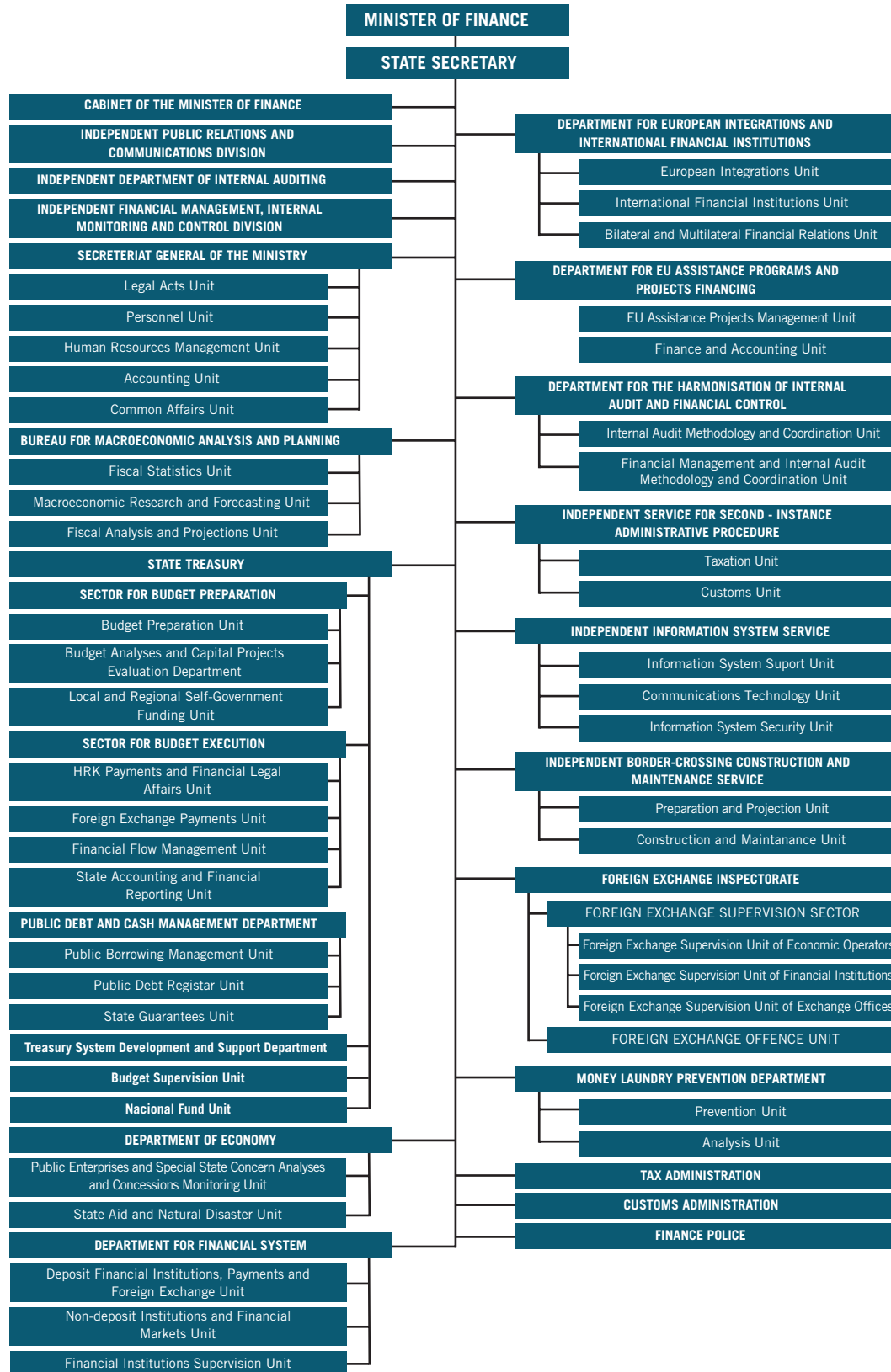
Finance Police performs financial supervision activities on legality, regularity and calculation timeliness, budget revenues accounting and payments and fees prescribed by the law.

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 requested by the Minister.



Organizational Chart of the Ministry of Finance



18

APPENDIX



Appendix 1: Basic Macroeconomic Indicators of Croatian Economy

	2000	2001	2002	2003	2004	2005
GDP, current prices (mill. HRK)	152,519	165,639	181,231	198,422	212,826	229,031
Growth rate of GDP (%)	2.9	4.4	5.6	5.3	3.8	4.3
GDP, current prices (mill. EUR)	19,976	22,177	24,468	26,234	28,395	30,949
GDP, per capita (EUR)	4,560	4,998	5,507	5,906	6,397	6,968
Consumer prices, average (%)	4.6	3.8	1.7	1.8	2.1	3.3
Producers prices, average (%)	9.7	3.6	-0.4	1.9	3.5	3.0
Unemployed persons, average	357,872	380,195	389,741	329,799	309,875	308,739
Unemployment rate, average	21.1	22.0	22.5	19.5	18.0	17.9
Unemployment rate - ILO, average (%)	16.1	15.8	14.8	14.3	13.8	12.7
Average monthly gross wage, growth rate (%)	7.0	3.9	6.0	4.8	6.4	4.4
Average monthly gross wage, HRK	4,869	5,061	5,366	5,623	5,985	6,248
Average monthly net wage, growth rate (%)	8.9	6.5	5.0	5.9	5.9	4.9
Average monthly net wage, HRK	3,326	3,541	3,720	3,940	4,173	4,376
Total volume of industrial production, growth rate (%)	1.7	6.0	5.4	4.1	3.7	5.1
Retail sales turnover, real growth rate (%)	14.4	10.0	12.5	3.7	2.6	2.8
Total tourist bed-nights, growth rate (%)	45.0	11.0	3.0	4.0	2.0	8.0
Total volume of construction projects, growth rate (%)	-9.1	3.6	12.8	22.8	2.0	-0.8
Exchange rate HRK/USD, average	8.28	8.34	7.86	6.70	6.04	5.95
Exchange rate HRK/USD, end of period	8.16	8.36	7.15	6.12	5.64	6.23
Exchange rate HRK/EUR, average	7.63	7.47	7.41	7.56	7.50	7.40
Exchange rate HRK/EUR, end of period	7.60	7.37	7.44	7.65	7.67	7.38
Trade balance (mill. USD)	-3,455	-4,481	-5,818	-8,022	-8,565	-9,788
Exports (mill. USD)	4,432	4,666	4,904	6,187	8,024	8,773
Imports (mill. USD)	7,887	9,147	10,722	14,209	16,589	18,560
Current account balance (mill. EUR)	-477	-814	-2,094	-1,874	-1,404	-1,993
Current account balance (% GDP)	-2.4	-3.7	-8.6	-7.1	-4.9	-6.4
Total outstanding external debt, end of period (mill. USD)	11,282	11,870	15,680	24,759	31,002	30,220
Total outstanding external debt, end of period (mill. EUR)	12,109	13,458	15,055	19,811	22,781	25,541
International reserves of CNB, end of period (mill. EUR)	3,783	5,334	5,651	6,554	6,436	7,438
Interest rates on treasury bills of 91 days maturity, end of period	7.50%	4.00%	2.00%	4.00%	3.80%	3.70%
ZIBOR (3 m), average	11.10%	7.90%	4.60%	5.50%	7.35%	6.19%

