



**REPUBLIC OF CROATIA  
MINISTRY OF FINANCE**

**ANNUAL REPORT  
OF THE MINISTRY OF FINANCE  
FOR 2006**

**ANNUAL REPORT  
OF THE MINISTRY  
OF FINANCE  
FOR 2006**



# CONTENT



<b>A Word from the Minister of Finance</b> .....	8
<b>1 Macroeconomic Developments in 2006</b> .....	9
1.1 International Environment .....	11
1.2 Real Sector .....	13
1.2.1 Gross Domestic Product .....	13
1.2.2 Expenditure Side of Gross Domestic Product .....	14
1.2.3 Production Side of Gross Domestic Product .....	15
1.2.3.1 Industrial Production .....	16
1.2.3.2 Construction .....	16
1.2.3.3 Retail Trade .....	16
1.2.3.4 Tourism .....	16
1.2.4 Labor Market .....	17
1.2.5 Prices .....	18
1.3 International Sector .....	19
1.3.1 Balance of Payments .....	19
1.3.2 External Trade .....	20
1.3.3 Foreign Direct Investments .....	21
1.3.4 External Debt .....	22
1.3.5 Foreign Exchange Rate .....	23
1.4 Financial Sector .....	24
1.4.1 Monetary Policy and Developments of Credit Aggregates .....	24
1.4.2 Money Market .....	26
1.4.3 Capital Market .....	27
<b>2 Budgetary Central Government in 2006</b> .....	29
2.1 Budgetary Central Government Revenue in 2006 .....	31
2.1.1 Budgetary Central Government Revenue Plan .....	31
2.1.2 Budgetary Central Government Revenue Outturn in 2006 .....	31
2.1.2.1 Tax Revenue .....	33
2.1.2.2 Social Security Contributions .....	44
2.1.2.3 Grants .....	45
2.1.2.4 Property Income .....	46
2.1.2.5 Sales of Goods and Services .....	47
2.1.2.6 Revenue from Fines, penalties and forfeits .....	47
2.2 Budgetary Central Government Expense in 2006 .....	48
2.2.1 Budgetary Central Government Expense Plan .....	48
2.2.2 Outturn of the Budgetary Central Government Expense .....	48
2.2.2.1 Compensation of Employees .....	50
2.2.2.2 Use of Goods and Services .....	50
2.2.2.3 Interest .....	51
2.2.2.4 Subsidies .....	52
2.2.2.5 Grants .....	53
2.2.2.6 Social Benefits .....	53
2.2.2.7 Other Expense .....	55
2.2.3 Budgetary Central Government Expense by Function .....	56
2.3 Transactions in Nonfinancial Assets of the Budgetary Central Government in 2006 ...	59
2.4 Transactions in Financial Assets and Liabilities of the Budgetary Central Government ...	61
2.5 Measures of Deficit/Surplus and Financing of the Budgetary Central Government ....	63



<b>3</b>	<b>Extrabudgetary Users and Consolidated Central Government in 2006</b>	65
3.1	Extrabudgetary Users	67
3.1.1	The Croatian Institute for Pension Insurance	69
3.1.2	The Croatian Health Insurance Institute	72
3.1.3	The Croatian Employment Service	74
3.1.4	The Croatian Waters	76
3.1.5	The Environment Protection Fund	78
3.1.6	The Croatian Motorways Ltd.	78
3.1.7	The Croatian Roads Ltd.	80
3.1.8	The State Agency for Deposit Insurance and Bank Rehabilitation	81
3.1.9	The Croatian Privatization Fund	82
3.2	Consolidated Central Government	83
<b>4</b>	<b>Financing of Local and Regional Self-Government in 2006</b>	85
4.1	Territorial Organisation and Legal Base for Financing Local and Regional Self-Government Units	87
4.2	Financing of Local and Regional Self-Government Units	91
4.3	Budget Revenues of Local and Regional Self-Government	94
4.3.1	Taxes	96
4.3.2	Grants	97
4.3.3	Other Revenues	97
4.4	Budget Expenses of 53 Local and Regional Self-Government Units	99
4.5	Transactions in Nonfinancial Assets	101
4.6	Transactions in Financial Assets and Liabilities	102
<b>5</b>	<b>Consolidated General Government in 2006</b>	103
5.1	Significant Fiscal Policy Features in 2006	105
5.2	Consolidated General Government by Economic Classification	106
5.2.1	Consolidated General Government Revenues	106
5.2.2	Consolidated General Government Expense	109
5.2.3	Transactions in Nonfinancial Assets of Consolidated General Government	112
5.2.4	Transactions in Financial Assets and Liabilities of Consolidated General Government	112
5.2.5	Measures of Deficit/Surplus and Financing of Consolidated General Government	114
5.3	Consolidated General Government According to Government Level	115
5.4	Consolidated General Government Deficit According to Modified Accrual Principle	117
<b>6</b>	<b>Public Debt of the Republic of Croatia in 2006</b>	119
6.1	Introduction	121
6.2	Credit Rating of the Republic of Croatia	123
6.3	Domestic Debt of the Central Budget in 2006	124
6.3.1	Categories of Domestic Debt	124
6.3.2	Treasury Bills	129
6.4	Foreign Debt of the Republic of Croatia	132
6.4.1	International Bonds of the Republic of Croatia	132
<b>7</b>	<b>Functioning of State Treasury and Measures of Modernization in 2006</b>	135
<b>8</b>	<b>Relations of the Republic of Croatia with International Financial Institutions</b>	139
8.1	International Bank for Reconstruction and Development (IBRD)	141
8.1.1	New Loans and Grants Contracted in 2006	142
8.1.1 A	Loans	142
8.1.1 B	Grants	144
8.1.2	Overview of Loans, Disbursed Funds and Outstanding Debt owed to IBRD	145
8.1.3	Overview of Grants	150
8.1.4	Projects under Preparation in 2006	152
8.1.5	Grants under Preparation in 2006	152
8.2	European Bank for Reconstruction and Development (EBRD)	153
8.2.1	New Loans Agreed in 2006	154
8.2.2	Overview of Loans, Disbursement of Funds and Outstanding Debt owed to EBRD	154
8.2.3	Projects under Preparation in 2006	156



8.3	Council of Europe Development Bank (CEB) .....	157
8.3.1	New Loans Agreed in 2006 .....	158
8.3.2	Overview of Loans, Disbursement of Funds and Outstanding Debt owed to CEB .....	158
8.3.3	Projects under Preparation in 2006 .....	160
8.4	European Investment Bank (EIB) .....	161
8.4.1	New Loans Agreed in 2006 .....	161
8.4.2	Overview of Loans, Disbursement of Funds and Outstanding Debt owed to EIB .....	162
8.4.3	Projects under Preparation in 2006 .....	164
<b>9</b>	<b>Report on the Activities of the Department for Financing EU Assistance Programs and Projects in 2006</b> .....	<b>165</b>
9.1	Introduction .....	167
9.2	Key Activities of the Decentralized Management of EU Assistance Programs .....	168
9.2.1	Accreditation of the Financial System of the Republic of Croatia for PHARE, ISPA and CARDS EU Assistance Programs Usage .....	168
9.2.2	Register of Contracts Signed within CARDS 2003 Program .....	169
9.2.3	Summary of Activities - ISPA Program .....	172
9.2.4	Twinning - Administrative Office and National Contact Point - Description of Main Tasks .....	174
9.2.5	Activities of CFCU to Raise Awareness and Competitiveness of Local Bidders in European Union Assistance Programs .....	175
9.2.6	Preparatory Activities - IPA Program .....	175
9.2.7	Strengthening of the System of the Prevention of Irregularities and Fraud ..	176
9.2.8	Risk Management in the Context of EU Funds .....	177
9.3	Statistical Overview of the Main Indicators .....	178
9.3.1	Statistics of Contracting for the Projects within CARDS 2003 Program ....	178
9.3.2	Statistics of Payments - CARDS 2002 and CARDS 2004 Programs .....	179
<b>10</b>	<b>Report on Work of Department of Economy in 2006</b> .....	<b>181</b>
10.1	Introduction .....	183
10.2	Public Enterprises .....	184
10.2.1	Reporting on the Basis of Agreements with the IMF and World Bank (Stand-by / PAL ID) .....	184
10.2.1.1	Stand-by Arrangement.....	184
10.2.1.2	PAL .....	184
10.3	State Aid .....	185
10.3.1	Regulatory Framework .....	185
10.3.2	Committee for Monitoring and Preparing the Announcement of List of Rules and State Aid Rules .....	185
10.3.3	Committee's Activities .....	185
10.4	Pre-accession Economic Program (PEP) .....	186
10.5	Natural Disasters .....	187
10.5.1	The Procedure of Evaluation of Damages from Natural Disasters - Damages Notification .....	187
10.5.2	Providing Assistance .....	187
10.5.3	Spent Funds .....	188
10.5.4	The Structure of the Reported Damages in 2006 .....	189
10.6	Concessions .....	190
10.6.1	Revenues from Concessions Charges in 2006 .....	190
10.6.2	Budgetary Revenues from Concessions Charges .....	191
10.6.3	The Register of Concessions .....	191
10.6.4	Revenue from Concessions Charges (by months, 2005-2006) .....	191
10.7	Public-Private Partnership (PPP) .....	192
<b>11</b>	<b>Report on the Work of Administration for Harmonization of Internal Audit and Financial Control for 2006</b> .....	<b>193</b>
11.1	Introduction .....	195
11.2	Activities of the Central Harmonization Unit .....	197
11.2.1	Joint Activities of Coordination and Development of Internal Audit and of Coordination and Development of Financial Management and Controls .....	197



11.2.2	Activities of the Central Harmonization Unit Related to Financial Management and Controls .....	197
11.2.3	Activities of the Central Harmonization Unit Related to Internal Audit .....	198
11.2.4	Cooperation with Other Institutions .....	199
11.2.5	Other Activities in 2006 .....	200
11.3	Conclusion .....	201
<b>12</b>	<b>Report on the activities of the Department for Financial System .....</b>	<b>203</b>
<b>13</b>	<b>Report on Tax Administration Activities in 2006 .....</b>	<b>207</b>
13.1	Introduction.....	209
13.2	Development of Communication between Tax Administration and Taxpayers (Year 2006) .....	210
13.3	The Tax Administration Legislative Activities in 2006 .....	211
13.4	Inspection Supervision of Tax Administration in 2006 .....	213
13.5	Tax Administration Dstraint Activities in 2006 .....	214
13.5.1	Charges of Taxes and other Public Charges in Dstraint Procedure ....	214
13.5.2	Securing the payment of the tax debt by enforcement of the real estate mortgage .....	214
13.6	International Cooperation .....	218
13.6.1	Preparation of the EU Accession Treaty .....	218
13.6.2	International cooperation .....	218
13.6.3	Programs and projects .....	218
13.7	Tax Administrations Internal Supervision and Control .....	219
<b>14</b>	<b>Report on the Activities of Customs Administration in 2006 .....</b>	<b>221</b>
14.1	The Scope of Competences of the Customs Administration .....	223
14.2	Legislation .....	224
14.3	Revenues .....	227
14.4	International Projects .....	228
14.4.1	Accession Negotiations on Chapter 29 .....	228
14.4.2	EU Technical Assistance Projects .....	228
14.4.3	Community Programs .....	229
14.5	International Customs Cooperation .....	230
14.6	Results in Fighting Frauds - Smuggling .....	231
14.7	Measures for Combating Corruption - Education of Customs Officials .....	233
<b>15</b>	<b>Report on Work of Foreign Exchange Inspectorate in 2006 .....</b>	<b>235</b>
15.1	Introduction .....	237
15.2	Inspectional Supervision in 2006 .....	238
15.3	The Most Important Results in Inspectional Supervision Implementation .....	239
15.4	The Results of Misdemeanor Proceeding Conduction .....	240
15.5	Legislative Activities in 2006 .....	241
15.6	Other Activities .....	242
<b>16</b>	<b>Report on the Activities of Financial Police in 2006 .....</b>	<b>243</b>
16.1	Introduction .....	245
16.2	The Scope of Competences of the Financial Police .....	246
16.3	Financial Police Control in 2006 .....	247
16.4	Cooperation with Other State Administration Bodies .....	248
<b>17</b>	<b>Report on Work of Money Laundering Prevention Department in 2006 .....</b>	<b>249</b>
17.1	The Purpose of the Money Laundering Prevention Act .....	251
17.1.1	Preventive Character and Scope of the Act .....	251
17.1.2	Confidentiality of the Procedure and Collected Data .....	251
17.1.3	Data Keeping .....	251
17.1.4	Supervision of the Obligated Entities in Act Implementation .....	252
17.2	Department's Duties as Financial Intelligence Unit .....	253
17.2.1	Department as Financial Intelligence Unit .....	253
17.2.2	Preventive, Analytical and Educational Role of the Department .....	253
17.2.3	Department Organisation .....	253
17.2.4	Interinstitutional Cooperation .....	254



17.3	Key Indicators on the Department's Work .....	255
17.3.1	Statistical Indicators for 2006 .....	255
17.3.2	Notifications on Suspicious Transactions Submitted by the Obligated Entities .....	255
17.3.3	Cases Delivered to the Competent Authorities for Further Processing ...	257
17.3.4	Comparison of Key Indicators on Croatian Department's Work with Foreign Departments .....	258
17.3.5	Data on Criminal Procedures for 2006 .....	258
17.3.6	The Activities of Verifying Received Lists of Natural Persons and Entities Suspected of Terrorism .....	258
17.3.7	Evaluation of the Department's Work from International Authorities .....	259
17.3.8	The Money Laundering Prevention within the Process of the Accession of the Republic of Croatia to the European Union: Department's Activities .....	260
17.3.9	CARDS 2003 Preventing and combating money laundering: Department's Activities .....	260
17.3.10	Other Activities of the Department in 2006 .....	261
17.4	International Cooperation of the Department .....	262
17.4.1	International Authorities and Organizations .....	262
17.4.2	Committee of the Council of Europe MONEYVAL (Committee of Experts on the Evaluation of Anti-Money Laundering Measures) .....	262
17.4.3	Regional Cooperation .....	262
17.4.4	International Exchange of Data .....	263
17.4.5	Memorandums of Understanding .....	263
17.4.6	International Conferences, Seminars and Meetings in 2006 .....	263
17.5	Estimations of Current and Future Risks due to Money Laundering .....	264
17.5.1	Operations with Off-shore and Non-cooperative Jurisdictions .....	264
17.5.2	New Paying Techniques .....	264
17.5.3	International Investment Activities .....	264
17.6	Description of the Case Submitted by Department to Competent State Authorities for Further Processing .....	265
17.6.1	Case initialization: Suspicious Transactions related to Loro/Nostro Transfers via Non-residential Accounts of the Off-shore Company "LTD" .....	265
<b>18</b>	<b>Internal Organization of the Ministry of Finance .....</b>	<b>267</b>
18.1	The Decree on the Internal Organization of the Ministry of Finance - Official Gazette 43/05, 114/05, 14/06 and 138/06 .....	269
18.2	The Scope of the Internal Organizational Units of the Ministry of Finance .....	270
<b>19</b>	<b>Appendix .....</b>	<b>273</b>





## A WORD FROM THE MINISTER OF FINANCE



Since the beginning of its mandate, the Government of the Republic of Croatia has been systematically implementing its policy of fiscal adjustment and the reduction of the fiscal deficit. There has been a significant change in 2004 towards the implementation of a responsible fiscal policy which in 2006 continued to contribute to macroeconomic stability and fostering sustainable economic growth.

We have to remind ourselves that in 2003 the fiscal deficit stood at 6.2 percent of GDP, while in the consequent years it has been gradually decreasing, reaching 3 percent of GDP in 2006 and therefore ensuring the fulfilment of the Maastricht criterion for entering the Economic and Monetary Union. The reduction of the fiscal deficit has been accompanied by the control of the excessive government spending through the introduction of more efficient procedures which made the earlier practice of inefficient spending of the taxpayers' funds impossible as well as by the increase of transparency of the whole public finance system. Therefore, the fulfilment of the fiscal policy objectives meant organizing public finances and State Treasury, introducing the Single Treasury Account, budgetary analyses and the system of fiscal impact assessment of all legislative proposals, as well as improving the system of internal financial control of budgetary funds and the system of the collection of budget revenues. In 2006, a 9.1 percent growth of revenues of the consolidated general government was achieved as a result of the increase of the economic activity but also as a result of the implementation of the measures aimed at strengthening tax administration which had effect on the reduction of grey economy. The expenditures of the consolidated general government grew at a lower rate of 6.7 percent which ensured the reduction of the fiscal deficit to 3 percent of GDP.

It is important to emphasise that, despite the slower expenditure growth, the government used the budget funds in an efficient manner, having in mind the necessity to maintain the liquidity of the system, for the strategically important areas, of which the most important are social justice, regional development programmes, education and fostering entrepreneurship and business environment. Accordingly, besides through the government consumption, the government has indirectly contributed to fostering sustainable economic growth, which in 2006 stood at 4.8 percent, through the mentioned programmes for stimulating private sector. Furthermore, the policy of the fiscal deficit reduction together with the practice of government financing on domestic financial market, contributed to the decrease of the share of the government in total external debt which fell from 27.4 percent at the end of 2005 to 22.8 percent at the end of 2006. In the same time, the government reduced its external debt by 377.4 million euro. Finally, I would also like to emphasise that the public debt was reduced as well, from 49.1 percent of GDP in 2005 to 46.4 percent of GDP in 2006.

Through its orientation towards financing on the domestic financial market and issuing the first government bond in Kuna and with the maturity of ten years on the domestic market, the government gave an additional impetus for further development of the capital market in Croatia since it contributed to the deepening of the market by introducing new market instruments. Furthermore, the whole capital market gained a modern legislative framework which contributed to further development of the market on the modern principles, by the adoption of a range of laws regulating specific segments of the nonbanking financial sector and by establishing Croatian Financial Services Supervisory Agency (HANFA) as a single supervisory agency. At the end of 2006, a second phase of the privatisation of INA through IPO was completed. It has gathered and encouraged Croatian citizens in a transparent way to enter the domestic capital market and increase their resources by investing in one of the most significant Croatian companies.

The overall economic policy, led by significant successes of fiscal policy, was acknowledged by the international community in a form of successful completion of the Stand-by arrangement concluded with the International Monetary Fund, which lasted from August 2004 to November 2006.

In view of the abovementioned and with an objective of introducing our work and our accomplishments in the area of fiscal policy to the public, we have prepared the Annual Report for 2006 which, I hope, our distinguished readers will find useful and interesting.

Finally, I would like to thank all my associates and employees of the Ministry of Finance for their devoted work during the last year which is presented in this Annual Report.

Ivan Šuker

Minister of Finance

Zagreb, October 2007

**1.**

# **MACROECONOMIC DEVELOPMENTS IN 2006**





## 1.1 INTERNATIONAL ENVIRONMENT

The growth of the world economy in 2006 is estimated to 5.2% which represents acceleration of 0.4 percentage points compared to the growth realized in 2005. The growth of the world trade also remained at high level in 2006 and amounted to around 8.5%. Real gross domestic product growth of USA slightly accelerated from 3.2% in 2005 to 3.3% in 2006 while gross domestic product of Japan recorded somewhat higher acceleration of real growth in the same period, from 1.9% to 2.2%.

In 2006, Eurozone and European Union recorded the highest real gross domestic product growth since 2000. In Eurozone real gross domestic product growth amounted to 2.7% and in European Union to 3.0%. When compared to growth realized in 2005, acceleration of 1.3 percentage points was recorded in both, Eurozone and European Union. The main generators of growth in 2006 were strong personal consumption, investments and positive contribution of net exports. Personal consumption accelerated in 2006 as a result of favourable developments on the labour market. Growth of personal consumption was slightly slower in Eurozone (1.8%) than in European Union (2.2%) and the most significant personal consumption growth was recorded in Italy and Germany. Investments increased in real terms by 4.7% in Eurozone and 5.6% in European Union. Real growth of exports of goods and services amounted to 8.2% in Eurozone and 9.2% in European Union and real growth of imports accelerated to 7.7% in Eurozone and 9.1% in European Union. Unlike the previous year, contribution of net exports to gross domestic product growth in 2006 was positive despite appreciation of euro effective exchange rate and weakening economic activity at some main trading partners.

**Table 1.1 International Environment - Macroeconomic Indicators**

	2005	2006	2007p	2008p
<b>Real gross domestic product growth</b>				
World	4.8	5.2	4.8	4.8
European Union	1.7	3.0	2.9	2.7
Italy	0.1	1.9	1.9	1.7
Germany	0.9	2.7	2.5	2.4
Slovenia	4.0	5.2	4.3	4.0
Austria	2.0	3.1	2.9	2.5
Eurozone	1.4	2.7	2.6	2.5
<b>Consumer price index, annual change</b>				
European Union	2.3	2.3	2.2	2.1
Eurozone	2.2	2.2	1.9	1.9
<b>Oil prices growth. %</b>	<b>44.7</b>	<b>20.2</b>	<b>0.0</b>	<b>6.2</b>

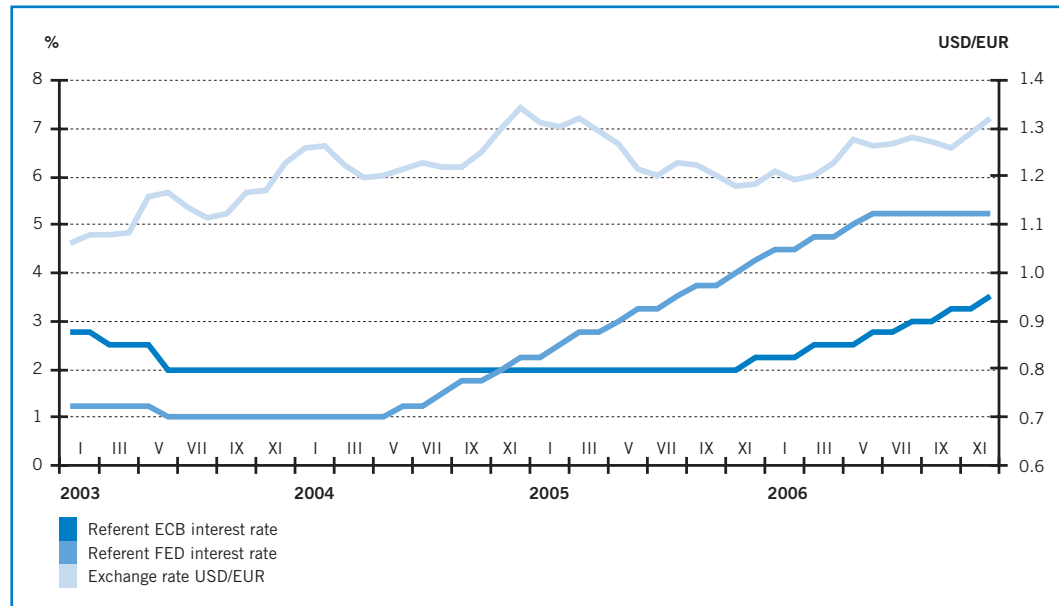
Source: European Commission; Economic Forecasts, Spring 2007

Inflation measured by harmonized consumer price index amounted in 2006 to 2.2% in Eurozone and 2.3% in European Union, the same as year before. In the first half of the year inflation was fluctuating around 2.5% while it fell below 2% during autumn where it remained until the end of the year. Observed decrease partly resulted from the base effect, but also from the decrease of energy prices. Decrease of inflation measured by harmonized consumer price index below 2% and core inflation fluctuation around 1.5% during 2006 resulted in convergence of these indicators at the end of the year.

In line with inflationary pressures of energy prices in 2006, European Central Bank conducted restrictive monetary policy. Referent interest rate of European Central Bank was increased during 2006 by 1.25 percentage points, from 2.25% in December 2005 to 3.50% in December 2006. FED also increased interest rate in 2006 from 4.25% in December 2005 to 5.25% in December 2006.



**Figure 1.1 Interest Rates and American Dollar against the Euro Exchange Rate**



Source: ECB, FED

When economic growth of main Croatian trading partners is observed, significant acceleration of real gross domestic product growth to the highest levels in last few years can be noticed. Thus, real growth of gross domestic product in Germany amounted to 2.7% in 2006 which has been the highest growth since 2000. This realization was a result of robust exports and imports growth and in the same time of strong contribution to growth of domestic demand. Introduction of higher value added tax rate beginning from January 2007 influenced the shift of consumption from 2007 to 2006. In Italy, real growth of gross domestic product in 2006 accelerated to 1.9%, also the highest rate since 2000. Basic drivers of growth were personal consumption and investments while at the same time, positive contribution to growth of net exports was recorded. Austrian economy grew in 2006 by 3.1%, based on domestic demand, particularly investments, and positive contribution of net exports. Real growth of gross domestic product in Slovenia accelerated in 2006 to 5.2%, the highest rate since 1999. The main contribution to growth came also from domestic demand (primarily investments which recorded strong growth of 11.8%), while strong growth of imports influenced the negative contribution to growth of net exports.

Previous year was marked by high oil prices which compared to 2005 increased by 20.2%. The growth was particularly high in the first half of 2006, however in the second half of the year pressures to the growth of oil prices were mitigated. The highest price of oil in 2006 was recorded in August when the price of one barrel of oil type Brent reached the price of 80\$. Period after August was followed by decrease in prices as a result of mitigated tensions in Middle East and favourable weather conditions.

According to the European Commission projections, slowdown of economic growth is expected in 2007. Thus, world economy will decelerate to 4.8% in 2007 as a result of production sector deceleration at global level. Real gross domestic product growth in 2007 is projected for Eurozone to 2.6% and for European Union to 2.9% which would be deceleration compared with 2006 by 0.1 percentage points. In USA should also come to the deceleration of growth to 2.2%, mainly as a result of decreased demand on housing market. It is expected that world trade growth will follow deceleration of production sector activity and amount to 7.5%, while oil prices are expected to remain on high levels during 2007.

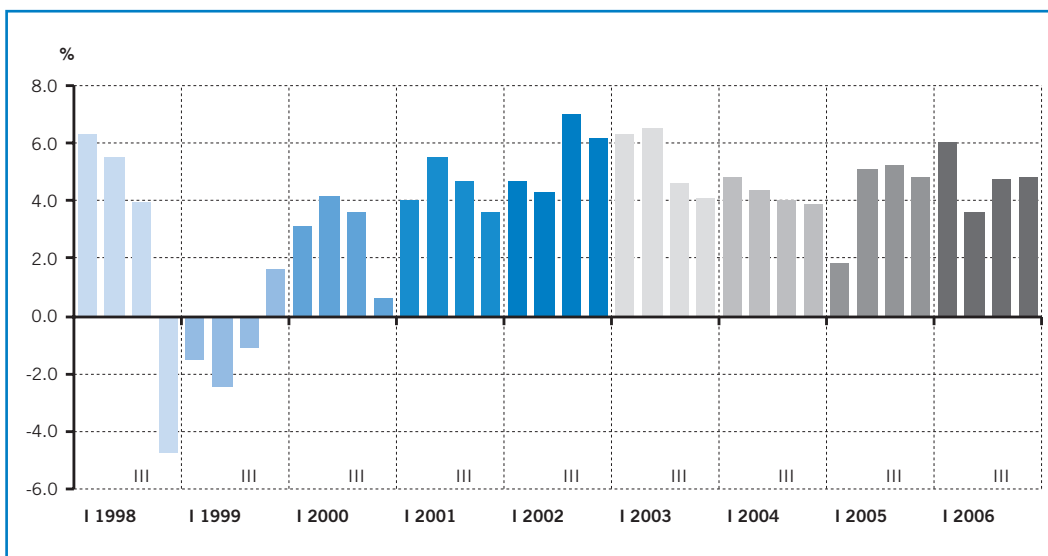
## 1.2 REAL SECTOR

Further acceleration of real gross domestic product growth to 4.8% was recorded in 2006, where the highest contribution to growth came from capital investments as well as exports and imports of goods and services. Gross domestic product per capita was increased from EUR 7,000 in 2005 to EUR 7,700 in 2006. In spite of high oil prices, inflation measured by consumer price index was decreased to 3.2% in 2006. Industrial production grew on annual level by 4.5% with the highest growth of capital goods. Construction work index increased on annual level in all months during 2006 which resulted in growth of 9.3% on year level. Tourism indicators also recorded favorable developments in 2006. Annual growth of tourist arrivals amounted to 3.9% in 2006 while tourist nights increased by 3.1%. Accelerated economic activity was accompanied by reduced unemployment and, in all months of 2006, number of unemployed persons was on lower level than a year before. Also, labor force survey unemployment rate was at the lowest level in last nine years in 2006.

### 1.2.1 Gross Domestic Product

Real gross domestic product growth amounted to 4.8% in 2006 which represents acceleration of 0.5 percentage points when compared to 2005. The highest real gross domestic product growth was realized in the first quarter (6.0%), somewhat lower in the second quarter (3.6%) while in the last two quarters growth was near 5% (4.7% and 4.8%).

Figure 1.2 Real Growth of Gross Domestic Product by Quarters

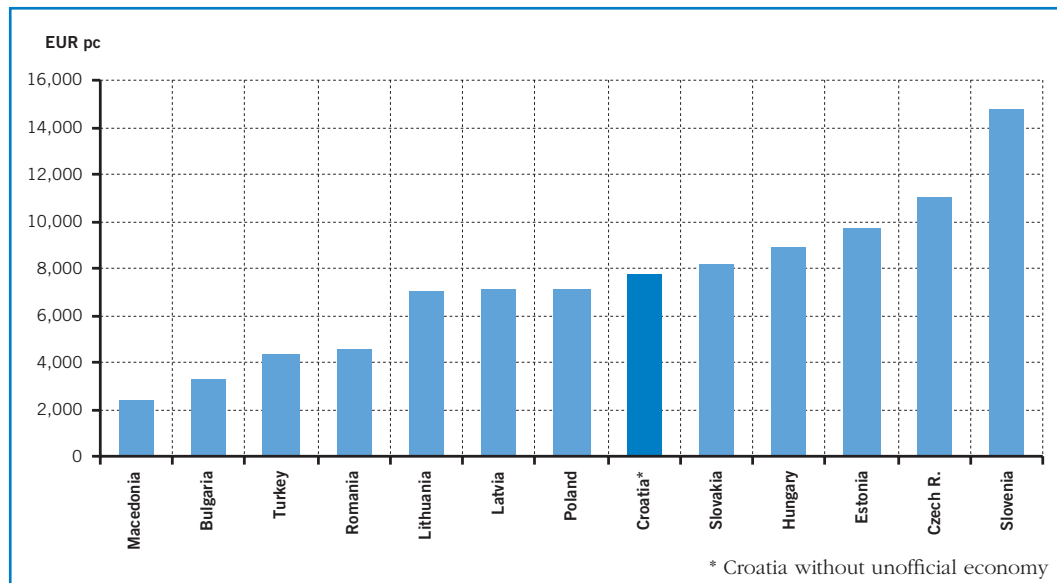


Source: CBS

Nominal gross domestic product reached the level of HRK 250.6 billion, which is 8.3% higher than level in 2005. Gross domestic product deflator growth was slightly accelerated in 2006 to 3.4%. Gross domestic product per capita increased by 9.5%, from EUR 7,000 in 2005 to EUR 7,700 in 2006. Final data adjusted to the annual calculation were published for 2004 which resulted in increase of nominal gross domestic product amount by around HRK 2.2 billion. According to the final annual calculation real growth rate of gross domestic product for year 2004 was revised from initial 3.8% to 4.3%.



Figure 1.3 Nominal Gross Domestic Product per Capita in Euros in 2006



Source: Eurostat

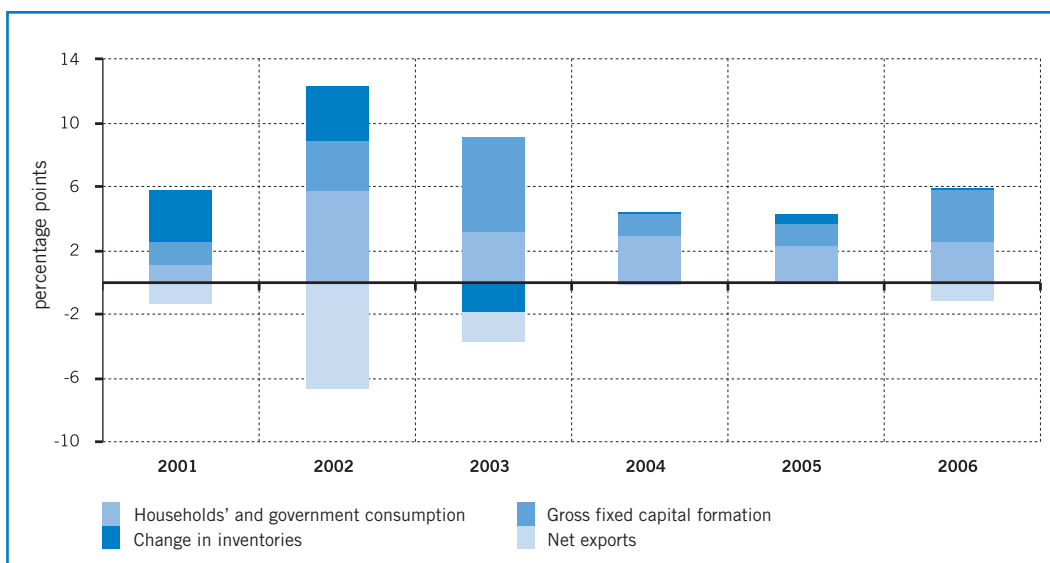
When gross domestic product per capita in euros is observed, it can be seen that Croatia is in upper part of candidate countries and new member states of European Union. Nevertheless, in this comparison it should be taken into consideration that data are not fully aligned with European system of integrated 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.

### 1.2.2 Expenditure Side of Gross Domestic Product

When individual components from the expenditure side of gross domestic product are observed, the highest real growth in 2006 was recorded in fixed investments. They increased by 10.9% in real terms when compared with 2005 which is the highest growth rate since 2003. When compared with real growth recorded in 2005, growth of investments accelerated by 6.1 percentage points. This 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. High growth rates in 2006 were also recorded at exports and imports of goods and services. Imports of goods and services increased really by 7.3% and exports by 6.9%. Real growth of personal consumption slightly accelerated in comparison with 2005 and amounted to 3.5% while government consumption grew by 2.2% which is the highest growth since 2002.

The highest positive contribution to gross domestic product growth of 3.4 percentage points in 2006 came from exports of goods and services. Higher negative contribution of imports of goods and services of -4.5 percentage points determined negative net exports contribution of -1.1 percentage points. Contribution of investments in fixed capital amounted to 3.2 percentage points, personal consumption 2.1 percentage points and government consumption 0.4 percentage points, while inventories (which include statistical discrepancy) contributed to growth by 0.2 percentage points.

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

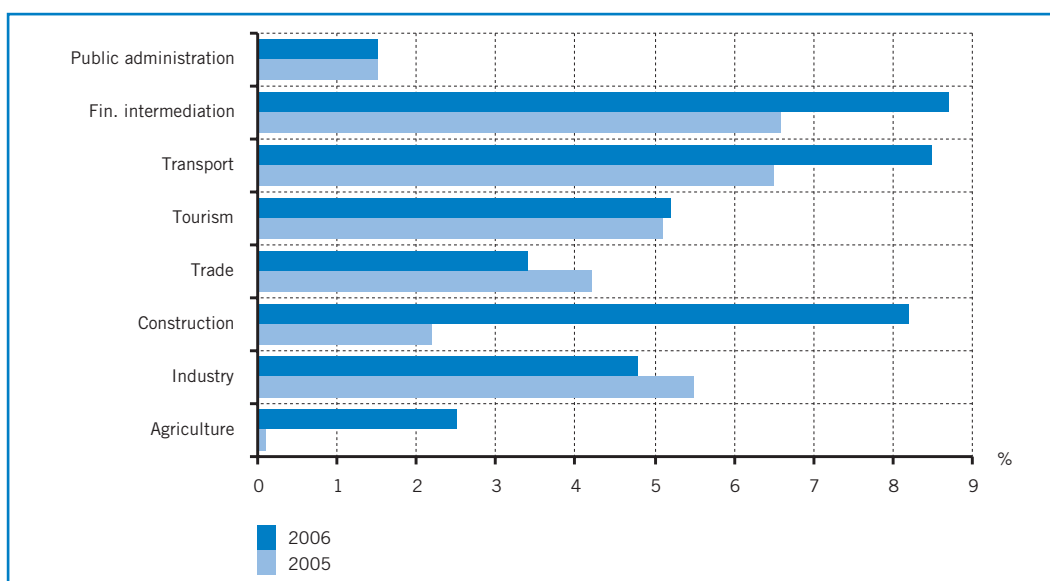


Source: CBS

### 1.2.3 Production Side of Gross Domestic Product

Real growth of gross value added accelerated from 4.1% in 2005 to 4.8% in 2006. The highest growth of gross value added was recorded, as in the previous year, in financial intermediation<sup>1</sup> (8.7%) and transport<sup>2</sup> (8.5%). There was strong revival of gross value added in construction which increased by 8.2% in 2006, or 6.0 percentage points more than in year 2005. Real growth of gross value added of hotels and restaurants grew by 5.2%, industry<sup>3</sup> 4.8%, trade<sup>4</sup> 3.4%, agriculture<sup>5</sup> 2.5% and public service<sup>6</sup> 1.5%. Concerning the shares of individual activities in total gross value added, the highest part is taken by industry (24.5%), public service (19.2%) and financial intermediation (19.1%).

**Figure 1.5 Real Growth of Gross Value Added by Individual Components**



Source: CBS

<sup>1</sup> Category includes financial intermediation, real estate, renting and business activities.

<sup>2</sup> Category includes transport, storage and communication.

<sup>3</sup> Including mining and quarrying, manufacturing, electricity, gas and water supply.

<sup>4</sup> Including wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods.

<sup>5</sup> Including agriculture, hunting, forestry and fishing.

<sup>6</sup> Category includes public administration and defense, compulsory social security, education, health and social work, other community, social and personal services and activities of households.





### **1.2.3.1 Industrial Production**

Industrial production grew annually by 4.5% in 2006 which was result of high industrial production growth in the first quarter (6.4%), stagnation in the second quarter and again high growth rates in the last two quarters (5.9% and 6.1%). When observed by main industrial groupings, capital goods realized the highest growth (14.5%) which indicates further growth of industrial production in forthcoming period since capital goods are not used for consumption but for further production. Durable consumer goods increased by 8.9% in 2006, intermediate goods by 4.4%, non-durable consumer goods by 1.8% and energy by 1.4%. As opposed to year 2005, when only manufacturing recorded increase while mining and quarrying and electricity gas and water supply decreased, all three sectors grew in 2006. Mining and quarrying increased on annual level by 10.3% in 2006 and electricity, gas and water supply by 1.6%. Manufacturing which has the highest share in total industrial production (81.8%) grew by 4.5% in 2006. The highest contribution to growth of manufacturing came from manufacture of machinery and equipment which increased on annual level by 26.9%. It was followed by manufacture of food and beverages with 5.0% increase, manufacture of radio, television and communication equipment and apparatus (41.2%), manufacture of other manufacture of other non-metallic mineral products (10.4%) and publishing, printing and reproduction of recorded media (7.2%). Total number of employed in industry decreased by 1.0% compared to 2005 while productivity increased in by 5.6% in the same period.

### **1.2.3.2 Construction**

During 2006 construction work index recorded strong growth of 9.3%. This high growth was partly influenced by low base in previous year when construction work index fell 0.8%. Growth of construction activity on annual bases was recorded in all months of 2006. When observed by quarters, the highest growth of construction work index of 15.9% was recorded in the first quarter. Realizations in other quarters were somewhat lower rates of growth, which is 8.4% in the second, 7.5% in the third and 7.1% in the fourth quarter. Observed by types of constructions, construction works index of buildings grew by 11.7% in 2006 when compared to 2005 while construction works index of civil engineering works increased by 7.6%. Development of construction works index was in line with high growth of housing loans which increased by 33.9% in 2006 when compared to 2005.

### **1.2.3.3 Retail Trade**

In year 2006 retail trade turnover recorded nominal annual growth of 4.8% while real growth in the same period amounted to 2.1%. The growth of retail trade turnover in year 2006 was in line with indicators that might have influence on its' development, such as employment and loans to households. Thus, number of employed persons was increased in 2006 by more than 47 thousands, while loans to households (without housing loans) increased by 15.3%. When nominal retail trade turnover by branches is observed in 2006, the most significant growth was recorded in category of automotive fuels (8.9%) which was also influenced by oil prices growth, and in category of non-specialized stores with food, beverages or tobacco predominating (7.7%).

### **1.2.3.4 Tourism**

Total number of 10.4 million tourist arrivals was realized in Croatia in 2006 which represents increase of 3.9% when compared to 2005. In the same time it was realized 53.0 million tourist nights, or 3.1% more than in 2005. In the structure of total tourist nights in 2006, 88.7% of total tourist nights were taken by foreign tourists while remaining 11.3% was taken by domestic tourists. Domestic tourists' nights and arrivals recorded in 2006 higher growth rates than foreign tourists' nights and arrivals. Thus, domestic tourist arrivals increased by 13.1% in 2006 on annual level and foreign tourist arrivals by 2.3%. Domestic tourist nights in 2006 were 10.3% higher than in 2005 while foreign tourist nights increased by 2.3%. Observing the structure of foreign tourist nights by country of origin, most of the nights in 2006 were realized by German tourists (23.4%). They were followed by Italian tourists (11.6%), Slovenian (11.2%), Austrian (9.7%) and Czech tourists (8.3%). Average number



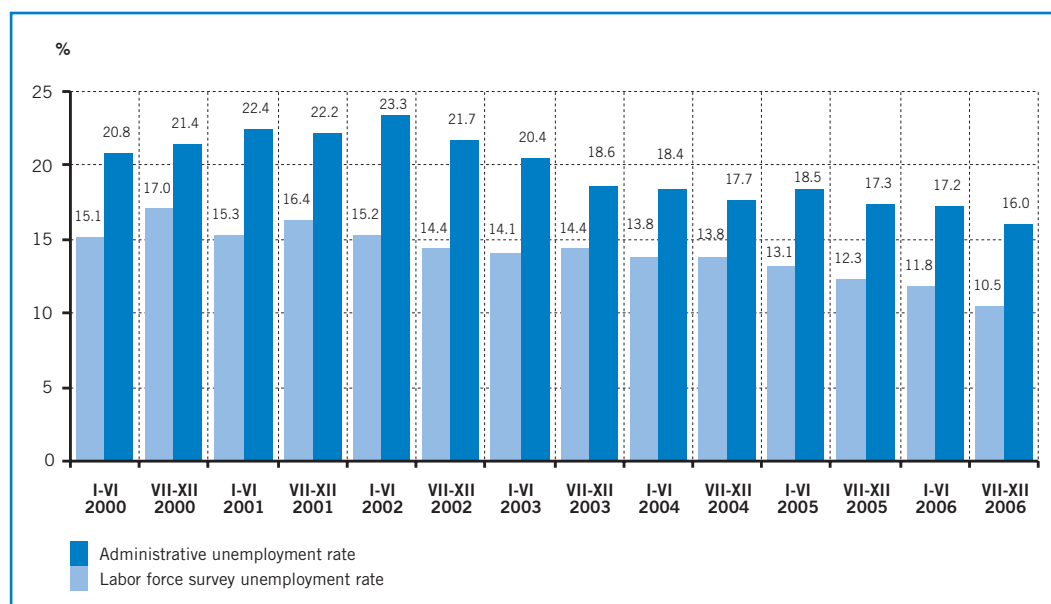
of nights per arrival amounted to 5.1 nights in 2006, the same as year before. Favorable developments of tourist nights and arrivals were reflected in tourism revenues. Thus, inflow of EUR 6.3 billion of tourist revenues was recorded in 2006 which represents a 4.9% increase when compared to 2005.

### 1.2.4 Labor Market

Accelerated economic activity in 2006 was accompanied by positive trends on labor market. In all months of 2006 was recorded lower number of unemployed persons when compared to year before. According to Central Bureau of Statistics data, at the end of 2006 there was total of 293.2 thousands unemployed which is 14.7 thousands or 4.8% less than at the end of year 2005. Average number of unemployed persons in 2006 was decreased by 17.1 thousands or 5.5% while average number employed increased in the same time by 47.3 thousands or 3.3%. Average annual unemployment rate amounted to 16.6% in 2006 which is decrease of 1.3 percentage points when compared to 2005.

The average of working age population in 2006 amounted to 3,638,500 persons. Of that number 49.1% were persons that worked or were actively looking for work and could be classified as labour force. In comparison with 2005, working age population increased by 2,500, while labour force decreased by 17,000 persons. Total number of employed in 2006 amounted to 1,586,000 persons, which represents an increase of 13,000 compared to the year 2005. Number of unemployed decreased by 30,500 and fell down to 198,500, which has been the lowest level since 1998. Unemployment rate was 11.2% in 2006 and decreased by 1.6 percentage points compared to the year 2005 and it represents the lowest unemployment rate in the last nine years. Registered unemployment rate amounted to 16.6% on average in 2006 which is higher level than Labour Force Survey unemployment rate.

Figure 1.6 Labor Force Survey and Administrative Unemployment Rate



Source: CBS

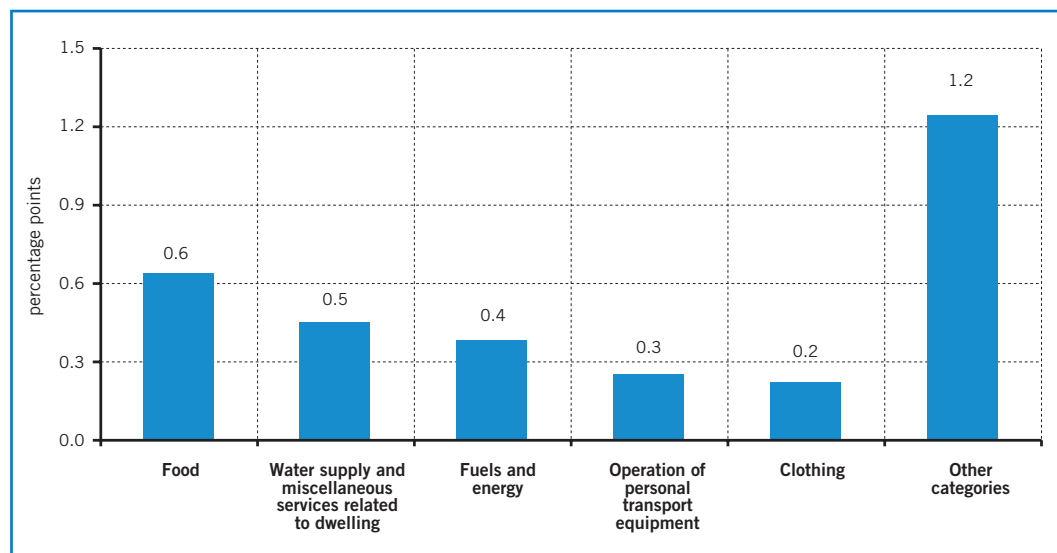


Average monthly gross earnings grew in 2006 by 6.2% while average net earnings increased by 5.2%. These developments represent acceleration of nominal net and gross earnings increase compared with 2005 when gross earnings increased by 4.4% and net earnings by 4.9%. When impact of inflation is extracted, real annual growth of average gross earnings amounted to 2.9% and average net earnings to 1.9%. The highest gross earnings in 2006 were again recorded in the sector of financial intermediation while the lowest were recorded in the sector of fishery.

### 1.2.5 Prices

Annual growth of consumer price index amounted in December 2006 to 2.0%. Average annual growth of consumer price index decelerated from 3.3% recorded in 2005 to 3.2% in 2006. Prices of goods increased in 2006 by 2.5% while prices of services increased by 5.5% when compared to 2005. The highest contribution to growth of prices in 2006 came from prices of housing, water, electricity, gas and other fuels which grew by 7.8% compared to 2005. Within this category of goods and services, prices of water supply and miscellaneous services relating to dwelling increased by 15.0% as a result of decision about price increases from local authorities. As a consequence of HEP price increase, prices of electric energy increased by 3.2% in 2006. The highest prices growth within the observed category of 26.9% was recorded at housing rentals, primarily due to increased prices of protected rentals. Development of prices in 2006 was influenced by growth of crude oil prices in the world markets in the first half of the year and its slowdown in the second half of the year. Thus, when compared with year 2005 prices of fuels and lubricants for personal transport equipment increased by 4.5%. Increase in non-alcoholic beverages prices of 6.7% in 2006 is most probably the consequence of introduction of paying ecological charges for packing waste care, which was used by some producers for rising of own prices. Prices of health services grew by 15.6% in 2006 as a result of administrative fees introduction.

Figure 1.7 Contributions of Individual Categories to Growth of Prices



Source: CBS

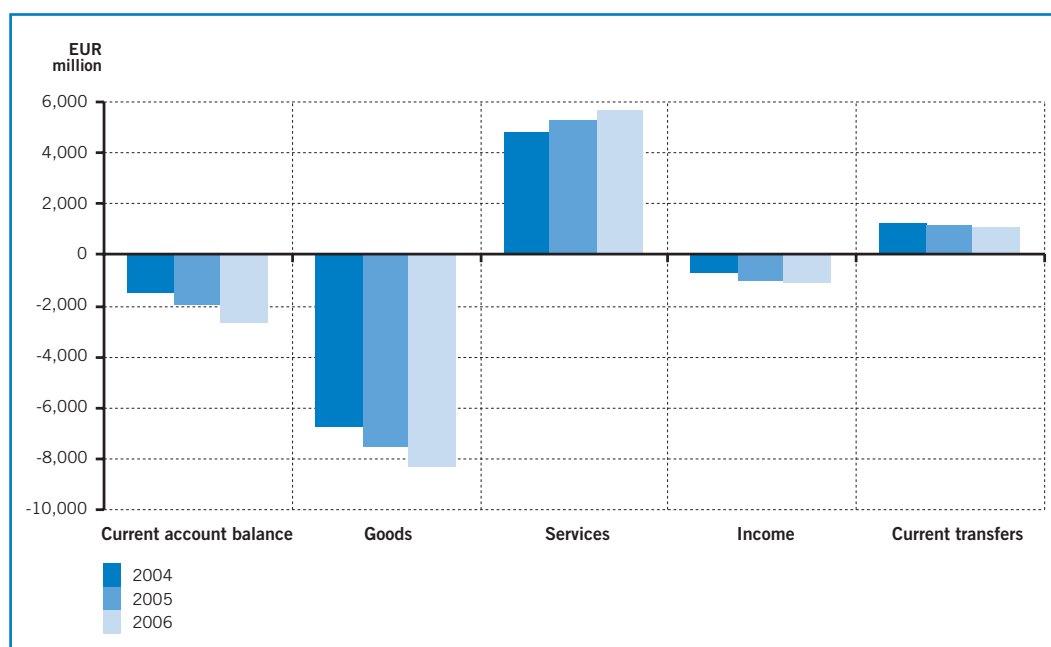
## 1.3 INTERNATIONAL SECTOR

There was continued widening of external trade deficit during 2006 but also continuation of further increase in services surplus due to good tourist season. Financial account of balance of payments was marked by the highest inflow of foreign direct investments up to this time. Average annual kuna against euro exchange rate appreciated when compared to year before and Croatian National Bank intervened thirteen times at foreign exchange market.

### 1.3.1 Balance of Payments

Current account deficit of balance of payments amounted to EUR 2.647 billion in 2006 which is increase of EUR 659 million or 33.1% when compared to 2005. Current account deficit expressed as share of GDP amounted in 2006 to 7.7%. The highest contribution to current account deficit growth came from negative balance on goods account which amounted to EUR 8.344 billion and increased by 11.0% when compared with year 2005. On account of services EUR 5.710 million surplus was recorded which represents an increase of 7.4% compared to 2005. Growth of surplus on account of services was mostly contributed by growth of tourism revenues which amounted to EUR 6.293 billion and grew annually by 4.9%. Increase of current account deficit in 2006 was also result of deficit on income account that amounted to EUR 147 million mostly due to increased expenditures on the basis of reinvested earnings, expenditures on the basis of other investments and decrease of current transfers' surplus of 6.6% to the level of EUR 1.106 billion.

Figure 1.8 Current Account of Balance of Payments



Source: CNB

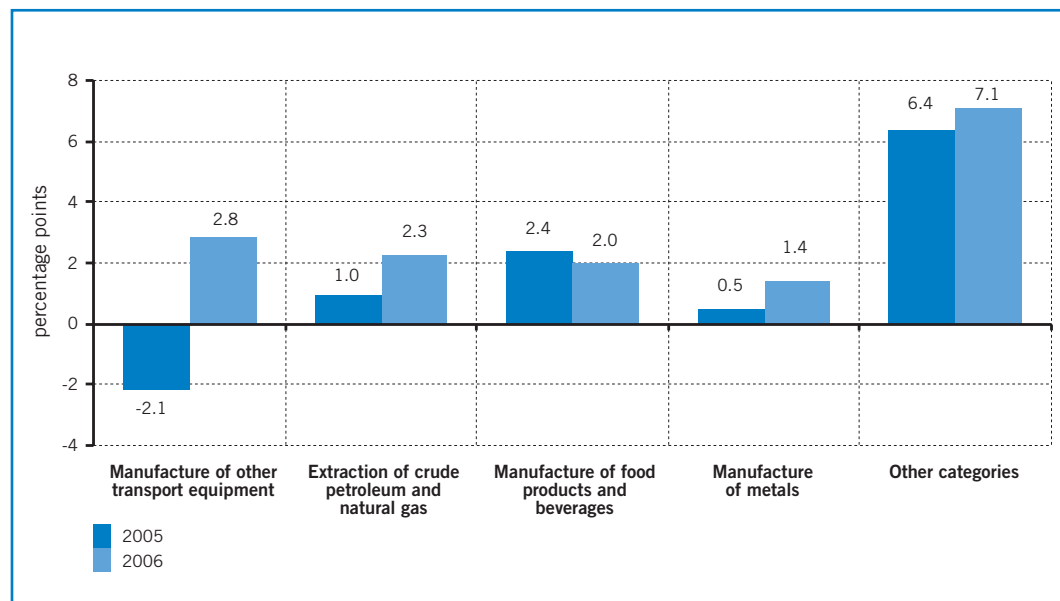
When financial account of the balance of payments in 2006 is observed, the most significant change was recorded at foreign direct investments. Net foreign direct investments in 2006 amounted to EUR 2.549 billion which represents increase of 99.8% when compared with year 2005 and it is the highest recorded annual inflow of foreign direct investments. The portfolio account recorded net outflow of funds in amount of EUR 527 million which is to the high extent result of government orientation to domestic financial market borrowing. Net inflow of funds on the basis of other investments amounted to EUR 3.217 billion in 2006. The highest net inflow of funds was recorded at other sectors in amount of EUR 2.223 billion. Net inflow of funds in banking sector amounted to EUR 846 million and government EUR 145 million. Described developments on financial and current account of balance of payments resulted in growth of international reserves of EUR 1.412 billion. Net errors and omissions were this year too on the high level of EUR -1.046 billion.



### 1.3.2 External Trade

Total merchandise exports realized higher growth rate than merchandise imports in 2006 and when compared to 2005, growth of exports and imports accelerated. Total value of Croatian merchandise exports was HRK 60.4 billion in 2006 which is 15.6% more than the value of exports was in 2005. Value of merchandise imports amounted to HRK 125.2 billion and grew by 13.3% compared to 2005. External trade deficit amounted to HR 64.8 billion in 2006 which represents annual increase of 11.3%. The coverage of imports by exports was at level of 48.3% in 2006 which is 1.0 percentage point higher compared with year 2005. Observing external trade by activities, the highest contribution to exports growth in 2006 came from manufacture of other transport equipment which increased annually by 26.1%, followed by extraction of crude petroleum and natural gas (exports growth of 102.7%), manufacture of food and beverages (25.0%), manufacture of metals (35.1%) and manufacture of coke, refined petroleum products and nuclear fuel (12.5%). To the growth of imports highest contribution came from extraction of crude petroleum and natural gas which annual increase amounted to 17.7%, then from manufacture of metals (imports increased by 24.2%), manufacture of motor vehicles, trailers and semi-trailers (14.7%), manufacture of coke refined petroleum products and nuclear fuel (30.9%) and manufacture of chemicals and chemical products (9.8%).

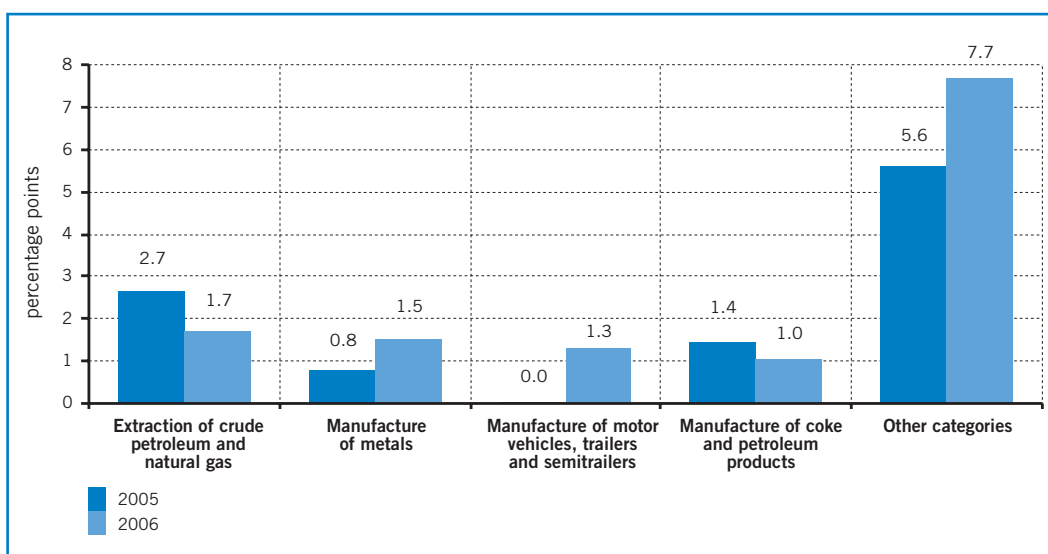
**Figure 1.9 Contributions to the Total Merchandise Exports Growth by Individual Categories**



Source: CBS

As already mentioned, the highest contribution to growth of exports in 2006 came from manufacture of other transport equipment, while the strongest reason for growth of imports in 2006 was increase in imports of crude petroleum and natural gas. Within the manufacture of other transport equipment the highest share is taken by ships which can deform the trend of other exports due to their large transactions. Therefore, when the category of other transport equipment is excluded, exports increased by 14.3% in 2006 while imports in the same time increased by 13.4%. When imports are observed, the growth of crude petroleum and natural gas probably partly indicate to the growth of imported quantity but to the large extent also increase of prices in the world markets. If effect of oil price increase is isolated, annual growth of merchandise exports in 2006 decelerates from 13.3% to 12.9%. Oil prices will be significant determinant of merchandise imports growth in the future and deceleration of oil prices growth would also have effects on deceleration of imports growth.

**Figure 1.10 Contributions to the Total Merchandise Imports Growth by Individual Categories**



Source: CBS

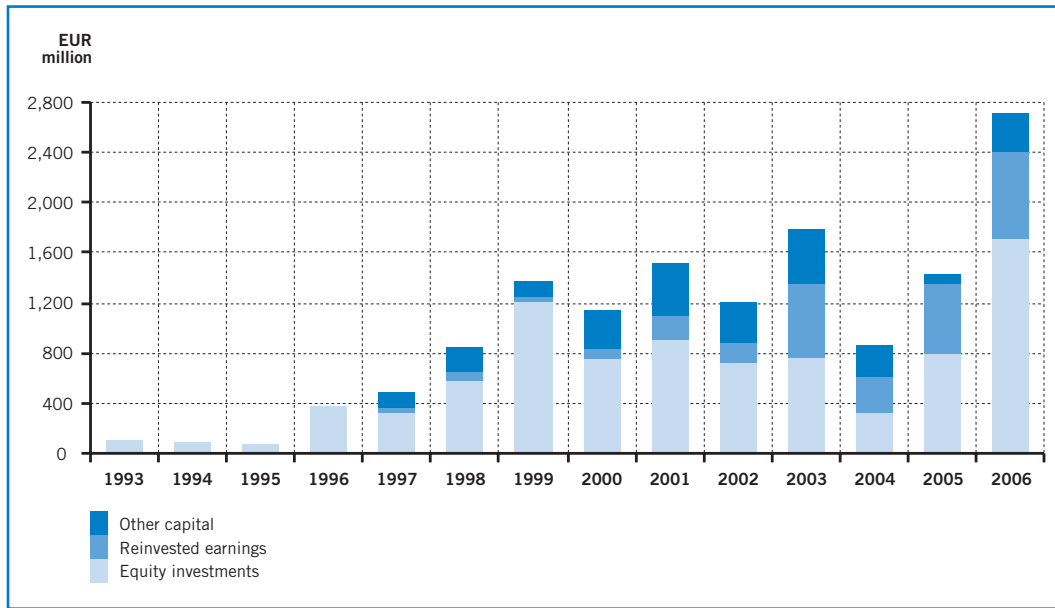
Structure of merchandise exports by countries indicate that the highest share in 2006 was taken by exports to Italy (23.1%). This was followed by exports to B&H (12.6%), Germany (10.3%), Slovenia (8.2%) and Austria (6.0%). When compared with year 2005, exports to Italy increased by 26.5%, Slovenia 16.9%, Germany 12.0% and B&H 1.4% while exports to Austria fell by 2.0%. Exports to EU countries in 2006 made 63.3% of total Croatian merchandise exports and increased by 18.2 percent when compared with 2005. The highest share in total merchandise imports in 2006 had imports from Italy (16.7%), Germany (14.5%), Russia (10.1%), Slovenia (6.3%) and Austria (5.4%). When foreign trade in US dollars is observed, exports increased in 2006 by 18.3%, while imports in the same time increased annually by 15.9%. Higher annual growth rates of exports and imports expressed in US dollars are result of the fact that Croatian foreign trade is mostly done with European Union countries, so exports and imports growth rates are also influenced by depreciation of US dollar against euro.

### 1.3.3 Foreign Direct Investments

Total stock of foreign direct investments in the Republic of Croatia reached at the end of 2006 the level of EUR 13.987 billion. During 2006 total foreign direct investments in the Republic of Croatia amounted to EUR 2.713 billion which is nominal increase of EUR 1.245 billion or 84.8% when compared with year before and the highest recorded annual inflow of foreign direct investments in the Republic of Croatia. In the structure of total foreign direct investments in 2006, 63.7% was taken by equity investments in amount of EUR 1.727 billion. Reinvested earnings represented 25.7% of total investments with the amount of EUR 697 million, while other investments represented 10.6% of total investments with the amount of EUR 289 million. When the structure of foreign direct investments in the Republic of Croatia by activity is observed, the highest amount in 2006 was invested in financial intermediation (EUR 1.038 billion), followed by manufacture of chemicals and chemical products (EUR 518 million), wholesale trade and commission trade (EUR 125 million) and extraction of crude petroleum and natural gas (EUR 110 million). Observed by country of origin, the highest inflow of foreign direct investments in the Republic of Croatia in 2006 came from Netherlands (EUR 1.940 billion), France (EUR 1.025 billion), Luxembourg (EUR 301 million), Switzerland (EUR 228 million) and Germany (EUR 221 million).



Figure 1.11 Foreign Direct Investments in the Republic of Croatia

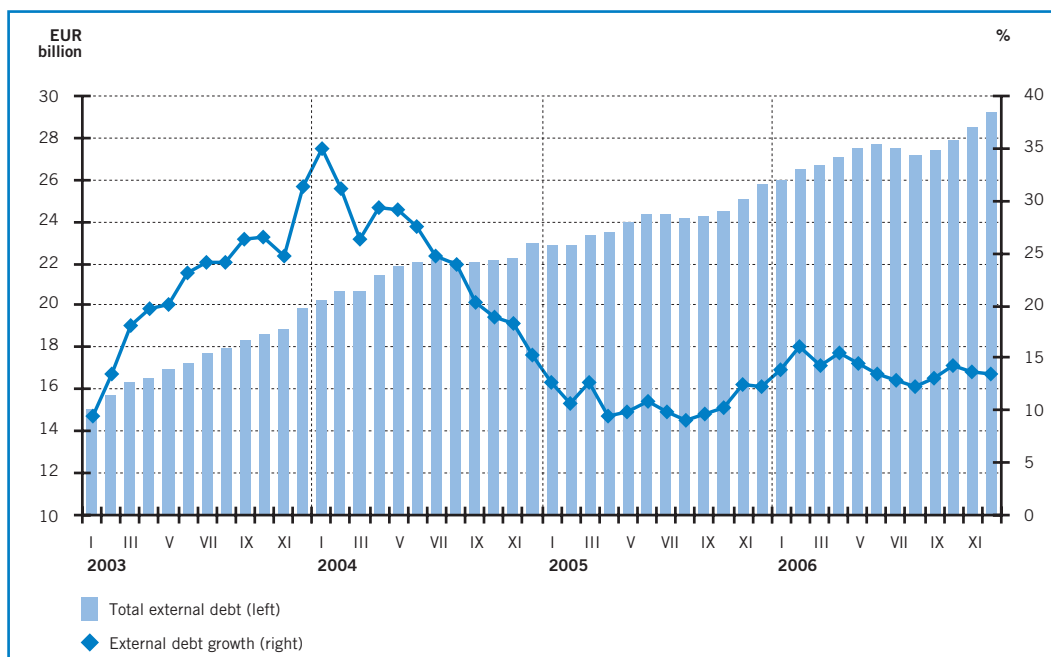


Source: CNB

### 1.3.4 External Debt

Total external debt was at the level of EUR 29.205 billion at the end of 2006 which is 85.3% of estimated GDP for year 2006. Annual growth rate of external debt was 13.4% in 2006. The highest external debt growth in 2006 was recorded in category of other domestic sectors in amount of EUR 2.214 billion and in category of banks in the amount of EUR 1.244 billion. External debt on the basis of foreign direct investments increased in 2006 by EUR 377 million while government external debt was reduced by EUR 377 million which was in line with government orientation to finance its needs on domestic financial market. The most significant change in the structure of external debt was recorded at government external debt which share in total debt was reduced from 27.4% in December 2005 to 22.8% of total external debt in December 2006. Reduced share of government debt was to the largest extent substituted by external debt of other sectors which share increased from 28.2% in December 2005 to 32.5% of total external debt in December 2006. The share of banks' external debt in total external debt was slightly increased from 34.9% in December 2005 to 35.0% in December 2006. At the end of 2006 central bank introduced new monetary policy measures that concern compulsory purchases of CNB bills. The purpose of introduced measures is to restrain credit expansion and growth of placements to 12% for the whole year 2007 which should result in deceleration of external debt growth.

Figure 1.12 External Debt of the Republic of Croatia

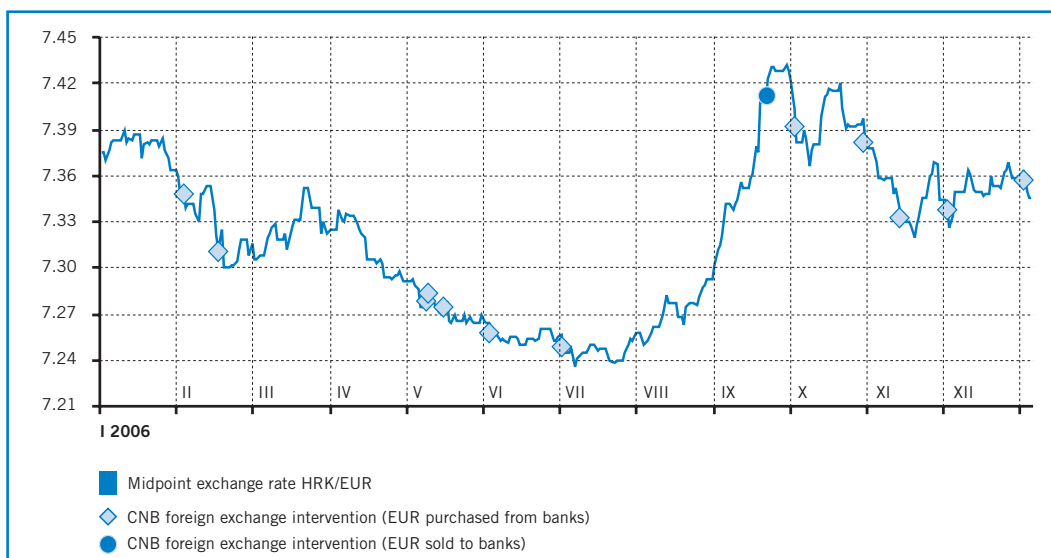


Source: CNB

### 1.3.5 Foreign Exchange Rate

Average annual exchange rate of kuna against euro decreased from 7.40 kuna for euro in 2005 to 7.32 kuna for euro in 2006 which is 1.0% appreciation of kuna against euro. When end of period exchange rate is observed, exchange rate of kuna against euro decreased from 7.38 kuna for euro to 7.35 kuna for euro at the end of 2006. When observed in this way, appreciation of kuna against euro wasn't so pronounced and amounted to only 0.4% in the observed period. Exchange rate of US dollar against kuna was in line with fluctuations of US dollar against euro in the world foreign exchange markets. Average annual exchange rate of kuna against US dollar decreased from 5.95 kuna for US dollar in 2005 to 5.84 kuna for US dollar in 2006 and appreciated by 1.9%. Croatian National Bank intervened thirteen times on foreign exchange market in 2006. Of total number, twelve interventions concerned purchase of euro from commercial banks which resulted in total purchase of EUR 1.298 billion while one intervention concerned sale euro to commercial banks in amount of EUR 126 million.

Figure 1.13 Midpoint Kuna against the Euro Exchange Rate and Foreign Exchange Interventions of CNB



Source: CNB





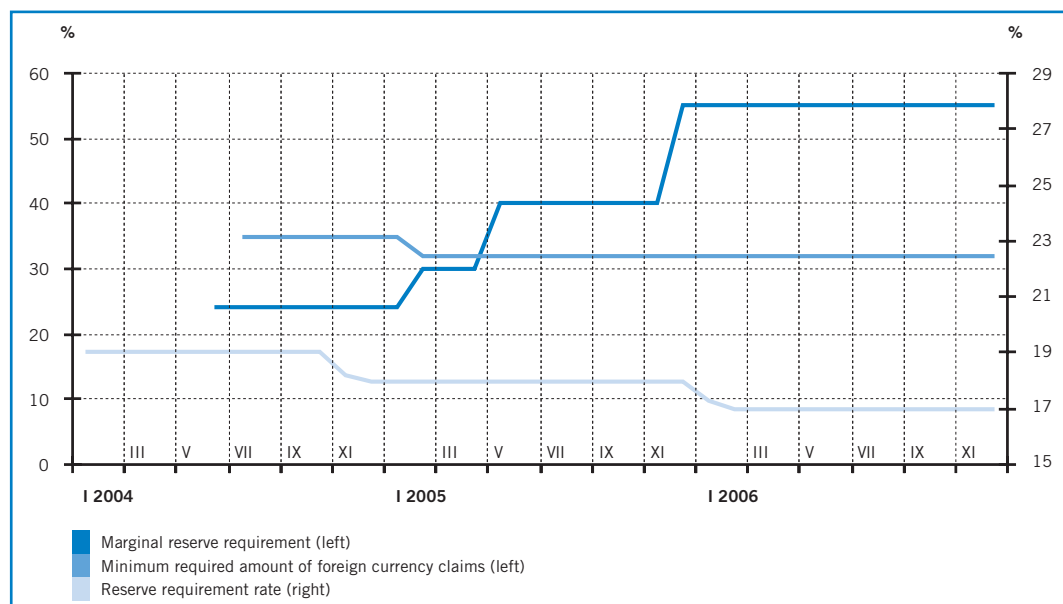
## 1.4 FINANCIAL SECTOR

Large inflows of foreign capital during 2006 resulted in strong appreciation pressures on kuna foreign exchange rate. In accordance with such developments, monetary policy was directed to restriction of banks' foreign borrowing and mitigation of foreign inflows effects on foreign exchange appreciation. Instruments of monetary policy used for this purpose were marginal reserve requirement, minimum required amount of foreign currency claims, open market operations and foreign exchange interventions. Strong credit activity of banks was continued in 2006. High annual growth rates were recorded at loans to enterprises and higher growth was also recorded at loans to central government which was in line with government orientation to borrow on domestic financial market. Money market interest rates fluctuations were reduced which was also result of central bank REPO auctions while on capital markets strong growth of turnover was recorded in 2006.

### 1.4.1 Monetary Policy and Developments of Credit Aggregates

Monetary policy in 2006 was directed to restrain the growth of foreign indebtedness and to keep kuna foreign exchange rate stable. With the purpose of slowing down foreign borrowing, central bank amended existing marginal reserve requirement instrument with two decisions. This decisions concerned the introduction of marginal 55% reserve requirement to be allocated by banks also on their liabilities arising from issued securities and extension of existing 55% allocation base which shall include the increase of borrowing on the basis of assets received from non-residents and legal persons in special relationship to a bank (registered as off-balance sheet items) and granted as syndicated loans to natural and legal persons or in the name and for the account of the principal. Reserve requirement rate was reduced from 18% to 17% which according to estimates gave additional HRK 2 billion of liquidity to banks. REPO auctions of central bank, which were as new instrument introduced in 2005, were intensively used in 2006 which resulted in reduced fluctuations of interest rates. During 2006, banks increased kuna denominated deposits which were in fact mainly representing liabilities towards foreign exchange depositors from abroad in an attempt to sidestep the required 32% coverage of banks' foreign exchange liabilities by liquid foreign exchange claims. As a consequence new measure of monetary policy was introduced in January which required inclusion of foreign currency indexed kuna deposits in the base for calculating the required 32% coverage of banks' foreign exchange liabilities by liquid foreign exchange claims. In 2006 there were 13 foreign exchange interventions by which central bank tried to influence kuna exchange rate developments.

Figure 1.14 Changes in Central Banks' Instruments

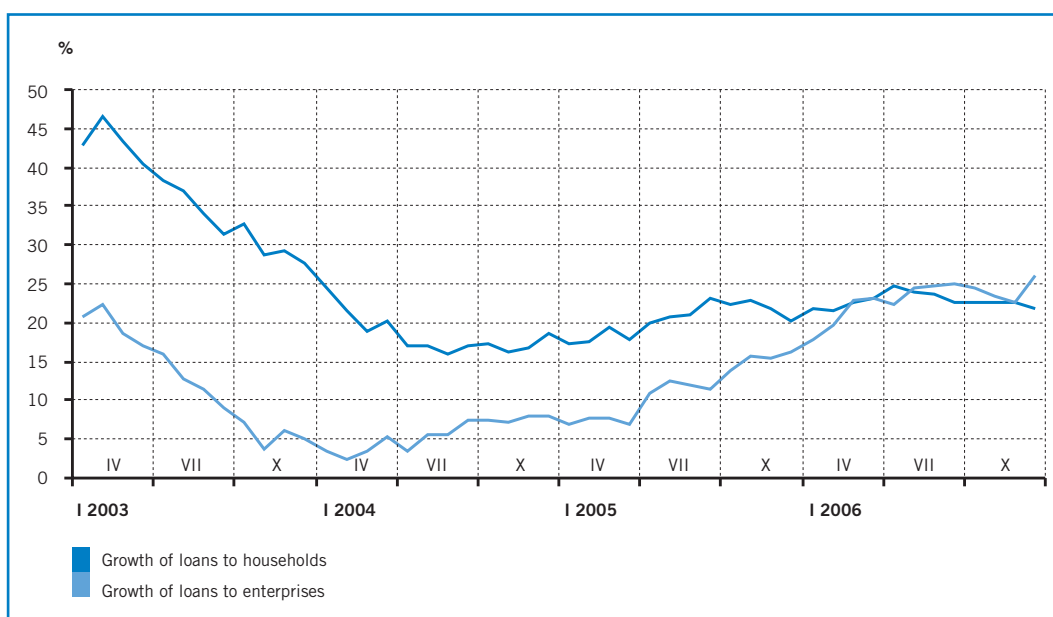


Source: CNB



Year 2006 was characterized by continued accelerated credit activity of banks. The most significant contribution to credit growth came from the households with notably accelerated growth of housing loans. When compared with 2005, faster growth of loans to central government was recorded which is in line with government orientation to borrow on domestic financial market. In corporate sector, growth of loans to enterprises significantly accelerated and recorded 10 percentage points higher growth compared to the growth rate in 2005. Banking credit activity was in the largest part financed with growth of time and savings account deposits which growth was pronounced in summer months in line with good tourist season. Growth of foreign liabilities was accelerated compared to 2005. Total approved loans of commercial banks stood at HRK 190.1 billion at the end of 2006. Annual growth rate of loans in 2006 was 22.7% and it was accelerated by 2.4 percentage points when compares with 2005. Loans to households recorded in 2006 growth of 21.8% where housing loans grew by 33.9%. Annual growth of loans to enterprises amounted to 26.1% which is acceleration of 9.8 percentage points when compared to 2005. Commercial banks loans to central government increased by 12.3% in 2006 which is in line with government orientation to borrow on domestic financial market.

**Figure 1.15 Annual Growth of Credits to Enterprises and Credits to Households**

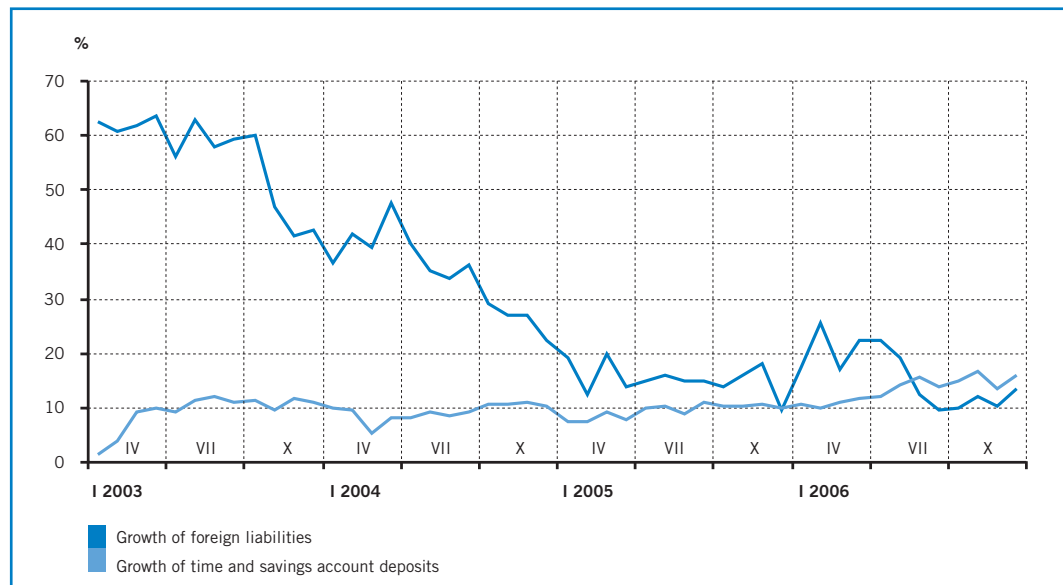


Source: CNB

Total kuna and foreign currency time and savings account deposits of commercial banks amounted to HRK 133.1 billion in 2006 and increased by HRK 18.3 billion when compared with 2005. Concerning growth rate, total kuna and foreign currency time and savings account deposits increased by 16.0% which is acceleration of 5.9 percentage points compared with previous year. Total kuna time and savings account deposits of commercial banks increased by HRK 16.8 billion or 60.2% in 2006. The biggest contribution to this growth came from households deposits which increased by HRK 7.9 billion and enterprises deposits which increased by HRK 6.5 billion. Foreign currency time and savings account deposits grew by HRK 1.5 billion during 2006 or 1.7%. The biggest contribution to foreign currency time and savings account deposits growth came from households sector which deposits increased by HRK 1.9 billion.



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



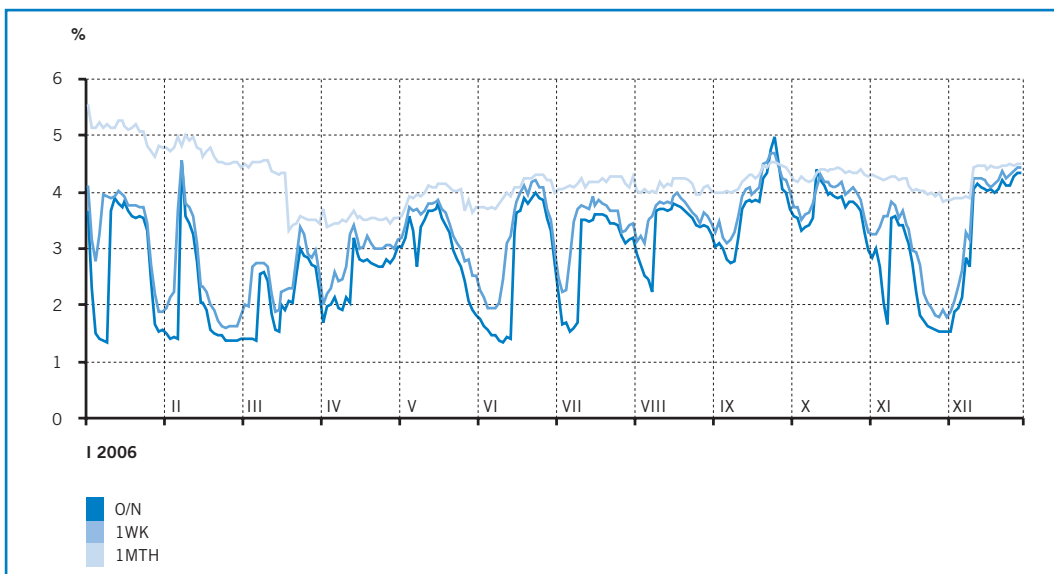
Source: CNB

Total foreign assets of commercial banks amounted to HRK 39.6 billion and increased by HRK 4.0 billion or 11.4% when compared to 2005. Foreign assets increased by HRK 9.0 billion or 13.4% and amounted to HRK 76.1 billion at the end of 2006. These developments determined net foreign assets which were at level of HRK -36.5 billion at the end of the year.

### 1.4.2 Money Market

Interest rates developments on Zagreb money market indicate high market liquidity in year 2006. Average interest rate amounted to 2.06% in 2006 and decreased by 1.0 percentage point compared to year before. Somewhat higher interest rates were recorded during summer months and in December. These developments were in line with seasonal effects which also appeared in previous years due to peak of tourist season. Namely, high number of foreign tourist arrivals increases demand for domestic currency which influences increase in interest rates. Also, higher demand for kuna due to holiday consumption in December influenced higher interest rate in this month. Average interest rate amounted to 2.06% in 2006 and decreased by 1.0 percentage point compared to year before. The highest interest rates were recorded in September. Beside they were at lower levels, money market interest rates recorded significantly lower fluctuations than during previous year which was largely result of technical changes in the process of calculation, allocation and maintenance of banks' reserve requirements that central bank introduced in 2005. The number of central banks' foreign exchange interventions contributed to the maintenance of financial system liquidity, mostly with the purpose to buy off strong foreign currency inflows from economic entities and financial institutions borrowings, recapitalization of domestic banks and process of Pliva acquisition. Good liquidity of financial system wasn't undermined even from usual seasonal pressures on liquidity during the tourist season. Increased demand for kuna due to issuance of second tranche of government bond in February (in the amount of HRK 2 billion), government bond with seven years maturity in July (in the amount of HRK 2.5 billion) and several kuna corporate bond issuances didn't have significant effects on liquidity. In the last quarter of 2006, except holiday consumption, the pressure on financial system liquidity also came from initial public offer of INA, issuance of second tranche of seven year government kuna bond in November (in the amount of HRK 1.5 billion), issuance of several corporate bonds and recapitalization of certain banks. On the other side, supply of kuna was increased due to strong inflow of funds from Pliva takeover and foreign exchange interventions of central bank, thus impact on kuna liquidity was favorable. Despite slight annual appreciation, kuna exchange rate was still strong in 2006 which central bank tried to influence by twelve foreign exchange interventions where foreign currency was purchased.

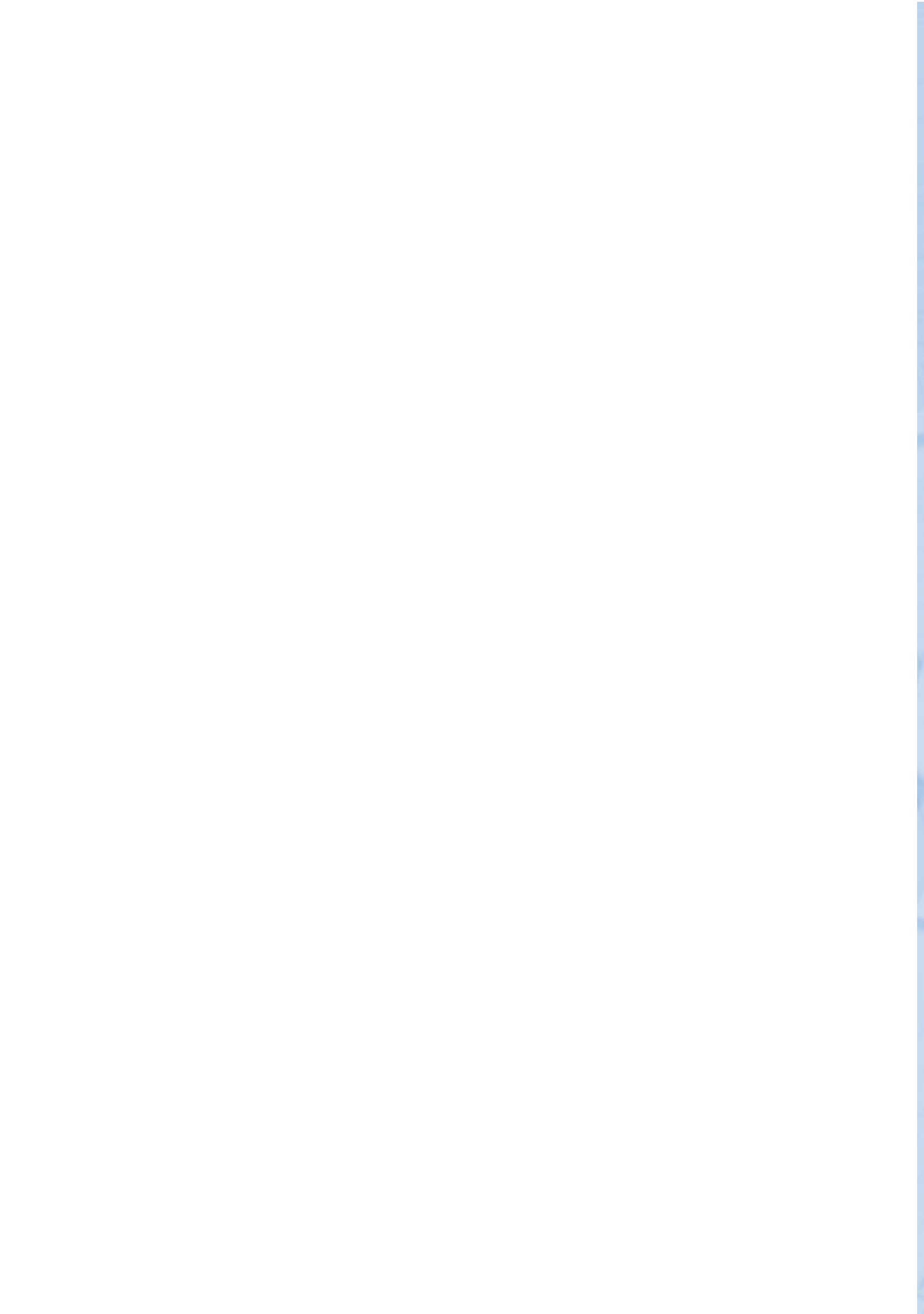
**Figure 1.17 ZIBOR Developments**



Source: CBA

### 1.4.3 Capital Market

During the course of 2006 significant increase of capital market turnover was recorded. Total turnover of shares on Zagreb Stock Exchange increased in 2006 by 121.1% while total turnover on Varaždin Stock Exchange increased by 66.3%. Stock indices also recorded high growth and in 2006 CROBEX grew by 60.7% while VIN index grew by 49.7%. Positive developments on capital markets were influenced by increase of institutional investor's assets, which mostly concerns pension and open investment funds. Thus, at the end of 2006 pension funds assets amounted to HRK 16.4 billion and increased by 37.3% compared to 2005 while open investment funds assets amounted to HRK 16 billion at the end of 2006 which represents an increase of 81.6% compared to year earlier. Concerning other securities, during 2006 eleven new bonds was issued - one government, two municipal and eight corporate bonds. In July 2006 first tranche of seven year government bond was issued in nominal amount of HRK 2.5 billion. Second tranche of this bond in nominal amount of HRK 1.5 billion was issued in November. All of the eight corporate bonds issued in 2006 were denominated in kuna and their total nominal value amounted to HRK 2.7 billion.



The background is a light blue collage of various financial and government-related documents. It includes line graphs, bar charts, pie charts, and text fragments such as 'REPUBLIC OF CROATIA', 'MINISTRY OF FINANCE', 'ANNUAL REPORT', and 'FOR 2006'. The documents are layered and slightly tilted, creating a sense of depth and complexity.

**2.**

**BUDGETARY CENTRAL  
GOVERNMENT  
IN 2006**





## 2.1 BUDGETARY CENTRAL GOVERNMENT REVENUE IN 2006

### 2.1.1 Budgetary Central Government Revenue Plan

By the end of November 2005, Croatian parliament adopted the Budget of the Republic of Croatia as well as financial plans of extrabudgetary users for year 2006. In line with underlined macroeconomic indicators and assumptions, total budgetary central government revenue was planned in the amount of HRK 93.996 billion which compared to the previous year represented an increase of 9.7%.

Such an increase is somewhat stronger compared to the average increase in previous years and the reason behind that is the specificity of year 2006 regarding the inclusion of road charges part of the fuel price, which prior to 2006 were direct revenue of Croatian Motorways and Croatian Roads. It is worth to mention that this inclusion represents one of the steps in achieving fully operational Single Treasury Account. Although, as of the beginning of 2006, road charges represent the revenue of the budgetary central government this revenue is still the revenue of Croatian Roads and Croatian Motorways given that once collected to the Single Treasury Account are subject to immediate transfer to the mentioned agencies through the expense side of the budget.

Based upon new expectations, both on revenue and expenditure side, Budget of the Republic of Croatia was amended in July of 2006. This supplementary budget increased the expected amount of budget revenue by HRK 899.1 million or to the total amount of HRK 98.895 billion. Compared to the amount of revenue collected in 2005, supplementary budget revenue amount represented an increase of 10.8%.

### 2.1.2 Budgetary Central Government Revenue Outturn in 2006

According to the final data for the 2006 budget execution, total budgetary central government revenues were collected in the amount of HRK 95.588 billion. Such an outturn of the budgetary central government revenues is in line with the plan for 2006, namely 0.1% above the planned amount. Observing the annual increase, it can be seen that the budgetary central government revenues increased by 11.2%. Total budgetary central government revenues can be divided between the budget revenue and the revenue from sales of nonfinancial assets.

Observing the structure of the budget revenue it can be noted that the largest part relates to taxes which in 2006 accounted for 61.4%, followed by social security contributions while the reminder relates to grants, property income, administrative fees, revenues under the special regulations and other revenue. Compared to the previous year, revenue from customs and property income revenue recorded a slight decrease of their share while the share of other revenue and especially the share of excise tax revenue increased. The main reason behind this increase is the inclusion of the road charges in the revenue from excise tax on oil derivatives, which in previous years was direct revenue of the Croatian Motorways and Croatian Roads and since the beginning of 2006 is included within the budgetary central government.





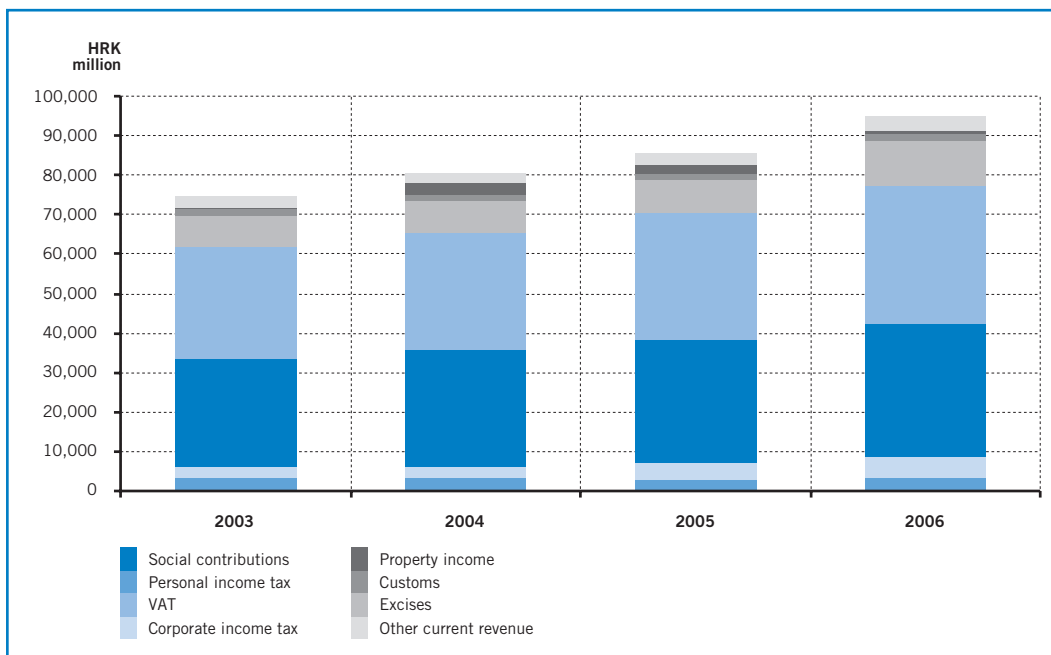
**Table 2.1 Revenue of the budgetary central government according to the original and the new plan for 2006**

	(000 HRK)	Plan 2006	New Plan 2006	Index new plan 06/plan 06
<b>1</b>	<b>REVENUE</b>	<b>93,995,547.8</b>	<b>94,894,623.2</b>	<b>101.2</b>
<b>11</b>	<b>Taxes</b>	<b>56,537,027.0</b>	<b>57,860,444.1</b>	<b>102.3</b>
<b>111</b>	<b>Taxes on income, profits, and capital gains</b>	<b>7,456,657.6</b>	<b>7,916,838.8</b>	<b>106.2</b>
1111	Payable by individuals	3,448,620.3	3,323,991.5	96.4
1112	Payable by corporations and other enterprises	4,008,037.3	4,592,847.3	114.6
<b>113</b>	<b>Taxes on property</b>	<b>399,803.0</b>	<b>431,835.2</b>	<b>108.0</b>
<b>114</b>	<b>Taxes on goods and services</b>	<b>46,549,921.4</b>	<b>47,359,426.6</b>	<b>101.7</b>
1141	General taxes on goods and services	34,130,270.8	35,002,420.2	102.6
11411	Value-added taxes	33,993,846.1	34,830,263.8	102.5
11412	Sales taxes	136,424.7	172,156.4	126.2
1142	Excises	11,637,787.1	11,539,801.1	99.2
1144	Taxes on specific services	0.0	22,756.0	
1145	Taxes on use of goods, permission to use goods	339,691.4	340,976.3	100.4
1146	Other taxes on goods and services	442,172.1	453,464.0	102.6
<b>115</b>	<b>Taxes on international trade and transactions</b>	<b>1,532,634.5</b>	<b>1,562,367.4</b>	<b>101.9</b>
<b>116</b>	<b>Other taxes</b>	<b>598,010.5</b>	<b>589,976.1</b>	<b>98.7</b>
<b>12</b>	<b>Social contributions</b>	<b>33,627,039.1</b>	<b>33,496,961.3</b>	<b>99.6</b>
<b>121</b>	<b>Social security contributions</b>	<b>33,627,039.1</b>	<b>33,496,961.3</b>	<b>99.6</b>
1211	Employee contributions	16,930,000.0	14,788,744.8	87.4
1212	Employer contributions	16,697,039.1	17,907,581.0	107.3
1213	Self-employed or nonemployed contributions	0.0	800,635.5	
<b>13</b>	<b>Grants</b>	<b>577,373.1</b>	<b>521,812.5</b>	<b>90.4</b>
<b>14</b>	<b>Other revenue</b>	<b>3,254,108.6</b>	<b>3,015,405.3</b>	<b>92.7</b>
<b>141</b>	<b>Property income</b>	<b>1,615,922.6</b>	<b>1,466,431.3</b>	<b>90.7</b>
<b>142</b>	<b>Sales of goods and services</b>	<b>783,688.0</b>	<b>747,460.5</b>	<b>95.4</b>
<b>143</b>	<b>Fines, penalties, and forfeits</b>	<b>414,418.1</b>	<b>392,381.1</b>	<b>94.7</b>
<b>144</b>	<b>Voluntary transfers other than grants</b>	<b>26,859.9</b>	<b>23,219.5</b>	<b>86.4</b>
<b>145</b>	<b>Miscellaneous and unidentified revenue</b>	<b>413,220.0</b>	<b>385,912.9</b>	<b>93.4</b>

Source: Ministry of Finance

If we observe the trend of the share of total revenue in GDP from 2002 to 2006, it can be seen that it only moderately varies. Namely, in 2002 budgetary central government revenue accounted for 38.4% of GDP. This share was moderately decreasing till 2005 when it reached the level of 37.0% of GDP. However, the share of budgetary central government revenue in GDP increased again in 2006 by one percentage point, namely to the level of 38.0% of GDP. Compared to the previous years, 2006 saw an increase in the share of tax revenues. Namely, the share of tax revenues in GDP amounted to 22.8% in 2003 while in consequent years was constantly decreasing except in 2006 when it increased to the level of 23.3%. Social contributions recorded virtually the constant share to GDP in the observed period. Other revenue, especially property income depends on specific issues in each of the years making the comparison of their ratios to GDP unrepresentative.

**Figure 2.1 The structure of the budgetary central government revenue**



Source: Ministry of Finance

### 2.1.2.1 Tax Revenue

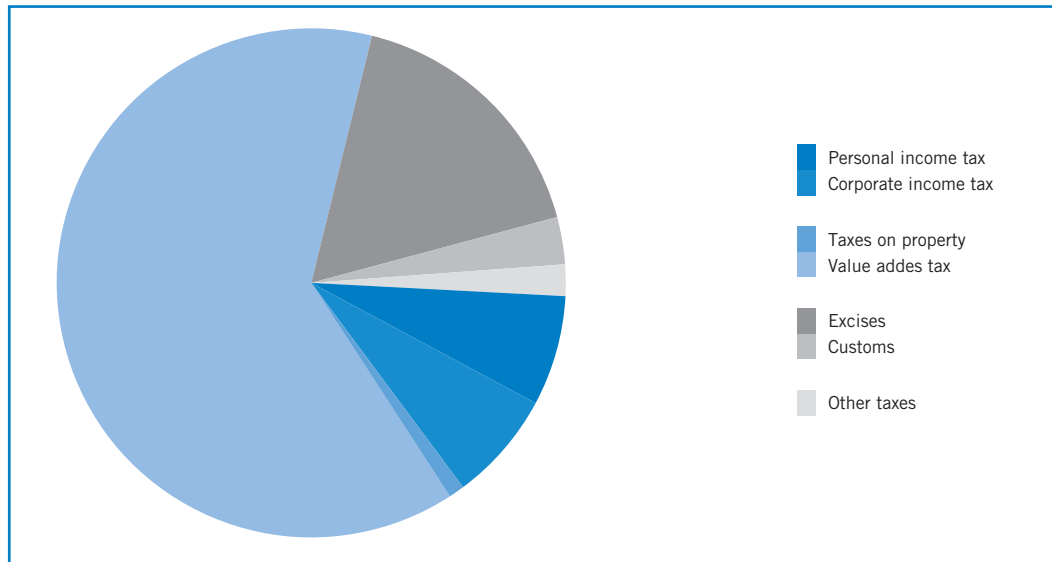
As already outlined, the highest share in total revenue is that of tax revenue. In 2006, tax revenue amounted to HRK 58.469 billion which is the increase of 15.4% compared to 2005 while their share in GDP increased by 1.4 percentage points. Total tax revenue was collected 1.1% above the plan for 2006. Such favorable outcome primarily is the result of good economic performance but also the result of the measures of the Tax Administration, Customs Administration and Financial Police aimed at fostering the process of tax collection. All tax revenue components were collected in line with the plan or above it, except for sales tax, excise tax on beer and excise tax on luxury goods.

Major changes within the tax system in 2006 include the amendments to the Act on value-added tax introduced in May of 2006. In July of 2005, amendments to the Act on value-added tax were adopted starting to be effected as of January 1st 2006.

In line with the mentioned changes in certain taxes, their fiscal importance changed as well. The structure of tax revenue in 2006 shows that compared to 2005 fiscal importance of the personal income tax, excises taxes and the corporate income tax increased. The fiscal importance of the value-added tax revenue and social security contributions revenue remained at the same level of the previous year, while the importance of customs slightly decreased.



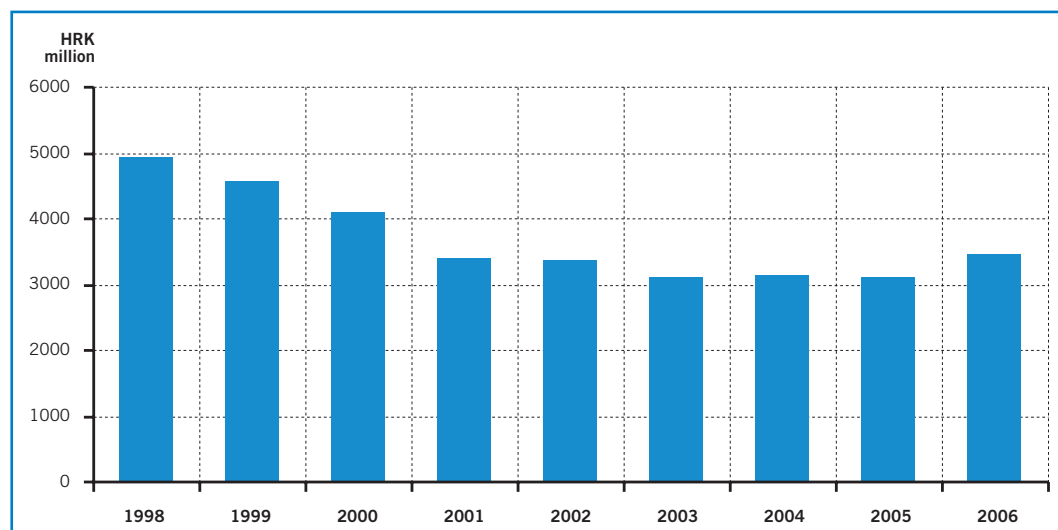
Figure 2.2 Tax revenue structure in 2006



Source: Ministry of Finance

## Personal income tax

Figure 2.3 Annual outturns of the personal income tax



Source: Ministry of Finance

Personal income tax revenue was collected in the amount of HRK 3.460 billion in 2006. Such an outturn represents an increase of HRK 135.7 million or 4.1% above the yearly plan. The annual increase of this revenue amounted to 11.4% which is the effect of the cumulative trend of increase of wages and annual reductions in unemployment. The largest part of collected personal income tax can be attributed to taxation of non-self-employment and taxation of self-activities, while lower amounts refer to taxation of property and property rights and taxation of capital.

Personal income tax, in 2006, 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,
- 45% rate was applied for higher wage levels.

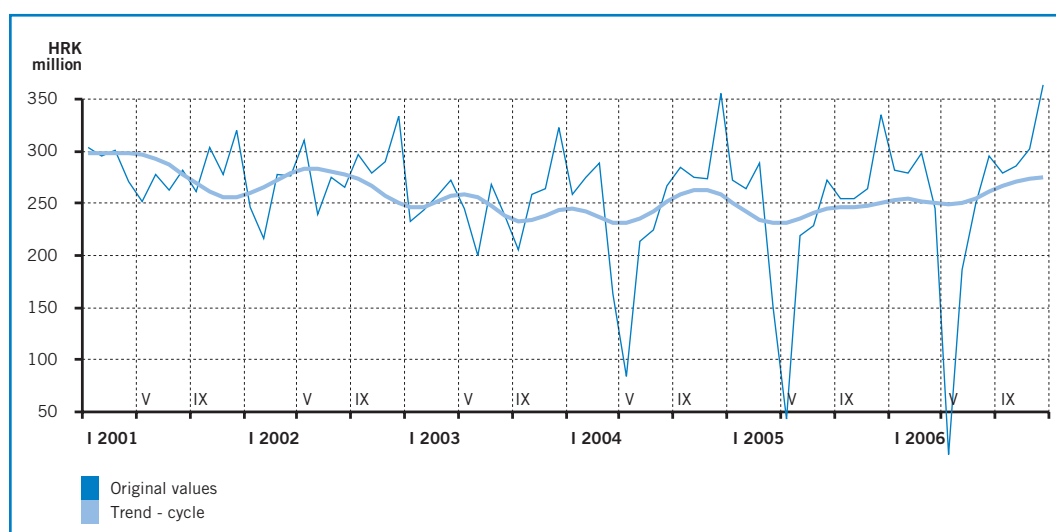
Personal deduction in 2006 amounted to HRK 1.6 thousand. Personal income tax revenue is shared between the budgetary central government and local units but this process is neutral from general government revenue point of view.

To continue with the favorable collection of the personal income tax revenue in the following year, besides the economic activity the measures aimed at the reduction of the tax evasion regarding the personal income tax need to be continued.

In 2006, the Ordinance on personal income tax was amended (Official Gazette 95/05). With the Ordinance amending the Ordinance on personal income tax (Official Gazette 96/06) the provision regarding the nontaxable receipt of the student scholarships in the country up to the level of HRK 4 thousand monthly under prescribed conditions was amended. This creates the incentive for providing scholarships to top students honoring their knowledge and grades.

Beside already mentioned, in 2006 the Ordinance on the lump-sum taxation of the self-activities (Official Gazette 143/06) was enacted which prescribes self-activities subject to lump-sum taxation, the way of definition and the size of the lump-sum annual income, the act of definition, the size of the lump-sum personal income tax and personal income surtax as well as other provisions relevant for the lump-sum taxation.

**Figure 2.4 Personal income tax trends, in real prices (average 2001=100)**



Source: Ministry of Finance

### Corporate income tax

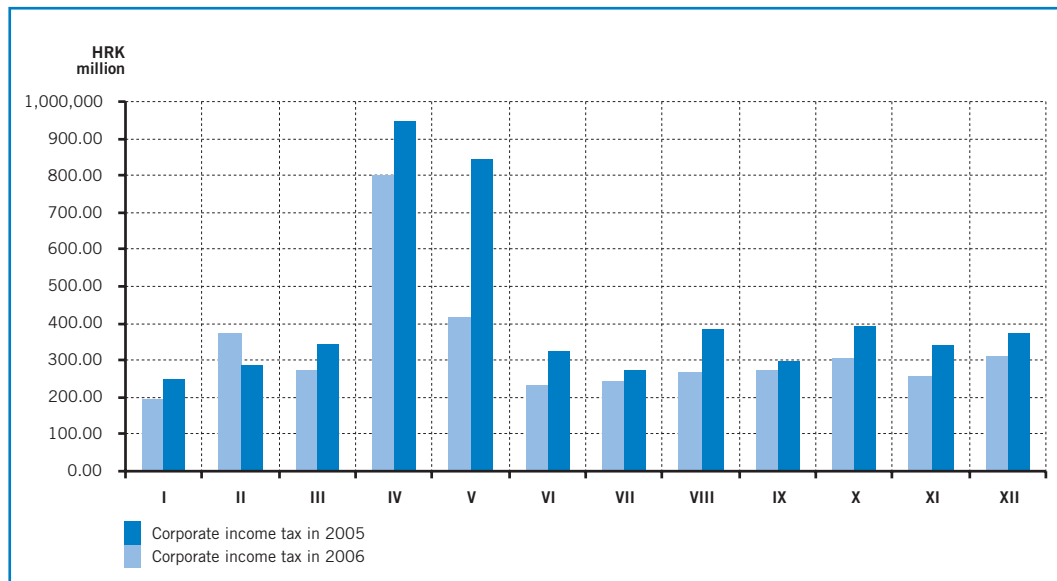
Original plan for 2006 anticipated HRK 4.008 billion in revenue from corporate income tax or 1.2% above the collected amount in 2005. Supplementary budget increased the expected figure to HRK 4.593 billion primarily due to the increase in the first five months of 2006 when an increase of 29.6% was recorded. Although there is a strong seasonal component in collection of the corporate income tax, where collections are much stronger in the first half of the year, such an outturn in the first five months was considerably high and with the supplementary budget the expected figure was increased by HRK 585 million.

Revenue from the corporate income tax was collected in the amount of HRK 5.056 billion in 2006 or 28.0% above the realization of the previous year. This revenue was collected above the annual plan as much as 10.1% or HRK 463.1 million. Such a strong increase of the corporate income tax revenue is the result of the high increase of the industrial production and business results in 2005.

Figure 2.5 shows that over the course of 2006, except for February, corporate income tax revenue exceeded the amounts collected in 2005. The increase is especially significant in April and May when annual tax settlements come due.



Figure 2.5 Corporate income tax revenue trends in 2005 and 2006



Source: Ministry of Finance

Over the course of 2006 some legal amendments to the Act on corporate income tax took place. Act on amendments to the Act on corporate income tax (Official Gazette 57/06) excluded some provisions from the Act on corporate income tax:

- provisions regulating exemptions for tax payers which are registered solely for research and development activity
- provisions regulating tax relieves, namely tax deductions associated with providing the investment incentives
- provisions regulating the creation of incentives for those tax payers established for professional rehabilitation and employment of disabled persons
- provisions regulating the deduction of the tax base for costs associated with the research and development and for the cost of wages and contributions paid out to and for new employees for the tax period, which are being paid out to the date of submission of the final tax report

Abovementioned Act also amended the provision regulating the deduction of the tax base for costs associated with schooling and professional improvement of employees. Those deductions and relieves are in practice regulated with other regulations such as with the Act on investment stimulation.

### Taxes on property

Total revenue from taxes on property was planned in the amount of HRK 431.8 million in 2006 which compared to the previous year represented an increase of 15.0%. The original plan anticipated HRK 399 million in revenue from taxes on property while the supplementary budget increased the expected amount considerably primarily due to the outturn in the first five months when an increase of 22.2% compared to the same period of 2005 was recorded.

In 2006, revenue from taxes on property was collected in the amount of HRK 482.3 million which compared to 2005 represents an increase of 28.5% and HRK 50.5 million above the yearly plan. Such a favorable increase is the result of the demand increase in real estate market. The uplift of the real estate market is present in last several years, as well as real estate prices, which is the reason behind good collections of the revenue from this revenue source. Similar trends can be expected in coming years as well.

## Value-added tax

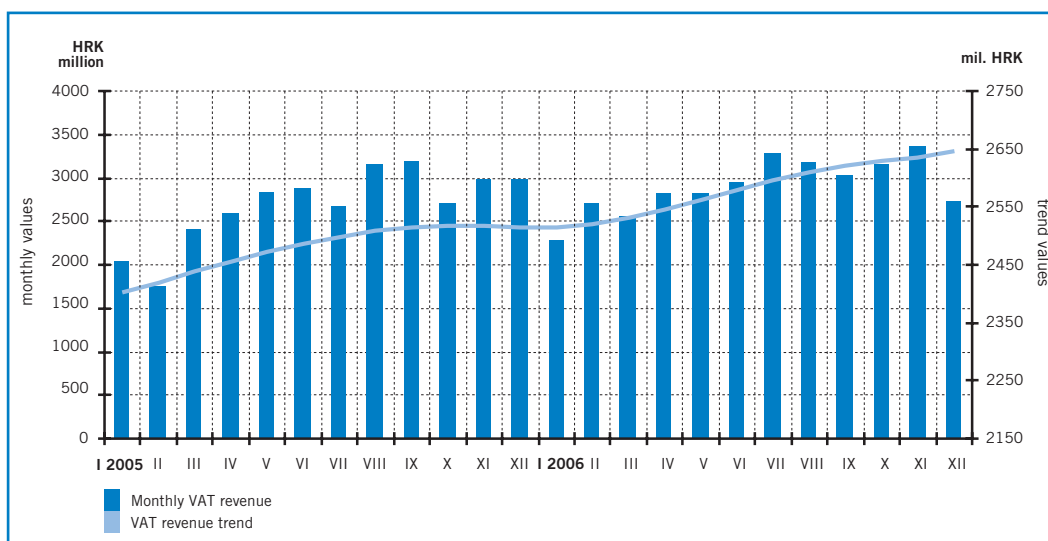
Value-added tax is the most important budgetary central government revenue source, which in the structure of total tax revenue accounts for 59.7% speaking in favor of its importance for the budget.

In 2006, HRK 34.932 billion in revenue was collected from value-added tax which represents an annual increase of 8.4%. Compared to the planned amount, value-added tax revenue was collected by HRK 101.5 million above it or 0.3%.

Compared to 2005, value-added tax revenue in 2006 is by HRK 2.688 billion higher. Such favorable trends of the value-added tax revenue primarily are the result of exceptional tourist season and strong economic activity throughout the whole year. During the whole year, value-added tax revenue recorded very good results while major collections occurred in July and August as well as in October and November. Such dynamics is influenced primarily with the stronger economic activity in the second half of the year, good tourist season as well as the receipts from those tax payers who settle their value-added tax duty quarterly (those whose deliveries of goods and services exceed the amount of HRK 85 thousand annually).

Within the structure of value-added tax the most important is the value-added tax from imports, which in 2006 accounts to 70.1% of total value-added tax revenue. Value-added tax revenue from imports exceeded its amount from 2005 by 14.3%.

**Figure 2.6 Value-added tax revenue monthly trends**



Source: Ministry of Finance

During 2006, the Act on amendments to the Act on value-added tax was conducted (Official gazette 90/05). For the purpose to align the Ordinance with the amended provisions of the Act on value-added tax the Ordinance on amendments to the Ordinance on value-added tax was adopted (Official gazette 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).

Act on amendments to the Act on value-added tax and the Ordinance on amendments to the Ordinance on value-added tax refer to abolishment of the zero tax rate for services of organized accommodation paid by transfer from abroad and to 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. The Act and the Ordinance started to be effective as of January 1st 2006. This also represents a sort of a turn in public finances given that the reduced VAT rate is applied for the first time.

In 2006, preparations have been conducted for amending the Act on value-added tax regarding the return of the value-added tax to foreign entrepreneurs, abolishment of the zero rates and relieves without the right for the tax subtraction, with the purpose of alignment of the Act on value-added tax with the EC Directive 2006/112.



## Excises

Total excise tax revenue was collected in the amount of HRK 11.565 billion in 2006 which compared to 2005 represents an increase of 41.4%. If the annual increase is observed without the effect of the inclusion of road charges within the budget, the annual increase amounts to 6.0%. Compared to the planned amount, revenue from excise taxes is higher by HRK 24.9 million or 0.2% above the plan. Within the excise taxes revenue structure, only the revenues from excise tax on beer and the excise tax on luxury products were collected below the plan while all other excise tax revenues were realized in line with the plan or above it. Excise tax on tobacco products and excise tax on cars, motor vehicles, boats and airplanes exceeded yearly plan the most. These two excise tax revenues contributed the most to the overall increase of total excise tax revenue. Most important excise tax, that on oil derivatives recorded an annual increase of 89.3% (or 2.4% if road charges are excluded) and was realized broadly in line with the planned amount.

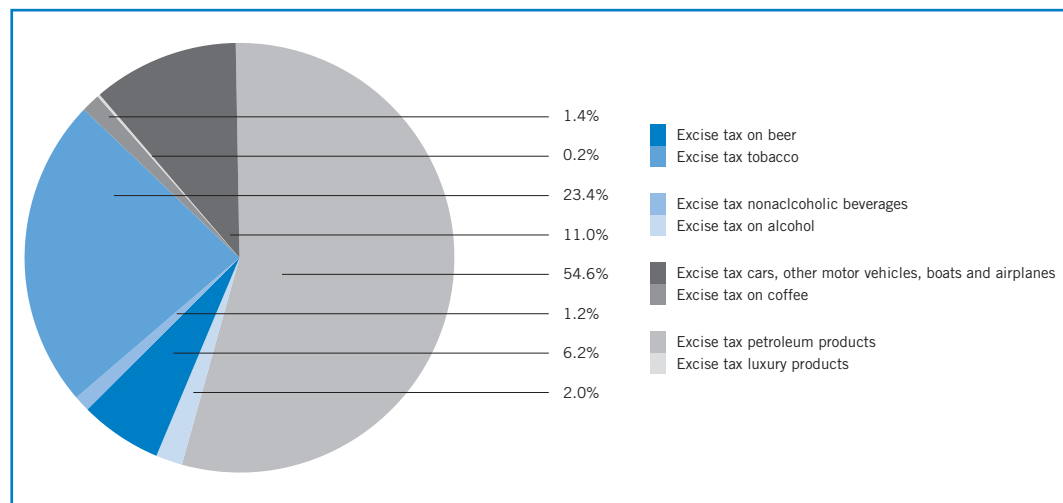
Table 2.2 Excise tax revenue trends

(000 HRK)	Outturn 2005	New plan 2006	Outturn 2006	Index 2006/2005	Index 2006/Plan 06
<b>Excises</b>	<b>8,177,659.1</b>	<b>11,539,801.1</b>	<b>11,564,709.0</b>	<b>141.4</b>	<b>100.2</b>
- Excise tax on cars, other motor vehicles, boats and airplanes	1,080,925.8	1,240,643.7	1,270,422.2	117.5	102.4
- Excise tax on petroleum products	3,337,501.2	6,372,375.3	6,316,440.0	189.3	99.1
- Excise tax on alcohol	228,385.9	221,425.4	230,178.2	100.8	104.0
- Excise tax on beer	702,386.1	728,517.8	716,167.1	102.0	98.3
- Excise tax on nonalcoholic beverages	141,904.5	139,464.0	140,403.6	98.9	100.7
- Excise tax on tobacco	2,518,801.3	2,658,036.0	2,710,348.4	107.6	102.0
- Excise tax on coffee	145,334.4	154,676.0	156,665.5	107.8	101.3
- Excise tax on luxury products	22,419.9	24,662.9	24,083.9	107.4	97.7

Source: Ministry of Finance

Compared to 2005, beside the excise tax on oil derivatives which recorded a high increase due to technical issues, the highest increase was recorded in revenue from excise tax on cars (17.5%), excise tax on coffee (7.8%), excise tax on tobacco products (7.6%) and excise tax on luxury goods (7.4%). The share of excise tax revenue in total tax revenue increased from 9.6% in 2005 to 12.1% in 2006. Within the structure of total excise tax revenue the most important is the revenue from excise tax on oil derivatives (54.6% of total excise revenue) and the revenue from excise tax on tobacco products (23.4% of total excise revenue). These taxes are easy to collect and contribute to the progressives of the tax system and it is important to keep their significance for the budget in coming years.

Figure 2.7 Structure of excise tax revenues in 2006

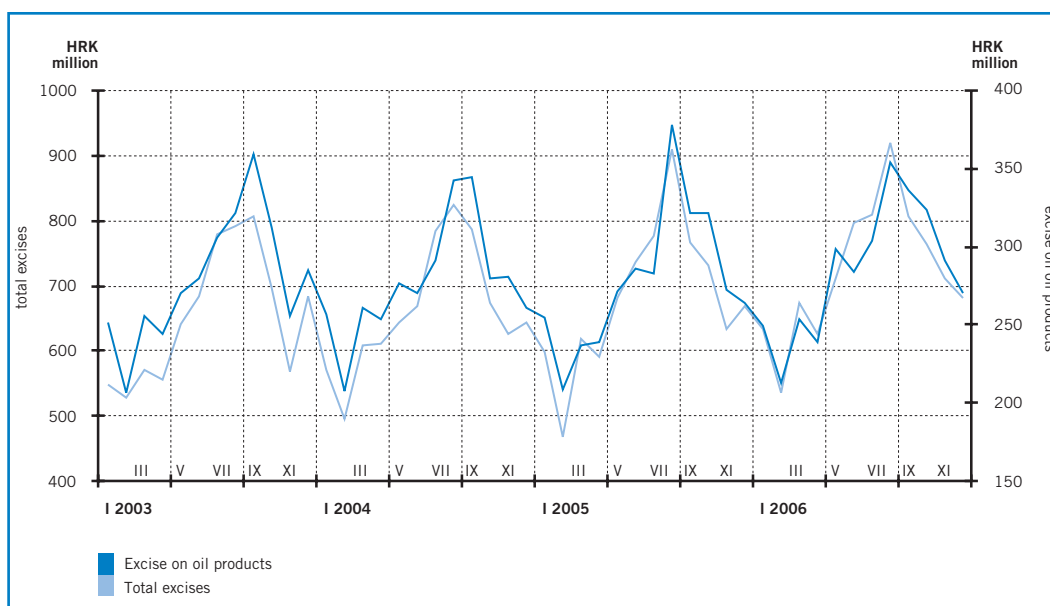


Source: Ministry of Finance



As it was already mentioned, revenue from excise tax on oil derivatives accounts for the largest part of total excise tax revenue. Supplementary budget reduced the expected amount of revenue from excise tax on oil derivatives compared to the original plan primarily due to its realization in the first half of the year. Totally HRK 6.316 billion in revenue was collected from excise tax on oil derivatives in 2006 which account for 54.6% of total excise revenue. The share of excise tax on oil derivatives in total excise tax revenue increased considerably compared to previous years. The main reason behind this increase is purely of technical matter. Namely, the inclusion of the road charges into the budget, which prior to inclusion represented the direct revenue of the Croatian Roads and Croatian Motorways, resulted in this strong increase in revenue from excise tax on oil derivatives. If the collection of revenue from excise tax on oil derivatives is observed without the effect of the inclusion of the road charges, then revenue would amount to HRK 3.417 billion which is in line with the plan and 2.4% higher compared to the previous year. The annual increase of 2.4% is lower than possible increase given the good tourist season and the increase in car sales. This points out to the existence of the grey economy in oil derivatives market which suppression could result in substantial increase of budget revenue from excise taxes.

**Figure 2.8 Total excise revenue and excise on oil products revenue monthly trends**



Source: Ministry of Finance

It is also worth to outline the important change in delivered quantities of oil derivatives in 2006 compared to previous years. Namely, gasoline type MB-98 gradually disappears from the use and it is replaced with the unleaded gasoline BMB. Delivered quantities of BMB recorded an increase of 4.6% in 2006 compared to 2005 while delivered quantities of diesel recorded an annual increase of 10.5%. In the same time, delivered quantities of blue diesel recorded an annual increase of 12.5%.

As the car sales continue to grow it can be seen that more cars using diesel as a fuel (which was cheaper) and which use less fuel per kilometer are being bought. On the other hand, excise tax on this fuel type is lower leading to a decrease in the overall budget revenue from excise tax on oil derivatives. This trend is present for some time now, lots of cars have already been replaced and hence the fuel structure and it could be expected higher annual increases in revenue from excise tax on oil derivatives. Since this is not evident it can be concluded that still there is a considerable grey economy in this field leading to a loss in budget revenue.





**Table 2.3 Quantities of oil derivatives in 2005 and 2006**

litres	Unleaded gasoline			DIESEL			BLUE DIESEL		
	2005	2006	Index 06/05	2005	2006	Index 06/05	2005	2006	Index 06/05
january	59,188,465	64,273,226	108.6	82,911,761	88,201,819	106.4	8,968,383	7,677,075	85.6
february	54,513,167	59,100,354	108.4	84,357,342	91,924,194	109.0	4,827,708	7,008,786	145.2
march	67,987,405	69,160,647	101.7	103,066,535	113,439,267	110.1	10,157,990	12,156,394	119.7
april	69,457,419	71,814,590	103.4	111,689,898	114,896,439	102.9	15,699,138	17,428,078	111.0
may	76,849,958	75,400,837	98.1	121,150,927	129,340,873	106.8	14,757,652	16,047,597	108.7
june	82,111,079	84,023,521	102.3	126,117,395	135,832,952	107.7	14,346,981	15,935,636	111.1
july	95,448,111	98,650,535	103.4	134,135,456	151,914,109	113.3	15,420,401	19,722,329	127.9
august	103,401,460	105,347,867	101.9	138,399,465	151,861,871	109.7	13,832,389	16,945,789	122.5
september	76,821,944	82,109,775	106.9	123,913,745	137,014,006	110.6	18,720,435	20,235,483	108.1
october	72,257,751	78,706,711	108.9	119,823,856	139,836,627	116.7	21,856,722	26,682,821	122.1
november	66,353,861	68,825,044	103.7	108,355,449	125,413,272	115.7	18,665,187	18,253,148	97.8
december	66,683,829	74,915,150	112.3	101,431,752	117,435,700	115.8	10,321,806	10,490,771	101.6
TOTAL	891,074,449	932,328,257	104.6	1,355,353,581	1,497,111,128	110.5	167,574,792	188,583,907	112.5

Source: Ministry of Finance - customs administration

Revenue from excise tax on tobacco accounts to 23.4% in the structure of total excise tax revenue and is the second most important excise tax. In 2006, a decrease of the share of revenue from excise tax on tobacco can be noted primarily due to inclusion of the road charges while without this effect its share shows a moderate increase. This revenue was collected in the amount of HRK 2.710 billion in 2006 which corresponds to an annual increase of 7.6%. Compared to the plan, this revenue is collected by HRK 52.3 million or 2.0% above the plan which represents improvement compared to previous years. Since August 2005 new cigarette stamps are in use and also the control of the Customs administration on the production and the trade of cigarettes is increased. From the results earlier mentioned it can be concluded that the cumulative effect of these measures deliver good results in suppressing the cigarette black market. The damage for the budget of the existence of the cigarette black market is quite large demanding intensive efforts and coordination of different state bodies on its suppression.

Tobacco products retail trade in 2006 increased by 5.3% compared to 2005. The export of tobacco product decreased by 12.3% while in the same time the import increased by 30.4%. This point out o the effectiveness of the measures imposed to prevent the illegal import of cigarettes in Croatia. It is worth to note the trends in tobacco products production. Namely, export quantities increased by 0.8% in 2006 while in the same time the production for the domestic market decreased by 3.1% annually.

**Table 2.4 Produced quantities of cigarettes for domestic market and export, and import of foreign cigarettes in packages for 2005 and 2006**

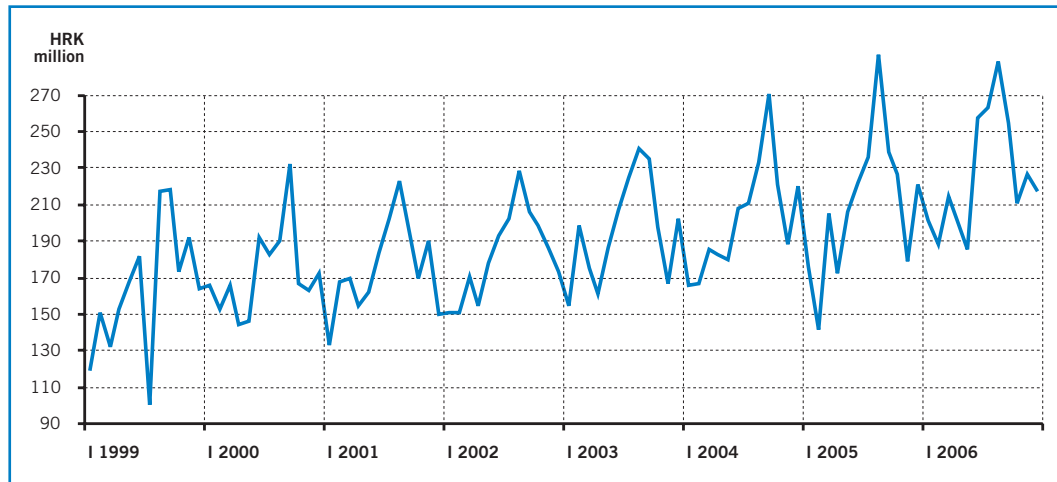
packages	Production for domestic market			Production for export			Total production			Import of cigarettes		
	2005	2006	Index 06/05	2005	2006	Index 06/05	2005	2006	Index 06/05	2005	2006	Index 06/05
january	22,810,137	27,402,625	120.1	14,876,720	21,675,250	145.7	37,686,857	49,077,875	130.2	22,000	3,262,500	14,829.5
february	26,838,377	25,791,998	96.1	31,222,143	26,357,756	84.4	58,060,520	52,149,754	89.8	22,500	3,195,200	14,200.9
march	27,825,423	30,008,588	107.8	29,592,361	35,078,500	118.5	57,417,784	65,087,088	113.4	318,000	2,958,400	930.3
april	29,543,891	21,222,763	71.8	25,848,649	22,606,000	87.5	55,392,540	43,828,763	79.1	150,500	3,180,000	2,113.0
may	32,122,422	33,187,792	103.3	27,159,903	31,096,750	114.5	59,282,325	64,284,542	108.4	149,500	3,776,500	2,526.1
june	35,331,496	31,501,825	89.2	37,910,978	27,471,750	72.5	73,242,474	58,973,575	80.5	342,500	5,785,000	1,689.1
july	39,026,852	35,244,182	90.3	40,508,989	32,145,150	79.4	79,535,841	67,389,332	84.7	414,750	6,476,500	1,561.5
august	35,754,062	33,700,308	94.3	39,347,065	37,783,613	96.0	75,101,127	71,483,921	95.2	536,250	6,700,500	1,249.5
september	32,821,608	26,632,575	81.1	31,910,446	31,161,087	97.7	64,732,054	57,793,662	89.3	128,000	3,206,750	2,505.3
october	27,319,821	29,351,455	107.4	26,103,223	24,738,769	94.8	53,423,044	54,090,224	101.2	165,250	4,518,350	2,734.3
november	30,566,931	28,701,722	93.9	26,357,949	38,642,750	146.6	56,924,880	67,344,472	118.3	1,727,500	4,623,000	267.6
december	25,855,082	31,700,198	122.6	31,007,965	35,820,000	115.5	56,863,047	67,520,198	118.7	2,982,300	4,809,600	161.3
TOTAL	365,816,102	354,446,031	96.9	361,846,391	364,577,375	100.8	727,662,493	719,023,406	98.8	6,959,050	52,492,300	754.3

Source: Ministry of Finance - customs administration



From the previous table it can be seen that the import of foreign cigarettes in 2006 increased considerably reaching the level seven times the previous year. In the same time, total production decreased by 1.2% resulting totally from the decrease in production for domestic market.

**Figure 2.9 Excise taxes on tobacco monthly trends**



Source: Ministry of Finance

The third excise tax revenue in size is the revenue from excise tax on cars, other motor vehicles, boats and airplanes. This revenue showed steady and increasing trend of its share in total excise tax revenue. Namely, if we observe total excise tax revenue with road charges excluded, 2006 showed an increase of the share of this revenue of 1.4 percentage points. Revenue from excise tax on cars, other motor vehicles, boats and airplanes was collected in the amount of HRK 1.270 billion in 2006 which corresponds to an annual increase of 17.5%. Such a significant increase is the result of considerable increase in car sales in Croatia. This revenue exceeded the annual plan by 30 million or 2.4%.

From all other excise taxes total revenue in the amount of HRK 1.267 billion was collected. The share of revenue from excise tax on nonalcoholic beverages and the share of revenue from excise tax on luxury goods averaged at 1.2% and 0.2% respectively. Revenue from excise tax on nonalcoholic beverages recorded an annual decrease of around 2.0% and was collected in the amount of HRK 140.4 million. Such an outcome is in line with the annual plan. Revenue from excise tax on luxury goods was collected in the amount of HRK 24.1 million recording an annual increase of 7.4% while in the same time was realized somewhat below the plan.

Revenue from excise tax on coffee was collected in the amount of HRK 156.7 million recording an increase of 7.8% compared to 2005. This revenue exceeded the plan by HR 2 million or 1.3%. It is worth to note that the data on sales of coffee show a drop in sold quantities of unrefined coffee by 40.6%. On the other hand, sold quantities of refined coffee recorded an annual increase of 57.1%. Hence, it can be seen that the total increase in revenue from this source largely came from the increase in sales of refined coffee.

In 2006, revenue from excise tax on beer recorded an annual increase of 2.0% and was collected in the amount of HRK 716.2 million. Such an outcome is below the annual plan by HRK 12.4 million. Its share in total excises stood at 6.2%. Delivered quantities of beer were by 2.1% higher compared to the same period of the previous year while the highest annual increases were recorded in July and October.

**Table 2.5 Beer quantities in 2004, 2005 and 2006**

hectolitres	2004	2005	2006	2006/2005
january	147,935.2	129,761.0	121,385.7	93.5
february	189,988.3	168,187.5	174,719.2	103.9
march	234,540.3	238,590.5	225,267.9	94.4
april	320,587.7	303,315.4	321,307.5	105.9
may	327,862.6	365,685.1	352,275.1	96.3
june	459,109.0	477,168.7	464,521.1	97.3
july	465,933.0	421,760.8	475,290.0	112.7
august	426,969.7	452,526.0	457,614.1	101.1
september	293,483.1	297,559.8	295,660.1	99.4
october	241,893.3	254,873.4	282,141.9	110.7
november	204,335.3	221,673.7	224,902.4	101.5
december	251,126.1	279,687.4	289,841.2	103.6
TOTAL	3,563,763.7	3,610,789.1	3,684,926.0	102.1

Source: Ministry of Finance - customs administration

Revenue from excise tax on alcohol was collected in the amount of HRK 230.2 million which is broadly the same as in year before, namely 0.8% higher. Supplementary budget anticipated total amount of HRK 221.4 million and hence the final outturn slightly exceeded the plan.

It is worth mentioning that in 2006 delivered quantities of alcoholic beverages grew by 8.1% while in the same time delivered quantities of alcohol fell by 64.6% which ultimately resulted with the low annual increase in revenue from this source. The level of delivered quantities of alcoholic beverages exceeded the levels from 2005 throughout the whole year except in July and December. The highest increases in delivered quantities were recorded in May and November.

**Table 2.6 Quantities of alcoholic drinks in 2004, 2005 and 2006**

hectolitres	2004	2005	2006	2006/2005
january	240,223.5	209,746.1	220,604.9	105.2
february	240,900.2	222,352.3	241,137.1	108.4
march	249,945.6	253,919.6	278,457.5	109.7
april	301,528.3	245,647.6	275,004.5	112.0
may	312,800.0	320,314.9	371,232.8	115.9
june	328,021.6	361,249.4	383,536.1	106.2
july	378,067.7	392,448.3	391,970.0	99.9
august	358,541.3	396,887.6	422,064.3	106.3
september	284,656.7	308,153.4	350,748.1	113.8
october	252,797.7	273,332.7	295,843.4	108.2
november	266,250.1	303,058.0	364,676.2	120.3
december	324,707.6	456,785.5	451,925.7	98.9
TOTAL	3,538,440.4	3,743,895.4	4,047,200.6	108.1

Source: Ministry of Finance - customs administration

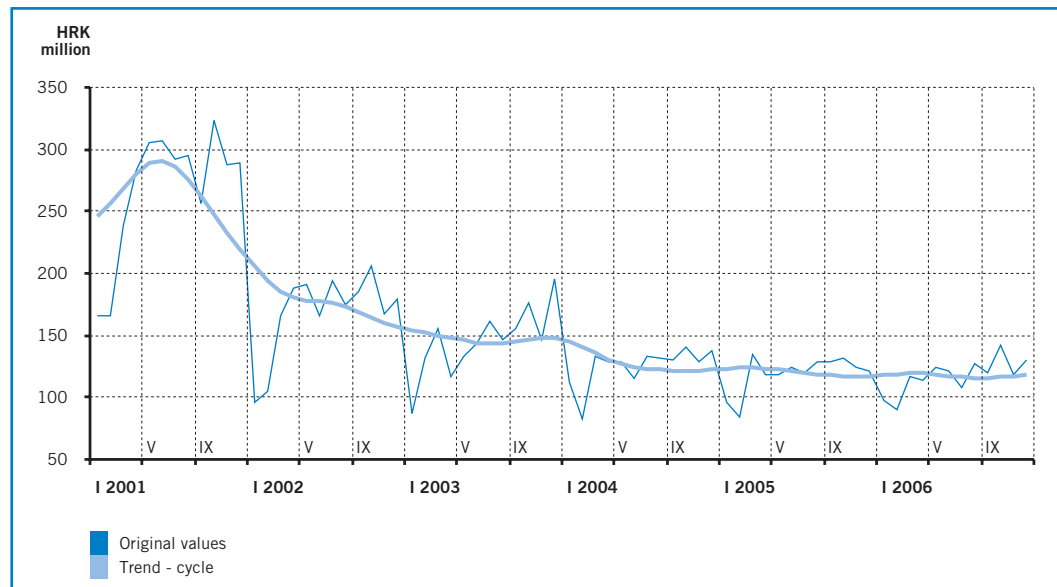
## Customs

In 2006, total revenue from taxes on international trade and transactions was collected in the amount of HRK 1.588 billion which represents an annual increase of 1.6%. Customs revenue exceeded the annual plan for 2006 by HRK 26.1 million. The share of customs revenue in total tax revenue stood at 4.8% in 2002 while in 2006 it stood at 2.7%. The similar trend of decline in importance of this revenue source for the budget can be expected in coming years as well.



In the effort to develop the international cooperation, in last several years negotiations on avoidance of the double taxation with different countries have been conducted. Also, Croatia has concluded numerous agreements on free trade which facilitated both imports and exports but also caused the reduction in revenue from customs. The practice of fostering the international cooperation continued so the first round of negotiations on Agreement of avoiding the double taxation with Armenia, Oman and Portugal was concluded while negotiations have been finalized with Cuba. Also, Acts for concluding the agreement of avoiding the double taxation have been drafted with following countries: Israel, Tunisia, Qatar, Cuba, Germany, Korea, Island, Morocco, Egypt and Spain. In 2006, the Agreement on avoiding the double taxation and prevention of avoiding the income and property taxation between the Republic of Croatia and the State of Israel (September 26<sup>th</sup> 2006) has been signed as well as the Agreement on avoiding the double taxation in income and property taxes between the Republic of Croatia and Germany (February 6<sup>th</sup> 2006).

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



Source: Ministry of Finance

## Other taxes

In 2006, total HRK 336.5 million in revenue was collected from other taxes which compared to the previous year represents a decrease of 8.8%. Other taxes include state and court fees which in 2006 were collected below the level of the previous year. Total HRK 163.7 million in revenue was collected from state fees while HRK 172.7 in revenue was collected from court fees.

Some important amendments to the Croatian tax system were introduced in 2005. On December 21<sup>st</sup> 2005, Act on amendments of the Act on state fees was adopted which increased the fees from the area of internal affairs. Regulation on amendments of the Tariff of state fees of the Act of state fees from December 28<sup>th</sup> 2005 amended the Customs Tariff. These amendments influenced the revenue collection in 2006.

### 2.1.2.2 Social Security Contributions

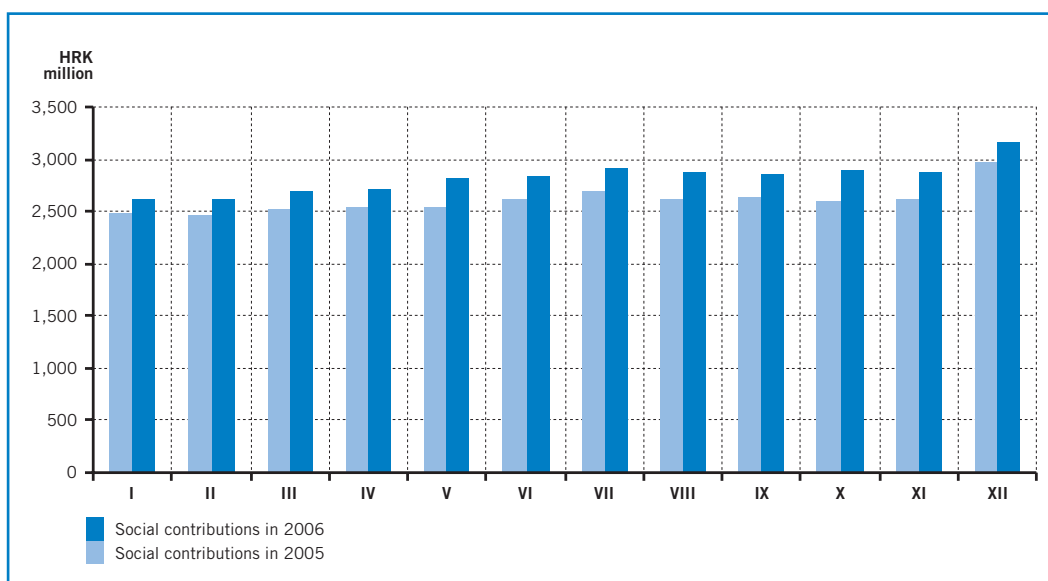
Total HRK 33.877 billion in revenue was collected from social security contributions in 2006 which represents an annual increase of 8.2%, exceeding the annual plan by HRK 380 million or 1.1%. Revenue from social security contributions showed the strong correlation with the economic activity throughout the year 2006 especially the correlation with the increasing trend in employment and the trend of the gross wage.

The strong annual increase which started in May when it recorded an increase of 10.8% was preserved till the end of the year in line with trends in employment and wages as previously mentioned.

Within the structure of social security contributions the largest part relates to employer contributions (53.3%) which in 2006 grew by 8.1% and which were realized broadly in line with the plan, namely 0.8% above it. Employer contributions in 2006 amounted to HRK 18.051 billion. Within the structure of employer contributions the largest part relates to contributions for health insurance which in 2006 accounted for more than 80% of total employer contributions. The remainder of the employer contributions refer to contributions for pension insurance and the employment insurance. In the same time, employee contributions recorded an annual increase of 8.9% and accounted for 44.5% of total social security contributions. In 2006, these contributions were collected in the amount of HRK 15.084 billion. Contrary to employer contributions, employee contributions largely refer (99.6%) to contributions for pension insurance while only small portion refers to health insurance. Social contributions from self-employed and unemployed persons account for the smallest part of total social security contributions, namely only 2.2%. In 2006, these contributions were collected in the amount of HRK 741.4 million broadly equaling the level of the previous year. These contributions largely refer to contributions for health and pension insurance of the self-employed persons.

It is worth mentioning that contributions for health and pension insurance have different dynamics in recent years which in previous year was not the case. The reason is that the contributions for health insurance are constantly being the revenue of the state budget while contributions for pension insurance are only partly the revenue of the state budget while these contributions partly outflow to the private sector in the second pension insurance pillar. Beside that, the number of persons paying only to the first pillar is constantly decreasing while the number of those contributing to both pillars is increasing. Hence, also in the future the lower rates of increase of contributions for pension insurance compared to rates of increase of contributions for health insurance can be expected.

**Figure 2.11 Social contributions revenue trends in 2005 and 2006, by months**



Source: Ministry of Finance

### 2.1.2.3 Grants

According to the original plan for 2006, grants were anticipated in the amount of HRK 577.4 million while the supplementary budget reduced the expected amount to HRK 521.8 million. Nevertheless, final realization of this revenue reached only 37.6% of the plan and was realized in the amount of HRK 196.0 million. Grants were mainly (98.2%) realized as grants from international organizations. Grants from international organizations mainly refer to grants from EU funds at Croatia's disposal with the aim to conduct particular projects. Grants from international organizations mainly were the current grants (60.2%) while the remainder referred to capital grants. Grants, other than from international organizations, refer to grants from foreign governments and grants within the general government budget.



#### 2.1.2.4 Property Income

Total property income (financial and nonfinancial) was planned in the amount of HRK 1.466 billion according to the supplementary budget while the final collection was by HRK 634 million lower. The reason for the 42.2% lower collection was the absence of revenue realization in the area of dividends and revenue from succession. Expected revenue from dividend stood at HRK 421.9 million according to the supplementary budget while the expected amount of revenue from succession was estimated at HRK 226.4 million.

Financial property income was planned in the amount of HRK 1.010 billion in 2006 while the realization reached the level of HRK 414.2 million which is considerably less than planned. Financial property income in 2006 was realized from interest, dividends and from income of enterprises and banks in government ownership. The largest share in total financial property income has the revenue from income of enterprises, banks and other financial institutions. This revenue mainly originates from the revenue from income of CNB and FINA and make up 69.6% of total financial property income and 34.6% of total property income. Revenue from interest was realized by 5.4% above the plan, namely in the amount of HRK 108.2 million.

Nonfinancial property income, namely revenue from rent, was planned in the amount of HRK 456.1 million in 2006 and was collected 8.3% below the plan. The most important single revenue within the revenue from rent is the revenue from concessions which in 2006 made up more than 70% of total rent revenue. Within concession the most important are the concessions for frequencies totaling to HRK 229.7 million in 2006. In 2006, revenue from other concessions was realized as well; from concessions in water use, public waters wealth, monthly concessions for casinos, maritime concessions, concession in public roads use, concessions for customs zones and other concessions. Within the structure of revenue from rents also is included the revenue from lease and renting of assets and other nonfinancial property income.

Revenue from lease and renting of assets totaled to HRK 39.6 million in 2006 which exceeds the level of 2005 by 30.6%. The largest share in this amount relates to renting the agricultural land, real estate, indemnities for the use of agricultural land property of the Republic of Croatia and indemnities for the use of forests property of the Republic of Croatia.

Other nonfinancial property income was collected in the amount of HRK 76.4 million in 2006 and is made of indemnities for the use of oil harbors and oil pipes, hunting indemnities, fishing indemnities, revenue from the use of cultural goods and the revaluated amount of real estate debt. The most important revenue in this group are the indemnities for the use of harbors and oil pipes which account for 85% of total other nonfinancial property income and which in 2006 amounted to HRK 64.3 million.

**Table 2.7 Property income revenue outturn**

(000) HRK	2005	2006	Index 2006/2005
Property income	2,226,646.9	833,320.9	37.4
Interest	62,784.1	108,231.3	172.4
Dividends	1,123,345.9	18,756.6	1.7
Withdrawals from income of quasi-corporations	192,515.7	288,113.3	149.7
Rent	848,001.2	418,219.7	49.3

Source: Ministry of Finance



### 2.1.2.5 Sales of Goods and Services

Revenue from sales of goods and services in 2006 totaled to HRK 1.209 billion and recorded a strong annual increase of 54.6%. Revenue from sales of goods and services are realized from administrative fees and incidental sales by nonmarket establishments. Administrative fees were collected in the amount of HRK 821.7 million in 2006 which is more than double the amount of the previous year. The most important reason for such an increase are the administrative fees in health, which were not presents in previous years, and which started to be collected as of October 2005. Beside the administrative fees in health, within the structure of total revenue from administrative fees also are included public notary fees, sales of state stamps, fees for government issued guarantees, monument rent fees, rents for issuance of the long term securities, fees for border crossing, fees paid by persons in transit, fees in the area of industrial property and other fees.

Incidental sales were realized in the amount of HRK 387.6 million in 2006 which is by 25.6% above the plan and around the realization of the previous year. The largest share in the structure of this revenue, 83.2%, belongs to revenue from conducting own activities. This revenue totaled to HRK 322.3 million in 2006 while the largest portion of the total figure was realized by the Ministry of Interior and the Ministry of finance. Other incidental sales were of minor magnitude (HRK 65.3 million) mainly from own activities.

### 2.1.2.6 Revenue from Fines, penalties and forfeits

Revenue from fines, penalties and forfeits was planned in the amount of HRK 392.4 million in 2006 and were collected in line with the plan, namely in the amount of HRK 391.6 million. Compared to 2005, such an outturn represents an increase of 8.6%. The largest share in this revenue (52.1%) belongs to traffic fines. Total revenue in the amount of HRK 203.89 million was collected from traffic fines in 2006 which represents an increase of 3.5% compared to 2005. Customs fines follow, with the share of 9.5% and the realization in the amount of HRK 37.1 million leveling the amount of the previous year. Also, tax fines should be outlined which in 2006 recorded an increase of 16.3% and which increased its share in total fines to 7.2%. Other fines have smaller shares in total revenue from fines and relate to criminal fines, foreign currency fines, economic violation fines and other fines (for different violations, those belonging to the state based upon legal decisions, compulsion payments, fire protection violations and other).

Voluntary transfers other than grants were planned in the amount of HRK 23.2 million in 2006 and were realized in the amount of HRK 6.7 million or 29.0% of the plan. These transfers were realized as capital and current donations from legal and physical persons outside the general government where larger amount came from current donations (96.9%).

Miscellaneous and unidentified revenue was collected in the amount of HRK 253.3 million in 2006 which is 3.0% less compared to the previous year. Within this revenue category, revenue from fire insurance is collected, revenue from expense remunerations from previous years, revenue from positive exchange rate differences and other unidentified revenues. Compared to the previous year, two categories of miscellaneous and other unidentified revenue recorded a decrease and those are other unidentified revenue and revenue from expense remunerations from previous years.





## 2.2 BUDGETARY CENTRAL GOVERNMENT EXPENSE IN 2006

### 2.2.1 Budgetary Central Government Expense Plan

Croatian Parliament adopted the State Budget of the Republic of Croatia for 2006 on its session of November 29th 2004. Total expense plan for 2006 was set at HRK 95.369 billion which represented an annual increase of 8.5% compared to the outturn of 2005. During the first half of 2006, budgetary central government revenue was collected considerably better than planned based upon stronger economic activity and the measures aimed at better revenue collection. Higher revenue made it possible to increase the level of expense in line with the need while the part of the excess revenue was possible to use for a stronger fiscal consolidation, namely for a stronger reduction of the fiscal deficit than originally planned. Hence, on its session of July 11th 2006, Croatian Parliament adopted Amendments to the State Budget of the Republic of Croatia by which revenue plan was revised to a higher expected level by HRK 899 million totaling to HRK 94.895 billion while total expense plan was set at the level of HRK 96.067 billion, namely expense plan was increased by HRK 698 million. In the same time, plan of disposals of nonfinancial assets remained unchanged compared to the original plan while the plan of acquisitions of nonfinancial assets was reduced by HRK 266.8 million based on realization of this category in the first six months of 2006. With the supplementary budget, compensation of employees was increased by HRK 156 million, use of goods and services was reduced by HRK 88.2 million, interest expense was increased by 1.2 million, subsidies were increased by HRK 119.7 million, grants were increased by HRK 142.8 million, social benefits were increased by HRK 481.2 million while other expense was reduced by HRK 113.8 million.

### 2.2.2 Outturn of the Budgetary Central Government Expense

Total budgetary central government expense was realized in the amount of HRK 95.950 billion. Such an outturn represents an increase of 9.2% compared to 2005 and in the same time represents the outturn below the plan for 2006 for 0.1%. The final expense realization is by HRK 117.4 million below the plan for 2006, while observing the structure of expense it can be seen that all of the expense categories except interest, subsidies and grants were realized below the plan. Interest was realized by HRK 145.4 million above the plan for 2006. 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. Grants were realized by HRK 12 million above the plan for the observed period, mainly due to higher than planned current grants to other general government levels. Subsidies exceeded the annual plan by HRK 253.6 million mainly due to increase in subsidies in agriculture.

Out of categories that reported a decrease to the planned amount for 2006, other expense should be outlined which were realized below the plan by HRK 166.5 million. Social benefits were realized by HRK 242.9 million below the plan, compensation of employees by HRK 6.2 million and use of goods and services by HRK 112.8 million.



Table 2.8 Budgetary central government expense 2004 - 2006

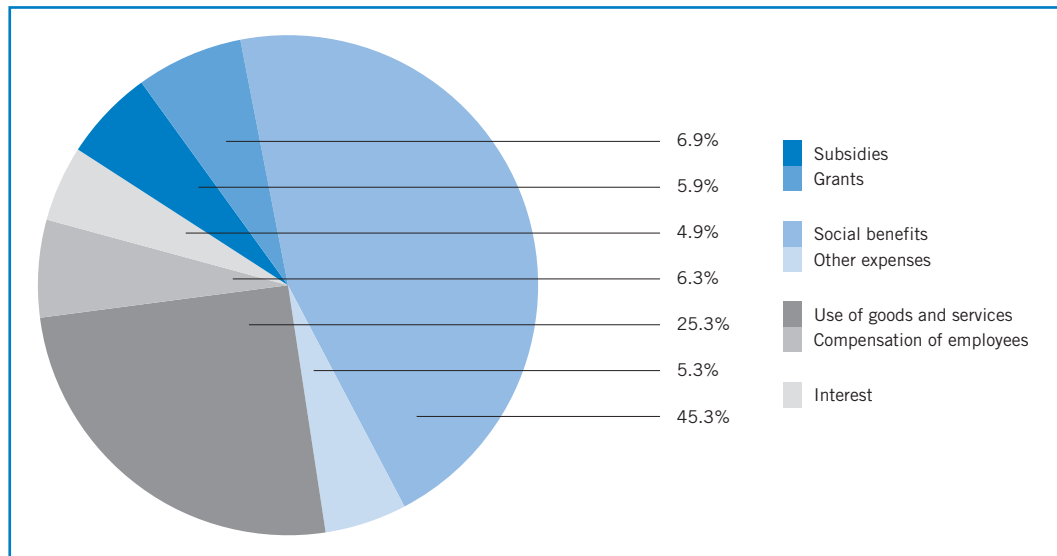
(000 HRK)		2004	2005	Plan 2006	2006	Index 2006/2005	Index 2006/Plan 2006
<b>2</b>	<b>EXPENSE</b>	<b>83,131,114.4</b>	<b>87,857,464.9</b>	<b>96,067,349.5</b>	<b>95,949,950.9</b>	<b>109.2</b>	<b>99.9</b>
<b>21</b>	<b>Compensation of employees</b>	<b>22,268,286.7</b>	<b>23,182,585.9</b>	<b>24,320,072.6</b>	<b>24,313,867.4</b>	<b>104.9</b>	<b>100.0</b>
211	Wages and salaries	18,888,605.2	19,699,216.4	20,684,521.6	20,663,890.0	104.9	99.9
212	Social contributions	3,379,681.5	3,483,369.5	3,635,551.0	3,649,977.4	104.8	100.4
<b>22</b>	<b>Use of goods and services</b>	<b>4,358,720.5</b>	<b>4,951,917.4</b>	<b>6,181,882.5</b>	<b>6,069,116.2</b>	<b>122.6</b>	<b>98.2</b>
<b>24</b>	<b>Interest</b>	<b>3,972,466.3</b>	<b>4,387,009.7</b>	<b>4,568,221.4</b>	<b>4,713,615.3</b>	<b>107.4</b>	<b>103.2</b>
241	To nonresidents	1,976,502.3	2,053,587.9	1,810,022.6	1,863,999.2	90.8	103.0
242	To residents other than general government	1,995,964.0	2,333,421.8	2,758,198.8	2,849,616.1	122.1	103.3
<b>25</b>	<b>Subsidies</b>	<b>4,968,068.5</b>	<b>5,248,743.7</b>	<b>5,417,205.8</b>	<b>5,670,788.5</b>	<b>108.0</b>	<b>104.7</b>
251	To public corporations	2,783,462.4	2,784,825.0	2,626,872.3	2,692,784.7	96.7	102.5
252	To private enterprises	2,184,606.1	2,463,918.7	2,790,333.5	2,978,003.8	120.9	106.7
<b>26</b>	<b>Grants</b>	<b>3,420,326.9</b>	<b>3,796,846.7</b>	<b>6,640,940.9</b>	<b>6,652,993.9</b>	<b>175.2</b>	<b>100.2</b>
261	To foreign governments	76,464.4	73,639.3	76,550.0	64,794.9	88.0	84.6
262	To international organizations	83,433.8	93,831.7	96,767.4	89,618.5	95.5	92.6
263	To other general government units	3,260,428.7	3,629,375.7	6,467,623.5	6,498,580.5	179.1	100.5
<b>27</b>	<b>Social benefits</b>	<b>39,730,886.6</b>	<b>41,358,454.8</b>	<b>43,687,514.8</b>	<b>43,444,589.3</b>	<b>105.0</b>	<b>99.4</b>
271	Social security benefits	28,189,471.6	29,308,716.4	30,628,757.0	30,535,396.3	104.2	99.7
272	Social assistance benefits	11,177,314.8	11,792,075.3	12,918,757.8	12,786,632.4	108.4	99.0
273	Employer social benefits	364,100.2	257,663.1	140,000.0	122,560.6	47.6	87.5
<b>28</b>	<b>Other expense</b>	<b>4,412,358.9</b>	<b>4,931,906.7</b>	<b>5,251,511.5</b>	<b>5,084,980.3</b>	<b>103.1</b>	<b>96.8</b>
282	Miscellaneous other expense	4,408,404.3	4,926,986.9	5,251,511.5	5,077,380.5	103.1	96.7
2821	Current	1,842,516.4	2,154,806.2	2,157,349.6	2,304,213.5	106.9	106.8
2822	Capital	2,565,887.9	2,772,180.7	3,094,161.9	2,773,167.0	100.0	89.6

Source: Ministry of Finance

Within the structure of budgetary central government expense in 2006, it can be seen that the largest share relates to social benefits, with the share of 45.3% in total expense. Compensation of employees follows with a share of 25.3% 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 2006**



Source: Ministry of Finance

### 2.2.2.1 Compensation of Employees

Total expense plan for compensation of employees was set at the level of HRK 24.320 billion according to the supplementary budget for 2006, which compared to the outturn of 2005 represented an increase of 4.9%.

According to final data for 2006, total compensation of employees amounted to HRK 24.314 billion, which is by HRK 6.2 million below the plan for the observed period. In the same time, such realization is in line with the yearly plan. Within the structure of realized expense for compensation of employees in 2006 the largest part relates to wages and salaries, while the remainder relates to social contributions. Hence, out of total compensation for employees, HRK 20.664 billion or almost 85% related to wages and salaries while the remaining 15% or HRK 3.650 billion related to social contributions.

**Table 2.9 Compensation of employees 2004 - 2006**

(000 HRK)		2004	2005	2006	Index 2005/2004	Index 2006/2005
21	<b>Compensation of employees</b>	<b>22,268,286.7</b>	<b>23,182,585.9</b>	<b>24,313,867.4</b>	<b>104.1</b>	<b>104.9</b>
211	Wages and salaries	18,888,605.2	19,699,216.4	20,663,890.0	104.3	104.9
212	Social contributions	3,379,681.5	3,483,369.5	3,649,977.4	103.1	104.8

Source: Ministry of Finance

### 2.2.2.2 Use of Goods and Services

Total expense for use of goods and services was planned in the amount of HRK 6.182 billion according to the supplementary budget for 2006. Hence, according to the supplementary budget, total expected expense for use of goods and services was reduced by HRK 88.2 million compared to the original plan for 2006 primarily due to the trend of this expense category observed in the first half of the year. According to final data for 2006, this expense category amounted to HRK 6.069 billion or HRK 128 million below the supplementary budget plan for 2006 (98.2% of the plan). Such realization represents an annual increase of 22.6% compared to the previous year.

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.

### 2.2.2.3 Interest

According to the final data for 2006, interest expense was realized in the amount of HRK 4.714 billion, which represents HRK 145.4 or 3.2% 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 2005, interest expense recorded an annual increase of 7.4%. Observing domestic and foreign component of interest expense, it can be seen that domestic interest expense was realized above the expense for foreign interest as well as it was the case in 2005 and 2004, while in previous years, expense for foreign interest prevailed.

**Table 2.10 Interest expense 2004 - 2006**

(000 HRK)		2004	Structure	2005	Structure	2006	Structure
<b>24</b>	<b>Interest</b>	<b>3,972,466.3</b>	<b>100.0</b>	<b>4,387,009.7</b>	<b>100.0</b>	<b>4,713,615.3</b>	<b>100.0</b>
241	Foreign	1,976,502.3	49.8	2,053,587.9	46.8	1,863,999.2	39.5
242	Domestic	1,995,964.0	50.2	2,333,421.8	53.2	2,849,616.1	60.5

Source: Ministry of Finance

This information points out to a gradual development of stronger domestic financial market and to Government orientation to borrow at home, which on the other hand has positive implications regarding the total foreign indebtedness.

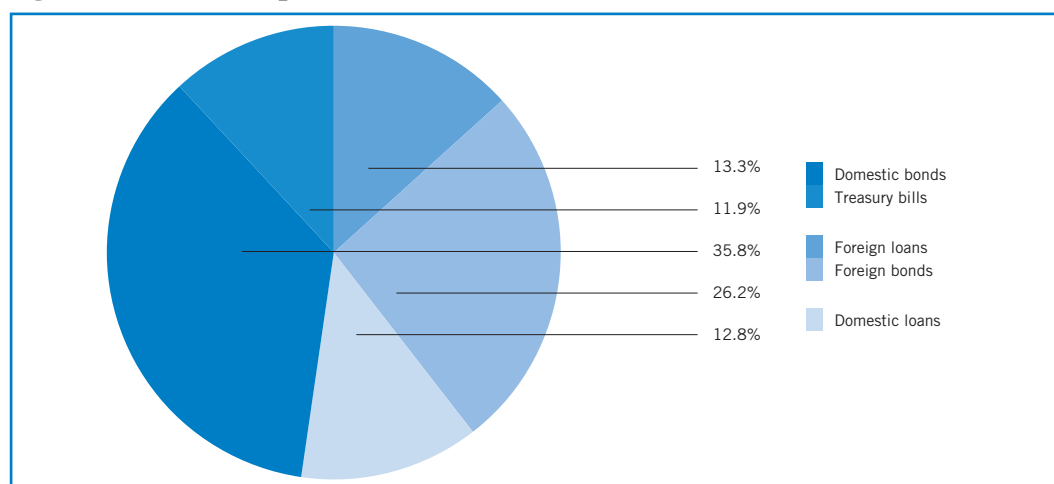
Observing the structure of interest expense in 2006, it can be seen that the largest part of this expense relates to the interest for issued bonds. Namely, total of HRK 2.921 billion or 62% of total interest expense in 2006 can be attributed to interest for issued bonds. Out of this amount, the largest 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 2.11 Interest expense structure 2005 - 2006**

(000 HRK)	2005	2006
<b>Interest expense</b>	<b>4,387,009.7</b>	<b>4,713,615.3</b>
<b>Foreign</b>	<b>2,053,587.9</b>	<b>1,863,999.2</b>
Loans	513,998.7	628,687.3
Bonds	1,539,589.1	1,235,311.9
<b>Domestic</b>	<b>2,333,421.8</b>	<b>2,849,616.1</b>
Treasury bills	564,693.7	558,919.6
Loans	445,166.6	605,304.7
Bonds	1,323,561.6	1,685,391.8

Source: Ministry of Finance

**Figure 2.13 Interest expense structure in 2006**



Source: Ministry of Finance



## 2.2.2.4 Subsidies

According to the original plan for 2006, total subsidies were planned in the amount of HRK 5.297 billion. With the supplementary budget, total expense for subsidies was increased by HRK 119.7 million primarily due to the outturn in the first half of 2006. According to final data for 2006, total subsidies were realized in the amount of HRK 5.671 billion which represents an outturn by HRK 253.6 million or 4.7% above the plan for 2006. In the same time such an outturn in 2006 represents an annual increase of 8%. The main reason for an increase in subsidies compared to the annual plan is the outturn of subsidies in agriculture above the amount originally planned.

**Table 2.12 Subsidy expense 2004 - 2006**

(000 HRK)		2004	2005	2006	Index 2005/2004	Index 2006/2005
<b>25</b>	<b>Subsidies</b>	<b>4,968,068.5</b>	<b>5,248,743.7</b>	<b>5,670,788.5</b>	<b>105.6</b>	<b>108.0</b>
251	To public corporations	2,783,462.4	2,784,825.0	2,692,784.7	100.0	96.7
252	To private enterprises	2,184,606.1	2,463,918.7	2,978,003.8	112.8	120.9

Source: Ministry of Finance

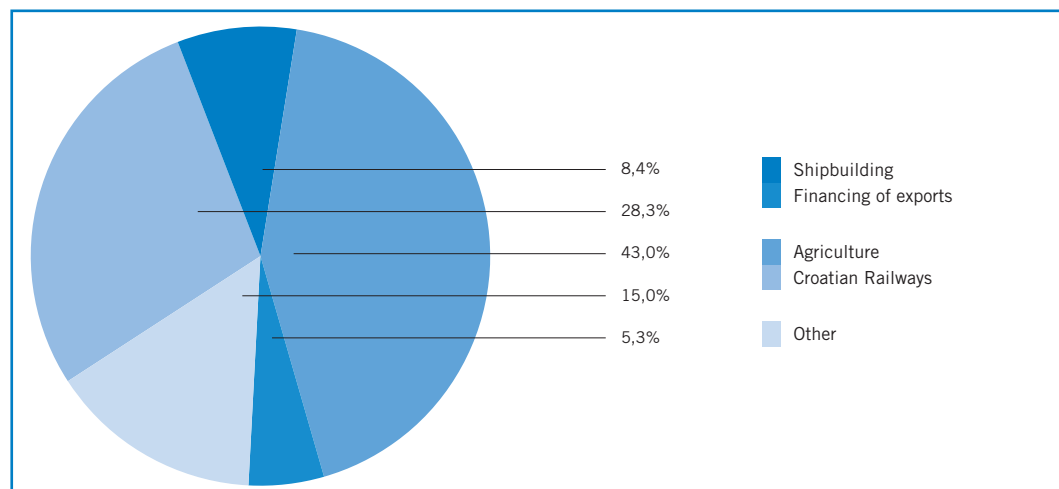
Observing the structure of subsidies in 2006, it can be seen that the subsidies to private enterprises were realized above the subsidies to public corporations. Namely, the share of subsidies to private enterprise in total subsidy expense amounted to 52.5%. The largest part of subsidies to public corporations relates to Croatian Railways, while the largest part of subsidies to private enterprises relates to subsidies in agriculture. Namely, subsidies to Croatian Railways accounted for 28.3% and subsidies to agriculture to 43% of total subsidy expense in 2006. Also, it can be noted that the further rationalization applied to running the business in Croatian Railways during 2006, reduced the need for subsidies to this company from the state budget.

**Table 2.13 Subsidy expense structure 2005 and 2006**

(000 HRK)	2005	2006
<b>Subsidies</b>	<b>5,248,743.7</b>	<b>5,670,788.5</b>
Croatian Railways	1,806,541.3	1,603,373.0
Shipbuilding	431,311.1	479,158.8
Agriculture	1,993,903.4	2,436,383.3
Financing of exports	300,000.0	300,000.0
Other	716,987.9	851,873.4

Source: Ministry of Finance

**Figure 2.14 Subsidy expense structure in 2006**



Source: Ministry of Finance



### 2.2.2.5 Grants

Total grants were set at HRK 6.641 billion according to the supplementary budget for 2006.

Total grants consist of grants to foreign governments, grants to international organizations and grants within the general government. According to final data for 2006, total grants were realized in the amount of HRK 6.653 billion, which is by HRK 12 million above the plan or in other words in line with the yearly plan, while their annual increase amounted to 75.2%. The reason for the strong annual increase is the inclusion of road charges part of fuel price designated for the roads and motorways construction. Revenue from this source is included within the budget while the expense side of the budget incorporates the transfer to Croatian Roads and Croatian Motorways of the same amount. Within the structure of grants, the largest part (98%) 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 2004 - 2006**

(000 HRK)		2004	2005	2006	Index 2005/2004	Index 2006/2005
<b>26</b>	<b>Grants</b>	<b>3,420,326.9</b>	<b>3,796,846.7</b>	<b>6,652,993.9</b>	<b>111.0</b>	<b>175.2</b>
261	To foreign governments	76,464.4	73,639.3	64,794.9	96.3	88.0
262	To international organizations	83,433.8	93,831.7	89,618.5	112.5	95.5
263	To other general government units	3,260,428.7	3,629,375.7	6,498,580.5	111.3	179.1
2631	Current	2,498,597.5	2,623,246.2	2,663,155.5	105.0	101.5
2632	Capital	761,831.2	1,006,129.5	3,835,425.0	132.1	381.2

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 59%) relates to capital grants within the general government where the largest share relates to abovementioned transfer of road charges. Current grants within the general government accounted for 41% of total grants within the general government and mainly refer to expenses for decentralized functions, employment incentives, administrative and legal affairs and other.

### 2.2.2.6 Social Benefits

Social benefits account for the largest part of total budgetary central government expense. This expense category relates to social security benefits, social assistance benefits and employer social benefits. Supplementary budget for 2006 set the plan for social benefits at HRK 43.687 billion.

According to the final data for 2006, social benefits were realized in the amount of HRK 43.445 billion, which is by HRK 242 million or 0.6% less than the planned amount for 2006. In the same time, such an outturn represents an annual increase of 5%.

**Table 2.15 Social benefits 2004 - 2006**

(000 HRK)		2004	2005	2006	Index 2005/2004	Index 2006/2005
<b>27</b>	<b>Social benefits</b>	<b>39,730,886.6</b>	<b>41,358,454.8</b>	<b>43,444,589.3</b>	<b>104.1</b>	<b>105.0</b>
271	Social security benefits	28,189,471.6	29,308,716.4	30,535,396.3	104.0	104.2
272	Social assistance benefits	11,177,314.8	11,792,075.3	12,786,632.4	105.5	108.4
273	Employer social benefits	364,100.2	257,663.1	122,560.6	70.8	47.6

Source: Ministry of Finance

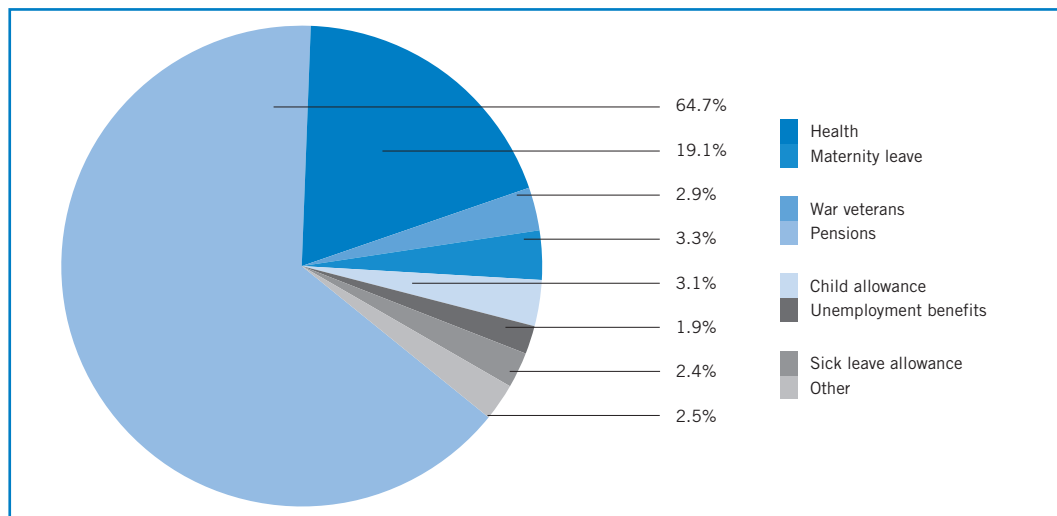


The largest part of total social benefits traditionally relates to social security benefits. This category of social benefits accounted for 70.3% of the total social benefits in 2006. Such a large share in total social benefits is not surprising given this item includes the largest parts of expenses for pensions and health system expenses.

Social assistance benefits follow with the share in total social benefits of 29.4% in 2006, 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 total social benefits, the most important part, namely due to the amount, relates to pensions. Out of total amount for social benefits in 2006, 64.7% relates to pensions. Health expense follows within the structure of total social benefits, which in 2006 accounted for 19.1% of total social benefits. Hence, it is obvious that just two expense categories, namely pensions and health, account for around 84% of total social benefits. The following figure shows the structure of social benefits in 2006.

**Figure 2.15 Social benefits structure in 2006**



Source: Ministry of Finance

Observing the structure of pension expense in 2006, it can be seen that the largest part relates to old-age pensions, family and disability pensions. These categories account for 65.8% of total social security benefits. War veteran pensions were realized in the amount of HRK 3.396 billion in 2006 and as such this expense represents an annual increase of high 15.4%. Such a strong annual increase is partly the result of the payouts of obligations to veterans for 2001 and 2002. 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 2006 total of HRK 14.726 billion was paid out for the health, which compared to the previous year represents an increase of 7.3%. If the health expenditure



is presented without the part that is being reclassified to compensation of employees, then the total amount is HRK 8.301 billion which represents an annual increase of 8.6%.

Maternity leave expense was realized in the amount of HRK 1.449 billion in 2006, which is somewhat above the amount of the previous year. Total expense for unemployment benefits amounted to HRK 819 million in 2006. Of other important categories within the structure of social benefits it is worth to mention child allowances, which in 2006 amounted to HRK 1.359 billion while sick leave compensations amounted slightly above HRK 1 billion.

### 2.2.2.7 Other Expense

According to GFS 2001 methodology, other expense relates to other current and other capital expenses. Supplementary budget for 2006 set the plan for other expenses at HRK 5.252 billion. According to final data for 2006, total other expense were realized in the amount of HRK 5.085 billion which compared to the previous year represents an increase of 3.1%. In the same time, such outturn represents 96.8% of the yearly plan. Out of total amount of other expense realized in 2005, 99.9% relates to category miscellaneous other expense while the remainder relates to property expense other than interest. Hence, miscellaneous other expense, which accounts for the largest part of total other expense, amounted to HRK 5.077 billion, made of HRK 2.304 billion in current and HRK 2.773 billion in capital other expense.

Table 2.16 Other expense 2004 - 2006

(000 HRK)		2004	2005	2006	Index 2005/2004	Index 2006/2005
28	<b>Other expense</b>	<b>4,412,358.9</b>	<b>4,931,906.7</b>	<b>5,084,980.3</b>	<b>111.8</b>	<b>103.1</b>
281	Property expense other than interest	3,954.6	4,919.8	7,599.8	124.4	154.5
282	Miscellaneous other expense	4,408,404.3	4,926,986.9	5,077,380.5	111.8	103.1
2821	Current	1,842,516.4	2,154,806.2	2,304,213.5	116.9	106.9
2822	Capital	2,565,887.9	2,772,180.7	2,773,167.0	108.0	100.0

Source: Ministry of Finance

Observing the structure of budgetary central government other expense in 2006, it can be noted that the largest part of total other expense relates to capital other expense (54.6%). In the same time, other capital expense was realized in the amount of HRK 2.773 billion, which equals the amount of the previous year. Within the structure of capital other expense, with the amounts realized, modernization and construction of railway tracks, 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 outlined. These categories, which we outlined as the most important ones, account for almost 65% of total other expense.

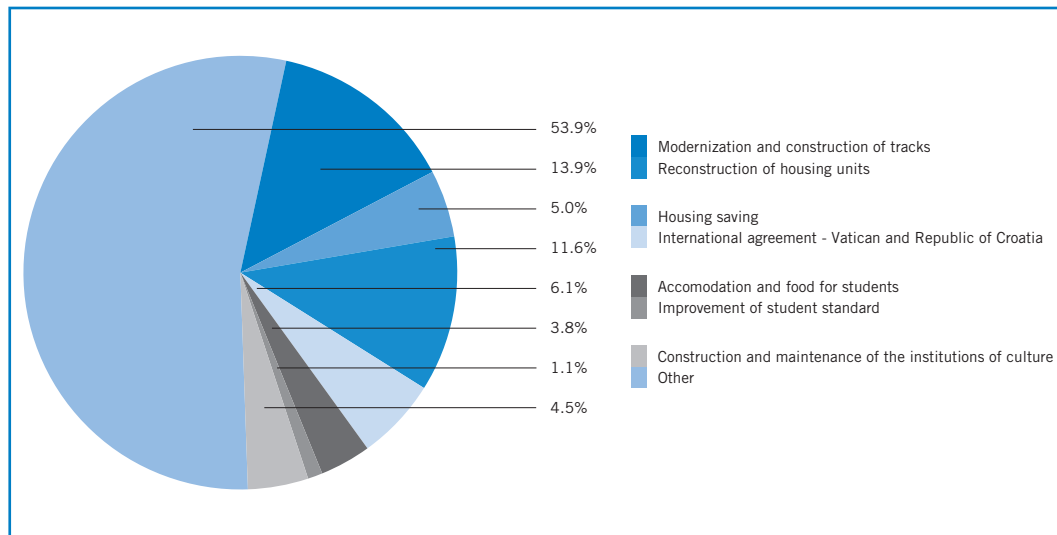
Observing the current other expense, it can be seen that this expense category was realized at HRK 2.304 billion, which accounts for 45.4% of total other expense of the budgetary central government and which represents an annual increase of 6.9%. Within the structure of this expense category, current 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 2006 can be seen, which is also demonstrated in the following figure.





Figure 2.16 Structure of other expense in 2006



Source: Ministry of Finance

### 2.2.3 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

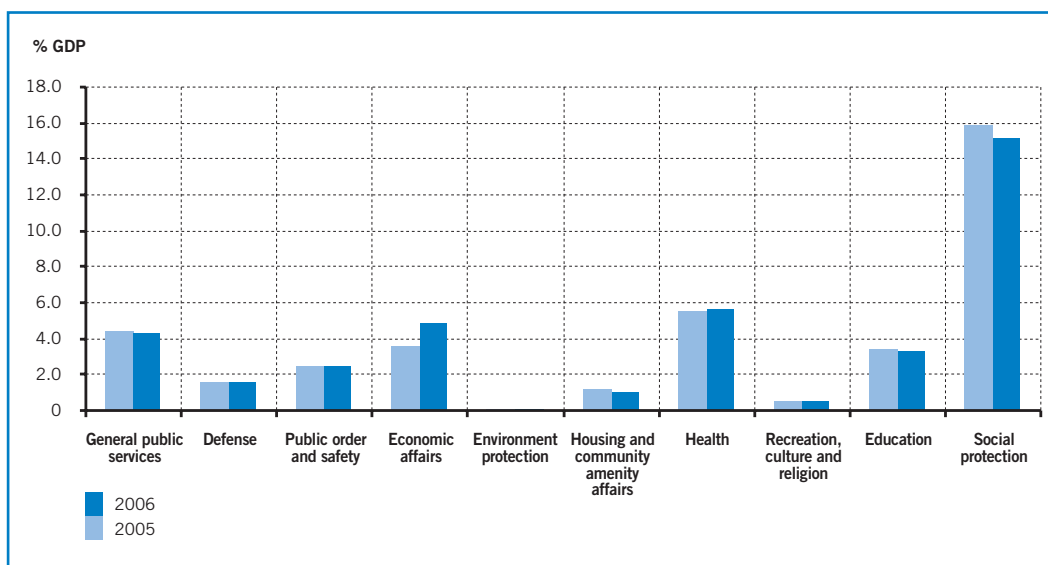
According to GFS 2001 methodology, based on which functional classification of expense is presented in this chapter, the total amount of budgetary central government expense refers to expenses plus the acquisition of nonfinancial assets. The structure of budgetary central government expense by function has been constantly changing over the years. Namely, since the beginning of independence the importance of some categories has been constantly increasing while of some other categories has been constantly decreasing. This is the result of expense execution policy regarding the specific priorities in different periods of time. For illustration, it can be seen that expenses for defense or expenses for reconstruction of the war damaged have been constantly decreasing since the end of the homeland war till the present time while on the other hand some other categories have been increasing gradually, moving towards ratios 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 97.858 billion in 2006, which represents an increase of 9.1% compared to the previous year.

Table 2.17 Budgetary central government expense by function 2004 - 2006, structure and share in GDP

(000 HRK)		Structure			Share in GDP		
		2004	2005	2006	2004	2005	2006
<b>7</b>	<b>Total expense</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>39.4</b>	<b>38.8</b>	<b>39.1</b>
701	General public services	10.6	11.4	11.1	4.2	4.4	4.4
702	Defense	4.4	4.0	4.1	1.7	1.6	1.6
703	Public order and safety	6.5	6.5	6.4	2.6	2.5	2.5
704	Economic affairs	9.3	9.4	12.4	3.7	3.6	4.8
705	Environment protection	0.3	0.2	0.3	0.1	0.1	0.1
706	Housing and community amenity affairs	3.0	3.2	2.5	1.2	1.2	1.0
707	Health	15.0	14.4	14.4	5.9	5.6	5.6
708	Recreation, culture and religion	1.5	1.5	1.5	0.6	0.6	0.6
709	Education	8.5	8.5	8.4	3.4	3.4	3.3
710	Social protection	41.1	40.9	38.8	16.2	15.9	15.2

Source: Ministry of Finance

Figure 2.17 Budgetary central government expense by function trends 2004 - 2006



Source: Ministry of Finance

Observing the expense by function in the period 2004-2006 it can be seen that the expense for general public services, after continuous increase in previous years, in 2005 and 2006 stabilized their share to GDP.

In the same time the expense for general public services in 2006, recorded a moderate decrease as a share of total budgetary central government expense. This expense category relates by large to public debt transactions, legal and executive affairs. The share of general public services increased from 4.2% of GDP in 2004 to 4.4% of GDP in 2005 and 2006.

In the same time, a significant 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. However, it should be outlined that in 2006, compared to previous years, the share of defense expense in total expense slightly increased while their share to GDP is stabilized at 1.6%.

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.

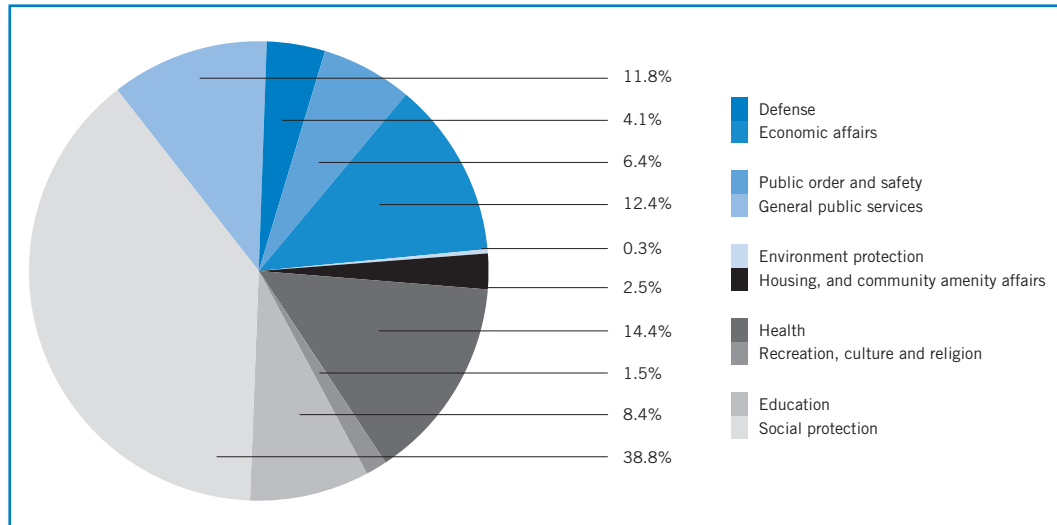
Economic affairs recorded a significant increase as a share of total expense and as a share of GDP. Namely, these expenses increased from 3.7% of GDP in 2004 to 4.8% in 2006. The largest contribution to the increase of this expense category arises from the increase of general economic affairs associated with the increase in agricultural expenses, forestry expenses, fishery, hunting and transportation, research and development. 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.

The largest part of budgetary central government expense, observed by function, is associated with social protection expenses, which in 2006 accounted for 38.8% 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 2006 social protection recorded an annual increase of 3.5% 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 the budgetary central government expense by function classification in 2005



Source: Ministry of Finance



## 2.3 TRANSACTIONS IN NONFINANCIAL ASSETS OF THE BUDGETARY CENTRAL GOVERNMENT IN 2006

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.

Total net acquisition of nonfinancial assets for 2006 was set at HRK 1.721 billion according to the supplementary budget.

**Table 2.18 Transactions in nonfinancial assets of the budgetary central government 2004 - 2006**

(000 HRK)		2004	2005	2006	Index 2005/2004	Index 2006/2005
<b>31</b>	<b>Net acquisition of nonfinancial assets</b>	<b>1,419,466.9</b>	<b>1,553,668.4</b>	<b>1,555,792.1</b>	<b>109.5</b>	<b>100.1</b>
<b>311</b>	<b>Fixed assets</b>	<b>1,384,608.6</b>	<b>1,516,968.2</b>	<b>1,595,120.5</b>	<b>109.6</b>	<b>105.2</b>
<b>311,1</b>	<b>Acquisitions: fixed assets</b>	<b>1,624,050.5</b>	<b>1,781,346.8</b>	<b>1,844,783.1</b>	<b>109.7</b>	<b>103.6</b>
<b>311,2</b>	<b>Disposals: fixed assets</b>	<b>239,441.9</b>	<b>264,378.6</b>	<b>249,662.6</b>	<b>110.4</b>	<b>94.4</b>
3111	Buildings and structures	811,476.8	867,662.5	831,376.5	106.9	95.8
3111,1	Acquisitions: buildings and structures	1,050,314.9	1,131,301.5	1,080,074.4	107.7	95.5
3111,2	Disposals: buildings and structures	238,838.1	263,639.0	248,697.9	110.4	94.3
3112	Machinery and equipment	518,941.0	557,319.9	656,732.6	107.4	117.8
3112,1	Acquisitions: machinery and equipment	519,544.8	558,059.5	657,696.4	107.4	117.9
3112,2	Disposals: machinery and equipment	603.8	739.6	963.8	122.5	130.3
3113	Other fixed assets	54,190.8	91,985.8	107,011.4	169.7	116.3
3113,1	Acquisitions: other fixed assets	54,190.8	91,985.8	107,012.3	169.7	116.3
3113,2	Disposals: other fixed assets	0.0	0.0	0.9		
<b>312</b>	<b>Inventories</b>	<b>0.0</b>	<b>0.0</b>	<b>-80,226.0</b>		
<b>312,1</b>	<b>Acquisitions: inventories</b>	<b>0.0</b>	<b>0.0</b>	<b>1,047.9</b>		
<b>312,2</b>	<b>Disposals: inventories</b>	<b>0.0</b>	<b>0.0</b>	<b>81,273.9</b>		
<b>313</b>	<b>Valuables</b>	<b>7,518.2</b>	<b>7,220.0</b>	<b>7,825.8</b>	<b>96.0</b>	<b>108.4</b>
<b>313,1</b>	<b>Acquisitions: valuables</b>	<b>7,518.2</b>	<b>7,220.0</b>	<b>7,825.8</b>	<b>96.0</b>	<b>108.4</b>
<b>313,2</b>	<b>Disposals: valuables</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		
<b>314</b>	<b>Nonproduced assets</b>	<b>27,340.1</b>	<b>29,480.2</b>	<b>33,071.8</b>	<b>107.8</b>	<b>112.2</b>
<b>314,1</b>	<b>Acquisitions: nonproduced assets</b>	<b>32,299.2</b>	<b>40,251.0</b>	<b>54,825.6</b>	<b>124.6</b>	<b>136.2</b>
<b>314,2</b>	<b>Disposals: nonproduced assets</b>	<b>4,959.1</b>	<b>10,770.8</b>	<b>21,753.8</b>	<b>217.2</b>	<b>202.0</b>
3141	Land	7,062.3	-10,282.1	-21,650.4	-145.6	210.6
3141,1	Acquisitions: land	12,021.4	488.7	81.3	4.1	16.6
3141,2	Disposals: land	4,959.1	10,770.8	21,731.7	217.2	201.8
3142	Subsoil assets	0.0	0.0	-22.1		
3142,1	Acquisitions: subsoil assets	0.0	0.0	0.0		
3142,2	Disposals: subsoil assets	0.0	0.0	22.1		
3143	Other naturally occurring assets	0.0	0.0	0.0		
3144	Intangible nonproduced assets	20,277.8	39,762.3	54,744.3	196.1	137.7

Source: Ministry of Finance

According to final data for 2006, total net acquisition of nonfinancial assets was realized in the amount of HRK 1.556 billion, which is by HRK 165.5 million or by 9.6% below the annual plan. In the same time, such an outturn represents an annual increase of 0.1%. Total net acquisition of nonfinancial assets in 2006 is the result of the total acquisition of nonfinancial assets in the amount of HRK 1.908 billion and total disposal in the amount of HRK 352.7 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.



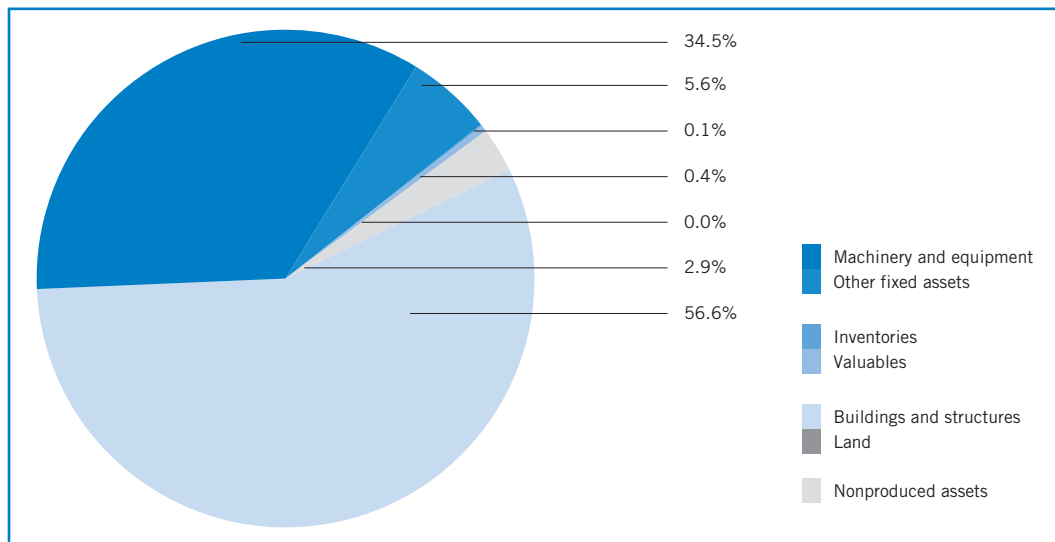
Within the acquisition of fixed assets, which in 2006 amounted to HRK 1.595 billion, the largest part is the net acquisition of buildings and structures accounting for 52.1% of total net acquisition of fixed assets. This category was realized in the amount of HRK 831.4 million and represents the result of HRK 1.080 billion in acquisitions and HRK 248.7 million in disposals. Net acquisition of machinery and equipment follows with the amount of HRK 656.7 million and net acquisition of the other nonfinancial assets in the amount of HRK 107 million.

Net acquisition of inventories was realized in the amount of HRK -80.2 million in 2006 which is the result of HRK 1 million in acquisitions and HRK 81.3 million in disposals.

Total net acquisition of valuables amounted to HRK 7.8 million in 2006 and it entirely reflected the acquisition of valuables while disposals did not occur.

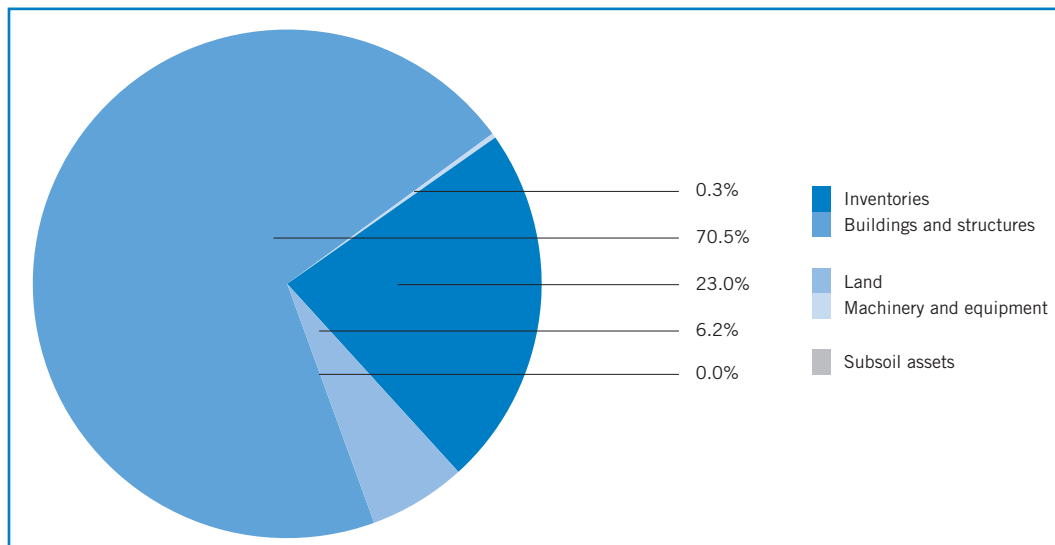
Total net acquisition of nonproduced assets amounted to HRK 33.1 million in 2006 resulting from the acquisition in the amount of HRK 54.8 million and disposal in the amount of HRK 21.8 million. The acquisition of nonproduced assets mostly refers to acquisition of licenses and other rights while disposal entirely originated from sales of land.