Source: CBS, CNB, Ministry of finance



Appendix 2: Budgetary Central Government Revenue 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	69,651,075.3	74,677,473.7	80,463,518.2	107.7	85,653,010.2	106.4
11	Taxes	42,810,173.7	45,281,076.4	47,149,861.9	104.1	50,687,564.0	107.5
111	Taxes on income, profits, and capital gains	6,022,403.1	6,189,047.2	6,259,713.1	101.1	7,057,112.3	112.7
1111	Payable by individuals	3,363,295.1	3,114,580.8	3,128,273.0	100.4	3,106,476.4	99.3
1112	Payable by corporations and other enterprises	2,659,108.0	3,074,466.4	3,131,440.1	101.9	3,950,635.9	126.2
113	Taxes on property	294,555.6	289,926.0	355,823.3	122.7	375,500.5	105.5
1134	Taxes on financial and capital transactions	294,555.6	289,926.0	355,823.3	122.7	375,500.5	105.5
114	Taxes on goods and services	33,974,099.2	36,651,147.6	38,602,220.8	105.3	41,323,002.4	107.0
1141	General taxes on goods and services	26,089,212.5	28,260,009.3	30,013,661.2	106.2	32,399,951.5	108.0
11411	Value-added taxes	25,952,486.3	28,129,299.9	29,864,904.7	106.2	32,243,371.6	108.0
11412	Sales taxes	136,726.2	130,709.4	148,756.5	113.8	156,579.9	105.3
1142	Excises	7,474,168.1	7,850,993.1	7,941,553.7	101.2	8,177,659.1	103.0
1144	Taxes on specific services	39,624.4	7,903.3	26,216.5	331.7	20,000.0	76.3
1145	Taxes on use of goods, permission to use goods	126,558.7	182,348.1	226,812.5	124.4	299,562.6	132.1
11452	Other	126,558.7	182,348.1	226,812.5	124.4	299,562.6	132.1
1146	Other taxes on goods and services	244,535.5	349,893.8	393,976.9	112.6	425,829.2	108.1
115	Taxes on international trade and transactions	2,050,624.3	1,810,866.2	1,590,727.3	87.8	1,562,930.2	98.3
1151	Customs and other import duties	2,050,624.3	1,810,866.2	1,590,727.3	87.8	1,562,930.2	98.3
116	Other taxes	468,491.5	340,089.4	341,377.4	100.4	369,018.6	108.1
12	Social contributions	25,189,614.1	27,416,930.5	29,477,597.2	107.5	31,301,339.6	106.2
121	Social security contributions	25,189,614.1	27,416,930.5	29,477,597.2	107.5	31,301,339.6	106.2
1211	Employee contributions	0.0	12,334,662.0	13,139,274.1	106.5	13,857,359.8	105.5
1212	Employer contributions	1,605,081.6	14,323,245.2	15,737,707.0	109.9	16,695,492.4	106.1
1213	Self-employed or nonemployed contributions	455,559.6	759,023.3	600,616.1	79.1	748,487.4	124.6
1214	Unallocable contributions	23,128,972.9	0.0	0.0	-	0.0	-
13	Grants	0.0	10,406.5	10,121.5	-	27,505.2	271.8
131	From foreign governments	0.0	0.0	684.1	-	107.3	-
1311	Current	0.0	0.0	571.0	-	107.3	-
1312	Capital	0.0	0.0	113.1	-	0.0	-
132	From international organizations	0.0	10,406.5	9,437.4	-	27,397.9	290.3
1321	Current	0.0	10,406.5	9,437.4	-	18,873.3	200.0
1322	Capital	0.0	0.0	0.0	-	8,524.6	-
133	From other general government units	0.0	0.0	0.0	-	0.0	-
14	Other revenue	1,651,287.5	1,969,060.3	3,825,937.6	194.3	3,636,601.4	95.1
141	Property income	622,899.7	417,485.5	2,667,701.0	639.0	2,226,646.8	83.5
1411	Interest	14,105.6	19,433.0	35,752.0	184.0	62,784.1	175.6
1412	Dividends	115,129.8	108,122.9	1,868,840.6	1,728.4	1,123,345.8	60.1
1413	Withdrawals from income of quasi-corporations	361,950.2	5.1	146,819.9	-	192,515.7	-
1414	Property income attrib. to insurance policyholders	0.0	0.0	0.0	-	0.0	-
1415	Rent	131,714.1	289,924.5	616,288.5	212.6	848,001.2	137.6
142	Sales of goods and services	625,218.7	749,462.7	676,950.9	90.3	782,428.0	115.6
1421	Sales of market establishments	0.0	0.0	0.0	-	0.0	-
1422	Administrative fees	257,485.7	305,448.1	312,994.2	102.5	397,066.4	126.9
1423	Incidental sales by nonmarket establishments	367,733.0	444,014.6	363,956.7	82.0	385,361.6	105.9
1424	Imputed sales of goods and services	0.0	0.0	0.0	-	0.0	-
143	Fines, penalties, and forfeits	333,802.6	307,167.5	342,370.6	111.5	360,707.4	105.4
144	Voluntary transfers other than grants	0.0	1,522.6	248.5	-	5,653.1	2,274.9
1441	Current	0.0	1,522.6	248.5	-	5,653.1	2,274.9
1442	Capital	0.0	0.0	0.0	-	0.0	-
145	Miscellaneous and unidentified revenue	69,366.5	493,422.0	138,666.6	28.1	261,166.1	188.3



Appendix 3: Budgetary Central Government Expense 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
2	EXPENSE	70,397,350.9	77,075,487.4	83,131,114.4	107.9	87,857,464.9	105.7
21	Compensation of employees	19,534,161.7	21,225,816.1	22,268,286.7	104.9	23,182,585.9	104.1
211	Wages and salaries	16,677,053.8	18,037,101.2	18,888,605.2	104.7	19,699,216.4	104.3
212	Social contributions	2,857,107.9	3,188,714.9	3,379,681.5	106.0	3,483,369.5	103.1
2121	Actual social contributions	2,857,107.9	3,188,714.9	3,379,681.5	106.0	3,483,369.5	103.1
2122	Imputed social contributions	0.0	0.0	0.0	-	0.0	-
22	Use of goods and services	4,391,924.0	4,170,610.6	4,358,720.5	104.5	4,951,917.4	113.6
23	Consumption of fixed capital	0.0	0.0	0.0	-	0.0	-
24	Interest	3,263,574.2	3,587,328.9	3,972,466.3	110.7	4,387,009.7	110.4
241	To nonresidents	1,887,009.3	1,879,419.9	1,976,502.3	105.2	2,053,587.9	103.9
242	To residents other than general government	1,376,564.9	1,707,909.0	1,995,964.0	116.9	2,333,421.8	116.9
243	To other general government units	0.0	0.0	0.0	-	0.0	-
25	Subsidies	2,104,974.5	4,292,712.4	4,968,068.5	115.7	5,248,743.7	105.6
251	To public corporations	657,422.2	1,942,931.7	2,783,462.4	143.3	2,784,825.0	100.0
252	To private enterprises	1,447,552.3	2,349,780.7	2,184,606.1	93.0	2,463,918.7	112.8
26	Grants	4,161,544.5	3,746,958.2	3,420,326.9	91.3	3,796,846.7	111.0
261	To foreign governments	66,004.3	43,918.0	76,464.4	174.1	73,639.3	96.3
2611	Current	66,004.3	43,918.0	46,500.0	105.9	49,174.0	105.8
2612	Capital	0.0	0.0	29,964.4	-	24,465.3	-
262	To international organizations	38,682.7	41,239.1	83,433.8	202.3	93,831.7	112.5
2621	Current	38,682.7	41,239.1	83,433.8	202.3	93,831.7	112.5
2622	Capital	0.0	0.0	0.0	-	0.0	-
263	To other general government units	4,056,857.5	3,661,801.1	3,260,428.7	89.0	3,629,375.7	111.3
2631	Current	3,956,782.1	3,198,504.5	2,498,597.5	78.1	2,623,246.2	105.0
2632	Capital	100,075.4	463,296.6	761,831.2	164.4	1,006,129.5	132.1
27	Social benefits	34,256,888.5	36,204,270.1	39,730,886.6	109.7	41,358,454.8	104.1
271	Social security benefits	17,950,808.8	28,917,771.5	28,189,471.6	97.5	29,308,716.4	104.0
272	Social assistance benefits	15,943,381.4	6,731,909.7	11,177,314.8	166.0	11,792,075.3	105.5
273	Employer social benefits	362,698.3	554,588.9	364,100.2	65.7	257,663.1	70.8
28	Other expense	2,684,283.5	3,847,791.1	4,412,358.9	114.7	4,931,906.7	111.8
281	Property expense other than interest	451.8	6,766.9	3,954.6	58.4	4,919.8	124.4
282	Miscellaneous other expense	2,683,831.7	3,841,024.2	4,408,404.3	114.8	4,926,986.9	111.8
2821	Current	1,331,109.2	2,325,646.4	1,842,516.4	79.2	2,154,806.2	116.9
2822	Capital	1,352,722.5	1,515,377.8	2,565,887.9	169.3	2,772,180.7	108.0



Appendix 4: Transactions in Nonfinancial Assets of the Budgetary Central Government 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
31	Net acquisition of nonfinancial assets	1,377,002.9	1,812,403.6	1,419,466.9	78.3	1,553,668.4	109.5
311	Fixed assets	1,284,191.8	1,795,345.4	1,384,608.6	77.1	1,516,968.2	109.6
311,1	Acquisitions: fixed assets	1,499,188.5	2,019,172.2	1,624,050.5	80.4	1,781,346.8	109.7
311,2	Disposals: fixed assets	214,996.7	223,826.8	239,441.9	107.0	264,378.6	110.4
311,3	Consumption of fixed capital (CFC): fixed assets	0.0	0.0	0.0	-	0.0	-
3111	Buildings and structures	715,757.4	1,199,770.2	811,476.8	67.6	867,662.5	106.9
3111,1	Acquisitions: buildings and structures	929,636.7	1,423,367.0	1,050,314.9	73.8	1,131,301.5	107.7
3111,2	Disposals: buildings and structures	213,879.3	223,596.8	238,838.1	106.8	263,639.0	110.4
3111,3	CFC: buildings and structures	0.0	0.0	0.0	-	0.0	-
3112	Machinery and equipment	388,336.5	516,597.8	518,941.0	100.5	557,319.9	107.4
3112,1	Acquisitions: machinery and equipment	389,453.9	516,827.8	519,544.8	100.5	558,059.5	107.4
3112,2	Disposals: machinery and equipment	1,117.4	230.0	603.8	262.5	739.6	122.5
3112,3	CFC: machinery and equipment	0.0	0.0	0.0	-	0.0	-
3113	Other fixed assets	180,097.9	78,977.4	54,190.8	68.6	91,985.8	169.7
3113,1	Acquisitions: other fixed assets	180,097.9	78,977.4	54,190.8	68.6	91,985.8	169.7
3113,2	Disposals: other fixed assets	0.0	0.0	0.0	-	0.0	-
3113,3	CFC: other fixed assets	0.0	0.0	0.0	-	0.0	-
312	Inventories	7.2	0.0	0.0	-	0.0	-
313	Valuables	69,099.8	5,303.3	7,518.2	141.8	7,220.0	96.0
313,1	Acquisitions: valuables	69,099.8	5,303.3	7,518.2	141.8	7,220.0	96.0
313,2	Disposals: valuables	0.0	0.0	0.0	-	0.0	-
314	Nonproduced assets	23,704.1	11,754.9	27,340.1	232.6	29,480.2	107.8
314,1	Acquisitions: nonproduced assets	26,743.6	30,513.9	32,299.2	105.9	40,251.0	124.6
314,2	Disposals: nonproduced assets	3,039.5	18,759.0	4,959.1	26.4	10,770.8	217.2
3141	Land	-2,010.2	-18,361.1	7,062.3	-38.5	-10,282.1	-
3141,1	Acquisitions: land	1,029.3	397.9	12,021.4	3,021.2	488.7	4.1
3141,2	Disposals: land	3,039.5	18,759.0	4,959.1	26.4	10,770.8	217.2
3142	Subsoil assets	0.0	0.0	0.0	-	0.0	-
3142,1	Acquisitions: subsoil assets	0.0	0.0	0.0	-	0.0	-
3142,2	Disposals: subsoil assets	0.0	0.0	0.0	-	0.0	-
3143	Other naturally occurring assets	0.0	0.0	0.0	-	0.0	-
3143,1	Acquisitions: other naturally occurring assets	0.0	0.0	0.0	-	0.0	-
3143,2	Disposals: other naturally occurring assets	0.0	0.0	0.0	-	0.0	-
3144	Intangible nonproduced assets	25,714.3	30,116.0	20,277.8	67.3	39,762.3	196.1
3144,1	Acquisitions: intangible nonproduced assets	25,714.3	30,116.0	20,277.8	67.3	39,762.3	196.1
3144,2	Disposals: intangible nonproduced assets	0.0	0.0	0.0	-	0.0	-



Appendix 5: Transactions in Financial Assets of the Budgetary Central Government 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
32	Net acquisition of financial assets	1,649,392.2	-1,320,128.6	221,977.3	-16.8	1,752,824.5	-
321	Domestic	1,635,902.8	-1,330,054.7	212,191.5	-16.0	1,757,681.4	-
3212	Currency and deposits	359,542.9	1,146,530.3	-1,114,263.8	-	688,185.0	-61.8
3213	Securities other than shares	0.0	0.0	0.0	-	0.0	-
3213.1	Acquisitions: Securities other than shares	0.0	0.0	0.0	-	0.0	-
3213.2	Disposals: Securities other than shares	0.0	0.0	0.0	-	0.0	-
3214	Loans	689,541.9	393,362.8	1,002,955.3	255.0	847,590.4	84.5
3214.1	Acquisitions: Loans	1,014,320.7	1,576,177.4	1,328,793.9	84.3	1,026,366.5	77.2
3214.2	Disposals: Loans	324,778.8	1,182,814.6	325,838.6	27.5	178,776.1	54.9
3215	Shares and other equity	586,818.0	-2,869,947.8	323,500.0	-11.3	221,906.0	-
3215.1	Acquisitions: Shares and other equity	586,818.0	485,020.0	448,500.0	92.5	235,065.1	52.4
3215.2	Disposals: Shares and other equity	0.0	3,354,967.8	125,000.0	3.7	13,159.1	10.5
3216	Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3216.1	Acquisitions: Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3216.2	Disposals: Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3217	Financial derivatives	0.0	0.0	0.0	-	0.0	-
3217.1	Acquisitions: Financial derivatives	0.0	0.0	0.0	-	0.0	-
3217.2	Disposals: Financial derivatives	0.0	0.0	0.0	-	0.0	-
3218	Other accounts receivable	0.0	0.0	0.0	-	0.0	-
3218.1	Acquisitions: Other accounts receivable	0.0	0.0	0.0	-	0.0	-
3218.2	Disposals: Other accounts receivable	0.0	0.0	0.0	-	0.0	-
322	Foreign	13,489.4	9,926.1	9,785.8	98.6	-4,856.9	-
3222	Currency and deposits	0.0	0.0	0.0	-	0.0	-
3223	Securities other than shares	0.0	0.0	0.0	-	0.0	-
3223.1	Acquisitions: Securities other than shares	0.0	0.0	0.0	-	0.0	-
3223.2	Disposals: Securities other than shares	0.0	0.0	0.0	-	0.0	-
3224	Loans	0.0	0.0	0.0	-	0.0	-
3224.1	Acquisitions: Loans	0.0	0.0	0.0	-	0.0	-
3224.2	Disposals: Loans	0.0	0.0	0.0	-	0.0	-
3225	Shares and other equity	13,489.4	9,926.1	9,785.8	98.6	-4,856.9	-
3225.1	Acquisitions: Shares and other equity	13,489.4	9,926.1	9,785.8	98.6	2,699.3	27.6
3225.2	Disposals: Shares and other equity	0.0	0.0	0.0	-	7,556.2	-
3226	Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3226.1	Acquisitions: Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3226.2	Disposals: Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3227	Financial derivatives	0.0	0.0	0.0	-	0.0	-
3227.1	Acquisitions: Financial derivatives	0.0	0.0	0.0	-	0.0	-
3227.2	Disposals: Financial derivatives	0.0	0.0	0.0	-	0.0	-
3228	Other accounts receivable	0.0	0.0	0.0	-	0.0	-
3228.1	Acquisitions: Other accounts receivable	0.0	0.0	0.0	-	0.0	-
3228.2	Disposals: Other accounts receivable	0.0	0.0	0.0	-	0.0	-
323	Monetary gold and SDRs	0.0	0.0	0.0	-	0.0	-



Appendix 6: Transactions in Liabilities of the Budgetary Central Government 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
33	Net incurrence of liabilities	3,772,670.7	2,890,288.7	4,309,040.4	149.1	5,510,947.6	127.9
33,1	Total repayments	6,240,866.3	6,520,770.5	13,717,081.5	210.4	10,253,489.1	74.7
33,2	Total incurrence	10,013,537.0	9,411,059.2	18,026,121.9	191.5	15,764,436.7	87.5
331	Domestic	1,424,916.2	-159,690.2	4,038,705.1	-2,529.1	10,591,559.7	
331,1	Repayments	1,734,325.3	4,146,435.2	9,009,705.0	217.3	4,389,322.6	48.7
331,2	Incurrence	3,159,241.5	3,986,745.0	13,048,410.1	327.3	14,980,882.3	114.8
3312	Currency and deposits	0.0	0.0	0.0	-	0.0	-
3313	Securities other than shares	1,297,359.9	635,810.6	6,357,475.7	999.9	9,636,343.1	151.6
3313,1	Repayments: Securities other than shares	1,481,694.3	2,305,093.0	5,025,194.2	218.0	2,844,600.8	56.6
3313,2	Incurrences: Securities other than shares	2,779,054.2	2,940,903.6	11,382,669.9	387.0	12,480,943.9	109.6
3314	Loans	127,556.3	-795,500.8	-2,318,770.6	-	955,216.6	-41.2
3314,1	Repayments: Loans	252,631.0	1,841,342.2	3,984,510.8	216.4	1,544,721.8	38.8
3314,2	Incurrences: Loans	380,187.3	1,045,841.4	1,665,740.2	159.3	2,499,938.4	150.1
3316	Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3316,1	Repayments: Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3316,2	Incurrences: Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3317	Financial derivatives	0.0	0.0	0.0	-	0.0	-
3317,1	Repayments: Financial derivatives	0.0	0.0	0.0	-	0.0	-
3317,2	Incurrences: Financial derivatives	0.0	0.0	0.0	-	0.0	-
3318	Other accounts payable	0.0	0.0	0.0	-	0.0	-
3318,1	Repayments: Other accounts payable	0.0	0.0	0.0	-	0.0	-
3318,2	Incurrences: Other accounts payable	0.0	0.0	0.0	-	0.0	-
332	Foreign	2,347,754.5	3,049,978.9	270,335.3	8.9	-5,080,612.1	-
332,1	Repayments	4,506,541.0	2,374,335.3	4,707,376.5	198.3	5,864,166.5	124.6
332,2	Incurrence	6,854,295.5	5,424,314.2	4,977,711.8	91.8	783,554.4	15.7
3322	Currency and deposits	0.0	0.0	0.0	-	0.0	-
3323	Securities other than shares	3,024,357.8	4,051,109.1	1,215,439.1	30.0	-3,713,935.0	-
3323,1	Repayments: Securities other than shares	2,579,181.0	0.0	2,526,875.9	-	3,713,935.0	-
3323,2	Incurrences: Securities other than shares	5,603,538.8	4,051,109.1	3,742,315.0	92.4	0.0	-
3324	Loans	-676,603.3	-1,001,130.2	-945,103.8	-	-1,366,677.1	-
3324,1	Repayments: Loans	1,927,360.0	2,374,335.3	2,180,500.6	91.8	2,150,231.5	98.6
3324,2	Incurrences: Loans	1,250,756.7	1,373,205.1	1,235,396.8	90.0	783,554.4	63.4
3326	Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3326,1	Repayments: Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3326,2	Incurrences: Insurance technical reserves	0.0	0.0	0.0	-	0.0	-
3327	Financial derivatives	0.0	0.0	0.0	-	0.0	-
3327,1	Repayments: Financial derivatives	0.0	0.0	0.0	-	0.0	-
3327,2	Incurrences: Financial derivatives	0.0	0.0	0.0	-	0.0	-
3328	Other accounts payable	0.0	0.0	0.0	-	0.0	-
3328,1	Repayments: Other accounts payable	0.0	0.0	0.0	-	0.0	-
3328,2	Incurrences: Other accounts payable	0.0	0.0	0.0	-	0.0	-