**Figure 2.19 Structure of acquisition of nonfinancial assets in 2006**



Source: Ministry of Finance

**Figure 2.20 Structure of disposal of nonfinancial assets in 2006**



Source: Ministry of Finance



## 2.4 TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES OF THE BUDGETARY CENTRAL GOVERNMENT

In 2006, total net incurrence of liabilities amounted to HRK -776.9 million, while in the same time total net acquisition of financial assets amounted to HRK -3.047 billion. Negative net acquisition of liabilities points out to higher repayments of principals of received loans and principals of issued securities other than shares then incurrence of liabilities. On the other hand, negative net acquisition of financial assets points out to higher disposals of financial assets then acquisitions of financial assets. From this figures, total financing of the net lending/borrowing was realized in the amount of HRK 2.270 billion.

Total net acquisition of financial assets of the budgetary central government amounted to HRK -3.047 billion in 2006. Total net acquisition of financial assets is the result of the difference between domestic and foreign acquisitions and disposals of financial assets and the change in cash and deposits. Hence, net domestic acquisition of financial assets in 2006 in the amount of HRK -3.064 billion is the result of HRK -1.5 billion change of cash and deposits, net acquisition of loans in the amount of HRK 832.3 million and the net acquisition of shares and other equity in the amount of HRK -2.446 billion. The negative sign of the change in cash and deposits indicates the reduction in the account of the state funds in the observed period. Net acquisition of domestic loans, in the amount previously outlined, is the result of total acquisition of loans in the amount of HRK 1.038 billion and total disposal of loans in the amount of HRK 205.4 million. Acquisition of loans by large represents loans provided to enterprises in the public sector, then loans provided to domestic enterprises, small and medium size entrepreneurs and loans provided to nonprofit institutions, citizens and households. Disposals of domestic loans in 2006 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 -2.446 million is the result of acquisition of shares and other equity in amount of HRK 231.4 million and disposal in the amount of HRK 2.678 billion. Acquisition of domestic shares and other equity originated mostly from acquisition of shares and other equity of banks and other financial institutions. Disposals of domestic shares and other equity in 2006, in the amount previously outlined, 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 16.7 million in 2006, which entirely relates to the acquisition of shares and other equity in foreign banks and other financial institutions in the stated amount.

**Table 2.19 Transactions in financial assets of the budgetary central government 2003 - 2006**

(000 HRK)		2004	2005	2006
<b>32</b>	<b>Net acquisition of financial assets</b>	<b>221,977.3</b>	<b>1,752,824.5</b>	<b>-3,047,174.0</b>
<b>321</b>	<b>Domestic</b>	<b>212,191.5</b>	<b>1,757,681.4</b>	<b>-3,063,854.6</b>
3212	Currency and deposits	-1,114,263.8	688,185.0	-1,449,670.1
3214	Loans	1,002,955.3	847,590.4	832,320.5
3214,1	Acquisition	1,328,793.9	1,026,366.5	1,037,700.7
3214,2	Disposal	325,838.6	178,776.1	205,380.2
3215	Shares and other equity	323,500.0	221,906.0	-2,446,505.0
3215,1	Acquisition	448,500.0	235,065.1	231,357.0
3215,2	Disposal	125,000.0	13,159.1	2,677,862.0
<b>322</b>	<b>Foreign</b>	<b>9,785.8</b>	<b>-4,856.9</b>	<b>16,680.6</b>
3225	Shares and other equity	9,785.8	-4,856.9	16,680.6
3225,1	Acquisition	9,785.8	2,699.3	16,680.6
3225,2	Disposal	0.0	7,556.2	0.0

Source: Ministry of Finance



Low budget deficit and receipts from disposals of financial assets have contributed to a significantly lower financing need in 2006 compared to the previous year. Such movements produced positive impacts regarding the trend of the public debt in 2006.

Total net incurrence of liabilities of the budgetary central government amounted to HRK -777 million in 2006, which is the result of net domestic incurrence of liabilities in the amount of HRK 3.166 billion and net foreign incurrence of liabilities in the amount of HRK -3.943 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 7.416 billion, which incorporated HRK 6.2 billion of incurrence through securities other than shares and HRK 1.216 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 199.8 million relates to incurrence of liabilities through domestic treasury bills, while HRK 6.0 billion relates to incurrence of liabilities through domestic bond issuance.

Total domestic repayments amounted to HRK 4.250 billion in 2006, where this figure relates to HRK 3.699 billion of repayment of securities other than shares and HRK 550.9 million of repayment of loans.

Total net foreign incurrence of liabilities amounted to HRK -3.943 billion in 2006, which relates to HRK 1.863 billion of foreign incurrence of liabilities and HRK 5.806 billion of foreign repayments. Total amount of foreign incurrence of liabilities in 2006 refers to loans. Total foreign repayments amounted to HRK 5.806 billion, where total of HRK 3.481 billion relates to repayment of securities other than shares, while the remainder in the amount of HRK 2.326 refers to repayment of loans.

Hence, observed in total, through total incurrence and total repayments, total net incurrence of liabilities in 2006 amounted to previously stated amount of HRK -777 million, which is the result of total (domestic and foreign) incurrence of liabilities in the amount of HRK 9.280 billion and total (domestic and foreign) repayments in the amount of HRK 10.057 billion.

**Table 2.20 Transactions in liabilities of the budgetary central government 2004 - 2006**

(000 HRK)		2004	2005	2006
<b>33</b>	<b>Net incurrence of liabilities</b>	<b>4,309,040.4</b>	<b>5,510,947.6</b>	<b>-776,988.3</b>
<b>33,1</b>	<b>Total repayments</b>	<b>13,717,081.5</b>	<b>10,253,489.1</b>	<b>10,056,696.6</b>
<b>33,2</b>	<b>Total incurrence</b>	<b>18,026,121.9</b>	<b>15,764,436.7</b>	<b>9,279,708.3</b>
<b>331</b>	<b>Domestic</b>	<b>4,038,705.1</b>	<b>10,591,559.7</b>	<b>3,166,260.0</b>
<b>331,1</b>	<b>Repayment</b>	<b>9,009,705.0</b>	<b>4,389,322.6</b>	<b>4,250,184.1</b>
<b>331,2</b>	<b>Incurrence</b>	<b>13,048,410.1</b>	<b>14,980,882.3</b>	<b>7,416,444.1</b>
3313	Securities other than shares	6,357,475.7	9,636,343.1	5,648,934.2
3313,1	Repayment	5,025,194.2	2,844,600.8	550,859.1
3313,2	Incurrence	11,382,669.9	12,480,943.9	6,199,793.3
3314	Loans	-2,318,770.6	955,216.6	-2,482,674.2
3314,1	Repayment	3,984,510.8	1,544,721.8	3,699,325.0
3314,2	Incurrence	1,665,740.2	2,499,938.4	1,216,650.8
<b>332</b>	<b>Foreign</b>	<b>270,335.3</b>	<b>-5,080,612.1</b>	<b>-3,943,248.3</b>
<b>332,1</b>	<b>Repayment</b>	<b>4,707,376.5</b>	<b>5,864,166.5</b>	<b>5,806,512.5</b>
<b>332,2</b>	<b>Incurrence</b>	<b>4,977,711.8</b>	<b>783,554.4</b>	<b>1,863,264.2</b>
3323	Securities other than shares	1,215,439.1	-3,713,935.0	-3,480,780.5
3323,1	Repayment	2,526,875.9	3,713,935.0	3,480,780.5
3323,2	Incurrence	3,742,315.0	0.0	0.0
3324	Loans	-945,103.8	-1,366,677.1	-462,467.8
3324,1	Repayment	2,180,500.6	2,150,231.5	2,325,732.0
3324,2	Incurrence	1,235,396.8	783,554.4	1,863,264.2

Source: Ministry of Finance



## 2.5 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	2006
<b>TRANSACTIONS AFFECTING NET WORTH</b>					
1	Revenue	74,677,474	80,463,518	85,653,010	95,235,557
2	Expense	77,075,487	83,131,114	87,857,465	95,949,951
24	Interest	3,587,329	3,972,466	4,387,010	4,713,615
	<b>Net - gross operating balance (1 - 2)</b>	<b>-2,398,014</b>	<b>-2,667,596</b>	<b>-2,204,455</b>	<b>-714,394</b>
	<b>Primary operating balance (1 - 2 + 24)</b>	<b>1,189,315</b>	<b>1,304,870</b>	<b>2,182,555</b>	<b>3,999,222</b>
<b>TRANSACTIONS IN NONFINANCIAL ASSETS</b>					
31	Net acquisition of nonfinancial assets	1,812,404	1,419,467	1,553,668	1,555,792
	<b>Net lending - borrowing (1 - 2 - 31)</b>	<b>-4,210,417</b>	<b>-4,087,063</b>	<b>-3,758,123</b>	<b>-2,270,186</b>
	<b>Financing (33-32)</b>	<b>4,210,417</b>	<b>4,087,063</b>	<b>3,758,123</b>	<b>2,270,186</b>
<b>TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES</b>					
32	Net acquisition of financial assets	-1,320,129	221,977	1,752,825	-3,047,174
33	Net incurrence of liabilities	2,890,289	4,309,040	5,510,948	-776,988

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 -714.4 billion in 2006. 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 2006, interest payments amounted to HRK 4.714 billion making the primary operating balance in the amount of HRK 3.999 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 1.556 billion in 2006 making the net lending/borrowing at the level of HRK -2.270 billion in 2006. Compared to 2005, net lending/borrowing was reduced by almost HRK 1.5 billion or 0.7 percentage points. Total financing of the net lending/borrowing amounted to HRK 2.270 billion in 2006, which is the result of net incurrence of liabilities in the amount of HRK -776.9 million and net acquisition of financial assets in the amount of HRK -3.047 billion. In other words, low deficit realization of the budgetary central government and the privatization receipts resulted in higher repayments than incurrence of liabilities while in financial assets higher disposals than acquisitions of financial assets were realized.





The background is a light blue collage of various financial documents and charts. Visible elements include a line graph, a bar chart, a pie chart, and several document covers with titles like 'REPUBLIC OF CROATIA', 'MINISTRY OF FINANCE', and 'FOR 2006'.

**3**

**EXTRABUDGETARY  
USERS AND  
CONSOLIDATED  
CENTRAL  
GOVERNMENT IN  
2006**





## 3.1 EXTRABUDGETARY USERS

According to Article 3 of the Budget Act ("Official Gazette" 96/2003), extrabudgetary users are extrabudgetary funds, enterprises and other legal entities in which the central or local government has decisive management control. So, extrabudgetary users acquire revenue from own sources (the main categories are Sales of Goods and Services, Property Income and Miscellaneous and Unidentified Revenue) and in the form of grants from general government units. The social security funds (Croatian Institute for Pension Insurance (HZMO), Croatian Health Insurance Institute (HZZO), Croatian Employment Service (HZZ)) and the public enterprise "Croatian Waters" (HV) have been classified as extrabudgetary funds since 1994. Since the 1st of January 2004, the coverage of extrabudgetary funds also includes the Environment Protection Fund (FZOEU). In April of 2001, two new state-owned legal entities were created, namely the Croatian Motorways (HAC) and Croatian Roads (HC). These entities took over the functions of the former Croatian Road Authority and with the State Agency for Deposit Insurance and Bank Rehabilitation (DAB), established in 1994, and the Croatian Privatization Fund (HFP), established in December 1992, make agencies.

Total revenue of extrabudgetary users in 2006 amounted to HRK 9.4 billion which represents annual growth of 15.91%, while in the same period total expenditures increased 25.86% and were at level of HRK 7.1 billion. That is significant annual growth if we recall that in the period from 2004 to 2005 revenue increased 3.9% and expenditures 10.5%. Within the structure of total revenue, for several years in row, the most significant place is occupied by the Croatian Motorways (28.9%), Croatian Waters (20.9%), Croatian Roads (19.1%) and Croatian Health Insurance Institute (11.1%). Other extrabudgetary users individually account for less than 10% in total revenues. Similar is with expenditures. Within the structure of total expenditures, also for several years in row, the most significant place is occupied by the Croatian Waters (25.2%), Croatian Motorways (22.3%), Croatian Roads (17.3%) and Croatian Health Insurance Institute (13.2%).

Total net acquisition of nonfinancial assets amounted to HRK 4.6 billion, which represents an annual decrease of 11.5% (Croatian Motorways contributed with 63% and Croatian Roads with 29%). Nonfinancial assets usually occur as outputs from a production process, as natural resources or as a creation of enterprise. Depending on that, nonfinancial assets are classified as produced and nonproduced nonfinancial assets. Produced nonfinancial assets are composed of following components, according to GFS 2001: Fixed assets - represent produced assets that are used repeatedly or continuously in the production process for more than one year (buildings and structures, machinery and equipment, other fixed asset); Inventories - represent goods and services held by producers for sale, use in production or other use at a later date, and Valuables - produced goods of considerable value that are acquired and held over time primarily as stores of value and not for purposes of production or consumption (precious stones, paintings, sculptures etc.). Of those, above-mentioned HRK 4.6 billion, or 92% were related to produced nonfinancial assets and in its whole amount referred to fixed assets. That implies that nonproduced nonfinancial assets - consisting of tangible, naturally occurring assets over which ownership rights are enforced (land, subsoil assets and other naturally occurring assets, e.g. electro-magnetic frequencies), and intangible nonproduced assets which are of social origin (patents, leasing contracts etc.) - account for 8%.

Croatian Motorways had large part also in financial assets (24%), which consist of financial claims, monetary gold and special drawing rights, but the largest part had State Agency for Deposit Insurance and Bank Rehabilitation with 36%. On net acquisition of financial assets, which amounted to HRK 470.5 billion relating completely to domestic financial claims, other extrabudgetary users individually accounted for less than 10%.

Upon the creation of a financial claim of the creditor, the debtor, as the counterpart of the financial asset, simultaneously incurs a liability of equal value. As well as transactions in financial assets, transactions in liabilities are defined as domestic or foreign liabilities. Total net liabilities of the extrabudgetary users increased 6.8%, so they amounted to HRK 2.7 billion. Total net domestic incurrence of liabilities amounted to HRK 2.1 billion, which represents annual growth of 45% and refers totally to loans, as well as foreign incurrence of liabilities which was reduced by 47% and so amounted to HRK 551.3 million. Incurrence of domestic liabilities, amounted to HRK 2.3 billion, it is mostly the result of incurrence of liabilities of Croatian Motorways (75.09%), Croatian Roads (20.64%) and Croatian Waters (4.27%). In the same time, HRK 225.1 million was repaid throu Croatian Privatization Fund (56.13%), Croatian Waters (38.75%) and Croatian Roads (5.12%). On the other hand, on the foreign market HRK 310 million were repaid (Croatian Roads (85.61%) and Croatian Waters (14.39%)) and HRK 861.1 million were result of incurrence (Croatian Motorways (64.8%), Croatian Roads (31.7%) and Croatian Waters (3.5%)).



**Table 3.1 Transactions in Financial Assets and Liabilities of the Extrabudgetary Funds in 2006**

	The Croatian Institute for Pension Insurance	The Croatian Health Insurance Institute	The Croatian Employment Service	The Croatian Waters	The Environment Protection Fund	The Croatian Motorways Ltd.	The Croatian Roads Ltd.	The State Agency for Deposit Insurance and Bank Rehabilitation	The Croatian Privatization Fund	TOTAL
<b>TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES</b>										
<b>32 Net acquisition of financial assets</b>	<b>36,219</b>	<b>89,307</b>	<b>-47,335</b>	<b>-32,316</b>	<b>-88,725</b>	<b>248,366</b>	<b>-29,083</b>	<b>381,734</b>	<b>-87,682</b>	<b>470,485</b>
<b>321 Domestic</b>	<b>36,219</b>	<b>89,307</b>	<b>-47,335</b>	<b>-32,316</b>	<b>-88,725</b>	<b>248,366</b>	<b>-29,083</b>	<b>381,734</b>	<b>-87,682</b>	<b>470,485</b>
Loans	-28	0	-26,169	29,902	21,003	0	-3,101	0	83,172	104,779
Shares and other equity	-17,483	-13,465	-135	-8,780	0	12,932	-138	-12,021	-75,945	-115,035
Currency and deposits	53,730	102,772	-21,031	-53,438	-109,728	235,434	-25,844	393,755	-94,909	480,741
<b>322 Foreign</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>33 Net incurrence of liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1,718</b>	<b>0</b>	<b>2,051,134</b>	<b>744,666</b>	<b>0</b>	<b>-126,353</b>	<b>2,667,729</b>
<b>331 Domestic</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,778</b>	<b>0</b>	<b>1,758,422</b>	<b>471,685</b>	<b>0</b>	<b>-126,353</b>	<b>2,116,532</b>
Loans	0	0	0	12,778	0	1,758,422	471,685	0	-126,353	2,116,532
Securities other than shares	0	0	0	0	0	0	0	0	0	0
<b>332 Foreign</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-14,496</b>	<b>0</b>	<b>292,712</b>	<b>272,981</b>	<b>0</b>	<b>0</b>	<b>551,197</b>
Loans	0	0	0	-14,496	0	292,712	272,981	0	0	551,197

Source: Ministry of Finance

Operating balance (revenue minus expense) represents a measure of total cost of public goods and services. Positive operating balance increases net worth of the public sector indicating an excess of resources which are direct result of current operations and which can be used to acquire assets and/or to reduce liabilities. On the other hand, negative operating balance indicates a shortage of resources which is the result of current operations and, which reduces net worth and thus results as an increase in liabilities and/or sales of assets. Hence, operating balance is the indicator of sustainability of current government operations, but it is not necessarily an indicator of sustainability of future government operations. Net operating balance stood at HRK 2.4 billion in 2006, that is HRK 0.5 billion less than year before. In the same time, primary operating balance, (operating balance (revenue minus expense) augmented by interest expense), amounted to HRK 3 billion (HRK 0.1 billion less than year before).

The category net lending/borrowing amounted to HRK -2.2 billion which represents an annual increase of HRK 0.4 billion. Net lending/borrowing is equal to operating balance minus net acquisition of nonfinancial assets. Net lending/borrowing is also equal to net acquisition of financial assets minus net incurrence of liabilities or in other words, the amount of net lending/borrowing is financed with the difference between the net incurrence of liabilities and net acquisition of financial assets. This measure can serve as an indicator of financial effect of government operations to the rest of the economy: positive net lending/borrowing implies that the government is placing financial assets to domestic sectors or abroad, while negative net lending/borrowing implies an incurrence of liabilities from domestic sectors or abroad by the government.



**Table 3.2 Measures of Deficit/Surplus and Financing of the Extrabudgetary Funds and Agencies in 2006**

(000 HRK)	The Croatian Institute for Pension Insurance	The Croatian Health Insurance Institute	The Croatian Employment Service	The Croatian Waters	The Environment Protection Fund	The Croatian Motorways Ltd.	The Croatian Roads Ltd.	The State Agency for Deposit Insurance and Bank Rehabilitation	The Croatian Privatization Fund	TOTAL
<b>TRANSACTIONS AFFECTING NET WORTH</b>										
<b>1</b> Revenue	631,738	1,049,899	114,689	1,971,613	660,190	2,721,483	1,804,019	409,581	65,871	9,429,083
<b>2</b> Expense	565,857	931,628	155,002	1,779,088	734,764	1,574,490	1,226,934	27,354	78,375	7,073,492
<b>24</b> Interest	925	1,608	4	31,692	0	589,173	43,374	239	16,416	683,431
<b>Net/Gross operating balance (1 - 2)</b>	<b>65,881</b>	<b>118,271</b>	<b>-40,313</b>	<b>192,525</b>	<b>-74,574</b>	<b>1,146,993</b>	<b>577,085</b>	<b>382,227</b>	<b>-12,504</b>	<b>2,355,591</b>
<b>Primary operating balance (1 - 2 + 24)</b>	<b>66,806</b>	<b>119,879</b>	<b>-40,309</b>	<b>224,217</b>	<b>-74,574</b>	<b>1,736,166</b>	<b>620,459</b>	<b>382,466</b>	<b>3,912</b>	<b>3,039,022</b>
<b>TRANSACTIONS IN NONFINANCIAL ASSETS</b>										
<b>31</b> Net acquisition of nonfinancial assets	29,662	28,964	7,022	223,123	14,151	2,949,761	1,350,834	493	-51,175	4,552,835
<b>Net lending/borrowing (1 - 2 - 31)</b>	<b>36,219</b>	<b>89,307</b>	<b>-47,335</b>	<b>-30,598</b>	<b>-88,725</b>	<b>-1,802,768</b>	<b>-773,749</b>	<b>381,734</b>	<b>38,671</b>	<b>2,197,244</b>
<b>Financing (33 - 32)</b>	<b>-36,219</b>	<b>-89,307</b>	<b>47,335</b>	<b>30,598</b>	<b>88,725</b>	<b>1,802,768</b>	<b>773,749</b>	<b>-381,734</b>	<b>-38,671</b>	<b>2,197,244</b>
<b>TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES</b>										
<b>32</b> Net acquisition of financial assets	36,219	89,307	-47,335	-32,316	-88,725	248,366	-29,083	381,734	-87,682	470,485
<b>33</b> Net incurrence of liabilities	0	0	0	-1,718	0	2,051,134	744,666	0	-126,353	2,667,729

Source: Ministry of Finance

### 3.1.1 The Croatian Institute for Pension Insurance

The Croatian Institute for Pension Insurance is established in accordance with the Law on the Pension Insurance ("Official Gazette" 102/98). The main activity of the Institute is the conduction 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 it implements international agreements on social insurance, etc.

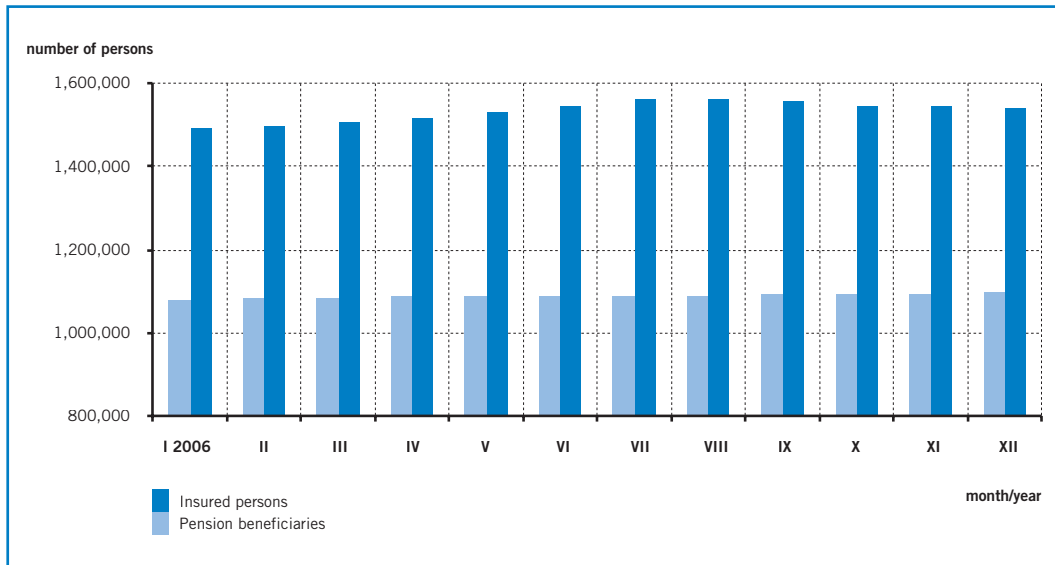
In December of 2006 there were 1,097,343 pension beneficiaries and 1,538,170 insured persons. The average number of pension beneficiaries for whole year 2006 is 1,088,862 and 1,532,595 of insured persons. The least number of pension beneficiaries was in January (1,080,571) and the highest in December (1,097,343). The least number of insured persons was also in January (1,490,860) and the highest in July (1 560 636). The unfavorable ratio between total number of the insured persons and total number of the beneficiaries (1.41) is still one of the main problems of the whole Croatian pension system.

Out of the total number of the beneficiaries of the old age, disability and family pension in December 2006, 52% relates to old age pensions, 23% to disability pensions and 21% relates to family pensions. The average pension (old age, invalid and family pension) reduced by the tax and local tax in 2006 amounted to HRK 1,815.19. In the same time, the average Croatian veteran pension amounted to HRK 3,058.24.

In 2006 the average number of child allowance beneficiaries was 216,828 per on average 410,941 child. The average amount of the child allowance was HRK 261.12 per child. The least number of child allowance beneficiaries as well as the least number of children were registered in Ličko-senjska county and the highest number of child allowance beneficiaries as well as the highest number of children was registered in Splitsko-dalmatinska county. The least average amount of the child allowance was in Krapinsko-zagorska county (HRK 245.95) and the highest was in Primorsko-goranska county (HRK 278.09).



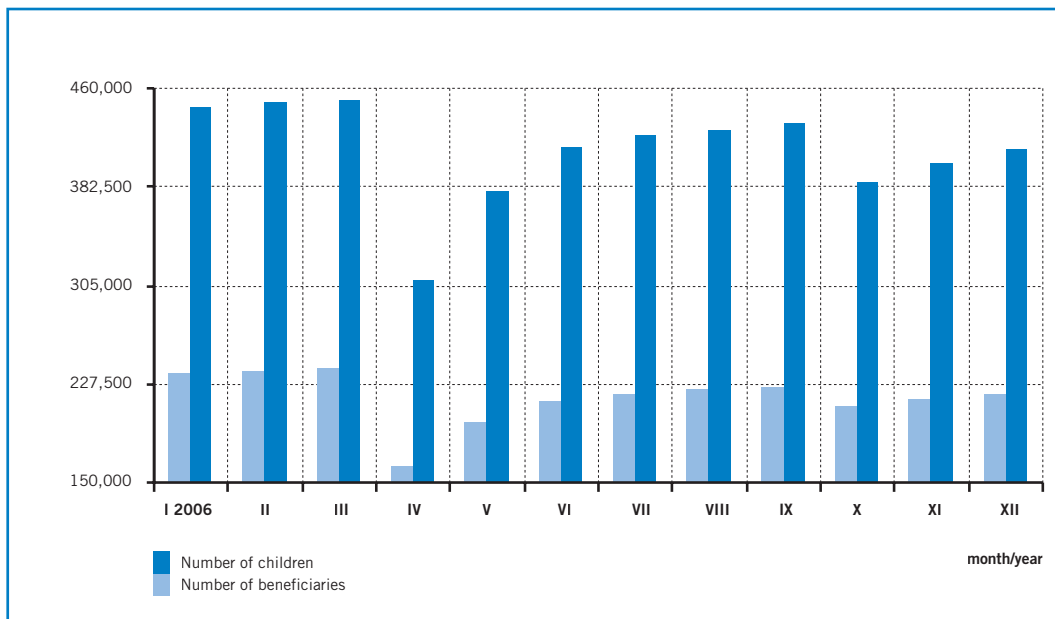
**Figure 3.1 The number of the Active Insured Persons and the Pension Beneficiaries in 2006**



Source: Croatian Institute for Pension Insurance

Total revenue of the Croatian Institute for Pension Insurance in 2006 was realized at the level of HRK 631.7 million (annual increase of 58.6%), as a consequence of the received grants (HRK 338.2 million or 53.5% of total revenue) and collected property income. The remainder of other revenue refers to revenue from sales of goods and services (1.1% of total revenue or HRK 6.9 million) and to miscellaneous and unidentified revenue (3.8% or HRK 24.1 million).

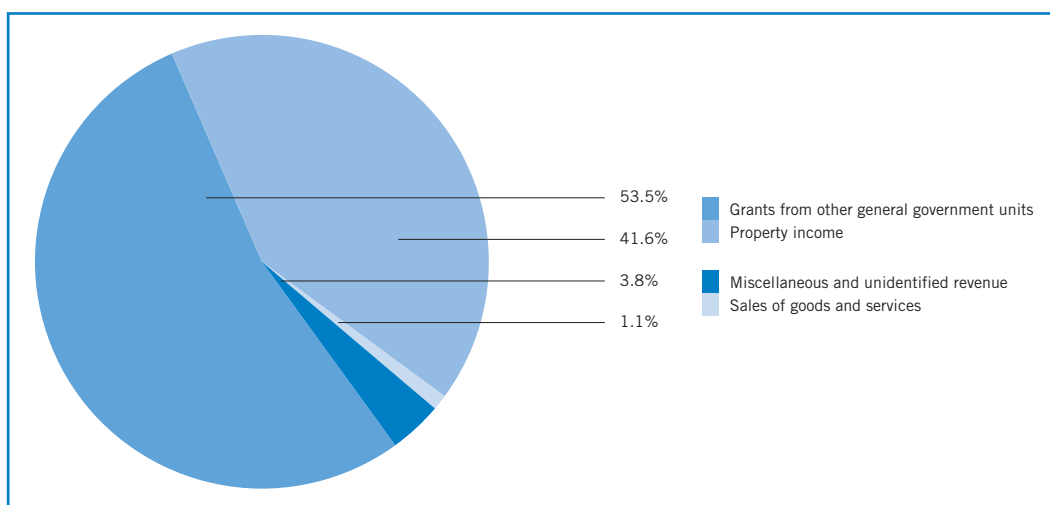
**Figure 3.2 Number of Child Allowance Beneficiaries in 2006**



Source: Croatian Institute for Pension Insurance

Total expense of the Croatian Institute for Pension Insurance recorded the amount of HRK 565.9 million (annual increase of 48.1%). The largest share of this amount, i.e. HRK 313.4 million or 55.4% (annual increase of 9%) is related to the compensation of employees. In its structure, HRK 270.8 million or 86% relates to wages and salaries, while the rest HRK 42.6 million or 14% relates to social contributions. Social benefits are realized in the amount of HRK 157.6 million or 27.8% (annual increase of 3007%) of which HRK 152.5 million or 97% relates to social security benefits and HRK 5.1 million or 3% relates to social assistance benefits. Use of goods and services of the Institute amounted to HRK 94 million (16.6%) while domestic interest payments amounted to only HRK 925 thousands (0.2% of total expenses).

**Figure 3.3 Revenue Structure of Croatian Institute for Pension Insurance in 2006**



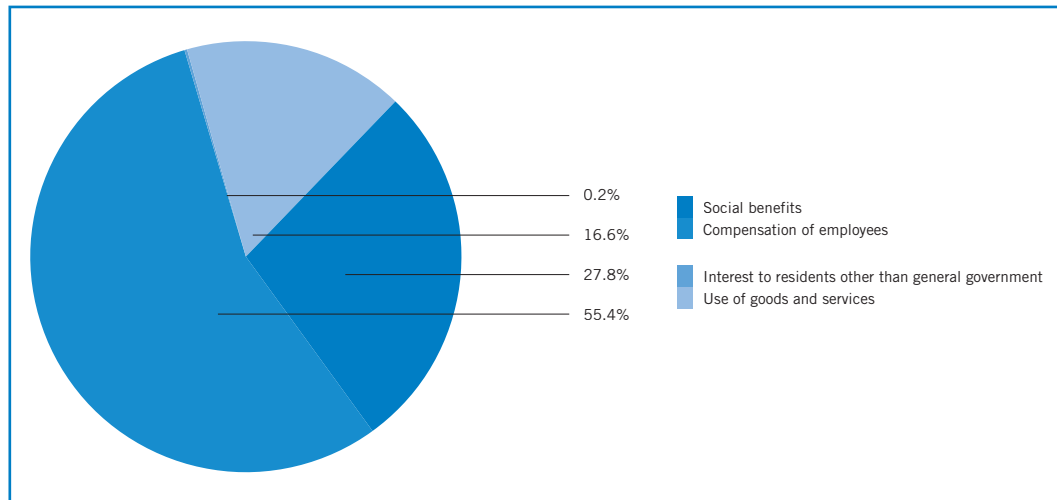
Source: Ministry of Finance

Net acquisition of nonfinancial assets of the Croatian Institute for Pension Insurance amounted to HRK 29.7 million in 2006 (annual increase of 53.7%), which mostly is the result of transactions in fixed assets (81% or HRK 24 million). Namely, the acquisition of fixed assets amounted to HRK 39.5 million. In the structure of acquisition, the amount of HRK 24.2 million, i.e. 61% is realized by the acquisition of buildings and structures. The rest of the amount is realized by the acquisition of machinery and equipment amounting to HRK 14.1 million (36%) and the acquisition of other fixed assets amounting to HRK 1.3 million (3%). The disposal of fixed assets in the amount of HRK 15.5 million is almost in 100% the result of the disposal of buildings and structures, given that the disposal of machinery and equipment recorded the amount of only HRK 20 thousands (0.1%). Nonproduced assets amounted to HRK 5.7 million of which HRK 6.5 million of acquisition of intangible nonproduced assets and HRK 807 thousands of disposals of land.





Figure 3.4 Expenditure Structure of Croatian Institute for Pension Insurance in 2006



Source: Ministry of Finance

Net acquisition of financial assets of the Croatian Institute for Pension Insurance in the amount of HRK 36.2 million solely results from the transactions on the domestic market. Currency and deposits recorded the amount of HRK 53.7 million while the disposal of loans amounted to only HRK 28 thousands and disposal of shares and other equity amounted to HRK 17.5 million.

The Croatian Institute for Pension Insurance recorded no transactions in liabilities in 2006.

### 3.1.2 The Croatian Health Insurance Institute

The main activity of the Croatian Health Insurance Institute is the conduction of the general health insurance and conduction of other tasks 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 2006 was at the level of 4,357,552 persons, which represents an increase of 0.6% in comparison to the previous year.

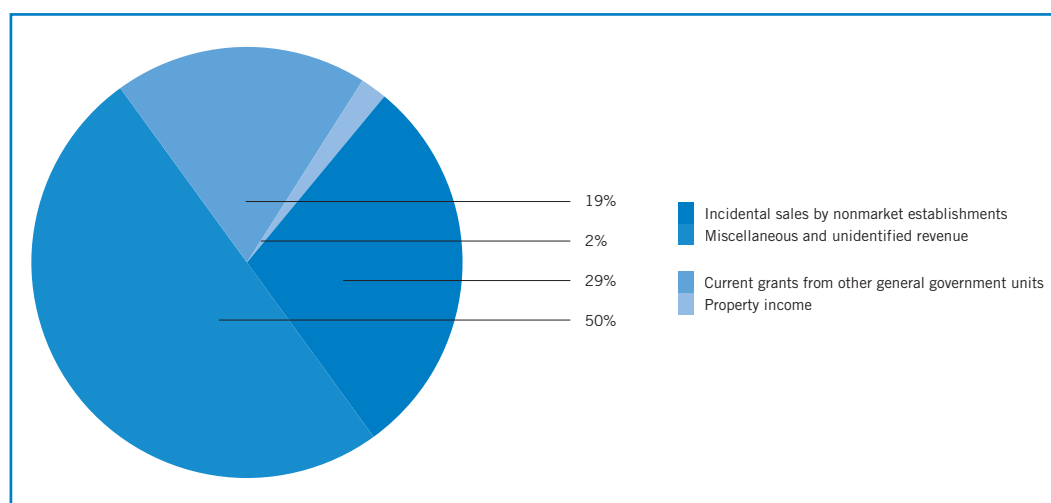
**Table 3.3 The Average Number of the Insured Persons at the Croatian Health Insurance Institute**

	Average I-XII 2003	Structure	Average I-XII 2004	Structure	Average I-XII 2005	Structure	Average I-XII 2006	Structure	2006 / 2005
Employed persons	1,389,096	32.3	1,412,445	32.8	1,450,057	33.5	1,505,547	34.6	103.8
Active farmers	85,632	2.0	77,332	1.8	69,684	1.6	63,270	1.5	90.8
Pensioners	1,000,408	23.3	1,005,342	23.4	1,007,865	23.3	1,015,823	23.3	100.8
Unemployed persons	375,258	8.7	388,915	9.0	404,236	9.3	403,988	9.3	99.9
Other	139,989	3.3	140,710	3.3	140,783	3.3	138,195	3.2	98.2
Family members	1,299,407	30.2	1,272,912	29.6	1,253,903	29.0	1,227,569	28.2	97.9
Refugees	7,165	0.2	5,431	0.1	3,965	0.1	3,160	0.1	79.7
<b>TOTAL</b>	<b>4,296,955</b>	<b>100.0</b>	<b>4,303,087</b>	<b>100.0</b>	<b>4,330,493</b>	<b>100.0</b>	<b>4,357,552</b>	<b>100.0</b>	<b>100.6</b>

Source: Croatian Health Insurance Institute

Total revenue of the Croatian Health Insurance Institute recorded the amount of HRK 1 billion in 2006 (annual decrease of 1.4% or HRK 15.2 million). Miscellaneous and unidentified revenue represents the most important category of total revenue (50% or HRK 530 million). Revenues from sales of good and services amounted to HRK 320 million (29%), current grants from other general government units amounted to HRK 201 million (19%) and property income amounted to HRK 17 million (2%). In the structure of property income the largest share is recorded by interests (HRK 16.2 million) and dividends.

**Figure 3.5 Revenue Structure of the Croatian Health Insurance Institute in 2006**

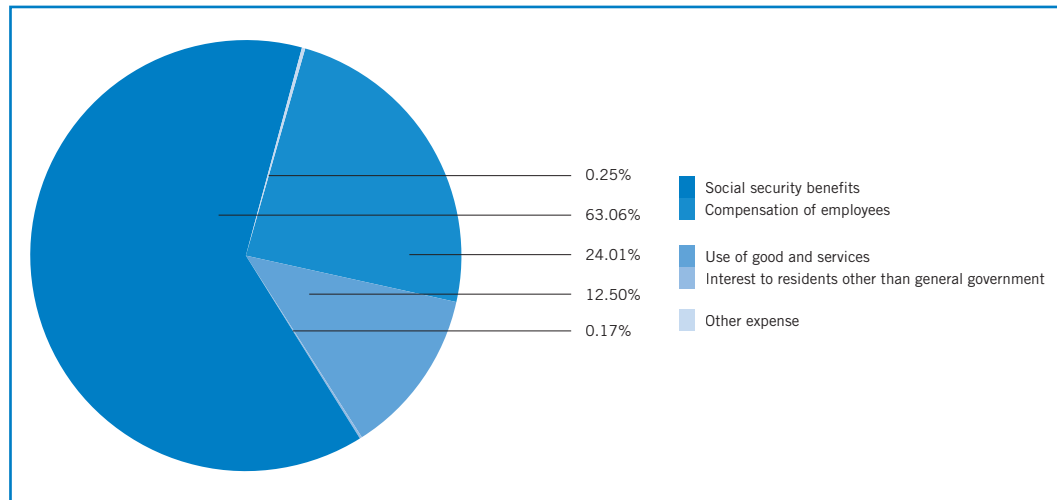


Source: Ministry of Finance

The Croatian Health Insurance Institute recorded the amount of HRK 931.6 million of total expenses in 2006 (annual increase of 1.9%). The largest share of total expense, 63%, is recorded by the social benefits, precisely the social security benefits amounting to HRK 587.4 million. The Croatian Health Insurance Institute has appropriated HRK 223.7 million (24%) for the compensation of employees, of which HRK 193.7 million relates to wages and salaries and HRK 30 million to social contributions. The use of goods and services is realized in the amount of HRK 116.5 million (12.5%). The remainder of HRK 1.6 million (0.2%) refers to domestic interests and HRK 2.4 million (0.25%) to other expense.



Figure 3.6 Expense Structure of the Croatian Health Insurance Institute in 2006



Source: Ministry of Finance

Net acquisition of nonfinancial assets of the Croatian Health Insurance Institute stood at HRK 29 million in 2006 (annual decrease of HRK 9.6 million). The fixed assets are recorded in the amount of HRK 27.7 million of which HRK 29 million of acquisitions and HRK 1.2 million of disposals. The acquisition of fixed assets is related to machinery and equipment (36.3% or HRK 10.5 million), buildings and structures (35.7% or HRK 10.3 million) and other fixed assets (28% or HRK 8.1 million). Disposal of fixed assets, in the amount of HRK 1.2 million, related solely on disposal of buildings and structures. Nonproduced assets refer completely to acquisition of intangible nonproduced assets (HRK 1.3 million).

The net acquisition of financial assets of the Croatian Health Insurance Institute was realized in the amount of HRK 89.3 million in 2006 (solely on the domestic market), which resulted from currency and deposits in the amount of HRK 102.8 million and disposals of shares and other equity in the amount of HRK 13.5 million.

The Croatian Health Insurance Institute recorded no transactions in liabilities in 2006.

### 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 ("Official Gazette" 32/02, 86/02, 114/03 and 159/03), 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 2006 was at the level of 291,616 persons, which represents a decrease of around 5.5% when compared to 2005 (308,738 persons) and 6% when compared to 2004 (309,875 persons).



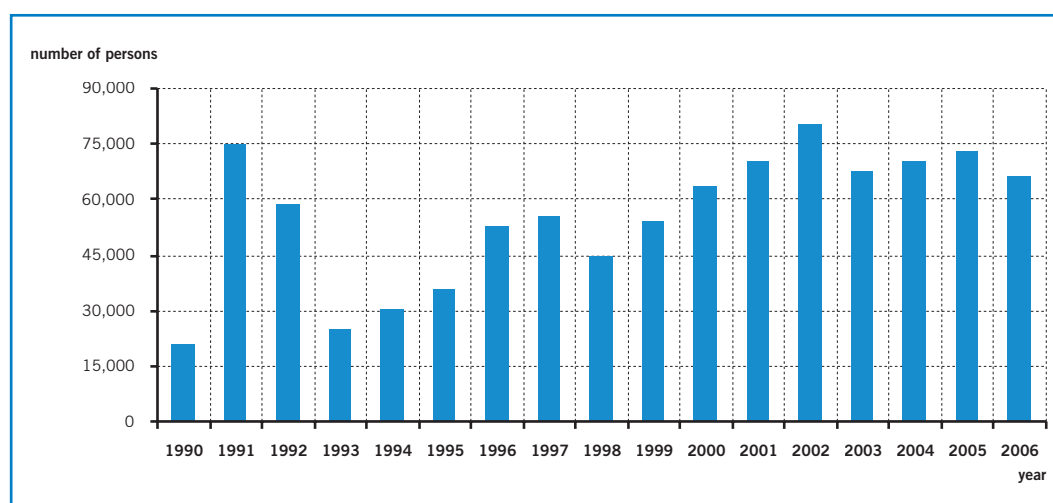
**Table 3.4 Employment Rate by the Level of Professional Qualification**

Level of Professional Qualification	Unemployed		Newly registered		Employed		Employment rate	
	2005	2006	2005	2006	2005	2006	2005	2006
No schooling and uncomplete basic school	19,679	19,311	5,994	7,215	2,167	2,741	8	10
Basic school	71,240	69,775	42,032	42,770	21,366	23,546	19	21
1 to 3-year vocational secondary school	120,930	107,293	94,536	87,898	60,181	60,388	28	31
4-year vocational secondary school and grammar school	75,867	74,234	65,871	69,952	40,140	43,666	28	30
Non-university degree	9,001	9,195	9,208	10,342	6,703	7,929	37	41
University degree	12,021	11,808	14,423	14,986	10,333	11,190	39	42
<b>TOTAL</b>	<b>308,738</b>	<b>291,616</b>	<b>232,064</b>	<b>233,163</b>	<b>140,890</b>	<b>149,460</b>		

Source: Croatian Employment Service

According to the data from the Croatian Employment Service, a total of 66,407 persons, which represents a share of 22.8% of the total number of unemployed persons, received the unemployment benefit in 2006. That is 6,394 persons less compared to year before.

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



Source: Croatian Employment Service



The Croatian Employment Service collected HRK 114.7 million of revenue in 2006 (annual decrease for 0.23% or HRK 268 thousand). The largest share originated from grants from other general government units (HRK 96.3 million or 84% of total revenue). The remainder of 16% refers to miscellaneous and unidentified revenue (HRK 12.4 million), property income (HRK 5.5 million), fines, penalties, and forfeits (HRK 316 thousand), sales of goods and services (HRK 133 thousand) and voluntary transfers other than grants (HRK 1 thousand).

Total expense of the Croatian Employment Service was recorded in the amount of HRK 155 million in 2006 (annual increase of 6.2%). The most significant expense category is compensation of employees, which in the amount of HRK 115.4 million accounts for a share of 74% in total expense (of which HRK 99.8 million or 86.5% was for wages and salaries and HRK 15.6 million or 13.5% for social contributions.). The Croatian Employment Service appropriated HRK 37.7 million, i.e. 24% of total expenses, for the use of goods and services in 2006. The remaining share of the expense in the amount of HRK 1.9 million is related to the social assistance benefits and HRK 4 thousand to interests.

Net acquisition of nonfinancial assets of the Croatian Employment Service amounted to HRK 7 million (annual increase of 43.3%), where total of HRK 5.5 million (78.6%) relates to fixed assets, while the remainder in the amount of HRK 1.5 million refers to nonproduced assets. The acquisitions of fixed assets amounted to HRK 6.1 million and its disposal amounted to HRK 562 thousand. The acquisition is mostly (60.6%) related to acquisition of buildings and structures (HRK 3.7 million), acquisition of machinery and equipment (35.4% or HRK 2.1 million) and acquisition of other fixed assets (4% or HRK 243 thousand). Disposal of fixed assets related to disposal of buildings and structures (52.8% or HRK 297 thousand) and disposal of machinery and equipment (47.2% or HRK 265 thousand). In the same time, nonproduced assets refer completely to acquisition (HRK 1.5 million). Namely, acquisition of land amounted to HRK 494 thousand (32.9%) and acquisition of intangible nonproduced assets amounted to HRK 1 million (67.1%).

Net acquisition of financial assets recorded the amount of HRK -47.3 million, solely on the domestic market in 2006. The mentioned amount of financial assets of the Croatian Employment Service resulted from the disposal of loans in the amount of HRK -26.2 million (55.3%), the currency and deposit balance of HRK -21 million (44.4%) and disposal of shares and other equity in the amount of HRK -135 thousand (0.3%).

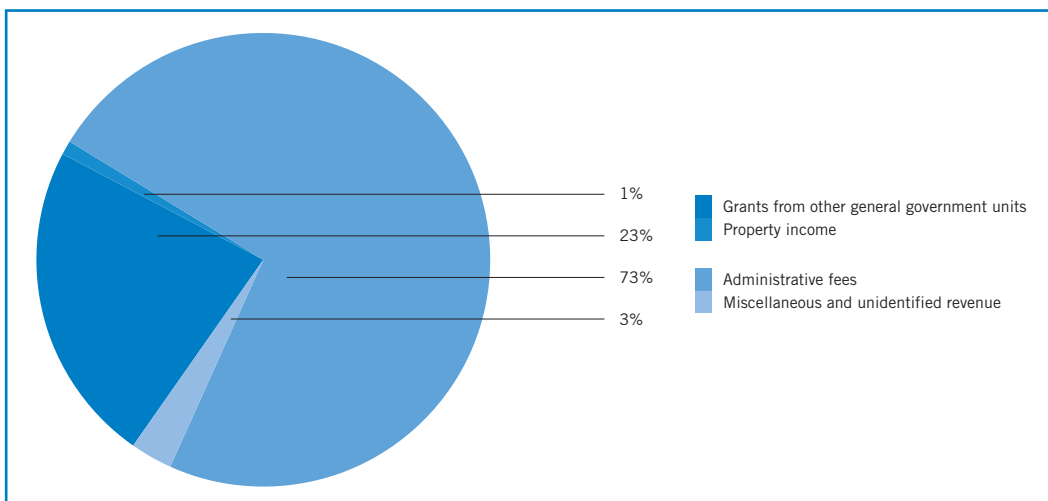
The Croatian Employment Service recorded no transactions in liabilities in 2006.

### 3.1.4 The Croatian Waters

The Croatian Waters conducts integrated management of Croatian water resources on four river basin districts comprising one or more river basins of the major watercourses or parts thereof, which constitute a natural hydrographic unit, as follows: the river basin district of the Sava River basin, the river basin district of the Drava and Danube river basins, the river basin district of the Istrian-Littoral basin and the river basin district of the Dalmatian basin. The main activities of Croatian Waters, based on the principle of sustainable development and conducted with the purpose of achieving integrated water management, are the following: protection from adverse effects of water, water use and protection of water from pollution.

Total revenue of the Croatian Waters was realized in the amount of HRK 2 billion in 2006 which represents annual increase of 15%. Administrative fees of HRK 1.5 billion, i.e. 73% of total revenue, made the largest contribution to this outturn. Grants from other general government units, which account for 23% of total revenue, stood at HRK 444.8 million. Property income was realized in the amount of HRK 11.7 million (1% of total revenue) and miscellaneous and unidentified revenue HRK 57.4 million (3% of total revenue).

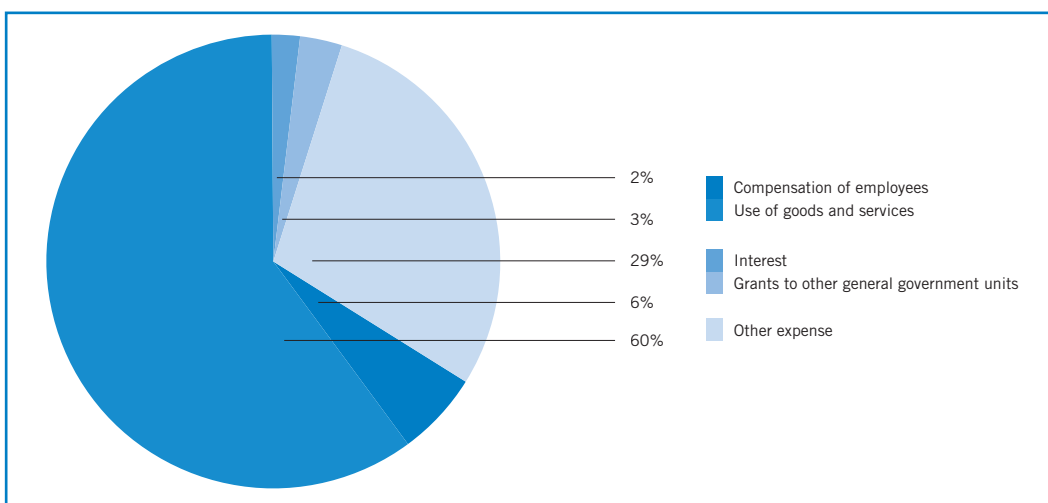
**Figure 3.8 Revenue Structure of the Croatian Waters in 2006**



Source: Ministry of Finance

The Croatian Waters recorded HRK 1.8 billion of total expense in 2006 which represents annual increase of 19.4%. The largest share was appropriated to the use of goods and services recorded in the amount of HRK 1.1 billion, i.e. 60% of total expenses. Other expense amounted to HRK 510 million, which represents a share of 29% of total expenses. An amount of HRK 111.3 million (6%) was appropriated to the compensation of employees, of which HRK 96.3 million was for wages and salaries and HRK 15 million for social contributions. The Croatian Waters appropriated HRK 53.8 million (3%) for grants to other general government units and HRK 31.7 million (2%) for interest payments.

**Figure 3.9 Expense Structure of the Croatian Waters in 2006**



Source: Ministry of Finance

Net acquisition of nonfinancial assets of the Croatian Waters recorded the amount of HRK 223.1 million in 2006, where total of HRK 208.5 million relates to fixed assets, while the remainder in the amount of HRK 14.6 million refers to nonproduced assets. The acquisition of fixed assets was realized in the amount of HRK 210.4 million and its disposal in the amount of HRK 1.9 million. The acquisition is mostly (93.3% or HRK 196.4 million) related to acquisitions of buildings and structures and the remainder of HRK 14 million refers to acquisition of machinery and equipment (4.3% or HRK 9 million) and acquisition of fixed assets (2.4% or HRK 5 million). Disposal of fixed assets related to disposal of buildings and structures (87% or HRK 1.6 million) and refers to disposal of machinery and equipment (13% or HRK 248 thousand). In the same time, nonproduced assets refer completely to acquisition. Namely, acquisition of



land amounted to HRK 3.7 million (25%) and acquisition of intangible nonproduced assets amounted to HRK 10.9 million (75%).

Net acquisition of financial assets recorded the amount of HRK -32.3 million and was totally realized on domestic market. The amount of HRK -53.4 million refers to currency and deposit and HRK 29.9 million of loans of which HRK 30.1 million of repayment and HRK 208 thousand of incurrence. Disposal of shares and other equity amounted to HRK 8.8 million.

The Croatian Waters recorded the amount of HRK -1.7 million of net incurrence of liabilities in 2006, which is a consequence of total incurrence of liabilities in the amount of HRK 130.1 million and repayments of HRK 131.8 million. On the domestic market, the Croatian Waters incurred liabilities in the net amount of HRK 100 million, solely on the basis of loans and also repaid liabilities in the amount of HRK 87.2 million. On the other hand, on the foreign market, repayments of loans amounted to HRK 44.6 million and incurrence of loans amounted to HRK 30.1 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.

In 2006 the Environment Protection Fund collected HRK 660.2 million of revenue, which represents the annual increase of 207.5%. Almost 100% of this amount refers to administrative fees in amount of HRK 655.2 million. The rest of the sum refers to interests (HRK 4.1 million), miscellaneous and unidentified revenue (HRK 557 thousand) and current grants from other general government units (HRK 350 thousand).

Total expense of the Environment Protection Fund stood at HRK 1734.8 million in 2006 which represents the annual increase of 327%. The Fund mostly appropriated its resources to use of goods and services (HRK 609 million or 83% of total expenses). Capital grants to other general government units amounted to HRK 102.3 million and subsidies to private enterprises amounted to HRK 13.8 million. Compensation of employees recorded the level of HRK 6.8 million while the rest of the HRK 2.9 million refers to other expense.

The Environment Protection Fund realized the amount of HRK 14.1 million in net acquisition of nonfinancial assets in 2006. The largest contribution (82% of total nonfinancial assets) was made by acquisition of intangible assets in the amount of HRK 11.6 million. Fixed assets amounted to HRK 2.5 million (18%) of which HRK 2.7 million of acquisition and HRK 136 thousand of disposal (solely as a result of disposal of machinery and equipment). In acquisition of fixed assets, acquisition of buildings and structures took part with 86% or HRK 2.3 million and acquisition of other fixed assets took part with 14% or HRK 381 thousand.

Net acquisition of financial assets was recorded in the amount of HRK -88.7 million and was totally realized on domestic market. The amount of HRK -109.7 million refers to currency and deposit and HRK 21 million of loans of which HRK 21.3 million of repayment and HRK 305 thousand of incurrence.

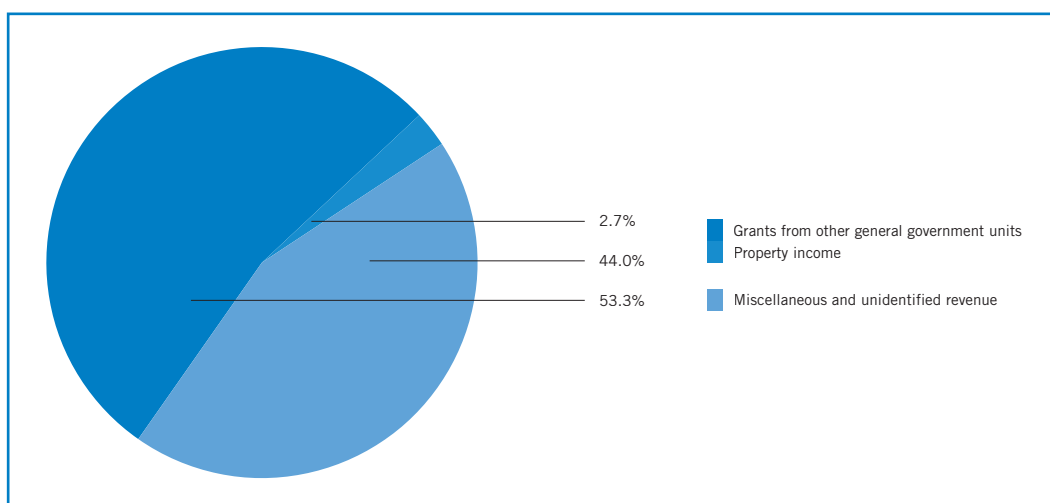
The Environment Protection Fund recorded no transactions in liabilities in 2006.

### 3.1.6 The Croatian Motorways Ltd.

Croatian Motorways Ltd (Hrvatske autoceste d.o.o.), a limited liability company for operation, construction and maintenance of motorways, was registered and started its business activity on April 11, 2001, as one of two legal successors of "Hrvatske uprave za ceste". The company is 100% owned by the Republic of Croatia. 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.

The Croatian Motorways collected HRK 2.7 billion of revenue in 2006, which represents an annual increase of 6.9%. The most significant category of total revenue is capital grants from other general government units realized in the amount of HRK 1.4 billion (53.3% of total revenue). Other revenue recorded the amount of HRK 1.3 billion (46.7% of total revenue). The largest contribution to these developments was made by miscellaneous and unidentified revenue, which amounted to HRK 1.2 billion (44.0% of total revenue). Property income revenue amounted to HRK 73.8 million. Namely, rents amounted to HRK 41.4 million (1.5%), dividends to HRK 25.5 million (0.9%), interests to HRK 4.2 million (0.2%) and withdrawals from income of quasi-corporations to HRK 2.7 million (0.1% of total revenue).

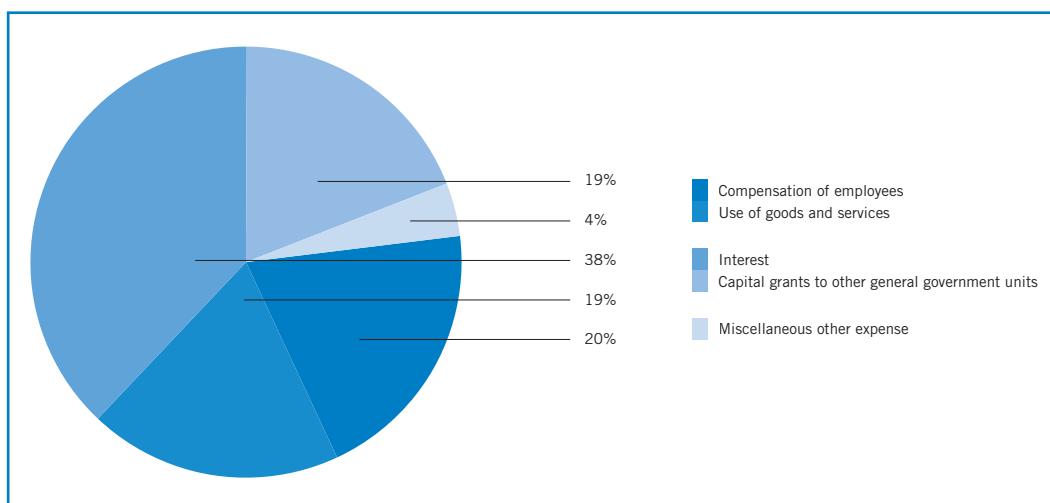
**Figure 3.10 Revenue Structure of the Croatian Motorways in 2006**



Source: Ministry of Finance

Total expenses of the Croatian Motorways were executed in the amount of HRK 1.6 billion, which represents an annual increase of 44.6%. The largest share was appropriated for the interests in the amount of HRK 589.2 million (37%), out of which HRK 496.9 million refers to interests to nonresidents and HRK 92.3 million refers to interest to resident other than general government. Within the structure of the compensation of employees which were at the level of HRK 320.1 million (20.3%), HRK 276.2 million (86%) refers to wage and salaries and HRK 44 million (14%) refers to social contributions. Capital grants to other general government units recorded the level of HRK 301.8 million (19% of total expenses). Other expense of the Croatian Motorways recorded the level of HRK 62 million (4% of total expenses) and use of goods and services amounted to HRK 301.5 million (19% of total expenses).

**Figure 3.11 Expense Structure of the Croatian Motorways in 2006**



Source: Ministry of Finance





The acquisition of nonfinancial assets amounted to HRK 3 billion in 2006. The largest contribution (93%) to these developments was made by fixed assets in the amount of HRK 32.7 billion, where 98% refers to acquisition of buildings and structures and the rest of the sum refers to acquisition of machinery and equipment (HRK 46 million) and other fixed assets (HRK 8 million). The disposal of nonfinancial assets was realized in the amount of HRK 300 million, solely on the basis of disposals of buildings and structures. The acquisition of nonproduced assets was realized at the level of HRK 201 million, which resulted from land acquisition (96% or HRK 193.5 million) and the acquisition of intangible nonproduced assets (4% or HRK 7.8 million).

Transactions in financial assets were conducted only on domestic market in 2006 recording the amount of HRK 248.4 million of net financial assets. This balance is the result of HRK 235.4 million in currency and deposits and of acquisitions of shares and other equity in the amount of HRK 13 million.

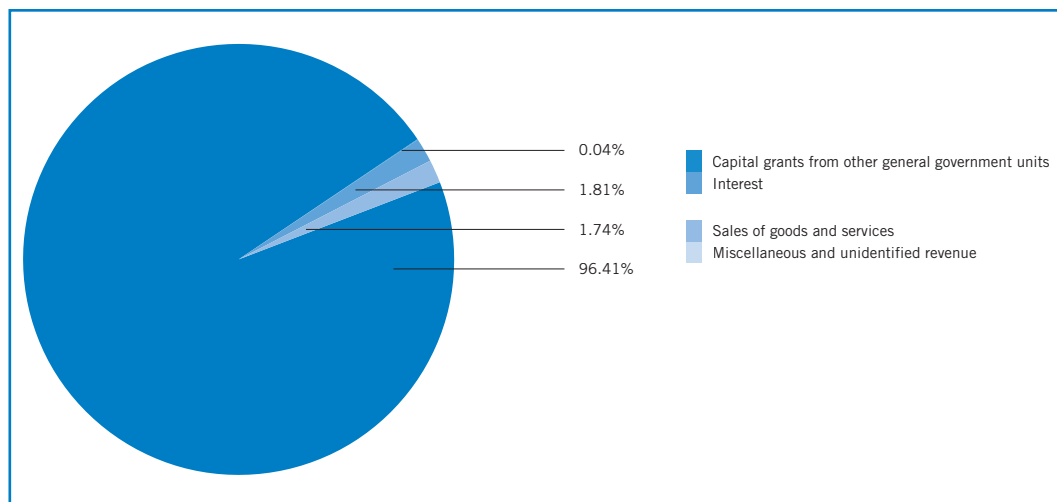
Net incurrence of liabilities of the Croatian Motorways stood at HRK 2.1 billion in 2006, where total of HRK 1.8 billion (86%) relates to domestic incurrence of loans. The reminder, in the amount of HRK 293 million (14%), refers to foreign loans of which HRK 265 million of repayments and HRK 558 million of incurrence.

### 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.

Total revenue of the Croatian Roads recorded the level of HRK 1.8 billion in 2006 which represents annual growth of 22%. The largest contribution to this outturn was made by capital grants from other general government collected in the amount HRK 1.7 billion (96.4% of total revenue). The remaining revenue of the Croatian Roads relates to interest, which amounted to HRK 765 thousand and sales of goods and services, which amounted to HRK 32.6 million. Within their structure, the most significant are administrative fees realized at the level of HRK 31 million and incidental sales by nonmarket establishments realized at the level of HRK 1.6 million. The miscellaneous and unidentified revenue stood at HRK 31.4 million.

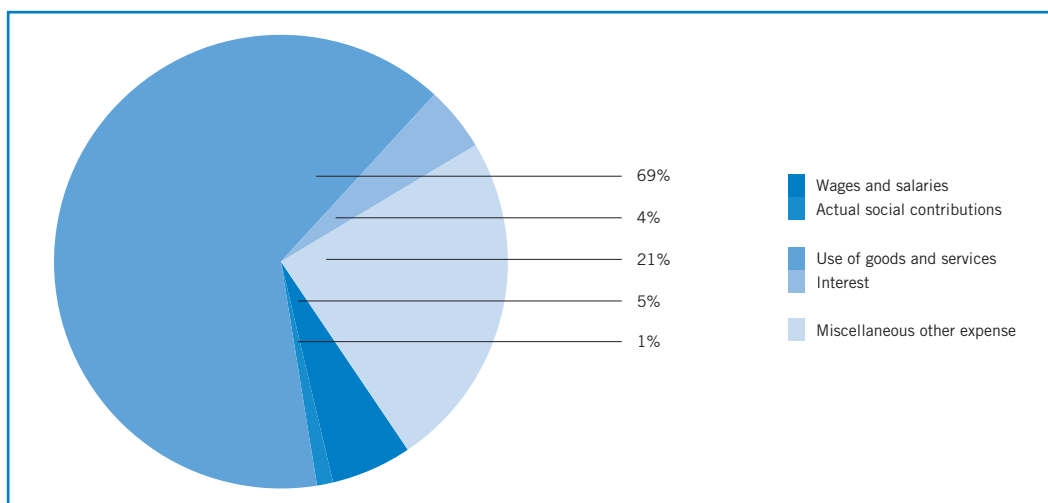
Figure 3.12 Revenue Structure of the Croatian Roads in 2006



Source: Ministry of Finance

Total expense of the Croatian Roads was realized at the level of HRK 1.23 billion in 2006 which represents annual increase of 15%. The largest share of total expenses relates to the use of goods and services, which amounted to HRK 851 million (69% of total expenses), followed by the other expense in the amount of HRK 262 million of which capital expense in the amount of HRK 250 million, and current expense HRK 12 million. The compensation of employees of the Croatian Roads was realized at the level of HRK 70.8 million (5.8% of total expenses), of which 86% relates to wages and salaries (HRK 60.8 million) and the rest to social contributions. The Croatian Roads spent HRK 43.4 million for interest payments in 2006. Within its structure interests for nonresidents amounted to HRK 12 million and interests to resident other than general government amounted to HRK 31.5 million.

**Figure 3.13 Expense Structure of the Croatian Roads in 2006**



Source: Ministry of Finance

Net acquisition of nonfinancial assets of the Croatian Roads were recorded in the amount of HRK 1.4 billion in 2006, where total of HRK 1.2 billion (or 91%) relates to fixed assets, while the remainder in the amount of HRK 123.4 million (or 9%) refers to nonproduced assets. The acquisition of fixed assets is mostly (98%) related to acquisitions of buildings and structures and only 2% refers to acquisition of machinery and equipment and acquisition of other fixed assets. Disposal of fixed assets, which in its whole amount refers to disposals of buildings and structures, are recorded in the amount of HRK 788 million. In the same time, nonproduced assets refer completely to acquisition. Namely, acquisition of land amounted to HRK 122 million (99%) and acquisition of intangible nonproduced assets amounted to HRK 1.4 million (1%).

Net acquisition of financial assets of the Croatian Roads amounted to HRK -29 million in 2006, which resulted from the transactions on the domestic market. This amount is the result of currency and deposits recorded at the level of HRK -25.8 million, loans (HRK -3.1 million), and shares and other equity in the amount of HRK -138 thousand.

Net incurrence of liabilities of the Croatian Roads in the amount of HRK 745 million resulted from the net incurrence (loans) of liabilities on the foreign market at the level of HRK 273 million and on the domestic market at the level of HRK 483.2 million. Repayments of loans on the domestic market were HRK 11.5 million.

### **3.1.8 The State Agency for Deposit Insurance and Bank Rehabilitation**

The State Agency for Deposit Insurance and Bank Rehabilitation is established in accordance with the Law on the State Agency for Deposit Insurance and Bank Rehabilitation as specialized financial institution for deposit insurance in banks and saving banks and for implementation of bank rehabilitation procedures. The founder of the Agency is the Republic of Croatia, which guarantees the commitments and liabilities of the Agency. The assets for the operation of the Agency comprise insurance premiums paid to the Agency by banks and saving banks for the purpose of savings deposit insurance and revenues earned by the Agency through its operation.

Total revenue of the State Agency for Deposit Insurance and Bank Rehabilitation recorded an annual increase of 11.5%, so amounting to HRK 409.5 million. The largest share of 81% relates to the property income realized at the level of HRK 330.3 million and the rest of the sum (HRK 79.2 million or 19%) refers to miscellaneous and unidentified revenue. Within the structure of property income, the largest amount of HRK 313.1 million (94.8%) was collected by withdrawals from income of quasi-corporations (premiums) while the remaining share (5.2%) relates to the interest revenue recorded in the amount of HRK 8.2 million, dividends in the amount of HRK 7.6 million and revenues from rent in the amount of HRK 1.4 million.

The State Agency for Deposit Insurance and Bank Rehabilitation recorded HRK 29.3 million of total expense in 2006, which represents which represents an annual decrease of 85%. The largest amount of HRK 12.5 million (45% of total expenses) was spent for use of goods and services. Then follows



other expense (current) with HRK 7.6 million (28% of total expenses). Compensation of employees was recorded in the amount of HRK 5.7 million (21% of total expenses). Within the structure of the compensation of employees, HRK 4.9 million refers to wages and salaries and the rest of the sum (HRK 817 thousand) refers to social contributions. Social security benefits was recorded at the amount of HRK 1.4 million (5% of total expenses) and interest to residents other than general government amounted to HRK 239 million (1% of total expenses).

Net acquisition of financial assets amounted to HRK 493 thousand, which is totally the result of the transaction in fixed assets (HRK 565 thousand of acquisition and HRK 72 thousand of disposals: machinery and equipment). The largest amount of the acquisition (48%) of HRK 270 thousands relates to buildings and structures, HRK 185 thousands (33%) to acquisition of other fixed assets, while the remaining 19% relates to the acquisition of machinery and equipment.

Transactions in financial assets were made exclusively on the domestic market and they amounted to HRK 381.7 million in 2006. Namely, the State Agency for Deposit Insurance and Bank Rehabilitation recorded in currency and deposits the amount of HRK 393.7 million and for the disposal of shares and other equity the amount of HRK 12 million.

The State Agency for Deposit Insurance and Bank Rehabilitation recorded no transactions in liabilities in 2006.

### 3.1.9 The Croatian Privatization Fund

The Croatian Privatization Fund was established to implement and complete the privatization of former socially-owned enterprises, assets and legal persons in its portfolio wherein the state institutions (State Agency for Bank Rehabilitation and Guarantee of Saving Deposits (DAB); Croatian Pension Insurance Institute (HZMO), Croatian Health Insurance Institute (HZZO); HEP; INA; Croatian Bank for Reconstruction and Development (HBOR) hold shares and business interests. The Fund engages in the following professional and administrative operations: transformation of socially-owned enterprises into public companies; privatization of shares, interests, property and rights and the transfer of shares free of charge when stipulated by law; management of legal entities in which state institutions hold shares and interests, and other operations stipulated by law and the Fund's Charter; management of assets owned by the Republic of Croatia when stipulated by law or a decision of the Government; management of legal entities in which the Fund holds shares and interests, and other operations stipulated by law and the Fund's Charter. The main funds of the Croatian Privatization Fund are collected from the dividends from its equities in the companies.

Total revenue of the Croatian Privatization Fund in the amount of HRK 65.9 million was realized solely on the basis of other revenue. Compared to 2005, total revenue recorded a decrease of 72.2%. Within their structure, property income in the amount of HRK 59 million account for the share of 89.6%, while the remaining 10.4% (HRK 6.8 million) relates to miscellaneous and unidentified revenue. The biggest part of property income are revenues from dividends which amounted to HRK 50.2 million (85% of total property income), while the rest of the sum refers to revenues from interest (HRK 8.4 million or 18% of total property income) and rent (HRK 391 thousand or 1% of total property income).

The Croatian Privatization Fund recorded total expense in the amount of HRK 78.4 million in 2006 (annual decrease of 57%). Compensation for employees was recorded at the level of HRK 32 million (41% of total expenses), of which 86% (HRK 27.5 million) refers to wages and salaries and the rest of the sum to social contributions (14% or HRK 4.4 million). Use of goods and services was recorded at the level of HRK 30 million (38% of total expenses) and interest at the level of HRK 16.4 million (21% of total expenses) of which HRK 9.3 million for domestic interest and HRK 7.1 million for foreign interest.

Net acquisition of nonfinancial assets of the Croatian Privatization Fund was realized at the level of HRK 51.2 million as the result of the disposal of fixed assets in the amount of HRK 54.1 million and its acquisition in the amount of HRK 2.9 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 buildings and structures in the amount of HRK 1.4 million (49%), acquisition of machinery and equipment of HRK 1 million (16%) and acquisitions of other fixed assets of only HRK 471 thousand.

Transactions in financial assets were made only on the domestic market where HRK -87.7 million of net financial assets of the Croatian Privatization Fund was realized in 2006. The Currency and deposits of the Fund amounted to HRK -94.9 million. Net loans were recorded in the amount of HRK 83.2 million as a result of disposal of loans in the amount of HRK 28.6 million and its acquisition in the amount of HRK 111.8 million. Disposals of shares and other equity amounted to HRK 78.9 million while its acquisition recorded the amount of HRK 3 million, which resulted in net shares and other equity in the amount of HRK -75.9 million.

Net incurrence of liabilities amounted to HRK -126.3 million in 2006, which resulted from the transactions in loans on the domestic market. Namely, the Fund repaid HRK 126.3 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 users.

The share of total revenue of consolidated central government in nominal GDP increased from 40.0% in 2005 to 40.1% in 2006 as a result of increase in total revenue of budgetary central government for HRK 9.6 billion, while the total revenue of extrabudgetary users reduced for HRK 1.8 billion. This trend resulted in faster increase of total revenue of consolidated central government (8.4%) when compared to 2005 when they recorded growth of 6.5%. In absolute amount, total revenues of consolidated central government stood at HRK 104 billion.

On the other hand, total expense of consolidated central government recorded a decrease of its share in GDP from 39.9% of GDP in 2005 to 39.4% of GDP in 2006. This is a result of decrease of expense of budgetary central government in the amount of 0.8 percentage points of GDP on the level of 36.7% of GDP (HRK 91.9 billion). In the same time, expense of extrabudgetary users recorded share of 2.7% of nominal GDP. When comparing expense of consolidated central government on annual level we can perceive their faster growth in 2006 (7.0%) than in 2005 (6.2%).

Consolidated central government net acquisition of nonfinancial assets was realized at the level of HRK 6.1 billion as a result of greater acquisition of nonfinancial assets (HRK 6.8 billion) than its disposal (HRK 727.7 million). This resulted in decrease of nonfinancial assets from 2.9% of GDP in 2005 to 2.4% of GDP in 2006, which is based on decrease of acquisition of extrabudgetary users, while the acquisition of budgetary central government, remained at the approximately same level as it was in 2005 (0.8% of GDP). In the same time, total disposal increased for 0.2 percentage points, which was mostly influenced by extrabudgetary users, sells increase.

Net acquisition of financial assets of consolidated central government recorded a decrease on HRK -2.6 billion, which is entirely the result of decrease of domestic financial assets. It is worth to mention that extrabudgetary users recorded an increase of its domestic financial assets while in the same time, budgetary central government recorded significant decrease of this item (on HRK -3 billion).

Net liabilities of consolidated central government amounted to HRK 1.9 billion or 0.8% of GDP. Domestic liabilities amounted to HRK 5.3 billion while foreign liabilities amounted to HRK -3.4 billion. The net liabilities were reduced by 76.4% compared with previous year.

**Table 3.5 Consolidated Central Government According to the Government Level,  
2003 - 2006**

(000 HRK)	2003	% GDP	2004	% GDP	2005	% GDP	2006	% GDP
<b>1 REVENUE</b>	<b>80,786,554.7</b>	<b>40.7</b>	<b>87,019,284.2</b>	<b>40.5</b>	<b>92,642,473.2</b>	<b>40.0</b>	<b>100,392,605.3</b>	<b>40.1</b>
<b>Budgetary Central Government</b>	<b>74,677,473.7</b>	<b>37.6</b>	<b>80,463,518.2</b>	<b>37.4</b>	<b>85,653,010.2</b>	<b>37.0</b>	<b>95,234,057.3</b>	<b>38.0</b>
<b>Extrabudgetary Funds</b>	<b>6,109,081.0</b>	<b>3.1</b>	<b>6,555,766.0</b>	<b>3.0</b>	<b>6,989,463.0</b>	<b>3.0</b>	<b>5,158,548.0</b>	<b>2.1</b>
Croatian Institute for Pension Insurance	103,501.0	0.1	129,892.0	0.1	38,010.0	0.0	293,485.0	0.1
Croatian Health Insurance Institute	822,183.0	0.4	663,139.0	0.3	863,868.0	0.4	848,683.0	0.3
Croatian Employment Service	17,573.0	0.0	15,507.0	0.0	18,855.0	0.0	18,363.0	0.0
Croatian Waters	1,150,333.0	0.6	1,224,431.0	0.6	1,227,794.0	0.5	1,526,851.0	0.6
Environment Protection Fund	-	-	170,748.0	0.1	214,737.0	0.1	659,840.0	0.3
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	1,271,125.0	0.5
Croatian Roads Ltd.	1,379,782.0	0.7	1,417,787.0	0.7	1,474,714.0	0.6	64,749.0	0.0
State Agency for Deposit Insurance and Bank Rehabilitation	581,931.0	0.3	575,893.0	0.3	367,438.0	0.2	409,581.0	0.2
Croatian Privatization Fund	125,991.0	0.1	62,946.0	0.0	237,044.0	0.1	65,871.0	0.0
<b>2 EXPENSE</b>	<b>80,715,286.4</b>	<b>40.7</b>	<b>86,941,437.4</b>	<b>40.4</b>	<b>92,332,139.9</b>	<b>39.9</b>	<b>98,751,407.9</b>	<b>39.4</b>
<b>Budgetary Central Government</b>	<b>74,579,743.4</b>	<b>37.6</b>	<b>81,861,164.4</b>	<b>38.1</b>	<b>86,715,597.9</b>	<b>37.5</b>	<b>91,979,692.9</b>	<b>36.7</b>
<b>Extrabudgetary Funds</b>	<b>6,135,543.0</b>	<b>3.1</b>	<b>5,080,273.0</b>	<b>2.4</b>	<b>5,616,542.0</b>	<b>2.4</b>	<b>6,771,715.0</b>	<b>2.7</b>
Croatian Institute for Pension Insurance	1,844,077.0	0.9	587,420.0	0.3	382,162.0	0.2	565,857.0	0.2
Croatian Health Insurance Institute	888,105.0	0.4	831,295.0	0.4	914,345.0	0.4	931,628.0	0.4
Croatian Employment Service	140,387.0	0.1	141,333.0	0.1	145,931.0	0.1	155,002.0	0.1
Croatian Waters	1,427,067.0	0.7	1,426,283.0	0.7	1,489,465.0	0.6	1,779,088.0	0.7
Environment Protection Fund	-	-	32,443.0	0.0	172,045.0	0.1	734,764.0	0.3
Development and Employment Fund	-	-	-	-	-	-	-	-
Regional Development Fund	-	-	-	-	-	-	-	-
Croatian Motorways Ltd.	692,490.0	0.3	752,254.0	0.3	1,085,077.0	0.5	1,272,713.0	0.5
Croatian Roads Ltd.	840,372.0	0.4	934,630.0	0.4	1,062,405.0	0.5	1,226,934.0	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	27,354.0	0.0
Croatian Privatization Fund	51,685.0	0.0	60,141.0	0.0	182,119.0	0.1	78,375.0	0.0
<b>31 NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>7,996,013.6</b>	<b>4.0</b>	<b>8,373,462.9</b>	<b>3.9</b>	<b>6,699,416.4</b>	<b>2.9</b>	<b>6,108,627.1</b>	<b>2.4</b>
<b>Acquisition</b>	<b>8,271,515.4</b>	<b>4.2</b>	<b>8,648,382.9</b>	<b>4.0</b>	<b>7,024,179.8</b>	<b>3.0</b>	<b>6,836,371.4</b>	<b>2.7</b>
Budgetary Central Government	2,054,989.4	1.0	1,663,867.9	0.8	1,828,817.8	0.8	1,908,482.4	0.8
Extrabudgetary Funds	6,216,526.0	3.1	6,984,515.0	3.2	5,195,362.0	2.2	4,927,889.0	2.0
<b>Disposals</b>	<b>275,501.8</b>	<b>0.1</b>	<b>274,920.0</b>	<b>0.1</b>	<b>324,763.4</b>	<b>0.1</b>	<b>727,744.3</b>	<b>0.3</b>
Budgetary Central Government	242,585.8	0.1	244,401.0	0.1	275,149.4	0.1	352,690.3	0.1
Extrabudgetary Funds	32,916.0	0.0	30,519.0	0.0	49,614.0	0.0	375,054.0	0.1
<b>32 NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>-963,227.6</b>	<b>-</b>	<b>28,384.3</b>	<b>0.0</b>	<b>1,609,759.5</b>	<b>0.7</b>	<b>-2,576,689.0</b>	<b>-</b>
<b>321 Domestic</b>	<b>-973,153.7</b>	<b>-</b>	<b>18,598.5</b>	<b>0.0</b>	<b>1,614,616.4</b>	<b>0.7</b>	<b>-2,593,369.6</b>	<b>-</b>
Budgetary Central Government	-1,330,054.7	-	138,577.5	0.1	1,747,681.4	0.8	-3,063,854.6	-
Extrabudgetary Funds	356,901.0	0.2	-119,979.0	-	-133,065.0	-	470,485.0	0.2
<b>322 Foreign</b>	<b>9,926.1</b>	<b>0.0</b>	<b>9,785.8</b>	<b>0.0</b>	<b>-4,856.9</b>	<b>-</b>	<b>16,680.6</b>	<b>0.0</b>
Budgetary Central Government	9,926.1	0.0	9,785.8	0.0	-4,856.9	-	16,680.6	0.0
Extrabudgetary Funds	0.0	-	0.0	-	0.0	-	-	-
<b>33 NET INCURRENCE OF LIABILITIES</b>	<b>6,961,517.7</b>	<b>3.5</b>	<b>8,324,000.4</b>	<b>3.9</b>	<b>7,998,842.6</b>	<b>3.5</b>	<b>1,890,740.7</b>	<b>0.8</b>
<b>331 Domestic</b>	<b>948,883.8</b>	<b>0.5</b>	<b>4,107,680.1</b>	<b>1.9</b>	<b>12,041,677.7</b>	<b>5.2</b>	<b>5,282,792.0</b>	<b>2.1</b>
Budgetary Central Government	-159,690.2	-	4,038,705.1	1.9	10,591,559.7	4.6	3,166,260.0	1.3
Extrabudgetary Funds	1,108,574.0	0.6	68,975.0	0.0	1,450,118.0	0.6	2,116,532.0	0.8
<b>332 Foreign</b>	<b>6,012,633.9</b>	<b>3.0</b>	<b>4,216,320.3</b>	<b>2.0</b>	<b>-4,042,835.1</b>	<b>-</b>	<b>-3,392,051.3</b>	<b>-</b>
Budgetary Central Government	3,049,978.9	1.5	270,335.3	0.1	-5,080,612.1	-	-3,943,248.3	-
Extrabudgetary Funds	2,962,655.0	1.5	3,945,985.0	1.8	1,037,777.0	0.4	551,197.0	0.2

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

The background is a light blue collage of various financial documents and charts. Visible elements include a line graph with a fluctuating line, a bar chart with vertical bars of varying heights, a pie chart with several segments, and text fragments such as 'REPUBLIC OF CROATIA', 'MINISTRY OF FINANCE', 'FINANCIAL REPORT', and 'FOR 2006'.

**4**

**FINANCING OF  
LOCAL AND  
REGIONAL  
SELF-GOVERNMENT  
IN 2006**





## 4.1 TERRITORIAL ORGANISATION AND LEGAL BASE FOR FINANCING LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

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 Croatia<sup>7</sup>
- the Law on Local and Regional Self-government Units<sup>8</sup>
- the Budget Law
- the Law on the Financing of Local and Regional Self-government Units<sup>9</sup>
- the Law on the Areas of Special State Concern<sup>10</sup>
- the Law on Hilly and Mountainous areas
- the Law on the City of Zagreb
- the Law on Islands
- special laws which regulate certain activities from the scope of municipalities, cities and counties
- the Law on the Execution of the State Budget Republic of Croatia for the Year 2006 annual regulations of the Government of Republic of Croatia that regulate financial standards for the decentralised functions (the criteria and benchmarks for determining rights for financing standards in primary and secondary education, health care and social welfare, fire-fighting and methodology for determining the limit of accommodation grants and allocation of funds).

In the field of territorial organisation of Local and Regional Self-government Units in 2006 it came to quantitative and status changes. In comparison with former number and status of units, 6 new municipalities<sup>11</sup> were established, while 3 former municipalities<sup>12</sup> got the status of the city.

The territory of the Republic of Croatia consists of 576 local units: 429 municipalities and 126 cities as local self-government units, 20 counties as regional self-government units as well as City of Zagreb which has the status both, of the city, and the county.

The process of decentralisation of activities from the government level to the local self-government units, was commenced in 2001, has continued since and being implemented within the Government Program 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 equal development of units.

In line with this, at the end of 2005 different scope of the local self-government units' activities (municipalities and cities, large cities and cities which are county centres) was regulated for the first time. Special laws will regulate the activities which large cities and counties are obliged to organize as well as the activities which they can perform.

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<sup>13</sup> while the counties within its scope of competences deal with the affairs of regional importance.

<sup>7</sup> Constitution of the Republic of Croatia (Official Gazette, No 41/01)

<sup>8</sup> Law on Local and Regional Self-government Units (Official Gazette, No 33/01, 60/01 and 129/05)

<sup>9</sup> 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, 132/06)

<sup>10</sup> Law on the Areas of Special State Concern (consolidated text) (Official Gazette, No. 26/03)

<sup>11</sup> Law on the Areas of Counties, Cities and Municipalities in Republic of Croatia (Official Gazette, No 86/06 and 125/06) New municipalities Lopar, Vrsi, Tribunj, Štitar, Funtana, Tar-Vabriga

<sup>12</sup> Otok, Sveta Nedelja and Kutjevo

<sup>13</sup> 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





A status of large cities is given to 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 population of more than 35,000. Status of large cities is also given to the county centres. They are dealing with the previous affairs of local importance<sup>14</sup> as well as with the newly assigned affairs<sup>15</sup>. It is important to mention that large cities and county centres can also, in their area, deal with the affairs which are within the scope of competences of the counties. Counties deal with the affairs of local importance<sup>16</sup> as well as with the newly assigned affairs<sup>17</sup>. Besides the mentioned affairs, municipalities, cities and counties deal with the government administration affairs which are transferred to them by special laws and for which the funds are secured in the state budget.

Pursuant to the Law, these units in general finance the affairs within their scope of competences by their 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 equal development of all areas in the Republic of Croatia. Within the total number of municipalities/cities, 180 have the status of the areas of special state concern (111 municipalities/cities are within the first and the second group and 69 municipalities are included in the third group). The law regulates the marginal value for gaining the mentioned special concern status. Namely, all three groups can cover up to 15% of total population of the Republic of Croatia.

Pursuant to the law, part of the personal income tax and corporate income tax collected on the units' territory which belongs to the state budget is given to those units of special state concern 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 private and legal entities with the place of residence on the special state concern territory.

The Law<sup>17a</sup> also defines the hilly and mountainous areas of special concern in order to mitigate the problems arising from geographical characteristics (height, slope, climate, etc.) and to create preconditions for raising the living standards. The status of hilly and mountainous areas is assigned to 45 local self-government units.

Tax and other reliefs for the areas of special state concern are also applicable to hilly and mountainous areas.

In the previous years, the Budget Execution Law of the Republic of Croatia for 2006 regulates that citizens - income tax payers from the areas of special state concern (first, second and third group) and from hilly and mountainous areas of the state have the obligation of the return of the personal income tax by the annual application as well as with the payment.

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 the units in the areas of special state concern would not confront financial difficulties and impossibility of performing the regular functions, the state, like the last year, took over the obligation to return the 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.

With aim of island protection<sup>18</sup> and faster economic and demographic development, programmes of sustainable island development are defined. The government supports the development

<sup>14</sup> 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

<sup>15</sup> the affairs related to: 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

<sup>16</sup> 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

<sup>17</sup> 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

<sup>17a</sup> the Law on Hilly and Mountainous areas (Official Gazette, No 12/02, 32/02, 117/03, 42/05 and 90/05)

<sup>18</sup> Law on Islands (Official Gazette, No 34/99, 32/02 and 33/06)



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).

Many institutions exist at the state level that care about the development of Local and Regional Self-government Units. By competent ministries, each one perform the activities from their scope of competences, take care and recommend appropriate programs and stimulations, are organize and other authorities (Regional Development Fund, Development and Employment Fund, Environmental Protection and Energy Efficiency Fund and others). Fund for Regional Development is established with a purpose of faster and more equal regional development of the areas whose gross domestic product is below 65% of the average gross domestic product in the Republic of Croatia. The Fund<sup>19</sup> directs its resources 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.

As mentioned in the introduction, the Law on Local and Regional Self-government Units and special laws from certain activities (education, health care, social welfare, fire-fighting) and the Law on the Financing of 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 closely related 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 is shown in the growth of expenditures for the decentralised functions which is much higher then the growth of the state budget expenditures and inflation rate in 2006.

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 brigades (total of 112 municipalities/cities for 60 public fire brigades)<sup>20</sup> was being implemented also in 2006.

The Law on the Financing of Local and Regional Self-government Units regulates the sources and forms of financing<sup>21</sup>, 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 in 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.

Furthermore, according the Law, units which on the basis of additional share of the personal income tax do not achieve sufficiently funds for cover of minimum standards determined by the annual decision of the Government of the Republic of Croatia have the right for the equalization grants for decentralised functions from the state budget. Additional shares for the decentralised functions are shown in Table 4.1.

**Table 4.1 Additional Shares of the Personal Income Tax Allocated for Decentralised Functions in 2006**

<b>School education</b>	
Primary Education	2.90%
Secondary Education	2.00%
<b>Social welfare</b>	
Centres for social welfare	0.40%
Homes for elderly and disabled persons	1.60%
<b>Health care</b>	
Health care institutions	2.50%
<b>Fire-fighting</b>	
Public fire brigades	1.00%
Funds of transferred liabilities for decentralised functions	21.00%

<sup>19</sup> Law on the Regional Development Fund of Republic of Croatia (Official Gazette, No 107/01) - generates its resources from the state budget, privatisation, bonds, loans, grants and other sources

<sup>20</sup> Law on Fire-fighting (Official Gazette, No 139/04 and 174/04)

<sup>21</sup> Amendments to the Law on the Financing by the end of 2006, with the beginning of implementation from the 2007-01-01., additional shares for the decentralised functions are increased and amounted to: primary education 3.1%, secondary education 2.2%, centres for social welfare 0.5%, homes for elderly and disabled persons 1.7%, health care institutions 3.2% and public fire brigades 1.3%. A share of transferred liabilities in income tax is 21%.



Annual decisions<sup>22</sup> 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.

Based on decisions, by the Decree<sup>23</sup> 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, their remittance, planning and control of state authorities and the local and regional self-government.

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.

By the Decree, the equalization grants are allocated depending on the expense category and activity. 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. 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 the counties and cities 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, whereas 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, also took over:

- the obligation of planning resources in their budgets and financial plans of budgetary users,
- the obligation to allocate the funds to final users (schools, hospitals, centres and public fire brigades) as well as
- the obligation of their earmarked use and control.

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 quarterly basis to the line ministry 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.

---

<sup>22</sup> - 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 2006;

- 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 2006;

- Decision on minimum financial standards for decentralized financing of homes for elderly and disabled persons in 2006;

- Decision on minimum financial standards for decentralized functions for health institutions in 2006 (Official Gazette, No 185/04);

- Decision on minimum financial standards for decentralized financing of regular activity of public fire brigades in 2006 (Official Gazette, No 144//05, 90/06 and 10/06) and

<sup>23</sup> The Decree on the Method of Calculating the Amount of Equalization Grants for Decentralized Functions of Local and Regional Self-government (Official Gazette, No 144/05, 70/06 and 130/06).



## 4.2 FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

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.

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.

Counties' own revenue comes from 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 comes from 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<sup>24</sup> 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%.

The major part of the revenues of local and regional self-government units, both in terms of the structure and in absolute amount, have Joint tax revenues. Joint tax revenues (personal income tax, corporate income tax and tax on real estate transactions) are divided between the government, cities/municipalities and counties account.

Local and regional self-government units receive the percentage of the joint taxes<sup>25</sup> 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 share	34%, increased by the
	share of equalization item	for transferred functions	share for transferred
	21%	(9.4%)	functions
Corporate income tax	70%	10%	20%
Tax on real estate transactions	40%	-	60%

Source: Ministry of Finance

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%)

<sup>24</sup> Decree on the Constitutional Court of the Republic of Croatia (Official Gazette, No. 26/07) determines unconstitutionality and abolition of the following local taxes: uncultivated agricultural land tax, unused enterprise real estate tax, unused construction land tax.

<sup>25</sup> By Amendments to the Law on Financing of Local and Regional Self-government Units, scope and allocation of joint taxes is changed, which applies from January 1, 2007. Joint taxes are: income tax and real estate tax. Corporate income tax is the revenue of the state budget. Income tax revenues are distributed as follows: share of transferred liabilities 21%, municipalities/cities 52% plus additional share for decentralization, counties 15% plus additional share for decentralization and share of the City of Zagreb 67% plus additional share for decentralization. Allocation of the real estate tax remained the same.



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 607 million, which represents more than 50% of the total surtax collected in all units in 2006.

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 56 million was allocated to these areas in 2006. It is mostly intended for the projects related to water supply, spatial planning and transport infrastructure improvement.

Furthermore, in order that the units in the areas of special state concern would not confront financial difficulties and impossibility of performing the regular functions, the state, like the last year, took 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. The return of the personal income tax to the citizens that the state has paid out instead of the units amounted to HRK 484 million, which is 10% higher than in 2005.

Since 2001, the Law on Financing the Cities and Municipalities has given 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 which 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 2006, 244 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 1.04 billion in 2006 (surtax revenue of the City of Zagreb amounted to HRK 666 million) which represents an increase of 15% compared to 2005.

Besides 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 2006, the amount of HRK 115 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, and 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.



The ensured grants to counties refer to incentives for development programs (for the acquisition of nonfinancial assets) and grants to municipalities and cities are for financing expenditure for material, energy and investments in capital programs. Grants to municipalities and cities amounted to HRK 31.3 million, while grants to counties for stimulating capital projects amounted to HRK 40 million in 2006.

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 programs (for the acquisition of nonfinancial assets) and grants to municipalities and cities are for encouraging investments in development programs. 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 km<sup>2</sup> and the county population per 1 km<sup>2</sup> of the county territory.

To the municipalities and cities which are not the direct beneficiaries of the grants from the state budget counties allocate at least 75% of the grants. The counties themselves regulate 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.

Legal criteria, that 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 km<sup>2</sup> in the areas of special state concern, population per 1 km<sup>2</sup> of specific municipality or city, share of expenses for capital programs in total expenses, rationality funds for expenses for employees and funds for covering the functions of cities of the population below 30,000.

Observed 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 1.16 billion of its share of the personal income tax to this areas in 2006.

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 2006 compared to the previous year, increased from 5.3% to 5.4%, while its share in total revenue of the general government increased from 11.8% to 12.1%.