Appendix 7: Budgetary Central Government Expense by Function

	(000 HRK)	2002	2003	2004	2005
7	Total expense	74,170,855.1	79,130,476.7	84,794,982.3	89,686,282.7
701	General public services	7,374,118.6	8,202,368.2	8,958,022.6	10,221,538.1
702	Defense	4,352,135.6	4,087,773.8	3,700,636.3	3,593,298.4
703	Public order and safety	4,790,499.3	5,176,019.6	5,488,422.3	5,828,251.1
704	Economic affairs	5,747,134.5	6,631,930.1	7,866,261.5	8,392,346.9
705	Environment protection	264,258.6	310,793.9	234,334.6	205,605.1
706	Housing and community amenity affairs	1,411,431.1	1,829,917.5	2,528,730.7	2,848,426.5
707	Health	10,703,957.9	11,609,418.9	12,719,750.1	12,912,308.2
708	Recreation, culture and religion	993,561.7	1,085,002.2	1,242,363.0	1,322,381.5
709	Education	6,314,708.8	6,806,802.9	7,244,729.9	7,642,395.0
710	Social protection	32,219,049.0	33,390,449.7	34,811,731.4	36,719,731.9



Appendix 8: Transactions of Extrabudgetary Funds and Agencies 2002 - 2005

	(000 HRK)	2002*	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	8,537,638.0	8,604,825.0	7,830,258.0	91.0	8,134,940.0	103.9
11	Taxes	2,361,127.0	2,631,104.0	2,683,804.0	102.0	2,761,485.0	102.9
12	Social contributions	10,408.0	7,677.0	0.0	-	0.0	-
13	Grants	3,124,963.0	2,497,178.0	1,274,492.0	51.0	1,145,477.0	89.9
131	From foreign governments	290.0	1,434.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	-	0.0	-
133	From other general government units	3,124,673.0	2,495,744.0	1,274,492.0	51.1	1,145,477.0	89.9
1331	Current	2,901,511.0	2,256,669.0	926,267.0	41.0	834,991.0	90.1
1332	Capital	223,162.0	239,075.0	348,225.0	145.7	310,486.0	89.2
14	Other revenue	3,041,140.0	3,468,866.0	3,871,962.0	111.6	4,227,978.0	109.2
2	EXPENSE	8,175,408.0	6,135,543.0	5,084,815.0	82.9	5,620,152.0	110.5
21	Compensation of employees	753,945.0	842,647.0	997,437.0	118.4	1,117,529.0	112.0
211	Wages and salaries	649,414.0	725,796.0	862,263.0	118.8	966,616.0	112.1
212	Social contributions	104,531.0	116,851.0	135,174.0	115.7	150,913.0	111.6
22	Use of goods and services	2,510,074.0	2,132,441.0	1,969,020.0	92.3	2,148,315.0	109.1
24	Interest	382,578.0	368,637.0	371,214.0	100.7	617,640.0	166.4
241	To nonresidents	32,670.0	147,425.0	184,282.0	125.0	305,417.0	165.7
242	To residents other than general government	349,908.0	221,212.0	186,932.0	84.5	312,223.0	167.0
25	Subsidies	1,458,594.0	0.0	0.0	-	5,189.0	-
251	To public corporations	997,401.0	0.0	0.0	-	5,189.0	-
252	To private enterprises	461,193.0	0.0	0.0	-	0.0	-
26	Grants	235,659.0	0.0	4,542.0	-	153,390.0	-
263	To other general government units	235,659.0	0.0	4,542.0	-	153,390.0	-
2631	Current	12,430.0	0.0	0.0	-	0.0	-
2632	Capital	223,229.0	0.0	4,542.0	-	153,390.0	-
27	Social benefits	1,582,352.0	2,029,198.0	914,907.0	45.1	571,777.0	62.5
271	Social security benefits	1,582,352.0	2,015,288.0	911,499.0	45.2	571,107.0	62.7
272	Social assistance benefits	0.0	13,910.0	3,408.0	-	670.0	19.7
28	Other expense	1,252,206.0	762,620.0	827,695.0	108.5	1,006,312.0	121.6
31	Net acquisition of nonfinancial assets	4,752,419.0	6,183,610.0	6,953,996.0	112.5	5,145,748.0	74.0
31,1	Acquisition of nonfinancial assets	4,780,957.0	6,216,526.0	6,984,515.0	112.4	5,195,362.0	74.4
31,2	Disposal of nonfinancial assets	28,538.0	32,916.0	30,519.0	92.7	49,614.0	162.6
32	Net acquisition of financial assets	-1,064,076.0	409,057.0	-119,979.0	-	-133,065.0	-
321	Domestic	-1,064,076.0	409,057.0	-119,979.0	-	-133,065.0	-
322	Foreign	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	3,326,113.0	4,123,385.0	4,088,574.0	-	2,497,895.0	-
331	Domestic	722,690.0	1,160,730.0	142,589.0	-	1,460,118.0	-
332	Foreign	2,603,423.0	2,962,655.0	3,945,985.0	-	1,037,777.0	-

* Including Regional development fund and Development and employment fund



Appendix 9: Transactions of the Croatian Pension Fund 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	1,558,404.0	1,845,366.0	670,814.0	36.4	398,337.0	59.4
11	Taxes	0.0	0.0	0.0	-	0.0	-
12	Social contributions	10,408.0	772.0	0.0	-	0.0	-
13	Grants	1,448,330.0	1,741,865.0	540,922.0	31.1	360,327.0	66.6
131	From foreign governments	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	-	0.0	-
133	From other general government units	1,448,330.0	1,741,865.0	540,922.0	31.1	360,327.0	66.6
1331	Current	1,435,617.0	1,714,878.0	521,361.0	30.4	334,155.0	64.1
1332	Capital	12,713.0	26,987.0	19,561.0	72.5	26,172.0	133.8
14	Other revenue	99,666.0	102,729.0	129,892.0	126.4	38,010.0	29.3
2	EXPENSE	1,575,181.0	1,844,077.0	587,420.0	31.9	382,162.0	65.1
21	Compensation of employees	224,936.0	241,408.0	290,789.0	120.5	286,515.0	98.5
211	Wages and salaries	193,157.0	207,538.0	252,989.0	121.9	248,410.0	98.2
212	Social contributions	31,779.0	33,870.0	37,800.0	111.6	38,105.0	100.8
22	Use of goods and services	117,667.0	127,140.0	90,721.0	71.4	89,854.0	99.0
24	Interest	666.0	0.0	896.0	-	721.0	-
241	To nonresidents	0.0	0.0	0.0	-	0.0	-
242	To residents other than general government	666.0	0.0	896.0	-	721.0	-
25	Subsidies	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	0.0	-	0.0	-
27	Social benefits	1,212,069.0	1,472,945.0	205,014.0	13.9	5,072.0	2.5
271	Social security benefits	1,212,069.0	1,472,945.0	205,014.0	13.9	5,072.0	2.5
272	Social assistance benefits	0.0	0.0	0.0	-	0.0	-
28	Other expense	19,843.0	2,584.0	0.0	-	0.0	-
31	Net acquisition of nonfinancial assets	11,698.0	21,937.0	18,022.0	82.2	19,251.0	106.8
31,1	Acquisition of nonfinancial assets	14,740.0	27,173.0	21,154.0	77.8	22,545.0	106.6
31,2	Disposal of nonfinancial assets	3,042.0	5,236.0	3,132.0	59.8	3,294.0	105.2
32	Net acquisition of financial assets	-28,475.0	-20,570.0	65,372.0	-317.8	-3,067.0	-
321	Domestic	-28,475.0	-20,570.0	65,372.0	-317.8	-3,067.0	-
322	Foreign	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	0.0	78.0	0.0	-	9.0	-
331	Domestic	0.0	78.0	0.0	-	9.0	-
332	Foreign	0.0	0.0	0.0	-	0.0	-



Appendix 10: Transactions of the Croatian Health Institute 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	725,795.0	1,109,974.0	865,013.0	77.9	1,065,103.0	123.1
11	Taxes	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	6,905.0	0.0	-	0.0	-
13	Grants	258,298.0	287,791.0	201,874.0	70.1	201,235.0	99.7
131	From foreign governments	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	-	0.0	-
133	From other general government units	258,298.0	287,791.0	201,874.0	70.1	201,235.0	99.7
1331	Current	258,298.0	287,791.0	201,874.0	70.1	201,235.0	99.7
1332	Capital		0.0	0.0	-	0.0	-
14	Other revenue	467,497.0	815,278.0	663,139.0	81.3	863,868.0	130.3
2	EXPENSE	1,263,096.0	888,105.0	831,295.0	93.6	914,345.0	110.0
21	Compensation of employees	172,509.0	180,743.0	185,992.0	102.9	227,721.0	122.4
211	Wages and salaries	148,247.0	155,722.0	160,298.0	102.9	197,486.0	123.2
212	Social contributions	24,262.0	25,021.0	25,694.0	102.7	30,235.0	117.7
22	Use of goods and services	901,387.0	113,659.0	100,979.0	88.8	122,100.0	120.9
24	Interest	0.0	20,554.0	0.0	-	0.0	-
241	To nonresidents	0.0	0.0	0.0	-	0.0	-
242	To residents other than general government	0.0	20,554.0	0.0	-	0.0	-
243	To other general government units	0.0	0.0	0.0	-	0.0	-
25	Subsidies	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	0.0	-	0.0	-
27	Social benefits	189,184.0	490,368.0	544,324.0	111.0	564,524.0	103.7
271	Social security benefits	189,184.0	490,368.0	544,324.0	111.0	564,524.0	103.7
272	Social assistance benefits	0.0	0.0	0.0	-	0.0	-
28	Other expense	16.0	82,781.0	0.0	-	0.0	-
31	Net acquisition of nonfinancial assets	16,093.0	27,272.0	30,291.0	111.1	38,636.0	127.5
31,1	Acquisition of nonfinancial assets	22,314.0	31,236.0	30,913.0	99.0	38,971.0	126.1
31,2	Disposal of nonfinancial assets	6,221.0	3,964.0	622.0	15.7	335.0	53.9
32	Net acquisition of financial assets	266,606.0	604,597.0	3,427.0	-	112,122.0	-
321	Domestic	266,606.0	604,597.0	3,427.0	-	112,122.0	-
322	Foreign	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	820,000.0	410,000.0	0.0	-	0.0	-
331	Domestic	820,000.0	410,000.0	0.0	-	0.0	-
332	Foreign	0.0	0.0	0.0	-	0.0	-



Appendix 11: Transactions of the Croatian Employment Service 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	134,756.0	89,573.0	111,674.0	124.7	114,957.0	102.9
11	Taxes	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	-	0.0	-
13	Grants	109,478.0	72,000.0	96,167.0	133.6	96,102.0	99.9
131	From foreign governments	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	-	0.0	-
133	From other general government units	109,478.0	72,000.0	96,167.0	133.6	96,102.0	99.9
1331	Current	99,728.0	72,000.0	96,167.0	133.6	96,102.0	99.9
1332	Capital	9,750.0	0.0	0.0	-	0.0	-
14	Other revenue	25,278.0	17,573.0	15,507.0	88.2	18,855.0	121.6
2	EXPENSE	239,458.0	140,387.0	141,333.0	100.7	145,931.0	103.3
21	Compensation of employees	87,228.0	91,633.0	101,411.0	110.7	107,372.0	105.9
211	Wages and salaries	75,048.0	78,711.0	87,690.0	111.4	92,869.0	105.9
212	Social contributions	12,180.0	12,922.0	13,721.0	106.2	14,503.0	105.7
22	Use of goods and services	34,999.0	34,844.0	36,512.0	104.8	37,889.0	103.8
24	Interest	0.0	0.0	2.0	-	0.0	-
241	To nonresidents	0.0	0.0	0.0	-	0.0	-
242	To residents other than general government	0.0	0.0	2.0	-	0.0	-
243	To other general government units	0.0	0.0	0.0	-	0.0	-
25	Subsidies	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	0.0	-	0.0	-
27	Social benefits	117,231.0	13,910.0	3,408.0	24.5	670.0	19.7
271	Social security benefits	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	117,231.0	13,910.0	3,408.0	24.5	670.0	19.7
28	Other expense	0.0	0.0	0.0	-	0.0	-
31	Net acquisition of nonfinancial assets	9,304.0	8,767.0	4,865.0	55.5	4,895.0	100.6
31,1	Acquisition of nonfinancial assets	9,412.0	9,061.0	4,915.0	54.2	4,962.0	101.0
31,2	Disposal of nonfinancial assets	108.0	294.0	50.0	17.0	67.0	134.0
32	Net acquisition of financial assets	-114,006.0	-59,581.0	-34,524.0	-	-35,869.0	-
321	Domestic	-114,006.0	-59,581.0	-34,524.0	-	-35,869.0	-
322	Foreign	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	0.0	0.0	0.0	-	0.0	-
331	Domestic	0.0	0.0	0.0	-	0.0	-
332	Foreign	0.0	0.0	0.0	-	0.0	-



Appendix 12: Transactions of Croatian Waters 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	1,485,228.0	1,544,421.0	1,658,435.0	107.4	1,715,607.0	103.4
11	Taxes	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	-	0.0	-
13	Grants	386,936.0	395,522.0	434,004.0	109.7	487,813.0	112.4
131	From foreign governments	290.0	1,434.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	-	0.0	-
133	From other general government units	386,646.0	394,088.0	434,004.0	110.1	487,813.0	112.4
1331	Current	220,000.0	182,000.0	105,340.0	57.9	203,499.0	193.2
1332	Capital	166,646.0	212,088.0	328,664.0	155.0	284,314.0	86.5
14	Other revenue	1,098,292.0	1,148,899.0	1,224,431.0	106.6	1,227,794.0	100.3
2	EXPENSE	1,125,187.0	1,427,067.0	1,426,283.0	99.9	1,489,465.0	104.4
21	Compensation of employees	79,773.0	87,792.0	93,675.0	106.7	99,418.0	106.1
211	Wages and salaries	68,267.0	75,924.0	80,618.0	106.2	85,524.0	106.1
212	Social contributions	11,506.0	11,868.0	13,057.0	110.0	13,894.0	106.4
22	Use of goods and services	724,972.0	826,878.0	743,383.0	89.9	790,683.0	106.4
24	Interest	47,926.0	37,057.0	37,907.0	102.3	33,734.0	89.0
241	To nonresidents	19,735.0	28,015.0	10,812.0	38.6	8,652.0	80.0
242	To residents other than general government	28,191.0	9,042.0	27,095.0	299.7	25,082.0	92.6
243	To other general government units	0.0	0.0	0.0	-	0.0	-
25	Subsidies	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	0.0	-	0.0	-
27	Social benefits	0.0	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	0.0	-	0.0	-
28	Other expense	272,516.0	475,340.0	551,318.0	116.0	565,630.0	102.6
31	Net acquisition of nonfinancial assets	295,988.0	290,709.0	282,527.0	97.2	230,292.0	81.5
31,1	Acquisition of nonfinancial assets	296,218.0	291,043.0	282,797.0	97.2	230,588.0	81.5
31,2	Disposal of nonfinancial assets	230.0	334.0	270.0	80.8	296.0	109.6
32	Net acquisition of financial assets	113,322.0	-146,776.0	-11,385.0	-	5,284.0	-
321	Domestic	113,322.0	-146,776.0	-11,385.0	-	5,284.0	-
322	Foreign	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	49,269.0	26,579.0	38,990.0	-	9,434.0	-
331	Domestic	65,563.0	30,289.0	42,859.0	-	-26,179.0	-
332	Foreign	-16,294.0	-3,710.0	-3,869.0	-	35,613.0	-



Appendix 13: Transactions of Environment Protection Fund 2004 - 2005

	(000 HRK)	2004	2005	Index 2005/2004
1	REVENUE	172,273.0	214,737.0	124.6
11	Taxes	0.0	0.0	-
12	Social contributions	0.0	0.0	-
13	Grants	1,525.0	0.0	0.0
131	From foreign governments	0.0	0.0	-
132	From international organizations	0.0	0.0	-
133	From other general government units	1,525.0	0.0	0.0
1331	Current	1,525.0	0.0	0.0
1332	Capital	0.0	0.0	-
14	Other revenue	170,748.0	214,737.0	125.8
2	EXPENSE	32,443.0	172,045.0	530.3
21	Compensation of employees	1,905.0	3,966.0	208.2
211	Wages and salaries	1,633.0	3,407.0	208.6
212	Social contributions	272.0	559.0	205.5
22	Use of goods and services	2,734.0	12,162.0	444.8
24	Interest	0.0	0.0	-
241	To nonresidents	0.0	0.0	-
242	To residents other than general government	0.0	0.0	-
25	Subsidies	0.0	5,189.0	-
251	To public corporations	0.0	5,189.0	-
252	To private enterprises	0.0	0.0	-
26	Grants	0.0	149,780.0	-
261	To foreign governments	0.0	0.0	-
262	To international organizations	0.0	0.0	-
263	To other general government units	0.0	149,780.0	-
2631	Current	0.0	0.0	-
2632	Capital	0.0	149,780.0	-
27	Social benefits	0.0	0.0	-
271	Social security benefits	0.0	0.0	-
272	Social assistance benefits	0.0	0.0	-
28	Other expense	27,804.0	948.0	3.4
31	Net acquisition of nonfinancial assets	1,786.0	12,917.0	723.2
31.1	Acquisition of nonfinancial assets	1,786.0	12,917.0	723.2
31.2	Disposal of nonfinancial assets	0.0	0.0	-
32	Net acquisition of financial assets	138,044.0	29,775.0	-
321	Domestic	138,044.0	29,775.0	-
322	Foreign	0.0	0.0	-
33	Net incurrence of liabilities	0.0	0.0	-
331	Domestic	0.0	0.0	-
332	Foreign	0.0	0.0	-