## 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.

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 2005 and 2006 for 53 units (32 cities, 20 counties and the City of Zagreb)**

000 HRK	Outturn	Structure	Outturn	Structure	Index
	2005	2005	2006	2006	2006/2005
<b>REVENUES</b>	<b>12,162,401</b>	<b>100.0</b>	<b>13,560,211</b>	<b>100.00</b>	<b>111.5</b>
Tax Revenues	7,072,350	58.1	8,299,155	61.2	117.3
Garants	1,704,577	14.0	1,664,688	12.3	97.7
Other Revenues	3,385,474	27.8	3,596,368	26.5	106.2

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

Total revenues of cities and counties in 2006 amounted to HRK 13.5 billion, which represents an increase of 12% compared to 2005. Within the structure of total revenues in 2006, tax revenues were dominant, realized in the amount of HRK 8.3 billion which is an increase of 17% compared to 2005 and they accounted for the share of 61% in total revenues. The share of other revenues, which have increased by 6%, was 27%, while the share of grants in the revenue structure in 2006 amounted to 12% of total revenues.

The increased share of tax revenues and grants in total revenues was the result of the increase of the own tax revenues and the additional revenues for decentralized functions.

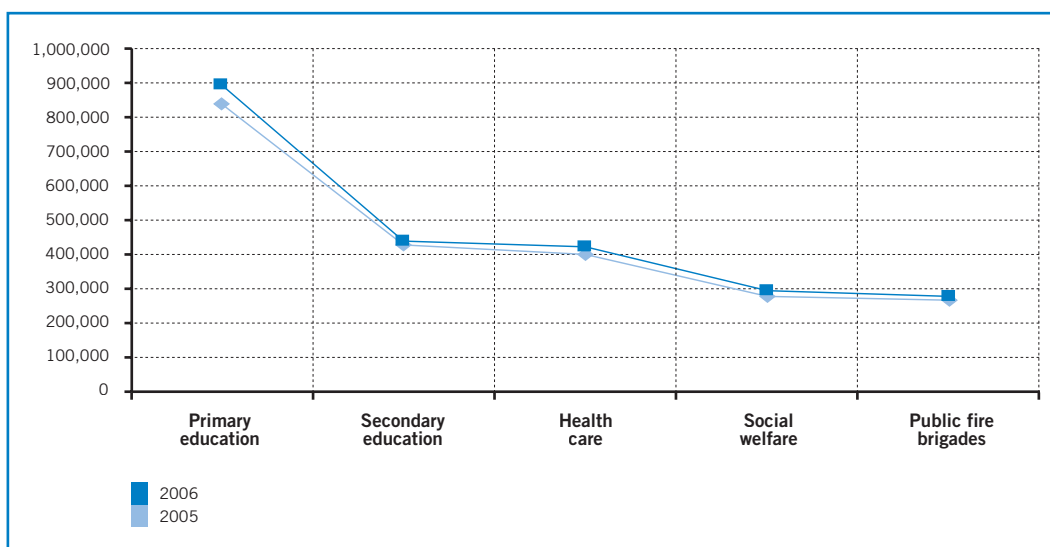
**Table 4.4 Financing of Decentralized Functions in 2006**

Function	Counties and City of Zagreb	Cities (32)	Cities/Municipalities	Total (000 HRK)
Primary education	655,499	239,320		894,819
Secondary education	438,893			438,893
Health care	424,670			424,670
Social welfare	296,005			296,005
Public fire brigades	40,512	162,300	75,173	277,985
<b>Total liabilities</b>	<b>1,855,579</b>	<b>401,620</b>	<b>75,173</b>	<b>2,332,372</b>

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

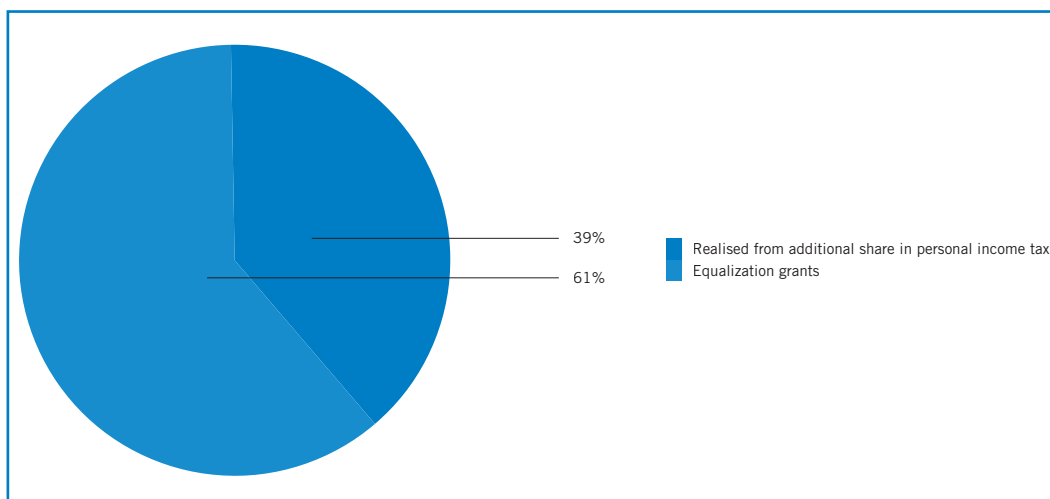
In 2006, total liabilities for transferred decentralized functions amounted to HRK 2.3 billion which represents an increase of 5.6% compared to 2005 when total liabilities for transferred decentralized functions amounted to HRK 2.2 billion. More significant increase was recorded by the functions of primary education and homes for elderly and disabled persons, amounting to 7% and 8%, respectively. The structure of functions and the annual increase is shown in Figure 4.1.

**Figure 4.1 Annual increase of Decentralised Functions in 2006**



Source: Ministry of Finance

**Figure 4.2 Structure of the Revenue Outturn for Decentralised Functions in 2006**



Source: Ministry of Finance

The realized share of personal income tax from the additional share in 2006 (Figure 4.2.) amounted to HRK 904 million, which was enough for financing 39% of total transferred expenses. The rest of the transferred liabilities were settled from the equalization grants. Although in 2006, in comparison to 2005, in the revenue structure was collected 2% more funds from the additional shares in personal income tax, and 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 realization of the additional shares in personal income tax for decentralized functions and the allocated equalization grants.

In 2006, Zagreb County, Istria County and Primorje-Gorski Kotar County recorded the highest realization of resources on the basis of the additional share in personal income tax, around 50%, while Lika-Senj County (98%) and Vukovar-Srijem County (91%) had the biggest need for the equalization grants. The remainder till total liability brought forward is paid from the State Budget - transferred liabilities. All counties and cities (except the City of Zagreb) used the equalization grants in 2006.



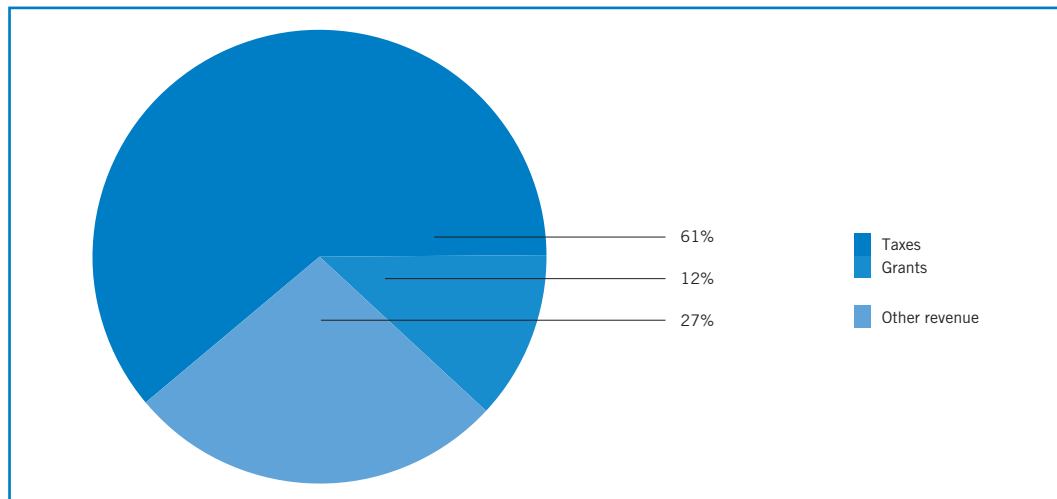


It should be noted that the liabilities for decentralized functions of counties, cities and municipalities were fully settled from the additional share and the equalization funds. The units of the local and regional self-government gain more and more space for autonomous decision-making related to the 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

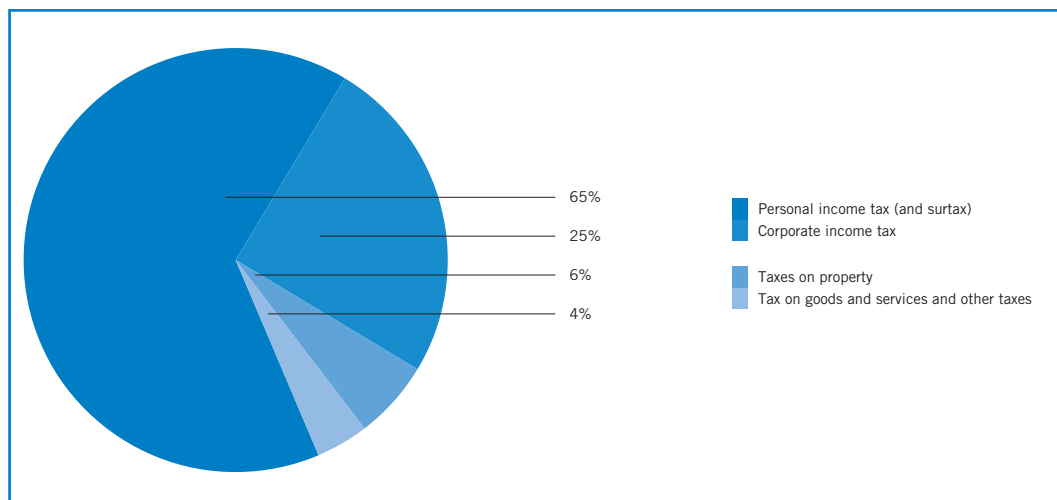
The most important budget revenue category of local and regional self-government units is tax revenue which accounts for 61% of total revenue. In 2006, tax revenue amounted to HRK 8.3 billion and recorded an increase of 17%. Units realize their tax revenues from own and joint tax revenues. Within the 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 realized from personal income tax and corporate income tax. The largest share of tax revenues is realized from surtax and tax on personal income which is additionally increased by the part of the personal income tax for decentralized functions. Surtax and tax on personal income amounted to HRK 5.4 billion and within the structure of total revenues they account for the share of 40% which represents an increase of 13.5% in comparison to the previous year.

Figure 4.3 Structure of Total Revenues of 32 Cities, Counties and the City of Zagreb in 2006



Source: Ministry of Finance

Figure 4.4 Structure of Tax Revenues of 32 Cities, Counties and the City of Zagreb in 2006



Source: Ministry of Finance



Observing the structure of tax revenues (see Figure 4.4), it can be noticed that the most revenues are collected on the basis of joint tax revenue (surcharge and tax on personal income with a share of 65% and corporate income tax with a share of 25%), while the share of all other taxes (taxes on property, tax on goods and services and other taxes) amounts to 10% of total tax revenues. The personal income tax also includes the units' own revenue - surcharge on personal income tax, which is reported together with the personal income tax due to the specific tax collection technique.

In comparison with 2005, revenue from corporate income tax grew by 30% in 2006, which is significant increase compared to the previous year. Corporate income tax, as one of the most significant sources of total revenue, is realized in the amount of HRK 1.62 billion and it accounts for the share of 15.5% 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 6.2% of total revenues.

### 4.3.2 Grants

Grants which budget and budgetary users receive from foreign governments, international organizations and other entities within the general government include current and capital transfers. Grants were realized in the amount of HRK 1.66 billion in 2006. The share of the grants in total revenues realized in 53 units of local and regional self-government amounted to 12%. Grants were almost completely realized as grants within the government, while the grants from international organizations and foreign governments realized only HRK 5.6 million. 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, realized in the amount of HRK 3.6 billion, represent the second (see Figures 4.2 to 4.5) most abundant revenue of local budgets. Even though from the basis of that revenues collected 6% more than the last year, in the structure of total revenues, their share is smaller for 1% and it is amounted to 27%.

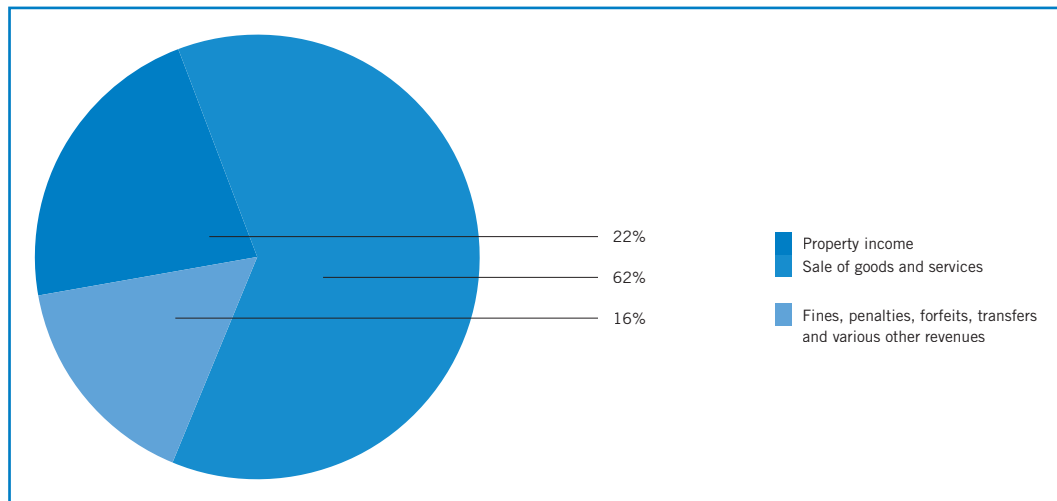
In line with the special laws, fees and charges collected on the basis of these laws belong to counties, cities and municipalities and they are included in other revenue of their budgets. Units themselves prescribe the introduction of revenues and their levels within the legal limits. However, it should 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.

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

- property income (revenues from moveable and immovable 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 794 million and account for the share of 22% of other revenues,
- revenues from the sale of goods and services, realized in the amount of HRK 2.2 billion (revenues from sale of duty stamps, revenues from tourist fees, utility fees, utility contributions and other fees) with a 62% share, and
- fines, penalties, forfeits and various other revenues, with a share of 16%.



Figure 4.5 Structure of Other Revenues of 32 Cities, Counties and the City of Zagreb in 2006



Source: Ministry of Finance

## 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 in accordance with the Law on Local and Regional Self-government Units.

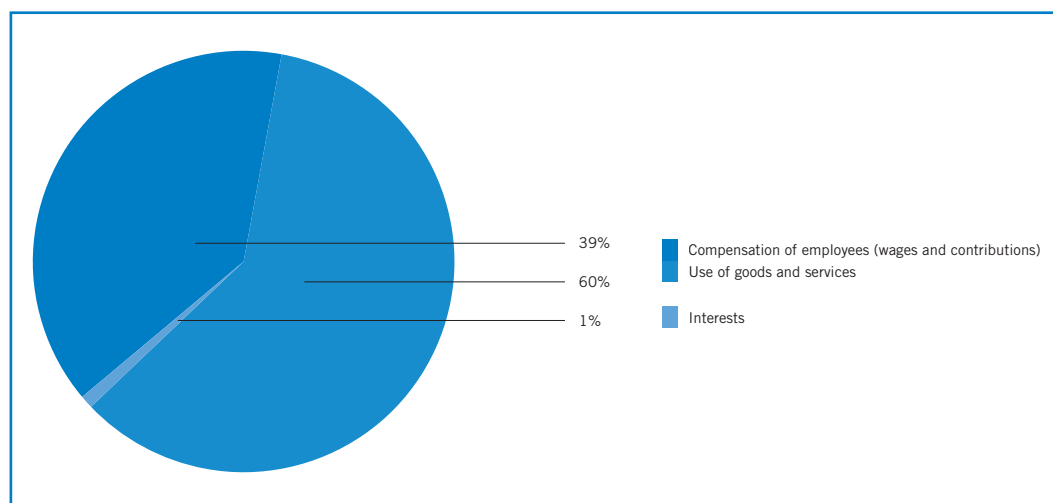
**Table 4.5 Budget Expenses in 2005 and 2006 for 53 Local Units (32 cities, 20 counties and the City of Zagreb)**

000 HRK	Outturn	Structure	Outturn	Structure	Index
	2005	2005	2006	2006	2006/2005
<b>EXPENSES</b>	<b>9,882,542</b>	<b>100.0</b>	<b>10,629,313</b>	<b>100.0</b>	<b>107.6</b>
<b>Compensation of employees</b>	<b>2,379,585</b>	<b>24.1</b>	<b>2,695,251</b>	<b>25.4</b>	<b>113.3</b>
Wages and salaries	2,065,605	20.9	2,335,943	22.0	113.1
Social contributions	313,980	3.2	359,308	3.4	114.4
<b>Use of goods and services</b>	<b>3,775,863</b>	<b>38.2</b>	<b>4,108,888</b>	<b>38.7</b>	<b>108.8</b>
<b>Interests</b>	<b>98,047</b>	<b>1.0</b>	<b>71,548</b>	<b>0.7</b>	<b>73.0</b>
<b>Subsidies</b>	<b>746,131</b>	<b>7.5</b>	<b>877,361</b>	<b>8.3</b>	<b>117.6</b>
<b>Grants</b>	<b>289,638</b>	<b>2.9</b>	<b>286,226</b>	<b>2.7</b>	<b>98.8</b>
<b>Social benefits</b>	<b>538,720</b>	<b>5.5</b>	<b>635,152</b>	<b>6.0</b>	<b>117.9</b>
<b>Other expense</b>	<b>2,054,558</b>	<b>20.8</b>	<b>1,954,887</b>	<b>18.4</b>	<b>95.1</b>

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

Total expenses in 2006 amounted to HRK 10.6 billion and increased by 8% 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 2006**



Source: Ministry of Finance



The share of compensation of employees in total expenses amounted to 25%, expenses for use of goods and services 39%, other expenses (donations) 18% and the share of all other (subsidies, grants, social benefits and interests) amounted to 18%. Out of total expenses executed in 2006, the most funds were spent on use of goods and services, HRK 4.1 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 8.8% in comparison to 2005.

Compensation of employees (wages and contributions), realized in the amount of HRK 2.695 billion, grew at the rate of 13%. 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 related to interest paid have the least share of 1% in total expenses of local budget. Interests refer in the biggest 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 programs, etc. Subsidies and social benefits - benefits to the citizens recorded the highest increase of 18% in comparison to the year 2005. They are executed in the total amount of HRK 877 million and account for a share of 8% of total expenses. Primarily they are intended for public enterprises (in the amount of HRK 714 million), while a smaller share is earmarked for companies outside the public sector (in the amount of HRK 163 million), to farmers, craftsmen and small and medium size enterprises. Social benefits were realized in the total amount of HRK 635 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.

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 2006, the mentioned expenses were executed in the amount of HRK 286 million, i.e. 3% of total expenses. The largest part, i.e. 58% of grants, is allocated for capital grants within the general government (construction of roads, spatial plans, water supply, etc.).

Other expenses (donations) include current and capital expenses which amounted to HRK 1.955 billion in 2006 and had a share of 18% of total expenses. In the structure of the other expenses, 66% of the amount refers to current expense and 34% on capital expense.

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.

## 4.5 TRANSACTIONS IN NONFINANCIAL ASSETS



Table 4.6 Transactions in Nonfinancial Assets in 2005 and 2006 for 53 units

	2005	2006
<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>2,360,290</b>	<b>2,974,314</b>
<b>Fixed assets</b>	<b>2,460,334</b>	<b>2,963,175</b>
Acquisition: fixed assets	2,683,185	3,192,520
Disposal: fixed assets	222,851	229,345
<b>Valuables</b>	<b>209</b>	<b>436</b>
Acquisition: valuables	209	436
Disposal: valuables	0	0
<b>Nonproduced assets</b>	<b>-100,253</b>	<b>10,703</b>
Acquisition: nonproduced assets	216,903	320,923
Disposal: nonproduced assets	317,156	310,220

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

Net nonfinancial assets recorded an annual growth of 26% and amounted to HRK 2.974 billion in 2006, which is the result of the acquisition and the disposal of nonfinancial assets. Nonfinancial assets include produced and nonproduced assets. Produced fixed assets include buildings, structures, machinery, equipment and other fixed assets.

Total acquisition of produced nonfinancial assets increased by 19% compared to 2005 and amounted to HRK 3.192 billion (utility infrastructures, school and health institutions, cultural facilities, preschool institutions, entrepreneurial zones, business buildings, reconstruction and construction of roads, sport and recreational centers, furniture and equipment, etc.) while the disposal of fixed assets (business facilities, revenue from the sale of flats and other structures) increased by 3% in comparison to the previous year and stood at only HRK 229 million.

Nonproduced assets comprise land, subsoil assets, other naturally occurring assets and other rights (concessions, licenses, patents, etc.). Acquisition and disposal of nonproduced assets in 2006 was almost fully realized on the basis of land disposal. 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.

In deficiency of revenue for acquisition of nonfinancial asset for the purpose of financing capital projects, it is given a possibility of borrowing in accordance to the Decree Law<sup>26</sup> and subordinate legislation<sup>27</sup> to the local and regional self-government units. Counties, cities and municipalities can debit by credit financing or by issue of securities only at banks on the area of the Republic of Croatia for capital projects which are financing from their budget, and confirmed by representative body, with the agreement of the Government.

<sup>26</sup> The Budget Law (Official Gazette, No 148/05)

<sup>27</sup> Ordinance on the local and regional self-government units' indebtedness and guarantees granting (Official Gazette, No 55/04)



## 4.6 TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES

Table 4.7 Transactions in Financial Assets and Liabilities in 2005 and 2006 for 53 units (32 cities, 20 counties and the City of Zagreb)

	2005	2006
<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>-303,883</b>	<b>-53,130</b>
Domestic	-303,883	-53,130
Foreign	0	0
<b>NET INCURRENCE OF LIABILITIES</b>	<b>-223,452</b>	<b>-9,714</b>
Domestic	-130,446	80,882
Foreign	-93,006	-90,596

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

Transactions 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 include:

- expenditures for given domestic loans in the amount of HRK 56.9 million; for shares and purchase of equities in companies' capital in the amount of HRK 38.1 million and other claims in the amount of HRK 20.1 million;
- and receipts from the repayment of given loans in the amount of HRK 114.8 million, receipts from the sale of shares and equities in companies in the amount of HRK 11.2 million;
- and the reduction of deposits by HRK 42.4 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. Incurrence of liabilities based on received loans from domestic retail banks and issued bonds for financing capital projects stood at HRK 324.7 million, and the repayments were HRK 334.5 million, hence, a little bit more in comparison to revenues debit. Consequently, net incurrence of liabilities of the local and regional self-government units record a decrease in 2006.

The Budget 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. 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 for annual incurrence of liabilities of certain unit.

Units are also allowed to refinance present loan liabilities because of more favorable 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 2006, 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 2005. 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 2005. In 2006, local and regional self-government units given approval for borrowing of the Government of the Republic of Croatia used for financing of capital projects (building utility infrastructure, building roads, public lighting, business zones, libraries, school objects, and other).

**5**

**CONSOLIDATED  
GENERAL  
GOVERNMENT IN  
2006**







## 5.1 SIGNIFICANT FISCAL POLICY FEATURES IN 2006

Significant fiscal adjustment, initiated already in 2004, continued throughout the year 2006. Fiscal deficit was reduced from 6.2% of GDP in 2003 to 3.0% of GDP in 2006, meaning that a fiscal consolidation of 3.2 percentage points was implemented in just three years. These developments are the result of strong efforts focused on arranging and increasing the efficiency of the State Treasury and improving the whole public finance system. As of 1 January 2006, the coverage of the Single Treasury Account was expanded to incorporate road charges of Croatian Motorways and Croatian Roads. Furthermore, additional accounts of the ministries and other budgetary users were closed by the beginning of 2007. The budget for 2006 was of expanded coverage. The budget incorporates the lottery revenues, road charges, own revenues of budgetary users, revenues under the special regulations (administrative taxes and other earmarked revenues), EU grants. Explanations according to programs - activities/projects of the ministries were compiled as supplements to the budget presented to the Parliament, for the purpose of better understanding and clearer picture of objectives and a purpose of certain programs and the work of the ministries. Furthermore, for the purpose of increasing transparency and informing the general public, booklets "2006 Budget Guide" and "Execution of 2006 Budget" were prepared and made available to the public on the web-site of the Ministry of Finance.

An important feature of the year 2006 was certainly the successful conclusion of the Stand-by arrangement with the International Monetary Fund, which lasted from August 2004 to November 2006. The main program objectives included maintaining the macroeconomic stability, limiting external vulnerability and preparing Croatia for EU accession, where the strongest emphasis was put on fiscal policy. Significant achievements in the area of fiscal policy with regard to implementation of fiscal adjustment and reduction of the share of fiscal deficit and public debt in GDP contributed to positive developments in the economy.



## 5.2 CONSOLIDATED GENERAL GOVERNMENT BY ECONOMIC CLASSIFICATION

### 5.2.1 Consolidated General Government Revenues

During 2006, consolidated general government revenues were collected in the amount of HRK 112.3 billion, which represents an increase of HRK 9.2 billion or 8.9% on an annual level. Thus, the revenue plan was exceeded by HRK 1 billion. At the same time, the share of total revenues of consolidated general government in the value of nominal gross domestic product stood at 44.8% in 2006.

Table 5.1 presents basic categories of consolidated general government revenues, reported according to economic classification, in nominal terms and as a share of GDP.

**Table 5.1 Consolidated General Government Revenues 2004 - 2006**

	(000 HRK)	2004	% GDP	2005	% GDP	2006	% GDP
<b>1</b>	<b>REVENUES</b>	<b>96,426,967.1</b>	<b>44.9</b>	<b>103,100,940.9</b>	<b>44.6</b>	<b>112,293,777.0</b>	<b>44.8</b>
<b>11</b>	<b>Taxes</b>	<b>56,425,728.1</b>	<b>26.2</b>	<b>60,521,399.0</b>	<b>26.2</b>	<b>66,768,245.5</b>	<b>26.6</b>
111	Taxes on income, profits and capital gains	12,160,712.0	5.7	13,396,909.8	5.8	15,972,290.5	6.4
1111	Taxes on individual income	7,764,614.8	3.6	7,824,668.1	3.4	8,812,854.7	3.5
1112	Taxes on corporate income	4,396,097.2	2.0	5,572,241.7	2.4	7,159,435.8	2.9
113	Taxes on property	730,912.8	0.3	763,635.2	0.3	961,823.3	0.4
114	Taxes on goods and services	41,587,966.2	19.3	44,414,502.5	19.2	47,894,481.3	19.1
1141	General taxes on goods and services	30,057,274.5	14.0	32,446,852.9	14.0	35,143,439.3	14.0
11411	Value-added tax	29,864,904.7	13.9	32,243,371.6	13.9	34,931,749.5	13.9
11412	Sales taxes	192,369.8	0.1	203,481.3	0.1	211,689.8	0.1
1142	Excises	10,625,357.7	4.9	10,939,144.1	4.7	11,564,709.0	4.6
1144	Taxes on specific services	41,562.3	0.0	33,881.4	0.0	38,079.2	0.0
1145	Taxes on use of goods, permission to use goods	465,692.5	0.2	564,149.9	0.2	684,894.5	0.3
1146	Other taxes on goods and services	398,079.2	0.2	430,474.2	0.2	463,359.3	0.2
115	Taxes on international trade and transactions	1,590,727.3	0.7	1,562,930.2	0.7	1,588,456.0	0.6
116	Other taxes	355,409.8	0.2	383,421.3	0.2	351,194.4	0.1
<b>12</b>	<b>Social contributions</b>	<b>29,477,597.2</b>	<b>13.7</b>	<b>31,301,339.6</b>	<b>13.5</b>	<b>33,877,147.6</b>	<b>13.5</b>
<b>13</b>	<b>Grants</b>	<b>13,991.7</b>	<b>0.0</b>	<b>28,149.2</b>	<b>0.0</b>	<b>200,132.9</b>	<b>0.1</b>
131	From foreign governments	4,554.3	0.0	314.2	0.0	4,455.1	0.0
132	From international organizations	9,437.4	0.0	27,835.0	0.0	195,677.8	0.1
133	From other general government units	0.0	-	0.0	-	0.0	-
<b>14</b>	<b>Other revenues</b>	<b>10,509,650.1</b>	<b>4.9</b>	<b>11,250,053.1</b>	<b>4.9</b>	<b>11,448,251.0</b>	<b>4.6</b>

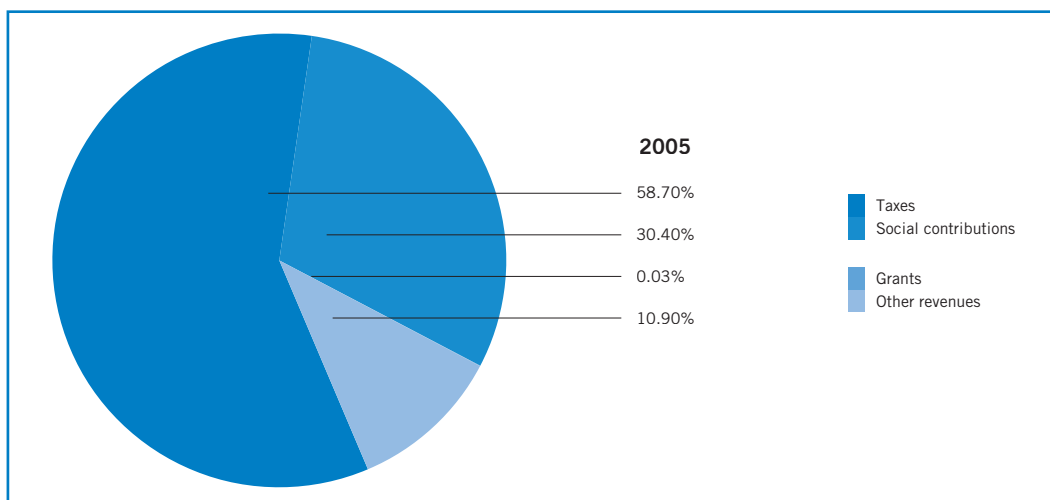
Source: Ministry of Finance and Central Bureau of Statistics for GDP data

By observing consolidated general government revenues by categories, it can be noticed that tax revenues represent the most important source of consolidated general government revenues. In 2006, tax revenues were realised in the amount of HRK 66.8 billion, which represents an increase of 10.3% in comparison to the year 2005, due to the increase in economic activity and strengthening of tax revenue collection control. Social contributions, the second most important revenue category, stood at HRK 33.9 billion, thus keeping its share in GDP at the unchanged level of 13.5%. Given the EU accession process and more opportunities for using pre-accession funds, grants recorded a multiple increase. Other revenues were increased by HRK 198.2 million, while their share in GDP was decreased by 0.3 percentage points.

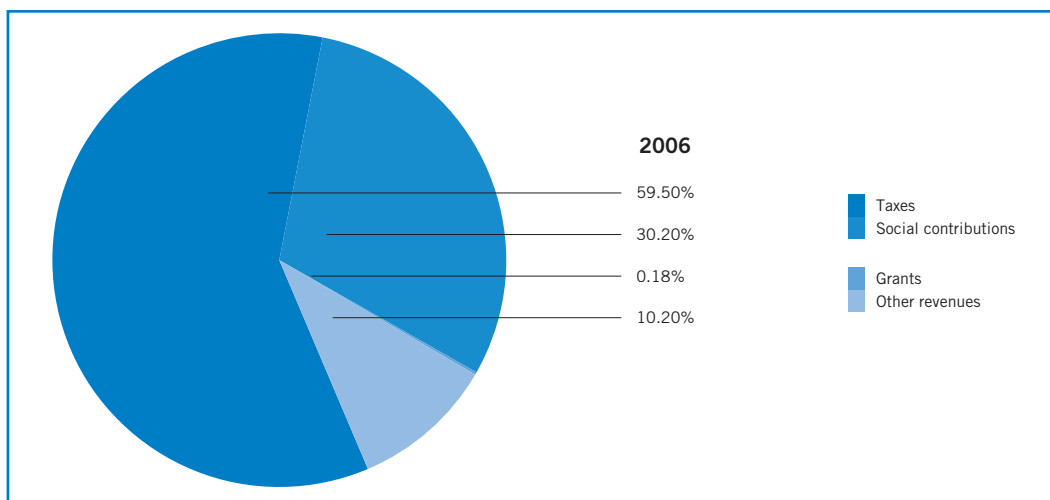
The structure of consolidated general government revenues in 2005 and 2006 is illustrated in Figures 5.1 and 5.2.

The general government revenue structure remained nearly unchanged in comparison with 2005. Namely, the tax revenues had a 59.5% share, notably because of better tax revenues collection but also measures directed to prevention of tax evasion. Social contributions account for the share of 30.2% while grants and other revenues have 10.4% share in total revenues structure.

**Figures 5.1 and 5.2 Structure of Consolidated General Government Revenues in 2005 and 2006**



Source: Ministry of Finance



Source: Ministry of Finance

Figures 5.3 and 5.4 indicate the structure of consolidated general government tax revenues in 2005 and 2006, according to economic classification.

Value added tax revenues, which make up more than a half of all consolidated general government tax revenues, decreased their share in total tax revenues by 1 percentage point in comparison to the previous fiscal year (from 53.3% to 52.3%). They were collected in the amount of HRK 34.9 billion, that is HRK 101.5 million over the planned annual amount. Thereby, they recorded an annual increase of 8.3%, mostly due to favourable tourism and retail trade indicators.



Revenues from excises, collected in the amount of HRK 11.6 billion, had a share of 17.3% in the tax revenue structure. Compared to the previous fiscal year, excises were increased by 5.7%, which represents a higher increase than 3.0% recorded in 2005. Excises were almost realised in the amount planned, i.e. they exceeded the planned amount by only HRK 24.9 million. It is worth noting that a part of excises on oil and oil derivatives, which were before collected by Croatian Motorways and Croatian Roads, have been included in the budgetary central government as of 2006.

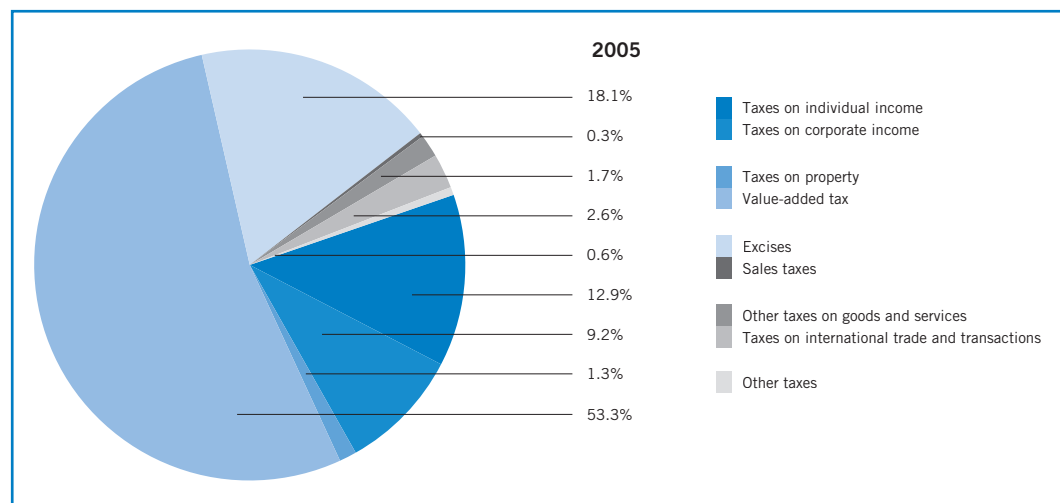
The share of personal income tax revenues in total tax revenues was increased from 12.9% in 2005 to 13.2% in 2006. They recorded the amount of HRK 8.8 billion, which is an increase by HRK 988.2 million or 12.6% in comparison to the previous year. Out of the total personal income tax revenues of the consolidated general government, HRK 3.5 billion were collected by the budgetary central government and HRK 5.4 billion were collected by the local government units.

In 2006, corporate income tax revenues increased by a high rate of 28.5%, thus influencing their share in the tax revenues which increased from 9.2% in 2005 to 10.7% in 2006. In nominal terms, revenues from corporate income tax amounted to HRK 7.2 billion, of which HRK 5.1 billion relates to budgetary central government and HRK 2.1 billion to local government units. In this way, corporate income tax revenues exceeded the planned amount by HRK 729.0 million. This high growth rate may be explained by high increase in the industrial production and good performance of companies.

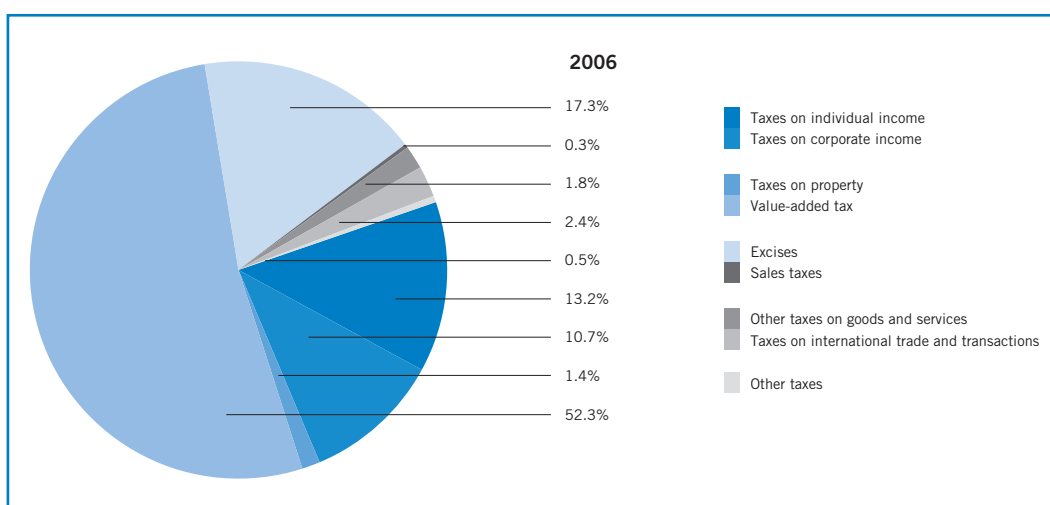
The decline in the share of revenues from taxes on international trade and transactions in total tax revenues continued in 2006, primarily due to further liberalization of international trade. Therefore, the share of 2.6% in 2005 decreased to 2.4% in 2006. Revenues from taxes on international trade and transactions were collected in the amount of HRK 1.6 billion in 2006 and they completely belong to the budgetary central government.

Within the structure of tax revenues, revenues from taxes on property are also worth mentioning. Their share in total tax revenues slightly increased from 1.3% in 2005 to 1.4% in 2006. They were collected in the amount of HRK 961.8 million and therefore recorded an annual increase of 26.0%. The budgetary central government collected HRK 482.3 million while the remaining HRK 479.5 million refers to local government units. This outturn is the result of the developments on the real estate market, since the real estate transactions as well as the prices were increasing, which contributed to excellent collection of revenues from taxes on property.

**Figures 5.3 and 5.4 Structure of Consolidated General Government Tax Revenues in 2005 and 2006**



Source: Ministry of Finance



Source: Ministry of Finance

Social contributions, which account for 30.2% of total revenues, are the second most important revenue category of consolidated general government. During 2006 they were growing faster than in 2005 (8.2% in comparison to 6.2%) and have reached the amount of HRK 33.9 billion. Social contributions grew in line with the increase in the economic activity, i.e. with the employment and average gross monthly wage growth.

Grants have recorded a higher increase in 2006 and therefore increased their share in total revenues from 0.03% in 2005 to 0.2% in 2006. They amounted to HRK 200.1 million, which represents an annual increase of HRK 172.0 million.

Other revenues of consolidated general government recorded the amount of HRK 11.4 billion, which represents an annual increase of 1.8%. They decreased their share in total revenues from 10.9% in 2005 to 10.2% in 2006. By observing the outturn of other revenues in comparison to the 2006 plan, it can be noticed that the realised amount was by HRK 244.6 million lower than it was planned.

### 5.2.2 Consolidated General Government Expense

Consolidated general government expense stood at HRK 107.7 billion in 2006, exceeding the annual plan by HRK 160.4 million (0.1%). At the same time, total expense recorded a rise of 7.2%, which is higher than in 2005 when the annual increase was 6.6%. The share of consolidated general government total expense in GDP decreased from 43.4% in 2005 to 43.0% in 2006.

Table 5.2 presents consolidated general government total expense, according to economic classification and as a share of GDP in the period 2004-2006.



**Table 5.2 Consolidated General Government Expense 2004-2006**

	(000 HRK)	2004	% GDP	2005	% GDP	2006	% GDP
<b>2</b>	<b>EXPENSE</b>	<b>94,286,501.1</b>	<b>43.9</b>	<b>100,510,748.2</b>	<b>43.4</b>	<b>107,721,681.0</b>	<b>43.0</b>
<b>21</b>	<b>Compensation of employees</b>	<b>25,505,196.0</b>	<b>11.9</b>	<b>26,679,699.7</b>	<b>11.5</b>	<b>28,208,212.7</b>	<b>11.3</b>
211	Wages and salaries	21,723,668.4	10.1	22,731,437.0	9.8	24,035,666.5	9.6
212	Social contributions	3,781,527.6	1.8	3,948,262.7	1.7	4,172,546.2	1.7
<b>22</b>	<b>Use of goods and services</b>	<b>9,679,315.7</b>	<b>4.5</b>	<b>10,876,095.4</b>	<b>4.7</b>	<b>13,302,369.1</b>	<b>5.3</b>
<b>24</b>	<b>Interest</b>	<b>4,423,238.9</b>	<b>2.1</b>	<b>5,102,696.5</b>	<b>2.2</b>	<b>5,468,594.7</b>	<b>2.2</b>
241	To nonresidents	2,201,889.8	1.0	2,402,223.1	1.0	2,393,739.8	1.0
242	To residents other than general government	2,221,349.1	1.0	2,700,339.0	1.2	3,074,682.9	1.2
243	To other general government units	0.0	-	134.4	0.0	172.0	0.0
<b>25</b>	<b>Subsidies</b>	<b>5,694,424.8</b>	<b>2.6</b>	<b>6,000,064.2</b>	<b>2.6</b>	<b>6,561,952.3</b>	<b>2.6</b>
251	To public corporations	3,420,618.6	1.6	3,438,743.6	1.5	3,407,080.7	1.4
252	To private enterprises	2,273,806.2	1.1	2,561,320.6	1.1	3,154,871.6	1.3
<b>26</b>	<b>Grants</b>	<b>1,008,884.4</b>	<b>0.5</b>	<b>1,390,464.0</b>	<b>0.6</b>	<b>1,466,028.9</b>	<b>0.6</b>
261	To foreign governments	76,464.4	0.0	73,639.3	0.0	64,913.2	0.0
262	To international organizations	83,433.8	0.0	93,831.7	0.0	89,720.3	0.0
263	To other general government units	848,986.2	0.4	1,222,993.0	0.5	1,311,395.4	0.5
<b>27</b>	<b>Social benefits</b>	<b>41,021,807.6</b>	<b>19.1</b>	<b>42,468,952.0</b>	<b>18.4</b>	<b>44,828,002.8</b>	<b>17.9</b>
271	Social security benefits	29,100,970.6	13.5	29,879,823.4	12.9	31,276,694.3	12.5
272	Social assistance benefits	11,552,422.5	5.4	12,318,373.1	5.3	13,411,044.9	5.4
273	Employer social benefits	368,414.5	0.2	270,755.5	0.1	140,263.6	0.1
<b>28</b>	<b>Other expense</b>	<b>6,953,633.7</b>	<b>3.2</b>	<b>7,992,776.4</b>	<b>3.5</b>	<b>7,886,520.5</b>	<b>3.1</b>

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

It can be noticed that the biggest contribution to the decrease of the share of consolidated general government expense in the value of GDP came from social benefits and compensation of employees. Namely, the share of social benefits decreased from 18.4% of GDP in 2005 to 17.9% of GDP in 2006, while the share of compensation of employees decreased from 11.5% of GDP in 2005 to 11.3% of GDP in 2006. Also, other expense decreased their share in GDP by 0.4 percentage points. On the other hand, the use of goods and services have increased from 4.7% of GDP to 5.3% of GDP while interests, subsidies and grants kept their share in GDP unchanged.

Figures 5.5 and 5.6 present the structure of consolidated general government expense in 2005 and 2006.

During the year 2006, expense for social benefits stood at HRK 44.8 billion as planned, thus decreasing their share in the structure of total expense from 42.3% in 2005 to 41.6% in 2006. At the same time, 70.4% of social benefits were paid out in the form of social security benefits, 29.0% in the form of social assistance benefits and the remaining 0.6% in the form of social benefits to employees. The annual increase of social benefits amounted to 5.6%. Within the structure of social benefits, the highest share relates to pensions, healthcare system, maternity leave allowance and child allowance.

According to their share in total expense, the next biggest category is compensation of employees (the share of 26.2%) with the amount of HRK 28.2 billion, which is almost identical to the planned amount, but higher by 5.7% compared to the year 2005. Out of this amount, HRK 24.0 billion was spent on wages and salaries while HRK 4.2 billion was spent on social contributions paid by the government.

A high third place in total expense structure is taken by the expense for the use of goods and services, which increased its share by 1.5 percentage points during 2006, thus reaching the level of 12.4%. Use of goods and services stood at HRK 13.3 billion, which represents an increase of 22.3% compared to 2005, when this expense recorded an annual growth of 12.4%.

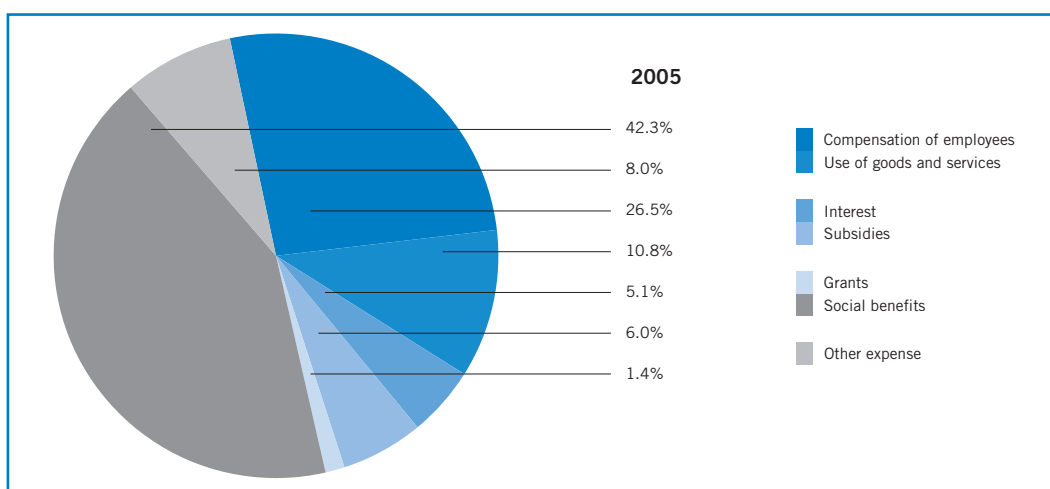
The share of other expense of consolidated general government decreased from 8.0% in 2005 to 7.3% in 2006. They amounted to HRK 7.9 billion, thus recording a lower amount than in 2005 by HRK 106.3 million. At the same time, capital expense stood at HRK 4.2 billion, current

expense amounted to HRK 3.6 billion, while property expense other than interest recorded the amount of only HRK 7.6 million. Capital expense recorded an increase of HRK 10.6 million compared to 2005, while current expense was lower by HRK 119.5 million. Around HRK 2.7 billion of total capital expense refers to budgetary central government, HRK 813.3 million to extrabudgetary funds and agencies (particularly Croatian Waters and Croatian Roads) and almost HRK 660 million to local government units. At the same time, almost HRK 2.3 billion was spent on current expense by the budgetary central government, HRK 1.3 billion by local government units and the least (HRK 33.3 million) by extrabudgetary funds and agencies.

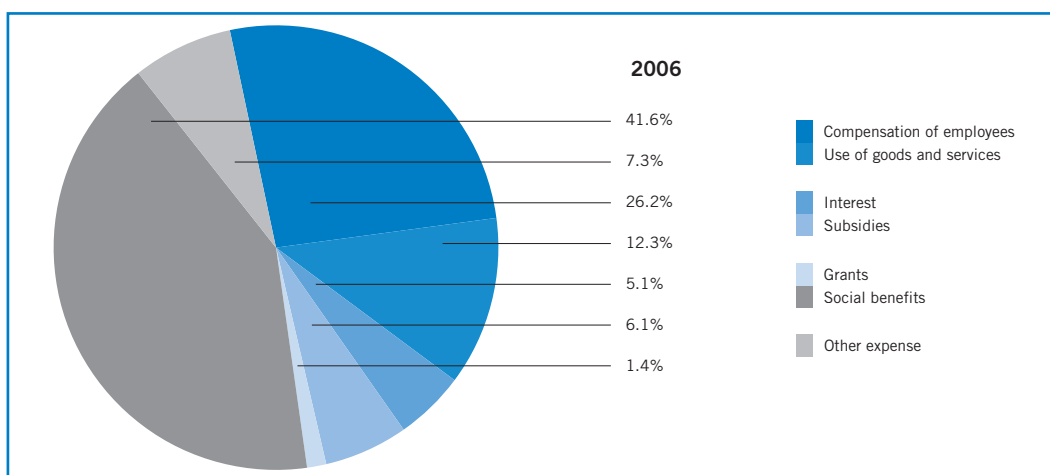
Expense for subsidies reached the level of HRK 6.6 billion in 2006, i.e. 9.4% more than in 2005 and 4.5% more than it was planned. Therefore, they have slightly increased their share in total expense from 6.0% in 2004 and 2005 to 6.1% in 2006. More than a half of total subsidies (51.9%) was paid to companies in the public sector (HRK 3.4 billion), where the biggest part refers to subsidies to Croatian Railways. The remaining 48.1% of total subsidies was spent on companies outside the public sector (HRK 3.2 billion), where the subsidies to agriculture account for the largest share.

Expense for interest payments stood at HRK 5.5 billion, which is almost identical to the planned amount, but higher by 7.2% than the previous year. Interest to residents amounted to HRK 3.1 billion, while interest to nonresidents recorded the amount of HRK 2.4 billion. At the same time, interest to residents increased by 13.9%, while interest to nonresidents decreased by 0.4% on an annual level. This government financing policy, which is more oriented towards domestic financing, reflected itself in the structure of interest payments. In this way, interest to residents increased its share from 52.9% in 2005 to 56.2% in 2006, while interest to nonresidents decreased its share by the same percentage.

**Figure 5.5 and 5.6 Structure of Consolidated General Government Expense in 2005 and 2006**



Source: Ministry of Finance



Source: Ministry of Finance





### 5.2.3 Transactions in Nonfinancial Assets of Consolidated General Government

Net acquisition of nonfinancial assets of the consolidated general government amounted to HRK 9.1 billion, which is only by HRK 23.2 million higher than the year before. The acquisition of nonfinancial assets in the amount of HRK 10.4 billion exceeded its disposal which amounted to HRK 1.3 billion. By observing this category according to government level, it can be noticed that extrabudgetary funds and agencies participated with 47.6% in total acquisition, local government units with 33.9% and budgetary users with 18.4%. The acquisition of fixed assets accounts for 92.8% of total acquisition of nonfinancial assets in 2006. It mostly relates to the acquisition of buildings and structures and in a smaller share to the acquisition of machinery and equipment and other fixed assets. The remaining share of the acquisition of nonfinancial assets refers to the acquisition of nonproduced assets (7.1%), mostly land, than to valuables (0.1%), while the amount of only 1 million refers to inventories.

On the other hand, disposal of nonfinancial assets are mostly related to local government units which account for 42.6% of total disposal of nonfinancial assets in 2006. The remaining share is distributed between disposal of nonfinancial assets of budgetary users (27.8%) and extrabudgetary funds and agencies (29.6%). The largest share of total disposal of nonfinancial assets refers to disposal of fixed assets (67.3%), primarily buildings and structures; which is followed by disposal of nonproduced assets (26.3%), primarily land, and disposal of inventories (6.4%).

Table 5.3 gives the overview of nonfinancial assets and their share in GDP from 2004 to 2006.

**Table 5.3 Transactions in Nonfinancial Assets of Consolidated General Government 2004-2006**

	(000 HRK)	2004	% GDP	2005	% GDP	2006	% GDP
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>10,494,817.9</b>	<b>4.9</b>	<b>9,059,706.4</b>	<b>3.9</b>	<b>9,082,941.4</b>	<b>3.6</b>
311	Fixed assets	10,371,226.7	4.8	8,900,042.8	3.8	8,751,828.2	3.5
312	Inventories	0.0	-	0.0	-	-80,226.0	-
313	Valuables	7,682.5	0.0	7,429.4	0.0	8,261.7	0.0
314	Nonproduced assets	115,908.7	0.1	152,234.2	0.1	403,077.5	0.2

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

### 5.2.4 Transactions in Financial Assets and Liabilities of Consolidated General Government

During the year 2006 net acquisition of financial assets of the consolidated general government amounted to HRK -2.6 billion, whereat domestic financial assets decreased by HRK 2.6 billion, while foreign financial assets increased by HRK 16.7 million. A decrease in domestic financial assets is primarily the result of a decrease of shares and other equity, which is due to higher disposal of shares and other equity (HRK 2.8 billion) than their acquisition (HRK 285.5 million). Budgetary central government recorded the largest decrease of domestic shares and other equity in the amount of HRK 2.5 billion, followed by extrabudgetary funds and agencies in the amount of HRK 115.0 million, while local government units recorded an increase in shares and other equity in the amount of HRK 29.6 million.

Furthermore, a decrease in currency and deposits in the amount of HRK 1 billion also contributed to a decrease of domestic financial assets, which is the result of its decrease at the level of budgetary central government (HRK 1.4 billion) and local government units (HRK 42.5 million) and its increase at the level of extrabudgetary funds and agencies (HRK 480.7 million).

Other transactions in domestic financial assets have been carried out on the basis of loans which recorded a net increase of HRK 879.1 million, on the basis of other accounts receivable which increased by HRK 20.1 million and on the basis of securities other than shares which increased by only HRK 242 thousands. Increase in domestic financial assets on the basis of loans is a result of higher acquisition of loans (HRK 1.4 billion) given to companies in public



sector, craftsmen and small and medium-sized enterprises than the disposal of loans (HRK 477.6 million). At the same time, it is worth mentioning that the increase of domestic loans is a result of an increase of loans at the level of budgetary central government (HRK 832.3 million) and extrabudgetary funds and agencies (HRK 104.8 million) while local government units recorded a decrease of loans in the amount of HRK 58 million.

An increase of foreign financial assets in the abovementioned amount of HRK 16.7 million was solely a result of an increased acquisition of shares and other equity at the level of budgetary central government.

Table 5.4 gives the overview of financial assets and liabilities and their share in GDP from 2004 to 2006.

**Table 5.4 Transactions in Financial Assets and Liabilities of Consolidated General Government 2004-2006**

	(000 HRK)	2004	% GDP	2005	% GDP	2006	% GDP
<b>TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES</b>							
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>104,241.8</b>	<b>0.0</b>	<b>1,305,876.1</b>	<b>0.6</b>	<b>-2,629,878.3</b>	<b>-</b>
<b>321</b>	<b>Domestic</b>	<b>96,150.2</b>	<b>0.0</b>	<b>1,310,733.0</b>	<b>0.6</b>	<b>-2,646,558.9</b>	<b>-</b>
3212	Currency and deposits	-878,660.0	-	737,398.9	0.3	-1,011,388.6	-
3213	Securities other than shares	0.0	-	0.0	-	242.4	0.0
3214	Loans	794,074.1	0.4	774,287.3	0.3	879,051.1	0.4
3215	Shares and other equity	169,766.3	0.1	-218,890.3	-	-2,534,596.1	-
3218	Other accounts receivable	10,969.8	0.0	17,937.1	0.0	20,132.3	0.0
<b>322</b>	<b>Foreign</b>	<b>8,091.6</b>	<b>0.0</b>	<b>-4,856.9</b>	<b>-</b>	<b>16,680.6</b>	<b>0.0</b>
3224	Loans	-1,694.2	-	0.0	-	0.0	-
3225	Shares and other equity	9,785.8	0.0	-4,856.9	-	16,680.6	0.0
<b>33</b>	<b>NET LIABILITIES</b>	<b>8,458,593.7</b>	<b>3.9</b>	<b>7,775,389.8</b>	<b>3.4</b>	<b>1,880,967.1</b>	<b>0.8</b>
<b>331</b>	<b>Domestic</b>	<b>4,339,219.2</b>	<b>2.0</b>	<b>11,911,230.9</b>	<b>5.1</b>	<b>5,363,614.9</b>	<b>2.3</b>
3313	Securities other than shares	6,558,484.6	3.1	9,369,420.6	4.0	5,751,820.2	2.5
3314	Loans	-2,219,265.4	-	2,693,551.3	1.2	-388,205.3	-
<b>332</b>	<b>Foreign</b>	<b>4,119,374.5</b>	<b>1.9</b>	<b>-4,135,841.1</b>	<b>-</b>	<b>-3,482,647.8</b>	<b>-</b>
3323	Securities other than shares	1,215,439.1	0.6	-3,713,935.0	-	-3,480,780.5	-
3324	Loans	2,903,935.4	1.4	-421,906.1	-	-1,867.3	-

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

In the previous fiscal year net liabilities of the consolidated general government increased by HRK 1.9 billion, which represents HRK 5.9 billion less than in 2005. Total incurrence of liabilities amounted to HRK 12.8 billion, while total repayments stood at HRK 10.9 billion. Almost 79% of total incurrence of liabilities was realised on the domestic market. Therefore, domestic liabilities were increased by HRK 5.4 billion, due to an increase of liabilities on the basis of securities other than shares (HRK 5.8 billion) and a decrease in liabilities based on loans (HRK 388.2 million). The incurrence of liabilities on the basis of securities other than shares (bonds and Treasury bills) stood at HRK 6.3 billion, which is primarily realised at the level of budgetary central government (HRK 6.2 billion) since the incurrence of local government units was much lower (HRK 120.0 million). At the same time, repayments of the principal of securities other than shares amounted to HRK 568.0 million, of which the budgetary central government repaid HRK 550.9 million and local government units repaid HRK 17.1 million. The incurrence of domestic liabilities based on loans stood at HRK 3.8 billion, of which the extrabudgetary funds and agencies accounted for the largest part in the amount of HRK 2.3 billion, followed by the budgetary central government (HRK 1.3 billion) and the local government units (HRK 204.8 million). Repayments of loans of the consolidated general government exceeded the incurrence by HRK 388.2 million, i.e. they stood at HRK 4.2 billion. The largest repayments were made by the budgetary central government (HRK 3.7 billion), while the extrabudgetary funds and agencies and local government units had much lower repayments (HRK 225.1 million and HRK 226.8 million, respectively).



The reduction of foreign liabilities of the consolidated general government in 2006 in the amount of HRK 3.5 billion 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 3.5 billion were solely a result of budgetary central government repayments. In addition, repayments of foreign loans (HRK 2.7 billion) were made at the level of the budgetary central government (HRK 2.3 billion), extrabudgetary funds and agencies (HRK 309.9 million) and in a smaller part at the level of the local government units (HRK 90.6 million). At the same time, the incurrence of liabilities based on loans (HRK 2.7 billion) was a result of incurrence at the level of budgetary central government users (HRK 1.9 billion) and extrabudgetary funds and agencies (HRK 861.1 million).

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

Net operating balance of the consolidated general government, which is defined as a difference between total revenues and total expenses, recorded the amount of HRK 4.6 billion in 2006.

Primary operating balance, which is used as an indicator of current fiscal policy, excludes the interest from the calculation of a balance, and therefore eliminates the effects of previous fiscal deficits and accumulated public debt. In 2006, primary operating balance stood at HRK 10.0 billion, which represents an increase of HRK 2.3 billion compared to the previous year.

A category net lending/borrowing, which amounted to HRK -4.5 billion, is obtained by reducing the net operating balance of the consolidated general government by the value of net acquisition of nonfinancial assets (HRK 9.1 billion). Compared to the year 2005, net lending/borrowing was reduced by the high 30.3% in 2006, which is the result of the increase of net operating balance.

Total financing of this measure resulted in the previously described transactions which led to the increase of the financial assets (HRK 2.6 billion) and liabilities (HRK 1.9 billion).

Table 5.5 gives the overview of different measures of deficit/surplus of the consolidated general government and the calculation of net lending/borrowing in the period 2004-2006, according to GFS 2001 methodology.

**Table 5.5 Measures of Deficit/Surplus and Financing of Consolidated General Government 2004-2006**

	(000 HRK)	2004	% GDP	2005	% GDP	2006	% GDP
<b>TRANSACTIONS AFFECTING NET WORTH</b>							
1	Revenues	96,426,967.1	44.9	103,100,940.9	44.6	112,293,777.0	44.8
2	Expense	94,286,501.1	43.9	100,510,748.2	43.4	107,721,681.0	43.0
24	Interest	4,423,238.9	2.1	5,102,696.5	2.2	5,468,594.7	2.2
<b>Net operating balance (1-2)</b>		<b>2,140,466.0</b>	<b>1.0</b>	<b>2,590,192.7</b>	<b>1.1</b>	<b>4,572,096.0</b>	<b>1.8</b>
<b>Primary operating balance (1-2+24)</b>		<b>6,563,704.9</b>	<b>3.1</b>	<b>7,692,889.2</b>	<b>3.3</b>	<b>10,040,690.7</b>	<b>4.0</b>
<b>TRANSACTIONS IN NONFINANCIAL ASSETS</b>							
31	Net acquisition of nonfinancial assets	10,494,817.9	4.9	9,059,706.4	3.9	9,082,941.4	3.6
<b>Net lending-borrowing (1 - 2 - 31)</b>		<b>-8,354,351.9</b>	<b>-</b>	<b>-6,469,513.7</b>	<b>-</b>	<b>-4,510,845.4</b>	<b>-</b>
<b>Financing (3-2)</b>		<b>8,354,351.9</b>	<b>3.9</b>	<b>6,469,513.7</b>	<b>2.8</b>	<b>4,510,845.4</b>	<b>1.8</b>
<b>TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES</b>							
32	Net acquisition of financial assets	104,241.8	0.0	1,305,876.1	0.6	-2,629,878.3	-
33	Net acquisition of liabilities	8,458,593.7	3.9	7,775,389.8	3.4	1,880,967.1	0.8

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



## 5.3 CONSOLIDATED GENERAL GOVERNMENT ACCORDING TO GOVERNMENT LEVEL

Comparing the years 2005 and 2006, it can be noticed that the increase of the share of total revenue of the consolidated general government in GDP of 0.2 percentage points was a result of its increase at the level of budgetary central government and local government units and its decrease at the level of extrabudgetary funds and agencies. A reduction of the share of consolidated general government expense in GDP of 0.4 percentage points was primarily a result of its decrease at the level of budgetary central government. The expense of extrabudgetary funds and agencies increased their share in GDP, while the expense of local government units remained at the same level as in the year before. It is worth mentioning that the share of the value of nonfinancial assets in GDP decreased from 3.9% in 2005 to 3.6% in 2006. Net liabilities also decreased by 2.6 percentage points, reaching the level of 0.8% of GDP.

Table 5.6 presents the trend of total revenue and expense, nonfinancial assets, financial assets and liabilities as a share in GDP, for each level of the government in the period 2004-2006, according to GFS 2001 methodology.



**Table 5.6 Consolidated General Government According to Government Level 2004-2006**

	(000 HRK)	2004	% GDP	2005	% GDP	2006	% GDP
<b>1 REVENUES</b>		<b>96,426,967.1</b>	<b>44.9</b>	<b>103,100,940.9</b>	<b>44.6</b>	<b>112,293,777.0</b>	<b>44.8</b>
<b>Budgetary Central Government</b>		<b>80,463,518.2</b>	<b>37.4</b>	<b>85,653,010.2</b>	<b>37.0</b>	<b>95,234,057.3</b>	<b>38.0</b>
<b>Extrabudgetary Funds</b>		<b>6,555,766.0</b>	<b>3.0</b>	<b>6,989,463.0</b>	<b>3.0</b>	<b>5,158,548.0</b>	<b>2.1</b>
Croatian Institute for Pension Insurance		129,892.0	0.1	38,010.0	0.0	293,485.0	0.1
Croatian Health Insurance Institute		663,139.0	0.3	863,868.0	0.4	848,683.0	0.3
Croatian Employment Service		15,507.0	0.0	18,855.0	0.0	18,363.0	0.0
Croatian Waters		1,224,431.0	0.6	1,227,794.0	0.5	1,526,851.0	0.6
Environment Protection Fund		170,748.0	0.1	214,737.0	0.1	659,840.0	0.3
Croatian Motorways Ltd.		2,295,423.0	1.1	2,547,003.0	1.1	1,271,125.0	0.5
Croatian Roads Ltd.		1,417,787.0	0.7	1,474,714.0	0.6	64,749.0	0.0
State Agency for Deposit Insurance and Bank Rehabilitation		575,893.0	0.3	367,438.0	0.2	409,581.0	0.2
Croatian Privatization Fund		62,946.0	0.0	237,044.0	0.1	65,871.0	0.0
<b>Budgetary Local Government</b>		<b>9,407,682.9</b>	<b>4.4</b>	<b>10,458,467.7</b>	<b>4.5</b>	<b>11,901,171.7</b>	<b>4.7</b>
<b>2 EXPENSE</b>		<b>94,286,501.1</b>	<b>43.9</b>	<b>100,510,748.2</b>	<b>43.4</b>	<b>107,721,681.0</b>	<b>43.0</b>
<b>Budgetary Central Government</b>		<b>80,607,175.9</b>	<b>37.5</b>	<b>85,239,871.8</b>	<b>36.8</b>	<b>90,525,330.1</b>	<b>36.1</b>
<b>Extrabudgetary Funds</b>		<b>5,080,273.0</b>	<b>2.4</b>	<b>5,556,949.6</b>	<b>2.4</b>	<b>6,726,777.9</b>	<b>2.7</b>
Croatian Institute for Pension Insurance		587,420.0	0.3	382,162.0	0.2	565,857.0	0.2
Croatian Health Insurance Institute		831,295.0	0.4	914,345.0	0.4	931,628.0	0.4
Croatian Employment Service		141,333.0	0.1	145,931.0	0.1	155,002.0	0.1
Croatian Waters		1,426,283.0	0.7	1,489,465.0	0.6	1,773,976.0	0.7
Environment Protection Fund		32,443.0	0.0	112,452.6	0.0	694,938.9	0.3
Croatian Motorways Ltd.		752,254.0	0.3	1,085,077.0	0.5	1,272,713.0	0.5
Croatian Roads Ltd.		934,630.0	0.4	1,062,405.0	0.5	1,226,934.0	0.5
State Agency for Deposit Insurance and Bank Rehabilitation		314,474.0	0.1	182,993.0	0.1	27,354.0	0.0
Croatian Privatization Fund		60,141.0	0.0	182,119.0	0.1	78,375.0	0.0
<b>Budgetary Local Government</b>		<b>8,599,052.2</b>	<b>4.0</b>	<b>9,713,926.8</b>	<b>4.2</b>	<b>10,469,573.0</b>	<b>4.2</b>
<b>31 NET ACQUISITION OF NONFINANCIAL ASSETS</b>		<b>10,494,817.9</b>	<b>4.9</b>	<b>9,059,706.4</b>	<b>3.9</b>	<b>9,082,941.4</b>	<b>3.6</b>
<b>Acquisition</b>		<b>11,359,790.1</b>	<b>5.3</b>	<b>9,924,476.9</b>	<b>4.3</b>	<b>10,350,251.0</b>	<b>4.1</b>
Budgetary Central Government		1,663,867.9	0.8	1,828,817.8	0.8	1,908,482.4	0.8
Extrabudgetary Funds		6,984,515.0	3.2	5,195,362.0	2.2	4,927,889.0	2.0
Budgetary Local Government		2,711,407.2	1.3	2,900,297.1	1.3	3,513,879.6	1.4
<b>Disposals</b>		<b>864,972.2</b>	<b>0.4</b>	<b>864,770.5</b>	<b>0.4</b>	<b>1,267,309.6</b>	<b>0.5</b>
Budgetary Central Government		244,401.0	0.1	275,149.4	0.1	352,690.3	0.1
Extrabudgetary Funds		30,519.0	0.0	49,614.0	0.0	375,054.0	0.1
Budgetary Local Government		590,052.2	0.3	540,007.1	0.2	539,565.3	0.2
<b>32 NET ACQUISITION OF FINANCIAL ASSETS</b>		<b>104,241.8</b>	<b>0.0</b>	<b>1,305,876.1</b>	<b>0.6</b>	<b>-2,629,878.3</b>	<b>-</b>
<b>321 Domestic</b>		<b>96,150.2</b>	<b>0.0</b>	<b>1,310,733.0</b>	<b>0.6</b>	<b>-2,646,558.9</b>	<b>-</b>
Budgetary Central Government		138,090.4	0.1	1,747,681.4	0.8	-3,063,913.0	-
Extrabudgetary Funds		-119,979.0	-	-133,065.0	-	470,485.0	0
Budgetary Local Government		78,038.8	0.0	-303,883.4	-	-53,130.9	-
<b>322 Foreign</b>		<b>8,091.6</b>	<b>0.0</b>	<b>-4,856.9</b>	<b>-</b>	<b>16,680.6</b>	<b>0.0</b>
Budgetary Central Government		9,785.8	0.0	-4,856.9	-	16,680.6	0.0
Extrabudgetary Funds		0.0	-	0.0	-	0.0	-
Budgetary Local Government		-1,694.2	-	0.0	-	0.0	-
<b>33 NET INCURRENCE OF LIABILITIES</b>		<b>8,458,593.7</b>	<b>3.9</b>	<b>7,775,389.8</b>	<b>3.4</b>	<b>1,880,967.1</b>	<b>0.8</b>
<b>331 Domestic</b>		<b>4,339,219.2</b>	<b>2.0</b>	<b>11,911,230.9</b>	<b>5.1</b>	<b>5,363,614.9</b>	<b>2.1</b>
Budgetary Central Government		4,038,705.1	1.9	10,591,559.7	4.6	3,166,260.0	1.3
Extrabudgetary Funds		68,975.0	0.0	1,450,118.0	0.6	2,116,532.0	0.8
Budgetary Local Government		231,539.1	0.1	-130,446.8	-	80,822.9	0.0
<b>332 Foreign</b>		<b>4,119,374.5</b>	<b>1.9</b>	<b>-4,135,841.1</b>	<b>-</b>	<b>-3,482,647.8</b>	<b>-</b>
Budgetary Central Government		270,335.3	0.1	-5,080,612.1	-	-3,943,248.3	-
Extrabudgetary Funds		3,945,985.0	1.8	1,037,777.0	0.4	551,197.0	0.2
Budgetary Local Government		-96,945.8	-	-93,006.0	-	-90,596.5	-

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



## 5.4 CONSOLIDATED GENERAL GOVERNMENT DEFICIT ACCORDING TO MODIFIED ACCRUAL PRINCIPLE

The implementation of modified accrual principle for the calculation of fiscal deficit, which was agreed by the Stand-by arrangement, implies recording of all expenses which occurred in a certain year, regardless of the period of their final payment, unlike the recording of budget transactions on the cash principle. This means that the consolidated general government deficit defined on cash basis has to be corrected by the change in the stock of arrears of budgetary central government and local government units. However, it should be noted that the data of the consolidated general government includes transactions of Croatian Motorways and Croatian Roads on accrual basis.

Consolidated general government deficit on modified accrual basis amounted to HRK 7.5 billion or 3.0% of GDP in 2006, as it was planned. Therefore, the consolidated general government deficit was reduced by 1 percentage point or HRK 1.8 billion compared to the previous fiscal year.

**Table 5.7 Calculation of Consolidated General Government Deficit According to Modified Accrual Principle 2004-2006**

(000 HRK)	2004	2005	2006
<b>1. Revenues *</b>	<b>96,553,309.1</b>	<b>102,868,439.9</b>	<b>112,237,278.0</b>
<b>2. Expense GFS 1986</b>	<b>106,494,781.7</b>	<b>111,714,102.7</b>	<b>119,212,775.1</b>
Expense GFS 2001 *	94,559,425.1	100,476,847.2	107,644,348.0
Net acquisition of nonfinancial assets *	10,494,365.1	10,064,643.9	10,363,757.0
Net loans (total acquisition minus disposals of loans) *	891,011.9	851,349.3	882,152.1
Acquisition of shares and other equity *	539,009.8	303,325.2	302,143.3
Other accounts receivable *	10,969.8	17,937.1	20,374.7
<b>3. Consolidated General Government Deficit without capital revenues * (1-2)</b>	<b>-9,941,472.6</b>	<b>-8,845,662.8</b>	<b>-6,975,497.1</b>
<b>4. Change in arrears</b>	<b>-384,028.8</b>	<b>-455,823.7</b>	<b>-482,182.4</b>
<b>5. Consolidated General Government Deficit - modified accrual basis (3+4+5)</b>	<b>-10,325,501.4</b>	<b>-9,301,486.5</b>	<b>-7,457,679.5</b>
<b>Deficit as a share of GDP, %</b>	<b>-4.8</b>	<b>-4.0</b>	<b>-3.0</b>

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 by the same amount.

\* HAC and HC are on accrual basis

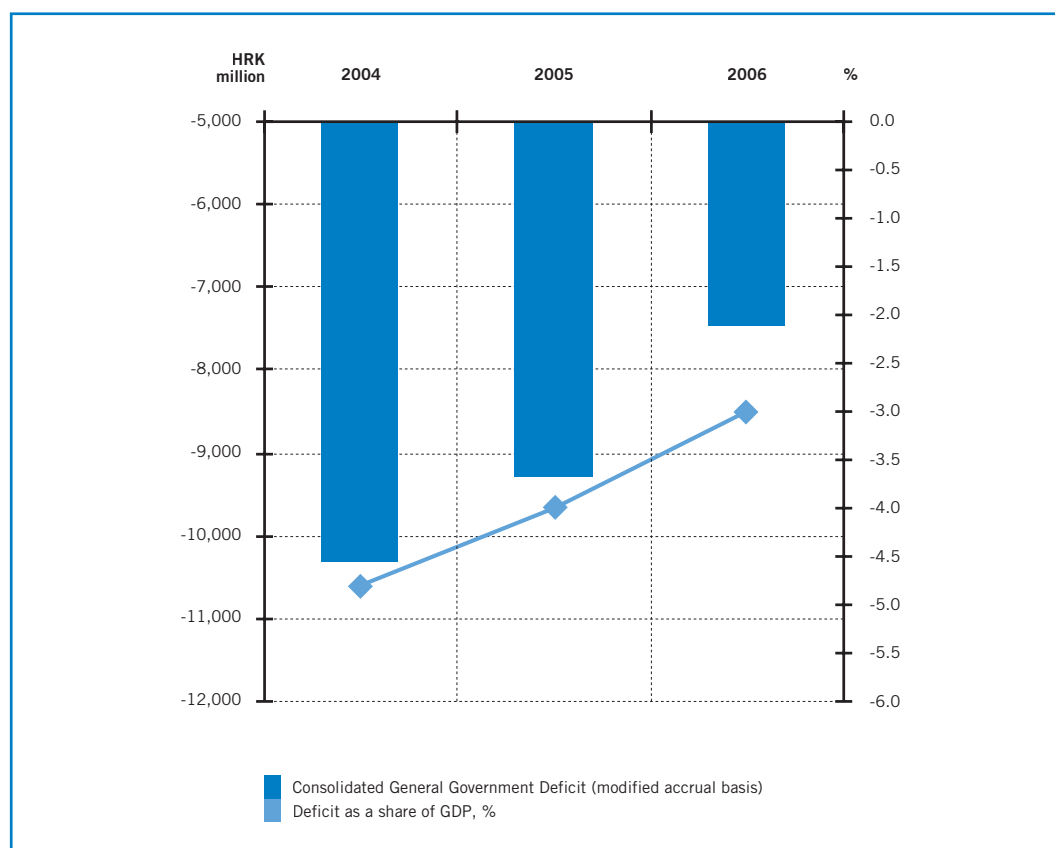
Source: Ministry of Finance

According to the government level, one can notice a significant decrease in the budgetary central government deficit from 2.5% of GDP in 2005 to 1.7% of GDP in 2006. The extrabudgetary funds and agencies have recorded a reduction of the deficit as well, from 1.2% of GDP in 2005 to 1.1% of GDP in 2006. Furthermore, the deficit of local government units was also reduced by 0.1 percentage points compared to 2005, i.e. it reached the level of 0.2% of GDP.

These developments confirm the significant fiscal consolidation implemented over the last years, which was accompanied by additional measures aimed at strengthening tax administration and achieving permanent fiscal savings. It is worth noting that the improved overall process of budget planning and control also contributed to the outturn of the planned deficit at the level of 3.0% of GDP in 2006, which provides a strong basis for further fiscal consolidation in the forthcoming medium term. Moreover, the consolidated general government deficit of 3.0% of GDP also represents a fulfilment of the Maastricht criterion for entering Economic and Monetary Union.

The calculation of consolidated general government deficit according to modified accrual basis in the period 2004-2006 is provided in Table 5.7.

**Figure 5.7 Consolidated General Government Deficit 2004-2006**



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

**6**

**PUBLIC DEBT OF  
THE REPUBLIC OF  
CROATIA IN 2006**







## 6.1 INTRODUCTION

According to the Budget Act (Official Gazette, No. 96/2003), government debt is defined as a debt of the consolidated central budget excluding state guarantees. With the addition of state guarantees, the government debt is defined as public debt. Table 6.1 presents the developments of the public debt of the Republic of Croatia in the period 2002-2006.

**Table 6.1 General Government Debt**

<b>GENERAL GOVERNMENT DEBT end of period, HRK million</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>1. Domestic general government debt</b>	<b>32,012.3</b>	<b>35,314.4</b>	<b>42,721.0</b>	<b>56,046.5</b>	<b>61,077.2</b>
1.1 Domestic debt of the Republic of Croatia	23,320.0	28,160.8	37,223.7	50,559.5	54,216.7
Treasury bills	5,632.7	6,548.1	9,022.5	12,533.4	12,662.2
Money market instruments	0.1	0.3		0.9	
Bonds	15,887.9	17,422.0	23,080.1	30,716.0	34,827.9
Loans of the Croatian National Bank	0.5	1.4	3.3	1.4	0.9
Bank loans	1,798.8	4,189.1	5,117.8	7,307.8	6,725.7
1.2 Domestic debt of extrabudgetary funds	7,659.1	6,247.5	3,911.2	3,935.0	5,168.2
Money market instruments	-	-	-	-	-
Bonds	4,108.1	3,418.2	1,726.0	-	-
Bank loans	3,551.0	2,829.3	2,185.1	3,935.0	5,168.2
1.3 Domestic debt of the local government	1,033.1	906.1	1,586.2	1,551.9	1,692.4
Money market instruments	30.2	16.9	6.6	40.7	29.3
Bonds	-	-	204.4	196.4	314.1
Bank loans	1,002.9	889.2	1,375.1	1,314.7	1,349.0
<b>2. Foreign general government debt</b>	<b>40,414.4</b>	<b>45,648.0</b>	<b>50,220.3</b>	<b>45,380.3</b>	<b>41,619.1</b>
2.1 Foreign debt of the Republic of Croatia	37,432.1	41,041.9	42,231.2	36,414.5	32,553.4
Money market instruments	-	-	-	-	-
Bonds	28,719.3	32,115.1	32,919.3	27,020.1	22,836.9
Loans	8,712.8	8,926.8	9,311.9	9,394.5	9,716.4
2.2 Foreign debt of extrabudgetary funds	2,585.1	4,285.6	7,747.0	8,749.8	8,913.4
Money market instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Loans	2,585.1	4,285.6	7,747.0	8,749.8	8,913.4
2.3 Foreign debt of the local government	397.3	320.6	242.1	216.0	152.5
Money market instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Loans	397.3	320.6	242.1	216.0	152.5
<b>3. Total (1+2)</b>	<b>72,426.7</b>	<b>80,962.4</b>	<b>92,941.3</b>	<b>101,426.8</b>	<b>102,696.5</b>
Addendum: Issued guarantees of the Republic of Croatia	16,079.1	15,419.2	12,262.3	12,455.2	14,098.3
1. Domestic	7,423.8	6,796.5	4,551.9	5,268.5	7,252.3
2. Foreign	8,655.3	8,622.7	7,710.4	7,186.7	6,846.0
Total debt of the HBOR	3,824.8	4,925.3	5,841.5	7,139.4	7,686.4
<b>Total: Issued guarantees (1+2+3)</b>	<b>19,903.9</b>	<b>20,344.5</b>	<b>18,103.8</b>	<b>19,594.6</b>	<b>21,784.7</b>
<b>GRAND TOTAL:</b>	<b>91,945.3</b>	<b>101,427.8</b>	<b>110,868.0</b>	<b>120,943.5</b>	<b>124,481.2</b>
<b>GDP</b>	<b>181,231.0</b>	<b>198,422.0</b>	<b>214,983.0</b>	<b>231,349.0</b>	<b>250,590.0</b>
<b>GENERAL GOVERNMENT DEBT ( % GDP)</b>	<b>39.96%</b>	<b>40.80%</b>	<b>43.23%</b>	<b>43.84%</b>	<b>40.98%</b>
<b>PUBLIC DEBT ( % GDP)</b>	<b>50.73%</b>	<b>51.12%</b>	<b>51.57%</b>	<b>52.28%</b>	<b>49.67%</b>

Source: CNB, Ministry of Finance



The content and the coverage of the data in the Table 6.1 are defined under the term “General Government” and represent 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 HBOR and excludes all the state guarantees granted to HBOR (this was done in order to avoid double reporting of debt since in numerous cases the state is guaranteeing for HBOR’s borrowings and placements).

At the end of 2006, general government debt amounted to HRK 102.6 billion while the issued domestic and foreign guarantees of the Republic of Croatia (including HBOR) stood at HRK 21.7 billion. Altogether, it sums to HRK 124.4 billion and represents a public debt of the Republic of Croatia which accounts for 49.6% of the estimated nominal GDP for 2006.

In 2006, domestic debt increased by HRK 5 billion while foreign debt decreased by HRK 3.8 billion, which resulted in the increase of the general government debt by HRK 1.2 billion. This indicates a slow-down in the general government debt growth which is a key objective of the public debt management strategy. Domestic general government debt was higher than the foreign at the end of 2006, and it accounted for a share of 59.5% in total general government debt.



## 6.2 CREDIT RATING OF THE REPUBLIC OF CROATIA

The Republic of Croatia is assessed by the top three agencies specialised for credit ratings: Moody's Investors Service, Standard & Poor's (S&P) and Fitch Ratings. Besides the mentioned agencies, the Republic of Croatia is also rated by the Japanese rating agency Rating and Investment Information (R&I), which is specialized for rating the issuers of securities in Japan.

The agencies S&P, Moody's and Fitch Ratings granted the initial credit rating to the Republic of Croatia in January 1997, while the Japanese rating agency R&I has done so in 1998. Each year these agencies perform the annual verification of granted credit rating.

After eight years, on 10 November 2006 R&I have increased its credit rating of the Republic of Croatia for long-term borrowings in foreign currency from BBB to BBB+.

**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-1
Standard & Poors	BBB / stable "outlook"	BBB+	A-3
Fitch Ratings	BBB- / stable "outlook"	BBB+	F3
R & I	BBB+ / stable "outlook"		

Source: Ministry of Finance

**Table 6.3 Comparison of Credit Ratings at the end of 2006**

Country	Moody's (long-term debt in foreign currency)	Standard and Poor's (long-term debt in foreign currency)
Bulgaria	Baa3	BBB+
Czech Republic	A1	A-
Croatia	Baa3	BBB
Hungary	A2	BBB+
Poland	A2	BBB+
Romania	Baa3	BBB-
Slovakia	A1	A

Source: Ministry of Finance



## 6.3 DOMESTIC DEBT OF THE CENTRAL BUDGET IN 2006

### 6.3.1 Categories of Domestic Debt

Table 6.4 presents the structure of domestic debt by category and the debt outstanding at the end of 2005 and 2006. The domestic debt redemption plan and the plan of interest payments for the period 2007-2019 is given in Table 6.5.

Total domestic debt recorded the amount of HRK 52,290.33 million at the end of 2006, while at the end of 2005 it amounted to HRK 47,243.37 million. An increase of the debt during 2006 was mostly the 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 (HRK thousand, as of 31 December)**

Debt item	Org. currency	2005		2006		Maturity	Coupon
		Amount in orig. curr.	Amount in HRK	Amount in orig. curr.	Amount in HRK		
Big bonds I	HRK	1,838,080	1,838,080	1,895,424	1,895,424	2011	5.000%
Big bonds II	EUR	58,515	431,583	50,402	370,209	2011	7.200%
Big bonds III	EUR	59,048	435,519	51,637	379,277	2012	7.200%
Bonds - Series 02 D-08	EUR	200,000	1,475,125	200,000	1,469,016	2008	6.875%
Bonds - Series 03 D-12	EUR	500,000	3,687,813	500,000	3,672,541	2012	6.875%
Bonds - Series 04 D-8	HRK	1,000,000	1,000,000	1,000,000	1,000,000	2008	6.125%
Bonds - Series 05 D-14	EUR	650,000	4,794,157	650,000	4,744,303	2014	5.500%
Bonds - Series 06 D-07	EUR	400,000	2,950,250	400,000	2,938,032	2007	3.875%
Bonds - Series 07 D-19	EUR	200,000	1,475,125	200,000	1,469,016	2019	5.375%
Bonds - Series 08 D-10	HRK	3,000,000	3,000,000	3,000,000	3,000,000	2010	6.750%
Bonds - Series 09 D-15	EUR	350,000	2,581,469	350,000	2,570,778	2015	4.250%
Bonds - Series 10 D-15	HRK	3,500,000	3,500,000	5,500,000	5,500,000	2015	5.250%
Bonds - Series 11 D-13	HRK			4,000,000	4,000,000	2013	4.500%
BRA bonds - Series I	EUR	39,302	289,877	20,232	148,602	2007	6.000%
BRA bonds - Series II	EUR	23,197	171,095	20,095	147,598	2012	5.000%
BRA bonds - Series III	EUR	61,229	451,599	53,543	393,278	2012	7.200%
BRA bonds - Series IV	EUR	31,754	234,202	27,507	202,039	2012	5.000%
BRA bonds - Series V-A	EUR	1,089	8,032	561	4,117	2007	6.000%
BRA bonds - Series V-B	EUR	81,394	600,332	55,666	408,870	2008	7.000%
Club loan	EUR	231,360	1,706,425			2006	3.650%
Syndicated FX loan	EUR	500,000	3,687,813	500,000	3,672,541	2010	2.630%
<b>Medium-term and long-term debt</b>			<b>34,318,496</b>		<b>38,015,640</b>		
Treasury bills	HRK	11,718,000	11,718,000	12,326,500	12,326,500		
	EUR	110,560	815,449	45,700	335,670		
Other short-term debt	HRK	391,425	391,425	1,612,521	1,612,521		
<b>Short-term debt</b>			<b>12,924,874</b>		<b>14,274,691</b>		
DAB bonds for insured savings II	EUR						
<b>Bonds issued with government guarantee</b>							
<b>Total debt</b>			<b>47,243,370</b>		<b>52,290,331</b>		

Source: Ministry of Finance



Table 6.5 Amortisation of Domestic Debt (HRK million)

(HRK mil.)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Repayment of principle</b>	<b>3,529.68</b>	<b>2,938.44</b>	<b>2,109.58</b>	<b>5,127.58</b>	<b>2,207.15</b>	<b>3,791.97</b>	<b>4,000.00</b>	<b>4,774.30</b>	<b>8,070.78</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>1,469.02</b>
Big bonds I	0.00	0.00	0.00	0.00	1,895.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds II (RB,SB)	64.56	68.97	73.60	78.45	84.69	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds III (PBZ)	58.39	62.73	67.28	72.20	77.49	41.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series I (RB, SB)	148.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series II (PBZdm)	23.94	25.12	26.44	27.76	29.16	15.13	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series III (PBZk)	60.60	65.00	69.78	74.92	80.43	42.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series IV (PBZk5)	32.76	34.45	36.21	37.97	39.96	20.71	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series V - A (DUB)	4.11	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 (DUB)	198.98	213.15	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	1,469.02	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	3,672.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 04 D-08 (HRK)	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	4,774.30	0.00	0.00	0.00	0.00	0.00
Bonds - Series 06 D-07	2,938.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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
Bonds - Series 08 D-10 (HRK)	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	2,570.78	0.00	0.00	0.00	0.00
Bonds - Series 10 D-15 (HRK)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,500.00	0.00	0.00	0.00	0.00
Bonds - Series 11 D-13 (HRK)	0.00	0.00	0.00	0.00	0.00	0.00	4,000.00	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated FX loan	0.00	0.00	1,836.27	1,836.27	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Interest payments</b>	<b>1,975.99</b>	<b>1,793.90</b>	<b>1,606.54</b>	<b>1,432.06</b>	<b>1,282.25</b>	<b>1,049.71</b>	<b>919.55</b>	<b>608.26</b>	<b>476.97</b>	<b>78.96</b>	<b>78.96</b>	<b>78.96</b>	<b>78.96</b>
Big bonds I	86.67	86.67	86.67	86.67	86.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds II (RB,SB)	25.49	21.01	16.31	11.38	4.55	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds III (PBZ)	26.30	21.96	17.41	12.49	7.12	1.47	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series I (RB, SB)	7.05	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 (PBZdm)	7.05	5.88	4.63	3.23	1.84	0.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series III (PBZk)	27.25	22.77	18.00	12.93	7.42	1.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series IV (PBZk5)	9.70	8.01	6.32	4.48	2.57	0.51	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series V - A (DUB)	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 (DUB)	25.41	11.24	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	100.99	100.99	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	252.52	252.52	252.52	252.52	252.52	126.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 04 D-08 (HRK)	61.25	30.63	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	262.59	262.59	262.59	262.59	262.59	262.59	262.59	131.29	0.00	0.00	0.00	0.00	0.00
Bonds - Series 06 D-07	113.85	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	78.96	78.96	78.96	78.96	78.96	78.96	78.96	78.96	78.96	78.96	78.96	78.96	78.96
Bonds - Series 08 D-10 (HRK)	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	109.26	109.26	109.26	109.26	109.26	109.26	109.26	109.26	109.26	0.00	0.00	0.00	0.00
Bonds - Series 10 D-15 (HRK)	288.75	288.75	288.75	288.75	288.75	288.75	288.75	288.75	288.75	0.00	0.00	0.00	0.00
Bonds - Series 11 D-13 (HRK)	180.00	180.00	180.00	180.00	180.00	180.00	180.00	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated FX loan	110.18	110.18	82.63	27.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total debt service</b>	<b>5,505.66</b>	<b>4,732.35</b>	<b>3,716.12</b>	<b>6,559.63</b>	<b>3,489.40</b>	<b>4,841.68</b>	<b>4,919.55</b>	<b>5,382.56</b>	<b>8,547.75</b>	<b>78.96</b>	<b>78.96</b>	<b>78.96</b>	<b>1,547.98</b>

Source: Ministry of Finance



When analysing and determining the sources of financing of the central budget, the government is continuing with its orientation towards domestic capital market with a purpose of mitigating the growth of total foreign debt of the Republic of Croatia. At the same time, this confirms the strong development of the domestic financial market which, by its volume, available maturities and favourable returns, represents an attractive alternative to foreign financial markets.

Following the policy of orientation towards domestic capital market, the Republic of Croatia has issued government bonds in the amount of HRK 6 billion during 2006.

Second tranche of the bond of the Series 10 D-15 in the amount of HRK 2 billion was issued in February and was consolidated with the issuance of HRK 3.5 billion from December 2005, thus representing the integral issuance of HRK 5.5 billion with a maturity on 15 December 2015. An annual interest rate is fixed and amounts to 5.25%.

In July 2006, the Republic of Croatia issued bonds of the Series 11 D-13 in the amount of HRK 2.5 billion, with a fixed annual coupon of 4.50%. The bonds were subscribed on 11 July 2006. The bond coupon will be paid semi-annually, while the principle will be completely repaid at maturity (11 July 2013). The bonds were placed on the market with Erste & Steiermärkische Bank dd., HVB Splitska banka dd., Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d. and Zagrebačka banka d.d. as lead managers. In November 2006 the Republic of Croatia issued a second tranche of these bonds in the amount of HRK 1.5 billion, which was consolidated with the first issuance, thus representing an integral issuance in the amount of HRK 4 billion and with a maturity on 11 July 2013.

All bonds of the Republic of Croatia are listed within the first quotation ("Official Market") of the Zagreb Stock Exchange. At the end of 2006, a total of ten bonds issued by the Republic of Croatia were enlisted in the first quotation of the Zagreb Stock Exchange, whose list with the conditions is given in Table 6.6.



**Table 6.6 Overview of Domestic Bonds Issued by the Republic of Croatia or with the Guarantee of the Republic of Croatia**

<b>DAB Bonds for insured savings I DAB-O-03CA</b>	<b>DAB Bonds for insured savings II DAB-O-05CA</b>
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
<b>The bond was fully repaid on maturity.</b>	<b>The bond was fully repaid on maturity.</b>
<b>HZZO Bonds HZZO-O-047A</b>	<b>Bonds - Series 01 D-04 RHMF-O-049A</b>
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
<b>The bond was fully repaid on maturity.</b>	<b>The bond was fully repaid on maturity.</b>
<b>Bonds - Series 02 D-08 RHMF-O-08CA</b>	<b>Bonds - Series 03 D-12 RHMF-O-125A</b>
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
<b>Bonds - Series 04 D-08 RHMF-O-085A</b>	<b>Bonds - Series 05 D-14 RHMF.O-142A</b>
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





<b>Bonds - Series 06 D-07</b> <b>RHMF-O-077A</b>	<b>Bonds - Series 07 D-19</b> <b>RHMF-O-19BA</b>
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 and Raiffeisenbank 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
<b>Bonds - Series 08 D-10</b> <b>RHMF-O-103A</b>	<b>Bonds - Series 09 D-15</b> <b>RHMF-O-157A</b>
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
<b>Bonds - Series 10 D-15</b> <b>RHMF-O-15CA</b>	<b>Bonds - Series 11 D-13</b> <b>RHMF-O-137A</b>
Issuer: Republic of Croatia	Issuer: Republic of Croatia
HRK 5 500 000 000	HRK 4 000 000 000
10 years	7 years
5,25% coupon	4,50% coupon
Lead manager(s): Erste & Steiermärkische Bank d.d., HVB Splitska banka d.d., Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d. and Zagrebačka banka d.d.	Lead manager(s): Erste & Steiermärkische Bank d.d., HVB Splitska banka d.d., Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d. and Zagrebačka banka d.d.
Listing: ZSE and VSE	Listing: ZSE and VSE
Date of issue: 15/12/2005	Date of issue: 11/7/ 2006
Date of maturity: 15/12/2015	Date of maturity: 11/7/ 2013

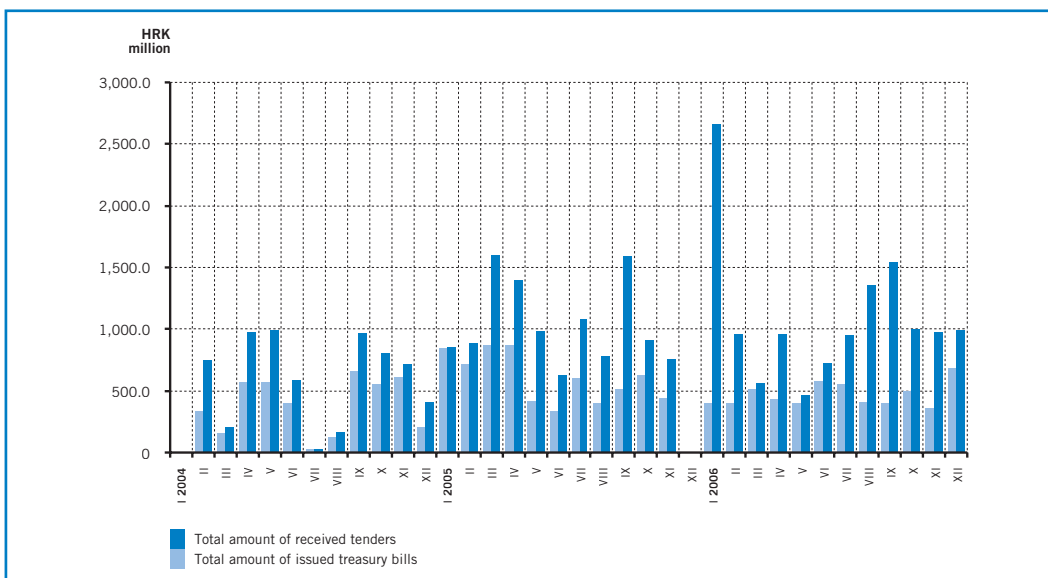
Source: Ministry of Finance



### 6.3.2 Treasury Bills

A total of 36 auctions of treasury bills were held during 2006, where there was a total of 89 issuances, of which 32 issuances of 91-days treasury bills, 21 issuances of 182-days treasury bills and 36 issuances of 364-days treasury bills. During the year, a total of HRK 14.3 billion was issued at the treasury bills auctions, while at the same time a total of HRK 13.7 billion of treasury bills were redeemed.