Appendix 14: Transactions of Croatian Motorways 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	1,695,972.0	1,927,787.0	2,295,423.0	119.1	2,547,003.0	111.0
11	Taxes	1,212,445.0	1,313,743.0	1,341,683.0	102.1	1,380,753.0	102.9
12	Social contributions	0.0	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	-	0.0	-
1331	Current	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	-	0.0	-
14	Other revenue	483,527.0	614,044.0	953,740.0	155.3	1,166,250.0	122.3
2	EXPENSE	343,256.0	692,490.0	756,796.0	109.3	1,088,687.0	143.9
21	Compensation of employees	117,445.0	162,982.0	236,353.0	145.0	289,866.0	122.6
211	Wages and salaries	102,594.0	140,867.0	203,955.0	144.8	250,374.0	122.8
212	Social contributions	14,851.0	22,115.0	32,398.0	146.5	39,492.0	121.9
22	Use of goods and services	200,296.0	406,858.0	258,509.0	63.5	314,534.0	121.7
24	Interest	25,515.0	122,650.0	191,132.0	155.8	445,185.0	232.9
241	To nonresidents	12,935.0	118,482.0	170,942.0	144.3	288,497.0	168.8
242	To residents other than general government	12,580.0	4,168.0	20,190.0	484.4	156,688.0	776.1
25	Subsidies	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	4,542.0	-	3,610.0	-
261	Inozemnim vladama	0.0	0.0	0.0	-	0.0	-
262	Meunarodnim organizacijama	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	4,542.0	-	3,610.0	-
2631	Current	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	4,542.0	-	3,610.0	-
27	Social benefits	0.0	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	0.0	-	0.0	-
28	Other expense	0.0	0.0	66,260.0	-	35,492.0	-
31	Net acquisition of nonfinancial assets	3,676,519.0	5,113,679.0	5,778,694.0	-	3,942,727.0	68.2
31.1	Acquisition of nonfinancial assets	3,676,519.0	5,113,679.0	5,778,694.0	113.0	3,942,727.0	68.2
31.2	Disposal of nonfinancial assets	0.0	0.0	0.0	-	0.0	-
32	Net acquisition of financial assets	279,815.0	-412,302.0	-162,274.0	-	-42,758.0	-
321	Domestic	279,815.0	-412,302.0	-162,274.0	-	-42,758.0	-
322	Foreign	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	2,603,618.0	3,466,080.0	4,077,793.0	-	2,441,653.0	-
331	Domestic	0.0	530,000.0	379,709.0	-	1,698,272.0	-
332	Foreign	2,603,618.0	2,936,080.0	3,698,084.0	-	743,381.0	-



Appendix 15: Transactions of Croatian Roads 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	1,208,654.0	1,379,782.0	1,417,787.0	102.8	1,474,714.0	104.0
11	Taxes	1,148,682.0	1,317,361.0	1,342,121.0	101.9	1,380,732.0	102.9
12	Social contributions	0.0	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	-	0.0	-
1331	Current	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	-	0.0	-
14	Other revenue	59,972.0	62,421.0	75,666.0	121.2	93,982.0	124.2
2	EXPENSE	726,445.0	840,372.0	934,630.0	111.2	1,062,405.0	113.7
21	Compensation of employees	39,895.0	45,037.0	51,590.0	114.6	61,054.0	118.3
211	Wages and salaries	34,461.0	38,733.0	44,349.0	114.5	52,452.0	118.3
212	Social contributions	5,434.0	6,304.0	7,241.0	114.9	8,602.0	118.8
22	Use of goods and services	475,301.0	592,492.0	696,421.0	117.5	726,456.0	104.3
24	Interest	1,750.0	928.0	4,306.0	464.0	16,060.0	373.0
241	To nonresidents		928.0	2,528.0	-	8,268.0	327.1
242	To residents other than general government	1,750.0	0.0	1,778.0	-	7,792.0	-
25	Subsidies	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	-	0.0	-
261	To other general government units	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	0.0	-	0.0	-
27	Social benefits	0.0	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	0.0	-	0.0	-
28	Other expense	209,499.0	201,915.0	182,313.0	-	258,835.0	142.0
31	Net acquisition of nonfinancial assets	430,755.0	736,943.0	834,631.0	113.3	923,171.0	110.6
31,1	Acquisition of nonfinancial assets	432,218.0	738,092.0	835,907.0	113.3	926,359.0	110.8
31,2	Disposal of nonfinancial assets	1,463.0	1,149.0	1,276.0	111.1	3,188.0	249.8
32	Net acquisition of financial assets	2,233.0	-167,248.0	296.0	-	50,297.0	-
321	Domestic	2,233.0	-167,248.0	296.0	-	50,297.0	-
322	Foreign	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	-49,221.0	30,285.0	351,770.0	-	561,159.0	-
331	Domestic	-65,320.0	0.0	100,000.0	-	302,376.0	-
332	Foreign	16,099.0	30,285.0	251,770.0	-	258,783.0	-



Appendix 16: Transactions of State Agency for Banks 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	617,914.0	581,931.0	575,893.0	99.0	367,438.0	63.8
11	Taxes	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	-	0.0	-
1331	Current	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	-	0.0	-
14	Other revenue	617,914.0	581,931.0	575,893.0	99.0	367,438.0	63.8
2	EXPENSE	301,665.0	251,360.0	314,474.0	125.1	182,993.0	58.2
21	Compensation of employees	3,932.0	4,110.0	4,678.0	113.8	5,621.0	120.2
211	Wages and salaries	3,355.0	3,507.0	4,010.0	114.3	4,821.0	120.2
212	Social contributions	577.0	603.0	668.0	110.8	800.0	119.8
22	Use of goods and services	28,046.0	7,915.0	10,664.0	134.7	21,092.0	197.8
24	Interest	205,819.0	187,360.0	136,971.0	73.1	121,940.0	89.0
241	To nonresidents	0.0	0.0	0.0	-	0.0	-
242	To residents other than general government	205,819.0	187,360.0	136,971.0	73.1	121,940.0	89.0
25	Subsidies	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	0.0	-	0.0	-
27	Social benefits	63,868.0	51,975.0	162,161.0	312.0	1,511.0	0.9
271	Social security benefits	63,868.0	51,975.0	162,161.0	312.0	1,511.0	0.9
272	Social assistance benefits		0.0	0.0	-	0.0	-
28	Other expense		0.0	0.0	-	32,829.0	-
31	Net acquisition of nonfinancial assets	17,824.0	-94.0	27,624.0		14,131.0	
31,1	Acquisition of nonfinancial assets	17,824.0	2,464.0	27,624.0	1,121.1	14,232.0	51.5
31,2	Disposal of nonfinancial assets	0.0	2,558.0	0.0		101.0	-
32	Net acquisition of financial assets	298,425.0	330,665.0	-134,228.0	-	-349,252.0	-
321	Domestic	298,425.0	330,665.0	-134,228.0	-	-349,252.0	-
322	Foreign	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	0.0	0.0	-368,023.0	-	-519,566.0	-
331	Domestic	0.0	0.0	-368,023.0	-	-519,566.0	-
332	Foreign	0.0	0.0	0.0	-	0.0	-



Appendix 17: Transactions of the Croatian Privatization Fund 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	188,883.0	125,991.0	62,946.0	50.0	237,044.0	376.6
11	Taxes	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	-	0.0	-
1331	Current	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	-	0.0	-
14	Other revenue	188,883.0	125,991.0	62,946.0	50.0	237,044.0	376.6
2	EXPENSE	120,195.0	51,685.0	60,141.0	116.4	182,119.0	302.8
21	Compensation of employees	27,676.0	28,942.0	31,044.0	107.3	35,996.0	116.0
211	Wages and salaries	23,812.0	24,794.0	26,721.0	107.8	31,273.0	117.0
212	Social contributions	3,864.0	4,148.0	4,323.0	104.2	4,723.0	109.3
22	Use of goods and services	18,327.0	22,655.0	29,097.0	128.4	33,545.0	115.3
24	Interest	73,902.0	88.0	0.0	-	0.0	-
241	To nonresidents	0.0	0.0	0.0	-	0.0	-
242	To residents other than general government	73,902.0	88.0	0.0	-	0.0	-
25	Subsidies	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	0.0	-	0.0	-
27	Social benefits	0.0	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	0.0	-	0.0	-
28	Other expense	290.0	0.0	0.0	-	112,578.0	-
31	Net acquisition of nonfinancial assets	-14,502.0	-15,603.0	-24,444.0		-40,272.0	-
31,1	Acquisition of nonfinancial assets	2,972.0	3,778.0	725.0	19.2	2,061.0	284.3
31,2	Disposal of nonfinancial assets	17,474.0	19,381.0	25,169.0	129.9	42,333.0	168.2
32	Net acquisition of financial assets	-14,363.0	280,272.0	15,293.0	-	100,403.0	-
321	Domestic	-14,363.0	280,272.0	15,293.0	-	100,403.0	-
322	Foreign	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	-97,553.0	190,363.0	-11,956.0	-	5,206.0	-
331	Domestic	-97,553.0	190,363.0	-11,956.0	-	5,206.0	-
332	Foreign	0.0	0.0	0.0	-	0.0	-


Appendix 18: Consolidated Central Government 2002-2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	75,064,040.3	80,786,554.7	87,019,284.2	107.7	92,642,473.2	106.5
11	Taxes	45,171,300.7	47,912,180.4	49,833,665.9	104.0	53,449,049.0	107.3
111	Taxes on income, profits and capital gains	6,022,403.1	6,189,047.2	6,259,713.1	101.1	7,057,112.3	112.7
1111	Payable by individuals	3,363,295.1	3,114,580.8	3,128,273.0	100.4	3,106,476.4	99.3
1112	Payable by corporations and other enterprises	2,659,108.0	3,074,466.4	3,131,440.1	101.9	3,950,635.9	126.2
113	Taxes on property	294,555.6	289,926.0	355,823.3	122.7	375,500.5	105.5
114	Taxes on goods and services	36,335,226.2	39,282,251.6	41,286,024.8	105.1	44,084,487.4	106.8
1141	General taxes on goods and services	26,089,212.5	28,260,009.3	30,013,661.2	106.2	32,399,951.5	108.0
11411	Value - added taxes	25,952,486.3	28,129,299.9	29,864,904.7	106.2	32,243,371.6	108.0
11412	Sales taxes	136,726.2	130,709.4	148,756.5	113.8	156,579.9	105.3
1142	Excises	9,835,295.1	10,482,097.1	10,625,357.7	101.4	10,939,144.1	103.0
115	Taxes on international trade and translations	2,050,624.3	1,810,866.2	1,590,727.3	87.8	1,562,930.2	98.3
116	Other taxes	468,491.5	340,089.4	341,377.4	100.4	369,018.6	108.1
12	Social contributions	25,200,022.1	27,424,607.5	29,477,597.2	107.5	31,301,339.6	106.2
13	Grants	290.0	11,840.5	10,121.5	85.5	27,505.2	271.8
14	Other revenue	4,692,427.5	5,437,926.3	7,697,899.6	141.6	7,864,579.4	102.2
2	EXPENSE	75,448,085.9	80,715,286.4	86,941,437.4	107.7	92,332,139.9	106.2
21	Compensation of employees	20,288,106.7	22,068,463.1	23,265,723.7	105.4	24,300,114.9	104.4
211	Wages and salaries	17,326,467.8	18,762,897.2	19,750,868.2	105.3	20,665,832.4	104.6
212	Social contributions	2,961,638.9	3,305,565.9	3,514,855.5	106.3	3,634,282.5	103.4
22	Use of goods and services	6,870,170.0	6,291,713.6	6,327,740.5	100.6	7,100,232.4	112.2
24	Interest	3,646,152.2	3,955,965.9	4,343,680.3	109.8	5,004,649.7	115.2
241	To nonresidents	1,919,679.3	2,026,844.9	2,160,784.3	106.6	2,359,004.9	109.2
242	To residents other than general government	1,726,472.9	1,929,121.0	2,182,896.0	113.2	2,645,644.8	121.2
25	Subsidies	3,563,568.5	4,292,712.4	4,968,068.5	115.7	5,253,932.7	105.8
251	To public corporations	1,654,823.2	1,942,931.7	2,783,462.4	143.3	2,790,014.0	100.2
252	To private enterprises	1,908,745.3	2,349,780.7	2,184,606.1	93.0	2,463,918.7	112.8
26	Grants	1,659,176.5	1,737,217.2	2,162,992.9	124.5	2,804,759.7	129.7
261	To foreign governments	66,004.3	43,918.0	76,464.4	174.1	73,639.3	96.3
262	To international organizations	38,682.7	41,239.1	83,433.8	202.3	93,831.7	112.5
263	To other general government units	1,554,489.5	1,652,060.1	2,003,094.7	121.2	2,637,288.7	131.7
27	Social benefits	35,839,240.5	37,939,553.1	40,645,793.6	107.1	41,930,231.8	103.2
271	Social security benefits	19,533,160.8	30,639,144.5	29,100,970.6	95.0	29,879,823.4	102.7
272	Social assistance benefits	15,943,381.4	6,745,819.7	11,180,722.8	165.7	11,792,745.3	105.5
273	Employer social benefits	362,698.3	554,588.9	364,100.2	65.7	257,663.1	70.8
28	Other expense	3,581,671.5	4,429,661.1	5,227,437.9	118.0	5,938,218.7	113.6
281	Property expense other than interest	451.8	6,766.9	3,954.6	58.4	4,919.8	124.4
282	Miscellaneous other expense	3,581,219.7	3,660,274.2	5,223,483.3	142.7	5,933,298.9	113.6
2821	Current	1,626,258.2	2,310,437.4	1,870,320.4	81.0	2,301,161.2	123.0
2822	Capital	1,954,961.5	1,349,836.8	3,353,162.9	248.4	3,632,137.7	108.3
31	Net acquisition of nonfinancial assets	6,129,421.9	7,996,013.6	8,373,462.9	104.7	6,699,416.4	80.0
311	Fixed assets	5,898,126.8	7,867,051.4	8,158,063.6	103.7	6,439,709.2	78.9
312	Inventories	7.2	0.0	0.0	-	0.0	-
313	Valuables	70,399.8	5,303.3	7,518.2	141.8	7,220.0	96.0
314	Nonproduced assets	160,888.1	123,658.9	207,881.1	168.1	252,487.2	121.5
32	Net acquisition of financial assets	516,310.2	-963,227.6	28,384.3	-2.9	1,609,759.5	-
321	Domestic	502,820.8	-973,153.7	18,598.5	-1.9	1,614,616.4	-
322	Foreign	13,489.4	9,926.1	9,785.8	98.6	-4,856.9	-
33	Net incurrence of liabilities	7,029,777.7	6,961,517.7	8,324,000.4	119.6	7,998,842.6	-
331	Domestic	2,078,600.2	948,883.8	4,107,680.1	432.9	12,041,677.7	-
332	Foreign	4,951,177.5	6,012,633.9	4,216,320.3	70.1	-4,042,835.1	-



Appendix 19: Local Governments (53 Units, 32 Cities, Counties and the City of Zagreb) 2002 - 2005