Figure 6.1 Results of the Treasury Bills Auctions

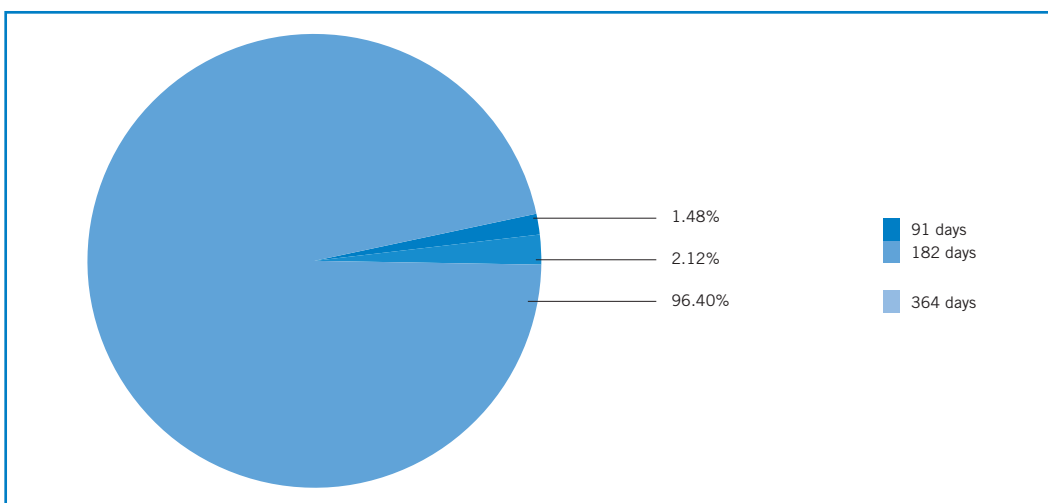


Source: Ministry of Finance

Figure 6.1 presents the relation between the total amount of the received tenders and the amount of issued treasury bills at the auctions of the Ministry of Finance. A trend of increased demand for the treasury bills can be noticed throughout the observed period. This trend is especial strong at the beginning of 2006, when the demand was six times higher than the issuance of the treasury bonds.

Figure 6.2 shows the maturity structure of treasury bills outstanding as of 31 December 2006, while Figure 6.3 depicts their maturity structure as of 31 December 2005. On the treasury bills auctions, the highest interest was expressed for the treasury bills with the longest maturity. Therefore, at the end of 2006, 364-days treasury bills accounted for 96.4% of the total amount (HRK 12.3 billion) of treasury bills issued by the Ministry of Finance.

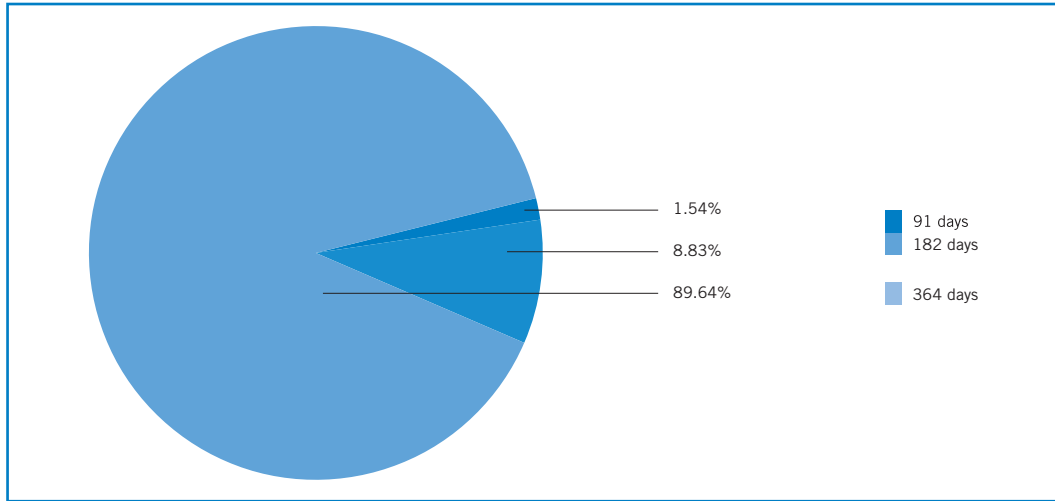
Figure 6.2 Maturity Structure of Treasury Bills as of 31 December 2006



Source: Ministry of Finance



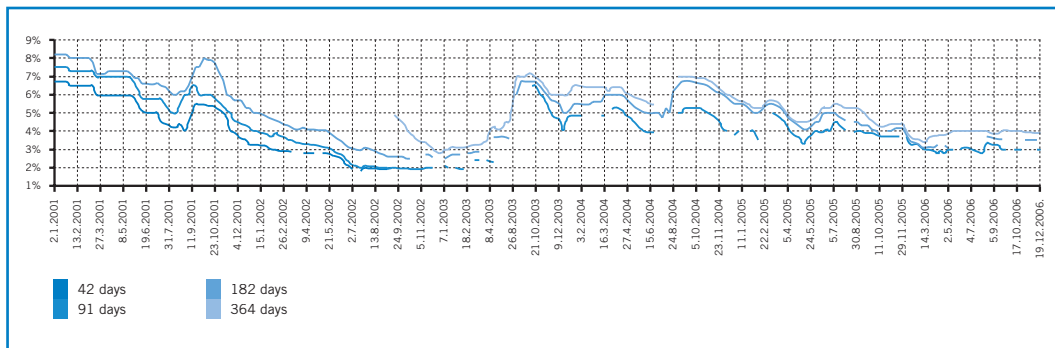
**Figure 6.3 Maturity Structure of Treasury Bills as of 31 December 2005**



Source: Ministry of Finance

Figure 6.4 presents the interest rates on the treasury bills of the Ministry of Finance, which at the end of 2006 stood at 3% for 91-days treasury bills, 3.5% for 182-days treasury bills and 3.9% for 364-days treasury bills.

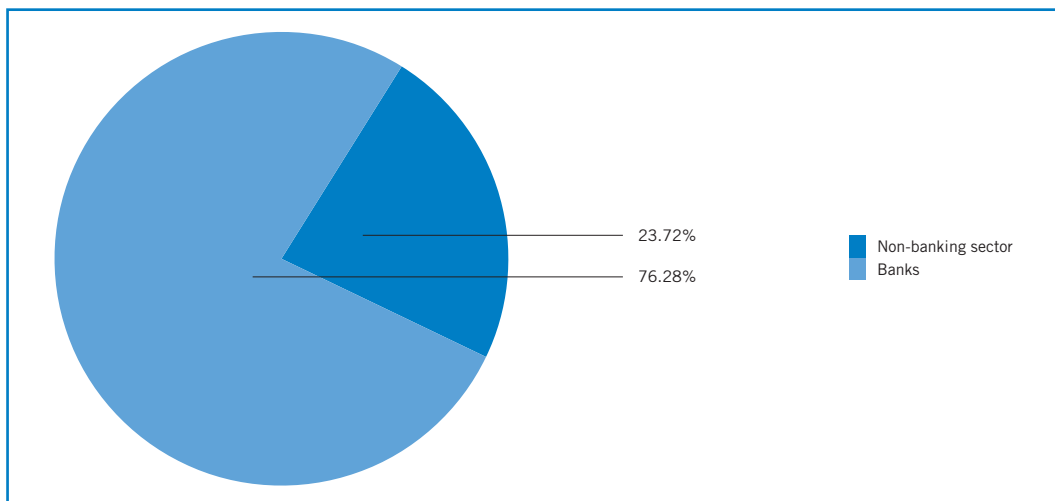
**Figure 6.4 Interest Rates on Treasury Bills**



Source: Ministry of Finance

During 2006, the banking sector increased its share within the structure of investors in treasury bills, which is visible on Figures 6.5 and 6.6. The share of the banking sector in total treasury bills amounted to 76% at the end of 2006.

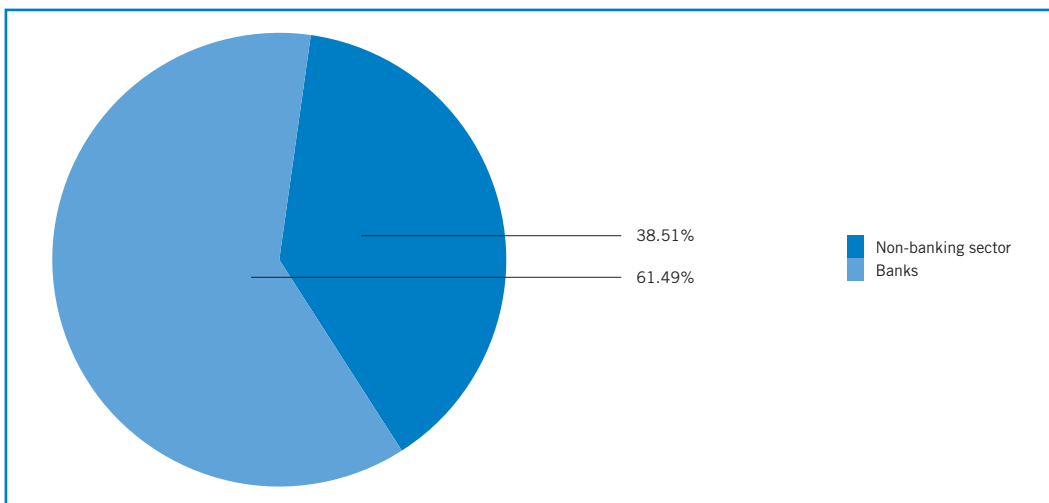
**Figure 6.5 Structure of Treasury Bills by Investors as of 31 December 2006**



Source: Ministry of Finance



Figure 6.6 Structure of Treasury Bills by Investors as of 31 December 2005



Source: Ministry of Finance



## 6.4 FOREIGN DEBT OF THE REPUBLIC OF CROATIA

### 6.4.1 International Bonds of the Republic of Croatia

At the end of 2006 there were a total of 8 bonds issued by the Republic of Croatia listed on international markets. The overall list of international bonds with their conditions of issue is given in Table 6.7.

In February 2006, JPY 25 billion matured and was redeemed (issued in February 2001), while EUR 300 million (issued in February 1999) matured and was redeemed in March 2006. The bonds of the London Club Series B were entirely redeemed in 2006.

Due to the orientation towards domestic capital market, foreign debt of the government sector decreased by HRK 3.8 billion in 2006.

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

<b>London Club Series A:</b>	<b>London Club Series B:</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
	<b>The bond was fully repaid on maturity.</b>
<b>Euro-dollar bonds:</b>	<b>Euro-DEM bonds:</b>
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
<b>The bond was fully repaid on maturity.</b>	<b>The bond was fully repaid on maturity.</b>
<b>Matador Bonds:</b>	<b>Euro-EUR bonds / I:</b>
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
<b>The bond was fully repaid on maturity.</b>	<b>The bond was fully repaid on maturity.</b>



<b>Samurai bond / I:</b>	<b>Euro-EUR bonds / II:</b>
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
<b>The bond was fully repaid on maturity.</b>	<b>The bond was fully repaid on maturity.</b>
<b>Samurai bond / II:</b>	<b>Samurai bond / III:</b>
JPY 40 billion	JPY 25 billion
7 years, bullet	5 years, bullet
3% coupon	2.5% coupon
(135 bps over 7-year Yen 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
	<b>The bond was fully repaid on maturity.</b>
<b>Euro-EUR bonds / III:</b>	<b>Euro-EUR bonds / IV:</b>
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
<b>Samurai bond / IV:</b>	<b>Euro-EUR bonds / V:</b>
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
<b>Samurai bond / V:</b>	<b>Euro-EUR bonds / VI:</b>
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 Projections of Repayments of International Bonds of the Republic of Croatia**

	Currency	Amount orig. curr.	Amount USD*	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	0			
- coupon: 6m LB+13/16				18,079,513	13,258,309	8,437,106	3,615,903	0			
Samurai bond / II	JPY	40,000,000,000	336,429,310	340,611,708							
- coupon: 3%				10,218,351							
EURO bond	EUR	750,000,000	987,525,054	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			
EURO bond	EUR	500,000,000	658,350,036			591,599,977					
- coupon: 6.25%				36,974,999	36,974,999	36,974,999					
Samurai bond / IV	JPY	25,000,000,000	210,268,319		212,882,318						
- coupon: 2.15%				4,576,970	2,288,485						
EURO bond	EUR	500,000,000	658,350,036				591,599,977				
- coupon: 4.625%				27,361,499	27,361,499	27,361,499	27,361,499				
Samurai bond / V	JPY	25,000,000,000	210,268,319			212,882,318					
- coupon: 1.23%				2,618,453	2,618,453	1,309,226					
EURO bond	EUR	500,000,000	658,350,036								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
Repayment	USD			414,410,764	288,249,773	946,599,809	736,331,490	987,525,054	0	0	658,350,036
Interest payment	USD			206,450,471	189,276,003	180,901,265	133,640,035	99,575,443	32,917,502	32,917,502	32,917,502
Total servicing costs	USD			620,861,235	477,525,776	1,127,501,074	869,971,525	1,087,100,497	32,917,502	32,917,502	691,267,538
Outstanding (end year)	USD			3,617,056,162	3,328,806,389	2,382,206,581	1,645,875,090	658,350,036	658,350,036	658,350,036	0

\*exchange rate as of 31/12/2006.  
6m USD LIBOR 5.37 (29/12/2006.)  
Source: Ministry of Finance

**7**

**FUNCTIONING OF  
STATE TREASURY  
AND MEASURES OF  
MODERNIZATION  
IN 2006**







The State Treasury serves in accomplishing of main goals of public finance management, such as:

1. earmarked use of funds in line with legal documents and subordinate legislations;
2. transparency of system (provision of information in format that allows users understanding and possibility of further analyses);
3. functioning of system of responsibility.

That's the one of the main reason why improvements and modernization of functioning of the State Treasury system is significant part of Ministry's work plan in last several years.

Important activities in planning area were undertaken. 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. 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.

Emphasized needs for increase in budgetary preparation efficiency and strengthening the Ministry's function in budgetary process resulted in an adoption of fiscal impact assesment legal and other regulations to the budget. 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. By determining costs and profits of conduction of particular regulations and their relations to programs, activities and projects of those proposing regulations, the awareness and responsibility for financial consequences of the adoption of particular regulation by the Government and Croatian Parliament has increased.

One of the basic functions of the State Treasury is budgetary execution. For the establishment of this function, the system, in which budgetary users enter payment demands, is established, under which payments, after control of coordination with planed amounts, are executed. In this way, uses of public resources for unscheduled expenditures are prevented. The basic phases of the execution process are: monthly financial plans, budgetary allocations, reservations, payment demand and payment.

Since 2005, 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, annual execution 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.

According to above-mentioned, Ministry of Finance sends a written warning to budgetary users and demands explanation for faster or slower (from usual) execution of particular budget item.

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
- control of spending in line with the outturn of earmarked revenues
- securing of general revenue for obligatory budgetary expenditure.

By June of 2006 Accounts (in commercial banks) were closed for all state budget users (first level) - ministries, agencies (in further text: users). They transact business exclusively through the Single Treasury Account 1001005-1863000160 in the Croatian National Bank. It means that all revenues of the users are deposited on Single Treasury Account and all their expense are paid from the Single Treasury Account with a goal of the rationalization of managing the public money.

The functioning of the Single Exchange Account for exchange execution of the budget is a key factor for complete establishment of the Single Exchange Account and enhancing the efficiency of money management. A project was initiated in collaboration with the Croatian National Bank in order to improve foreign payment operations of the state.

During the year 2006, the process for describing and setting up a system of internal control in order to improve the quality of work is started. The list of business processes and each of the phases is implemented and composed for the State Treasury, during the year 2006.

With regards to changes that have happened, during the last four years, in the system of the State Treasury but also due to inadequacy of the existing law regulations perceived during daily work, drafting of Amendments to the Budget Act has been initiated.

Preparation of amendments to the Budget Act is comprehensive this time and connected to the process of accession to the European Union. First detail comparison of our legislation with European Union financial regulations is made, at the beginning of 2006; analyses for the purpose of comparing with the best practice in European Union countries have been conducted; as well as analyses of necessary amendments to existing regulations.

An Amendment to the Budget Act will allow for: implementation of multiannual planning within the respect to the adoption of financial strategies in the period of 3-5 years on the level of Croatian Parliament; transfer of capital projects; more flexibility in budget execution; distinguishing of money allocation and allocation for liabilities etc. The Budget Act needs to be modified, which will significantly affect also the subordinate legislation.

By the continuous development of the State Treasury and enforcement of modernization measures new values and changes in attitude arise. A result is a responsible, open (to the public) and successful oriented public sector. Developed, arranged and duly system provides:

- defining and executing goals of fiscal policy;
- relating to process of political decision making in order to measure and compare financial effects of alternative political options (e.g. capital investment project) on budget and economy;
- monitoring and controlling of the budget in order to conduct corrective measures in case when public consumption exceeds the plan;
- government effort with regard to development of an effective system of fraud prevention and corruption prevention by making a transparent open system which can easily be controlled and reviewed;
- effective management in local government borrowing;
- achieving budgetary standards and financial control necessary for EU accession.

**8**

**RELATIONS OF  
THE REPUBLIC OF  
CROATIA WITH  
INTERNATIONAL  
FINANCIAL  
INSTITUTIONS**





## 8.1 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

Republic of Croatia has been a full member of the International Bank for Reconstruction and Development (IBRD) since February 25, 1993. In the total IBRD capital, Republic of Croatia owns 0.15% shares and has 0.16% of the voting power. Republic of Croatia is in the Dutch Constituency<sup>28</sup> headed by World Bank executive director Mr. Herman Wijffels (from November 1, 2006).

Since January 1, 1998 in Zagreb has operated permanent World Bank office which became Regional World Bank office for Croatia, Bulgaria and Romania on October 1, 2001. Head of Regional office is director Anand K. Seth.

IBRD is the most important international financial institution for the Republic of Croatia which continuously and comprehensively supports:

- (a) economic-social development;
- (b) maintenance of macroeconomic stability;
- (c) achievement of sustainable economic growth based on private sector and sustainable management of natural resources;
- (d) initiation and implementation of numerous structural and institutional reforms;
- (e) undertaking the measures to remove obstacles for economic growth and strengthening of market institutions and economic competitiveness;
- (f) creation of favorable business environment for investments.

Since war time, when other financing sources for Republic of Croatia were closed, till today, IBRD is important financing source and catalyst of reform adjustments. Significant financial IBRD funds are used in Republic of Croatia in the form of program, sector and investment loans under the most favorable financial conditions which IBRD is getting on international financial markets. Also, numerous grants, technical assistances and consultant services are being used in the Republic of Croatia which supports economic development and implementation of structural reforms in different areas, from infrastructure, agriculture, health to banking, pension and judicial system.

Cooperation of Republic of Croatia and EBRD has big, not only financial, but also broader significance for maintenance of macroeconomic stability, achievement of sustainable and accelerated economic growth and fulfillment of conditions for successful integration in European Union.

The role of IBRD and financial support to the Republic of Croatia in reconstruction, building the infrastructure, restructuring and privatization of public enterprises, determining and defining structural reforms and implementation of structural adjustments important for development of Republic of Croatia were defined in the framework of strategic documents which World Bank Board of Executive Directors adopted in earlier periods. During 2004 strategic document was prepared: Country Assistance Strategy (CAS) of the World Bank for the Republic of Croatia in the period from 2005 to 2008<sup>29</sup> in partnership with the Government of the Republic of Croatia and on the basis of consultations with representatives of the local authorities, nongovernmental organizations, unions, scientists and general public. Document (CAS) is mutual program which defines objectives and instruments of assistance and priority areas for cooperation based on broad sector analysis. CAS comprises three growth scenarios for the period from 2005 to 2008 (base, high and low) and on that basis adjusted IBRD lending programs through different financial instruments. Lending program in the base scenario amounts to USD 1.064 billion, while low scenario amounts to USD 314 million and high scenario to USD 1.514 billion for four fiscal years. For the implementation of projects and utilization of loans, portfolio ministries and government agencies are in charge (HBOR, Croatian Waters, etc.).

<sup>28</sup> Dutch Constituency includes twelve countries: Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Israel, Croatia, Macedonia, Moldova, Netherlands, Romania, and Ukraine. Regular meetings of constituency are being held a day before annual and spring convention of World Bank and IMF and every year in one of the member country. The last constituency meeting was held in Yerevan, Armenia on June 17 and 18, 2006.

<sup>29</sup> Document of The World Bank-International Bank for Reconstruction and Development and International Financial Corporation-Country Assistance Strategy for The Republic of Croatia, November 24, 2004 is available on Croatian and English language on WEB page of World Bank Office in Croatia: [www.worldbank.hr](http://www.worldbank.hr) and Ministry of Finance of Croatia: [www.mfin.hr](http://www.mfin.hr).



Ministry of Finance of the Republic of Croatia coordinates planning, propositioning and contracting of new loans and grants. Also it monitors and records their utilization and services of matured obligations towards the Bank on the basis of direct loans while obligations contracted with government guarantee are serviced directly by borrowers.

### 8.1.1 New Loans and Grants Contracted in 2006

In 2006 Republic of Croatia and IBRD contracted total EUR 108.3 million, USD 7.7 million and SEK 23.3 million for financing the projects in Republic of Croatia. Three new loans in the total amount of EUR 108.3 million were contracted of which one direct loan of EUR 25.5 million for financing legal and institutional harmonization in the area of agriculture with acquis and two loans with Republic of Croatia guarantee in the total amount of EUR 82.5 million (loan of EUR 24 million contracted by Hrvatska elektroprivreda d.d. for financing of revitalization and modernization of heating network in Zagreb and Osijek and loan of EUR 58.8 million approved to Luka Ploče d.d. for financing Trade Integration and Transport Project along Vc corridor that connects Croatia with EU markets). Furthermore, with IBRD as administrator of financial funds 5 grant contracts were concluded in the total amount of USD 7.7 million and SEK 23.3 million. Grants were concluded from following financing sources:

- (1) Kingdom of the Netherlands grant for Technical Assistance for the Support of Implementation of the Coastal Cities Pollution Protection Project and Agricultural Acquis Cohesion Project;
- (2) Swedish International Development Cooperation Agency - SIDA grant for cofinancing the Social Protection Development Project and Public Service Reform Project;
- (3) Funds of the Policy and Human Resources Development Fund - PHRD Fund<sup>30</sup> for preparation of the Inland Water Project.

#### 8.1.1 A Loans

##### **a) Loan for the Project of Legal and Institutional Acquis Cohesion in the Agricultural Area (Loan No. 73600-HR), EUR 25.5 million**

Project of Legal and Institutional Acquis Cohesion in the Agricultural Area is important due to faster integration of Croatian agriculture in EU market. Project is also supported by EU pre accession funds, fore loan funds in the amount of almost USD 2 million, grant of USD 4.7 million and this direct loan of EUR 25.5 million which Republic of Croatia contracted with IBRD on May 8, 2006. Primary goal of the Project is development of sustainable systems and capacities which will enable to the Republic of Croatia to use the facilities for agricultural sector which result from EU accession and to fulfill the Acquis conditions. It is expected that this results will be achieved by:

- (a) implementation of Acquis in the area of rural areas;
- (b) strengthening of management and administration in responsible ministry and other public institutions;
- (c) implementation of Acquis in the area of health validity of food and sanitary and phytosanitary conditions;
- (d) effective management of the Project.

Final results of the Project implementation should lead to increased competitiveness of Croatian agricultural products on domestic and international markets, to increased capacities for absorption of investments in family farms and agricultural enterprises which increase competitiveness and to increased revenues in rural areas as a result of stronger public capacities for planning and realization of rural development programs. Furthermore, it is important to relocate and equip important agencies in food safety chain by construction of new objects for Croatian Veterinary Institute and Institute for Plant Protection. In the framework of this Project, GMO laboratory will be constructed and further completion and strengthening of Food Agency in Osijek will be supported.

<sup>30</sup> PHRD Fund was founded in 1990 with the purpose to finance technical assistance and approve grants to the developing countries which implement projects financed by the World Bank and in this way to develop partnership between Japanese Government and the World Bank. So far, Japanese Government has invested USD 250 million in the Fund.



The loan became effective from November 21, 2006 when one off compensation from loan funds was paid of 0.25% (EUR 63.7 thousands). The loan funds will be withdrawn till October 31, 2010. Loan will be repaid, after 5 years grace period, in semiannual installments (from April 15, 2011 till October 15, 2020). Floating interest rate based on six month EULIBOR is contracted, increased by fix interest margin and it will be paid semiannually on April 15 and October 15.

**b) Loan for Production, Distribution and Supply of Heat Energy (Loan No. 48280-HR), EUR 24 million (with guarantee of the Republic of Croatia)**

Heat Energy Project is designed due to urgent need to solve delays of investments to transfer and distribution of heat energy and to facilitate economical, safe and sustainable supply of heat energy in Zagreb and Osijek. The goal of the Project is to facilitate and promote efficient providing of services in heat energy sector. Project comprises two components:

- (1) recovery of infrastructure at heat energy network in Zagreb and Osijek;
- (2) consultant services in development of the Demand Program and drafting research studies.

Total value of the Project is estimated to EUR 44.4 million. Loan contract is concluded between Hrvatska Elektroprivreda d.d. and IBRD with guarantee of the Republic of Croatia on September 11, 2006 in the amount of EUR 24 million. Loan effectiveness period was prolonged till March 12, 2007 while period for disbursement of funds was set to June 30, 2010. The loan will be repaid ten years in semiannual installments of EUR 1.2 million, with five years grace period, i.e. from March 15, 2012 to September 15 2021. Furthermore, floating interest rate has been contracted, based on six month EULIBOR increased by variable interest margin and it is paid semiannually on March 15 and September 15.

**c) Trade Integration and Transport Project (Loan No. 74100-HR), EUR 58.8 million (with guarantee of the Republic of Croatia)**

Total value of Trade Integration and Transport Project is around EUR 70 million. It will be financed with IBRD loan funds in the amount of EUR 58.8 million and EBRD loan funds in the amount of EUR 11.2 million. Loan contract between Luka Ploče and IBRD was concluded on November 20, 2006 with the guarantee of the Republic of Croatia. The goal of this Project is to improve capacities, efficiency and quality of services in the area of Vc Corridor, one of the biggest transport corridors that connect Republic of Croatia with EU. Project comprises from three components:

- (1) development of port infrastructure for Luka Ploče;
- (2) integration of trade and transport by development of modern electronic port communication system;
- (3) technical assistance to the port authority for management and implementation of the Project.

The loan funds will be used to increase port capacity, to construct the terminal for bulk cargo, container/multipurpose terminal and other infrastructural objects, to construct and reconstruct road/railway/energy infrastructure and port objects. Republic of Croatia obliged, with Development Policy Letter from October 17, 2006 which describe the program of activities, goals and policies to support the realization of Project goals, to realize the program. Loan effectiveness period is being contracted for March 20, 2007 and period for withdrawal of funds as December 31, 2011. Loan will be repaid for ten years, with five years grace period, in semiannual installments (from April 1, 2012 to October 1, 2021) with floating interest rate based on six month EULIBOR increased by fixed margin.





### 8.1.1 B Grants

#### **a) Dutch Grant for Technical Assistance to Support the Implementation of the Coastal Cities Pollution Protection Project (so called Adriatic Project) - Loan No. 54882, USD 2.5 million**

The Grant contract TF 54882 was concluded on January 17, 2006 between IBRD and Ministry of Finance in the amount of USD 2.5 million. Funds are granted by the Government of Kingdom of the Netherlands and will be used by Croatian Waters. The goal of the grant is to help to Republic of Croatia in the implementation of Coastal Cities Pollution Protection Project, known as "Adriatic Project", for which the contract was concluded with IBRD in July 2004 in the amount of EUR 40 million. The purpose of the project is ecologically acceptable economic development, to improve the quality of enterprises which provide municipal services, i.e. to stimulate the development of municipal services in management of waste waters in the coastal areas and inspection of water quality. Loan funds will be fully disbursed before the end of year 2008. This is long term Project (10-15 years) and it is planned to be implemented in three phases. Total value of the whole Project is estimated to EUR 750 million and will comprise 49 sub projects along the Adriatic coast. Project will be financed also by additional IBRD loans and the loans of other development banks with additional support of the donors.

#### **b) Dutch Grant for Technical Assistance for the Support of Implementation of the Agricultural Acquis Cohesion Project (TF 56498), USD 4.7 million**

The contract between Republic of Croatia and IBRD about the Grant number TF 56498 is support of the Technical Assistance for the Implementation of the Agricultural Acquis Cohesion Project. This Grant which amounts to USD 4.7 million and supports the financing Project contracted with IBRD loan in the amount of EUR 25.5 million, facilitates development of sustainable agricultural system harmonized with Acquis. This Project will contribute to successful accreditation of system for SAPARD pre accession funds. Primary goal of the Project is development of sustainable systems and capacities of the Republic of Croatia which will enable utilization of facilities for agricultural sector that arise from EU accession and to fulfill the Acquis conditions.

#### **c) Swedish International Development Cooperation Agency Grant for Co Financing the Social Protection Development Project (TF 56237), SEK 14.7 million**

The contract between Republic of Croatia and IBRD for the Grant number TF 56237 for Co Financing the Social Protection Development Project was contracted on February 21, 2006. The goal of this Grant is to support objectives of Social Protection Development Project through financing of various activities encompass:

- (a) improvement of provision of services, management and financing the training of social service workers;
- (b) management and drafting the budget directed towards the results;
- (c) introduction of new standards, oversight mechanisms and creation of programs for innovations and learning and strengthening of information management social security system by introduction of new IT systems;
- (d) creation of social security center to improve information services.

Funds for Co Financing the Social Protection Development Project were provided by Kingdom of Sweden through the SIDA Agency. Namely, cooperation between Kingdom of Sweden and Republic of Croatia in the period from 2004 to 2006 was directed towards the support of key reforms for progress of relations between Republic of Croatia and European Union and integration of Republic of Croatia in European structures. The Grant amounts to SEK 14.7 million and is related to IBRD loan of EUR 31 million approved in 2005 for financing the Project.



#### **d) Swedish International Development Cooperation Agency Grant for the Public Service Reform Project (TF 56514), SEK 8.6 million**

The contract between Republic of Croatia and IBRD about Grant number TF 56514 for the Public Service Reform Project support was concluded on June 21, 2006 in the amount of SEK 8.6 million. The goal of the Grant is to assist in preparation and realization of policies that will, in line with conditions of IBRD Programmatic Adjustment Loan, lead to improvement of public sector in the Republic of Croatia. Project will be carried out through reform of quality, scope, structure and salaries for public service. Grant for the support of this reform was provided by Kingdom of Sweden through SIDA agency with the purpose to provide support for realization of key reforms that contribute to creation of efficient, transparent and democratic system of public service which would have impact on faster economic growth of the Republic of Croatia. Project will be managed by Central State Administrative Office for Public Administration. In the framework of the Project, system of public servants salaries will be drafted, assessment of payment system of municipalities, revision of legal framework for salaries of employed in municipalities, revision of the law about public service and implementation of functional revisions in restructuring of central government bodies.

#### **e) Grant for the Preparation of Inland Waters Project (TF 56572), USD 500 thousands**

The contract between Republic of Croatia and IBRD about the Grant for Preparation of Inland Waters Project was signed on July 18, 2006 in the amount of USD 500 thousands. The purpose of this Grant is to assist in preparation of the Inland Waters Project that is planned to be financed with the loan obtained from IBRD during 2007 in the amount of EUR 100 million. The Grant funds will be used to finance preparation of feasibility study and various economic and social studies and environmental studies, implementations plans of the Project, country trainings, workshops, technical services (including revision) and procurement of goods needed to implement these activities. Funds for this Grant are provided by PHRD fund (Japanese Grant).

### **8.1.2 Overview of Loans, Disbursed Funds and Outstanding Debt owed to IBRD**

In the period from 1994 to 2006 IBRD allocated totally 37 long term loans for financing the projects and programs in the Republic of Croatia and 2 fore loans for preparation of projects in the total amount of EUR<sup>31</sup> 939.9 million and USD 657.1 million (see the Table 8.1. Overview of IBRD Loans Contracted in the Period from 1994 to 2006 with Debt Outstanding and Disbursement of Funds as of December 31, 2006 and Disbursements in 2006). In the structure of observed loans, 25 long term loans and two fore loans were directly approved to Republic of Croatia while 11 long term loans were approved with guarantee of the Republic of Croatia. Repaid loan allocated in 1990 and taken over in 1994 by guarantee of the Republic of Croatia should be also counted in long term loans<sup>32</sup>. As of December 31, 2006, 16 direct loans were closed for withdrawing while on the basis of nine still effective loans and two fore loans for withdrawing remained EUR 226.3 million (64.6%) and USD 16.9 million (33.8%). These funds will be disbursed in the forthcoming period in line with implementation of projects and according to the contracted period for loans closure. Four loans obtained with guarantee of the Republic of Croatia and already mentioned repaid loan taken over in 1994, were closed also closed for withdrawing. On the basis of five effective loans with guarantee of the Republic of Croatia, for disbursements remained EUR 124.1 million (35.4%) and USD 33.1 million (66.3%) while funds of two new contracted loans with guarantee of the Republic of Croatia in 2006 weren't disbursed because loans weren't effective. The funds of these loans will be disbursed in the period after contracts for these loans come into force<sup>33</sup>.

<sup>31</sup> The secured amount in euros is sum of amounts initially contracted in euros and amount initially contracted in DEM and converted to EUR.

<sup>32</sup> Loan number 30690-HR allocated in the amount of USD 28 million was taken over on the basis of Ratification Act on Agreement about Guarantee between Republic of Croatia and IBRD and Agreement about Loan take over between Republic of Croatia and IBRD concluded on February 25, 1993 («Official Gazette - International contracts», number 7/1994). In January 2001 non withdrawn amount of approximately USD 1,98 million was canceled loan was closed for withdrawing. The loan was repaid in 2004.

<sup>33</sup> This concerns IBRD loan number 48180-HR (Heat Energy Project) and number 74100-HR (Trade Integration and Transport Project) - See Table 8.1.



**Table 8.1 Overview of IBRD loans contracted in the period from 1994 to 2006 with debt outstanding and disbursed funds on 31 December 2006 and disbursed funds in 2006**

<b>PUBLIC (DIRECT) LOANS</b>									
<b>Settlement date</b>	<b>Published in the NN/MU no.</b>	<b>Effectuation / Closing date</b>	<b>Currency</b>	<b>Loan amount</b>	<b>Withdrawn</b>	<b>Undisbursed</b>	<b>Debt outstanding</b>	<b>Principal repayment: first and last</b>	<b>Disbursed in 2006</b>
<b>Emergency Reconstruction Project - loan no. 37600 - HR CPL</b>									
27.6.1994	7/1994	19.8.1994 31.12.1999	000 USD	128,000.00	128,000.00	0.00	58,170.00	15.12.1998 15.6.2011	0.00
<b>Health Project - loan no. 38430 - HR CPL (1)</b>									
8.3.1995	7/1995	17.8.1995 31.12.1999	000 USD	38,925.50	38,925.50	0.00	16,201.10	15.6.2000 15.12.2011	0.00
<b>Highway Sector Project - loan no. 38690 - HR CPL (2)</b>									
27.4.1995	8/1995	26.7.1995 30.6.2001	000 USD	79,878.49	79,878.49	0.00	42,665.51	15.12.1999 15.6.2012	0.00
<b>Capital Markets Development Project - loan no. 39990 - HR VSL</b>									
23.4.1996	1/1996 i 9/1996	22.7.1996 30.6.1999	000 EUR	7,260.35	7,260.35	0.00	3,942.06	15.10.2001 15.4.2013	0.00
<b>Farmer Support Services Project - loan no. 39880 - HR CPL (3)</b>									
23.4.1996	1/1996 i 9/1996	22.7.1996 31.12.2002	000 USD	14,258.75	14,258.75	0.00	7,603.55	1.9.2001 1.3.2013	0.00
<b>Technical Assistance Project in Support of Enterprise and Financial Sector Reform - loan no. 39890 - HR VSL</b>									
23.4.1996	1/1996 i 8/1996	22.7.1996 30.4.2000	000 USD	5,000.00	5,000.00	0.00	2,690.00	15.10.2001 15.4.2013	0.00
<b>Emergency Transport &amp; Mine Clearing Project - loan no. 41040 - HR VSL (4)</b>									
4.12.1996	3/1997	4.3.1997 31.12.2001	000 EUR	74,797.17	74,797.17	0.00	40,994.90	15.7.2002 15.1.2012	0.00
<b>Coastal Forest Reconstruction &amp; Protection Project - loan no. 41190 - HR CPL (5)</b>									
31.1.1997	8/1997	31.7.1997 30.6.2003	000 USD	38,589.31	38,589.31	0.00	21,987.31	15.6.2002 15.12.2013	0.00
<b>Enterprise &amp; Financial Sector Adjustment Loan Project - loan no. 41590 - HR VSL EFSAL</b>									
4.6.1997	17/1997	5.11.1997 31.12.2001	000 EUR	81,806.70	81,806.70	0.00	44,993.69	15.12.2002 15.6.2012	0.00
<b>Reconstruction Project for Eastern Slavonia, Baranja and Western Srijem - loan no. 43510 - HR VSL (6)</b>									
8.9.1998	15/1998	6.1.1999 31.12.2004	000 EUR	36,600.50	36,600.50	0.00	25,404.22	15.1.2004 15.7.2013	0.00
<b>Railway Modernization &amp; Restructuring Project - loan no. 44330 - HR VSL (7)</b>									
20.1.1999	4/1999	9.6.1999 30.6.2005	000 EUR	85,398.55	85,398.55	0.00	64,048.65	15.9.2004 15.3.2014	0.00
<b>Technical Assistance for Institutional and Regulatory Reform of Private Sector Development Project - loan no. 44600 - HR VSL (8)</b>									
5.5.1999	8/1999	3.8.1999 30.6.2006	000 USD	7,253.43	7,253.43	0.00	5,428.43	15.10.2004 15.4.2014	578.11
<b>Health System Project - loan no. 45130 - HR VSL (9)</b>									
7.10.1999	14/1999	28.3.2000 30.12.2005	000 USD	26,155.16	26,155.16	0.00	20,751.06	15.6.2005 15.12.2014	286.83
<b>Trade &amp; Transport Facilitation in South East Europe - loan no. 45820 - HR VSL (10)</b>									
27.10.2000	5/2001	2.5.2001 31.3.2005	000 EUR	13,813.21	13,813.21	0.00	12,432.01	15.5.2006 15.11.2015	0.00
<b>Court &amp; Bankruptcy Administration Project - loan no. 46130 - HR VSL</b>									
3.7.2001	14/2001 i 5/2002	29.1.2002 31.1.2007	000 USD	5,000.00	3,962.00	1,038.00	3,712.00	15.12.2006 15.6.2016	2,207.86
<b>Structural Adjustment Loan (SAL) - loan no. 46410 - HR VSL SAL</b>									
5.12.2001	2/2002 i 5/2002	8.2.2002 31.10.2003	000 USD	202,000.00	202,000.00	0.00	202,000.00	15.4.2007 15.10.2016	0.00
<b>Pension System Investment Project - loan no. 46720 - HR VSL (11)</b>									
17.9.2002	2/2003 i 3/2003	20.2.2003 31.12.2007	000 USD	27,300.00	13,883.28	13,416.72	13,883.28	15.11.2007 15.5.2017	520.52
<b>Real Property Registration &amp; Cadastre Project - loan no. 46740 - HR VSL</b>									
18.9.2002	2/2003 i 6/2003	20.2.2003 30.9.2008	000 EUR	26,000.00	12,275.28	13,724.72	12,275.28	15.5.2008 15.11.2017	4,678.39
<b>Coastal Cities Pollution Control Project - loan no. 72260 - HR FSL</b>									
2.7.2004	11/2004	17.12.2004 30.11.2008	000 EUR	40,000.00	7,692.57	32,307.43	7,692.57	15.10.2009 15.4.2019	4,113.96
<b>Social &amp; Economic Recovery Project - loan no. 72830 - HR FSL</b>									
2.5.2005	9/2005	30.9.2005 30.6.2009	000 EUR	35,000.00	3,500.00	31,500.00	3,500.00	15.5.2010 15.11.2019	3,500.00



PUBLIC (DIRECT) LOANS										
Settlement date	Published in the NN/MU no.	Effectuation / Closing date	Currency	Loan amount	Withdrawn	Undisbursed	Debt outstanding	Principal repayment: first and last	Disbursed in 2006	
<b>Agricultural Acquis Cohesion Project - PPF no. P 4180 - HR (12)</b>										
24.6.2005		24.6.2005 1.12.2006	000 USD	1,850.00	788.74	1,061.26	788.74		588.74	
<b>Social Welfare Development Project - loan no. 73070 - HR FSL</b>										
6.7.2005	11/2005	30.1.2006 30.9.2009	000 EUR	31,000.00	797.46	30,202.54	797.46	15.11.2010 15.5.2020	797.46	
<b>Trade and Transport Integration Project - Port of Ploče - PPF no. P 4220 - HR (13)</b>										
3.9.2005		3.9.2005 30.3.2007	000 USD	1,750.00	382.60	1,367.40	382.60		307.60	
<b>Science &amp; Technology Project - loan no. 73200 - HR FSL</b>										
16.9.2005	12/2005	11.5.2006 30.11.2009	000 EUR	31,000.00	1,469.58	29,530.42	1,469.58	15.11.2010 15.5.2020	1,469.58	
<b>Croatia Programmatic Adjustment Loan - loan no. 73300 - HR FSL PAL</b>										
20.9.2005	12/2005	19.12.2005 30.6.2006	000 EUR	150,000.00	150,000.00	0.00	150,000.00	15.9.2015	149,625.00	
<b>Education Sector Development Program Project - loan no. 73320 - HR FSL</b>										
17.10.2005	12/2005	15.3.2006 31.3.2010	000 EUR	67,800.00	4,200.00	63,600.00	4,200.00	15.11.2010 15.5.2020	4,200.00	
<b>Project of Agricultural Legislation and Institutional Alignment with European Union Acquis Communautaire - loan no.73600 - HR FSL</b>										
8.5.2006	10/2006	21.11.2006 31.10.2010	000 EUR	25,500.00	63.75	25,436.25	63.75	15.4.2011 15.10.2020	63.75	
<b>TOTAL PUBLIC LOANS</b>				<b>000 USD</b>	<b>575,960.64</b>	<b>559,077.26</b>	<b>16,883.38</b>	<b>396,263.58</b>		<b>4,489.66</b>
					<b>100.00%</b>	<b>97.07%</b>	<b>2.93%</b>			
				<b>000 EUR</b>	<b>705,976.48</b>	<b>479,675.12</b>	<b>226,301.36</b>	<b>371,814.17</b>		<b>168,448.14</b>
					<b>100.00%</b>	<b>67.94%</b>	<b>32.06%</b>			



LOANS GUARANTEED BY THE STATE										
Settlement date	Published in the NN/MU no.	Effectuation / Closing date	Currency	Loan amount	Withdrawn	Undisbursed	Debt outstanding	Principal repayment: first and last	Disbursed in 2006	
<b>Istria Water Supply &amp; Sewerage Project - loan no. 30690 - HR CPL (14)</b>										
1.2.1990	7/1994	31.5.1990 30.6.2000	000 USD	26,016.29	26,016.29	0.00	0.00	15.10.1994 15.4.2004	0.00	
<b>Investment Recovery Project (4 loans) - loans no. 42460 - HR VSL (Varaždinska banka - Zagrebačka banka d.d.), 42470 - HR VSL</b>										
4.12.1997	3/1998	17.3.1998 31.12.2002	000 EUR	21,589.50	21,589.50	0.00	12,907.33	15.3.2003 15.9.2012	0.00	
<b>Municipal Environmental Infrastructure Project - loan no. 43520 - HR VSL</b>										
25.9.1998	2/1999	28.6.1999 31.12.2007	000 EUR	33,233.97	23,407.09	9,826.88	11,775.20	15.11.2003 15.5.2013	3,994.36	
<b>Rijeka Gateway Project - loan no. 47140 - HR VSL (Croatian Highways)</b>										
12.7.2003	16/2003 i 18/2003	10.10.2003 30.9.2009	000 EUR	15,700.00	1,730.67	13,969.33	1,730.67	15.12.2008 15.6.2018	493.72	
<b>Rijeka Gateway Project - loan no. 47150 - HR VSL (Port Authority Rijeka) (16)</b>										
12.7.2003	16/2003 i 18/2003	10.10.2003 30.9.2009	000 USD	55,100.00	21,962.81	33,137.19	21,962.81	15.12.2008 15.6.2018	6,969.79	
<b>Rijeka Gateway Project - loan no. 47160 - HR VSL (Croatian Roads)</b>										
12.7.2003	16/2003 i 18/2003	10.10.2003 30.9.2009	000 EUR	76,200.00	62,602.73	13,597.27	62,602.73	15.12.2008 15.6.2018	17,477.51	
<b>Energy Efficiency Project - loan no. 71980 - HR FSL (Hrvatska elektroprivreda)</b>										
10.11.2003	3/2004	8.4.2004 30.6.2010	000 EUR	4,400.00	527.57	3,872.43	527.57	15.4.2009 15.10.2017	393.57	
<b>Heating Project - loan no. 48280 - HR VSL (HEP - Toplinarstvo)</b>										
11.9.2006	1/2007	not effective 30.6.2010	000 EUR	24,000.00	0.00	24,000.00	0.00	15.3.2012 15.9.2021	0.00	
<b>Trade and Transport Integration Project - loan no. 74100 - HR FSL (Port of Ploče)</b>										
20.11.2006	3/2007	not effective 31.12.2011	000 EUR	58,800.00	0.00	58,800.00	0.00	1.4.2012 1.10.2021	0.00	
<b>TOTAL LOANS GUARANTEED BY THE STATE</b>				<b>000 USD</b>	<b>81,116.29</b>	<b>47,979.10</b>	<b>33,137.19</b>	<b>21,962.81</b>		<b>6,969.79</b>
					<b>100.00%</b>	<b>59.15%</b>	<b>40.85%</b>			
				<b>000 EUR</b>	<b>233,923.47</b>	<b>109,857.56</b>	<b>124,065.91</b>	<b>89,543.50</b>	<b>22,359.16</b>	
					<b>100.00%</b>	<b>46.96%</b>	<b>53.04%</b>			
<b>GRAND TOTAL PUBLIC + GUARANTEED</b>				<b>000 USD</b>	<b>657,076.93</b>	<b>607,056.36</b>	<b>50,020.57</b>	<b>418,226.39</b>		<b>11,459.45</b>
					<b>100.00%</b>	<b>92.39%</b>	<b>7.61%</b>			
				<b>000 EUR</b>	<b>939,899.95</b>	<b>589,532.68</b>	<b>350,367.27</b>	<b>461,357.67</b>	<b>190,807.30</b>	
					<b>100.00%</b>	<b>62.72%</b>	<b>59.43%</b>			

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 on November 30, 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 EUR 85.4 million; cancelled: EUR 1.5 thousand
- 8 - contracted loan amount USD 7.3 million; cancelled: USD 46.6 thousand
- 9 - contracted loan amount USD 29 million; cancelled: USD 1.7 million, IBRD received requests for withdrawals up to 30 April 2006 so that is why there was a withdrawal in 2006 in spite of the closure of the loan on 30 December 2005
- 10 - contracted loan amount EUR 14.8 million; cancelled: EUR 986.8 thousand
- 11 - Pension System Investment Project was prepared by means of the USD 1,8 million PPF, but only USD 657,2 thousand was withdrawn. That amount is included in the loans no. 46720 - HR
- 12 - The PPF was contracted because of the preparation of the project. The withdrawn PPF is, from 29 March 2007, included in the amount of the withdrawn loan no. 73600-HR funds
- 13 - The PPF was contracted because of the preparation of the project. The withdrawn amount of PPF is, from 29 March 2007, included in the amount of the withdrawn loan no. 74100 -HR funds, which was contracted with the state guarantee
- 14 - uncontracted loan amount USD 28 million; cancelled: USD 1,9 million
- 15 - four loans were granted for the same project (the beneficiary banks are listed in the table)
- 16 - the Rijeka gateway Project was prepared by means of the USD 1,5 million PPF, but only USD 684,3 thousand was withdrawn That amount is included in the loan no. 47150 - HR.



During 2006 the biggest amount of funds from IBRD loans was disbursed:

- with the purpose of strengthening economic growth of Republic of Croatia, for implementation of structural reforms of public and private sector from Programmatic Adjustment Loan (EUR 149.6 million);
- for implementation of Rijeka Gateway Project by three loans concluded with guarantee of the Republic of Croatia (around EUR 18 million and USD 7 million);
- for implementation of Real Estate Registration and Cadastre Project (EUR 4.7 million);
- for implementation of technical assistance Project related to bankruptcy (EUR 2.2 million).

The funds of other IBRD loans were also invested in development of education system, environmental protection, in particular the inland waters protection from pollution in coastal areas, projects of health and social system and local infrastructure.

Total stock of debt of Republic of Croatia towards IBRD, as direct debt or guaranteed debt, as of December 31, 2006, amounted to EUR 461.4 million and USD 418.2. Total debt<sup>34</sup> in EUR increased when compared with 2005 by EUR 155.6 million while total debt in USD decreased by USD 16.6 million.

Matured loan liabilities towards IBRD were paid regularly and on time in line with received requests for payments and contracted plans of repayment. IBRD waived part of its interests and fees in fiscal year 2006<sup>35</sup> which would otherwise have to be paid by debtors. This is in line with decision of banks' Board and according to present practice towards debtors who in time settle their liabilities of contracted loans. Owing to regular and timely payments of matured liabilities towards IBRD and respecting strict IBRD financial discipline rules, debtors from Republic of Croatia realized significant savings. On the basis of direct IBRD loans in the period from July 1, 2005 to June 30, 2006<sup>36</sup>, there was realization of savings for the government budget of USD 1.2 million.

The liabilities on the basis of direct loans and one loan with guarantee of the Republic of Croatia (liabilities of Alpe Jadran Banka d.d., Split in liquidation) in 2006 were paid from government budget in total amount of EUR 47.1 million, EUR 27.6 million and JPY 1.6 billion.

During 2006 accounted interests were paid semiannually by rates that moved, depending on the type of the loan, in following range:

- (a) Currency Pooled Loans - CPL - from 4.84% to 5.16%;
- (b) Variable Single Currency Loans: for Loans contracted din EUR - from 2.31 to 3.40% and for loans contracted in USD - from 4.51% to 5.75%;
- (c) Fixed Single Currency Loans: for loans contracted or converted to EUR - from 2.75% to 3.59%.

Initial fees for loans contracted in 2006 were accounted and charged on a one-time basis by the rate of 0.25% on the contracted amount of the loan or weren't charged at all<sup>37</sup>, while fees for non withdrawn loan funds were charged by rates from 0.25% to 0.35%.

<sup>34</sup> As of December 31, 2005 total debt towards IBRD amounted to EUR 305.8 million and USD 434.8 million.

<sup>35</sup> IBRD fiscal year started on July 1, 2006 and lasts till June 30, 2007. More information on waived payments for initial fees, interest and fees for non withdrawn funds can be found on <http://treasury.worldbank.org/index.html>.

<sup>36</sup> According to IBRD: Partial Interest Waiver Information for bills issued for due dates from July 1, 2005 to June 30, 2006.

<sup>37</sup> Application of rate according to which initial fee was calculated depended on the date on which loan was approved by IBRD: for example, for all loans approved on or after August 10, 2006, IBRD introduced 100% waiver of initial fees.



### 8.1.3 Overview of Grants

In the period from 1995 to 2006 49 grant contracts were concluded for implementation of projects in the Republic of Croatia in the area of infrastructure, environmental protection and private sector development and structural adjustment in the sectors of health, social security, agriculture, education, public finances and judiciary (Table 8.1a: Overview of IBRD Grants and Dutch Constituency within the IBRD, as of December 31, 2006). The grant agreements were concluded in five currencies in the total amount of USD 35.2 million, JPY 270.5 million, GBP 352.8 thousands, EUR 11.3 million and SEK 23.3 million. Republic of Croatia concluded with IBRD 47 grant contracts in the total amount of USD 35.2 million, JPY 270.5 million, GBP 352.8 thousands and EUR 11.2 million while two grants in the total amount of EUR 60 thousands were obtained from Government of the Kingdom of Netherlands in the frame of Dutch Constituency in which is Croatia as IBRD member. As of December 31, 2006, from 49 contracted grants, 32 grants were closed and 17 active for disbursement of funds.

Beside mentioned grants, (which are recorded in the Ministry of Finance of the Republic of Croatia), five grants were also concluded (which are not under evidence of the Ministry of Finance of the Republic of Croatia), in the total amount of USD 2.2 million and were allocated to:

- Hrvatska Elektroprivreda d.d. (HEP) for Heating Energy Project in the total amount of USD 188 thousands and USD 350 thousands for Energy Efficiency Project;
- non governmental organizations for Refugees Return Project in Zadar, Knin and Šibenik in amount of USD 1.1 million;
- follow the projects in the area of environmental protection Operational focal point in the amount of USD 24.5 thousands from GEF (Global Environment Facility) funds;
- co finance sample Project of B&H Cultural Heritage - Old bridge in the total amount of USD 500 thousands.

The grant funds are being used for consultant services payments, procurement of goods, expert training and drafting the studies needed for preparation of projects which are after feasibility studies reported to IBRD for loan financing. Republic of Croatia agreed 35 grants in USD in the total amount of USD 35.2 million of which 23 grants were closed for withdrawals while under remaining 12 grants as of December 31 2006, remained USD 19.6 million for withdrawing. In Japanese yens, six grants in the amount of JPY 270.5 million were concluded. Till December 31, 2006 total amount of JPY 199.8 million was disbursed while JPY 70.7 million was canceled and grants were closed. In British pounds, one grant in the amount of GBP 352.8 thousands was concluded. Remaining funds of GBP 2.83 thousands were canceled and grant was closed. Three grants were contracted in euros in the total amount of EUR 11.2 million and as of December 31, 2006 EUR 6 million remained for disbursement. During 2006 two grants in Swedish Crowns in the total amount of SEK 23.3 million were contracted. From this amount, as of December 31, 2006, SEK 20.9 million remained for disbursements. The funds of active grants will be disbursed as latest till 2010 according to the closing schedule of individual grants. Three grants, which are financed with EU CARDS program funds, in the total amount of EUR 11.3 million, will be disbursed till August 31, 2007 and as of December 31, 2006, EUR 6 million remained for withdrawals. Dutch Constituency grants in the total amount of EUR 60 thousands were completely disbursed by the end of 2004.



**Table 8.1a Overview of grants and of Dutch Constituency within the IBRD  
(on 31 December 2006)**

No.	Year granted	Grant reference	Grant name	Currency	Contracted amount of the grant in the currency of payment (000)	Cancelled amount of the grant in the currency of payment (000)	Left for disbursement in the currency of payment (000)
<b>A. Grants contracted with the IBRD</b>							
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	25539 (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	0.11	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	1,160.90
29	2002	50513 (closed)	Social and Economic Recovery Project	USD	425.36	27.84	0.00
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	46.99
32	2003	52062	Budget Management Strengthening Project	USD	368.00	0.00	64.66
33	2003	51781	Land Registry and Cadastre Project	EUR	4,900.00	0.00	940.57
34	2004	52141	Energy Efficiency Project	USD	7,000.00	0.00	5,541.76
35	2003	52844	Neretva and Trebišnjica Integrated Ecosystem Management Project	USD	145.00	0.00	18.25
36	2004	52657	Land Registry and Cadastre Project: Coastal Goods Registration Support	EUR	1,960.00	0.00	1,126.84
37	2004	53149 (closed)	Preparation of Education System Reform	USD	766.15	396.55	0.00
38	2005	53150	Sustainable Health System Project	USD	425.00	0.00	247.31
39	2005	53242	Karst Ecosystem Conservation Project	USD	200.00	0.00	0.32
40	2005	54973	Renewable Energy Resources Project	USD	5,500.00	0.00	4,950.00
41	2005	55104	EU CARDS grant for Land Registry and Cadastre Project	EUR	4,410.00	0.00	3,969.00
42	2005	55789	Strengthening of Statistical Capacities for the Development of the Statistical Master-Plan	USD	89.75	0.00	89.75
43	2006	54882	The Technical assistance supporting the implementation of the Project of Coastal Cities Pollution Control	USD	2,461.67	0.00	2,211.67
44	2006	56237	Co financing of the Social Welfare Development Project	SEK	14,700.00	0.00	12,389.76
45	2006	56572	The preparation of the Project of Internal Waters	USD	500.00	0.00	500.00
46	2006	56514	The support of Public Administration Reform	SEK	8,550.00	0.00	8,550.00
47	2006	56498	The Technical assistance supporting the implementation of the Project of Agricultural Legislation Alignment with European Union Acquis Communautaire	USD	4,750.06	0.00	4,750.06
TOTAL (1 - 47):				USD	35,176.93	1,371.21	19,581.67
				JPY	270,500.00	70,655.27	0.00
				GBP	352.80	2.83	0.00
				EUR	11,270.00	0.00	6,036.41
				SEK	23,250.00	0.00	20,939.76
<b>B. Grants of the Dutch Constituency within the IBRD</b>							
1	2004	5105 CF (closed)	Project of Financial Management Information System Strategic Study	EUR	30.00	0.00	0.00
2	2004	5105 CF (closed)	Project of Rationalization of Financial Management Information System Strategic Study	EUR	30.00	0.00	0.00
<b>TOTAL (1 - 2):</b>				EUR	60.00	0.00	0.00
<b>TOTAL (A. + B.):</b>				USD	35,176.93	1,371.21	19,581.67
				JPY	270,500.00	70,655.27	0.00
				GBP	352.80	2.83	0.00
				EUR	11,330.00	0.00	6,036.41
				SEK	23,250.00	0.00	20,939.76

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





#### **8.1.4 Projects under Preparation in 2006**

During 2006, preparations were made and projects were defined which will be financed with four new loans in 2007 in the total amount of EUR 335.3 million:

- (a) Project of Tax Administration Modernization (fore loan for Project preparation - USD 750 thousands, and loan in the amount of EUR 50 million);
- (b) Second Programmatic Adjustment Loan (Loan in the amount of EUR 150 million);
- (c) Internal Waters Project (Loan in the Amount of EUR 100 million);
- (d) Additional Loan for Reconstruction of Rijeka Gateway Project (EUR 35.3 million).

#### **8.1.5 Grants under Preparation in 2006**

During 2006 three grants were under preparation which will be contracted with IBRD during 2007 in the total amount of USD 15 million and EUR 45 thousands for the following projects:

- (a) Project for Development of Human Resources Management in the Ministry of Finance of the Republic of Croatia (EUR 45 thousands), from Constituency Fund IBRD, grant of the Kingdom of Netherlands;
- (b) Project of Pollution Control in Agriculture, from GEF funds (USD 5 million);
- (c) Project of Rivers' Neretva and Trebišnjica basin management, GEF grant (USD 10 million).



## 8.2 EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

The European Bank for Reconstruction and Development is the youngest international financial institution, established in May 1990 in order to support the process of transition in Central and Eastern European states. The Bank was founded by 39 states and two institutions - the European Investment Bank and the European Union. Today the Bank has 63 members, 61 of which are states and the remaining two are the above mentioned institutions. From those 61 member states, 29 are the beneficiaries of Bank's funds. The Republic of Croatia became a full member of the European Bank for Reconstruction and Development (EBRD) on 15 April 1993. In the total EBRD capital the Republic of Croatia owns 0.37 percent of shares and has the voting power of 0.37 percent.

Judging by the amounts of loans granted and the technical assistance provided so far, the Bank is (apart from the International Bank for Reconstruction and Development) one of the most significant foreign financial sources of the Republic of Croatia. The total of loans/investments in Croatia from 1994 to the present day amounts to EUR 1.6 billion for 69 projects. The average annual amount of Bank's investment in the Republic of Croatia stands around EUR 150 million. The Bank also financed 134 technical assistance projects with the total value of EUR 10.3 million. The structure of financing, by sectors, is as follows: financial institutions 36 percent, infrastructure 33 percent, special activities 21 percent (of which agro industry 17 percent, real estates and tourism 1 percent, telecommunications, computer science, media 3 percent), general economy 6 percent, energy 4 percent. Out of the total amount of funds invested by EBRD in projects in the Republic of Croatia, the investments in private sector account for 66 percent, and the investments in public sector account for the remaining 34 percent.

The priority sectors for investments of EBRD in Croatian economy are:

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



## 8.2.1 New Loans Agreed in 2006

### a) Loan for the Project of the Construction of the Second B Phase of Rijeka - Zagreb Highway (Loan No. 35790), EUR 50 million (the guarantee of the Republic of Croatia)

The loan agreement for the construction of the second B phase of Rijeka - Zagreb highway was concluded on 26 July 2006 between the Rijeka - Zagreb Highway and EBRD. On the same day the guarantee agreement for the granted loan in the amount of EUR 50 million between the Republic of Croatia and EBRD was concluded. The repayment period of 25 years, including four year grace period and semi-annual repayments was set. The interest is based on 6-month EURIBOR increased by 1 percent. The standard additional costs of the loan were also agreed upon: a one-off initial compensation of 1 percent and a compensation for the non-withdrawn loan funds in the amount of 0.5 percent on the annual bases. The project includes the extension to full profile of the highway section between Kikovica and Stara Sušica and the development and implementation of a medium term corporative strategy of the Rijeka - Zagreb Highway. During 2006 there was no withdrawal of funds since the loan had not yet become effective.

### b) Loan for the Project of Beltway around Rijeka (Loan No. 31849),

EUR 40 million (the guarantee of the Republic of Croatia)

The loan agreement for the Beltway around Rijeka Project was concluded on 12 December 2006 between the Croatian Roads and EBRD. On the same day the guarantee agreement for the granted loan in the amount of EUR 40 million between the Republic of Croatia and EBRD was concluded. The repayment period of 25 years, including four year grace period was set. The decision of EBRD to approve such a long repayment period was not common (the common repayment period is 15 years). The interest is based on 6-month EURIBOR increased by 1 percent. The standard additional costs of the loan were also agreed upon: a one-off initial compensation of 1 percent and a compensation for the non-withdrawn loan funds in the amount of 0.5 percent on the annual bases. During 2006 there was no withdrawal of funds since the loan had not yet become effective and the maturity period was set to end on 12 June 2007.

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

During 2006 EBRD has granted EUR 285.4 million for the financing of 9 new projects in the Republic of Croatia, 6 of which refer to private sector (in the amount of EUR190.4 million) and 3 to public sector (in the amount of EUR 95 million)<sup>38</sup>. Within the public sector, two new loans with the state guarantee totaling EUR 90 million and one loan for the financing of local infrastructure without the state guarantee were concluded<sup>39</sup>. In the period from 1994 to the end of 2006 EBRD granted 17 loans for project financing in Croatia (in the total amount of USD 66.2 million and EUR 454.8 million), 3 of which were the direct loans (in the total amount of USD 19.7 million and EUR 39.3 million) and the remaining 14 were the loans with the state guarantee (in the total amount of USD 46.5 million and EUR 415.4 million) - (look at the table 8.2.). During 2006 the Republic of Croatia has not concluded even one new direct loan with EBRD. However, pursuant to its plan to support all the projects comparatively advantageous to EBRD, in the second half of 2006 the Government of the Republic of Croatia supported two new loans with the state guarantee. These loans were intended for two big and important projects concerning road infrastructure, namely, the construction of the second B phase of Rijeka - Zagreb highway (section Kikovica - Sušica) financed by EBRD loan in the amount of EUR 50 million and the Project of Beltway around Rijeka financed by EBRD loan in the amount of EUR 40 million. Since the loan agreements regarding these new projects have not come into force by the end of 2006, no funds from these loans were withdrawn in 2006.

<sup>38</sup> Source: *EBRD Country Factsheet (Croatia)*; [www.ebrd.com/croatia](http://www.ebrd.com/croatia).

<sup>39</sup> This refers to the loan for Rijeka - Zagreb Highway (Loan No. 35790), the loan for the Project of Beltway around Rijeka (Loan No. 31849), both with the state guarantees, and the loan for Pula Public Transport Project without the state guarantee.



**Table 8.2 Overview of EBRD loans contracted in the period from 1994 to 2006 with debt outstanding and disbursed funds on 31 December 2006 and disbursed funds in 2006**

DIRECT LOANS									
Settlement date	Published in the NN/MU no.	Effectuation / Closing date	Currency	Loan amount 000 USD /000 EUR	Disbursed 000 USD /000 EUR	Undisbursed 000 USD /000 EUR	Debt outstanding 000 USD /000 EUR	Principal repayment: first and last	Disbursed in 2006 000 USD /000 EUR
<b>Air Navigation System Project - Loan No. 231 (1)</b>									
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
<b>Highway Reconstruction Project (HC) - Loan No. 286 (2)</b>									
17.1.1995	6/1995	28.2.1999	EUR	36,195.88	36,195.88	0.00	9,047.73	10.4.1998 10.10.2009	0.00
<b>Wholesale Market Project (Nacionalne veletržnice d.d.) - Loan No. 627 (3)</b>									
8.12.1997	7/1998	24.3.2002	EUR	3,203.56	3,203.56	0.00	1,601.78	24.5.2002 24.11.2011	0.00
<b>TOTAL DIRECT LOANS</b>				USD	<b>19,735.52</b>	<b>19,735.52</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
				EUR	<b>39,399.43</b>	<b>39,399.43</b>	<b>0.00</b>	<b>10,649.50</b>	<b>0.00</b>
LOANS OBTAINED WITH THE GUARANTEE OF RC									
Settlement date	Published in the NN/MU no.	Effectuation / Closing date	Currency	Loan amount 000 USD /000 EUR	Disbursed 000 USD /000 EUR	Undisbursed 000 USD /000 EUR	Debt outstanding 000 USD /000 EUR	Principal repayment: first and last	Disbursed in 2006 000 USD /000 EUR
<b>Power Supply and Distribution Network Project (HEP) - Loan No. 283</b>									
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
<b>Credit Line for Tourism (HBOR) - Loan No. 443</b>									
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
<b>Program of Investment into Local Infrastructure and Environmental Protection (HBOR) - Loan No. 494 (4)</b>									
9.12.1996	4/1997	31.1.2004	EUR	31,575.22	31,575.22	0.00	17,037.60	10.4.2001 10.10.2011	0.00
<b>Railway Locomotive Reconstruction Project (HŽ) - Loan No. 733</b>									
8.12.1998	4/1999	5.2.2004	USD	35,000.00	35,000.00	0.00	20,416.66	20.5.2002 20.11.2013	0.00
<b>Small and Medium Entrepreneurship (HBOR) - Loan No. 923 (5)</b>									
20.3.2001	9/2001 and 5/2002	19.9.2004	EUR	4,685.36	4,685.36	0.00	0.00	Repaid before maturity on 5.8.2005	0.00
<b>Ecological Projects in INA d.d. - Loan No. 935 (6)</b>									
10.5.2001	11/2001 and 1/2002	31.12.2005	EUR	29,694.21	29,694.21	0.00	21,324.79	30.9.2005 30.3.2011	-2,017.53
<b>Rijeka - Zagreb Motorway (ARZ) - Loan No. 975 (7)</b>									
22.10.2001	8/2002	31.12.2007	EUR	60,000.00	57,042.88	2,957.12	49,042.88	12.5. 2005 12.11. 2019	10,585.00
<b>Uljanik Shipyard d.d. Pula - Tanker Construction No. 450 - advance guarantee from EBRD with the state guarantee - Loan No. 18149</b>									
26.2.2002	7/2002 and 11/2002	4 guarantees untill 7.12.2004	USD	11,490.00	11,490.00	0.00	0.00	Guarantees returned on 3.3.2005	0.00
<b>Zagreb Center for Regional Control Project - Loan No. 25800 (8)</b>									
5.9.2002	14/2002	31.12.2006	EUR	24,944.05	24,944.05	0.00	20,256.55	20.11.2005 20.5.2013	75.64
<b>Highway Reconstruction in Croatia Project (HAC) - Loan No. 27171 (9)</b>									
13.12.2002	10/2003	1.9.2006	EUR	45,254.45	45,254.45	0.00	41,433.61	20.5.2006 20.11.2017	5,765.30
<b>Project Completion of Highway on Corridor X in RC (Županja-Lipovac) (HAC) - Loan No. 31848</b>									
12.11. 2003	6/2004	9.12.2007	EUR	45,000.00	43,767.84	1,232.16	43,767.84	20.5.2007 20.11.2021	20,724.94
<b>Coastal Infrastructure of Port Dubrovnik Construction Project - Loan No. 13451</b>									
1.2.2005	7/2005 and 11/2005	31.3. 2008	EUR	26,500.00	6,620.73	19,879.27	6,620.73	10.4.2008 10.10.2017	2,564.00
<b>Highway Rijeka - Zagreb Phase IIB (Kikovica-Sušica) - Loan No. 35790</b>									
26.7.2006	11/2006 (not effective)	1.10.2010	EUR	50,000.00	0.00	50,000.00	0.00	17.12.2010 17.6.2031	0.00
<b>Project of the Beltway around Rijeka (HC) - Loan No. 31849</b>									
12.12.2006	(not effective)	31.3.2010	EUR	40,000.00	0.00	40,000.00	0.00	23.9.2010 23.9.2031	0.00
<b>TOTAL LOANS WITH THE GUARANTEE OF RC</b>				USD	<b>46,490.00</b>	<b>46,490.00</b>	<b>0.00</b>	<b>20,416.66</b>	<b>0.00</b>
				EUR	<b>415,429.28</b>	<b>301,360.72</b>	<b>114,068.55</b>	<b>199,484.00</b>	<b>37,697.35</b>
<b>GRAND TOTAL</b>				USD	<b>66,225.52</b>	<b>66,225.52</b>	<b>0.00</b>	<b>20,416.66</b>	<b>0.00</b>
<b>PUBLIC + GUARANTEED</b>				EUR	<b>454,828.71</b>	<b>340,760.16</b>	<b>114,068.55</b>	<b>210,133.51</b>	<b>37,697.35</b>

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 million and USD 264.5 thousand.
- 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: EUR 2 million.
- 7 - Contracted loan amount EUR 90 million; EBRD decreased the loan in year 2002 by EUR 30 million.
- 8 - Contracted loan amount EUR 25 million; cancelled: EUR 55.9 thousand.
- 9 - Contracted loan amount EUR 46.5 million; cancelled: EUR 1.2 million.



According to the situation on 31 December 2006 it is clear that all the USD loans funds were entirely withdrawn (USD 66.2 million), while out of the total of EUR 454.8 million loans funds, EUR 340.7 million was withdrawn (75 percent) therefore leaving EUR 114.1 million (25 percent) unused. During 2006 most of EBRD funds were withdrawn for the implementation of road building projects:

- Project of the Completion of the Highway on Corridor X in the Republic of Croatia (EUR 20.7 million)
- Project of the Construction of Rijeka - Zagreb Highway (EUR 10.6 million)
- Project of the Reconstruction of Highways in the Republic of Croatia (EUR 5.8 million) - the loan is entirely used and closed for withdrawals.

Furthermore, the loan funds were used for the Project of the Construction of Coastal Infrastructure of Port of Dubrovnik (EUR 2.6 million) and for Zagreb Centre of Regional Control Project (EUR 75.6 thousand)<sup>40</sup>.

The total debt of the Republic of Croatia in the property of debtor and guarantor towards EBRD on 31 December 2006 stood at USD 20.4 million and EUR 210.1 million on the basis of 10 loans that are being repaid. All of the matured liabilities towards EBRD on the bases of direct loans (2 loans) and the loan with the state guarantee given to the Croatian Railways were settled from the State Budget of the Republic of Croatia for the year 2006 in the total amount of EUR 3.9 million (EUR 3.3 million for the principal and around EUR 550 thousand for the interest) and USD 4.3 million (USD 2.9 million for the principal and USD 1.4 million for the interest). The beneficiaries of EBRD loans, HEP, HBOR, INA, Air Navigation System, Highway Rijeka-Zagreb, Croatian Highways and Port Authority of Dubrovnik have all timely repaid their liabilities towards EBRD during 2006 so that the guarantees of the Republic of Croatia for those loans were not activated. The interest on the loans concluded or converted to EUR were paid with the annual rate in the span from the lowest of 3.188 percent to the highest of 7.44 percent while the interest on the loans obtained in USD were paid with the rate in the span from 5.58 percent to 6.297 percent. The one-off initial compensations were calculated and collected at the rate of 1 percent (on the contracted amount of the loan) while the compensations for non-withdrawn loan funds were calculated and collected at the rate of 0.50 percent annually.

### 8.2.3 Projects under Preparation in 2006

In 2006 all the preparatory activities for the defining of Port of Ploče Project (planned for 2007) were completed. The Ministry of the Sea, Tourism, Transport and Development is in charge of these activities. The negotiations with EBRD regarding the loan agreement were held at the beginning of September 2006, and the signing of the loan is expected in the course of 2007.

<sup>40</sup> This was the loan No. 25800 which was agreed in the amount of EUR 25 million. However, since the remaining EUR 55.9 thousand was denounced, only EUR 24.9 million has been withdrawn.



## 8.3 COUNCIL OF EUROPE DEVELOPMENT BANK (CEB)

The Republic of Croatia became the full member of the Council of Europe Development Bank on 24 June 1997. By becoming a full member of the Council of Europe on 6 November 1996, the Republic of Croatia earned the right to become a full member of CEB according to the procedure prescribed for the Council of Europe member states (according to Article III.a. of the Statute of CEB). The direct relations between the Republic of Croatia and CEB were established at the beginning of 1992, prior to Croatia becoming a member of the Council of Europe. Since then the Government of the Republic of Croatia has directed its efforts at developing a healthy cooperation with this specific financial institution which supports the European states in dealing with humanitarian issues, social and development problems. Aiming at becoming a full member of the Bank, the Government of the Republic of Croatia considered at all times the huge social needs of refugees, people in exile and the casualties of war and the reconstruction and development of the economic, infrastructural, cultural and housing objects destroyed or damaged during the war. The legal and financial relations of the Republic of Croatia with CEB were defined by the Agreement between the Council of Europe Social Development Fund and the Government of the Republic of Croatia (on 15 June 1996) and the specific loan agreements (on 22 July 1996)<sup>41</sup>. The Law on the Accession of the Republic of Croatia to the Council of Europe Social Development Fund and on the Ratification of the Statute of the Council of Europe Social Development Fund was adopted in May 1997<sup>42</sup>. With the purpose of easier access to funds and to international capital markets, on 1 November 1999 the Banks' governing bodies adopted the conclusion on changing of the name from the Council of Europe Social Development Fund to the Council of Europe Development Bank (CEB). However, the objectives, the organizational structure and the determined activity priorities remained unchanged.

The Republic of Croatia has the share of 0.4 percent in the total capital of CEB. In 2005, after many common activities of the Ministry of Finance of the Republic of Croatia and CEB, the Croatian government adopted CEB's Strategy for Croatia for the Period from 2005 to 2009 at the session held on 20 May 2005. The strategy defines the strategic framework for the priority areas of cooperation with CEB, the scope and the direction of favorable long term loans, the forms of technical assistance and various arrangements of co-financing with the other international financial institutions. CEB's financial support to the Republic of Croatia consists of the support to national development and modernization programs in the following social sectors:

1. Displaced persons and refugees,
2. Health sector,
3. Education,
4. Building of social housing objects,
5. Improvement of the life conditions in urban and rural areas,
6. Protection of the environment,
7. Employment and professional training,
8. Cultural heritage,
9. Improvement of minorities' life conditions (the Roma issue).

According to the Strategy, CEB's investments in the Republic of Croatia in the period from 2005 to 2009 should amount to EUR 600 million.

<sup>41</sup> Within the former SFRJ, 15 enterprises located in less developed areas of the Republic of Croatia, in the period from 1987 to 1990, used the funds from 18 loans provided by CEB, which totaled EUR 11.8 million, for financing industrial development projects with the purpose of increasing local employment. In the period from 1992 to 1994 the Ministry of Finance of the Republic of Croatia in cooperation with the Croatian National Bank and 6 commercial banks fully cooperated with CEB in order to first establish the total amount of arrears and debt outstanding and then comprehensively define mutual relations. For that reason, the aforementioned Agreement and the specific loan agreements were concluded. These agreements were the Agreement between the Council of Europe Social Development Fund and the Government of the Republic of Croatia and the loan agreements between the Council of Europe Social Development Fund and Dalmatinska banka, Privredna banka, Riječka banka, Slavonska banka, Splitska banka and Zagrebačka banka, concluded with the state guarantee. The Law on the Ratification of the concluded Agreement, the Loan agreement and the specific agreements was published in the Official Gazette - International Agreements, No. 3/1997. On 22 July 1996 the total assumed debt stood at EUR 4.1 million. In accordance with the agreed repayment plans, the mentioned debt has been entirely repaid in the period from 1997 to 31 July 2000, inclusive.

<sup>42</sup> The Law was published in the Official Gazette - International Agreements, No. 8/1997.



By the Resolution No. 1495 (2006) from June 2006, the Governing Board of CEB established new rules for lending and financing of projects in development of which the Republic of Croatia actively participated. During 2006 the cooperation of the Republic of Croatia with CEB was mostly directed at tackling the current problems in the health sector and the environmental protection sector in the sense of reaching and implementing EU standards. That was also the condition for the continuation of the implementation of health sector projects co-financed by CEB's already concluded loan.

### 8.3.1 New Loans Agreed in 2006

During 2006 no new framework loans between the Republic of Croatia and CEB were agreed. However, based on already concluded framework loan agreements, 6 additional contracts were concluded on the basis of which the total of HRK 256.4 million was withdrawn (*look at the table 8.3.*). Therewith, the reconstruction of school objects, utility and social infrastructure on the Croatian islands, cultural heritage in Ilok, Vukovar and Vučedol and objects and infrastructure of "Andrija Štampar" National Health School continued. By the withdrawal of the remaining funds from the framework loans for the F/P 1435 (2002) and F/P 1379 (2000) projects during 2006, the costs of the implementation of the Project of Sustainable Return of Displaced Persons and Refugees - the return of assets and the housing care and the costs for the reconstruction of war damaged Franciscan monastery Mala Braća in Dubrovnik were refinanced.

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

According to the overview of loans given in the table 8.3, in the period from 1998 to the end of 2006, the Republic of Croatia directly concluded with CEB 11 framework loan contracts for co-financing of projects, and offered a guarantee for the framework loan of CEB to HBOR. In the mentioned period, for the co-financing of projects in the Republic of Croatia CEB provided direct loans in the amount of around HRK 1.9 billion<sup>43</sup> and a loan to H B O R in the amount of EUR 8 million (with the guarantee of the Republic of Croatia). All the direct framework loans and the loan with the guarantee of the Republic of Croatia were withdrawn in tranches. All direct loan tranches are treated as separate loans and were concluded with the repayment period of 5 to 10 years and a 5 year grace period. Framework loan tranches are also treated as separate loans, with the repayment period of 6 years and 2 to 3 year grace period. The tranches withdrawn from direct loans, on the bases of concluded additional agreements, are repaid with the fixed interest rate which, in the period from 1998 to the end of 2006, stood between the lowest of 2.89 percent and the highest of 5.71 percent while the tranches withdrawn on the bases of the loan obtained with the guarantee of the Republic of Croatia are repaid with the floating interest rate based on EURIBOR plus 0.4 and 0.29 percent annually. Up to 31 December 2006, the Republic of Croatia has withdrawn HRK 1.4 billion or 76.8 percent of the funds from direct loans. The amount of HRK 428.2 million (23.2 percent), still available for withdrawal, will be used in the following years in accordance with the projects implementation progress. At the end of 2006, EUR 4 million or 50 percent of the funds from the loan granted to HBOR, with the guarantee of the Republic of Croatia, were left for withdrawal. This amount will be used for further fostering of the development of small and medium enterprises.

On 31 December 2006, the debt of the Republic of Croatia towards CEB stood at EUR 178.6 million and USD 4.5 million, while the debt on the bases of the framework loan to HBOR with the guarantee of the Republic of Croatia stood at EUR 2.8 million. In 2006, the debt in EUR of the Republic of Croatia towards CEB was increased by 31.3 million compared with 2005<sup>44</sup>, while the debt in USD decreased by 1.5 million. In 2006 HBOR reduced its debt towards CEB compared with 2005 by EUR 667.3 thousand. All of the matured liabilities towards CEB in 2006 were settled, whereat from the State Budget of the Republic of Croatia the amount of EUR 9.6 million and USD 1.8 million was repaid on the bases of direct loans, while HBOR repaid the amount of EUR 760.3 thousands for all of the matured liabilities on the basis of its loan.

<sup>43</sup> Look at the notes from table 8.3.

<sup>44</sup> On 31 December 2005 the direct debt of the Republic of Croatia towards CEB stood at EUR 147.3 million and USD 6 million.



**Table 8.3 Overview of CEB loans contracted in the period from 1998 to 2006 with debt outstanding and disbursed funds on 31 December 2006 and disbursed funds in 2006**

<b>DIRECT LOANS</b>							
Settlement date	Published in the NN/MU no.	Framework Loan Amount 000 HRK	Disbursed 000 HRK	Undisbursed 000 HRK	Debt Outstanding in the Currency of Withdrawal (000 EUR)	Debt Outstanding in the Currency of Withdrawal (000 USD)	Disbursed in 2006 000 HRK
<b>Reconstruction of Health Infrastructure in Eastern Slavonia Project - Loan No. F/P 1278/1998</b>							
16.7.1998	13/1998 and 15/1998	172,744.13	172,744.13	0.00	14,660.00	3,045.00	0.00
<b>Reconstruction of Schools in Eastern Slavonia Project - Loan No. F/P 1279/1998 (1)</b>							
16.7.1998	13/1998 and 15/1998	66,380.80	66,380.80	0.00 Cancelled: 987.21	4,970.00	1,446.00	0.00
<b>School Infrastructure Reconstruction - Loan No. F/P 1352/1999 (2)</b>							
19.1.2001	7/2001	96,935.64	96,935.64	0.00 Cancelled: 1,746.36	13,147.00	0.00	0.00
<b>Return of Displaced Persons and Refugees in the RC Project - Loan No. F/P 1378/2000</b>							
2.2.2001	7/2001	232,000.00	232,000.00	0.00	31,400.00	0.00	0.00
<b>Reconstruction of the Franciscan Monastery Mala Braća in Dubrovnik Project - Loan No. F/P 1379/2000</b>							
19.6.2001	14/2001 and 2/2002	10,324.79	10,324.79	0.00 Cancelled: 0.67	1,406.70	0.00	1,058.94
<b>Reconstruction of the SPH "Andrija Štampar" Zagreb and the ICHM in Dubrovnik Project - Loan No. F/P 1419/2001</b>							
29.3.2002	10/2002 and 12/2002	21,395.00	19,756.41	1,638.59	2,654.73	0.00	6,270.99
<b>Health Infrastructure Reconstruction Project - Loan No. F/P 1351/1999</b>							
30.10.2001	9/2002 and 12/2002	186,837.03	112,328.26	74,508.77	14,578.00	0.00	0.00
<b>Project of Sustainable Return of Displaced Persons and Refugees - Return of Property and Housing Care - Loan No. F/P 1435/2002</b>							
30.1.2004	6/2004	292,304.13	292,304.13	0.00 Cancelled: 46.89	39,861.00	0.00	29,294.10
<b>Project of Building and Reconstruction of School Objects in the Republic of Croatia - Loan No. F/P 1456/2004</b>							
15.12.2004	5/2005 and 8/2005	402,456.00	282,841.50	119,614.50	38,231.00	0.00	137,436.92
<b>Project of Construction of Utility and Social Infrastructure Objects on the Croatian Islands - Loan No. F/P 1498/2004</b>							
15.12.2004	5/2005 and 8/2005	193,364.37	88,394.20	104,970.17	11,939.00	0.00	40,035.14
<b>Project "Research, Rehabilitation and Revitalisation of the Cultural Heritage in Ilok, Vukovar and Vučedol" - Loan No. F/P 1511/2005</b>							
23.5.2005	8/2005 and 9/2005	169,716.27	42,252.14	127,464.13	5,740.00	0.00	42,252.14
<b>TOTAL DIRECT LOANS</b>		<b>1,844,458.16</b>	<b>1,416,262.00</b>	<b>428,196.16</b>	<b>178,587.43</b>	<b>4,491.00</b>	<b>256,348.23</b>
		100%	76.78%	23.22%			
<b>LOANS OBTAINED WITH THE GUARANTEE OF RC</b>							
Settlement date	Published in the NN/MU no.	Framework Loan Amount 000 HRK	Disbursed 000 HRK	Undisbursed 000 HRK	Debt Outstanding in the Currency of Withdrawal (000 EUR)		Disbursed in 2006 000 HRK
<b>Financing of Credit Programme for Small and Medium Enterprises Project (HBOR) - Loan No. F/P 1392/2000</b>							
16. and 21.2. and 15.3.2001	9/2001 and 5/2002	8,000.00	4,000.00	4,000.00	2,833.33		0.00
<b>TOTAL LOANS WITH THE GUARANTEE OF RC</b>		<b>8,000.00</b>	<b>4,000.00</b>	<b>4,000.00</b>	<b>2,833.33</b>		<b>0.0</b>
		100%	50.00%	50.00%			
<b>GRAND TOTAL PUBLIC + GUARANTEED</b>				<b>000 EUR</b>	<b>181,420.76</b>		
				<b>000 USD</b>	<b>4,491.00</b>		

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; cancelled: HRK 987.2 thousand
- 2 - Contracted loan amount HRK 98.6 million; cancelled: HRK 1.8 million
- 3 - Contracted loan amount HRK 10.3 million; cancelled: HRK 0.7 thousand
- 4 - Contracted loan amount HRK 292.4 million; cancelled: HRK 46.9 thousand





### 8.3.3 Projects under Preparation in 2006

During 2006, only one project, in the amount of about HRK 799.5 million, was prepared. This health sector project will be co-financed by CEB. By the Decision of the Governing Board of CEB, in 2006 the Republic of Croatia was granted a framework loan in the amount of about HRK 327.7 million. However, the signing of the loan agreement was conditioned by the adoption of plans for waste management in the Republic of Croatia, especially medical waste management. The Ministry of Finance of the Republic of Croatia, in cooperation with the Ministry of Health and Social Welfare, organized the visits of CEB's technical missions with the purpose of the assistance in drafting of adequate regulations in accordance with the EU standards. The project encompasses the continuation of financing of the reconstruction and modernization of health facilities in priority sites in the Republic of Croatia which begun in 1998.



## 8.4 EUROPEAN INVESTMENT BANK (EIB)

The European Investment Bank was established by the Rome Agreement in 1958, in the same time when other institutions known by their common name of European Economic Community (later renamed to European Union) were founded. The European Investment Bank is a financial institution of the European Union with headquarters in Luxemburg. The basic role of EIB is to provide the funds for capital investments related to the development and integration of the European Union. Only a full member of the European Union can be a full member of EIB, although EIB also has the mandate to grant loans to certain Mediterranean states, some African, Caribbean and Pacific states, the South African Republic, some Asian and Latin American states and to South Eastern Europe.

The direct cooperation of the Republic of Croatia with EIB started in 1992 after the establishment of diplomatic relations with the former European Community. The activities of the establishment of institutional relations of the Republic of Croatia with EIB from 1995, interrupted due to the war in Croatia, proceeded with the decision of the Ministerial Council of the European Union from 2000 to approve of the EIB's mandate to financially support infrastructural and development projects in private sector of the Republic of Croatia. Key document - the Framework Agreement which regulates EIB activities in the Republic of Croatia was concluded on 13 December 2000 by the Republic of Croatia and EIB (The Law on ratification of the Framework Agreement was published in the Official Gazette - International Agreements, No. 6/2001). On the basis of this Agreement, on 6 February 2001 the Governor Committee of EIB gave its consent to the granting of loans for investment projects in the Republic of Croatia, which enabled the conclusions of first loan agreements.

### 8.4.1 New Loans Agreed in 2006

During 2006, two new loans with the guarantee of the Republic of Croatia, in the total amount of EUR 270 million, were agreed.

**a) Loan for the Project of Completion of Highway Rijeka-Zagreb, (Loan No. FINo.23.419),**  
EUR 210 million (with the guarantee of the Republic of Croatia)

The financing contract under the name "Completion of Highway Rijeka-Zagreb" between EIB and Rijeka - Zagreb Highway was signed on 9 March 2006. On the same day the Guarantee Agreement for the financing of the project was concluded between EIB and the Republic of Croatia. By the financial contact, the Bank granted a loan in the amount of EUR 210 million to Rijeka - Zagreb Highway, which will be used for the financing of the Completion of Highway Rijeka-Zagreb. This completion refers to adding of the second roadway in the remaining 44 km of semi-highway between Klikovica and Vrbovsko. The project covers five sections of the highway: Kikovica - Oštrovica (7.25 km), Oštrovica - Vrata (12.44 km), Vrata - Delnice (8.93 km), Delnice - Kupjak (7.92 km), Kupjak - Vrbovsko (7.54 km). The construction work should begin in 2006, and the completion and opening of the beltway for traffic is planned for 2009. The importance of the financial contract lies in the fact that EIB has approved the financing of a project in the Republic of Croatia in the amount higher than the usual 50 percent of the total value of project for the first time. In fact, the total cost of the project is EUR 290 million and EBRD participates in the financing of the project with EUR 50 million, while the remaining EUR 30 million will be provided from own resources. EIB's loan is granted for the period of 25 years, including a five year grace period, semi-annual repayments and a floating interest rate. The Bank will provide the loan in ten tranches, at most. The amount of each tranche, if it is not the non-withdrawn remainder of the loan, will be at least EUR 10 million or the equivalent of that amount. The first tranche, in the amount of EUR 60 million, was withdrawn on 15 September 2006.



**b) Loan for the Project of Reconstruction of State Roads II (Loan No. FIN.23.780),**  
EUR 60 million (with the guarantee of the Republic of Croatia)

The financing contract under the name “Project of Reconstruction of State Roads II (Croatia)”, concluded between EIB and Croatian Roads was signed on 12 December 2006. On the same day the Guarantee Agreement for the financing of the project was concluded between EIB and the Republic of Croatia. The loan amounts to EUR 60 million and it was agreed with the purpose of reconstruction of 52 sections of state roads in the Republic of Croatia with the total length of 682 km. The repayment period for the loan is up to 20 years, including a 5 year potential grace period. The Bank will provide the loan in ten tranches at most. The amount of each tranche, if it is not the non-withdrawn remainder of the loan, will be at least EUR 3 million or the equivalent of that amount. During 2006 there was no withdrawal of funds.

### **8.4.2 Overview of Loans, Disbursement of Funds and Outstanding Debt owed to EIB**

EIB has been financing projects in the Republic of Croatia through long term loans since the year 2001. In the period from 2001 to the end of 2006 it granted 17 loans in the total amount of EUR 971 million. Out of these 17 loans, 13 were the direct loans and loans with the state guarantee in the total amount of EUR 905 million, and 4 were global loans without the state guarantee granted to commercial banks for the financing of small and medium private enterprises and to a leasing company, in the total amount of EUR 66 million<sup>45</sup>. The data on the direct loans and the loans with the state guarantee can be found in table 8.4.

Out of the 13 loans with the state guarantee concluded directly with EIB, by 31 December 2006 10 were effective and the amount of EUR 426.4 million was withdrawn from them through 57 tranches. All the tranches, apart from those withdrawn for the implementation of two projects (the Highway Rijeka - Zagreb Project and the Project of Completion of Highway Rijeka-Zagreb), were withdrawn with fixed interest rates which, in the period from 2001 to the end of 2006, stood between the lowest of 3.479 percent and the highest of 5.26 percent. During 2006 23 tranches were withdrawn, in the total amount of EUR 237.5 million. In the case of withdrawals with the fixed interest rate, the rate stood between 3.799 percent to 4.521 percent in 2006, while the floating interest rates for withdrawals regarding the two above mentioned projects, stood between the lowest of 2.684 percent and the highest of 3.42 percent.

In 2006, for the implementation of the projects financed by EIB's loans, the total of EUR 237.5 million was withdrawn, the most of which was invested in the implementation of the following projects:

- Project of the Construction of Gas Pipeline System in the Republic of Croatia (EUR 65 million),
- “Completion of Highway Rijeka-Zagreb” Project (EUR 60 million),
- Project of the Repair of Highways in the Republic of Croatia (EUR 27 million),
- Project of the Completion of Highway on Corridor X in the Republic of Croatia (EUR 20 million),
- Project of Utilities Infrastructure Reconstruction in the Areas of Special State Concern (EUR 18 million),
- Highway Rijeka-Zagreb Project (EUR 12 million).

Furthermore, during 2006 many activities on the implementation of the Project of Infrastructure Reconstruction and Modernization of the Signalization and Telecommunication System of the Sections of Pan-European Vc Corridor (EUR 11 million was withdrawn) and of the Project of Zagreb Air Traffic Control (EUR 2.5 million was withdrawn) were conducted. None of the funds from the loan for the financing of the Project of Integral Development of Local Community were withdrawn in 2006, although the loan has become effective. According to the situation on 31 December 2006, out of the total of EUR 905 million loans funds, EUR 478.6 million (52.9 percent) is available for withdrawal until the end of projects implementation.

<sup>45</sup> Global loans without the state guarantee were approved: to PBZ EUR 16 million by the contract from 2001, to HVB Croatia EUR 20 million by the contract from 2001, to RBA Austria EUR 20 million by the contract from 2003 and to RBA Leasing EUR 10 million by the contract from 2003.



**Table 8.4 Overview of EIB loans contracted in the period from 2001 to 2006 with debt outstanding and disbursed funds on 31 December 2006 and disbursed funds in 2006**

<b>DIRECT LOANS</b>							
Settlement date	Published in the NN/MU no.	Loan amount 000 EUR	Disbursed 000 EUR	Undisbursed 000 EUR	Debt Outstanding in the Currency of Withdrawal (000 EUR)	Term for Withdrawal	Disbursed in 2006 000 EUR
<b>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</b>							
24. and 31.5.2001	2/2002	40,000.00	30,000.00	10,000.00	29,468.30	30.9.2006	11,000.00
<b>Project of Utilities Infrastructure Reconstruction on the Areas of Special State Concern - Loan No. FINo. 22.165</b>							
30.7.2003	16/2003	50,000.00	26,000.00	24,000.00	26,000.00	30.9.2007	18,000.00
<b>Framework Multisectoral Loan for the Utilities Infrastructure - Integral Development of the Local Community - Loan No. FINo. 22.881</b>							
20. and 24.12.2004	7/2005	150,000.00	0.00	150,000.00	0.00	31.7.2008	0.00
<b>TOTAL DIRECT LOANS</b>		<b>240,000.00</b>	<b>56,000.00</b>	<b>184,000.00</b>	<b>55,468.30</b>		<b>29,000.00</b>
<b>LOANS OBTAINED WITH THE GUARANTEE OF RC</b>							
<b>Project of Reconstruction of State Roads (HC) - Loan No. FINo. 21.262</b>							
29.10.2001	4/2002	60,000.00	50,000.00	10,000.00	50,000.00	30.6.2007	20,000.00
<b>Global Loan to HBOR - Loan No. FINo. 21.316</b>							
26.11.2001	4/2002	10,000.00	10,000.00	0.00	8,235.29	26.11.2004	0.00
<b>Rijeka - Zagreb Highway Project (ARZ) - Loan No. FINo. 21.609</b>							
24.6.2002	10/2002	60,000.00	55,362.48	4,637.52	55,362.48	30.12.2007	12,000.00
<b>Project for the Zagreb AIR Traffic Control - Loan No. FINo. 21.677</b>							
10. and 12.9.2002	14/2002	20,000.00	20,000.00	0.00	18,541.67	30.6.2007	2,500.00
<b>Projects of Highways Repair in RC (HAC) - Loan No. FINo. 21.850</b>							
13.12.2002	10/2003	50,000.00	50,000.00	0.00	50,000.00	31.12.2006	27,000.00
<b>Construction of the Gas Pipeline System in RC Project (Plinacro) - Loan No. FINo. 22.374</b>							
16.12.2003	3/2004	90,000.00	80,000.00	10,000.00	80,000.00	1.12.2007	65,000.00
<b>Project of Completion of the Highway in the Corridor X within the RC (Section: Županja Lipovac) (HAC) - Loan No. FINo. 22.639</b>							
22. and 29.7.2004	1/2005	45,000.00	45,000.00	0.00	45,000.00	1.4.2007	22,000.00
<b>Project "Croatian Roads - Split Beltway" (HC) - Loan No. FINo. 23.135</b>							
20.7.2005	2/2006	60,000.00	0.00	60,000.00	0.00	31.12.2009	0.00
<b>Project of Completion of Highway Rijeka-Zagreb (ARZ) - Loan No. FINo. 23.419</b>							
9.3.2006	8/2006	210,000.00	60,000.00	150,000.00	60,000.00	8.3.2009	60,000.00
<b>Project of Reconstruction of State Roads II (HC) - Loan No. FINo. 23.780</b>							
12.12.2006	ongoing	60,000.00	0.00	60,000.00	0.00	11.12.2009	0.00
<b>TOTAL LOANS WITH THE GUARANTEE OF RC</b>		<b>665,000.00</b>	<b>370,362.48</b>	<b>294,637.52</b>	<b>367,139.44</b>		<b>208,500.00</b>
<b>GRAND TOTAL PUBLIC + GUARANTEED</b>		<b>905,000.00</b>	<b>426,362.48</b>	<b>478,637.52</b>	<b>422,607.74</b>		<b>237,500.00</b>

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



On 31 December 2006, the total debt towards EIB on the basis of the direct loans and loans with the state guarantee stood at EUR 422.6 million. As all of the matured liabilities towards EIB during 2006 were settled in due time and according to the set repayments plans, the state guarantees were not activated. The users of the loans with the state guarantees (HC, HBOR, ARZ, HKZP, HAC and Plinacro) accurately and in due time settled all of their matured liabilities in the total amount of EUR 9.9 million (the principal EUR 2.6 million + the interest EUR 7.3 million). All of the matured liabilities on the bases of direct loans in the amount of EUR 2.2 million (the principal EUR 531.7 million + the interest EUR 1.6 million) and the liabilities on the basis of the inherited long term loans granted in the period from 1982 to 1989<sup>46</sup>, were settled from the State Budget of the Republic of Croatia for the year 2006. The overview of these assumed EIB loans and of the debt outstanding on 31 December 2006 is given in the table 8.5. On 31 December 2005, the total assumed debt in EUR and in four other currencies converted to HRK amounted to HRK 120.8 million.

**Table 8.5 Overview of EIB assumed loans with debt outstanding on 31 December 2006**

ASSUMED LOANS							
	Loan amount 000 EUR	Settlement date	Interest rate %	First maturity of principal	Last maturity of principal	Currencies of payments	Debt Outstanding in the Currency of Payment (000)
<b>Loan No. 16275 EEMS-HE CRO (HEP) - guarantee of RC</b>							
	10,552.50	17.12. 1982	11.50	31.5. 1992	30.11. 2001	(1)	0
<b>Loan No. 16279 TYH-II-HC CRO (HC)</b>							
	16,000.00	21.7. 1983	10.50	15.1. 1988	15.7. 2003	(2)	0
<b>Loan No. 16284 TYR-I-HŽ CRO (HŽ) - guarantee of RC</b>							
	29,190.00	3.2. 1984	10.75	31.1. 1988	31.1. 2004	(3)	0
<b>Loan No. 16289 TYH-III-HC CRO (HC)</b>							
	15,250.00	10.10. 1984	10.25	15.3. 1990	15.9. 2004	(4)	0
<b>Loan No. 13554 TYH-IV-HC CRO (HC)</b>							
	60,000.00	20.9. 1988	7.65	15.3. 1994	15.9. 2008	EUR	4,460.56
						CHF	3,868.12
						GBP	385.95
						JPY	638,874.63
<b>Loan No. 14090 TYR-IIB-HŽ CRO (HŽ) - guarantee of RC</b>							
	18,000.00	24.7. 1989	8.20	15.9. 1994	15.3. 2009	EUR	2,443.40
						GBP	614.21
						CHF	1,744.57
						USD	632.06
<b>TOTAL:</b>	<b>148,992.50</b>	Exchange rate list No. 251/2006, midpoint CNB exchange rate effective from 30.12.2006 =				<b>HRK</b>	<b>120,812.96</b>

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

**Notes:**

(1) currencies of payments were EUR and GBP; (2) currencies of payments were EUR and USD; (3) currencies of payments were EUR, DKK, GBP and USD;

(4) currencies of payments were EUR, DKK, GBP, USD and CHF

### 8.4.3 Projects under Preparation in 2006

- Project of Gas Pipelines Plinacro II (the loan of EUR 190 million) for further construction of new gas pipelines in the Republic of Croatia, namely, for three groups of regional projects of gas pipeline systems: Pula - Karlovac, Central and Eastern Croatia and Lika and Dalmacija, and
- Project of the Port of Zadar (the loan of EUR 100) - the purpose of this project is the financing of the relocation of ferry terminal located in the center of old historic Zadar city core and the construction of a new ferry port in Gaženica location, which is 3.5 km south of the city center, with the excellent access to highway, railway and airport.

<sup>46</sup> The six remaining unsettled long term loans of the users with the headquarters in the Republic of Croatia (HEP, HC and HŽ), nominated in ECU, with the obligation of repayment in different currencies, were assumed according to the partial succession principle and with regard to the so called territorial principal. The total assumed debt in 11 currencies and expressed in HRK stood at HRK 877.2 million.

**9**

**REPORT ON THE  
ACTIVITIES OF  
THE DEPARTMENT  
FOR FINANCING  
EU ASSISTANCE  
PROGRAMS AND  
PROJECTS IN 2006**



## 9.1 INTRODUCTION



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

In 2006, CFCU has faced five demanding challenges: the accreditation for the decentralized management system, the negotiations for CARDS 2003 program components, the preparing of application documentation for CARDS 2004 and Phare 05 programs and the signing of Memorandum on the financing of specific ISPA measures.

The decision of the European Commission (EC) on the accreditation for the decentralized management system in 2006 was certainly the greatest acknowledgment for all the efforts of CFCU employees who spent the entire 2005 and the beginning of 2006 in adjusting the system according to the instructions and guidelines of the EC. The activities themselves are especially interesting because for the first time the structure established within the public administration completely corresponds to the principles which include:

- a) Defined EU funds management system, including clearly defined procedures and institutional and individual responsibilities
- b) Allocation of responsibilities in order to avoid the conflict of interest
- c) Employment of staff and their functional and operational distribution - employees have to pose the necessary expertise and experience, excellent knowledge of English and of the EU programs implementation.

One of the effects of the CFCU accreditation was the immediate transfer of power over the contracting and payments of the CARDS 2003 and CARDS 2004 program components to the CFCU. The CFCU responded to the challenge above all expectations thus justifying the confidence entrusted to it within the first couple of months of the functioning of the decentralized system.

As it has proved its efficiency even in short period of time, we feel that the CFCU as an organizational model can provide useful insights for later similar units which will be established within the IPA program. The report on our activities in 2006 will follow with the description of the main activities and the relevant statistical data as the key indicator of our work.





## 9.2 KEY ACTIVITIES OF THE DECENTRALIZED MANAGEMENT OF EU ASSISTANCE PROGRAMS

### 9.2.1 Accreditation of the Financial System of the Republic of Croatia for Phare, ISPA and CARDS EU Assistance Programs Usage

The Republic of Croatia submitted the application for the accreditation of the system for EU pre-accession funds Phare and ISPA usage to the European Commission in May 2005. The accreditation package submitted to the European Commission included, among other things, implementation contract between the National Fund and the Implementation Agency (Central Financing and Contracting Unit), implementation contract between the Implementation agency and line ministries, procedures handbook, control list, names of responsible persons, their functions, detailed job descriptions and organizational schemes.

The accreditation mission of the European Commission was conducted in September 2005 when auditors visited the Central Financing and Contracting Unit, National Fund and other relevant institutions within the EU funds implementation system with the purpose of determining the adequacy of the system of Phare and ISPA funds withdrawal. The auditors' reports submitted afterwards revealed that there were no elements to deny the accreditation. However, certain deficiencies were found that could prove restrictive unless counteracted by some corrective measures. After the Central Financing and Contracting Unit, together with other units within the EU funds implementation system, had removed these deficiencies, the responses to the draft of auditors' reports were sent to the European Commission. The European Commission concluded that the responses were satisfying and that there were no obstacles regarding the accreditation of the decentralized implementation system for the pre-accession programs Phare and ISPA and initiated the procedure to confer the responsibility for the implementation of CARDS program to the Republic of Croatia.

In February 2006, the European Commission reached a positive decision regarding the accreditation of the financial system of the Republic of Croatia for the usage of funds from the EU pre-accession assistance programs Phare, ISPA and CARDS. The accreditation decision was officially announced on 15 February 2006 during a two-day visit to the Republic of Croatia of the President of European Commission Josea Manuela Barroso and the Commissioner for Enlargement Olli Rehn. Apart from being of great importance to the Republic of Croatia, this event was also a major incentive for the intensifying of the preparation for the accreditation of SAPARD program.

By the accreditation of the system of the Republic of Croatia for the usage of EU pre-accession assistance programs Phare, ISPA and CARDS, the European Commission confirmed that Croatia, as a candidate state, has developed a satisfactory administrative capacity for the withdrawal of funds from pre-accession programs, with the purpose of further preparations for the membership in the Union and the usage of structural and cohesion funds. This accreditation also crowned several years of intensive preparations of the Republic of Croatia for using the maximum amount of funds possible in the pre-accession period. However, the accreditation in itself does not represent the end of the capacity development process since it is necessary to develop constantly the institutional and procedural framework for the implementation of the EU funds in order to reach the next level - the extended decentralized system where the responsibility for the usage of funds would, to a greater extent, lie with the Republic of Croatia.

From the moment of accreditation, the Central Financing and Contracting Unit, as an Implementation Agency for the EU funds, has secured a very high percentage of funds from CARDS 2003 and CARDS 2004 programs, thus justifying the positive opinion of the European Commission auditors regarding the readiness of the system for withdrawal of funds.

## 9.2.2 Register of Contracts Signed within CARDS 2003 Program



Table 9.1 Overview of projects within CARDS 2003 program

Contract number	Project name	Contracted amount	Project goal
1	2	3	4
1	Further support to the strengthening of capability of the chosen Croatian institutions - Support to the customs laboratory	149,983.13	Improving the structure of customs laboratories with the purpose of successful harmonization with the EU standards
1	Further support to the strengthening of capability of the chosen Croatian institutions - Support to the reform of prejudicial investigations of criminal procedures	249,892.95	Providing recommendations for the reform of prejudicial investigations in the Republic of Croatia
1	Implementation of the reform of civil society - technical assistance	175,800.00	Development of the software for managing and developing human resources which supports the following operations within the inquest register of civil servants: education, efficiency management, planning and calculation of staff costs, system of employment and selection of staff
1	Information system for managing the national border - procurement of goods	1,695,519.24	Installation of up to date equipment for surveillance and monitoring of border crossings with the purpose of alignment with Schengen information system (SIS)
1	Information system for managing the national border - technical assistance	172,800.00	Technical assistance for adjustment of the NBMIS system with the information system of the Ministry of Internal Affairs (system integration, testing, training)
1	Strengthening of capacities in the area of illegal migrations - equipment for the shelter	149,440.46	Video monitoring of the Center for illegal migrants
1	Strengthening of capacities in the area of illegal migrations - work on the shelter for immigrants	585,992.75	Work on the shelter for illegal migrants, modernization with the aim of improved monitoring and adjustment with EU standards
1	Strengthening of capacities for administrative decentralization - technical assistance	1,291,595.00	Support to the process of decentralization in accordance with the EU standards
4	Criminal intelligence system - procurement of goods	770,563.21	Equipment (hardware and software) for establishing of the national criminal intelligence system
1	Criminal intelligence system - technical assistance	1,248,133.29	Technical assistance for establishing of the integrated intelligence system
6	Procurement of the equipment for the Herbal Protection Institute and Institute for public health	585,107.41	Procurement of specialized equipment for the Institute for herbal protection and Institute for public health
1	Further support to fito sanitation inspection - equipment	118,860.00	Enhancing the efficiency of borderline veterinarian services by the procurement of the necessary vehicles
1	Further support to fito sanitation inspection - technical assistance	250,000.00	Improving of the institutional and operative capability of the institutions responsible for herbal protection in Croatia, with the purpose of establishing the efficient system of control of organisms harmful for plants and plant products in accordance with fito sanitarian standards of the EU
5	Education and training of state attorneys - procurement of goods	227,768.50	Improving of abilities of state attorneys and procurement of IT and office equipment as well as necessary documentations for state attorneys



Contract number	Project name	Contracted amount	Project goal
1	2	3	4
1	Sustainable development in the areas of special state concern - strengthening of the capacity of the Council for minorities	699,150.00	The Project has three goals: the development of the analyses of disadvantages which will point to the possible drawbacks that interfere with the efficiency of the Council for national minorities; drafting of the handbook for the members of the Council of the national minorities and the representatives of the local authorities, which will serve as an operative helping tool for their every day work; carrying out the campaign of raising public awareness with the aim of informing the public and minority population of the role of the Council for national minorities. It is expected that this will result in better understanding of the role of the Council for national minorities, in greater participation of minority populations in forthcoming elections for the members of the Council for national minorities and in their active participation in the Council itself
1	Sustainable development in the areas of special state concern - strengthening of the organization of civil society	182,346.00	Strengthening of the organizations of the civil society and a multisectoral cooperation in the County of Sisak - Moslavina
4	Sustainable development in the areas of special state concern - procurement of goods for the social structure of Vukovar	568,962.44	Support to the development of certain professions through delivering of equipment for six educational institutions in the County of Vukovar - Srijem (six professional schools)
1	Sustainable development in the areas of special state concern - monitoring work on the waters supply in Sisak	165,770.00	Control of the performance and quality of work on reconstruction and upgrading of the water supply system in the cities of Sisak and Petrinja and Topusko and Majur towns
1	Sustainable development in the areas of special state concern - monitoring the works of the business areas in County of Vukovar - Srijem	189,880.00	Control of the performance and quality of work on construction of business areas in the cities of Vinkovci and Otok and Lovas and Gradište towns
1	Sustainable development in the areas of special state concern - monitoring of works on improving the social infrastructure in County of Vukovar - Srijem	181,400.00	Control of the performance and quality of work on upgrading of the facilities of agricultural and craft schools in Vinkovci, and craft school in Županja
1	Sustainable development in the areas of special state concern - business areas in County of Vukovar - Srijem	4,101,830.52	Construction of business areas in the cities of Vinkovci and Otok and Lovas and Gradište towns
1	Sustainable development in the areas of special state concern - stimulation of local tourist potential	175,346.00	Activation of the tourist potentials of south Moslavina and Park of Nature Lonsko Polje through informatization and education
1	Sustainable development in the areas of special state concern - enhancing of local tourist capacity	72,499.20	Development of tourist capacities through revitalization of Topusko treatment center
1	Sustainable development in the areas of special state concern - enhancing of the agricultural potential of soil	100,000.00	Improvement of the development and competitiveness of the agricultural sector in the County of Sisak - Moslavina; preparation and development of capacities for implementation of Agricultural Strategy in the County of Sisak - Moslavina
1	Sustainable development in the areas of special state concern - work on the water supply in Sisak	2,010,015.04	Reconstruction and upgrading of water supply system in the cities of Sisak and Petrinja and Topusko and Majur towns
1	Sustainable development in the areas of special state concern - development of tourism in Petrinja	196,475.11	Development of tourism in the city of Petrinja through developing of capacities and tourist infrastructure and promotion



Contract number	Project name	Contracted amount	Project goal
1	2	3	4
1	Sustainable development in the areas of special state concern - revitalization of the park Ribnjak	240,696.72	Contribution to the development of tourism through promotion and reconstruction of tourist infrastructure: revitalization of "Ribnjak" lake
1	Sustainable development in the areas of special state concern - technical assistance for the development of professional schools in the County of Vukovar - Srijem	54,500.00	Employment support in the County of Vukovar - Srijem; maximum use of school capacities with the purpose of training qualified staff which possess the skills demanded at the labor market
1	Sustainable development in the areas of special state concern - improvement of the social infrastructure in the County of Vukovar - Srijem	1,396,073.87	Upgrading of the agricultural objects and craft school in Vinkovci, and craft school in Županja
13	Improvement of professional education	2,660,674.64	The goal of the scheme of appropriation of grants is improvement of quality and responsibility of bearer of professional education in the Republic of Croatia through the development of strong regional school networks equipped to offer relevant education of high quality, which would satisfy the demands of the labor market and the needs of individuals
1	Support to the national development planning - national methodology for statistical records (twinning light)	200,000.00	Development of the single national methodology for the population register and the statistical register of employed persons as the main sources for the construction of indicators of social statistics
1	Support to the National development planning - structural business statistics (technical assistance)	178,650.00	Defining methodological and organizational conditions for the implementation of the statistics of structure of enterprises in the statistical areas not yet included in statistics of structure of enterprises, and the exploring the possibilities for a better use of administrative sources for the construction of indicators of structure of enterprises
1	Support to the more efficient and more modern functioning of the courts of the Republic of Croatia - twinning	1,376,031.61	Further support to improving of organization of court system in Croatia
2	Support to the more efficient and more modern functioning of the courts of the Republic of Croatia - procurement of goods	1,595,835.45	Support to the Ministry of Justice for equipping the courts in order to create the integrated system of management of cases and improve the system of communication between the courts and the Ministry of Justice
1	Estimation of the resources of solar energy and wind - procurement of goods	538,049.91	Procurement and placing of 11 measurement posts at locations in Dalmatia and Zagreb for measuring the energy sun winds
1	Estimation of the resources of solar energy and wind - technical assistance	139,925.00	Exploring the physical potential of the energy of sun and winds that can be used in commercial purposes
1	Promotion of the Agency for insurance of the quality and support to the management of the information system in high education - technical assistance	599,759.00	Support to the development of the process of insuring quality, systems and structures in high schooling in the Republic of Croatia, and the improvement and implementation of informational system for the entering of the reliable analytical data for insurance of quality and management of the process of quality
1	Promotion of the Agency for insurance of the quality and support to the management of the information system in high education - procurement of software	180,000.00	Procurement of software for the development of informational management of the system of high education institutions network in the Republic of Croatia



Contract number	Project name	Contracted amount	Project goal
1	2	3	4
1	Promotion of the Agency for insurance of the quality and support to the management of the information system in high education - procurement of hardware	104,954.35	Computer equipment acquired within the project had the purpose of improving the efficiency of resources for management of the University of Split
3	Promotion of democracy and human rights	476,777.70	Strengthening and protection of human rights in Croatia
1	Providing of social services by the nonprofit sector	472,250.00	Strengthening of the Government office for non government organizations, the local authorities and the non government organizations in providing the partnership for providing social services
1	Prevention and combating money laundering	840,366.00	Strengthening and support of the institutions involved in the process of prevention of money laundering
3	Investing in national measurement laboratories	341,381.00	Procurement of specialized equipment for national measurement laboratories
1	Harmonization of Croatian legislation regarding the water management with <i>acquis communautaire</i>	974,800.00	Support to the Government regarding the harmonization of Croatian legislation regarding the water management with <i>acquis communautaire</i>
<b>TOTAL</b>		<b>28,685,855.95</b>	

### 9.2.3 Summary of Activities - ISPA Program

The instrument for structural policies in the pre-accession period (ISPA) provides<sup>47</sup> the financial support for investment in transport and environmental protection sectors with the purpose of speeding up the process of the harmonization of the candidate states' legislation with the *acquis communautaire*. By the Council of EU Regulation<sup>48</sup> from 20 December 2004 amending the Council of EU Regulations No. 3906/89, 1267/1999, 1268/1999 and 2666/2000, taking into account the status of the Republic of Croatia as a candidate state, the Republic of Croatia was given the opportunity to use the funds from ISPA program.

As according to articles no. 53 and 56 of the Financial Regulation<sup>49</sup> from 2002 the decentralized implementation system had to be accredited prior to using the EU pre-accession funds, the Croatian authorities established the implementation system which was officially granted accreditation on the basis of the European Commission Decision<sup>50</sup> from 13 February 2006 regarding the conferring of management of the funds from the ISPA program. Therewith, the prerequisites for the usage of funds from the ISPA program were formally met.

According to aforementioned Decision, the role of implementation agency was given to the Central Financing and Contracting Unit within the Ministry of Finance, which will, based on the EC rules, administratively conduct tendering procedures and carry out payments under the terms of contracts signed.

The Delegation of the European Commission (DEC) retains the control function (the so called ex-ante control) within the decentralized implementation system, which means that, in course of the tendering procedures and contracting its approval is necessary. DEC, however, does not bear responsibility for the implementation of a particular tendering procedure, for which the CFCU i.e. the funds user state is entirely in charge. During the payments under the terms of contracts signed with service providers, contractors and equipment suppliers, the DEC approval is not necessary and all payments are carried out directly based on the established rules valid for a particular type of procurement.

<sup>48</sup> Council Regulation (EC) No 2257/2004 of 20 December 2004 amending Regulations (EEC) No 3906/89, (EC) No 1267/1999, (EC) No 1268/1999 and (EC) No 2666/2000, to take into account of Croatia's candidate status

<sup>49</sup> Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities, page 17-18; also look at the article 35 of 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

<sup>50</sup> Commission Decision of 13 February 2006 conferring management of aid provided under the Instrument for Structural Policies for Pre-accession to an Implementing Agency in Croatia on a decentralised basis



## ISPA Measures (Projects) in the Republic of Croatia

On 30 January 2006 in Vinkovci, the Government of the Republic of Croatia and the European Commission signed two memoranda on financing of the Program for Water Supply and Waste Waters in Karlovac and the Reconstruction of the Railroad Section Vinkovci - Tovarnik - state border. On 26 August 2006 the Memorandum on financing of the Project of Technical Assistance to the CFCU and the National ISPA Coordinator was signed. On 26 October 2006, three further memoranda were signed concerning the Construction of the Regional Center for Waste Management and Disposal in Bikarac - Šibenik, the Preparation of Project List for the Instrument for Pre-accession Assistance (IPA) in the sector of environmental protection and the Preparation of Project List for the Instrument for Pre-accession Assistance (IPA) in the sector of transport.

The Memorandum on Financing of the Program for Water Supply and Waste Waters in Karlovac was signed in the total amount of EUR 36 million, EUR 22.5 million (62.5 percent) of which refer to the funds from the ISPA program, EUR 3.5 million (9.7 percent) refer to the national share (secured in the budget of the Republic of Croatia), while the remaining EUR 10 million (27.8 percent) refer to the EBRD loan secured by the end-user (with the interest of 6 percent and the repayment period of 15 years with a grace period of 3 years). The end-user of the funds is the Water Works and Sewage System Karlovac.

The Program for Water Supply and Waste Waters in the City of Karlovac consists of three aspects of water management - water supply, collection of waste waters and purification of waste waters. The entire investment refers to five main elements (water supply system, main sewage collector and pumps, secondary and tertiary sewage system, new facility for purification of waste waters, technical and operational assistance). It is expected that the project will result in significant improvements in quality and purity of water in the Mrežnica, the Korana and the Kupa rivers. The project will also generate new employment, especially in the construction phase as it is planned that the majority of construction (including work on the infrastructure) will be carried out by local contractors.

Taking into account the share of funds provided by the ISPA program and the relatively short period of time available for the implementation of the measure, in cooperation with the EC, the EBRD and the CFCU, it has been decided that the EU implementation rules will be applied.

The memorandum on the financing of the Reconstruction of the Railroad Section Vinkovci - Tovarnik - state border was signed in the amount of EUR 75.761million. The European Commission will co-finance the project from the ISPA program in the amount of EUR 28.789 million (38 percent), while the remaining funds are secured in the budget. The end-user of the project is the Croatian Railways.

The Reconstruction of the Railroad Section Vinkovci - Tovarnik - state border involves six categories of construction and reconstruction work (railroad, electrification, signalization, railroad crossings, telecommunications, and railroad stations).

The purpose of the work is the increased speed of trains from the present 40 kmph to 160 kmph (with the exception of two speed limits due to line geometry). For that reason, the reconstruction and modernization of the signalization system damaged during the war, and the reconstruction and modernization of the existing equipment to achieve the above mentioned speed of trains. The electrification will bring about the repositioning of the contact network along the entire section to the border with Serbia in line with the modernization of the railway lines and the route. The construction will involve six railroad crossings, ten railway stations and the modernization of the infrastructure of railway telephone equipment.

The Memorandum on the Financing of the Regional Center for Waste Management and Disposal in Bikarac was signed in the total amount of EUR 8.823 million, EUR 6 million (68 percent) of which are the funds from ISPA program and the remainder was financed from national sources.

The construction of the regional center for waste collection located in Bikarac (12 km southeast of Šibenik) is a pilot project aimed at establishing the integrated waste collection system at the regional level. Namely, it is the intention to secure an agreement regarding waste collection on the local level of municipalities and cities in the Šibenik-Knin region, even before the construction of the aforementioned center, so that the waste collected would be transported to the regional center for further sorting and possible recycling. Apart from the regional center in Bikarac which can be considered as the first phase, the project in its second phase plans the construction of local transfer stations in Pirovac and Oklaj and the introduction of waste processing technology with the purpose of obtaining industrial raw materials which would reduce waste disposal costs, especially of cumbersome waste, and, more importantly, protect natural resources.

The Memorandum on the financing of the Preparation of Project List for the Instrument for Pre-accession Assistance (IPA) in the sector of transport was signed in the total amount of



EUR 741.738 million, EUR 482.130 million (65 percent) of which are the funds from ISPA program and the remainder of funds is secured in the budget.

In accordance with the national strategy of railroad transport development in the Republic of Croatia, the priority is the modernization of the Transeuropean Railroad Network in the Corridor X which partly passes through our country. A smaller part of this traffic route will be modernized using the funds from the ISPA fund of the European Commission. The future planning and expansion of the railroad will, however, require technical assistance in the preparation of tendering documentation. This support will be the foundation for all the future contracts aimed at the realization of numerous infrastructural projects of modernization of the railroad network in the Republic of Croatia which will be co-financed by the European Commission funds or by the Instrument for Structural Policies for Pre-accession (ISPA fund).

The Memorandum on financing of the Preparation of Project List for the Instrument for Pre-accession Assistance (IPA) in the sector of environmental protection was signed in the total amount of EUR 1.464 million, EUR 966.306 (66 percent) of which are the funds from the ISPA program and the remainder of funds will be secured from national sources.

In the process of accession of the Republic of Croatia to the EU one of the priorities is the harmonization of national legislation with the *acquis communautaire* in the sector of environmental protection, with special emphasis on water management and waste disposal. The funds secured within this Memorandum will provide for expert technical assistance in the preparation of documentation for further projects in the aforementioned sectors. These projects entail significant investments in infrastructure and will also apply for financing from the European Commission budget within forthcoming funds.

The Memorandum on financing of the Project of Technical Assistance to the CFCU and the National ISPA Coordinator was signed in the total amount of EUR 262.335, all of which are the funds from the ISPA program.

The goal of this measure is to provide active support to the ISPA implementation agency (the Central Financing and Contracting Unit) by the engagement of expert technical assistance as the process of development and control of tendering documentation occasionally requires special expertise. The excellent quality of tendering documentation can be the decisive element in the process of selection of the best bid which satisfies all the technical parameters of a particular project, especially during the contract implementation, technical control of the implementation and the financial management of the project. This form of assistance from the European Commission enables the engagement of teams of experts with specialized professional expertise which can contribute to the development of projects when the need arises. Furthermore, a part of funds is intended for the development of a plan of public information regarding the ISPA fund, the funds that were irrevocably given to the Republic of Croatia and the general raising of public awareness of benefits that the accession can bring.

#### **9.2.4 Twinning - Administrative Office and National Contact Point - Description of Main Tasks**

Within the Central Financing and Contracting Unit there is the Administrative Office for the implementation of all decentralized *Twinning* projects in the Republic of Croatia which also acts as a National Contact Point for *twinning* (NCP) (up to November 2005 within the Ministry of Foreign Affairs and European Integrations). It:

- is in charge of coordination of all *twinning* activities in the country,
- is the central point of communication between the EC and the Republic of Croatia, and other user states and NCPs,
- passes information to the line ministries,
- provides educational support to the line ministries concerning the interpretation and application of *twinning* rules in line with the *twinning* guide and the development of *twinning* projects,
- takes part in regular meetings of the EC and the NCPs of member countries and candidate countries.

*Twinning*, as an instrument, includes a common administrative cooperation among member states of the EU and accession countries to the EU and serves to further the institutional development of the state administration by the transfer of knowledge, experience and expertise of the EU member states.



## 9.2.5 Activities of CFCU to Raise Awareness and Competitiveness of Local Bidders in European Union Assistance Programs

In order to strengthen the public awareness of the importance of the EU assistance programs and to further the optimal usage of funds available to the Republic of Croatia, CFCU, the Central State Administrative Office for the Development Strategy and the Coordination of EU funds and the Croatian Chamber of Economy as strategic partners organized a series of regional seminars entitled 'The Possibility of Using the EU Pre-accession Funds'. The seminars were clearly focused on strengthening the awareness of the public and especially that of the business community about the opportunities that arise from taking part in biddings for projects financed by the EU assistance programs. The cooperation with the Croatian Chamber of Economy will continue based on the activities agreed upon with the aim of including all the regional centers in the Republic of Croatia.

## 9.2.6 Preparatory Activities - IPA Program

### **Pre-accession Program IPA (*Instrument for Pre-Accession*)**

At the meeting of the EU Council of Ministers in the formation of General Affairs and External Relations Council (GAERC) on 17 July 2006, the Regulation on the Instrument for Pre-Accession for the period from 2007 to 2013 was adopted.

Through IPA EU pre-accession assistance will be allocated to candidate states (Croatia, Turkey and Macedonia) and to potential candidate states (Albania, Bosnia and Herzegovina, Montenegro and Serbia including Kosovo) for their convergence to the EU, with membership as the potential final objective. The funds for the entire period and for all user states amount to EUR 11.468 billion. With the Regulation on IPA, the existing EU pre-accession instruments - PHARE, ISPA and SAPARD, pre-accession instrument for Turkey and CARDS are united and replaced. The regulation came into force on 1 August 2006 and will formally begin to be implemented from 1 January 2007.

The IPA program, as an integrated instrument replacing the CARDS program and pre-accession programs Phare, ISPA and SAPARD used by the Republic of Croatia during the previous period, becomes available to the Republic of Croatia in 2007. For the implementation of the IPA program in the period to 2010, the European Commission has secured the amount of EUR 5.74 billion. For the Republic of Croatia the amount secured for the said period is EUR 589.9 million, starting with EUR 140.5 million in 2007 with a planned annual growth, which would amount to EUR 154.2 million in 2010.

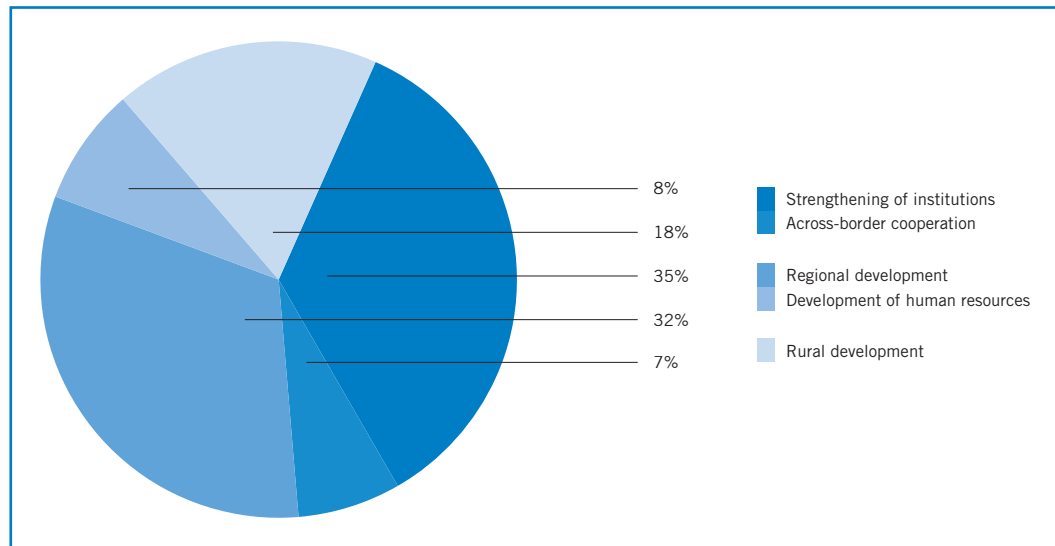
The IPA program consists of the following five components according to which the EC has planned the allocation of funds in Croatia, as follows:

- Transition Assistance and Development of Institutions - EUR 49.6 million
- Across-border Cooperation - EUR 9.7 million
- Regional Development - EUR 44.6 million
- Development of Human Resources - EUR 11.1 million
- Rural Development - EUR 25.5 million.





Figure 9.1 Financial allocation for IPA program in the Republic of Croatia in 2007



Source: Central State Administrative Office for the Development Strategy and the Coordination of EU funds

The Central Financing and Contracting Unit, which is, alongside the SAPARD agency, the only body accredited by the EC for the implementation of EU pre-accession programs so far, will be included in the operative structures of the decentralized implementation system for IPA program, especially as the implementation body for its first component, Transition Assistance and Development of Institutions and potentially as a part of operative structure of its other components.

### 9.2.7 Strengthening of the System of the Prevention of Irregularities and Fraud

In order to make the Republic of Croatia eligible for accreditation for using the pre-accession programs PHARE and ISPA it was necessary to establish a system to combat irregularities and fraud. In line with this all state and other bodies which use pre-accession programs nominated persons responsible for following, recording and reporting any irregularities or fraud discovered. The Ministry of Finance developed the guidelines on the prevention and processing of irregularities in the context of pre-accession funds, defining the rights and responsibilities of all the participants in the EU fund system as well as the forms and the time frames for reporting irregularities and measures taken for their sanctioning. So, for example, every body user of EU funds is required to submit a quarterly report to the Ministry of Finance stating whether there have been any irregularities in that period and what has been done to prevent them in the future. As the definition of irregularities is comprehensive (*irregularity is any departure from or the misapplication of law or other regulations and international agreements, which results from actions or omissions of the users of public funds and which could negatively affect the national budget funds, EU funds or funds from other sources, whether they concern revenue, expenditure/costs, repayments, assets or liabilities*) the users of EU funds can report any departure from standard business practices, abuse of power of office of certain employees or functionaries, accidental and intentional mistake, concealment of data and facts, wrong payments etc. Apart from this formal way of reporting irregularities, the e-mail address [nepravilnosti.eu@mfin.hr](mailto:npravilnosti.eu@mfin.hr) was set up on which anyone can anonymously report any information concerning irregularities and fraud in using the EU funds.

In the Ministry of Finance, within the Department for Budget Supervision, the Sector for the Prevention of Irregularities and Fraud, the so-called AFCOS (*Anti-Fraud Coordinating Structure*) was established. Along with other institutions which take part in the EU funds implementation, it will be responsible for reporting any irregularities to the European Commission and to the DG OLAF (the Anti-Fraud Office of the EU Commission). AFCOS will coordinate the work of all bodies involved in the combat against irregularities and fraud and will propose regulations for the protection of the financial interests of the European Union. The inspectors of budget supervision and AFCOS will monitor the legality, expediency and



timeliness of the use of budget funds and EU funds. Investigations by the investigators of the Anti-Fraud Office of the EU Commission are also possible and will be given all necessary help by AFCOS.

According to the AFCOS action plan, adopted by the Ministry of Finance in January 2007, the Coordinating Council for the Prevention of Irregularities and Fraud will be established. It will be made up of representatives of all relevant bodies of public authority included in the network for combating irregularities and fraud with the purpose of strengthening horizontal cooperation among these bodies. The development of the National Strategy for Fraud Prevention is also planned.

The Law on the System of Internal Financial Control in Public Sector establishes the necessary legal foundation for the strengthening of the system of prevention of irregularities and fraud. According to the provisions of this law, the heads of bodies that use budget funds are responsible for legal, efficient and expedient use of budget and other funds, are bound to prevent the risk of irregularities occurring and take actions against those observed. The law also guarantees the protection of identity and rights of all employees that decide to report on irregularities and fraud.

### **9.2.8 Risk Management in the Context of EU Funds**

One of the essential preconditions of the European Union for independent management of pre-accession funds was the establishment of a risk management system in order to provide the management of bodies involved in the implementation and use of projects co-financed by the EU with the view of all critical parts of their operations and business processes which could in short or long term endanger the mission or the goals of every body. For that reason those bodies appointed persons in charge of identifying risks in everyday operations, so-called *risk managers*. They rank the identified risks according to their importance, probability and their possible consequences. Risks are associated with certain business processes, the owners or bearers of these processes are then determined who are accordingly responsible for taking and implementing measures to reduce the risk.

The Board for Risk Monitoring of every body meets periodically (approximately every 6 months) and examines the state and indicators of every particular risk and determines additional measures to manage the risk appropriately, i.e. to keep its adverse effect on the mission and the objectives set within acceptable limits.



## 9.3 STATISTICAL OVERVIEW OF THE MAIN INDICATORS

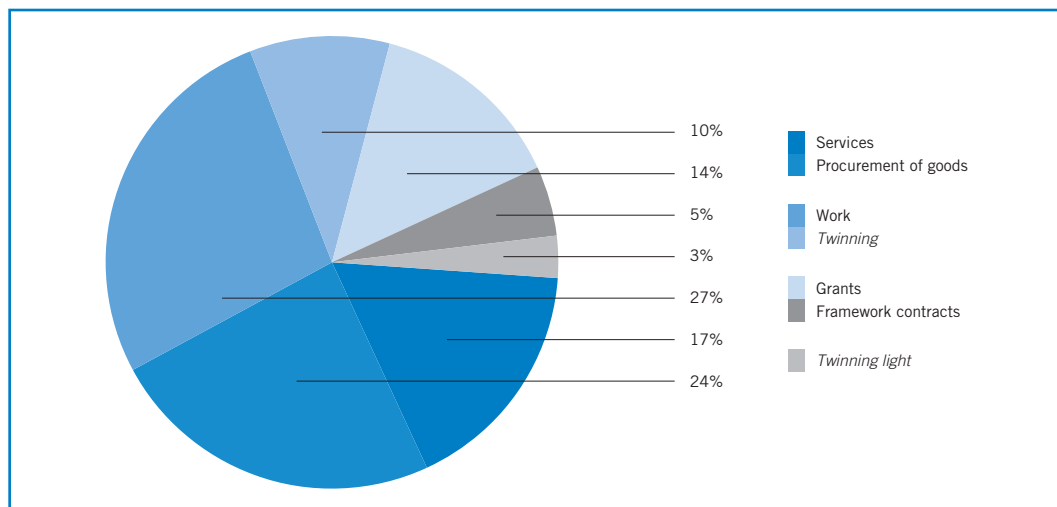
### 9.3.1 Statistics of Contracting for the Projects within CARDS 2003 Program

Table 9.2 Structure of contracts according to the value in EUR and the type of procurement

Type of procurement	Value in EUR	%
Services	4,735,554.00	16.51%
Procurement of goods	6,876,442.42	23.97%
Work	8,093,912.18	28.22%
Twinning	2,766,530.90	9.64%
Grants	4,004,815.37	13.96%
Framework contracts	1,358,725.00	4.74%
Twinning light	849,876.08	2.96%
<b>TOTAL</b>	<b>28,685,855.95</b>	<b>100.00%</b>

Source: Ministry of Finance

Figure 9.2 Structure of contracts according to the value in EUR and the type of procurement



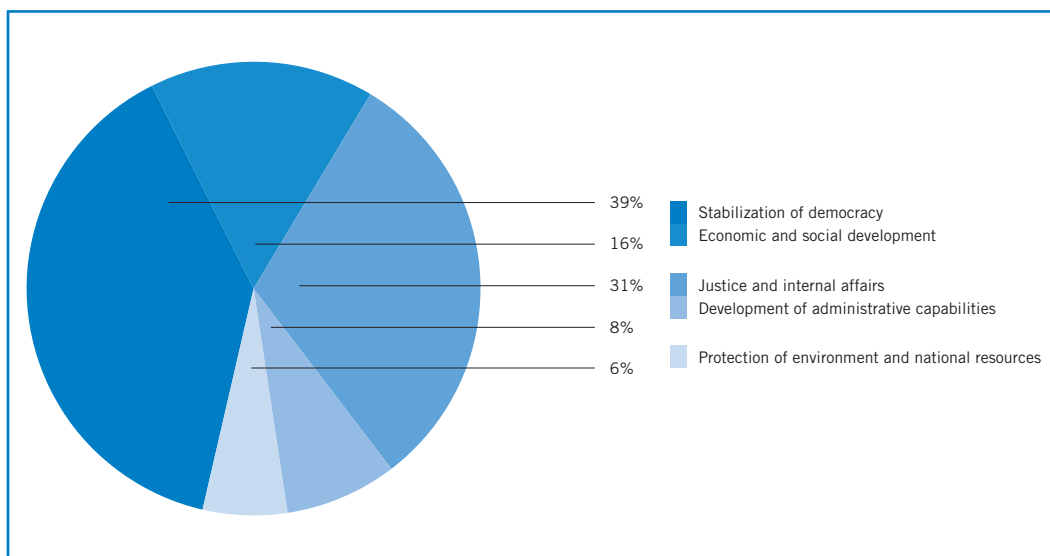
Source: Ministry of Finance

Table 9.3 Contracted funds, by sector

Sector	Contracted	%
Stabilization of democracy	11,283,973.10	39.34%
Economic and social development	4,471,876.40	15.59%
Justice and internal affairs	9,031,310.46	31.48%
Development of administrative capabilities	2,245,921.08	7.83%
Protection of environment and national resources	1,652,774.91	5.76%
<b>TOTAL</b>	<b>28,685,855.95</b>	<b>100.00%</b>

Source: Ministry of Finance

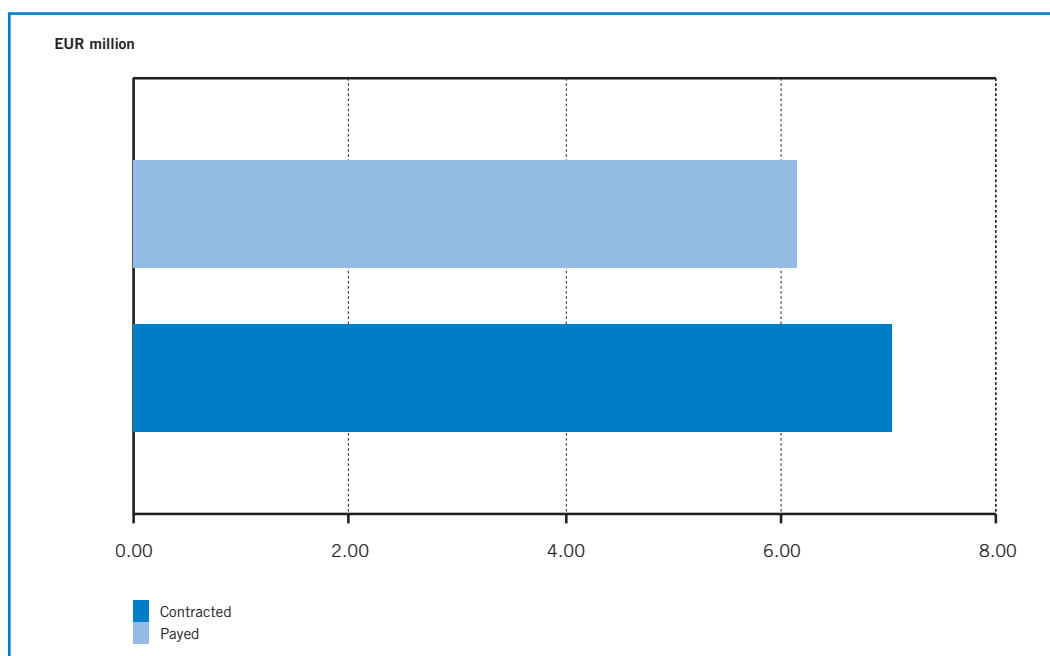
Figure 9.3 Contracted funds, by sector



Source: Ministry of Finance

### 9.3.2 Statistics of Payments - CARDS 2002 and CARDS 2004 Programs

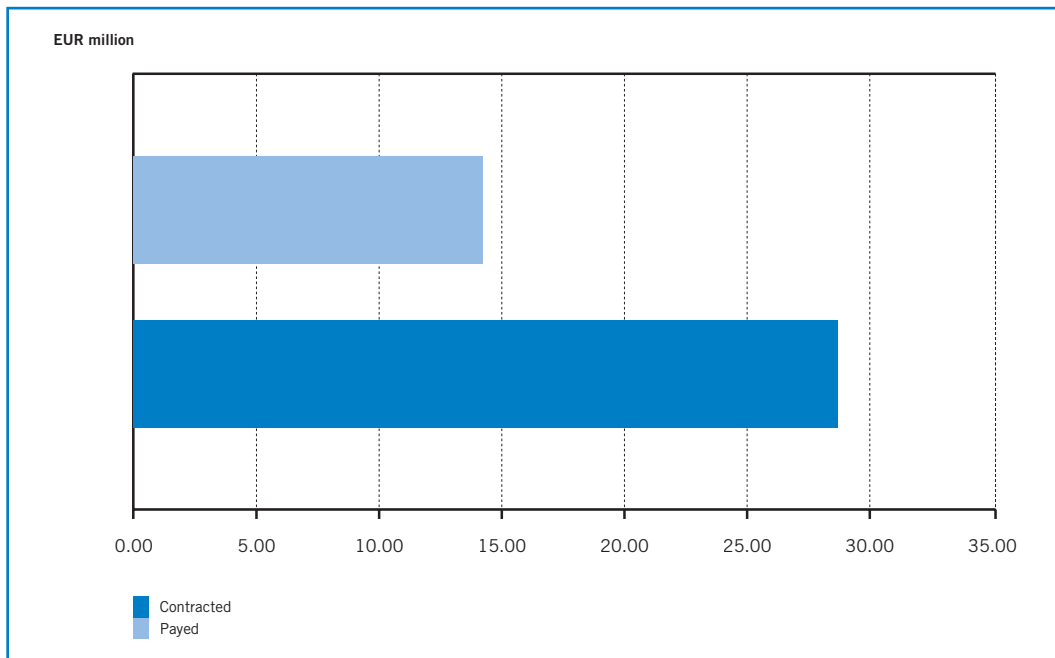
Figure 9.4 CARDS 2002



Source: Ministry of Finance

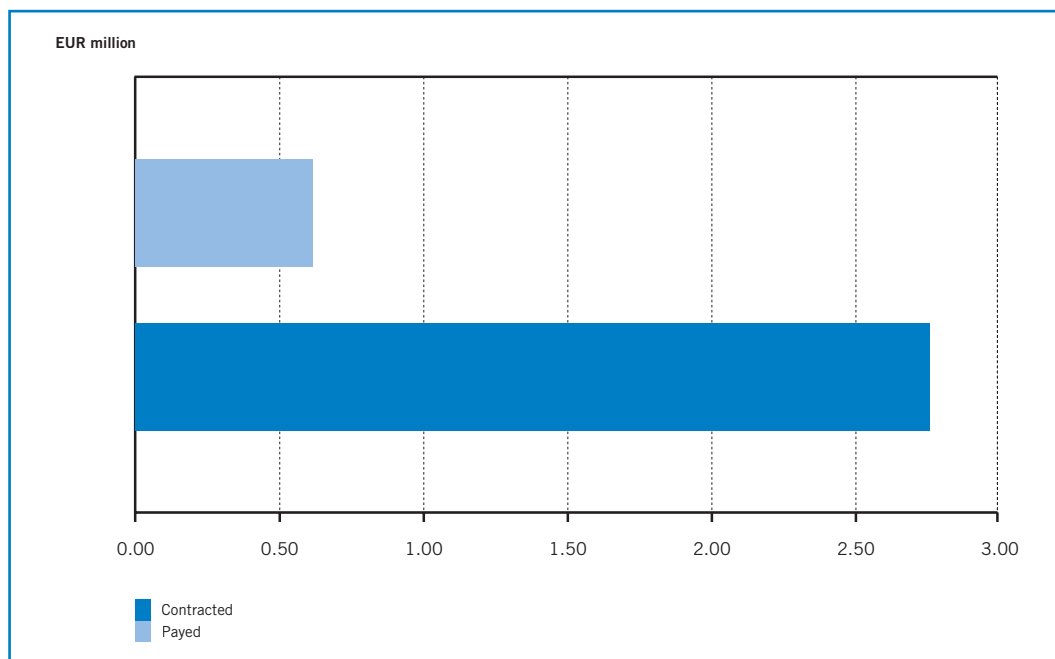


Figure 9.5 CARDS 2003



Source: Ministry of Finance

Figure 9.6 CARDS 2004



Source: Ministry of Finance

**10**

**REPORT ON WORK  
OF DEPARTMENT  
OF ECONOMY  
IN 2006**



## 10.1 INTRODUCTION



Department of Economy, organization unit within the Ministry of Finance, conducted range of activities in 2006, in different areas from its jurisdiction.

Activities from Department's of Economy scope were focused on realization of obligations from the area of monitoring public enterprises' in state and predominantly state ownership operations, activities concerning fulfillment of obligations from state aid area, related to negotiations with European Union and alignment of national legislation with Community acquis, development of the restructuring plans for shipbuilding and metallurgy and opinions on proposals of recovery and restructuring of enterprises that are having problems, different economic entities, implementation of Act on Protection from Natural Disasters, upgrading the system and practical appliance of the register of concessions and implementation of public-private partnership (PPP) system in the Republic of Croatia.





## 10.2 PUBLIC ENTERPRISES

Within monitoring public enterprises' in state and predominantly state ownership operation, reporting through quarterly and semi-annual reports improved by expanded scope of evaluation and monitoring of financial indicators. There has also been a shift towards the improvement of visual identity, quality review and data transparency, as well as clear and concise publishing of data on their operation.

Department of Economy made in 2006 Annual report on public enterprises' in state and predominantly state ownership operation for year 2005, which was adopted by the Resolution of the Government of the Republic of Croatia.

### 10.2.1 Reporting on the Basis of Agreements with the IMF and World Bank (Stand-by / PAL II)

In 2006 Department of Economy reported on chosen public enterprises' operation, according to the international agreements concluded with the International Monetary Fund (Stand-by Arrangement) and monitoring of state subventions determined by PAL Arrangement with the World Bank.

Department participated actively in activities for the preparation for signing PAL II, primarily concerning realization of activities given by PAL I, where competent authority was Ministry of Finance. Therefore, Plan of decreasing state subventions was conducted, as well as activities of publishing quarterly financial reports and reports on overdue trade payables and overdue trade receivables.

#### 10.2.1.1 Stand-by Arrangement

Till the autumn 2006, when Stand-by Arrangement successfully ended, Department of Economy continually implemented measures from mentioned Arrangement and informed the IMF mission.

In accordance with indicative limits given by Stand-by Arrangement, fulfillment of obligations related to status of repayments and indebtedness by loans for chosen public enterprises (Croatian Railways Ltd., Hrvatska elektroprivreda, Hrvatske šume Ltd., Croatian Post, Hrvatska radiotelevizija, Jadrolinija, Croatia Airlines Ltd.) was recorded and monitored at monthly level, for the purpose of continuous insight into movement of above mentioned categories and timely spotting of eventual discrepancy in indicative limits given by Arrangement.

Systematic monitoring of repayment dynamics of loan commitments (long-term and short-term) and new indebtedness of chosen enterprises was done by reporting on monthly level tabulation of given categories (repayment and indebtedness with domestic and foreign banks), individually and totally. Mentioned condition from the Stand-by Arrangement was successfully fulfilled.

#### 10.2.1.2 PAL

Pursuant to taken commitments within PAL, Department of Economy systematically monitored in 2006 the level of state subventions granted to public enterprises sector and reporting of the World Bank.

Due to increased financial discipline of public enterprises sector and improvement in transparency related to reporting on state funds allocation, Department of Economy recorded on monthly, quarterly and annual level the amounts of funds allocated by different programs of relevant authorities, their providers and other state administration authorities.

Except from monitoring the amount of state aid, analysis and projections were implemented, with a goal of decrease in total state subventions and change of structure in order to increase the share of horizontal subventions and decrease the share of sectoral subventions, which results in positive effects on the economy, along with lesser negative influences on competition policy.

On the basis of PAL Department of Economy published quarterly financial reports (Balance Sheet and Profit and Loss Statement) and data on overdue trade payables and overdue trade receivables for chosen public enterprises (Croatian Railways Ltd., Hrvatska elektroprivreda, Hrvatske šume Ltd., Croatian Post, Narodne novine, Jadrolinija, Plovput Ltd., Croatia Osiguranje). Financial reports were published quarterly in the *Statistical Report* of the Ministry of Finance.



## 10.3 STATE AID

### 10.3.1 Regulatory Framework

Stabilization and Association Agreement (SAA) between the Republic of Croatia and the European Communities and their Member States entered into force on 1 February 2005, was published in the Official Gazette and by Constitution of the Republic of Croatia became the part of the internal legal system of the Republic of Croatia and is of higher legal force than an act.

State aid system in the Republic of Croatia is introduced for fulfilling international obligations from the Article 70 of the SAA.

Article 70 of the SAA introduced full application of the rules on state aid from Community acquis already from 1 March 2002, by entry into force of Interim Agreement on trade issues between the Republic of Croatia and European Community.

Under Article 70 of the SAA Republic of Croatia decided to implement mentioned rules into national system by acts and subordinate legislations.

Subsequently, for the purpose of implementation of internationally taken obligations of the Republic of Croatia, State Aid Act and Regulation on State Aid have been passed.

By new State Aid Act (Official Gazette 140/2005) general conditions and rules of authorization, implementation monitoring and recovery of state aid are regulated, so general framework of the system is aligned with European Community acquis.

After enacting new State Aid Act, new Regulation on State Aid has been passed, which is fully aligned with European Union state aid rules.

By new Regulation on State Aid, rules on state aid from European Community acquis are published in the Official Gazette in the original and translation into Croatian, with special provisions on appliance, all in the form of Decision of the Government of the Republic of Croatia on the basis of Regulation on State Aid and State Aid Act (Official Gazette 140/2005), regarding that by this complete transparency and simpler possibility of interpretation is achieved as well as preparation of beneficiaries and providers of the state aid for appliance of these rules after European Union accession. This way, nothing that doesn't already apply and bind the Republic of Croatia is introduced, but the system is approaching to providers and beneficiaries of the state aid.

### 10.3.2 Committee for Monitoring and Preparing the Announcement of List of Rules and State Aid Rules

Pursuant to Article 5 of Regulation on State Aid, minister of finance appointed the Committee for Monitoring and Preparing the Announcement of List of Rules and State Aid Rules as expert authority of five members, only responsible for permanent monitoring and expert preparation of drafts on decisions on announcement of list of rules and state aid rules.

On the basis of preparation of drafts of decisions, minister of finance addresses the drafts of decisions, which Government of the Republic of Croatia issues as decisions on announcement.

Except from representatives from the Ministry of Finance, Committee also consists of representative from the Croatian Competition Agency and head of the Working Group for negotiations on Chapter 8 - Competition Policy.

### 10.3.3 Committee's Activities

At the end of October 2006 Government of the Republic of Croatia issued a decision on announcement of list of rules on state aid.

Regarding that there is a large number of unofficial translations, Committee examines in detail are they translated in accordance with the intension of European legislator and, at the same time, takes care that they are also understandable to providers and beneficiaries of the state aid in the Republic of Croatia.

Deadlines for the announcement of mentioned rules are not determined in the Republic of Croatia, which wouldn't be convenient taking into account that even in European Union they are periodically amended, in accordance with legal practices. Committee is in charge of monitoring of mentioned amendments, and in accordance with mentioned amendments translates and addresses described rules into procedure in front of the Government of the Republic of Croatia for announcement, while the old rules are being abolished.



## 10.4 PRE-ACCESSION ECONOMIC PROGRAMME (PEP)

Department of Economy participated actively in drafting of the material of Pre-accession Economic Programme (PEP) for the period 2007 - 2009 in the area of structural reforms. Regarding the quality and the importance of the document that defines medium-term economic policy and priorities of the Republic of Croatia within planned structural reforms, special engagement has been done in the area of shipbuilding, metallurgy, small and medium size enterprises, railways restructuring, privatization and state aid.

In cooperation with line ministries competent for preparation of individual chapters from the structural reforms area, Department of Economy coordinated the drafting of the part of PEP, structural reforms and defined final draft of the text, whereby it gave considerable contribution to the quality and final drafting of the mentioned material.



## 10.5 NATURAL DISASTERS

Protection from natural disasters in the Republic of Croatia is regulated by the Act on Protection from Natural Disasters (Official Gazette 73/97) and partially by other acts like: Act on Protection and Rescue, Waters Act, Act on Hail Protection System, Fire Protection Act, Construction Act and number of accompanying subordinate regulations.

The system of providing assistance functions on local and regional self-government levels, as well as on the state level, generally for direct damages in the agriculture which are not insured by insurance companies.

Right on assistance from the state budget have natural persons, and, on an exceptional basis, legal persons in the local self-government units, if confirmed value of total direct damage is higher than 20% of the value of the local self-government unit's budget for the previous year, or if a disaster caused reduction of the yield of individual agricultural crop or multi-year plantation more than 30% by hectare against previous three-year's average in the individual county where natural disaster was declared.

### 10.5.1 The Procedure of Evaluation of Damages from Natural Disasters - Damages Notification

In the case of natural disasters' damages, each county establishes County Committee for evaluation of damage from natural disasters. The duty of the Committee is the collection of data, which they deliver to the State Committee.

State Committee for the evaluation of damage from natural disasters is an independent authority with the head office in the Ministry of Finance, and is made up of president and ten members appointed by the Croatian Parliament. Mission of the Committee is providing financial and other assistance to natural and legal persons for the purpose of alleviation and elimination of natural disasters consequences. The assistance is granted in the form of non-refundable funds from the state budget.

### 10.5.2 Providing Assistance

Providing assistance to the damaged is done by the criteria laid down by the Act on Protection from Natural Disasters (Official Gazette 73/97), depending on the funds in the state budget allocated for this purpose.

State Committee for the evaluation of damage from natural disasters received in 2006 350 requests for financial assistance for alleviation of damages from hail, storm, rainfall, flood, burden, drift, landslide, tornado, fire and earthquake, from 19 counties, in the total amount of HRK 651.1 million.

Total damages were reported in the amount of HRK 651.1 million, where damages in the agriculture equaled HRK 533.3 million and all the other damages (construction, equipment, forests, utility and road infrastructure) HRK 117.9 million. Ministry of Agriculture, Forestry and Water Management confirmed all damages in the agriculture in the amount of HRK 432.9 million.

After deduction of damages which don't correspond to the criteria of the mentioned Act, there was HRK 397.8 million of confirmed damages left, for which assistance in the amount of HRK 17.9 million from the state budget was granted.



**Table 10.1 Overview of reported and confirmed damages from hail, storm, rainfall, flood, burden, drift, tornado, fire and earthquake in 2006 at natural and legal persons, sorted by County Committees' notifications**

No.	Notifications on damages from County Committees by counties	Cause of damage	Totally reported damages	Final damages only in agriculture till 15.11.05	Other damages (construction, equipment, infrastructure etc.)	Confirmed final damages in agriculture	Amount of assistance in HRK
0	1	2	3	4	5	6	7
1	County of Zagreb	hail, flood, earthquake	9,049,517.40	2,917,499.60	6,132,017.80	1,075,517.80	15,562.00
2	County of Krapina-Zagorje	rain, flood, landslide, drift, storm, hail	70,761,137.17	24,193,486.78	44,960,807.39	20,295,606.34	942,130.00
3	County of Sisak-Moslavina	hail	3,560,700.00	3,560,700.00	0	1,770,137.73	83,292.00
4	County of Karlovac	no notification	0	0	0	0	0
5	County of Varaždin	rain, landslide, hail	42,367,598.00	10,149,748.00	32,217,850.00	6,922,892.10	325,749.00
6	County of Koprivnica-Križevci	hail, rain, drought	6,261,269.03	6,261,269.03	0	6,353,969.41	163,007.00
7	County of Bjelovar-Bilogora	no notification	0	0	0	0	0
8	County of Primorje-Gorski Kotar	storm	812,930.00	0	812,930.00	0	0
9	County of Lika-Senj	hail	622,588.50	149,625.00	472,963.50	149,599.07	0
10	County of Virovitica-Podravina	hail, rainfall, dampness	140,983,644.21	140,708,875.81	274,768.40	139,888,615.33	6,120,910.00
11	County of Požega-Slavonia	rain, hail, drought	28,404,484.33	28,404,484.33	0	24,379,391.06	1,087,345.00
12	County of SlavonSKI Brod-Posavina	hail, dampness, low temperatures	7,962,741.43	7,706,154.93	256,586.50	7,089,197.30	286,574.00
13	County of Zadar	storm, hail	23,871,696.00	22,871,696.00	1,144,458.00	4,198,550.76	171,178.00
14	County of Osijek-Baranja	landslide, hail, rainfall, flood	175,196,245.24	158,887,392.80	16,308,852.46	140,885,345.08	6,246,121.00
15	County of Šibenik-Knin	storm, fire, hail	6,698,898.16	5,193,692.00	1,505,206.16	3,639,984.85	91,745.00
16	County of Vukovar-Srijem	flood, rainfall	55,097,783.17	55,097,783.17	0	42,724,827.24	886,178.00
17	County of Split-Dalmatia	hail, flood	17,935,844.34	17,847,921.18	87,922.31	13,075,741.95	558,556.00
18	County of Istra	hail, tornado	4,250,831.00	4,250,831.00	0	1,402,977.40	39,847.00
19	County of Dubrovnik-Neretva	hail, flood, storm	55,186,491.70	44,515,460.50	10,671,031.00	18,428,892.13	823,133.00
20	County of Međimurje	hail, storm	1,980,818.00	707,968.00	1,272,850.00	609,279.64	28,669.00
21	Zagreb, notification from individual	hail	130,000.00	0	0	0	0
	<b>Totally</b>		<b>651,135,216.65</b>	<b>533,280,130.13</b>	<b>117,855,086.52</b>	<b>432,890,292.22</b>	<b>17,870,000.00</b>

Source: According to final data of County Committees confirmed by the Ministry of Agriculture, Forestry and Water Management

### 10.5.3 Spent Funds

From totally allocated HRK 28.0 million in 2006, for the partial recovery of damages from different natural disasters HRK 23.9 million was spent and for the payment of legal obligation on hail protection HRK 4.0 million was spent.

Unspent funds from the regular activity "Compensation for damages caused by natural disasters", in the amount of HRK 3.8 thousands in 2006, have been returned at the end of the year in the state budget to the mentioned Activity.



**Table 10.2 Spent funds**

Allocated in the state budget for 2006		28,000,000.00
1.	By decision of the Government of the Republic of Croatia from 14/05/06 spent for coverage of 100% of damages from year 2005	-6,126,220.00
2.	By decision of the Government of the Republic of Croatia from 14/12/06 spent for coverage of 100% of damages from year 2006	-17,870,000.00
	Totally spent for coverage of damages	23,996,220.00
3.	Payment of obligations of Meteorological and hydrological service for hail protection	-4,000,000.00
	<b>TOTALLY SPENT</b>	<b>27,996,220.00</b>
4.	Unspent funds	3,780.00

Source: Allocated funds from the state budget for 2006 for the Activity 539025 and expense by the Government of the Republic of Croatia decisions and legal obligations

### 10.5.4 The Structure of the Reported Damages in 2006

The structure of the value of totally reported damages amounted to HRK 651.1 million in 2006. From totally reported damages in 2006, the biggest damages caused rainfall, with 29.7%, hail 23.5%, flood 17.8%, dampness 9.9%, landslide 7.4%, rain 3.6%, storm 3.2%, drought 2.5% and other disasters (drift, tornado, fire, low temperatures and earthquake) 2.4%.

Due to climate change and inadequate or no protection, damages from different natural disasters are increasing, therefore, the number of local self-government units that are asking for assistance from the government increases as well.

**Table 10.3 Structure of the value of totally reported damages in 2006**

No	Type of natural disaster	Totally reported damages in HRK	%
1.	Rainfall	193,574,653.29	29.73
2.	Hail	153,289,118.95	23.54
3.	Flood	115,138,330.06	17.68
4.	Dampness	64,229,350.83	9.86
5.	Landslide	48,451,283.80	7.44
6.	Rain	23,687,185.50	3.64
7.	Storm	20,943,194.50	3.22
8.	Drought	15,966,493.72	2.45
9.	Other	15,855,606.00	2.44
	<b>TOTAL</b>	<b>651,135,216.65</b>	<b>100.00</b>
	Other: earthquake, drift, tornado, fire and low temperatures		

Source: According to final data composed and certified by County Committees



## 10.6 CONCESSIONS

Operational functioning of the register of concessions started in June 2006 and by its establishment significant improvement in the transparency and way of functioning of the system of concessions in the Republic of Croatia has been done. Special care is taken in timely collection of data on number of concessions granted and record on collection of concession charge on the area of the Republic of Croatia. The procedure of quality improvement of the system will conduct in the forthcoming periods.

### 10.6.1 Revenues from Concessions Charges in 2006

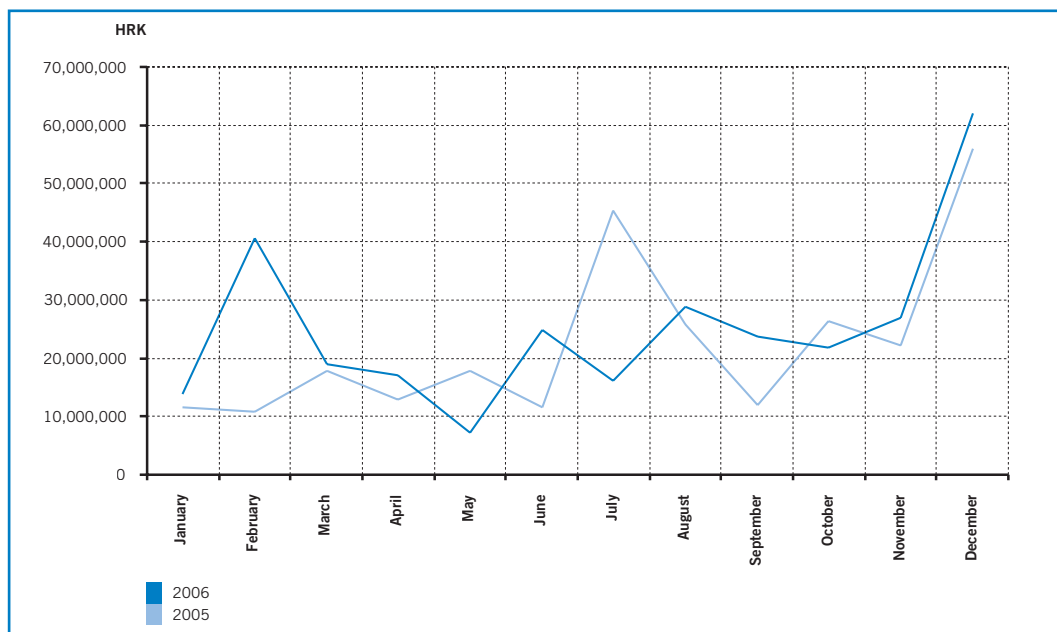
Revenues from concessions charges are recorded in the state budget as budgetary revenue from nonfinancial assets, along with revenues from lease and rent of the assets, other revenues from nonfinancial assets and road charges. Revenues from concessions charges have the highest share in the revenues from nonfinancial assets and largely influence on movement of this budgetary item.

**Table 10.4 Budgetary revenues from concession charges**

	2005	2006	Index '06/'05
January	11,624,301.49	13,850,094.16	119.15
February	10,835,236.94	40,659,712.48	375.25
March	17,793,877.40	19,046,625.04	107.04
April	12,900,966.26	17,114,085.17	132.66
May	17,810,569.04	7,140,193.94	40.09
June	11,511,934.89	24,941,856.65	216.66
July	45,315,368.95	16,209,476.76	35.77
August	25,871,377.67	28,850,552.47	111.52
September	11,913,222.87	23,726,763.99	199.16
October	26,371,777.82	21,808,455.13	82.70
November	22,288,525.82	26,860,034.38	120.51
December	55,966,111.54	62,059,982.64	110.89
<b>Total I-XII</b>	<b>270,203,270.69</b>	<b>302,267,832.81</b>	<b>111.87</b>
<b>Average I-XII</b>	<b>22,516,939.22</b>	<b>25,188,986.07</b>	<b>111.87</b>

Source: Ministry of Finance

**Figure 10.1 Revenues from concession charges (by months, 2005-2006)**



Source: Ministry of Finance



## 10.6.2 Budgetary Revenues from Concessions Charges

Totally realized revenues from concessions charges in 2006 amounted to HRK 302.3 million, which is 11.9% increase in comparison with 2005, when HRK 270.2 million of revenues was achieved.

Data on average realized revenues confirm mentioned ascending trend. Average revenue from concessions charges on monthly level amounted to HRK 22.5 million in 2005, while in the next year average increased to HRK 25.2 million.

Fluctuations in the level of revenues by individual months are significant in both years, but they shouldn't be observed as factor important for this analysis.

## 10.6.3 The Register of Concessions

It is important to point out positive effects of establishment and updating the Register of concessions, whose purpose is improvement of efficiency of the whole system of concessions in the Republic of Croatia.

Ministry of Finance collected and registered 5,397 concessions' contracts from the area of the Republic of Croatia, which were sent to analysis in the Financial Agency. On the basis of collected documentation, Ministry of Finance continued in 2006 large work on updating Register database, which started in January 2005.

In order to complete as soon as possible overall work on establishment and updating the Register of concessions, Government of the Republic of Croatia also issued conclusions, which gave additional incentive and support to special efforts of the Ministry of Finance on the Register establishment.

This way, special significance is given to the Register of concessions and to the Ministry of Finance, to persist on its establishment so that overall system of concessions in the Republic of Croatia could promptly be monitored and supervised.

By establishment of the Register of concessions, Ministry of Finance will get clear insight into overall system of concessions and set up the control and monitoring of obligations' fulfilment in accordance with concluded concessions contracts. In the forthcoming period Ministry of Finance expects positive effects, primarily in regular monitoring of collection of concession charge, which is the revenue of the state budget, but also the revenue of the local and regional self-government units' budget.

By conducted activities clear overview of all concessionaires on the area of the Republic of Croatia is enabled, concerning data, which are public and prescribed by Ordinance on the establishment and management of the register of concessions (Official Gazette 164/04), which will help many interested (and investors) to understand which types of concessions exist and where and which concession can be granted in the Republic of Croatia.

## 10.6.4 Revenue from Concessions Charges (by months, 2005-2006)

From the analyses it can be concluded that dynamics of the revenues from concessions charges show permanent rise in the revenues from concessions charges in the observed period. In accordance with expected positive influence of the Register of concessions, continuation of mentioned trend can be expected in the future, as well as higher share of revenues from concessions charges in total state budget revenues.





## 10.7 PUBLIC-PRIVATE PARTNERSHIP (PPP)

Department of Economy participated actively in 2006 in development and implementation of the Public-Private Partnership system in the Republic of Croatia. First and foremost, this refers to participation in drafting Guidelines for application of PPP contractual forms and Regulation on giving previous approval for concluding contract on PPP by private financial initiative model. According to provisions of mentioned legal acts, Department of Economy participates actively in preparation and implementation of PPP projects in the Republic of Croatia.

In this sense, Department of Economy had and continues to have key advisory and creative role in the establishment and improvement of PPP system in the Republic of Croatia, where it cooperates with Department for PPP within the Agency for Export and Investment Promotion. According to provisions of the new Concessions Act which is being prepared, even larger extent of activities in the area of PPP is expected, where the Department of Economy will participate in the deciding process and in analysis of proposed PPP projects.

**11**

**REPORT ON  
THE WORK OF  
ADMINISTRATION  
FOR HARMONIZATION  
OF INTERNAL AUDIT  
AND FINANCIAL  
CONTROL FOR 2006**





## 11.1 INTRODUCTION

Public administration is given the trust of taxpayers and accordingly it is allocated significant amount of budgetary and other public funds with which it must realize tasks and activities set before it. Ministers and other heads of units in state administration bear responsibility for the funds allocated to them but also the responsibility for fulfilling of obligations, implementation of activities, programs and projects which require efficient and transparent usage of national and international resources, particularly the funds of the European Union. In order to enable the heads of budget users to manage public funds efficiently and exercise control over them it is necessary to establish and develop a system of internal financial controls. The system of internal financial controls, in the way required by the European Union, has been developing in the Republic of Croatia since the end of 2004. It represents an overall system established by budgetary users in order to control, audit and report on the usage of national budgetary resources and resources of the European Union.

The system of internal financial control in the public sector includes two components:

1. Financial management and control
2. Internal audit.

Financial management and controls is a comprehensive system of internal controls established by the heads of budget users, who are also held responsible for it. The heads of budget users by means of risk management ensure that, in the process of achieving goals, the budgetary and other resources are being used in a proper, ethical, economical, effective and efficient way. 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, especially ones related to revenues/receipts, expenditure/expenses, tendering procedures and contracting, refunds of amounts paid mistakenly, assets and liabilities. The system of internal control is implemented by the heads and employees of budget 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 budget 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. It serves the head of unit to achieve goals and it gives recommendations in order to establish the managing and control systems in accordance with the rules, standards and principles of good financial management. At the same time it points out irregularities and inconsistencies with laws and other regulations.

According to provisions of Article 3 of the Law on the System of Public Internal Financial Controls<sup>51</sup> (further in the text: Law), the Ministry of Finance is responsible for the coordination of establishing and development of the system of internal financial controls in the public sector, and the Administration for Harmonization of Internal Audit and Financial Control of the Ministry of Finance (further in the text: Central Harmonization Unit) is responsible for the implementation of that coordination.

The Central Harmonization Unit was established within the Ministry of Finance by the Decree on Internal Organization of the Ministry of Finance in April 2005. It consists of two divisions:

1. Department for Methodology and Coordination of Internal Audit
2. Department for Methodology and Coordination of Financial Management and Internal Control.

Central Harmonization Unit of the Ministry of Finance is responsible for:

- Drafting of laws and bylaws in the area of financial management and controls and internal audit;
- Development of methodology and financial management and controls and internal audit standards;
- Organization of education for persons included in financial management and controls and internal audit;

<sup>51</sup> The Official Gazette, no. 141/06



- Coordination of the setting up and development of the internal financial controls system;
- Giving opinions regarding the transfer and dismissal of internal auditors;
- Keeping and managing of the register of the internal audit units, the register of the charters of internal auditors, the register of the certified internal auditors and the register of the persons included in financial management and controls;
- The setting up and maintaining of the website with the information on the activities of the Central Harmonization Unit of the Ministry of Finance, the education and certification of internal auditors.

The Central Harmonization Unit of the Ministry of Finance compiles the united annual report on the system of internal financial controls and its work on the basis of the budget users' annual reports about the activities regarding the setting up and development of financial management and on the basis of annual reports upon preformed internal audits and internal auditing activities.

According to the provision of Article 45, paragraph 5 of the Law, the Central Harmonization Unit of the Ministry of Finance carries out a verification of the quality of the financial management and controls and internal audit system with the purpose of appropriate monitoring of the recommendations implementation and their compliance by the budget users subject to this Law, and with the aim to collect information for improvement of methodology and work standards.

The activities carried out in 2006 included the participation of experts from the CARDS 2004 project "Strengthening of the Internal Financial Control Structure in the Public Sector in the Republic of Croatia" (further in text: CARDS 2004). The Project began in April 2006 as a continuation of the CARDS 2002 Project "Development of Internal Financial Control in the Public Sector and Internal Audit" which ended in December 2005. The new CARDS 2004 Project is aimed at the improvement and further development of the achieved in the field of internal financial controls systems with special emphasis on the setting up of the system on the local level.



## 11.2 ACTIVITIES OF THE CENTRAL HARMONIZATION UNIT

### 11.2.1 Joint Activities of Coordination and Development of Internal Audit and of Coordination and Development of Financial Management and Controls

Among the joint activities of the Central Harmonization Unit during 2006, the following should be emphasized:

- The Law on the System of Public Internal Financial Controls was drafted.  
The Law was passed in December 2006. It regulates the system of internal financial controls which includes financial management and controls and internal audit in the public sector in the Republic of Croatia. The Law determines the methodology, standards and responsibilities and competencies of the Ministry of Finance and other bodies in the implementation of the system of internal financial controls in the public sector. The provisions of the Law apply to all budget users (on state and local level) as well as on extra-budgetary institutions or funds. With this Law Croatian legislation is harmonized with EU *acquis communautaire* and regulative frame in the section of internal financial controls.
- The united annual public internal audit report for 2005 was made. The report was discussed by the Internal Audit Council and was accepted by the Government of the Republic of Croatia in April 2006. The Government also concluded further activities concerning the setting up of this system;
- The realization of a series of visits to public administration bodies on state and local level with the purpose of getting acquainted with internal audit and financial management and control and with the importance of the setting up of internal financial controls system for organization, development and improvement of the mentioned tasks in the stipulated bodies;
- The activities concerning the harmonization with the EU *acquis communautaire* for Chapter 32 - Financial control.

Employees of the Administration, as members of the team for Chapter 32, prepared all the necessary documents concerning the internal financial controls system in the Republic of Croatia (Non-Paper, Screening lists, presentations of the system on bilateral screening in Bruxeless on 29 June, negotiation position, answers to questions of the European Commission - DG Budget) and in May and June 2006 participated in the meetings with the representatives form the European Commission - DG Budget.

At the end of September 2006 the European Commission drafted a report on the conducted harmonization overview which included the invitation for the opening of the negotiations for this chapter;

- A joint seminar of the State Audit Office and the Central Harmonization Unit of the Ministry of Finance was held in February 2006 to discuss the similarities and differences in conducting of internal and external audit and the methodology.
- Continuous cooperation with the CARDS 2004 project team regarding the implementation of the activities planned in the Project.
- The Central harmonization Unit employees participated in a various domestic and foreign seminars and conferences with the purpose of improving their knowledge of internal financial controls and application of the best practice in their own systems.

### 11.2.2 Activities of the Central Harmonization Unit Related to Financial Management and Controls

The Central Harmonization Unit is, among other things, responsible for the preparation of laws and bylaws regarding financial management and controls, the development of the methodology and work standards of financial management and controls, organizing the education of persons involved in financial management and controls as well as for the coordination of the setting up and development of the internal financial controls system.



Out of the Central Harmonization Unit's activities regarding the coordination and development of financial management and controls during 2006, the following is mentioned:

- At the end of 2006, in cooperation with the CARDS 2004 project, a draft Handbook for financial management and controls, in accordance with the latest financial management and controls practices, outlining the activities and procedures necessary for the efficient setting up of this modern and complex system for all budget users was produced;
- Also in cooperation with the CARDS 2004 project the Strategy of Education for Financial Management and Controls was prepared.

The Strategy includes the organization of two types of seminars. The "Awareness Strengthening" seminar - the importance of the internal financial controls system, is intended for the heads of units, i.e. the highest management level, and is of critical importance for the successful implementation of financial management and controls in the public sector. During 2006 numerous seminars were held on the central state level (the Ministry of Finance and the Ministry of Sea, Transportation and Development) and on the local level (in Opatija, Slavonski Brod, Sisak, Novigrad, Split, Delnice).

The second type of seminars are those for the setting up and development of financial management and controls which are intended for persons in charge of the implementation and development of financial management and controls.

The seminar for the directors of financial management and controls, named "Improvement of the Management of the Development of the Internal Financial Controls", the first of four planned training modules, was held in Plitvice in November 2006. 32 officials from the central government level participated;

- The representatives of the European Commission - DG Budget held, in the Ministry of Finance, on November 2006, a seminar on internal financial controls and management responsibility for the heads of the units and the highest management level. Around hundred participants (secretaries and other officials) attended the seminar. The purpose of the seminar was not only the acquiring of new knowledge but the raising and development of awareness of the importance of transparent and professional operating of public institutions and its harmonization with the European Union requests;
- The Central Harmonization Unit employees took over the first training module from the CARDS 2004 project. They were trained for educating persons included in financial management and controls, and they held seminars for 43 heads of unit in the Ministry of Finance, that was, along with the Ministry of Sea, Transportation and Development, chosen as a pilot ministry in the process of setting up of this system;
- Numerous meetings and presentations were held on the setting up of this system on the central state level and local level, and other measures were taken to get the public sector acquainted with financial management and controls system and with activities necessary for the setting up of the system. One of the measures needed for the effective setting up of financial management and controls is the formation of a working group on the central state level. The working group was set up in July 2006 and it includes officials from different ministries. The working group's task is monitoring and proposing activities regarding the setting up and development of financial management and controls. In the Ministry of Finance, that was identified as a pilot ministry in the process of setting up financial management and controls, a working group for setting up of financial management and controls was also formed. It consists of 12 members from the Ministry and from the Central harmonization Unit. A number of meetings were held in 2006 and the way of setting up of financial management and controls in the Ministry and on central state level was agreed on;
- The Law on the System of Public Internal Financial Controls defines that apart from the head of unit, the director of financial management and controls is also responsible for the implementation and development of financial management and controls. The employees of the Central Harmonization Unit defined guidelines concerning the appointment of persons in charge of financial management and controls and the organization of the department. BY the end of 2006, most users on central state level (ministries and state administrative organizations) appointed directors for financial management and controls, and some users organized the departments for financial management and controls.



### 11.2.3 Activities of the Central Harmonization Unit Related to Internal Audit

Of the Central Harmonization Unit's activities during 2006 regarding the tasks of coordination and development of internal audit, the following should be mentioned:

- Coordination of the organization of the internal audit units in ministries and public administration bodies. The internal audit units were normatively and functionally established in all ministries and by several budget users, extra budgetary funds, the City of Zagreb and several counties and county centers. The organization of internal audit was carried out during 2005 and 2006, and it is necessary to carry out further activities in that area;
- The Internal Auditors Training Plan 2006 - 2007 was developed, in which the training of the candidates for internal auditors on central and local level is planned (The Training Plan was adopted in January 2006);
- The system of education and obtaining of professional certificates for internal auditors in the public sector was developed. It consists of seven theoretical training modules (of seven weeks), performing of two practical internal audits (with mentorship) and taking of the final exam. The training is conducted by domestic trainers who were trained by experts from the CARDS 2002 project. The training of internal auditors is conducted according to the Internal Auditors Training Plan. During 2006 a total of 87 internal auditors from the central and local level were included in the training process;
- Organization of the exam for the internal auditors;
- Mentorship with the CARDS 2004 help with the performing of the initial audits in the ministries and public administration bodies;
- Agreeing with the Charters of Internal Auditors of budget users which regulate the relations between internal audit and the subject audited;
- The annual seminar for internal auditors where internal auditors were acquainted with the new methodologies and development of their profession was held in Baška in 2006;
- Monthly or bimonthly meetings of internal auditors were held on regular basis where specific areas were discussed;
- Internal auditors and employees of the Central Harmonization Unit participated in different domestic and foreign seminars and conferences with the purpose of improving their knowledge of internal audit.

### 11.2.4 Cooperation with Other Institutions

The Central Harmonization Unit cooperates with numerous budget 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 Strategy of Development of Internal Financial Control in the Public Sector in the Republic of Croatia, the Law on the System of Internal Financial Controls in the Public Sector and the Rulebook on Internal Control of Budgetary Users 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 Law the head of the internal audit unit has to cooperate with the State Audit Office and provide them, at their request, with all the information related to the content of the terminated internal audits. Other forms of cooperation are carried out at the request of the State Audit Office.

As stipulated by the Law, 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 cooperation with the State Audit Office can also refer to the internal audit planning process, so certain audit tasks would not be carried out twice.

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.

At the beginning of 2006 internal auditors of the Ministry of Finance were involved in the process of education of state auditors on the topic of audit of pre-accession fund funds. The education was organized 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 organized in order to present the methodology and modalities of work of state and internal auditors.

The Central Harmonization Unit is involved in the activities of the Croatian Institute of Internal Auditors (HIIR) which is established in the Republic of 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.

### 11.2.5 Other Activities in 2006

The Croatian Parliament on the session on 31 March 2006 adopted the National Corruption Combating Program 2006 - 2008 (further in the text: National Program). According to the Program, Article 3 Local self-government, the Ministry of Finance, along with the Central State Administrative Office for Public Administration and the State Audit Office, is the initiator of the necessary measures for increasing the transparency of adoption, and especially of spending of the budget of local self-government units.

The Ministry of Finance implements its contribution to combating corruption, in accordance with the National Program, by setting up and developing internal financial controls system in the public sector, i.e. on the central and local level of budget users. A monthly report on the implementation of the National Program from the jurisdiction of the Ministry of Finance is submitted to the Ministry of Justice;

- The activities concerning the harmonization with the EU *acquis communautaire* for Chapter 6 - Company Law (auditing). Employees of the Administration, as members of the working group for Chapter 6, prepared all the necessary documents concerning the audit in the Republic of Croatia (Non-Paper, Screening lists, the presentations of the system at bilateral screening in Brussels, negotiation position, answers to questions) and in May and June 2006 participated in the meetings with representatives from the European Commission. In July 2006 the Minister of Finance adopted the Action Plan for the harmonization with the provisions of the 8<sup>th</sup> directive, according to which the amendments to the Law on Audit will be adopted by the middle of 2008. For this purpose the Minister of Finance appointed a working group, which also includes employees of the Administration, for the preparation of the proposal of amendments to the Law on Audit;
- Preparation of different reports needed for the accession of the Republic of Croatia to the European Union, participation in drafting of the National Program for Chapter 32 - Financial Surveillance and Chapter 6 - Company Law (Field of Commercial Audit);
- Compilation of an instruction for the purpose of elaboration of the annual consolidated report on internal financial control systems;
- Giving opinion on normative regulations of budget users regarding the organization of the internal financial controls;
- Giving opinion on proposals of laws and other regulations for budget users, and answering different budget users' inquiries;
- 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;
- Keeping of register of internal auditors and persons in charge of the setting up of financial management and controls.

It is necessary to emphasize that the Central Harmonization Unit has 10 civil servants, of which 5 in the Department for Methodology and Coordination of Internal Audit and 5 in the Department for Methodology and Coordination of Financial Management and Internal Control. This number is not sufficient for timely and good quality carrying out of duties in the competence of the Central Harmonization Unit. These duties include the drafting of laws and bylaws, development of methodology for setting up of financial management and controls, development of methodology for internal audit, organizing and implementing training for internal auditors and persons in charge of financial management and controls, performing mentorship and support in practical implementation. Therefore one of the main tasks is the need to recruit high quality, experienced and motivated employees for the Central Harmonization Unit.

## 11.3 CONCLUSION

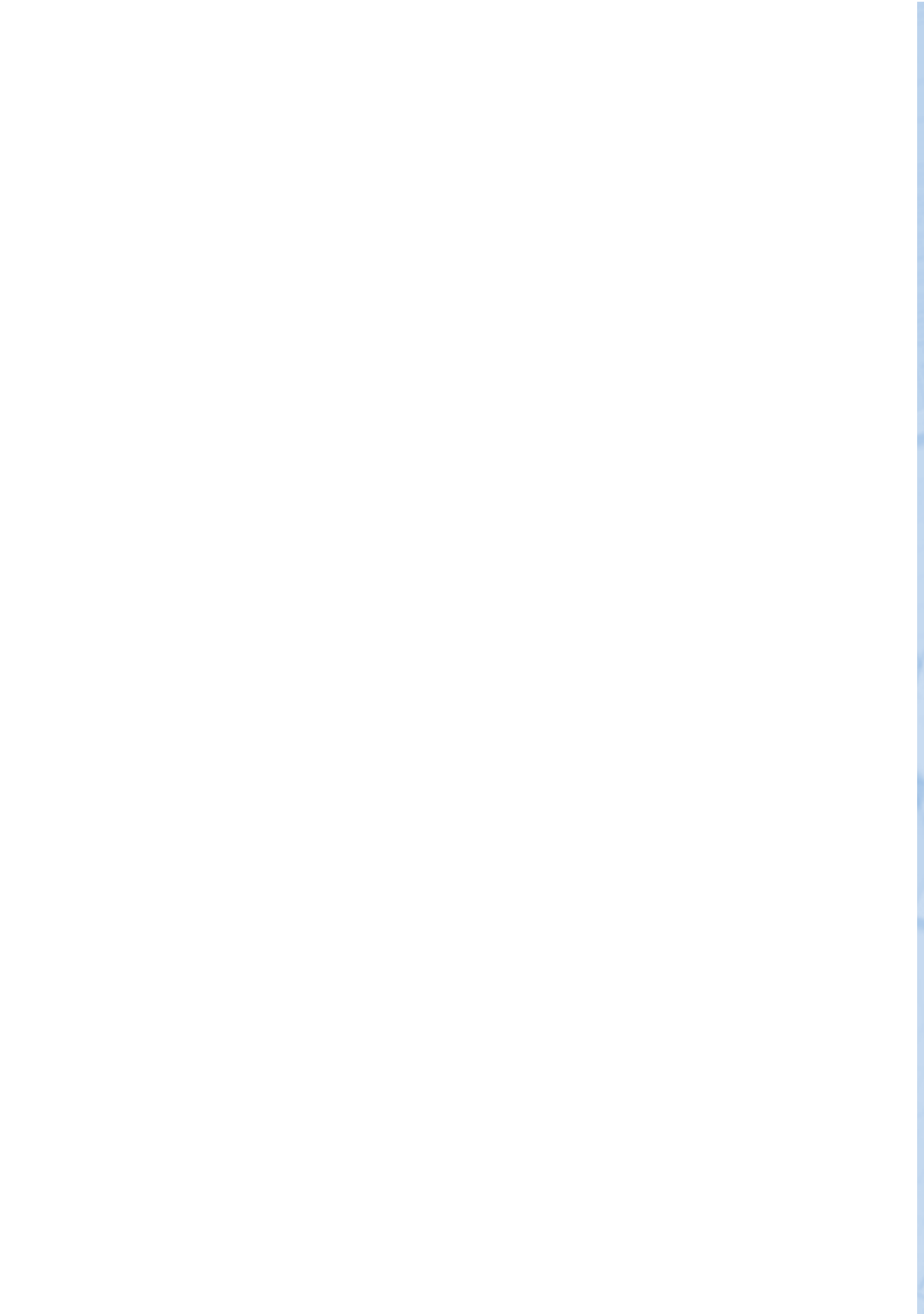


In comparison with the last year significant results have been achieved in the area of internal audit and in the area of financial management and controls. But, the main task of the Central Harmonization Unit still remains the awareness responsibility raising of the heads of units to use and develop this system in order to effectively allocate public funds and therefore successfully implement the tasks set before them.

In the area of internal audit it is necessary to continue activities related to the promotion of internal auditor's profession, giving assistance regarding the way internal audit is being established with budget users, education and mentorship and development of skills needed to performing the tasks of internal audit with quality.

In the area of financial management and controls the Central Harmonization Unit has to continue with activities of acquainting budget users with the benefits of setting up of financial management and controls, with the emphasis on strengthening of management responsibility. It has to continue with the education of persons included in financial management and controls and has to provide advice on setting up of the system, especially with activities of listing and describing business processes and risk management and the establishment of necessary controls.

It is also necessary to adopt all the regulations on implementation, which is a legal obligation, and furthermore it is necessary to establish institutional forms within which this system of internal financial controls will develop.



**12**

**REPORT  
ON THE ACTIVITIES  
OF THE DEPARTMENT  
FOR FINANCIAL  
SYSTEM**





In 2006, the department for financial system of the Ministry of finance compiled numerous legal and subordinate legislation drafts from the area of financial system which were adopted by the Croatian Parliament, all in the effort of securing the continuing establishment of the legal framework which fosters the development of the financial system and markets.

### **Leasing Act**

Leasing Act was adopted by the Croatian Parliament on December 1<sup>st</sup> 2006 being effective as of December 21<sup>st</sup> 2006.

Leasing Act represents a legal framework which regulates the overall business activity of the leasing industry as the important part of the financial market of the Republic of Croatia. Hence, this Act primarily regulates supervision, protection of the leasing participants and rules regarding the risk management. Leasing, as financial form, enables easier access to financing.

### **Credit Union Act**

Croatian Parliament adopted the Credit Union Act on December 15<sup>th</sup> 2006 being effective as of January 1<sup>st</sup> 2007. This Act regulates the necessary conditions required for establishment, business conduction and business termination of credit unions, as well as the supervision of their work. Credit union is the financial institution residing in the Republic of Croatia which attained the permission to conduct business from the Croatian National Bank.

### **Act on Amendments to the Securities Market Act**

Act on Amendments to the Securities Market Act was adopted by the Croatian Parliament on December 8<sup>th</sup> 2006 being effective as of December 28<sup>th</sup> 2006. Act on Amendments to the Securities Market Act fosters the environment for the further development of the capital market in the Republic of Croatia, increase of its liquidity and transparency of the trade, abrogation of the restrictions for capital movement, increase in transparency of the stock exchange trade, increase in capital requests, increase in the investors security, enhancement of the overall process of the stock exchange trade and more strict sanctioning of illegal activities.

### **Act on Amendments to the Foreign Exchange Act**

Croatian Parliament adopted the Act on Amendments to the Foreign Exchange Act on November 24<sup>th</sup> 2006 being effective as of December 14<sup>th</sup> 2006. This Act contributes to the liberalization of capital transactions and cash payments through three phases: 1<sup>st</sup> phase - immediately upon the Adoption of the Act, full liberalization of investments in securities by the residents and nonresidents is accomplished; 2<sup>nd</sup> phase - as of January 1<sup>st</sup> 2008, the obligation to notify capital transaction as the prerequisite for conduction of the payment and transfer for these activities will be abolished; 3<sup>rd</sup> phase - as of January 1<sup>st</sup> 2009, full liberalization of capital transactions and cash payments will be achieved by abolishment of the remaining restrictive Act provisions.