	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	9,097,563.2	10,074,567.5	10,828,868.4	107.5	12,162,401.0	112.03
11	Taxes	5,494,335.2	5,922,472.9	6,592,062.2	111.3	7,072,350.0	107.3
111	Taxes on income, profits and capital gains	4,918,394.0	5,327,376.0	5,900,998.9	110.8	6,339,797.5	107.4
1111	Payable by individuals	3,863,376.9	4,083,336.2	4,636,341.8	113.5	4,718,191.7	101.8
1112	Payable by corporations and other enterprise	1,055,017.1	1,244,039.8	1,264,657.1	101.7	1,621,605.8	128.2
113	Taxes on property	329,418.2	315,914.0	375,089.5	118.7	388,134.7	103.5
114	Taxes on goods and services	228,361.4	264,917.2	301,941.4	114.0	330,015.1	109.3
1141	General taxes on goods and services	38,714.8	42,806.3	43,613.3	101.9	46,901.4	107.5
11411	Value - added taxes	0.0	0.0	0.0	-	0.0	-
11412	Sales taxes	38,714.8	42,806.3	43,613.3	101.9	46,901.4	107.5
1142	Excises	0.0	0.0	0.0	-	0.0	-
115	Taxes on international trade and translations	0.0	0.0	0.0	-	0.0	-
116	Other taxes	18,161.6	14,265.7	14,032.4	98.4	14,402.7	102.6
12	Social contributions	0.0	0.0	0.0	-	0.0	-
13	Grants	1,266,768.1	1,546,815.0	1,425,055.7	92.1	1,704,577.3	119.6
14	Other revenue	2,336,459.9	2,605,279.6	2,811,750.5	107.9	3,385,473.7	120.4
2	EXPENSE	7,136,352.6	8,127,197.7	8,766,249.2	107.9	9,882,541.6	112.7
21	Compensation of employees	1,893,839.3	1,996,994.2	2,239,472.3	112.1	2,379,584.8	106.3
211	Wages and salaries	1,639,774.9	1,732,909.5	1,972,800.2	113.8	2,065,604.6	104.7
212	Social contributions	254,064.4	264,084.7	266,672.1	101.0	313,980.2	117.7
22	Use of goods and services	2,902,398.5	3,202,470.5	3,351,575.2	104.7	3,775,863.0	112.7
24	Interest	115,048.8	83,216.2	79,558.6	95.6	98,046.8	123.2
241	To nonresidents	8,007.1	44,655.5	41,105.5	92.1	43,218.2	105.1
242	To residents other than general government	107,041.7	38,560.7	38,453.1	99.7	54,694.2	142.2
25	Subsidies	582,495.1	623,122.6	726,356.3	116.6	746,131.5	102.7
251	To public corporations	534,269.5	570,717.9	637,156.2	111.6	648,729.6	101.8
252	To private enterprises	48,225.6	52,404.7	89,200.1	170.2	97,401.9	109.2
26	Grants	142,180.6	366,701.1	267,077.0	72.8	289,637.6	108.4
261	To foreign governments	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	-	0.0	-
263	To other general government units	142,180.6	366,701.1	267,077.0	72.8	289,637.6	108.4
2631	Current	142,180.6	136,022.0	91,219.7	67.1	123,769.6	135.7
2632	Capital	0.0	230,679.1	175,857.3	-	165,868.0	94.3
27	Social benefits	289,768.0	314,946.5	376,014.0	119.4	538,720.2	143.3
271	Social security benefits	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	282,929.0	310,386.5	371,699.7	119.8	525,627.8	141.4
273	Employer social benefits	6,839.0	4,560.0	4,314.3	94.6	13,092.4	303.5
28	Other expense	1,210,622.3	1,539,746.6	1,726,195.8	112.1	2,054,557.7	119.0
281	Property expense other than interest	0.0	0.0	0.0	-	0.0	-
282	Miscellaneous other expense	1,210,622.3	1,539,746.6	1,726,195.8	112.1	2,054,557.7	119.0
2821	Current	938,099.3	1,260,826.0	1,274,170.8	101.1	1,450,780.6	113.9
2822	Capital	272,523.0	278,920.6	452,025.0	162.1	603,777.1	133.6
31	Net acquisition of nonfinancial assets	1,135,933.1	1,668,400.3	2,121,355.0	127.1	2,360,290.0	111.3
311	Fixed assets	1,173,198.0	1,675,953.4	2,213,163.1	132.1	2,460,333.6	111.2
312	Inventories	0.0	0.0	0.0	-	0.0	-
313	Valuables	1,553.4	1,581.3	164.3	10.4	209.4	127.4
314	Nonproduced assets	-38,818.3	-9,134.4	-91,972.4	-	-100,253.0	-
32	Net acquisition of financial assets	785,185.5	197,223.8	76,344.6	-	-303,883.4	-
321	Domestic	786,827.7	203,921.8	78,038.8	-	-303,883.4	-
322	Foreign	-1,642.2	-6,698.0	-1,694.2	-	0.0	-
33	Net incurrence of liabilities	-40,092.0	-81,745.7	135,080.4	-165.2	-223,452.8	-
331	Domestic	-26,851.1	7,415.1	232,026.2	-	-130,446.8	-
332	Foreign	-13,240.9	-89,160.8	-96,945.8	-	-93,006.0	-



Appendix 20: Consolidated General Government 2002-2005


	(000 HRK)	2002	2003	2004	Index 2004/2003	2005	Index 2005/2004
1	REVENUE	82,895,735.6	89,314,500.8	96,426,967.1	108.0	103,100,940.9	106.9
11	Taxes	50,665,636.0	53,834,653.3	56,425,728.1	104.8	60,521,399.0	107.3
111	Taxes on income, profits and capital gains	10,940,797.1	11,516,423.2	12,160,712.0	105.6	13,396,909.8	110.2
1111	Payable by individuals	7,226,672.0	7,197,917.0	7,764,614.8	107.9	7,824,668.1	100.8
1112	Payable by corporations and other enterprises	3,714,125.1	4,318,506.2	4,396,097.2	101.8	5,572,241.7	126.8
113	Taxes on property	623,973.9	605,840.0	730,912.8	120.6	763,635.2	104.5
114	Taxes on goods and services	36,563,587.6	39,547,168.8	41,587,966.2	105.2	44,414,502.5	106.8
1141	General taxes on goods and services	26,127,927.3	28,302,815.6	30,057,274.5	106.2	32,446,852.9	108.0
11411	Value - added taxes	25,952,486.3	28,129,299.9	29,864,904.7	106.2	32,243,371.6	108.0
11412	Sale taxes	175,441.0	173,515.7	192,369.8	110.9	203,481.3	105.8
1142	Excises	9,835,295.1	10,482,097.1	10,625,357.7	101.4	10,939,144.1	103.0
115	Taxes on international trade and translations	2,050,624.3	1,810,866.2	1,590,727.3	87.8	1,562,930.2	98.3
116	Other taxes	486,653.1	354,355.1	355,409.8	100.3	383,421.3	107.9
12	Social contributions	25,200,022.1	27,424,607.5	29,477,597.2	107.5	31,301,339.6	106.2
13	Grants	1,190.2	12,034.1	13,991.7	116.3	28,149.2	201.2
14	Other revenue	7,028,887.3	8,043,205.9	10,509,650.1	130.7	11,250,053.1	107.0
2	EXPENSE	81,318,570.6	87,295,862.7	94,286,501.1	108.0	100,510,748.2	106.6
21	Compensation of employees	22,181,946.0	24,065,457.3	25,505,196.0	106.0	26,679,699.7	104.6
211	Wages and salaries	18,966,242.7	20,495,806.7	21,723,668.4	106.0	22,731,437.0	104.6
212	Social contributions	3,215,703.3	3,569,650.6	3,781,527.6	105.9	3,948,262.7	104.4
22	Use of goods and services	9,772,568.5	9,494,184.1	9,679,315.7	101.9	10,876,095.4	112.4
24	Interest	3,761,201.0	4,039,182.1	4,423,238.9	109.5	5,102,696.5	115.4
241	To nonresidents	1,927,686.4	2,071,500.4	2,201,889.8	106.3	2,402,223.1	109.1
242	To residents other than general government	1,833,514.6	1,967,681.7	2,221,349.1	112.9	2,700,339.0	121.6
25	Subsidies	4,146,063.6	4,915,835.0	5,694,424.8	115.8	6,000,064.2	105.4
251	To public corporations	2,189,092.7	2,513,649.6	3,420,618.6	136.1	3,438,743.6	100.5
252	To private enterprises	1,956,970.9	2,402,185.4	2,273,806.2	94.7	2,561,320.6	112.6
26	Grants	535,489.2	557,296.9	1,008,884.4	181.0	1,390,464.0	137.8
261	To foreign governments	66,004.3	43,918.0	76,464.4	174.1	73,639.3	96.3
262	To international organizations	38,682.7	41,239.1	83,433.8	202.3	93,831.7	112.5
263	To other general government units	430,802.2	472,139.8	848,986.2	179.8	1,222,993.0	144.1
27	Social benefits	36,129,008.5	38,254,499.6	41,021,807.6	107.2	42,468,952.0	103.5
271	Social security benefits	19,534,517.5	30,639,144.5	29,100,970.6	95.0	29,879,823.4	102.7
272	Social assistance benefits	16,224,953.7	7,056,206.2	11,552,422.5	163.7	12,318,373.1	106.6
273	Employer social benefits	369,537.3	559,148.9	368,414.5	65.9	270,755.5	73.5
28	Other expense	4,792,293.8	5,969,407.7	6,953,633.7	116.5	7,992,776.4	114.9
281	Property expense other than interest	451.8	6,766.9	3,954.6	58.4	4,919.8	124.4
282	Miscellaneous other expense	4,791,842.0	5,200,020.8	6,949,679.1	133.6	7,987,856.6	114.9
2821	Current	2,564,357.5	3,571,263.4	3,144,491.2	88.0	3,751,941.8	119.3
2822	Capital	2,227,484.5	1,628,757.4	3,805,187.9	233.6	4,235,914.8	111.3
31	Net acquisition of nonfinancial assets	7,265,355.0	9,664,413.9	10,494,817.9	108.6	9,059,706.4	86.3
311	Fixed assets	7,071,324.8	9,543,004.8	10,371,226.7	108.7	8,900,042.8	85.8
312	Inventories	7.2	0.0	0.0	-	0.0	-
313	Valuables	71,953.2	6,884.6	7,682.5	111.6	7,429.4	96.7
314	Nonproduced assets	122,069.8	114,524.5	115,908.7	101.2	152,234.2	131.3
32	Net acquisition of financial assets	1,301,495.7	-767,908.2	104,241.8	-	1,305,876.1	-
321	Domestic	1,289,648.5	-771,136.3	96,150.2	-	1,310,733.0	-
322	Foreign	11,847.2	3,228.1	8,091.6	-	-4,856.9	-
33	Net incurrence of liabilities	6,989,685.7	6,877,867.6	8,458,593.7	-	7,775,389.8	-
331	Domestic	2,051,749.1	954,394.5	4,339,219.2	-	11,911,230.9	-
332	Foreign	4,937,936.6	5,923,473.1	4,119,374.5	-	-4,135,841.1	-



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