### **Act on Croatian Bank for Reconstruction and Development**

Act on Croatian Bank for Reconstruction and Development was adopted by Croatian Parliament on December 8<sup>th</sup> 2006 being effective as of December 28<sup>th</sup> 2006.

This act finalizes the legal framework alignment of the Croatian Bank for Reconstruction and Development as the state bank with the *acquis*. Activities of insurance and reinsurance from non-market risks for export of Croatian goods and services are defined while also the content, terminology, structural and nomotechnical arrangement of the Act from 1992 was performed (which was amended several times, namely in 1993, 1995, and 1996).



## **Act on Amendments to the Banking Act**

Croatian Parliament adopted the Act on Amendments to the Banking Act on December 15<sup>th</sup> 2006 being effective as of January 1<sup>st</sup> 2006. With these amendments to the Banking Act introduced a new credit institution, savings bank, within the financial system of the Republic of Croatia, which makes possible for the conduction of business of the credit institution that faster and more easily serves the need of citizens and the need of small entrepreneurs for financing sources. Also it fosters savings, payment operations conduction and account managing with the aim to achieve greater competitiveness, more effective settlement of the requests by citizens and entrepreneurs, safety and stability for all participants of the payment system.

## **Act on Amendments to the Croatian National Bank Act**

Croatian Parliament adopted the Act on Amendments to the Croatian National Bank Act on December 1<sup>st</sup> 2006 being effective as of December 21<sup>st</sup> 2006. The essence of these amendments is the transmission of the competence of the Croatian National Bank - referring to definition and conduction of the monetary and exchange rate policy, management of the international reserves of the Republic of Croatia, issuance of banknotes and coins, regulation, improvement and the supervision of the payment system - to European System of Central Banks since the day of Euro is going to be accepted in the Republic of Croatia.

The abovementioned package of financial regulations serves in alignment of the legal framework in the Republic of Croatia with the *acquis*, providing strong effects to a stable development of the financial system and protection of its participants.

Besides drafting legal acts and subordinate legislation from the area of financial system, Department for financial system successfully conducted other activities during 2006 from its area of competence which included:

- analyzing of the financial market subjects;
- recommending measures for the improvement of the financial system;
- analyzing and determination of the state incentives for the members of housing savings;
- analyzing and determination of the state incentives for the members of voluntary pension funds;
- providing approvals, and in cooperation with the CNB, releasing into circulation and distribution of bills of exchange;
- supervising the work of financial institutions (housing savings, savings and credit cooperatives);
- issuing of statements;
- providing opinions and interpretations of legal acts and subordinate legislation from the area of financial system.

**13**

**REPORT ON TAX  
ADMINISTRATION  
ACTIVITIES IN 2006**







## 13.1 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 Economy, 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 2006, Croatian Tax Administration completely matches the structure of other developed countries Tax Administrations concerning the issues of organization, employment structure and goal achievement.



## 13.2 DEVELOPMENT OF COMMUNICATION BETWEEN TAX ADMINISTRATION AND TAXPAYERS (YEAR 2006)

During 2006 Tax Administration, representing the organization in charge 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 in four different groups: Internet publications, electronic entering of tax return form and free phone (Contact Centre).

Through Tax Administration web page ([www.porezna-uprava.hr](http://www.porezna-uprava.hr)) all tax payers can, on daily 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, tax return, tax and other regulations (around 900 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 legal regulations and cite 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 2006 Tax Administration issued 21 brochures and guide lines which, in a simple and understandable way, explain to taxpayers their rights and obligations, as well as CD containing 900 reduced consolidated text on regulations and manual and CD "Croatia Tax System" printed in English. Publications mentioned above are distributed for free to taxpayers in local offices and branches.

Furthermore, in 2006 all preconditions for revival the eTaxAdministration project 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 fraud, invoice non-issuing, moonlighting, violations on tax regulations and complaints on Tax Administration working staff as well as information on tax reliefs and benefits.



## 13.3 THE TAX ADMINISTRATION LEGISLATIVE ACTIVITIES IN 2006

The Act on Corporate Income Tax (“Official Gazette”, No. 177/04 and 90/05) has been changed in 2006. With the Act on amendments to the Act on Corporate Income Tax (“Official Gazette”, No. 57/06) following provisions were excluded:

- provisions regulating exemptions for tax payers registered solely for research and development activity
- provisions regulating tax relieves, namely tax deductions associated with providing the investment incentives
- provisions regulating the creation of incentives for those tax payers established for professional rehabilitation and employment of disabled persons
- provisions regulating the deduction of the tax base for costs associated with the research and development and for the cost of wages and contributions paid out to and for new employees for the tax period, which are being paid out to the date of submission of the final tax report

Abovementioned Act also amended the provision regulating the deduction of the tax base for costs associated with schooling and professional improvement of employees. Those deductions and relieves are in practice regulated with other regulations such as with the Act on investment stimulation.

In 2006, the Ordinance on personal income tax was amended (Official Gazette 95/05). With the Ordinance amending the Ordinance on personal income tax (Official Gazette 96/06) the provision regarding the nontaxable receipt of the student scholarships in the country up to the level of HRK 4 thousand monthly under prescribed conditions was amended. This creates the incentive for providing scholarships to top students honoring their knowledge and grades.

Beside already mentioned, in 2006 the Ordinance on the lump-sum taxation of the self-activities (Official Gazette 143/06) was enacted which prescribes self-activities subject to lump-sum taxation, the way of definition and the size of the lump-sum annual income, the act of definition, the size of the lump-sum personal income tax and personal income surtax as well as other provisions relevant for the lump-sum taxation.

During the 2006, the Act on amendments to the Act on value-added tax (“Official Gazette”, No. 90/05) and Ordinance on the amendments of the Ordinance to the VAT tax (“Official Gazette”, No. 153/05) have been conducted, which had been issued in 2005, effective as of January 1, 2006 and are related to abolishment of a zero VAT rate for services of organized accommodation paid by transfer from abroad and to 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.

In 2006, preparations have been conducted for amending the Act on value-added tax regarding the return of the value-added tax to foreign entrepreneurs, abolishment of the zero rates and relieves without the right for the tax subtraction, with the purpose of alignment of the Act on value-added tax with the EC Directive 2006/112.

Due to Croatia’s accession to the EU and alignment of Croatian tax system with the *acquis communautaire*, the Screening lists and Non paper for Chapter 16 - Taxation have been made in the first half of 2006. for the purpose of explanatory screening held on June 2006, and for the purpose of bilateral screening held on July 2006 in Bruxelles,

There were no legal amendments to the VAT Act in 2006.

Associated with the alignment of Croatian VAT Act with the *acquis communautaire*, employees of the Service for Tax System participate in seminars of CARDS 2004 Program “Strengthening of the tax system in the VAT area due to preparation of development of VIES information connection system”, held by employees of the tax Administration of Republic of Austria and which started in January 2006 and will last till the end of 2007.

During 2006, the Instruction on amount of basis for contributions settlement for obligatory insurances was issued in 2007 (“Official Gazette”, No. 126/06), which is adopted on the ground of article 96, paragraph 2 of the Act on contribution for obligatory insurances (“Official Gazette”, No. 147/02, 175/03 and 177/04).



There had been a continuous development in joint work and data exchange with institutions responsible for obligatory contributions tracking.

The practice of fostering the international cooperation continued so the first round of negotiations on Agreement of avoiding the double taxation with Armenia, Oman and Portugal was concluded while negotiations have been finalized with Cuba.

Also, Acts for concluding the agreement of avoiding the double taxation have been drafted with following countries: Israel, Tunisia, Qatar, Cuba, Germany, Korea, Island, Morocco, Egypt and Spain.

In 2006, the Agreement on avoiding the double taxation and prevention of avoiding the income and property taxation between the Republic of Croatia and the State of Israel (September 26th 2006) has been signed as well as the Agreement on avoiding the double taxation in income and property taxes between the Republic of Croatia and Germany (February 6th 2006).

During 2006, following bylaw acts in area of preparation of lottery games were adopted:

- Ordinance on amendments of the Ordinance on mandatory check list for the calculation of concession fee in casinos
- Ordinance on amendments of the Ordinance on technical issues of casino machines and tables
- Ordinance on amendments of the Ordinance on organization of betting games.

In 2006, regarding lottery taxes, 14 Agreements on business plans of Organizer of game of chance in casinos as well as 4 Agreements on Concession concerning the organization of games in casinos, 30 Agreements on Concession concerning the organization of games of chance in coin operated machines and 5 Annexes on Agreements on Concession were issued. Two Permissions for opening automat clubs and 3 Agreements on Concession concerning the organization of games in casinos were issued to Croatian Lottery d.o.o. Nine Agreements on Regulations concerning the betting rules, 732 Permissions for the work of betting payment posts, 17 Agreements on Regulations concerning the rules of lotteries as well as 991 Agreements on games of chance rules. During 2006, 56 Opinions regarding implementation of lottery taxes acts were issued as well as 9 categorization of coin operated machines.

All actions taken have resulted in increased revenue index (133.53) in 2006 compared to 2005.

**Table 13.1 Lottery taxes**

<b>(000 HRK)</b>		
<b>Total Revenues in 2005</b>	<b>Total Revenues in 2006</b>	<b>Growth Index</b>
354,056	472,790	133.53

Source: APIS



## 13.4 INSPECTION SUPERVISION OF TAX ADMINISTRATION IN 2006

In 2006, 654 authorized officers conducted supervision, which are 55 authorized officers less than in 2005. Nevertheless, more thorough approach in supervision, supervision focused on a cash flow and company businesses control have resulted in improved financial indicators. Therefore, in 2006 9,092 inspection supervision orders were issued where 57.05% referred to companies and 42.95% to physical persons.

Average duration of supervision in 2006 was 10.06 days which is by 24% longer than in 2005. 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 2006 64.96% of inspection supervisions discovered irregularities, while in 2005 given percentage amounted 50.2%, which is a significant increase (index 129). New liabilities, in the amount of HRK 1,177,212,587.56 determined in 2006. During 2006, 5,445 demands for offence procedure were started and 5 requests for economic violation while 113 requests for criminal activities were submitted.

In order to repress underground economy, in 2006 Tax Administration conducted continuous supervision of invoice issuing and transactions evidence of those taxpayers who deal with cash. Out of a total 4,234 tax payers included in supervision, for 950 tax payers, new VAT liabilities of HRK 43,265,888.58 were estimated out of which HRK 6,321,989.43 were charged immediately. Charged overdue tax debt recorded an increase of 43% (HRK 80,720,060.88) in 2006 compared to 2005.

It is important to mention the constant cooperation with the Ministry of sea, tourism, traffic and development concerning the supervision of those taxpayers which are involved in rent-a-boat business (charter companies) as well as good cooperation with State Inspectorate in data and miscellaneous information exchange.



## 13.5 TAX ADMINISTRATION DISTRRAINT ACTIVITIES IN 2006

### 13.5.1 Charges of taxes and other public charges in distraint procedure

In line with its competences, Tax administration implements executions for purpose of tax collection, contributions and other public charges from Taxpayers. Distraint activities are based on a General Tax Act regulation ("Official Gazette", No. 127/00, 86/01 and 150/02), a Act on General Administrative Procedures ("Official Gazette", No. 53/91) and Distraint Act ("Official Gazette", No. 57/96, 29/99, 42/00, 173/03, 194/03, 151/04 and 88/05). Distraint, as a special form of forcible 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 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 upon request of State Attorney.

Table 13.2 View of Distraint Charges According to Distraint Measures

DISTRRAINT MEASURE	CHARGES IN 2005	CHARGES IN 2006	INDEX
			2006/2005
Decision on distraint by cash assets seizure	1,186,256,642.33	1,445,261,913.60	121.83
Decision on distraint by execution debtor's claims seizure	131,056,246.41	115,964,426.75	88.48
Decision on distraint by seizure of claims on the grounds of portion in capital	107,521,615.71	97,711,111.77	90.88
Decision on distraint by movable property seizure	351,800,244.25	484,557,429.85	137.74
Real-estate distraints	30,956,814.91	54,282,571.00	175.35
<b>1. Total amount charged through distraint proceedings</b>	<b>1,807,591,563.61</b>	<b>2,197,777,452.97</b>	<b>121.59</b>
<b>2. Amount charged on the grounds of other Government bodies requests</b>	<b>22,439,506.60</b>	<b>21,095,087.38</b>	<b>94.01</b>
<b>3. TOTAL AMOUNT CHARGED (1+2)</b>	<b>1,830,031,070.21</b>	<b>2,218,872,540.35</b>	<b>121.25</b>

Source: Tax Administration - Central Office

In 2006 complete sum charged through distraint activities amounted HRK 2,218,872,540.35, while, in the same period in 2005, sum mentioned above amounted HRK 1,830,031,070.21. Therefore, in 2006 distraint activities charge was higher by 21.25% or HRK 388,841,470.14 than in 2005.

### 13.5.2 Securing the payment of the tax debt by enforcement of the real estate mortgage

With the purpose of further strengthening of distraint procedures, distraint measures regarding the enforcement of the real estate mortgage upon the property of the debtor are performed. The number of claims which the Tax Administration delivers to the State Attorney, regarding proposals to impose the enforcement of the real estate mortgage upon the property of the debtor, is growing.



**Table 13.3 Real-estate Distraint Claims Submitted to State Attorney's Office**

DESCRIPTION	2004	2005	INDEX	2006	INDEX	
			2005/2004		2006/2005	2006/2004
Legal persons	90	148	164.44	204	137.84	226.67
Physical persons	1,005	1,457	144.98	1,894	129.99	188.46
<b>TOTAL</b>	<b>1,095</b>	<b>1,605</b>	<b>146.58</b>	<b>2,098</b>	<b>130.72</b>	<b>191.60</b>

Source: Tax Administration - Central Office

As it can be seen from Table 13.3 the number of real-estate distraint claims increased by 493 or by 30.72% compared to 2005, out of which 56 or 37.84% related to claims for distraint on companies and 437 or 29.99% related to claims for distraint on physical persons.

Total number of claims submitted in 2006 compared to 2004 increased by 1,003 or 91.60% out of which 114 or 126.67% related to claims for distraint on companies and 889 or 88.46% related to claims for distraint on physical persons.

With regards to activities of insolvency and liquidation it is important to stress out:

- In 2004 Tax Administration reported claims for bankruptcy in the amount of HRK 487.6 million. At the same time, total amount of HRK 117.2 million was charged. During the same period, Tax Administration reported liquidation claims in the amount of HRK 56.1 million. HRK 1.8 million was charged.
- In 2005 Tax Administration reported claims for bankruptcy in the amount of HRK 320.2 million. At the same time, total amount of HRK 103.5 million was charged. During the same period, Tax Administration reported liquidation claims in the amount of HRK 11.1 million. HRK 1.4 million was charged.
- In 2006 Tax Administration reported claims for bankruptcy in the amount of HRK 277.1 million. At the same time, total amount of HRK 91.5 million was charged. During the same period, Tax Administration reported liquidation claims in the amount of HRK 22.4 million. HRK 15.1 million was charged.

Therefore, in 2005 compared to 2004 39.07% less claims based on tax and other public charges in an insolvency and liquidation activities were reported and 11.81% less were charged.

In 2006 compared to 2004 44.91% less claims based on tax and other public charges in an insolvency and liquidation activities were reported and 10.49% less were charged.





**Table 13.4 Analysis of claims reported and charged on basis of taxes and other public charges in insolvency and liquidation procedures for a period from 2004 to 2006**

Ordinal	Year	CLAIMS REPORTED ON BASIS OF TAX AND OTHER REPUBLIC CHARGES				CHARGES OF CLAIMS BASED ON TAXES AND PUBLIC CHARGES			
		Insolvency procedure	Liquidation procedure	Total	Index 2004 = 100	Insolvency procedure	Liquidation procedure	Total	Index 2004 = 100
1	2	3	4	5=3+4	6	7	8	9=7+8	10
1	2004	487,590,755,53	56,050,244,77	543,641,000,30	-	117,211,367,92	1,812,936,74	119,024,304,66	-
2	2005	320,152,078,04	11,094,015,12	331,246,093,16	60,93	103,537,810,87	1,433,524,12	104,971,334,99	88,19
3	2006	277,091,409,89	22,418,269,09	299,509,678,98	55,09	91,484,201,45	15,050,408,41	106,534,609,86	89,51

Source: Tax Administration - Central Office



In the Department for Collection, administrative activities are performed in line with:

- article 17, paragraph 3 of the Act on Administrative Disputes (“Official Gazette”, No. 59/91, 9/92 and 77/92), development of the solutions of approved/rejected postponement of liabilities payment till the conclusion of administrative disputes, e.g. till the effective judgment of court - 50 legal solutions and 3 conclusions has been brought (as well as in 2005);
- the instruction on the procedure by determent statute of limitation on tax collection rights, obligatory contributions and other public revenues of which Tax administration keeps analytical evidence and their write-off due to impossibility of collection, (Class: 410-01/05-01/605, Ref. No.: 513-07-21-06/05-1, from 20 April 2005), and the adoption of solutions per written debtors’ claims whose debts are over HRK 500,000.000 resulting from writing-off of overdue liabilities due to statute of limitation - 18 solutions were adopted (an annual increase of 38.46%);
- Article 135 of the general tax code, resolving on the grounds of write-off of the tax debt, partially or entirely, if the fulfilment of the debt payment brings into question basic life needs of debtor and the members of his household. For the same reason, it resolves also the submitted claims for write-off of overdue contributions for obligatory insurances, according to articles 86 and 86 a of The Act on Obligatory Contributions - 424 solutions and 12 conclusions were adopted, which represents an annual increase of 260.3% compared to 119 solutions and 2 conclusions adopted in 2005.

All activities mentioned are performed in administrative procedures, where the appeal is not allowed, so that in the case of administrative dispute, and by court decision, the answer to law suit is made.

Regarding activities mentioned, the evidence of the total received claims is kept, of debtors whose overdue liabilities has been written off and in the case of delay of charge till the completion of administrative procedures regarding all solutions which are in force and in this respect the charge has been monitored.

During 2006, 753 cases were in procedure (of which 641 cases from 2006 and 112 cases from previous period). Total resolved cases amounted to 563 and reached 74.77% of all cases. Average number of cases per agent was 140.75 (there was only 4 agents).

Professional businesses in the Department for collection related to:

- conducting of professional businesses associated with the financial consolidation of tax payers by a Decision of the Government of Croatia;
- the development of the monthly reviews on the largest tax debtors, contributions and other public payments in line with instructions of the Central Office, Class: 410-01/04-01/244, Ref. No.:513-07-21-06/05-4 from 1 March 2005;
- the development of the monthly reviews regarding the number of staff and claims on legal persons which are of regional matters.



## 13.6 INTERNATIONAL COOPERATION

International Cooperation and European Integration Office conducts legal and other expert activities related to performance and organization of activities associated with the preparation of Croatian accession to European Union, international cooperation and coordination of EU Pre-accession Aid Programs.

### 13.6.1 Preparation of the EU Accession Treaty

Within the activities of preparation EU Accession Treaty, substantial active cooperation with the European Commission (DGTAXUD) continued in 2006. With this cooperation, technical consultations were continuously conducted. Both screening phases (Analytical Overview and Evaluation of the Degree of Harmonization of National Legislation for Chapter 16 - Taxation) where Croatia presented Action Plan of harmonisation of National tax legislation, were held in June and July. After screening, additional questions by European Commission were answered. In November, European Commission brought Report on screening in which for Chapter 16 - Taxation, there is no benchmark that is criteria as a term for opening of negotiations. By the end of the year, European Commission created Report on Croatian progress for 2006 in which it has been assessed that Croatia made certain progress in the field of taxation.

Within the activities of alignment of national legislation with the *acquis communautaire* we have been participated in preparation of reform of the Income Tax Act with special attention on alignment of fiscal budgetary subventions with the *acquis communautaire*, and in activities of the preparation of Taxpayer Identification Number Act proposal.

### 13.6.2 International cooperation

Within bilateral cooperation, successful cooperation with France, Netherlands, Slovenia and Macedonia continued in 2006, as well as continual cooperation with the Intra-European Organisation of Tax Administrations (IOTA) and Organisation for Economic Co-operation and Development (OECD) within multilateral cooperation.

Regarding to participation of Republic of Croatia in Programme Fiscalis 2003-2007, it has been allowed to the Tax Administration Officers to participate in this Programme by ratifying Memorandum of Understanding between European Community and Government of Republic of Croatia, in August.

### 13.6.3 Programs and projects

Within the framework of the CARDS 2004, 2 projects have been started:

1. Twinning project "Strengthening of the tax system in VAT area due to preparation of development of VIES information system of mutual cooperation", which will last till the end of 2007. The project is conducted according to work plan. During the year, analysis of needs and deficiencies related to VAT, IT environment and future VIES legislation are made. It has also been continuously worked on production of Handbook for training of Tax Administration Officers, on the Proposal of draft of the VAT Act and on the familiarizing with work principles of CLO.
2. Framework agreement "Analyses of needs and shortages in Tax Administration in comparison with revised documents of Fiscal Plan" finished, and its results are the document Plan of management of Company's activities change and Strategy for the development of information system.

During the year, activities of preparation of projects within PHARE 2005 and PHARE 2006 have been conducted. Preparation of World bank's project - "Revenue Administration Modernization Project" (RAMP) has also been conducted.

## 13.7 TAX ADMINISTRATIONS INTERNAL SUPERVISION AND CONTROL



With Book of rules on the internal organization of the Ministry of Finance, in Tax Administration, as organizational unit of the Ministry, the Independent Department for Financial management and Control is established.

Independent Department for Financial management and Control conducts legal and other expert activities related to a comprehensive set of financial and other internal controls, organizational structure, methods and operations with the purpose of legal, economic and effective use of Funds, effectiveness in providing state revenues, establishing systems of responsibility, reducing of risks in accomplishing goals in any part of the system, compatibility with acts and regulations; discovering and punishing irregularities and deceptions, conducting of inspections or investigations on the ground of claims or law suits.

On the basis of Article 6 of Tax Administration Act, authorization which are related to the Ordinance on the internal organization of the Ministry of Finance and annual plan and program of work, Independent department for Financial Management and Control in Tax administration provides the monitoring activities of regularity, timeliness and legality of work of civil servants and employees in organizational units of Central Office, regional offices and branches of regional offices with over 4000 of employees.

Article 11 of Tax Administration Law determines that if physical or legal persons submits petition assuming that their rights have been violated by illegal acts of Tax Administration Officer, authorized organizational unit obligatory has to conduct control on the basis of determined facts and to undertake prescribed measures and accordingly report it to the Minister of Finance, Tax Administration Director and petition submitter.

**Table 13.5 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 Administrations Officers	14	1	8	5	2	3	9
2.	Petitions against unprompted problem solving	30	/	8	22	5	4	21
3.	Petitions on tax refund based on tax refund forms	6	/	1	5	/	1	5
4.	Petitions against inspector's work during the supervision	12	/	12	/	3	2	7
5.	Petitions against bribe and corruption	13	/	8	5	8	5	/
6.	Rest	5	/	4	1	2	3	/
<b>7.</b>	<b>TOTAL</b>	<b>80</b>	<b>1</b>	<b>41</b>	<b>38</b>	<b>20</b>	<b>18</b>	<b>42</b>
8.	Subject performance	80	/	/	/	/	/	/
9.	Anomalities determined on basis of petitions control	2	/	/	/	/	/	/

Source: Tax Administration

During 2006, the Independent Department for Financial Management and Control has received 80 complaints on tax Administration staff work regarding the unkind and arrogant approach of Tax Administrations Officers, unprompted problem solving, inspector's work during the supervision, bribe and corruption, unauthorized access to Tax Administration's Information system, conduction of financial records by Tax Administrations working staff, threats and intimidation.

If, during the inspection supervision of Tax Administrations staff work, the inspector defines that there are assumption for existence of light and heavy official responsibility damages defined by the Law on State Servants, or existence of criminal activity defined by the Criminal Act, the Tax Administration director submits a written proposal per severe offence or official responsibility to the responsible servants court, or criminal report to the State Attorney.

By control of civil servants practice legitimacy in 2006, 11 Proposals to responsible servants' court and 2 Proposals for criminal activity to the State Attorney were submitted, due to severe offence of official responsibility.

Severe offences of official responsibilities under the Act on State Servants involve:

- unknowingly performance of official duties;
- irregularities in work;
- providing incorrect information;
- malpractice;
- performing activities that are opposite to activities of the work;
- improper behaviour.

Independent Department for Financial Management and Control continuously performs control of anonymous and unanonymous statements and runs a record, official note or report of determined facts.

In 2006, Department executed 569 controls of promptness of activity performance and applications of Act, Regulations, Suggestions and other acts by the Tax Administration Officers.

**Table 13.6 Control of Tax Activities Performance**

Ordinal	DESCRIPTION	Count	Annual	Upon leader's order	Requests	Croatian Government	State Attorney's Office	Police	Rest
1	Overtime work hours supervision	6	/	6	/	/	/	/	/
2	Tax Administration supervision, PDV and PDV-K forms	563	563	563	/	/	/	/	/
3	TOTAL	569	563	569	/	/	/	/	/

Source: Tax Administration

**14**

**REPORT ON THE  
ACTIVITIES OF  
CUSTOMS  
ADMINISTRATION  
IN 2006**





## 14.1 THE SCOPE OF COMPETENCES OF THE CUSTOMS ADMINISTRATION

Customs Administration, within the Ministry of Finance, performs the following tasks:

1. carries out customs control of foreign goods and of domestic goods which are placed in a transit procedure for the purpose of import or are placed in a free zone or free storage;
2. carries out the procedure for determining customs allowed treatment or use of goods;
3. carries out the activities related to customs verification;
4. carries out the calculation and collection of excises on goods which are being imported or exported according to special laws;
5. implements measures of customs control and customs verification with a purpose of detecting customs violations and other criminal acts done by violating customs legislation, makes charges and submits them to the State Attorney's Office or other competent bodies for starting and conducting a criminal procedure;
6. determines the taxation elements for calculating customs duty, VAT, excises and other levies which the Customs Administration is authorised to collect, according to special laws, at the time of the import, export or transit of goods, and enforces collection and forced collection;
7. conducts first-instance customs administrative procedures (second-instance customs administrative procedure is carried out by the Independent Service for Second-Instance Administrative Procedure, within the Ministry of Finance);
8. conducts first-instance customs misdemeanour procedures for misdemeanours prescribed by this and Customs Act, as well as other laws, when its implementation is within its scope of competences;
9. carries out the control of bringing into the customs territory and taking out of the customs territory of domestic and foreign means of payments in passenger cross-border transport, in compliance with foreign exchange regulations;
10. carries out control of import, export and transit of goods for which a special measures have been prescribed for the purpose of security, protection of health and lives of people, animals and plants, protection of national heritage and historic, artistic and archaeological values, protection of intellectual, industrial or commercial rights, etc;
11. collects, registers and processes data on import and export, as well as the amount and the structure of calculated and collected customs duty, excises and other fees which are paid in addition to customs duty;
12. collects, registers and processes data needed for carrying out the procedures of subsequent customs verification and other investigation procedures as well as for combating smuggling;
13. carries out other different tasks for which it is authorised in accordance with customs and other legislation;
14. monitors the implementation of economic policy measures in the field of customs system and the tariff and non-tariff protection policy, and it also participates in the preparation of expert basis for its adoption and draft legislation for its implementation;
15. cooperates with foreign customs and other bodies and international organisations.





## 14.2 LEGISLATION

Within the process of alignment of Croatian customs regulations with the EU regulations, a high degree of harmonisation has been achieved, which was determined during the screening process on Chapter 29: Customs Union and confirmed in the 2006 Progress Report.

A large number of activities have been carried out during 2006, which were focused on further alignment with the EU customs legislation, particularly on fulfilment of obligations taken over during the screening process and assumed by the Negotiation Position for the abovementioned chapter.

Legislative activities in 2006 began by the adoption of the new Regulation on the implementation of customs measures concerning goods for which there is a suspicion of violation of certain intellectual property rights, which has been adopted by the Government of the Republic of Croatia on its session held on 28 April 2006. This Regulation is fully aligned with the Council Regulation (ECC) No. 1383/2003 and with the Commission Regulation (EC) No. 1891/2004. The new Regulation (OG, No. 50/06) entered into force at the beginning of May 2006.

On the basis of last amendments to the Customs Act, adopted in December 2005, the Government of the Republic of Croatia adopted the Regulation on amendments to the Regulation on the implementation of Customs Act (OG, No. 69/2006) at its session held on 14 June 2006. This Regulation is in line with the amendments made to the Customs Act and it represents a continuation of the process of alignment with the Council Regulation (EEC) No. 2454/93 and all of its amendments. Namely, EU customs legislation is also in the constant changing process (primarily following the efforts to ensure the conditions for accelerating and simplifying customs procedures and to simultaneously implement more efficient customs control in cooperation with customs administrations of all member states), and in that respect the amendments to Croatian Regulation on the implementation of the Customs Act have been adopted with the purpose of full alignment and further simplification, acceleration and more efficient implementation of customs procedures and activities.

Within the adopted amendments, it is important to note the amendments in the following fields:

- customs value;
- import of goods, submission and verification of customs declaration;
- establishment of the chapters "Special Use" and "Tariff Measures Management";
- customs procedures with economic effect;
- free zones.

The most important change introduced by the abovementioned Regulation is the deletion of a provision which was prescribing that the equipment intended for the business in a free zone is not liable to paying customs duty, by which the customs legislation in this field has been aligned with the *acquis*.

Furthermore, Customs Act has been further amended in 2006. Namely, within the process of alignment, the Act on the amendments to the Customs Act (OG, No. 138/2006) has been adopted on 8 December 2006 and it is being applied as of 1 January 2007.



Majority of provisions which have been introduced within the mentioned amendments represent the continuation of the constant process of alignment of Customs Act of the Republic of Croatia with the Customs Code of the European Union, including:

- more precise definition of Customs tariff of the Republic of Croatia and deletion of the level of single customs rate from the Customs Act (the provision on the single customs rate has been shifted to the Regulation on customs tariff for 2007);
- provisions which have been prescribing the possibility of nullification and abolishment of customs declaration are amended so that only the possibility of its nullification is prescribed;
- provisions on transit procedure introduce the expression “external transit” and “internal transit”, provisions on Rhine Manifest and Form 302 (NATO) and other changes have been made in line with the provisions of EU Customs Code;
- provision on the submission of request for the customs repayment in the inward processing procedure in the repayment system, in the part which deals with the time limit for the submission of a request, is aligned with the corresponding EU provision;
- provisions on the relief from customs duty include alignment of the provisions on the transfer of personal property and business inventory as well as the realisation of exemption at import of the equipment for scientific and medical research and of aids for disabled persons;
- furthermore, in accordance with the EU legislation, new exemption is introduced for fuel and lubricants in motor vehicles and special containers, and adequate application is being pursued of all provisions on the exemptions on import and on export, if an export customs duty has been prescribed for the export of specific goods.

Following the abovementioned amendments to the Customs Act, a draft Regulation on the amendments on the Regulation on the implementation of the Customs Act was prepared in December 2006 and submitted to the Government of the Republic of Croatia on 15 December 2006.

Within the abovementioned draft amendments, the following is worth noting:

- alignment of the provisions on the electronic data exchange, in line with the general objective of further simplification and acceleration of customs procedures and activities and its more efficient implementation in practice - proposed amendments create preconditions for the implementation of all projects in the area of interoperability and interconnectivity and for development and implementation of information systems of the EU;
- deletion of provisions on the single customs rate, given that they are included in the Regulation on customs tariff for 2007;
- introduction of the sole possibility of the nullification of customs declaration in special cases (former provisions also prescribed the possibility of abolishment);
- introduction of provisions which regulate management of tariff quotas which are granted in chronological sequence of the dates of customs declarations (first come - first served) and the reporting system in the area of control of goods for which a privileged treatment is granted within the tariff quota, which implementation is conditioned by the organisation of the mentioned system of distribution in the special regulations;
- alignment of provisions on transit procedure which are significantly changed or amended, for the purpose of formal alignment with the corresponding provisions of the EU Regulation on the implementation of the Customs Code, taking into account that the transit procedure is regulated in the state which is outside the European customs integration, thus creating preconditions for IT transit procedures (NCTS), within the common transit procedure of the EU and EFTA states; the main objective of the changes of the transit provisions is more consistent alignment with the chapter “Transit Procedure” of the EU Regulation on the implementation of the Customs Code and therefore with the provisions of the Convention on the common transit procedure, which is also the obligation of the Republic of Croatia derived from the twinning project “NCTS”;
- change of certain forms and introduction of new forms, mostly in the chapter “Transit Procedure”, which are an integral part of the proposed regulation.

Furthermore, in accordance with the amendments of Article 187 of the Customs Act (OG, No. 138/06), a new Regulation on the conditions and procedures for granting the relief for customs payment has been submitted for adoption in December 2006.



Proposed Regulation represents further normative and procedural alignment of the Croatian regulation on the relief from customs payment with the EU Regulation. In comparison to the former Regulation, the following changes are proposed:

- in Article 5, for the relief of customs payment at import of tobacco products and alcoholic beverages, an age limit of the passengers is reduced from 18 to 17;
- pursuant to Article 11 of the Regulation and in comparison to the former regulation, a relief from customs payment for humanitarian organisations is expended to include equipment which is needed to these organisations for conducting its main activity;
- relief cannot be applied to alcohol and alcoholic beverages, tobacco and tobacco products, and in the area of equipments, motor vehicles, except ambulance vehicles, cannot be subject of the customs relief;
- new text in Article 12 unites the former Articles 12 and 13 of the Regulation and pursuant to this Article, the right to import aids for disabled persons with the relief from customs payment is expended to include the situation when these persons directly import necessary aids themselves;
- the most significant changes are related to the conditions for realising customs relief in the cases of moving of physical persons to the Republic of Croatia from other countries (in line with the Article 187, paragraph 1, item 11 and 12 of the Customs Act);
- Article 24 of the Regulation (in comparison to Article 23 of the former Regulation) regulates more comprehensively the conditions and procedures for the relief from customs payments at importation of materials which are used not only for cultural, but also for educational, scientific and medical purposes, which has so far been regulated by the Agreement on the importation of educational, scientific and cultural material with supplementary protocols;
- In the area of regulating the importation of charitable goods (Article 25), an important change is made stating that the customs relief cannot be applied to alcohol and alcoholic beverages, tobacco and tobacco products and motor vehicles, except ambulance vehicles.

During 2006, the alignment of the excises legislation with the EU *acquis* has begun. Comparisons of all EU directives in the field of excises and the Croatian legislation related to excises have been prepared, and therefore a first phase of analyses and comparison of national legislation in the area of excises with the EU *acquis* started and was successfully completed in 2006. Civil servants, members of the working group for the preparation of negotiations on Chapter 16: Taxation, participated at the explanatory screening (5-8 June) and bilateral screening (3-4 July) in Brussels.

During 2006, employees of the Customs Administration participated actively at the international meetings and seminars related to excises, the objective of which was emphasising the need for equal treatment of excise goods, monitoring of the collection of excises, movements of excise goods and cooperation of all EU member states and other neighbouring countries related to goods which are subject to payments of excises within the EU, in accordance with the Directive 92/12/EEC from 25 February 1992 on general solutions for products subject to excises and possession, transport and control of these products.



## 14.3 REVENUES

Revenues collected by the Customs Administration account for 37% of total current revenues of the budgetary central government, collected in the period January-December 2006, and they amounted to HRK 34,787,782,943.

It is important to note that more revenues have been collected in comparison to the previous year, recording an increase of 11% or HRK 3,564,975,962.

Within the structure of revenues collected by the Customs Administration, excises account for 24.91%, customs and customs charges 4.57%, VAT at import 70.40% and other revenues account for 0.12% (fines, customs charges in cash, handling charges, etc.).



## 14.4 INTERNATIONAL PROJECTS

### 14.4.1 Accession Negotiations on Chapter 29

Within the process of negotiations on the accession to the EU on Chapter 29: Customs Union, the Working group for the preparation of the negotiations on Chapter 29: Customs Union participated in the preparation and execution of explanatory and bilateral phase of screening process and in the preparation of negotiation position for this chapter. At the Intergovernmental Conference on the Accession of the Republic of Croatia to the European Union at the level of Chief negotiators, held on 21 December 2006, negotiations on Chapter 29: Customs Union were opened.

### 14.4.2 EU Technical Assistance Projects

The implementation of two twinning technical assistance projects in the Customs Administration continued during 2006:

- CARDS 2002 (NCTS) “Community Transit - Conform Customs Procedures and IT Interconnectivity System”, within which a legal basis for the implementation of Community transit procedure system was set up and the preparations for the alignment of customs IT transit system with the NCTS system (Community IT transit system) were made. The objective and the advantages of the NCTS system include the increase of administrative capacities and efficiency of transit procedures, and therefore fight against fraud. Besides this, by the establishment of NCTS teams and the national call centre for NCTS (helpdesk), necessary administrative capacities were built. Project was concluded on 31 December 2006.
- CARDS 2004 (ITMS) “Modernization of the Customs Administration in view of preparing for the Integrated Tariff Management System (ITMS)”, within which the activities of building administrative and operational capacities concerning the use of common customs tariffs of the European Union (TARIC) and certain issues which, among other things, are related to classification and sorting of goods, value of goods, binding opinions on customs tariff classification, EU customs procedures with economic effect, EU simplified customs procedures (except common transit) and quotas, were continued. In addition, project activities are also focused on legislative alignment, employees training and strengthening of administrative capacities of the Customs Administration with a view of ensuring successful management of new procedures in the area of common customs tariff. Project continued into 2007.

Project “Integration of Croatian Customs IT Systems into the EU Customs IT Systems”, which Customs Administration proposed to be financed by PHARE 2006, was approved by the European Commission. Total project value is EUR 6.45 million.

The Strategy for the Development of the Customs Administration IT System, the integral part of which is the Strategy on Interoperability and Interconnectivity with the EU, was approved and adopted in October 2006.



### 14.4.3 Community Programs

On the basis of signed Framework Agreement between the European Communities and the Republic of Croatia on the general principles of participation of the Republic of Croatia in the Community programs (OG IA, No. 6/2005), the Customs Administration initiated the integration in the program Customs 2007, which resulted in signing of the Memorandum of Understanding between European Communities and the Republic of Croatia for including Croatia in the program Customs 2007, on 28 August 2006 (OG IA 11/2006). Participation of the Customs Administration employees in the activities of this program began in October 2006 and it has been continuous since then. The program Customs 2007 is intended for the development of the activities and initiatives for customs administrations of the participating countries in four main fields: protection of Community interest, trade facilitation, infrastructure building and efficient common operation of all customs administrations, and especially in that sense assistance to Croatia as a candidate country, so that it can be ready in the forthcoming period to respond to the challenges of an open market and development of the customs protection system for the new external border of the EU.



## 14.5 INTERNATIONAL CUSTOMS COOPERATION

Activities of the Customs Administration in 2006 were focused on maintaining direct contacts and providing assistance which is carried out on the basis of signed conventions on mutual assistance in customs issues, and on the establishment of cooperation with other customs administrations. With that purpose, a Convention between the Government of the Republic of Croatia and the Government of the Republic of Bulgaria on mutual assistance in customs issues was signed in Zagreb on 27 April 2006, while in February 2006 a procedure for concluding the convention with France started.

In July 2007, 10<sup>th</sup> regional Steering Committee for the Project on facilitation of trade and transport in South-East Europe was held in Cavtat, which gathered heads of customs administrations of the SEE countries, representatives of international organisations and World Bank representatives. Although in the Republic of Croatia this project finished in March 2005, activities which began during its implementation continued due to the fact that it is a part of a regional program. During the implementation of the project, in the value of USD 22 million, four border crossings between Croatia and Bosnia and Herzegovina were built, Customs administration IT system was modernised and all locations were networked, while with a technical assistance provided by the US government, an institutional reform of customs procedures started.

Furthermore, Customs Administration employees actively participated at the expert meetings of the World Customs Organisation - WCO (Committee for Implementation, Kyoto Convention, Technical Committee for Customs Value, Customs Convention on Containers, Intellectual Property Protection, Annual Meetings) the work of which was followed also by the representatives of the Ministry of Finance in a permanent Mission of the Republic of Croatia to the European Communities in Brussels.

During 2006, Customs Administration employees participated at numerous international congresses, seminars and workshops:

- European border security;
- Transport and Security in the Pan-European context;
- Regional cooperation of customs administrations in data exchange for the fight against organised crime and smuggling;
- Framework standards of the WCO for facilitating and ensuring world trade;
- Working group on combating fraud and smuggling of the SECI centre;
- Exchange of experience in the application of excises regulations;
- Initiative for combating expansion of weapons for massive destruction;
- Goods for dual use - issue of licences;
- Processing and sanctioning offenders;
- Investigations and combating smuggling;
- Working group on combating smuggling and counterfeiting of cigarettes;
- Improvement of operational cooperation in the organisation of OLAF;
- Annual meeting of MARINFO;
- Control of nuclear and radiological material;
- Employees were appointed as members of different committees and negotiations teams;
- Participation in the projects and programs led by other ministries and in preparations and implementation of common operations in cooperation with the Ministry of the Interior ("Road Show III", "Black Pearl", "Containment V", "Conquest 2");
- Participation at study trips (Austria, Great Britain, France) where they were introduced to the way of work and equipment of other customs services.



## 14.6 RESULTS IN FIGHTING FRAUDS - SMUGGLING

During 2006, Customs Administration employees, in the context of international cooperation (SECI centre, OLAF, WCO, EUROPOL and customs administrations of European countries) participated in the implementation and coordination of a number of customs operations:

- “CATCH” - operation for prevention of trade of stolen vehicles on the territories of SEE carried out in cooperation with the Croatian Ministry of the Interior;
- “CONQUEST” - focused on combating and detection of heroin smuggling in container transport in sea ports;
- “CONTAINMENT V” - HARMONY - focused on combating illegal trade of drugs, particularly heroin, on the so-called Balkan route;
- “HURRICANE” - focused on fight against smuggling of goods for which there is a suspicion of violation of certain intellectual property rights.

Furthermore, during 2006 Customs Administration participated (in the context of interagency cooperation within the country, primarily with the mobile units of the Ministry of the Interior, Department for the Control of State Border) in the total of 60 joint operations on the whole customs territory of the Republic of Croatia which, besides specially targeted controls, had the objective to prevent the illegal actions related to all types of cross-border criminal activity.

During 2006, excellent cooperation was achieved with the US Embassy through the programs of export control and border security. Within the mentioned cooperation, a valuable and modern equipment for detection of radioactive material, IT equipment for Customs Centre for Training and roentgen device for checking goods in the airport, of the total value of around USD 250,000 was donated.

International exchange of knowledge, experience and experts related to the activities of customs administration was intensified.

A Risk Management System is being developed, which is important for the future work and development of customs administration related to projections of risk of goods in the international transport.

According to collected data, Customs Administration, Central Office, Division for Supervision, Department for Verifications, together with the departments at the customs houses, carried out a total of 12,282 controls, of which 3,314 controls are related to subsequent controls pursuant to Article 90 of the Customs Act, Article 164 of the Regulation on the implementation of the Customs Act and in accordance with Articles 97-112 of the General Tax Act for importation and domestic excises. In the observed period, 1,234 requests for the start of the misdemeanour proceedings were made.

In the observed period, a calculation of customs debt was made - customs, excises, VAT, together with the delay interest, in the amount of HRK 84,186,547.92.

Customs Administration systematically controls transport of goods, within which a special emphasis is put on excise goods, particularly on the transport and earmarked use of oil derivatives. Therefore, 8,901 controls of earmarked use of fuel oil and eurodiesel fuel were conducted during 2006. Irregularities were detected in 8% of the cases.

Special activities were directed towards the control of grey charter and import of vessels, and therefore 400 controls were done during 2006 and in 7% of the cases irregularities were detected.





During 2006, Customs Administration confiscated a total of 58,481,419 cigarettes intended for black market of the Republic of Croatia and Europe. The biggest confiscations of cigarettes include:

- 10,000,000 Monte Carlo cigarettes in the port of Rijeka;
- 9,300,000 cigarettes of different brands in the port of Rijeka;
- 8,350,000 Marlboro cigarettes in the port of Rijeka;
- 4,200,000 Marlboro cigarettes in the border crossing Mursko Središće;
- 1,700,000 Marlboro cigarettes in the border crossing Mursko Središće.

Customs officers confiscated more than 82 kilograms of different drugs, mostly heroin, during 2006. A large confiscation (1,600 kilograms) of chemicals (precursor) for drug production also took place.

The biggest confiscations of drugs include:

- 26,690 grams of heroin on border crossing Bajakovo;
- 12,576 grams of heroin on border crossing Pasjak;
- 10,530 grams of heroin on border crossing Bajakovo.



## 14.7 MEASURES FOR COMBATING CORRUPTION - EDUCATION OF CUSTOMS OFFICIALS

Within the project of the educational system of the Ministry of Finance, Customs Administration, a continuous education and trainings of customs officials started in the newly established Customs Centre for Training, which will in the forthcoming period encompass a range of customs and excises areas, including the EU *acquis*.

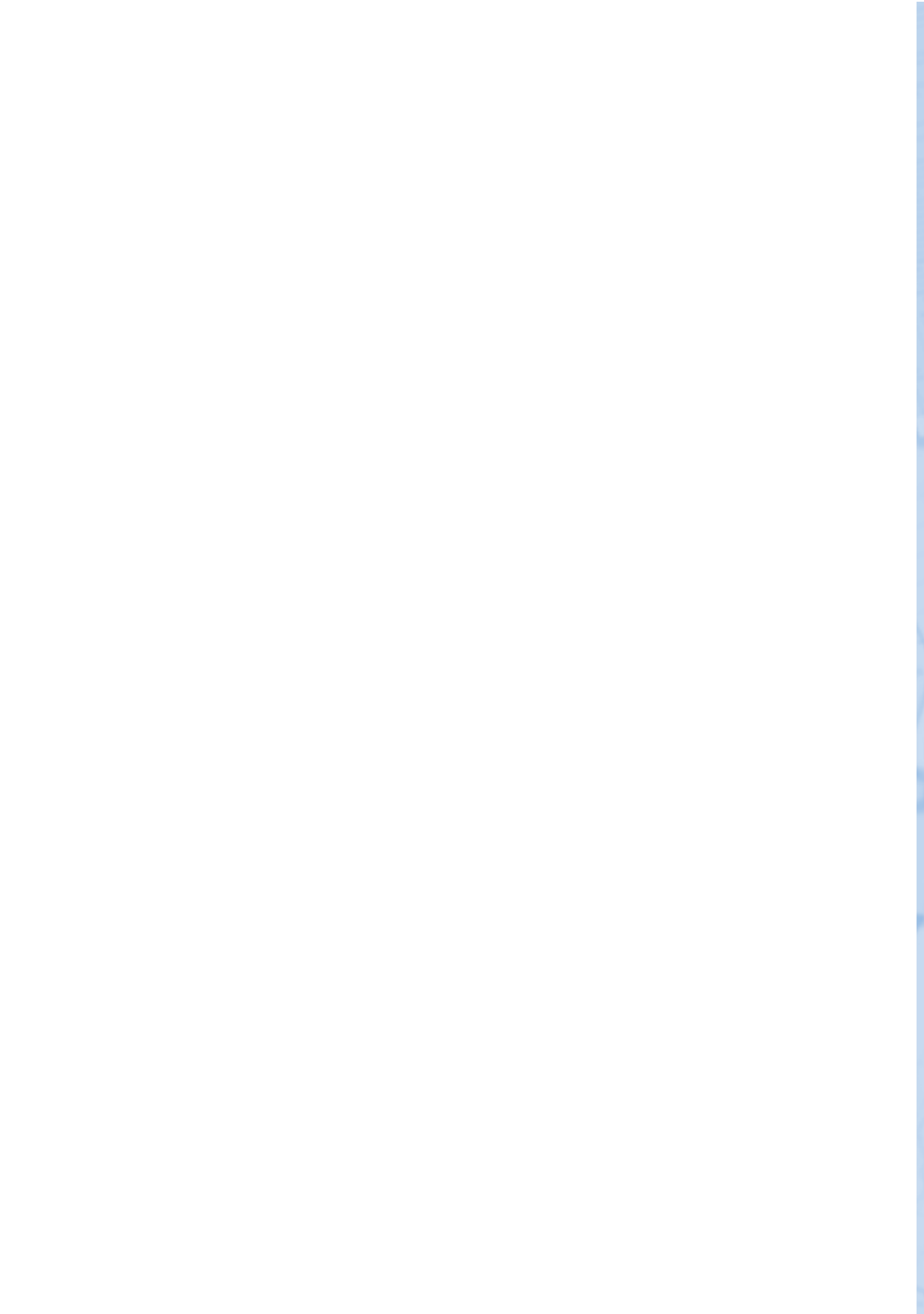
The objective of the training is thorough familiarisation of the participants with the measures for combating smuggling and fraud and combating corruption, as well as familiarisation with the customs system and customs procedures.

With a purpose of more efficient implementation of customs system and customs and excises procedures, in 2006 intensive educational activities for customs officials started in the newly established Customs Centre for Training. Education includes thorough training of new officials and specialized training in the following areas: Customs system and procedures, Excises and other taxes, Customs tariff, Customs value of goods, Origin of goods, Customs supervision, Subsequent controls, Combating smuggling and fraud, Integrated border management - interagency cooperation. Ninety new officials and trainees, who went through the training, gained basic knowledge needed for conducting the activities related to their working position and were prepared for taking the special part of the government exam in the area of customs system.

Specialised training in the Customs Centre for Training was attended by 1297 customs officials in 142 days through 88 different educational activities, i.e. seminars, workshops and expert meetings.

With a prior approval of the Government of the Republic of Croatia, Minister of Finance issued a Professional Ethics Code for the officials of the Ministry of Finance, Customs Administration, on 20 November 2006. This Code define the rules of conduct, i.e. ethical value of the employees of the customs administration, with which customs officials must comply, the most important being: honesty and impartiality of customs officials, i.e. customs officials cannot accept nor ask for money, ask or receive a gift, and abuse their position for achieving material or other benefit.

The Code was adopted with a purpose of more efficient conduction of activities within the scope of competences of the Ministry of Finance, Customs Administration, and for the purpose of fulfilment of strategic goals of the European Commission directed to the Customs Administration (reduction of corruption - as one of the measures in view of the implementation of anticorruption policy).



**15**

**REPORT ON WORK  
OF FOREIGN  
EXCHANGE  
INSPECTORATE  
IN 2006**





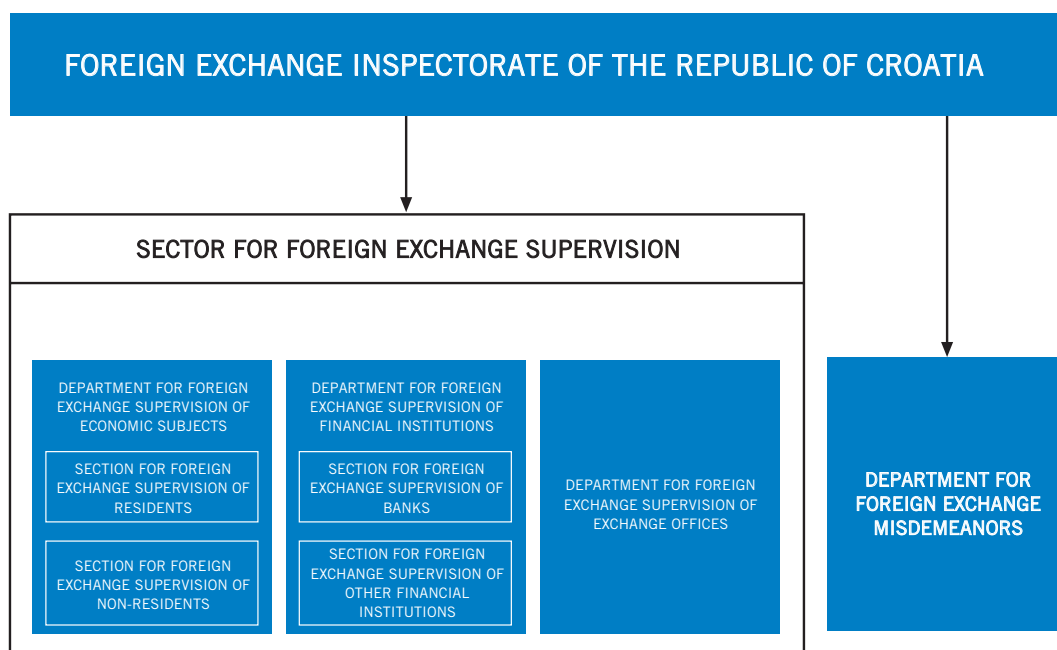
## 15.1 INTRODUCTION

Foreign Exchange Inspectorate is the administrative organisation within the Ministry of Finance, whose main responsibility is the supervision of capital regime application. In this sense, Foreign Exchange Inspectorate conducts inspectional supervision and misdemeanour proceeding of the first instance in the area of foreign exchange transactions, credit affairs and foreign trade, concerning residents as well as non-residents, if they perform their business or other activity in the territory of the Republic of Croatia. Inspectorate also researches, analyzes and observes actual issues and phenomena from the foreign exchange and legal system and gives proposals for its improvement, participates in preparing drafts of acts and implementing regulations from the foreign exchange regulation and performs other activities given by the minister of finance.

Under controls from its main competence, Foreign Exchange Inspectorate also monitors application of measures and activities stipulated by Money Laundering Prevention Act and monitors directly entities bound to adhere to the Act upon the request of Money Laundering Prevention Department, Ministry of the Interior and State Attorney's Office. As supervisory authority and participating in definition of Guidelines and indicators for the recognition of suspicious transactions in exchange and banking operation, Foreign Exchange Inspectorate became important link in the money laundering prevention system, what also confirmed international monitoring authorities in 2006 in the procedure of evaluation of the entire Croatian system.

Organization, scope of activities and way of work of the Foreign Exchange Inspectorate are stipulated by Act on the Foreign Exchange Inspectorate, Foreign Exchange Act and Regulation on Internal Organization of the Ministry of Finance.

**Table 15.1 Organization of the Foreign Exchange Inspectorate of the Republic of Croatia**





## 15.2 INSPECTIONAL SUPERVISION IN 2006

Foreign exchange supervision performed 21 inspectors in 2006, which were three inspectors less than in 2005. Therefore, concerning the high dissimilarity between the available capacities and increased needs for supervision, and initiated by requests from different prosecution authorities in the area of unofficial economy and other illegal activities, special attention is given to planning and implementation of controls which can achieve the highest results in legitimacy protection and financial effects on the budgetary revenues. The goal was to achieve higher discipline in the application of regime of foreign exchange restrictions at residents and to create background for more efficient tax and customs supervision in the foreign activities through detection of unfounded cross-border payments.

Pursuant to work plan, foreign exchange inspectors conducted 494 direct controls in 2006. In the structure of controls by the category of obliged entities, there were resident and non-resident companies and representative offices of the companies (163), banks and other financial institutions (6) and authorised exchange offices (325).

The supervision priority were economic subjects which, according to Croatian National Bank and Money Laundering Prevention Department data, achieved high non-goods' payments toward ownership-related and off-shore companies abroad (consulting services, management services, market research, licenses etc.) in 2005 and 2006. Supervision examined adequacy of such payments, that is, are the services really done and charged in line with transfer prices' principle or are these payments based on fictitious contracts and invoices, i.e. unfounded transfer of the capital abroad.

Banks and other financial institutions' controls referred to banking activities with non-residents on own behalf and for own account and the activities that banks made in the name or for the account of clients, that is, as transactors in the external payments operations.

For the purpose of more efficient supervision of deposit operation of non-residents (companies, representative offices, associations and other foreign organizations), register of foreign persons' non-resident accounts opened in domestic banks was established within the Foreign Exchange Inspectorate, containing data on the account's owner, name of the bank that keeps the account, identification number of non-resident, account number, balance and account transactions. Financial indicators on account transactions serve as indicators on the activity of the accounts' owners, that is, as background for deciding on controls that are necessary to carry out in banks by direct insight in documentation based on which each account was opened and orders based on which payments and transfers on the account were made. This way, higher promptness is achieved in responses to queries from competent authorities, regarding verifications whether certain foreign persons have open accounts and in which domestic banks.

Foreign Exchange Inspectorate is the main supervisor in authorised exchange offices' work based on foreign exchange regulations and regulations on money laundering prevention. There are 300-500 controls of exchange transactions annually, or, in other words, representative pattern of totally around 1,200 authorised exchange offices which operate in the entire Croatia. Foreign Exchange Inspectorate conducts up-to-date register on conducted, amended and annulled bank agreements with authorised exchange offices and licences for their work issued or seized by the Croatian National Bank.



## 15.3 THE MOST IMPORTANT RESULTS IN INSPECTIONAL SUPERVISION IMPLEMENTATION

The results of inspectional procedures and activities of the Foreign Exchange Inspectorate in 2006 are manifested the best in the following data on discovered and sanctioned illegalities in activities abroad, especially illegal payments made without adequate other-side obligation, that is, payments on the basis of contracts which don't indicate the real price:

- There were 178 requests submitted for initiation of misdemeanor proceeding, with 288 determined misdemeanors and two criminal charges;
- Rulings ordered correction of irregularities in activities with foreign means of payment in country and/or reimbursement of unfounded capital transfer in foreign countries in the equivalent of nearly HRK 87 million;
- Pursuant to Article 96 of the General Tax Act, 40 initiatives for control and accounting of tax payments have been addressed to the Tax Administration, related to denied payments abroad in the equivalent of nearly HRK 563 million. At the same time, according to Foreign Exchange Inspectorate previous years' records, Tax Administration identified in additional supervision nearly HRK 113 million of unpaid tax liabilities in 2006;
- One initiative for additional calculation of custom duties on the part of expenditures that weren't included in the base for customs and VAT calculation has been addressed to the Customs Administration, while, according to Foreign Exchange Inspectorate previous years' records, Customs Administration calculated in additional supervision nearly HRK 5 million of unpaid customs duties in 2006;
- 26 pieces of information has been addressed to the Money Laundering Prevention Department, Ministry of the Interior, State Attorney's Office and the Croatian National Bank, for activities from their competence.





## 15.4 THE RESULTS OF MISDEMEANOR PROCEEDING CONDUCTION

Foreign Exchange Inspectorate conducts misdemeanor proceeding of the first instance for the misdemeanors stipulated by Foreign Exchange Act, Trade Act and Act on the Foreign Exchange Inspectorate of the Republic of Croatia. Misdemeanor proceeding starts on the basis of requests of authorized persons from Foreign Exchange Inspectorate, Croatian National Bank, police, Customs Administration, Tax Administration and other statutory authorized authorities.

High Court of Minor Offences of the Republic of Croatia decides on appeals against decisions of the Council for misdemeanor proceeding of the Foreign Exchange Inspectorate in the second instance.

Foreign Exchange Inspectorate achieved in 2006 the following most important results in misdemeanor proceedings conduction:

- There were 373 cases finished in the misdemeanor proceedings, where HRK 20.3 million of fines was declared and HRK 6.6 million of fines and proceeding expenses charged in favor of budget;
- By decisions on misdemeanor due to illegal transfers of the cash across the state border, there were protection measures of taking away the misdemeanor object in the value of EUR 574 thousands declared, while at the basis of declared protection measures with final force and effect in favor of budget EUR 1 million was assigned.



## 15.5 LEGISLATIVE ACTIVITIES IN 2006

Foreign Exchange Inspectorate participated in preparing Act on Amendments to the Foreign Exchange Act (Official Gazette 132/06), which is the second intervention in the provisions of mentioned Act from 2003. The new Act is realization of legislative measure stipulated by National Programme for the Integration of the Republic of Croatia into the European Union for 2006, conditioned by obligations of removing remaining restrictions on capital transactions and cash payments which are still comprised in the foreign exchange legislation. Namely, after the screening and assessment of the degree of harmonization of the national legislation with the *acquis communautaire* for the Chapter Free movement of capital, Croatia committed in December 2005 to accelerate the capital account liberalization process. According to dynamic plan of liberalization delivered to the European Commission, Croatia committed to liberalize non-residents investments into domestic short-term securities by the end of 2006 and to remove other prohibitions and restrictions on capital transactions and cash payments and transfers until the end of 2008.

Towards realization of taken obligations, already achieved liberalization levels, implemented through subordinate regulations' modification, were accepted by new legislative solutions and deadlines were specified for terminating validity of remained restrictive provisions of the Act. That way, the biggest advance in liberalization of capital transactions with non-residents was made in transactions with securities and shares in investment funds. Restriction on non-residents' investments in Croatian National Bank bills and Ministry of Finance treasury bills was removed. Residents - natural persons are enabled to invest in foreign securities directly, without intermediation of authorized domestic companies and custodian bank. Transactions with securities and shares in investment funds are conducted since without foreign exchange regime restrictions, according to regulations that regulate securities market and investment funds operations.

Deposit operation of non-residents in domestic banks has been liberalized, by allowing free deposit and rising of cash from non-residents' accounts both in kuna and foreign currency. In line with this, restrictions on cross-border transfers of cash and cheques in kuna were removed, and since bring in and take out of foreign means of payment for non-residents was liberalized from before, restrictive regime for cross-border transfers of cash remained valid only for residents.

Except from the fact that in the focus of amendments to foreign exchange legislation in 2006 was liberalization of individual capital account segments, other important issues were regulated by these amendments as well. Among the other, it is important to point out new rules on the exchange operation, by which it became additionally aligned with the EU practice and criteria, first of all in the area of prevention measures for money laundering prevention (the application of fit and proper criteria for exchange offices' owners, procedure of issuing and withdrawal of working licenses, etc. were tightened). Finally, Croatian National Bank issued the whole package of regulations which regulate conditions and the way of performing external payments operations.

Foreign Exchange Inspectorate participated in prepare of final draft of an Act on Misdemeanors. Also, after the foreign exchange controls over zones' users showed that non-residents which operate in the zone don't conduct accounting for zone operations or pay profit tax, although, as domestic units of foreign entrepreneurs, they are obliged to do this by Accounting Act and the Free Zones Act, initiative for the Act on Amendments to the Free Zones Act was addressed to the competent ministry.

## 15.6 OTHER ACTIVITIES

By funds from the World Bank TAL, procurement of the managing business processes system was financed and informatization of the Sector for Foreign Exchange Supervision was carried out. The new system gives higher safety in collection of data, higher level of automatization in processes of classified information delivery and their analysis and connecting data from different sources - databases.

Foreign Exchange Inspectorate participated, together with representatives from other competent state authorities, in the workshops of the CARDS 2003 project „Preventing and combating money laundering” (twinning partner is the Republic of Austria), where was analyzed the money laundering prevention system in the Republic of Croatia and proposals were formulated for its improvement.

Within the Project, draft of Protocol on Co-operation and establishment of Interinstitutional Working Group for the prevention of money laundering and terrorism financing was prepared, with an aim of mutual assistance and recognition of weaknesses and risks in the process of combat against money laundering and terrorism financing as well as recognition of obstacles for achieving mentioned strategic and operative goals. Foreign Exchange Inspectorate appointed its representatives in the Interinstitutional Working Group.

Foreign Exchange Inspectorate's representatives participated also in the work of Interdepartmental Working Group of the Government of the Republic of Croatia for the suppression of terrorism, coordinated by Ministry of Foreign Affairs and European Integration, and together with other members of the Working Group presented the way of work and scope of activities of Foreign Exchange Inspectorate to the UN Delegation.

Foreign Exchange Inspectorate, as main supervisor of authorized exchange offices' work and supervisory authority of other obliged entities within the supervision activities from its competence, participated in the third evaluation cycle from Select Committee of the Council of Europe on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). During preparations for the evaluation procedure, Guidelines for Proceeding were made and delivered to exchange offices, whose objective is establishment of more efficacious money laundering prevention system in this sector. Guidelines elaborate measures, activities and procedures that exchange offices should take due to successful application and implementation of regulations which regulate money laundering prevention and terrorism financing.

Foreign Exchange Inspectorate participated in preparation of the action plan for the area of money laundering prevention in the Chapter 4 - Free movement of capital. Action plan was settled between several Croatian institutions and covers the entire legislation as well as institutional and operational issues related to the system of prevention of money laundering and terrorism financing. By this Action plan obligation of strengthening administrative and expert capacities was taken, as well as supervision by establishing specialized unit for money laundering issues, appointing liaison officials for direct operational cooperation with other institutions and establishing permanent education of the officers in the money laundering area.

Foreign Exchange Inspectorate employees participated in seminars on money laundering prevention and terrorism financing in the Czech Republic and Netherlands.

**16**

**REPORT ON THE  
ACTIVITIES OF  
FINANCIAL POLICE  
IN 2006**





## 16.1 INTRODUCTION

Financial Police is the administrative organisation within the Ministry of Finance. Its main task 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.

Its organisation, activities and scope of competences are prescribed by the Financial Police Act (Official Gazette, No. 177/04) and the Regulation on internal organisation of the Ministry of Finance. Financial Police is performing the tasks within its scope of competences in a Central office of the Financial Police in Zagreb and in five stations (Zagreb, Split, Osijek, Rijeka, Zadar).



## 16.2 THE SCOPE OF COMPETENCES OF THE FINANCIAL POLICE

Financial Police, according to the Financial Police Act, is performing financial control of validity, regularity and timeliness of calculation, entry and payments of budgetary revenues and fees prescribed by special acts. Within its prescribed scope of competences, it especially controls production and transport of: oil derivatives, tobacco products, beer, alcohol, coffee and nonalcoholic beverages. Furthermore, it performs a financial control of the fulfilment of the obligation of calculation and payments of contributions for compulsory insurances, concessions and other obligations taken over by the concession contract or leasing contract.

Besides Financial Police Act, authorised officials of the Financial Police act also according to the provisions of General Tax Act and specific acts which prescribe specific categories of budget revenues. With a purpose of detecting and processing criminal activities directed to the budget, the authorised officials act according to the provisions of Criminal Procedure Act and Misdemeanour Act.



## 16.3 FINANCIAL POLICE CONTROL IN 2006

During 2005, all necessary preparations were made for establishing the Financial Police as of 1 January 2006. The financial control activities in 2006 were performed by 77 authorised officials of the Financial Police (senior inspectors and inspectors). They were primarily related to the control of regularity and timeliness of calculation and payments of excises and other indirect and direct taxes, contributions, concessions and other budget revenues. In line with the plan for 2006, a total of 376 orders for financial control were issued, of which 323 were completed during the same period and 53 controls continued into 2007.

The new obligations determined at a completion of the control amounted to HRK 37,937,241.18, the breakdown of which is as follows: excises HRK 9,371,888.30, value-added tax HRK 15,794,799.79, corporate income tax HRK 5,972,768.46, personal income tax HRK 5,340,531.75, compulsory contributions HRK 940,990.10 and concession fees HRK 516,262.58. Apart from newly determined obligations, the authorised Financial Police officials also undertook specific measures with a purpose of collecting accrued budget revenues. In the same period, a total of 122 tax decisions on newly determined obligations were issued, of which 67 decisions were, after completion, assigned to customs and tax administration.

During the control, irregularities characterised as misdemeanours were determined in 182 cases. As the result of all conducted financial controls, a total of 110 files were made for misdemeanour, of which the largest number is related to infringement of provisions which regulate excises. Irregularities are mostly related to: avoidance of calculation or inaccurate calculation of excises, non-payment of taxes in the period defined by law, shortage or surplus of stock, non-possession of documentation on the goods origin, absence of prescribed registers or incomplete keeping of registers, avoidance of marking the products which must be marked with control stamps, transporting blue-coloured diesel fuel and fuel oil in illegal way.

During its financial control activities in 2006, the Financial Police was also applying a provision of Article 23 of the Financial Police Act, pursuant to which the authorised official can order a temporarily prohibition of further conduction of activities of a tax payer. Irregularities which led to temporary prohibition of further activities were related to avoidance of paying excises on beer and value-added tax. Furthermore, the Financial Police has also, within its scope of competences, been temporarily taking away goods which have been released on the market of the Republic of Croatia without the control stamps. Determined irregularities in the system of value-added tax, corporate income tax, personal income tax and compulsory contributions were mostly related to avoidance of calculation or inaccurate calculation of taxes and tax base for personal and corporate income taxes, as well as to non-payment of taxes and compulsory contributions in the period defined by law. Furthermore, during control activities, it has been determined that concession users are not paying concession fee in terms defined by concession contracts.

During 2006, Financial Police has received from other bodies 20 cases for processing. On the other hand, it has submitted 39 cases to other competent bodies.





## 16.4 COOPERATION WITH OTHER STATE ADMINISTRATION BODIES

Financial Police, in conducting its activities within its scope of competences defined by the Financial Police Act, cooperates with other control bodies of the state administration and provides professional assistance in determining facts and collecting or insuring evidences. In the context of the cooperation with other control bodies, the Financial Police activities in 2006 were focused on the cooperation with the control departments of the Ministry of Finance (Customs Administration, Tax Administration, Foreign Exchange Inspectorate and Money Laundering Prevention Department), State Inspector's Office, Ministry of Interior, State Attorney's Office, Office for the Suppression of Corruption and Organized Crime (USKOK) and other state administration bodies. Therefore, a significant cooperation with USKOK was established in 2006, which has requested a professional assistance of Financial Police in 15 cases with a purpose of determining facts and collection or insuring evidences. Especially good cooperation was established with the control bodies of the Ministry of Finance, notably with Tax Administration and Customs Administration, in terms of planning controls of tax payers, conducting joint controls and mutual exchange of data and other fact which are important for the collection of budget revenues.

In the context of cooperation, Financial Police conducted the following activities in 2006 as well:

1. participation of the representatives of Financial Police in the implementation of the National Strategy for Combating Corruption 2006-2008 in line with the program of the Government;
2. project CARDS 2004 - strengthening the structure of the internal financial controls in the public sector;
3. participation at the interinstitutional working group related to the Protocol on cooperation and establishment of the interinstitutional working group for the prevention of money laundering and terrorism financing.

**17**

**REPORT ON WORK  
OF MONEY  
LAUNDERING  
PREVENTION  
DEPARTMENT  
IN 2006**





## 17.1 THE PURPOSE OF THE MONEY LAUNDERING PREVENTION ACT

### 17.1.1 Preventive Character and Scope of the Act

Money Laundering Prevention Act (hereinafter: the Act) is of preventive character because it stipulates measures and actions in the banking, monetary and other operation that are undertaken due to prevention of using financial, especially banking and non-banking, sector and other non-financial sectors for the purpose of money laundering or terrorism financing.

The Act stipulates the tasks of the Money Laundering Prevention Department (hereinafter: the Department) and certain obliged entities that are bound to undertake measures and activities for the purpose of detection and prevention of money laundering: banks, FINA, exchange offices, attorneys, accountants, tax consultants, public notaries, stockbrokers, etc.

Key element of the system is the obligation of banks and other obliged entities defined by Act to inform the Department on cash and suspicious transactions, which include:

- cash transactions, if the transaction value is equal to or exceeds HRK 200,000.00, related cash transactions which totally reach the value of HRK 200,000.00 or more;
- transactions on life insurance activities, if the annual sum of the life insurance premiums exceeds HRK 40,000.00;
- all the other cash and non-cash transactions, if there is a suspicion on money laundering (the Suspicious Transactions Regime - STR), irrespective of transaction size;
- the Customs Administration of the Republic of Croatia informs Department on the legal or the attempt of illegal transfer of the cash or cheques in the domestic or foreign currency across the state border, in the value of HRK 40,000.00 or more.

### 17.1.2 Confidentiality of the Procedure and Collected Data

All data collected pursuant to this Act are of confidential and secret significance and can be used only for the prescribed purposes, that is, for analytic intelligence work of the Department in relation to the detection and prevention of money laundering (Article 15 of the Act). *The Department and the obliged entity don't inform the person on collected data concerning this person, neither on procedure pursuant to this Act. The Department gives data only on the request of the court* (Article 17 of the Act).

Data received through international cooperation can also be used only for detection and prevention of money laundering (analytic intelligence work of the Department). In order to use the data for police and judicial procedures, approval from the international department that delivered the data must be given, and vice versa, Croatian department has to give approval for the delivered data to the international departments, so that this data could be used for police and judicial procedures in the foreign countries.

Due to the fact that notifications on transactions which Department receives contain data on transactions which are banking secrecy, as well as personal data related to the suspicion on money laundering, which can also turn out to be unfounded, one of the main determinants in the Department's practice is data protection and procedure confidentiality.

### 17.1.3 Data Keeping

Pursuant to Articles 16 and 17 of the Act, data collected on the basis of this Act are kept by the obliged entity at least for 5 years, and 10 years by the Department. This data is stored in the Department's databases for analytical processing of suspicious transactions, making strategic analysis and typologies of money laundering and providing data to the courts based on their request in the cases of money laundering or terrorism financing.



#### 17.1.4 Supervision of the Obligated Entities in Act Implementation

Pursuant to Article 21a of the Act, for supervision on obliged entities bound to adhere to the Act competent are:

- Croatian National Bank - supervises banks and housing savings banks;
- Croatian Financial Services Supervisory Agency - supervises investment funds, stock exchanges and brokerage houses, insurance companies and pension funds;
- Supervisory services of the Ministry of Finance (Tax Administration, Customs Administration, Foreign Exchange Inspectorate) - supervise all the obliged entities from the scope of its competence;
- Money Laundering Prevention Department - conducts administrative supervision of obliged entities (off-site).



## 17.2 DEPARTMENT'S DUTIES AS FINANCIAL INTELLIGENCE UNIT

### 17.2.1 Department as Financial Intelligence Unit

Money Laundering Prevention Department is an independent internal organisation unit within the Ministry of Finance established based on Money Laundering Prevention Act and according to the UN Model Act and international standards. The duty of the Department as analytical service and financial intelligence unit is to collect and analyze data on cash, cash-related and suspicious transactions received from banks and other obliged entities for the purpose of detection and prevention of money laundering and terrorism financing. After the analytical processing of suspicious transactions and when the suspicion on money laundering confirms, the Department submits the cases ("Notifications on Suspicious Transactions") for further processing to the competent state authorities: primarily to State Attorney's Office of the Republic of Croatia and/or Ministry of the Interior, as well as to supervisory services of the Ministry of Finance and foreign departments.

The Department has legal authorisation to postpone temporary the execution of suspicious transaction for the maximum of 72 hours and is obliged to inform the competent State Attorney's Office of the Republic of Croatia immediately.

Directly and under the condition of reciprocity, Department exchanges data on suspicious transactions internationally, with the respective authorities and services of particular countries that deal with the money laundering prevention.

As central authority for prevention, the Department acts as intermediate between the financial and non-financial sector, on one side, and prosecution authorities, police and state attorney's office, on the other side. The Department, as central authority for prevention, is neither by Act, neither by international standards competent for police, financial or other investigations related to the crime of money laundering.

The Department cannot influence on the pace and number of ended investigations, issued indictments and passed sentences for the crime of money laundering. Other authorities in the money laundering prevention system are competent for these procedures. The number of sentences and withdrawal of illegally acquired profits are the most important elements for the assessment of efficiency of the entire system in the money laundering prevention.

### 17.2.2 Preventive, Analytical and Educational Role of the Department

**Preventive role of the Department:** legal obligation of the financial and non-financial sector (obliged entity) is to identify customer and inform Department on financial transactions stipulated by the Act and, this way, prevent infiltration of illegal money into the financial system of the Republic of Croatia.

**Analytical role of the Department:** The Department analyses certain suspicious transactions and determines eventual economic and financial illogicality of the transactions and possible connection with typologies of money laundering and/or criminal activity, and informs the State Attorney's Office and/or the Ministry of the Interior and international departments on the results, and together with them takes measures for the detection and prevention of money laundering.

**Educational role of the Department:** The Department permanently educates obliged entities (banks, etc.) in the Act application that is, in measures that they take with a purpose of money laundering prevention, conducts education of its employees and participates actively in the education of competent state authorities' employees.



### 17.2.3 Department Organisation

Department is made of:

#### 1. Department for Prevention

- Receiving notifications on transactions;
- Administration of the system and databases;
- Storage, safety and the analysis of the data;
- Elaboration of indicators and reports for analytics' needs;
- Information system of the Department.

#### 2. Department for Analytics

- Searching the Department's databases;
- Analysis of the cash and suspicious transactions;
- Analysis and proposals on further steps in the procedure;
- Requests to the obliged entities for further information;
- Requests to the international departments (FIU);
- Delivery of notifications on suspicious transactions to the competent authorities.

### 17.2.4 Interinstitutional Cooperation

The Department interactively cooperates in detection and prevention of money laundering cases with the State Attorney's Office, Office for the Suppression of Corruption and Organised Crime (USKOK), Ministry of the Interior, Security and Intelligence Agency and with supervisory services of the Ministry of Finance (Tax Administration, Customs Administration, Foreign Exchange Inspectorate), as well as with other supervisory authorities (Croatian National Bank and Croatian Financial Services Supervisory Agency) that supervise the implementation of the Act. These authorities also deliver to the Department data on unusual and suspicious transactions that they identify by performing activities from the scope of their competence.

Certain data on suspicious transactions Department delivers to the supervisory services of the Ministry of Finance (Tax Administration, Customs Administration and Foreign Exchange Inspectorate), in the cases when these authorities have to determine certain data necessary for money laundering detection from the scope of their competence, that is, if the Department determines illegalities from these authorities' competence.



## 17.3 KEY INDICATORS ON THE DEPARTMENT'S WORK

### 17.3.1 Statistical Indicators for 2006

Indicators that refer on the type and range of the Department's activities concern statistical indicators on the number of received notifications on transactions, from banks and other obliged entities, the number of open cases with a suspicion of money laundering, the number of cases (notifications on suspicious transactions) submitted by the Department to competent authorities for further processing. However, except from the statistical indicators, the best evidence on the Department work gives comparison of these indicators with equivalent indicators of the foreign departments and evaluation of the Department's work from relevant international authorities.

### 17.3.2 Notifications on Suspicious Transactions Submitted by the Obligated Entities

The key element of the system is the obligation of banks and other entities obliged by the Act to inform the Department on suspicious transactions. When reporting suspicious transactions to the Department, it is necessary that banks and other obliged entities also indicate reasons that refer to suspicion of money laundering. It is important to have in mind that cases often refer to complex financial transactions that are realized within a short period of time, while their analysis sometimes lasts for months. Namely, it is well-known that persons that deal with money laundering use the services of top-level banking experts, stock-brokers, accountants, consulting firms and attorneys.

Furthermore, one should have in mind that most cases of money laundering are connected with foreign countries, which complicates to the competent authorities the detection and proving of money laundering cases, as well as that most of these cases must be solved with assistance from foreign competent authorities, which is inherently long. It is important to emphasize that, in the reporting period, also the data on suspicious transactions of the Croatian Department helped foreign departments in the processes of money laundering and in blockage of illegal funds in their countries.





**Table 17.1 Notifications on suspicious transactions from obliged entities, including the notifications of other authorities, by sectors**

<b>RECEIVED SUSPICIOUS TRANSACTIONS BY SECTORS</b>		
<b>DENUNCIATORS</b>	<b>2005</b>	<b>2006</b>
<b>1. OBLIGED ENTITIES FROM THE ARTICLE 2 OF THE MONEY LAUNDERING PREVENTION ACT</b>	<b>2,748</b>	<b>2,741</b>
Banks and housing savings banks	2,622	2,602
Savings and Loan Cooperatives	34	30
Investment Funds and Investment Fund Management Undertakings	1	4
Financial Agency and Croatian Postal Service	9	4
Insurance Companies	4	9
Stockbrokers	2	11
Authorised Exchange Offices	5	17
Organisers of lottery games, casino games, betting and slot machines	12	18
Other obliged entities from Article 2, Paragraph 3: real estate transactions, leasing and other	59	46
<b>2. OBLIGED ENTITIES FROM THE ARTICLE 9a OF THE MONEY LAUNDERING PREVENTION ACT</b>	<b>6</b>	<b>2</b>
Attorneys	2	1
Public notaries	4	1
<b>3. STATE AUTHORITIES</b>	<b>117</b>	<b>100</b>
Ministry of the Interior of the Republic of Croatia / Interpol	55	58
State Attorney's Office of the Republic of Croatia	2	5
Office for the Suppression of Corruption and Organized Crime (USKOK)	3	2
Ministry of Finance, Tax Administration	3	10
Ministry of Finance, Customs Administration	29	4
Ministry of Finance, Foreign Exchange Inspectorate	15	7
Croatian National Bank	2	-
Security and Intelligence Agency	5	2
Croatian Financial Services Supervisory Agency		6
State Inspector's Office		1
County court		1
Open sources	3	4
<b>4. DEPARTMENTS OF OTHER COUNTRIES (FIU)</b>	<b>46</b>	<b>48</b>
<b>TOTALLY</b>	<b>2,917</b>	<b>2,891</b>

**Table 17.2 Notifications from Customs Administration of the Republic of Croatia**

<b>TYPES OF TRANSFER</b>	<b>2005</b>	<b>2006</b>
DECLARATIONS OF LEGAL TRANSFER OF CASH ACROSS THE STATE BORDER	987	<b>1,748</b>
DECLARATIONS OF THE ATTEMPT OF ILLEGAL TRANSFER OF CASH	29	<b>34</b>
<b>TOTAL</b>	1,016	<b>1,782</b>



**Table 17.3 Cases opened by Department due to suspicion of money laundering**

	2005	2006
NUMBER OF OPEN CASES WITH A SUSPICION OF MONEY LAUNDERING	282	<b>281</b>
TOTAL AMOUNT IN SUSPICIOUS TRANSACTIONS IN OPEN CASES (HRK)	1,543,721,861	<b>1,102,341,316</b>
NUMBER OF PARTICIPANTS IN SUSPICIOUS TRANSACTIONS	1219	<b>1366</b>
NUMBER OF CASES WITH A SUSPICION OF MONEY LAUNDERING SUBMITTED TO COMPETENT AUTHORITIES AND FOREIGN DEPARTMENTS FOR FURTHER PROCESSING	70	<b>87</b>
TOTAL AMOUNT IN CASES WITH A SUSPICION OF MONEY LAUNDERING SUBMITTED TO COMPETENT AUTHORITIES FOR FURTHER PROCESSING (HRK)	747,698,102	<b>961,552,928</b>
NUMBER OF ORDERS FOR POSTPONEMENT OF EXECUTION OF SUSPICIOUS TRANSACTIONS FOR 72 HOURS (ARTICLE 10, PARAGRAPH 2 OF THE ACT)	1	<b>5</b>
TOTAL AMOUNT OF FUNDS IN SUSPICIOUS TRANSACTIONS WHICH WERE POSTPONED BY THE DEPARTMENT'S ORDER (HRK)	4,260,068	<b>4,435,042</b>

**Table 17.4 Department's proceeding upon the authority for postponement of execution of suspicious transaction (Article 10 Paragraph 2 of the Act)**

	2005	2006
ORDERS	1	5
BANKS	1	5
PERSONS	1	8
ACCOUNTS	5	16
VALUE	HRK	HRK
(HRK)	4,260,068	4,435,042

Based on statutory authorization, in five cases in 2006 Department issued orders to banks for temporary postponement of execution of suspicious transactions, in total amount of HRK 4,435,042.00. Department informed the State Attorney's Office of the Republic of Croatia on issued orders and all blockages were further confirmed and extended by decisions of competent investigating court.

### 17.3.3 Cases Delivered to the Competent Authorities for Further Processing

**Table 17.5 Cases submitted to competent authorities for further processing**

COMPETENT AUTHORITIES	2005	2006
STATE ATTORNEY'S OFFICE OF THE REPUBLIC OF CROATIA	26	27
OFFICE FOR THE SUPPRESSION OF CORRUPTION AND ORGANIZED CRIME (USKOK)	2	3
MINISTRY OF THE INTERIOR	20	18
FOREIGN EXCHANGE INSPECTORATE	10	4
TAX ADMINISTRATION	11	25
CUSTOMS ADMINISTRATION		
CROATIAN NATIONAL BANK		1
FINANCIAL POLICE		
SECURITY AND INTELLIGENCE AGENCY		4
FOREIGN DEPARTMENTS	1	5
<b>TOTAL</b>	<b>70</b>	<b>87*</b>
<b>AMOUNT OF FUNDS (HRK)</b>	<b>747,698,102</b>	<b>961,552,928</b>

\*Beside 87 cases in 2006, Department also delivered to competent authorities 33 addendums to cases and 51 piece of information on transactions that imply on other illegal activities.



### 17.3.4 Comparison of Key Indicators on Croatian Department's Work with Foreign Departments

Starting from assessments in the Council of Europe (Moneyval) reports on evaluation in the Republic of Croatia and by comparison of key indicators on the work of our Department with equivalent indicators on the work of certain foreign departments (e.g. departments in Croatian surroundings and even wider), one can say that by effectiveness Croatian Department can measure with other foreign departments.

However, Department is only one link in the chain in the money laundering prevention, which can completely give its full contribution in further development of the strategy in the money laundering prevention in the Republic of Croatia only in interactive cooperation with other competent authorities and foreign departments.

### 17.3.5 Data on Criminal Procedures for 2006

Due to overview of the successfulness of complete system of detection and prevention of money laundering, where the Department makes only the first link, it is important to indicate that in 2006 police determined by conducted investigations the existence of reasonable suspicion that 27 crimes of "money laundering" have been committed (Hiding of illegally gained money from Article 279 of the Criminal Code), and the results of criminal procedure phases for mentioned crime are the following (data from State Attorney's Office of the Republic of Croatia from CARDS 2003 project „Preventing and combating money laundering”).

Table 17.6 Results of criminal procedure

	DIRECT INDICTMENTS	INVESTIGATION REQUESTS	INDICTMENTS AFTER INVESTIGATION	SENTENCES
2006	6	8	6	1

(number refers to offenders)

### 17.3.6 The Activities of Verifying Received Lists of Natural Persons and Entities Suspected of Terrorism

The Department is ahead of permanent coordination in the Ministry of Finance for the implementation of UN Resolution 1373 and is a member of Interdepartmental Working Group for prevention of terrorism within the Ministry of Foreign Affairs and European Integration.

Due to terrorist happenings in the United States on 11 September 2001, Department joined in international cooperation, by participating in international meetings regarding coordination of combat against financing of terrorist activities, while at home, the representatives of the Department act in Interministerial authority within the Ministry of Foreign Affairs and European Integration, as a coordinator of the activities of the Republic of Croatia in implementing UN Resolution in combat against terrorism financing.

According to its competence, with a goal of prevention of terrorism financing, the Department engages in following activities:

1. activities of verifying transactions recorded in databases of the Department and financial system of the Republic of Croatia;
2. activities of improving international cooperation.

The Department received in 2006 totally 13 lists with names of natural persons and entities suspected of terrorism, delivered by the Ministry of Foreign Affairs and European Integration. On the basis of these lists, the Department conducted controls in own databases and via the banking system of the Republic of Croatia for totally 168 natural persons and 61 entity.

In the period 2001-2006 the Department made scanning of own databases and verified the banking system of the Republic of Croatia for 1,778 natural persons and 941 legal person suspected of connection with terrorism and informed the competent state authorities on the results of natural and legal persons' controls.

Moreover, in the reporting period, after detecting person from the UN list suspected of connection with terrorism in the financial system of the Republic of Croatia, the Department temporary blocked the banking account on which mentioned person had authority.



### 17.3.7 Evaluation of the Department's Work from International Authorities

Work of the Department, as well as the entire money laundering prevention system in the Republic of Croatia is constantly and periodically evaluated by:

- the Council of Europe, Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval): in three occasions (in 1999, 2002 and 2006);
- International Monetary Fund;
- The Financial Action Task Force (FATF - OECD);
- World Bank;
- GRECO (the Group of States against Corruption).

The evaluators from international authorities in the evaluation of entire money laundering prevention system in the Republic of Croatia don't prejudice the efficiency of the Department's work, neither think of Department as the bottleneck of the system, but positively evaluate the efforts of the Croatian Department, for which they say that is absolutely operative and one of the more efficient departments in the region, as well as competent authority for prevention development in the entire region, and evaluate Croatian preventive system as modern and efficient (data on evaluations are available in the Moneyval reports from years 2000, 2003 and 2006).

International monitoring authorities also require more active role of other authorities in the system. They indicate that implementation of the provisions in combat against money laundering from the authorities responsible for prosecution for criminal offences remains problem in the Republic of Croatia, with low level of condemned judgments.

#### The Third Evaluation Round from 2006

Team of examiners from the Council of Europe Moneyval (Committee of Experts on the Evaluation of Anti-Money Laundering Measures) visited Croatia in September 2006, under the third evaluation round. The Department coordinated the preparation for the team arrival, also including final drafting of answers to the Moneyval questionnaire on the structure of measures against money laundering and terrorism financing in the Republic of Croatia. Team made detail assessment of compatibility of the Croatian system with relevant international standards, primarily with 40 recommendations and 9 special recommendations from FATF. Review and adoption of the Report from the third evaluation round is planned for 25<sup>th</sup> plenary session of the Moneyval in December 2007. After the visit, team of examiners made draft report on so called *Key findings*. As in the previous reports from 2002 and 2003, the Report from 2006 continues the trend of positive evaluations on the Department's work.

From draft Report under the third evaluation round in 2006:

"There is considerable fluctuation of employees in the Department at the moment. Nevertheless, the Department continuously delivers notifications to the prosecution authorities. The Department has possibility to exchange data with all types of departments. The Department is totally operative."

Anti-money Laundering Department (AMLDD) is administrative financial intelligence unit established in 1998. It does not have investigation authorities and its main task is collection of data on transactions due to submitting notifications to the competent authorities (State Attorney's Office and prosecution authorities). The Department significantly strengthened its IT system since the last evaluation.

Department is concerned of oversize number of notifications on suspicious transactions that are based on objective indicators that Department issued to the financial sector and supervisory authorities. The Department now instructs reporting authorities to focus more on subjective indicators for the recognition of suspicious transactions and in this sense; it revised the instructions for the reporting authorities. The examiners support efforts to increase the quality of reporting on suspicious transactions received from reporting authorities. It is observed that the number of reports coming from non-banking sector is rather low; there should be more effort in order to increase the awareness on the risk of connection between money laundering and this sector.

Department is the active member of the Egmont group and it seems that, in general, it provides other financial intelligence units with timely and useful assistance. Besides, it has



the ability to exchange data with all types of financial intelligence units. The Department seems entirely operative. However, the examiners stated that Department doesn't have its own budget. Although it seems that at the moment this doesn't represent a problem, the examiners think that separate budget could strengthen its independence. But, direct attention refers to absence of feedback to the reporting authorities, although the examiners realized that plans for implementing feedback unit inside the Department are considered; the examiners think that this should be done immediately.

### **17.3.8 The Money Laundering Prevention within the Process of the Accession of the Republic of Croatia to the European Union: Department's Activities**

Money laundering prevention in the Republic of Croatia, within the process of the Accession of the Republic of Croatia to the European Union, has been examined in Chapter 4 - Free Movement of Capital.

The Department employees continued in 2006 participating in the activities of preparation of EU accession negotiations for the Chapter 4 - Free Movement of Capital, as competent authority for the money laundering prevention area. As the result of screening and work meetings with European Commission's experts, for the area of money laundering criteria has been defined which the Republic of Croatia has to fulfill for opening this chapter:

"Croatia has to bring action plan that comprises activities and deadlines, with given special measures for the purpose of alignment of Croatian legislation in the area of money laundering prevention with *acquis communautaire* and strengthening the implementation, beside other things, by increasing conscious of reporting authorities and strengthening supervision on reporting authorities, police, State Attorney's Office, judiciary and efficient cooperation between authorities in the implementation chain."

After receiving criteria, Department started with a draft of working version of common Action plan at the end of 2006, whose adoption is planned for 2007 and which will contain measures of alignment and improvement in legislative, institutional and implementation frameworks related to Department and all the other institutions in the Republic of Croatia that participate in common system of prevention of money laundering and terrorism financing. Action plan is made with consultations with European Commission, in the course of which final content of the Action plan will be defined, where guidelines and recommendations for fulfilling necessary international standards are followed.

### **17.3.9 CARDS 2003 Preventing and combating money laundering: Department's Activities**

Contract on twinning project between the Republic of Croatia as project user and Austrian government, as provider of professional assistance entered into force in June 2006, for the purpose of improvement of Croatian money laundering prevention system. The end of the project is planned for December 2007.

The project contains four main components:

Component 1 - system capacities

Component 2 - legislative framework review

Component 3 - international cooperation

Component 4 - IT system of money laundering prevention.

Each component contains a number of different activities and criteria that have to be achieved in order to reach planned and agreed purpose of the criteria, which is elaborated in details in Twinning Work plan as integral part of the Contract.

Department employees, together with representatives from other competent state authorities, as well as representatives of obliged entities by the Money Laundering Prevention Act (banking and non-banking sector), participated in tens of educative workshops, as well as on those which analysed the money laundering prevention system in the Republic of Croatia and gave proposals for system improvement. Also, in the part of international cooperation, Department employees participated in study visits to Belgian department, OLAF and EUROPOL. Furthermore, within



the project the draft of new Protocol on cooperation and establishment of intrainstitutional working group for prevention of money laundering and terrorism financing was made, whose entry into force is planned for the year 2007. Protocol anticipates establishment of entirely new working group, with representatives from all the relevant state authorities that will represent the basis for strategic planning and coordination of activities related to prevention and combating money laundering and terrorism financing (the Department, Tax Administration, Customs Administration, Foreign Exchange Inspectorate, Financial Police, Ministry of the Interior, State Attorney's Office, Ministry of Justice, Croatian Financial Services Supervisory Agency, Croatian National Bank, Security and Intelligence Agency). Goals and tasks of intrainstitutional working group are cooperation and mutual assistance of institutions involved in achieving strategic and operative goals in combat against money laundering and terrorism financing, recognition of weaknesses and risks in the process of combat against money laundering and financing of terrorism and recognition of obstacles that complicate achieving the mentioned strategic and operative goals.

### **17.3.10 Other Activities of the Department in 2006**

In the reporting period authorised employees of the Department had active role outside the Department, in two occasions as lecturers on seminars for obliged entities and competent state authorities and in many occasions as organizers of work meetings with representatives from obliged entities and competent state authorities' employees.

In cooperation with TAIEX, Department organised thematic seminars for Department's employees and separate groups of obliged entities, associated with:

1. e-banking and money laundering;
2. money laundering prevention - insurance companies and casinos;
3. money laundering prevention - off-shore zones and securities;
4. participation of Department's representatives in drafting of National Strategy for Combating Organized Crime;
5. participation of Department's representatives in the work of Intersectoral working group for combating terrorism;
6. participation in police officers' education on economic crime;
7. participation in public notaries' education in cooperation with Public Notary Chamber: the role of public notaries in prevention of money laundering and terrorism financing;
8. participation in forum on real estate operation: the role of intermediates in the real estate business in prevention of money laundering and terrorism financing.



## 17.4 INTERNATIONAL COOPERATION OF THE DEPARTMENT

International cooperation of the Department is regulated by Article 14 of the Act, which stipulates that Department can deliver data received based on Act to certain authorities and organizations of each countries, as well as to international organisations that deal with money laundering prevention, spontaneously and by their request, under the condition of reciprocity, irrespective of department type.

### 17.4.1 International Authorities and Organizations

Due to more efficient international cooperation in combat against money laundering, Croatian department became full member of the Egmont group in June 1998:

Egmont group is a global organisation of national departments for money laundering prevention which comprises 105 national financial intelligence units (FIU) that deal with detection and prevention of money laundering. Beside other things, the status of full member in the Egmont group enables Croatian Department the following:

- faster and simpler exchange of data between respective bodies and organisations of particular countries;
- participation in decision-making on the Egmont group policy;
- possibility of work within the Egmont group working groups (legal, technical and sponsor working group);
- access to the computer system Egmont Secure Web, installed by experts from the American Department (FinCEN) in January 1999.

Department representative was chosen, in the former period, for the president of the Egmont group Sponsor working group and for the member of Presidency.

### 17.4.2 Committee of the Council of Europe MONEYVAL (Committee of Experts on the Evaluation of Anti-Money Laundering Measures)

The Republic of Croatia is a permanent member of a Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering Measures (Moneyval, formerly PC-R-EV). Within the Committee work, members of delegation of the Republic of Croatia with Moneyval participate in on-site evaluations of member states and quarterly meetings, when they evaluate the measures for money laundering prevention in European countries that aren't the members of FATF. Moneyval's work is recognised and equal to the work of FATF, IMF and World Bank in evaluation of measures for prevention of money laundering and terrorism financing. Department's representative is a member of permanent delegation of the Republic of Croatia with the mentioned Committee, together with representatives from Ministry of the Interior and State Attorney's Office of the Republic of Croatia.

### 17.4.3 Regional Cooperation

Regional cooperation is a necessity and need, due to geographical closeness and intense economic activity associated with money and capital flows. However, it is also the fact that economic flows are inevitably associated with criminal flows. Department fully cooperates and exchanges data with similar departments in Slovenia, Albania, Bosnia and Herzegovina, Montenegro, Macedonia and Serbia, and there are no problems or delays in this cooperation. Work meetings are held, and, where necessary, meetings concerning specific cases. It is agreed that regular regional meetings would be held where a specific cases and open issues would be discussed. It is important to mention that Department was a sponsor of the accession of departments from Albania, Macedonia and Bosnia and Herzegovina to the Egmont group.



## 17.4.4 International Exchange of Data

In 2006 Department sent 289 requests for data necessary for money laundering detection in 42 states to the similar foreign departments, according to Article 14 of the Act. In the same period, Department received 105 requests from foreign departments of 25 states.

Table 17.7 Overview of international data exchange with international departments in 2006

REQUESTS	REQUESTS FOR DATA PROVIDING	COUNTRIES
SENT	289	42
RECEIVED	105	25

## 17.4.5 Memorandums of Understanding

Table 17.8 Overview of Signed Memorandums of Understanding

YEAR	COUNTRY
2006	GEORGIA
	UKRAINE

Negotiation and signing of bilateral Memorandums of Understanding between the Croatian Department and departments of other countries (FIU) aims at easing the exchange of all kinds of data related to money laundering and enabling immediate acting on each request. Individual countries, depending on their legislation, demand signing Memorandum of Understanding (MoU) as precondition for exchange of notifications, which is not the case with the Republic of Croatia. However, because of improvement of mutual cooperation and formalization of the relationship, the Department also acceded to their signing.

## 17.4.6 International Conferences, Seminars and Meetings in 2006

The Department's representatives were present and participated actively in specialized international meetings, conferences and seminars in organisation of Council of Europe, Egmont group and other international organisations or countries.

The Department prepares report for the minister of finance on all international activities and submits a copy of the report to the Ministry of Foreign Affairs and European Integration.

Table 17.9 Overview of international activities in 2006

MONTH	ACTIVITY	PLACE
January	18th plenary session of MONEYVAL	Strasbourg (France)
March	Money laundering seminar	Maastricht (Netherlands)
April	Regional work meeting of FIU	Belgrade (Serbia)
June	Plenary session of the EGMONT group	Limassol (Cyprus)
July	19th plenary session of MONEYVAL	Strasbourg (France)
September	20th plenary session of MONEYVAL	Strasbourg (France)
October	Meeting with EC, preparation of negotiations	Brussels (Belgium)
October	CARDS study visit, OLAF, EUROPOL, Belgian FIU	Brussels (Belgium) Den Haag (Netherlands)
November	21st plenary session of MONEYVAL	Strasbourg (France)





## 17.5 ESTIMATIONS OF CURRENT AND FUTURE RISKS DUE TO MONEY LAUNDERING

### 17.5.1 Operations with Off-shore and Non-cooperative Jurisdictions

The issue of the off-shore operation is at the moment the problem of the first class meaning for international community. In that sense act almost all international institutions dealing with money laundering prevention and financial institutions' supervision: World Bank, International Monetary Fund, European Commission, FATF Group, Council of Europe, Egmont Group and others. On the basis of common efforts, list (so called black list) of countries that don't cooperate internationally in data exchange was made.

Since the off-shore issue is also present in the Republic of Croatia or related to hiding illegal profits or tax evasions, we consider that this problem should be approached interdisciplinary and by interactive cooperation between more competent institutions. The Department monitors and analyses all off-shore transactions (operation with off-shore is one of the main indicators for recognition of suspicious transactions) and delivers notifications on suspicious transactions to the Foreign Exchange Inspectorate and/or State Attorney's Office of the Republic of Croatia for further processing.

### 17.5.2 New Paying Techniques

Challenges imposed by new paying techniques (Internet) - namely, along with fast expansion of Internet techniques and technologies, internet banking, internet securities trade and other e-banking services develop as well.

Computer money, so called cybermoney, is the term already common in the world, but without adequate answer on its monitoring large space for hiding illegal profits opens.

### 17.5.3 International Investment Activities

By inclusion in international financial flows, the Republic of Croatia is exposed, beside investments from regular, legal operations, also to the investments that have source in off-shore zones, from funds that are very hard to identify, and because of valid regulations in their jurisdictions and for which the source or real owner of the company or assets is unknown. This also refers to investments by which non-resident acquires ownership on real estates.

Therefore, international standards should be applied and legal obligation of identifying all participants in the investment chain should be introduced: from final consumer, shareholders, foreign banks and funds, and clear transparency in operating with them. Otherwise, the Republic of Croatia will be exposed to the sale of own resources also to this type of buyers and funds, that are, unfortunately, respectable only by their size, but also by unknown money origin, which is classic modus of money laundering and which can violate the credibility of the entire country.



## 17.6 DESCRIPTION OF THE CASE SUBMITTED BY DEPARTMENT TO COMPETENT STATE AUTHORITIES FOR FURTHER PROCESSING

### 17.6.1 Case initialization: Suspicious Transactions related to Loro/Nostro Transfers via Non-residential Accounts of the Off-shore Company “LTD”

The case is initiated based on notification on suspicious transactions delivered by Croatian bank X for loro and nostro transfers made through open non-resident bank accounts of the off-shore company “LTD” in two banks in the Republic of Croatia.

#### **The Department Proceeding: Analytic-Intelligence Processing of Suspicious Transactions**

Off-shore company “LTD” was receiving foreign exchange transfers from foreign countries on own non-resident account in total amount of nearly USD 2.0 million (from the United States, Sweden, Switzerland, Denmark, Norway, Germany, Cyprus, Ireland, Luxembourg, Great Britain, Netherlands, Northern Ireland, France, Israel and the United Arab Emirates), from numerous natural and legal persons. Many transfers have been made by order from natural person AB, American citizen.

Afterwards, company “LTD” transferred these same funds to different natural and legal persons in different countries (in the United States, Canada, Spain, Great Britain, Switzerland, Monaco, South African Republic, Dominican Republic and the Bahamas).

By cooperation with foreign departments (of Austria, United States and Switzerland) it is identified that natural person AB is suspected of money laundering and big burglary in the United States, and order on arrest has been issued. In Great Britain there is an investigation against natural person AB because of investment frauds, while German and Swiss authorities investigate the same person because of suspicion in money laundering.

Reasons for suspicion in money laundering:

- “transitory” accounts are used for money laundering, which serve only for transfer of funds from one country to another, to give the impression that transactions are legal;
- off-shore company “LTD” receives transfers on non-resident accounts in banks in the Republic of Croatia most often from natural and legal persons from the United States, and transfers the funds received this way most often to natural and legal persons in the United States and Canada (illogical and economically unreasonable transactions because the same can be done by transfer within the United States or direct transfer in Canada);
- according to data from foreign departments, natural person AB (which transferred greater funds on non-resident account of the off-shore company “LTD”) is suspected of money laundering and financial frauds and all-points bulletin has been announced for this person;
- companies that open non-resident (“transitory”) accounts or transfer and receive funds on these accounts are usually established (registered) in off-shore zones and don't have business relations with economic companies of the country in which the account was opened;
- it is normal that loro transfers (transfers from abroad) arrive on account in crunched transfers of one natural and legal persons, while by nostro transfers (transfers in foreign countries) aggregated funds are transferred to other natural and legal persons;
- usually are several natural and legal persons and banks in different countries involved in money laundering and frauds, and natural persons' names used in money laundering and frauds are often made up or these are the names of people who are ready to give their accounts for usage in favour of small provisions.

The result of the Department's activity:

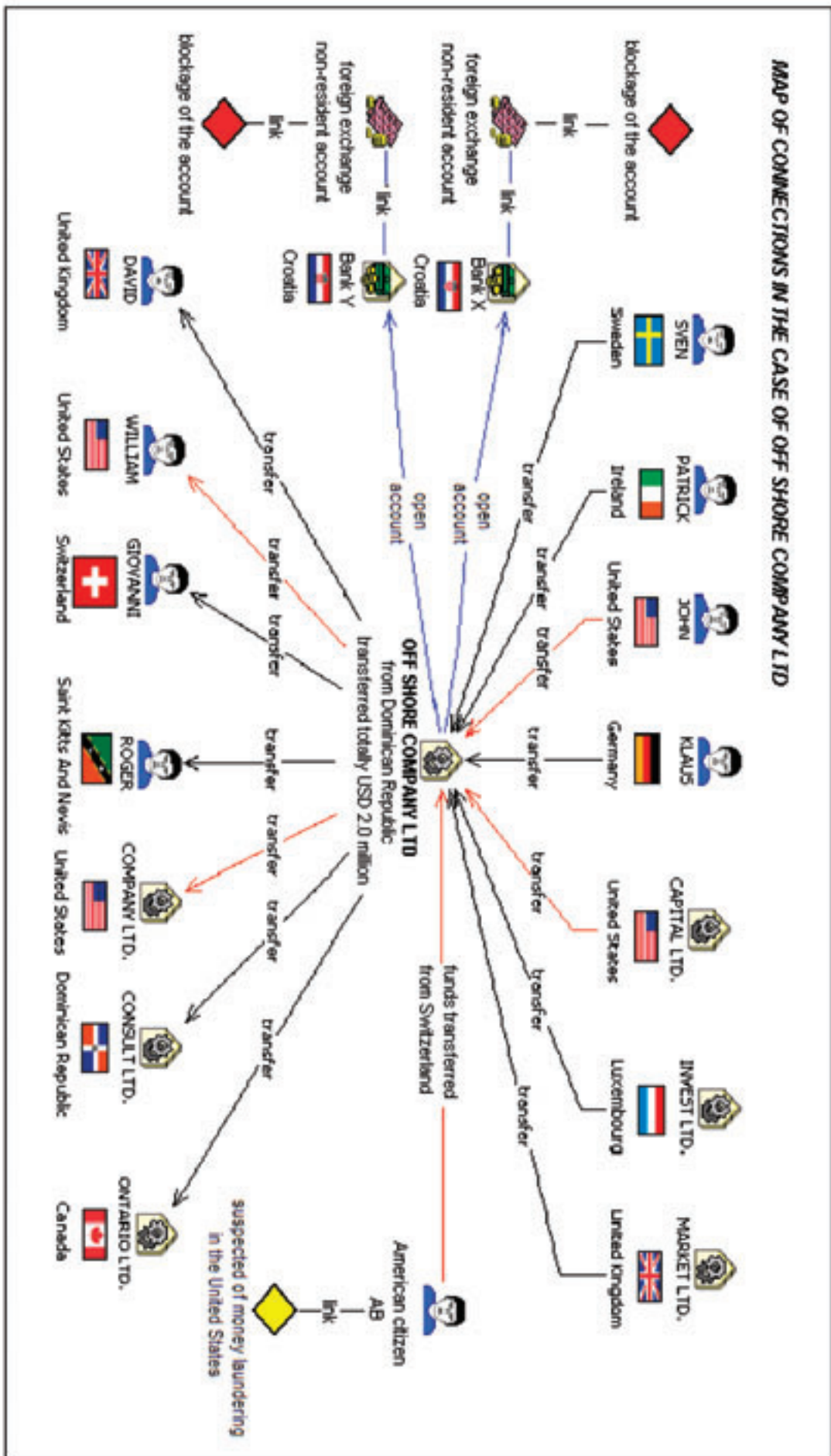
In the most appropriate moment (when balance in the account reached the maximum), Department ordered to banks X and Y temporary postponement of execution of suspicious transactions for 72 hours, on non-resident accounts of the off-shore company “LTD”, in the amount of approximately USD 360,000.

Afterwards the Department informed the State Attorney's Office of the Republic of Croatia on temporary blockade of the suspicious transactions and delivered the case on further competent proceedings (Article 10 and 12 of the Act), because, based on Department evaluation, these suspicious transactions implied to money laundering and financial frauds.

Investigating judge of the Zagreb county court issued a decision, ordering to banks X and Y suspension and postponement of execution of financial transactions on non-resident accounts of the off-shore company “LTD”, in total amount of approximately USD 360,000.



### MAP OF CONNECTIONS IN THE CASE OF OFF SHORE COMPANY LTD



**18**

**INTERNAL  
ORGANIZATION  
OF THE MINISTRY  
OF FINANCE**





## **18.1 THE DECREE ON THE INTERNAL ORGANIZATION OF THE MINISTRY OF FINANCE - OFFICIAL GAZETTE 43/05, 114/05, 14/06 AND 138/06**

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. 43/05, 114/05, 14/06 and 138/06).

According to the Decree, the following administrative organizations and other internal organizational units had been set up in the Ministry of Finance:

- Cabinet of the Ministry of Finance
- Independent Public Relations and Communications Division
- Independent Department of Internal Auditing
- Independent Financial Management, Internal Monitoring and Control Division
- Secretariat General of the Ministry
- Bureau for Macroeconomic Analyses and Planning
- State Treasury
- Department of Economy
- Financial System Department
- Department for European Integration and International Financial Institutions
- Department for EU Assistance Programs and Projects Financing - Central Finance and Contracting Unit
- Department for the Harmonisation of Internal Audit and Financial Control
- Independent Service for Second-Instance Administrative Procedure
- Independent Information System Service
- Independent Service for the Construction and Maintenance of Border Crossing
- Independent Department for Attestation of SAPARD Implementation

The administrative organizations of the Ministry and the organizational units established by a special act are following:

- Tax Administration
- Customs Administration
- Finance police
- Foreign Exchange Inspectorate
- Money Laundry Prevention Department.



## 18.2 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 Harmonization 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; 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** - Central Finance and Contracting Unit 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 Harmonization 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.

**Independent Department for Attestation of SAPARD Implementation** coordinates implementation of the Special Accession Program for Agriculture and Rural Development in the Republic of Croatia with goals, assignments and procedures determinate in Multi Annual Financing Agreement (MAFA).

**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.

**19**

**APPENDIX**





## Appendix 1: Basic Macroeconomic indicators of Croatian economy

	2000	2001	2002	2003	2004	2005	2006
GDP, current prices (mill. HRK)	152,519	165,639	181,231	198,422	214,983	231,349	250,590
Growth rate of GDP (%)	2.9	4.4	5.6	5.3	4.3	4.3	4.8
GDP, current prices (mill. EUR)	19,976	22,170	24,467	26,230	28,677	31,260	34,220
GDP, per capita (EUR)	4,560	4,998	5,507	5,906	6,462	7,038	7,704
Consumer prices, average (%)	4.6	3.8	1.7	1.8	2.1	3.3	3.2
Producers prices, average (%)	9.7	3.6	-0.4	1.9	3.5	3.0	2.9
Unemployed persons, average	357,872	380,195	389,740	329,799	309,875	308,739	291,616
Unemployment rate, average	21.1	22.0	22.3	19.1	18.0	17.9	16.6
Unemployment rate - ILO, average (%)	16.1	15.8	14.8	14.3	13.8	12.7	11.2
Average monthly gross wage, growth rate (%)	7.0	3.9	6.0	4.8	6.4	4.4	6.2
Average monthly gross wage, HRK	4,869	5,061	5,366	5,623	5,985	6,248	6,634
Average monthly net wage, growth rate (%)	8.9	6.5	5.0	5.9	5.9	4.9	5.2
Average monthly net wage, HRK	3,326	3,541	3,720	3,940	4,173	4,376	4,603
Total volume of industrial production, growth rate (%)	1.7	6.0	5.4	4.1	3.7	5.1	4.5
Retail sales turnover, real growth rate (%)	14.4	10.0	12.5	3.7	2.6	2.8	2.1
Total tourist bed-nights, growth rate (%)	47.0	11.0	3.0	4.0	2.0	7.6	3.1
Total volume of construction projects, growth rate (%)	-9.1	3.6	12.8	22.8	2.0	-0.8	9.3
Exchange rate HRK/USD, average	8.29	8.34	7.87	6.70	6.03	5.95	5.84
Exchange rate HRK/USD, end of period	8.16	8.36	7.15	6.12	5.64	6.23	5.58
Exchange rate HRK/EUR, average	7.63	7.47	7.41	7.56	7.50	7.40	7.32
Exchange rate HRK/EUR, end of period	7.60	7.37	7.44	7.65	7.67	7.38	7.35
Trade balance (mill. USD)	-3,455	-4,481	-5,818	-8,022	-8,565	-9,788	-11,126
Exports (mill. USD)	4,432	4,666	4,904	6,187	8,024	8,773	10,377
Imports (mill. USD)	7,887	9,147	10,722	14,209	16,589	18,560	21,502
Current account balance (mill. EUR)	-477	-806	-2,091	-1,874	-1,457	-1,992	-2,671
Current account balance (% GDP)	-2.4	-3.6	-8.5	-7.1	-5.1	-6.4	-7.8
Total outstanding external debt, end of period (mill. USD)	11,426	12,003	15,772	24,851	31,209	30,465	38,446
Total outstanding external debt, end of period (mill. EUR)	12,264	13,609	15,143	19,884	22,933	25,748	29,199
International reserves of CNB, end of period (mill. EUR)	3,783	5,334	5,651	6,554	6,436	7,438	8,725
Interest rates on treasury bills of 91 days maturity, end of period	7.50%	4.00%	2.00%	4.00%	3.80%	3.70%	3.00%
ZIBOR (3 m), average	11.10%	7.90%	4.60%	5.50%	7.35%	6.19%	4.46%

Source: CBS, CNB, Ministry of Finance



## Appendix 2: Budgetary central government revenue 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>69,651,075.3</b>	<b>74,677,473.7</b>	<b>80,463,518.2</b>	<b>85,653,010.2</b>	<b>106.4</b>	<b>95,235,557.3</b>	<b>111.2</b>
<b>11</b>	<b>Taxes</b>	<b>42,810,173.7</b>	<b>45,281,076.4</b>	<b>47,149,861.9</b>	<b>50,687,564.0</b>	<b>107.5</b>	<b>58,469,090.7</b>	<b>115.4</b>
111	Taxes on income, profits, and capital gains	6,022,403.1	6,189,047.2	6,259,713.1	7,057,112.3	112.7	8,515,615.0	120.7
1111	Payable by individuals	3,363,295.1	3,114,580.8	3,128,273.0	3,106,476.4	99.3	3,459,649.3	111.4
1112	Payable by corporations and other enterprises	2,659,108.0	3,074,466.4	3,131,440.1	3,950,635.9	126.2	5,055,965.7	128.0
<b>113</b>	<b>Taxes on property</b>	<b>294,555.6</b>	<b>289,926.0</b>	<b>355,823.3</b>	<b>375,500.5</b>	<b>105.5</b>	<b>482,330.9</b>	<b>128.5</b>
1134	Taxes on financial and capital transactions	294,555.6	289,926.0	355,823.3	375,500.5	105.5	482,330.9	128.5
<b>114</b>	<b>Taxes on goods and services</b>	<b>33,974,099.2</b>	<b>36,651,147.6</b>	<b>38,602,220.8</b>	<b>41,323,002.4</b>	<b>107.0</b>	<b>47,546,222.5</b>	<b>115.1</b>
1141	General taxes on goods and services	26,089,212.5	28,260,009.3	30,013,661.2	32,399,951.5	108.0	35,091,380.5	108.3
11411	Value-added taxes	25,952,486.3	28,129,299.9	29,864,904.7	32,243,371.6	108.0	34,931,749.5	108.3
11412	Sales taxes	136,726.2	130,709.4	148,756.5	156,579.9	105.3	159,631.0	101.9
1142	Excises	7,474,168.1	7,850,993.1	7,941,553.7	8,177,659.1	103.0	11,564,709.0	141.4
1144	Taxes on specific services	39,624.4	7,903.3	26,216.5	20,000.0	76.3	22,000.0	110.0
1145	Taxes on use of goods, permission to use goods	126,558.7	182,348.1	226,812.5	299,562.6	132.1	409,511.0	136.7
11452	Other	126,558.7	182,348.1	226,812.5	299,562.6	132.1	409,511.0	136.7
1146	Other taxes on goods and services	244,535.5	349,893.8	393,976.9	425,829.2	108.1	458,622.0	107.7
115	Taxes on international trade and transactions	2,050,624.3	1,810,866.2	1,590,727.3	1,562,930.2	98.3	1,588,456.0	101.6
1151	Customs and other import duties	2,050,624.3	1,810,866.2	1,590,727.3	1,562,930.2	98.3	1,588,456.0	101.6
116	Other taxes	468,491.5	340,089.4	341,377.4	369,018.6	108.1	336,466.3	91.2
<b>12</b>	<b>Social contributions</b>	<b>25,189,614.1</b>	<b>27,416,930.5</b>	<b>29,477,597.2</b>	<b>31,301,339.6</b>	<b>106.2</b>	<b>33,877,147.6</b>	<b>108.2</b>
<b>121</b>	<b>Social security contributions</b>	<b>25,189,614.1</b>	<b>27,416,930.5</b>	<b>29,477,597.2</b>	<b>31,301,339.6</b>	<b>106.2</b>	<b>33,877,147.6</b>	<b>108.2</b>
1211	Employee contributions	0.0	12,334,662.0	13,139,274.1	13,857,359.8	105.5	15,084,348.6	108.9
1212	Employer contributions	1,605,081.6	14,323,245.2	15,737,707.0	16,695,492.4	106.1	18,051,381.5	108.1
1213	Self-employed or nonemployed contributions	455,559.6	759,023.3	600,616.1	748,487.4	124.6	741,417.5	99.1
1214	Unallocable contributions	23,128,972.9	0.0	0.0	0.0	-	0.0	-
<b>13</b>	<b>Grants</b>	<b>0.0</b>	<b>10,406.5</b>	<b>10,121.5</b>	<b>27,505.2</b>	<b>271.8</b>	<b>195,984.2</b>	<b>712.5</b>
<b>131</b>	<b>From foreign governments</b>	<b>0.0</b>	<b>0.0</b>	<b>684.1</b>	<b>107.3</b>	<b>-</b>	<b>2,098.8</b>	<b>1,956.0</b>
1311	Current	0.0	0.0	571.0	107.3	-	1,712.1	1,595.6
1312	Capital	0.0	0.0	113.1	0.0	-	386.7	-
<b>132</b>	<b>From international organizations</b>	<b>0.0</b>	<b>10,406.5</b>	<b>9,437.4</b>	<b>27,397.9</b>	<b>290.3</b>	<b>192,385.4</b>	<b>702.2</b>
1321	Current	0.0	10,406.5	9,437.4	18,873.3	200.0	115,907.8	614.1
1322	Capital	0.0	0.0	0.0	8,524.6	-	76,477.6	897.1
<b>133</b>	<b>From other general government units</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>1,500.0</b>	<b>-</b>
<b>14</b>	<b>Other revenue</b>	<b>1,651,287.5</b>	<b>1,969,060.3</b>	<b>3,825,937.6</b>	<b>3,636,601.4</b>	<b>95.1</b>	<b>2,693,334.8</b>	<b>74.1</b>
141	Property income	622,899.7	417,485.5	2,667,701.0	2,226,646.8	83.5	832,400.3	37.4
1411	Interest	14,105.6	19,433.0	35,752.0	62,784.1	175.6	108,232.2	172.4
1412	Dividends	115,129.8	108,122.9	1,868,840.6	1,123,345.8	60.1	17,835.1	1.6
1413	Withdrawals from income of quasi-corporations	361,950.2	5.1	146,819.9	192,515.7	-	288,113.3	149.7
1415	Rent	131,714.1	289,924.5	616,288.5	848,001.2	137.6	418,219.7	49.3
142	Sales of goods and services	625,218.7	749,462.7	676,950.9	782,428.0	115.6	1,209,295.5	154.6
1421	Sales of market establishments	0.0	0.0	0.0	0.0	-	0.0	-
1422	Administrative fees	257,485.7	305,448.1	312,994.2	397,066.4	126.9	821,740.6	207.0
1423	Incidental sales by nonmarket establishments	367,733.0	444,014.6	363,956.7	385,361.6	105.9	387,554.9	100.6
143	Fines, penalties, and forfeits	333,802.6	307,167.5	342,370.6	360,707.4	105.4	391,615.6	108.6
144	Voluntary transfers other than grants	0.0	1,522.6	248.5	5,653.1	2,274.9	6,737.3	119.2
1441	Current	0.0	1,522.6	248.5	5,653.1	2,274.9	5,727.4	101.3
1442	Capital	0.0	0.0	0.0	0.0	-	1,009.9	-
145	Miscellaneous and unidentified revenue	69,366.5	493,422.0	138,666.6	261,166.1	188.3	253,286.1	97.0



### Appendix 3: Budgetary central government expense 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>2</b>	<b>EXPENSE</b>	<b>70,397,350.9</b>	<b>77,075,487.4</b>	<b>83,131,114.4</b>	<b>87,857,464.9</b>	<b>105.7</b>	<b>95,949,950.9</b>	<b>109.2</b>
<b>21</b>	<b>Compensation of employees</b>	<b>19,534,161.7</b>	<b>21,225,816.1</b>	<b>22,268,286.7</b>	<b>23,182,585.9</b>	<b>104.1</b>	<b>24,313,867.4</b>	<b>104.9</b>
211	Wages and salaries	16,677,053.8	18,037,101.2	18,888,605.2	19,699,216.4	104.3	20,663,890.0	104.9
212	Social contributions	2,857,107.9	3,188,714.9	3,379,681.5	3,483,369.5	103.1	3,649,977.4	104.8
2121	Actual social contributions	2,857,107.9	3,188,714.9	3,379,681.5	3,483,369.5	103.1	3,649,977.4	104.8
<b>22</b>	<b>Use of goods and services</b>	<b>4,391,924.0</b>	<b>4,170,610.6</b>	<b>4,358,720.5</b>	<b>4,951,917.4</b>	<b>113.6</b>	<b>6,069,116.2</b>	<b>122.6</b>
<b>24</b>	<b>Interest</b>	<b>3,263,574.2</b>	<b>3,587,328.9</b>	<b>3,972,466.3</b>	<b>4,387,009.7</b>	<b>110.4</b>	<b>4,713,615.3</b>	<b>107.4</b>
241	To nonresidents	1,887,009.3	1,879,419.9	1,976,502.3	2,053,587.9	103.9	1,863,999.2	90.8
242	To residents other than general government	1,376,564.9	1,707,909.0	1,995,964.0	2,333,421.8	116.9	2,849,616.1	122.1
<b>25</b>	<b>Subsidies</b>	<b>2,104,974.5</b>	<b>4,292,712.4</b>	<b>4,968,068.5</b>	<b>5,248,743.7</b>	<b>105.6</b>	<b>5,670,788.5</b>	<b>108.0</b>
251	To public corporations	657,422.2	1,942,931.7	2,783,462.4	2,784,825.0	100.0	2,692,784.7	96.7
252	To private enterprises	1,447,552.3	2,349,780.7	2,184,606.1	2,463,918.7	112.8	2,978,003.8	120.9
<b>26</b>	<b>Grants</b>	<b>4,161,544.5</b>	<b>3,746,958.2</b>	<b>3,420,326.9</b>	<b>3,796,846.7</b>	<b>111.0</b>	<b>6,652,993.9</b>	<b>175.2</b>
261	To foreign governments	66,004.3	43,918.0	76,464.4	73,639.3	96.3	64,794.9	88.0
2611	Current	66,004.3	43,918.0	46,500.0	49,174.0	105.8	37,760.4	76.8
2612	Capital	0.0	0.0	29,964.4	24,465.3	-	27,034.5	110.5
262	To international organizations	38,682.7	41,239.1	83,433.8	93,831.7	112.5	89,618.5	95.5
2621	Current	38,682.7	41,239.1	83,433.8	93,831.7	112.5	89,618.5	95.5
263	To other general government units	4,056,857.5	3,661,801.1	3,260,428.7	3,629,375.7	111.3	6,498,580.5	179.1
2631	Current	3,956,782.1	3,198,504.5	2,498,597.5	2,623,246.2	105.0	2,663,155.5	101.5
2632	Capital	100,075.4	463,296.6	761,831.2	1,006,129.5	132.1	3,835,425.0	381.2
<b>27</b>	<b>Social benefits</b>	<b>34,256,888.5</b>	<b>36,204,270.1</b>	<b>39,730,886.6</b>	<b>41,358,454.8</b>	<b>104.1</b>	<b>43,444,589.3</b>	<b>105.0</b>
271	Social security benefits	17,950,808.8	28,917,771.5	28,189,471.6	29,308,716.4	104.0	30,535,396.3	104.2
272	Social assistance benefits	15,943,381.4	6,731,909.7	11,177,314.8	11,792,075.3	105.5	12,786,632.4	108.4
273	Employer social benefits	362,698.3	554,588.9	364,100.2	257,663.1	70.8	122,560.6	47.6
<b>28</b>	<b>Other expense</b>	<b>2,684,283.5</b>	<b>3,847,791.1</b>	<b>4,412,358.9</b>	<b>4,931,906.7</b>	<b>111.8</b>	<b>5,084,980.3</b>	<b>103.1</b>
281	Property expense other than interest	451.8	6,766.9	3,954.6	4,919.8	124.4	7,599.8	154.5
282	Miscellaneous other expense	2,683,831.7	3,841,024.2	4,408,404.3	4,926,986.9	111.8	5,077,380.5	103.1
2821	Current	1,331,109.2	2,325,646.4	1,842,516.4	2,154,806.2	116.9	2,304,213.5	106.9
2822	Capital	1,352,722.5	1,515,377.8	2,565,887.9	2,772,180.7	108.0	2,773,167.0	100.0



#### Appendix 4: Transactions in nonfinancial assets of the budgetary central government 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>31</b>	<b>Net acquisition of nonfinancial assets</b>	<b>1,377,002.9</b>	<b>1,812,403.6</b>	<b>1,419,466.9</b>	<b>1,553,668.4</b>	<b>109.5</b>	<b>1,555,792.1</b>	<b>100.1</b>
<b>311</b>	<b>Fixed assets</b>	<b>1,284,191.8</b>	<b>1,795,345.4</b>	<b>1,384,608.6</b>	<b>1,516,968.2</b>	<b>109.6</b>	<b>1,595,120.5</b>	<b>105.2</b>
<b>311,1</b>	<b>Acquisitions: fixed assets</b>	<b>1,499,188.5</b>	<b>2,019,172.2</b>	<b>1,624,050.5</b>	<b>1,781,346.8</b>	<b>109.7</b>	<b>1,844,783.1</b>	<b>103.6</b>
<b>311,2</b>	<b>Disposals: fixed assets</b>	<b>214,996.7</b>	<b>223,826.8</b>	<b>239,441.9</b>	<b>264,378.6</b>	<b>110.4</b>	<b>249,662.6</b>	<b>94.4</b>
3111	Buildings and structures	715,757.4	1,199,770.2	811,476.8	867,662.5	106.9	831,376.5	95.8
3111,1	Acquisitions: buildings and structures	929,636.7	1,423,367.0	1,050,314.9	1,131,301.5	107.7	1,080,074.4	95.5
3111,2	Disposals: buildings and structures	213,879.3	223,596.8	238,838.1	263,639.0	110.4	248,697.9	94.3
3112	Machinery and equipment	388,336.5	516,597.8	518,941.0	557,319.9	107.4	656,732.6	117.8
3112,1	Acquisitions: machinery and equipment	389,453.9	516,827.8	519,544.8	558,059.5	107.4	657,696.4	117.9
3112,2	Disposals: machinery and equipment	1,117.4	230.0	603.8	739.6	122.5	963.8	130.3
3113	Other fixed assets	180,097.9	78,977.4	54,190.8	91,985.8	169.7	107,011.4	116.3
3113,1	Acquisitions: other fixed assets	180,097.9	78,977.4	54,190.8	91,985.8	169.7	107,012.3	116.3
3113,2	Disposals: other fixed assets	0.0	0.0	0.0	0.0	-	0.9	-
<b>312</b>	<b>Inventories</b>	<b>7.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>-80,226.0</b>	<b>-</b>
<b>312,1</b>	<b>Acquisitions: inventories</b>	<b>7.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>1,047.9</b>	<b>-</b>
<b>312,2</b>	<b>Disposals: inventories</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>81,273.9</b>	<b>-</b>
<b>313</b>	<b>Valuables</b>	<b>69,099.8</b>	<b>5,303.3</b>	<b>7,518.2</b>	<b>7,220.0</b>	<b>96.0</b>	<b>7,825.8</b>	<b>108.4</b>
<b>313,1</b>	<b>Acquisitions: valuables</b>	<b>69,099.8</b>	<b>5,303.3</b>	<b>7,518.2</b>	<b>7,220.0</b>	<b>96.0</b>	<b>7,825.8</b>	<b>108.4</b>
<b>314</b>	<b>Nonproduced assets</b>	<b>23,704.1</b>	<b>11,754.9</b>	<b>27,340.1</b>	<b>29,480.2</b>	<b>107.8</b>	<b>33,071.8</b>	<b>112.2</b>
<b>314,1</b>	<b>Acquisitions: nonproduced assets</b>	<b>26,743.6</b>	<b>30,513.9</b>	<b>32,299.2</b>	<b>40,251.0</b>	<b>124.6</b>	<b>54,825.6</b>	<b>136.2</b>
<b>314,2</b>	<b>Disposals: nonproduced assets</b>	<b>3,039.5</b>	<b>18,759.0</b>	<b>4,959.1</b>	<b>10,770.8</b>	<b>217.2</b>	<b>21,753.8</b>	<b>202.0</b>
3141	Land	-2,010.2	-18,361.1	7,062.3	-10,282.1	-	-21,650.4	-
3141,1	Acquisitions: land	1,029.3	397.9	12,021.4	488.7	4.1	81.3	16.6
3141,2	Disposals: land	3,039.5	18,759.0	4,959.1	10,770.8	217.2	21,731.7	201.8
3142	Subsoil assets	0.0	0.0	0.0	0.0	-	-22.1	-
3142,2	Disposals: subsoil assets	0.0	0.0	0.0	0.0	-	22.1	-
3143	Other naturally occurring assets	0.0	0.0	0.0	0.0	-	0.0	-
3144	Intangible nonproduced assets	25,714.3	30,116.0	20,277.8	39,762.3	196.1	54,744.3	137.7
3144,1	Acquisitions: intangible nonproduced assets	25,714.3	30,116.0	20,277.8	39,762.3	196.1	54,744.3	137.7



## Appendix 5: Transactions in financial assets of the budgetary central government 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>32</b>	<b>Net acquisition of financial assets</b>	<b>1,649,392.2</b>	<b>-1,320,128.6</b>	<b>221,977.3</b>	<b>1,752,824.5</b>	<b>789.6</b>	<b>-3,047,174.0</b>	<b>-</b>
<b>321</b>	<b>Domestic</b>	<b>1,635,902.8</b>	<b>-1,330,054.7</b>	<b>212,191.5</b>	<b>1,757,681.4</b>	<b>828.3</b>	<b>-3,063,854.6</b>	<b>-</b>
3212	Currency and deposits	359,542.9	1,146,530.3	-1,114,263.8	688,185.0	-61.8	-1,449,670.1	-
3213	Securities other than shares	0.0	0.0	0.0	0.0	-	0.0	-
3214	Loans	689,541.9	393,362.8	1,002,955.3	847,590.4	84.5	832,320.5	98.2
3214,1	Acquisitions: Loans	1,014,320.7	1,576,177.4	1,328,793.9	1,026,366.5	77.2	1,037,700.7	101.1
3214,2	Disposals: Loans	324,778.8	1,182,814.6	325,838.6	178,776.1	54.9	205,380.2	114.9
3215	Shares and other equity	586,818.0	-2,869,947.8	323,500.0	221,906.0	68.6	-2,446,505.0	-
3215,1	Acquisitions: Shares and other equity	586,818.0	485,020.0	448,500.0	235,065.1	52.4	231,357.0	98.4
3215,2	Disposals: Shares and other equity	0.0	3,354,967.8	125,000.0	13,159.1	10.5	2,677,862.0	20,349.9
3216	Insurance technical reserves	0.0	0.0	0.0	0.0	-	0.0	-
3217	Financial derivatives	0.0	0.0	0.0	0.0	-	0.0	-
3218	Other accounts receivable	0.0	0.0	0.0	0.0	-	0.0	-
<b>322</b>	<b>Foreign</b>	<b>13,489.4</b>	<b>9,926.1</b>	<b>9,785.8</b>	<b>-4,856.9</b>	<b>-</b>	<b>16,680.6</b>	<b>-343.4</b>
3222	Currency and deposits	0.0	0.0	0.0	0.0	-	0.0	-
3223	Securities other than shares	0.0	0.0	0.0	0.0	-	0.0	-
3224	Loans	0.0	0.0	0.0	0.0	-	0.0	-
3225	Shares and other equity	13,489.4	9,926.1	9,785.8	-4,856.9	-	16,680.6	-343.4
3225,1	Acquisitions: Shares and other equity	13,489.4	9,926.1	9,785.8	2,699.3	27.6	16,680.6	618.0
3225,2	Disposals: Shares and other equity	0.0	0.0	0.0	7,556.2	-	0.0	-
3226	Insurance technical reserves	0.0	0.0	0.0	0.0	-	0.0	-
3227	Financial derivatives	0.0	0.0	0.0	0.0	-	0.0	-
3228	Other accounts receivable	0.0	0.0	0.0	0.0	-	0.0	-
<b>323</b>	<b>Monetary gold and SDRs</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>





## Appendix 6: Transactions in liabilities of the budgetary central government 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
33	<b>Net incurrence of liabilities</b>	3,772,670.7	2,890,288.7	4,309,040.4	5,510,947.6	127.9	-776,988.3	-
33,1	<b>Total repayments</b>	6,240,866.3	6,520,770.5	13,717,081.5	10,253,489.1	74.7	10,056,696.6	98.1
33,2	<b>Total incurrence</b>	10,013,537.0	9,411,059.2	18,026,121.9	15,764,436.7	87.5	9,279,708.3	58.9
331	<b>Domestic</b>	1,424,916.2	-159,690.2	4,038,705.1	10,591,559.7		3,166,260.0	29.9
331,1	<b>Repayments</b>	1,734,325.3	4,146,435.2	9,009,705.0	4,389,322.6	48.7	4,250,184.1	96.8
331,2	<b>Incurrence</b>	3,159,241.5	3,986,745.0	13,048,410.1	14,980,882.3	114.8	7,416,444.1	49.5
3312	Currency and deposits	0.0	0.0	0.0	0.0	-	0.0	-
3313	Securities other than shares	1,297,359.9	635,810.6	6,357,475.7	9,636,343.1	151.6	5,648,934.2	58.6
3313,1	Repayments: Securities other than shares	1,481,694.3	2,305,093.0	5,025,194.2	2,844,600.8	56.6	550,859.1	19.4
3313,2	Incurrences: Securities other than shares	2,779,054.2	2,940,903.6	11,382,669.9	12,480,943.9	109.6	6,199,793.3	49.7
3314	Loans	127,556.3	-795,500.8	-2,318,770.6	955,216.6	-	-2,482,674.2	-
3314,1	Repayments: Loans	252,631.0	1,841,342.2	3,984,510.8	1,544,721.8	38.8	3,699,325.0	239.5
3314,2	Incurrences: Loans	380,187.3	1,045,841.4	1,665,740.2	2,499,938.4	150.1	1,216,650.8	48.7
3316	Insurance technical reserves	0.0	0.0	0.0	0.0	-	0.0	-
3317	Financial derivatives	0.0	0.0	0.0	0.0	-	0.0	-
3318	Other accounts payable	0.0	0.0	0.0	0.0	-	0.0	-
332	<b>Foreign</b>	2,347,754.5	3,049,978.9	270,335.3	-5,080,612.1	-	-3,943,248.3	-
332,1	<b>Repayments</b>	4,506,541.0	2,374,335.3	4,707,376.5	5,864,166.5	124.6	5,806,512.5	99.0
332,2	<b>Incurrence</b>	6,854,295.5	5,424,314.2	4,977,711.8	783,554.4	15.7	1,863,264.2	237.8
3322	Currency and deposits	0.0	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	-3,713,935.0	-	-3,480,780.5	-
3323,1	Repayments: Securities other than shares	2,579,181.0	0.0	2,526,875.9	3,713,935.0		3,480,780.5	93.7
3323,2	Incurrences: Securities other than shares	5,603,538.8	4,051,109.1	3,742,315.0	0.0	-	0.0	-
3324	Loans	-676,603.3	-1,001,130.2	-945,103.8	-1,366,677.1	-	-462,467.8	-
3324,1	Repayments: Loans	1,927,360.0	2,374,335.3	2,180,500.6	2,150,231.5	98.6	2,325,732.0	108.2
3324,2	Incurrences: Loans	1,250,756.7	1,373,205.1	1,235,396.8	783,554.4	63.4	1,863,264.2	237.8
3326	Insurance technical reserves	0.0	0.0	0.0	0.0	-	0.0	-
3327	Financial derivatives	0.0	0.0	0.0	0.0	-	0.0	-
3328	Other accounts payable	0.0	0.0	0.0	0.0	-	0.0	-



## Appendix 7: Budgetary central government expense by function 2002-2006

	(000 HRK)	2002	2003	2004	2005	2006
<b>7</b>	<b>Total expense</b>	<b>74,170,855.1</b>	<b>79,130,476.7</b>	<b>84,794,982.3</b>	<b>89,686,282.7</b>	<b>97,858,433.4</b>
701	General public services	7,374,118.6	8,202,368.2	8,958,022.6	10,221,538.1	10,902,902.9
702	Defense	4,352,135.6	4,087,773.8	3,700,636.3	3,593,298.4	4,041,052.7
703	Public order and safety	4,790,499.3	5,176,019.6	5,488,422.3	5,828,251.1	6,244,380.1
704	Economic affairs	5,747,134.5	6,631,930.1	7,866,261.5	8,392,346.9	12,149,713.8
705	Environment protection	264,258.6	310,793.9	234,334.6	205,605.1	261,827.3
706	Housing and community amenity affairs	1,411,431.1	1,829,917.5	2,528,730.7	2,848,426.5	2,453,667.4
707	Health	10,703,957.9	11,609,418.9	12,719,750.1	12,912,308.2	14,098,367.3
708	Recreation, culture and religion	993,561.7	1,085,002.2	1,242,363.0	1,322,381.5	1,477,987.9
709	Education	6,314,708.8	6,806,802.9	7,244,729.9	7,642,395.0	8,213,730.2
710	Social protection	32,219,049.0	33,390,449.7	34,811,731.4	36,719,731.9	38,014,803.7



## Appendix 8: Transactions of extrabudgetary users 2002 - 2006

	(000 HRK)	2002*	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>8,537,638.0</b>	<b>8,604,825.0</b>	<b>7,830,258.0</b>	<b>8,134,940.0</b>	<b>103.9</b>	<b>9,429,083.0</b>	<b>115.9</b>
<b>11</b>	<b>Taxes</b>	<b>2,361,127.0</b>	<b>2,631,104.0</b>	<b>2,683,804.0</b>	<b>2,761,485.0</b>	<b>102.9</b>	<b>0.0</b>	<b>-</b>
1142	Excises	2,361,127.0	2,631,104.0	2,683,804.0	2,761,485.0	102.9	0.0	-
<b>12</b>	<b>Social contributions</b>	<b>10,408.0</b>	<b>7,677.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
<b>13</b>	<b>Grants</b>	<b>3,124,963.0</b>	<b>2,497,178.0</b>	<b>1,274,492.0</b>	<b>1,145,477.0</b>	<b>89.9</b>	<b>4,270,535.0</b>	<b>372.8</b>
131	From foreign governments	290.0	1,434.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	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	1,145,477.0	89.9	4,270,535.0	372.8
1331	Current	2,901,511.0	2,256,669.0	926,267.0	834,991.0	90.1	690,117.0	82.6
1332	Capital	223,162.0	239,075.0	348,225.0	310,486.0	89.2	3,580,418.0	1,153.2
<b>14</b>	<b>Other revenue</b>	<b>3,041,140.0</b>	<b>3,468,866.0</b>	<b>3,871,962.0</b>	<b>4,227,978.0</b>	<b>109.2</b>	<b>5,158,548.0</b>	<b>122.0</b>
<b>2</b>	<b>EXPENSE</b>	<b>8,175,408.0</b>	<b>6,135,543.0</b>	<b>5,084,815.0</b>	<b>5,620,152.0</b>	<b>110.5</b>	<b>7,073,492.0</b>	<b>125.9</b>
<b>21</b>	<b>Compensation of employees</b>	<b>753,945.0</b>	<b>842,647.0</b>	<b>997,437.0</b>	<b>1,117,529.0</b>	<b>112.0</b>	<b>1,199,095.0</b>	<b>107.3</b>
211	Wages and salaries	649,414.0	725,796.0	862,263.0	966,616.0	112.1	1,035,834.0	107.2
212	Social contributions	104,531.0	116,851.0	135,174.0	150,913.0	111.6	163,261.0	108.2
<b>22</b>	<b>Use of goods and services</b>	<b>2,510,074.0</b>	<b>2,132,441.0</b>	<b>1,969,020.0</b>	<b>2,148,315.0</b>	<b>109.1</b>	<b>3,124,365.0</b>	<b>145.4</b>
<b>24</b>	<b>Interest</b>	<b>382,578.0</b>	<b>368,637.0</b>	<b>371,214.0</b>	<b>617,640.0</b>	<b>166.4</b>	<b>683,431.0</b>	<b>110.7</b>
241	To nonresidents	32,670.0	147,425.0	184,282.0	305,417.0	165.7	522,924.0	171.2
242	To residents other than general government	349,908.0	221,212.0	186,932.0	312,223.0	167.0	160,507.0	51.4
<b>25</b>	<b>Subsidies</b>	<b>1,458,594.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5,189.0</b>	<b>-</b>	<b>13,803.0</b>	<b>266.0</b>
251	To public corporations	997,401.0	0.0	0.0	5,189.0	-	0.0	-
252	To private enterprises	461,193.0	0.0	0.0	0.0	-	13,803.0	-
<b>26</b>	<b>Grants</b>	<b>235,659.0</b>	<b>0.0</b>	<b>4,542.0</b>	<b>153,390.0</b>	<b>-</b>	<b>457,883.0</b>	<b>298.5</b>
263	To other general government units	235,659.0	0.0	4,542.0	153,390.0	-	457,883.0	298.5
2631	Current	12,430.0	0.0	0.0	0.0	-	0.0	-
2632	Capital	223,229.0	0.0	4,542.0	153,390.0	-	457,883.0	298.5
<b>27</b>	<b>Social benefits</b>	<b>1,582,352.0</b>	<b>2,029,198.0</b>	<b>914,907.0</b>	<b>571,777.0</b>	<b>62.5</b>	<b>748,262.0</b>	<b>130.9</b>
271	Social security benefits	1,582,352.0	2,015,288.0	911,499.0	571,107.0	62.7	741,298.0	129.8
272	Social assistance benefits	0.0	13,910.0	3,408.0	670.0	19.7	6,964.0	1,039.4
<b>28</b>	<b>Other expense</b>	<b>1,252,206.0</b>	<b>762,620.0</b>	<b>827,695.0</b>	<b>1,006,312.0</b>	<b>121.6</b>	<b>846,653.0</b>	<b>84.1</b>
<b>3</b>	<b>CHANGE IN NET WORTH: TRANSACTIONS</b>	<b>362,230.0</b>	<b>2,469,282.0</b>	<b>2,745,443.0</b>	<b>2,514,788.0</b>	<b>91.6</b>	<b>2,355,591.0</b>	<b>93.7</b>
<b>31</b>	<b>Net acquisition of nonfinancial assets</b>	<b>4,752,419.0</b>	<b>6,183,610.0</b>	<b>6,953,996.0</b>	<b>5,145,748.0</b>	<b>74.0</b>	<b>4,552,835.0</b>	<b>88.5</b>
31,1	Acquisition of nonfinancial assets	4,780,957.0	6,216,526.0	6,984,515.0	5,195,362.0	74.4	4,927,889.0	94.9
31,2	Disposal of nonfinancial assets	28,538.0	32,916.0	30,519.0	49,614.0	162.6	375,054.0	755.9
<b>32</b>	<b>Net acquisition of financial assets</b>	<b>-1,064,076.0</b>	<b>409,057.0</b>	<b>-119,979.0</b>	<b>-133,065.0</b>	<b>-</b>	<b>470,485.0</b>	<b>-</b>
321	Domestic	-1,064,076.0	409,057.0	-119,979.0	-133,065.0	-	470,485.0	-
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
<b>33</b>	<b>Net incurrence of liabilities</b>	<b>3,326,113.0</b>	<b>4,123,385.0</b>	<b>4,088,574.0</b>	<b>2,497,895.0</b>	<b>-</b>	<b>2,667,729.0</b>	<b>106.8</b>
331	Domestic	722,690.0	1,160,730.0	142,589.0	1,460,118.0	-	2,116,532.0	145.0
332	Foreign	2,603,423.0	2,962,655.0	3,945,985.0	1,037,777.0	-	551,197.0	53.1

\* Including Regional development fund and Development and employment fund



## Appendix 9: Transactions of the Croatian pension fund 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>1,558,404.0</b>	<b>1,845,366.0</b>	<b>670,814.0</b>	<b>398,337.0</b>	<b>59.4</b>	<b>631,738.0</b>	<b>158.6</b>
11	Taxes	0.0	0.0	0.0	0.0	-	0.0	-
12	Social contributions	10,408.0	772.0	0.0	0.0	-	0.0	-
13	Grants	1,448,330.0	1,741,865.0	540,922.0	360,327.0	66.6	338,253.0	93.9
131	From foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	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	360,327.0	66.6	338,253.0	93.9
1331	Current	1,435,617.0	1,714,878.0	521,361.0	334,155.0	64.1	302,966.0	90.7
1332	Capital	12,713.0	26,987.0	19,561.0	26,172.0	133.8	35,287.0	134.8
14	Other revenue	99,666.0	102,729.0	129,892.0	38,010.0	29.3	293,485.0	772.1
<b>2</b>	<b>EXPENSE</b>	<b>1,575,181.0</b>	<b>1,844,077.0</b>	<b>587,420.0</b>	<b>382,162.0</b>	<b>65.1</b>	<b>565,857.0</b>	<b>148.1</b>
21	Compensation of employees	224,936.0	241,408.0	290,789.0	286,515.0	98.5	313,352.0	109.4
211	Wages and salaries	193,157.0	207,538.0	252,989.0	248,410.0	98.2	270,799.0	109.0
212	Social contributions	31,779.0	33,870.0	37,800.0	38,105.0	100.8	42,553.0	111.7
22	Use of goods and services	117,667.0	127,140.0	90,721.0	89,854.0	99.0	94,007.0	104.6
24	Interest	666.0	0.0	896.0	721.0	-	925.0	128.3
241	To nonresidents	0.0	0.0	0.0	0.0	-	0.0	-
242	To residents other than general government	666.0	0.0	896.0	721.0	-	925.0	128.3
25	Subsidies	0.0	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	0.0	-	0.0	-
27	Social benefits	1,212,069.0	1,472,945.0	205,014.0	5,072.0	2.5	157,573.0	3,106.7
271	Social security benefits	1,212,069.0	1,472,945.0	205,014.0	5,072.0	2.5	152,482.0	3,006.3
272	Social assistance benefits	0.0	0.0	0.0	0.0	-	5,091.0	-
28	Other expense	19,843.0	2,584.0	0.0	0.0	-	0.0	-
31	Net acquisition of nonfinancial assets	11,698.0	21,937.0	18,022.0	19,251.0	106.8	29,662.0	154.1
31,1	Acquisition of nonfinancial assets	14,740.0	27,173.0	21,154.0	22,545.0	106.6	46,009.0	204.1
31,2	Disposal of nonfinancial assets	3,042.0	5,236.0	3,132.0	3,294.0	105.2	16,347.0	496.3
32	Net acquisition of financial assets	-28,475.0	-20,570.0	65,372.0	-3,067.0	-	36,219.0	-
321	Domestic	-28,475.0	-20,570.0	65,372.0	-3,067.0	-	36,219.0	-
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	0.0	78.0	0.0	9.0	-	0.0	-
331	Domestic	0.0	78.0	0.0	9.0	-	0.0	-
332	Foreign	0.0	0.0	0.0	0.0	-	0.0	--



## Appendix 10: Transactions of the Croatian health institute 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>725,795.0</b>	<b>1,109,974.0</b>	<b>865,013.0</b>	<b>1,065,103.0</b>	<b>123.1</b>	<b>1,049,899.0</b>	<b>98.6</b>
11	Taxes	0.0	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	6,905.0	0.0	0.0	-	0.0	-
13	Grants	258,298.0	287,791.0	201,874.0	201,235.0	99.7	201,216.0	100.0
131	From foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	0.0	-
133	From other general government units	258,298.0	287,791.0	201,874.0	201,235.0	99.7	201,216.0	100.0
1331	Current	258,298.0	287,791.0	201,874.0	201,235.0	99.7	201,216.0	100.0
1332	Capital		0.0	0.0	0.0	-	0.0	-
14	Other revenue	467,497.0	815,278.0	663,139.0	863,868.0	130.3	848,683.0	98.2
<b>2</b>	<b>EXPENSE</b>	<b>1,263,096.0</b>	<b>888,105.0</b>	<b>831,295.0</b>	<b>914,345.0</b>	<b>110.0</b>	<b>931,628.0</b>	<b>101.9</b>
21	Compensation of employees	172,509.0	180,743.0	185,992.0	227,721.0	122.4	223,698.0	98.2
211	Wages and salaries	148,247.0	155,722.0	160,298.0	197,486.0	123.2	193,688.0	98.1
212	Social contributions	24,262.0	25,021.0	25,694.0	30,235.0	117.7	30,010.0	99.3
22	Use of goods and services	901,387.0	113,659.0	100,979.0	122,100.0	120.9	116,500.0	95.4
24	Interest	0.0	20,554.0	0.0	0.0	-	1,608.0	-
241	To nonresidents	0.0	0.0	0.0	0.0	-	0.0	-
242	To residents other than general government	0.0	20,554.0	0.0	0.0	-	1,608.0	-
25	Subsidies	0.0	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	0.0	-	0.0	-
27	Social benefits	189,184.0	490,368.0	544,324.0	564,524.0	103.7	587,459.0	104.1
271	Social security benefits	189,184.0	490,368.0	544,324.0	564,524.0	103.7	587,459.0	104.1
272	Social assistance benefits	0.0	0.0	0.0	0.0	-	0.0	-
28	Other expense	16.0	82,781.0	0.0	0.0	-	2,363.0	-
31	Net acquisition of nonfinancial assets	16,093.0	27,272.0	30,291.0	38,636.0	127.5	28,964.0	75.0
31.1	Acquisition of nonfinancial assets	22,314.0	31,236.0	30,913.0	38,971.0	126.1	30,171.0	77.4
31.2	Disposal of nonfinancial assets	6,221.0	3,964.0	622.0	335.0	53.9	1,207.0	360.3
32	Net acquisition of financial assets	266,606.0	604,597.0	3,427.0	112,122.0	-	89,307.0	79.7
321	Domestic	266,606.0	604,597.0	3,427.0	112,122.0	-	89,307.0	79.7
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	820,000.0	410,000.0	0.0	0.0	-	0.0	-
331	Domestic	820,000.0	410,000.0	0.0	0.0	-	0.0	-
332	Foreign	0.0	0.0	0.0	0.0	-	0.0	-



## Appendix 11: Transactions of the Croatian employment service 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>134,756.0</b>	<b>89,573.0</b>	<b>111,674.0</b>	<b>114,957.0</b>	<b>102.9</b>	<b>114,689.0</b>	<b>99.8</b>
11	Taxes	0.0	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	0.0	-	0.0	-
13	Grants	109,478.0	72,000.0	96,167.0	96,102.0	99.9	96,326.0	100.2
131	From foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	0.0	-
133	From other general government units	109,478.0	72,000.0	96,167.0	96,102.0	99.9	96,326.0	100.2
1331	Current	99,728.0	72,000.0	96,167.0	96,102.0	99.9	96,326.0	100.2
1332	Capital	9,750.0	0.0	0.0	0.0	-	0.0	-
14	Other revenue	25,278.0	17,573.0	15,507.0	18,855.0	121.6	18,363.0	97.4
<b>2</b>	<b>EXPENSE</b>	<b>239,458.0</b>	<b>140,387.0</b>	<b>141,333.0</b>	<b>145,931.0</b>	<b>103.3</b>	<b>155,002.0</b>	<b>106.2</b>
21	Compensation of employees	87,228.0	91,633.0	101,411.0	107,372.0	105.9	115,393.0	107.5
211	Wages and salaries	75,048.0	78,711.0	87,690.0	92,869.0	105.9	99,814.0	107.5
212	Social contributions	12,180.0	12,922.0	13,721.0	14,503.0	105.7	15,579.0	107.4
22	Use of goods and services	34,999.0	34,844.0	36,512.0	37,889.0	103.8	37,732.0	99.6
24	Interest	0.0	0.0	2.0	0.0	-	4.0	-
241	To nonresidents	0.0	0.0	0.0	0.0	-	0.0	-
242	To residents other than general government	0.0	0.0	2.0	0.0	-	4.0	-
25	Subsidies	0.0	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	0.0	-	0.0	-
27	Social benefits	117,231.0	13,910.0	3,408.0	670.0	19.7	1,873.0	279.6
271	Social security benefits	0.0	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	117,231.0	13,910.0	3,408.0	670.0	19.7	1,873.0	279.6
28	Other expense	0.0	0.0	0.0	0.0	-	0.0	-
31	Net acquisition of nonfinancial assets	9,304.0	8,767.0	4,865.0	4,895.0	100.6	7,022.0	143.5
31,1	Acquisition of nonfinancial assets	9,412.0	9,061.0	4,915.0	4,962.0	101.0	7,584.0	152.8
31,2	Disposal of nonfinancial assets	108.0	294.0	50.0	67.0	134.0	562.0	838.8
32	Net acquisition of financial assets	-114,006.0	-59,581.0	-34,524.0	-35,869.0	-	-47,335.0	-
321	Domestic	-114,006.0	-59,581.0	-34,524.0	-35,869.0	-	-47,335.0	-
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	0.0	0.0	0.0	0.0	-	0.0	-
331	Domestic	0.0	0.0	0.0	0.0	-	0.0	-
332	Foreign	0.0	0.0	0.0	0.0	-	0.0	-



## Appendix 12: Transactions of Croatian waters 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>1,485,228.0</b>	<b>1,544,421.0</b>	<b>1,658,435.0</b>	<b>1,715,607.0</b>	<b>103.4</b>	<b>1,971,613.0</b>	<b>114.9</b>
11	Taxes	0.0	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	0.0	-	0.0	-
13	Grants	386,936.0	395,522.0	434,004.0	487,813.0	112.4	444,762.0	91.2
131	From foreign governments	290.0	1,434.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	0.0	-
133	From other general government units	386,646.0	394,088.0	434,004.0	487,813.0	112.4	444,762.0	91.2
1331	Current	220,000.0	182,000.0	105,340.0	203,499.0	193.2	89,259.0	43.9
1332	Capital	166,646.0	212,088.0	328,664.0	284,314.0	86.5	355,503.0	125.0
14	Other revenue	1,098,292.0	1,148,899.0	1,224,431.0	1,227,794.0	100.3	1,526,851.0	124.4
<b>2</b>	<b>EXPENSE</b>	<b>1,125,187.0</b>	<b>1,427,067.0</b>	<b>1,426,283.0</b>	<b>1,489,465.0</b>	<b>104.4</b>	<b>1,779,088.0</b>	<b>119.4</b>
21	Compensation of employees	79,773.0	87,792.0	93,675.0	99,418.0	106.1	111,293.0	111.9
211	Wages and salaries	68,267.0	75,924.0	80,618.0	85,524.0	106.1	96,298.0	112.6
212	Social contributions	11,506.0	11,868.0	13,057.0	13,894.0	106.4	14,995.0	107.9
22	Use of goods and services	724,972.0	826,878.0	743,383.0	790,683.0	106.4	1,072,478.0	135.6
24	Interest	47,926.0	37,057.0	37,907.0	33,734.0	89.0	31,692.0	93.9
241	To nonresidents	19,735.0	28,015.0	10,812.0	8,652.0	80.0	7,073.0	81.7
242	To residents other than general government	28,191.0	9,042.0	27,095.0	25,082.0	92.6	24,619.0	98.2
25	Subsidies	0.0	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	0.0	-	53,751.0	-
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	0.0	-	53,751.0	-
2631	Current	0.0	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	0.0	0.0	-	53,751.0	-
27	Social benefits	0.0	0.0	0.0	0.0	-	0.0	-
28	Other expense	272,516.0	475,340.0	551,318.0	565,630.0	102.6	509,874.0	90.1
31	Net acquisition of nonfinancial assets	295,988.0	290,709.0	282,527.0	230,292.0	81.5	223,123.0	96.9
31,1	Acquisition of nonfinancial assets	296,218.0	291,043.0	282,797.0	230,588.0	81.5	224,983.0	97.6
31,2	Disposal of nonfinancial assets	230.0	334.0	270.0	296.0	109.6	1,860.0	628.4
32	Net acquisition of financial assets	113,322.0	-146,776.0	-11,385.0	5,284.0	-	-32,316.0	-
321	Domestic	113,322.0	-146,776.0	-11,385.0	5,284.0	-	-32,316.0	-
322	Foreign	0.0	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	-	-1,718.0	-
331	Domestic	65,563.0	30,289.0	42,859.0	-26,179.0	-	12,778.0	-
332	Foreign	-16,294.0	-3,710.0	-3,869.0	35,613.0	-	-14,496.0	-



### Appendix 13: Transactions of Environment protection fund 2004 - 2006

	(000 HRK)	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>172,273.0</b>	<b>214,737.0</b>	<b>124.6</b>	<b>660,190.0</b>	<b>307.4</b>
<b>11</b>	<b>Taxes</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
<b>12</b>	<b>Social contributions</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
<b>13</b>	<b>Grants</b>	<b>1,525.0</b>	<b>0.0</b>	<b>0.0</b>	<b>350.0</b>	<b>-</b>
131	From foreign governments	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	-	0.0	-
133	From other general government units	1,525.0	0.0	0.0	350.0	-
1331	Current	1,525.0	0.0	0.0	350.0	-
1332	Capital	0.0	0.0	-	0.0	-
<b>14</b>	<b>Other revenue</b>	<b>170,748.0</b>	<b>214,737.0</b>	<b>125.8</b>	<b>659,840.0</b>	<b>307.3</b>
<b>2</b>	<b>EXPENSE</b>	<b>32,443.0</b>	<b>172,045.0</b>	<b>530.3</b>	<b>734,764.0</b>	<b>427.1</b>
<b>21</b>	<b>Compensation of employees</b>	<b>1,905.0</b>	<b>3,966.0</b>	<b>208.2</b>	<b>6,843.0</b>	<b>172.5</b>
211	Wages and salaries	1,633.0	3,407.0	208.6	5,864.0	172.1
212	Social contributions	272.0	559.0	205.5	979.0	175.1
<b>22</b>	<b>Use of goods and services</b>	<b>2,734.0</b>	<b>12,162.0</b>	<b>444.8</b>	<b>608,913.0</b>	<b>5,006.7</b>
<b>24</b>	<b>Interest</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
241	To nonresidents	0.0	0.0	-	0.0	-
242	To residents other than general government	0.0	0.0	-	0.0	-
<b>25</b>	<b>Subsidies</b>	<b>0.0</b>	<b>5,189.0</b>	<b>-</b>	<b>13,803.0</b>	<b>266.0</b>
251	To public corporations	0.0	5,189.0	-	0.0	0.0
252	To private enterprises	0.0	0.0	-	13,803.0	-
<b>26</b>	<b>Grants</b>	<b>0.0</b>	<b>149,780.0</b>	<b>-</b>	<b>102,355.0</b>	<b>68.3</b>
261	To foreign governments	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	-	0.0	-
263	To other general government units	0.0	149,780.0	-	102,355.0	68.3
2631	Current	0.0	0.0	-	0.0	-
2632	Capital	0.0	149,780.0	-	102,355.0	68.3
<b>27</b>	<b>Social benefits</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
271	Social security benefits	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	-	0.0	-
<b>28</b>	<b>Other expense</b>	<b>27,804.0</b>	<b>948.0</b>	<b>3.4</b>	<b>2,850.0</b>	<b>300.6</b>
<b>31</b>	<b>Net acquisition of nonfinancial assets</b>	<b>1,786.0</b>	<b>12,917.0</b>	<b>723.2</b>	<b>14,151.0</b>	<b>109.6</b>
31,1	Acquisition of nonfinancial assets	1,786.0	12,917.0	723.2	14,287.0	110.6
31,2	Disposal of nonfinancial assets	0.0	0.0	-	136.0	-
<b>32</b>	<b>Net acquisition of financial assets</b>	<b>138,044.0</b>	<b>29,775.0</b>	<b>-</b>	<b>-88,725.0</b>	<b>-</b>
321	Domestic	138,044.0	29,775.0	-	-88,725.0	-
322	Foreign	0.0	0.0	-	0.0	-
<b>33</b>	<b>Net incurrence of liabilities</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
331	Domestic	0.0	0.0	-	0.0	-
332	Foreign	0.0	0.0	-	0.0	-





## Appendix 14: Transactions of Croatian motorways 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>1,695,972.0</b>	<b>1,927,787.0</b>	<b>2,295,423.0</b>	<b>2,547,003.0</b>	<b>111.0</b>	<b>2,721,483.0</b>	<b>106.9</b>
<b>11</b>	<b>Taxes</b>	<b>1,212,445.0</b>	<b>1,313,743.0</b>	<b>1,341,683.0</b>	<b>1,380,753.0</b>	<b>102.9</b>	<b>0.0</b>	<b>-</b>
<b>12</b>	<b>Social contributions</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
<b>13</b>	<b>Grants</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>1,450,358.0</b>	<b>-</b>
131	From foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	0.0	-	1,450,358.0	-
1331	Current	0.0	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	0.0	-	1,450,358.0	-
<b>14</b>	<b>Other revenue</b>	<b>483,527.0</b>	<b>614,044.0</b>	<b>953,740.0</b>	<b>1,166,250.0</b>	<b>122.3</b>	<b>1,271,125.0</b>	<b>109.0</b>
<b>2</b>	<b>EXPENSE</b>	<b>343,256.0</b>	<b>692,490.0</b>	<b>756,796.0</b>	<b>1,088,687.0</b>	<b>143.9</b>	<b>1,574,490.0</b>	<b>144.6</b>
<b>21</b>	<b>Compensation of employees</b>	<b>117,445.0</b>	<b>162,982.0</b>	<b>236,353.0</b>	<b>289,866.0</b>	<b>122.6</b>	<b>320,097.0</b>	<b>110.4</b>
211	Wages and salaries	102,594.0	140,867.0	203,955.0	250,374.0	122.8	276,180.0	110.3
212	Social contributions	14,851.0	22,115.0	32,398.0	39,492.0	121.9	43,917.0	111.2
<b>22</b>	<b>Use of goods and services</b>	<b>200,296.0</b>	<b>406,858.0</b>	<b>258,509.0</b>	<b>314,534.0</b>	<b>121.7</b>	<b>301,452.0</b>	<b>95.8</b>
<b>24</b>	<b>Interest</b>	<b>25,515.0</b>	<b>122,650.0</b>	<b>191,132.0</b>	<b>445,185.0</b>	<b>232.9</b>	<b>589,173.0</b>	<b>132.3</b>
241	To nonresidents	12,935.0	118,482.0	170,942.0	288,497.0	168.8	496,864.0	172.2
242	To residents other than general government	12,580.0	4,168.0	20,190.0	156,688.0	776.1	92,309.0	58.9
<b>25</b>	<b>Subsidies</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
251	To public corporations	0.0	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	0.0	-	0.0	-
<b>26</b>	<b>Grants</b>	<b>0.0</b>	<b>0.0</b>	<b>4,542.0</b>	<b>3,610.0</b>	<b>-</b>	<b>301,777.0</b>	<b>8,359.5</b>
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	4,542.0	3,610.0	-	301,777.0	8,359.5
2631	Current	0.0	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	4,542.0	3,610.0	-	301,777.0	8,359.5
<b>27</b>	<b>Social benefits</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
<b>28</b>	<b>Other expense</b>	<b>0.0</b>	<b>0.0</b>	<b>66,260.0</b>	<b>35,492.0</b>	<b>-</b>	<b>61,991.0</b>	<b>174.7</b>
<b>31</b>	<b>Net acquisition of nonfinancial assets</b>	<b>3,676,519.0</b>	<b>5,113,679.0</b>	<b>5,778,694.0</b>	<b>3,942,727.0</b>	<b>68.2</b>	<b>2,949,761.0</b>	<b>74.8</b>
31,1	Acquisition of nonfinancial assets	3,676,519.0	5,113,679.0	5,778,694.0	3,942,727.0	68.2	3,249,761.0	82.4
31,2	Disposal of nonfinancial assets	0.0	0.0	0.0	0.0	-	300,000.0	-
<b>32</b>	<b>Net acquisition of financial assets</b>	<b>279,815.0</b>	<b>-412,302.0</b>	<b>-162,274.0</b>	<b>-42,758.0</b>	<b>-</b>	<b>248,366.0</b>	<b>-</b>
321	Domestic	279,815.0	-412,302.0	-162,274.0	-42,758.0	-	248,366.0	-
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
<b>33</b>	<b>Net incurrence of liabilities</b>	<b>2,603,618.0</b>	<b>3,466,080.0</b>	<b>4,077,793.0</b>	<b>2,441,653.0</b>	<b>-</b>	<b>2,051,134.0</b>	<b>84.0</b>
331	Domestic	0.0	530,000.0	379,709.0	1,698,272.0	-	1,758,422.0	103.5
332	Foreign	2,603,618.0	2,936,080.0	3,698,084.0	743,381.0	-	292,712.0	39.4



## Appendix 15: Transactions of Croatian roads 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>1,208,654.0</b>	<b>1,379,782.0</b>	<b>1,417,787.0</b>	<b>1,474,714.0</b>	<b>104.0</b>	<b>1,804,019.0</b>	<b>122.3</b>
<b>11</b>	<b>Taxes</b>	<b>1,148,682.0</b>	<b>1,317,361.0</b>	<b>1,342,121.0</b>	<b>1,380,732.0</b>	<b>102.9</b>	<b>0.0</b>	<b>-</b>
<b>12</b>	<b>Social contributions</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
<b>13</b>	<b>Grants</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>1,739,270.0</b>	<b>-</b>
131	From foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	0.0	-	1,739,270.0	-
1331	Current	0.0	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	0.0	-	1,739,270.0	-
<b>14</b>	<b>Other revenue</b>	<b>59,972.0</b>	<b>62,421.0</b>	<b>75,666.0</b>	<b>93,982.0</b>	<b>124.2</b>	<b>64,749.0</b>	<b>68.9</b>
<b>2</b>	<b>EXPENSE</b>	<b>726,445.0</b>	<b>840,372.0</b>	<b>934,630.0</b>	<b>1,062,405.0</b>	<b>113.7</b>	<b>1,226,934.0</b>	<b>115.5</b>
<b>21</b>	<b>Compensation of employees</b>	<b>39,895.0</b>	<b>45,037.0</b>	<b>51,590.0</b>	<b>61,054.0</b>	<b>118.3</b>	<b>70,786.0</b>	<b>115.9</b>
211	Wages and salaries	34,461.0	38,733.0	44,349.0	52,452.0	118.3	60,787.0	115.9
212	Social contributions	5,434.0	6,304.0	7,241.0	8,602.0	118.8	9,999.0	116.2
<b>22</b>	<b>Use of goods and services</b>	<b>475,301.0</b>	<b>592,492.0</b>	<b>696,421.0</b>	<b>726,456.0</b>	<b>104.3</b>	<b>850,772.0</b>	<b>117.1</b>
<b>24</b>	<b>Interest</b>	<b>1,750.0</b>	<b>928.0</b>	<b>4,306.0</b>	<b>16,060.0</b>	<b>373.0</b>	<b>43,374.0</b>	<b>270.1</b>
241	To nonresidents		928.0	2,528.0	8,268.0	327.1	11,834.0	143.1
242	To residents other than general government	1,750.0	0.0	1,778.0	7,792.0	438.2	31,540.0	404.8
<b>25</b>	<b>Subsidies</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
<b>26</b>	<b>Grants</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	0.0	-	0.0	-
<b>27</b>	<b>Social benefits</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
<b>28</b>	<b>Other expense</b>	<b>209,499.0</b>	<b>201,915.0</b>	<b>182,313.0</b>	<b>258,835.0</b>	<b>142.0</b>	<b>262,002.0</b>	<b>101.2</b>
<b>31</b>	<b>Net acquisition of nonfinancial assets</b>	<b>430,755.0</b>	<b>736,943.0</b>	<b>834,631.0</b>	<b>923,171.0</b>	<b>110.6</b>	<b>1,350,834.0</b>	<b>146.3</b>
31,1	Acquisition of nonfinancial assets	432,218.0	738,092.0	835,907.0	926,359.0	110.8	1,351,622.0	145.9
31,2	Disposal of nonfinancial assets	1,463.0	1,149.0	1,276.0	3,188.0	249.8	788.0	24.7
<b>32</b>	<b>Net acquisition of financial assets</b>	<b>2,233.0</b>	<b>-167,248.0</b>	<b>296.0</b>	<b>50,297.0</b>	<b>-</b>	<b>-29,083.0</b>	<b>-</b>
321	Domestic	2,233.0	-167,248.0	296.0	50,297.0	-	-29,083.0	-
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
<b>33</b>	<b>Net incurrence of liabilities</b>	<b>-49,221.0</b>	<b>30,285.0</b>	<b>351,770.0</b>	<b>561,159.0</b>	<b>-</b>	<b>744,666.0</b>	<b>132.7</b>
331	Domestic	-65,320.0	0.0	100,000.0	302,376.0	-	471,685.0	156.0
332	Foreign	16,099.0	30,285.0	251,770.0	258,783.0	-	272,981.0	105.5



## Appendix 16: Transactions of State agency for banks 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>617,914.0</b>	<b>581,931.0</b>	<b>575,893.0</b>	<b>367,438.0</b>	<b>63.8</b>	<b>409,581.0</b>	<b>111.5</b>
11	Taxes	0.0	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	0.0	-	0.0	-
1331	Current	0.0	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	0.0	-	0.0	-
14	Other revenue	617,914.0	581,931.0	575,893.0	367,438.0	63.8	409,581.0	111.5
<b>2</b>	<b>EXPENSE</b>	<b>301,665.0</b>	<b>251,360.0</b>	<b>314,474.0</b>	<b>182,993.0</b>	<b>58.2</b>	<b>27,354.0</b>	<b>14.9</b>
21	Compensation of employees	3,932.0	4,110.0	4,678.0	5,621.0	120.2	5,713.0	101.6
211	Wages and salaries	3,355.0	3,507.0	4,010.0	4,821.0	120.2	4,896.0	101.6
212	Social contributions	577.0	603.0	668.0	800.0	119.8	817.0	102.1
22	Use of goods and services	28,046.0	7,915.0	10,664.0	21,092.0	197.8	12,472.0	59.1
24	Interest	205,819.0	187,360.0	136,971.0	121,940.0	89.0	239.0	0.2
241	To nonresidents	0.0	0.0	0.0	0.0	-	0.0	-
242	To residents other than general government	205,819.0	187,360.0	136,971.0	121,940.0	89.0	239.0	0.2
25	Subsidies	0.0	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	0.0	-	0.0	-
27	Social benefits	63,868.0	51,975.0	162,161.0	1,511.0	0.9	1,357.0	89.8
271	Social security benefits	63,868.0	51,975.0	162,161.0	1,511.0	0.9	1,357.0	89.8
272	Social assistance benefits		0.0	0.0	0.0	-	0.0	-
28	Other expense		0.0	0.0	32,829.0	-	7,573.0	23.1
31	Net acquisition of nonfinancial assets	17,824.0	-94.0	27,624.0	14,131.0		493.0	3.5
31.1	Acquisition of nonfinancial assets	17,824.0	2,464.0	27,624.0	14,232.0	51.5	565.0	4.0
31.2	Disposal of nonfinancial assets	0.0	2,558.0	0.0	101.0	-	72.0	71.3
32	Net acquisition of financial assets	298,425.0	330,665.0	-134,228.0	-349,252.0	-	381,734.0	-
321	Domestic	298,425.0	330,665.0	-134,228.0	-349,252.0	-	381,734.0	-
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	0.0	0.0	-368,023.0	-519,566.0	-	0.0	-
331	Domestic	0.0	0.0	-368,023.0	-519,566.0	-	0.0	-
332	Foreign	0.0	0.0	0.0	0.0	-	0.0	-



## Appendix 17: Transactions of the Croatian privatization fund 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>188,883.0</b>	<b>125,991.0</b>	<b>62,946.0</b>	<b>237,044.0</b>	<b>376.6</b>	<b>65,871.0</b>	<b>27.8</b>
11	Taxes	0.0	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	0.0	-	0.0	-
1331	Current	0.0	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	0.0	-	0.0	-
14	Other revenue	188,883.0	125,991.0	62,946.0	237,044.0	376.6	65,871.0	27.8
<b>2</b>	<b>EXPENSE</b>	<b>120,195.0</b>	<b>51,685.0</b>	<b>60,141.0</b>	<b>182,119.0</b>	<b>302.8</b>	<b>78,375.0</b>	<b>43.0</b>
21	Compensation of employees	27,676.0	28,942.0	31,044.0	35,996.0	116.0	31,920.0	88.7
211	Wages and salaries	23,812.0	24,794.0	26,721.0	31,273.0	117.0	27,508.0	88.0
212	Social contributions	3,864.0	4,148.0	4,323.0	4,723.0	109.3	4,412.0	93.4
22	Use of goods and services	18,327.0	22,655.0	29,097.0	33,545.0	115.3	30,039.0	89.5
24	Interest	73,902.0	88.0	0.0	0.0	-	16,416.0	-
241	To nonresidents	0.0	0.0	0.0	0.0	-	7,153.0	-
242	To residents other than general government	73,902.0	88.0	0.0	0.0	-	9,263.0	-
25	Subsidies	0.0	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	0.0	-	0.0	-
27	Social benefits	0.0	0.0	0.0	0.0	-	0.0	-
28	Other expense	290.0	0.0	0.0	112,578.0	-	0.0	-
31	Net acquisition of nonfinancial assets	-14,502.0	-15,603.0	-24,444.0	-40,272.0	-	-51,175.0	-
31.1	Acquisition of nonfinancial assets	2,972.0	3,778.0	725.0	2,061.0	284.3	2,907.0	141.0
31.2	Disposal of nonfinancial assets	17,474.0	19,381.0	25,169.0	42,333.0	168.2	54,082.0	127.8
32	Net acquisition of financial assets	-14,363.0	280,272.0	15,293.0	100,403.0	-	-87,682.0	-
321	Domestic	-14,363.0	280,272.0	15,293.0	100,403.0	-	-87,682.0	-
322	Foreign	0.0	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	-	-126,353.0	-
331	Domestic	-97,553.0	190,363.0	-11,956.0	5,206.0	-	-126,353.0	-
332	Foreign	0.0	0.0	0.0	0.0	-	0.0	-



## Appendix 18: Consolidated central government 2002-2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>75,064,040.3</b>	<b>80,786,554.7</b>	<b>87,019,284.2</b>	<b>92,642,473.2</b>	<b>106.5</b>	<b>100,392,605.3</b>	<b>108.4</b>
<b>11</b>	<b>Taxes</b>	<b>45,171,300.7</b>	<b>47,912,180.4</b>	<b>49,833,665.9</b>	<b>53,449,049.0</b>	<b>107.3</b>	<b>58,469,090.7</b>	<b>109.4</b>
<b>111</b>	<b>Taxes on income, profits, and capital gains</b>	<b>6,022,403.1</b>	<b>6,189,047.2</b>	<b>6,259,713.1</b>	<b>7,057,112.3</b>	<b>112.7</b>	<b>8,515,615.0</b>	<b>120.7</b>
1111	Payable by individuals	3,363,295.1	3,114,580.8	3,128,273.0	3,106,476.4	99.3	3,459,649.3	111.4
1112	Payable by corporations and other enterprises	2,659,108.0	3,074,466.4	3,131,440.1	3,950,635.9	126.2	5,055,965.7	128.0
<b>113</b>	<b>Taxes on property</b>	<b>294,555.6</b>	<b>289,926.0</b>	<b>355,823.3</b>	<b>375,500.5</b>	<b>105.5</b>	<b>482,330.9</b>	<b>128.5</b>
<b>114</b>	<b>Taxes on goods and services</b>	<b>36,335,226.2</b>	<b>39,282,251.6</b>	<b>41,286,024.8</b>	<b>44,084,487.4</b>	<b>106.8</b>	<b>47,546,222.5</b>	<b>107.9</b>
1141	General taxes on goods and services	26,089,212.5	28,260,009.3	30,013,661.2	32,399,951.5	108.0	35,091,380.5	108.3
11411	Value-added taxes	25,952,486.3	28,129,299.9	29,864,904.7	32,243,371.6	108.0	34,931,749.5	108.3
11412	Sales taxes	136,726.2	130,709.4	148,756.5	156,579.9	105.3	159,631.0	101.9
1142	Excises	9,835,295.1	10,482,097.1	10,625,357.7	10,939,144.1	103.0	11,564,709.0	105.7
115	Taxes on international trade and transactions	2,050,624.3	1,810,866.2	1,590,727.3	1,562,930.2	98.3	1,588,456.0	101.6
116	Other taxes	468,491.5	340,089.4	341,377.4	369,018.6	108.1	336,466.3	91.2
<b>12</b>	<b>Social contributions</b>	<b>25,200,022.1</b>	<b>27,424,607.5</b>	<b>29,477,597.2</b>	<b>31,301,339.6</b>	<b>106.2</b>	<b>33,877,147.6</b>	<b>108.2</b>
<b>13</b>	<b>Grants</b>	<b>290.0</b>	<b>11,840.5</b>	<b>10,121.5</b>	<b>27,505.2</b>	<b>271.8</b>	<b>194,484.2</b>	<b>707.1</b>
<b>14</b>	<b>Other revenue</b>	<b>4,692,427.5</b>	<b>5,437,926.3</b>	<b>7,697,899.6</b>	<b>7,864,579.4</b>	<b>102.2</b>	<b>7,851,882.8</b>	<b>99.8</b>
<b>2</b>	<b>EXPENSE</b>	<b>75,448,085.9</b>	<b>80,715,286.4</b>	<b>86,941,437.4</b>	<b>92,332,139.9</b>	<b>106.2</b>	<b>98,751,407.9</b>	<b>107.0</b>
<b>21</b>	<b>Compensation of employees</b>	<b>20,288,106.7</b>	<b>22,068,463.1</b>	<b>23,265,723.7</b>	<b>24,300,114.9</b>	<b>104.4</b>	<b>25,512,962.4</b>	<b>105.0</b>
211	Wages and salaries	17,326,467.8	18,762,897.2	19,750,868.2	20,665,832.4	104.6	21,699,724.0	105.0
212	Social contributions	2,961,638.9	3,305,565.9	3,514,855.5	3,634,282.5	103.4	3,813,238.4	104.9
<b>22</b>	<b>Use of goods and services</b>	<b>6,870,170.0</b>	<b>6,291,713.6</b>	<b>6,327,740.5</b>	<b>7,100,232.4</b>	<b>112.2</b>	<b>9,193,481.2</b>	<b>129.5</b>
<b>24</b>	<b>Interest</b>	<b>3,646,152.2</b>	<b>3,955,965.9</b>	<b>4,343,680.3</b>	<b>5,004,649.7</b>	<b>115.2</b>	<b>5,397,046.3</b>	<b>107.8</b>
241	To nonresidents	1,919,679.3	2,026,844.9	2,160,784.3	2,359,004.9	109.2	2,386,923.2	101.2
242	To residents other than general government	1,726,472.9	1,929,121.0	2,182,896.0	2,645,644.8	121.2	3,010,123.1	113.8
<b>25</b>	<b>Subsidies</b>	<b>3,563,568.5</b>	<b>4,292,712.4</b>	<b>4,968,068.5</b>	<b>5,253,932.7</b>	<b>105.8</b>	<b>5,684,591.5</b>	<b>108.2</b>
251	To public corporations	1,654,823.2	1,942,931.7	2,783,462.4	2,790,014.0	100.2	2,692,784.7	96.5
252	To private enterprises	1,908,745.3	2,349,780.7	2,184,606.1	2,463,918.7	112.8	2,991,806.8	121.4
<b>26</b>	<b>Grants</b>	<b>1,659,176.5</b>	<b>1,737,217.2</b>	<b>2,162,992.9</b>	<b>2,804,759.7</b>	<b>129.7</b>	<b>2,838,841.9</b>	<b>101.2</b>
261	To foreign governments	66,004.3	43,918.0	76,464.4	73,639.3	96.3	64,794.9	88.0
262	To international organizations	38,682.7	41,239.1	83,433.8	93,831.7	112.5	89,618.5	95.5
263	To other general government units	1,554,489.5	1,652,060.1	2,003,094.7	2,637,288.7	131.7	2,684,428.5	101.8
<b>27</b>	<b>Social benefits</b>	<b>35,839,240.5</b>	<b>37,939,553.1</b>	<b>40,645,793.6</b>	<b>41,930,231.8</b>	<b>103.2</b>	<b>44,192,851.3</b>	<b>105.4</b>
271	Social security benefits	19,533,160.8	30,639,144.5	29,100,970.6	29,879,823.4	102.7	31,276,694.3	104.7
272	Social assistance benefits	15,943,381.4	6,745,819.7	11,180,722.8	11,792,745.3	105.5	12,793,596.4	108.5
273	Employer social benefits	362,698.3	554,588.9	364,100.2	257,663.1	70.8	122,560.6	47.6
<b>28</b>	<b>Other expense</b>	<b>3,581,671.5</b>	<b>4,429,661.1</b>	<b>5,227,437.9</b>	<b>5,938,218.7</b>	<b>113.6</b>	<b>5,931,633.3</b>	<b>99.9</b>
281	Property expense other than interest	451.8	6,766.9	3,954.6	4,919.8	124.4	7,599.8	154.5
282	Miscellaneous other expense	3,581,219.7	3,660,274.2	5,223,483.3	5,933,298.9	113.6	5,924,033.5	99.8
2821	Current	1,626,258.2	2,310,437.4	1,870,320.4	2,301,161.2	123.0	2,337,524.5	101.6
2822	Capital	1,954,961.5	1,349,836.8	3,353,162.9	3,632,137.7	108.3	3,586,509.0	98.7
<b>31</b>	<b>Net acquisition of nonfinancial assets</b>	<b>6,129,421.9</b>	<b>7,996,013.6</b>	<b>8,373,462.9</b>	<b>6,699,416.4</b>	<b>80.0</b>	<b>6,108,627.1</b>	<b>91.2</b>
311	Fixed assets	5,898,126.8	7,867,051.4	8,158,063.6	6,439,709.2	78.9	5,788,653.5	89.9
312	Inventories	7.2	0.0	0.0	0.0	-	-80,226.0	-
313	Valuables	70,399.8	5,303.3	7,518.2	7,220.0	96.0	7,825.8	108.4
314	Nonproduced assets	160,888.1	123,658.9	207,881.1	252,487.2	121.5	392,373.8	155.4
<b>32</b>	<b>Net acquisition of financial assets</b>	<b>516,310.2</b>	<b>-963,227.6</b>	<b>28,384.3</b>	<b>1,609,759.5</b>	<b>-</b>	<b>-2,576,689.0</b>	<b>-</b>
321	Domestic	502,820.8	-973,153.7	18,598.5	1,614,616.4	-	-2,593,369.6	-
322	Foreign	13,489.4	9,926.1	9,785.8	-4,856.9	-	16,680.6	-
<b>33</b>	<b>Net incurrence of liabilities</b>	<b>7,029,777.7</b>	<b>6,961,517.7</b>	<b>8,324,000.4</b>	<b>7,998,842.6</b>	<b>-</b>	<b>1,890,740.7</b>	<b>23.6</b>
331	Domestic	2,078,600.2	948,883.8	4,107,680.1	12,041,677.7	-	5,282,792.0	43.9
332	Foreign	4,951,177.5	6,012,633.9	4,216,320.3	-4,042,835.1	-	-3,392,051.3	-



## Appendix 19: Local governments (53 units, 32 cities, counties and the city of Zagreb) 2002 - 2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>9,097,563.2</b>	<b>10,074,567.5</b>	<b>10,828,868.4</b>	<b>12,162,401.0</b>	<b>112.3</b>	<b>13,560,211.1</b>	<b>111.5</b>
<b>11</b>	<b>Taxes</b>	<b>5,494,335.2</b>	<b>5,922,472.9</b>	<b>6,592,062.2</b>	<b>7,072,350.0</b>	<b>107.3</b>	<b>8,299,154.8</b>	<b>117.3</b>
<b>111</b>	<b>Taxes on income, profits, and capital gains</b>	<b>4,918,394.0</b>	<b>5,327,376.0</b>	<b>5,900,998.9</b>	<b>6,339,797.5</b>	<b>107.4</b>	<b>7,456,675.5</b>	<b>117.6</b>
1111	Payable by individuals	3,863,376.9	4,083,336.2	4,636,341.8	4,718,191.7	101.8	5,353,205.4	113.5
1112	Payable by corporations and other enterprises	1,055,017.1	1,244,039.8	1,264,657.1	1,621,605.8	128.2	2,103,470.1	129.7
<b>113</b>	<b>Taxes on property</b>	<b>329,418.2</b>	<b>315,914.0</b>	<b>375,089.5</b>	<b>388,134.7</b>	<b>103.5</b>	<b>479,492.4</b>	<b>123.5</b>
<b>114</b>	<b>Taxes on goods and services</b>	<b>228,361.4</b>	<b>264,917.2</b>	<b>301,941.4</b>	<b>330,015.1</b>	<b>109.3</b>	<b>348,258.8</b>	<b>105.5</b>
1141	General taxes on goods and services	38,714.8	42,806.3	43,613.3	46,901.4	107.5	52,058.8	111.0
11411	Value-added taxes	0.0	0.0	0.0	0.0	-	0.0	-
11412	Sales taxes	38,714.8	42,806.3	43,613.3	46,901.4	107.5	52,058.8	111.0
1142	Excises	0.0	0.0	0.0	0.0	-	0.0	-
115	Taxes on international trade and transactions	0.0	0.0	0.0	0.0	-	0.0	-
116	Other taxes	18,161.6	14,265.7	14,032.4	14,402.7	102.6	14,728.1	102.3
<b>12</b>	<b>Social contributions</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>-</b>
<b>13</b>	<b>Grants</b>	<b>1,266,768.1</b>	<b>1,546,815.0</b>	<b>1,425,055.7</b>	<b>1,704,577.3</b>	<b>119.6</b>	<b>1,664,688.1</b>	<b>97.7</b>
<b>14</b>	<b>Other revenue</b>	<b>2,336,459.9</b>	<b>2,605,279.6</b>	<b>2,811,750.5</b>	<b>3,385,473.7</b>	<b>120.4</b>	<b>3,596,368.2</b>	<b>106.2</b>
<b>2</b>	<b>EXPENSE</b>	<b>7,136,352.6</b>	<b>8,127,197.7</b>	<b>8,766,249.2</b>	<b>9,882,541.6</b>	<b>112.7</b>	<b>10,629,312.5</b>	<b>107.6</b>
<b>21</b>	<b>Compensation of employees</b>	<b>1,893,839.3</b>	<b>1,996,994.2</b>	<b>2,239,472.3</b>	<b>2,379,584.8</b>	<b>106.3</b>	<b>2,695,250.3</b>	<b>113.3</b>
211	Wages and salaries	1,639,774.9	1,732,909.5	1,972,800.2	2,065,604.6	104.7	2,335,942.5	113.1
212	Social contributions	254,064.4	264,084.7	266,672.1	313,980.2	117.7	359,307.8	114.4
<b>22</b>	<b>Use of goods and services</b>	<b>2,902,398.5</b>	<b>3,202,470.5</b>	<b>3,351,575.2</b>	<b>3,775,863.0</b>	<b>112.7</b>	<b>4,108,887.9</b>	<b>108.8</b>
<b>24</b>	<b>Interest</b>	<b>115,048.8</b>	<b>83,216.2</b>	<b>79,558.6</b>	<b>98,046.8</b>	<b>123.2</b>	<b>71,548.4</b>	<b>73.0</b>
241	To nonresidents	8,007.1	44,655.5	41,105.5	43,218.2	105.1	6,816.6	15.8
242	To residents other than general government	107,041.7	38,560.7	38,453.1	54,694.2	142.2	64,559.8	118.0
<b>25</b>	<b>Subsidies</b>	<b>582,495.1</b>	<b>623,122.6</b>	<b>726,356.3</b>	<b>746,131.5</b>	<b>102.7</b>	<b>877,360.8</b>	<b>117.6</b>
251	To public corporations	534,269.5	570,717.9	637,156.2	648,729.6	101.8	714,296.0	110.1
252	To private enterprises	48,225.6	52,404.7	89,200.1	97,401.9	109.2	163,064.8	167.4
<b>26</b>	<b>Grants</b>	<b>142,180.6</b>	<b>366,701.1</b>	<b>267,077.0</b>	<b>289,637.6</b>	<b>108.4</b>	<b>286,226.4</b>	<b>98.8</b>
261	To foreign governments	0.0	0.0	0.0	0.0	-	118.3	-
262	To international organizations	0.0	0.0	0.0	0.0	-	101.8	-
263	To other general government units	142,180.6	366,701.1	267,077.0	289,637.6	108.4	286,006.3	98.7
2631	Current	142,180.6	136,022.0	91,219.7	123,769.6	135.7	116,216.2	93.9
2632	Capital	0.0	230,679.1	175,857.3	165,868.0	94.3	169,790.1	102.4
<b>27</b>	<b>Social benefits</b>	<b>289,768.0</b>	<b>314,946.5</b>	<b>376,014.0</b>	<b>538,720.2</b>	<b>143.3</b>	<b>635,151.5</b>	<b>117.9</b>
271	Social security benefits	0.0	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	282,929.0	310,386.5	371,699.7	525,627.8	141.4	617,448.5	117.5
273	Employer social benefits	6,839.0	4,560.0	4,314.3	13,092.4	303.5	17,703.0	135.2
<b>28</b>	<b>Other expense</b>	<b>1,210,622.3</b>	<b>1,539,746.6</b>	<b>1,726,195.8</b>	<b>2,054,557.7</b>	<b>119.0</b>	<b>1,954,887.2</b>	<b>95.1</b>
281	Property expense other than interest	0.0	0.0	0.0	0.0	-	0.0	-
282	Miscellaneous other expense	1,210,622.3	1,539,746.6	1,726,195.8	2,054,557.7	119.0	1,954,887.2	95.1
2821	Current	938,099.3	1,260,826.0	1,274,170.8	1,450,780.6	113.9	1,294,902.7	89.3
2822	Capital	272,523.0	278,920.6	452,025.0	603,777.1	133.6	659,984.5	109.3
<b>31</b>	<b>Net acquisition of nonfinancial assets</b>	<b>1,135,933.1</b>	<b>1,668,400.3</b>	<b>2,121,355.0</b>	<b>2,360,290.0</b>	<b>111.3</b>	<b>2,974,314.3</b>	<b>126.0</b>
311	Fixed assets	1,173,198.0	1,675,953.4	2,213,163.1	2,460,333.6	111.2	2,963,174.7	120.4
312	Inventories	0.0	0.0	0.0	0.0	-	0.0	-
313	Valuables	1,553.4	1,581.3	164.3	209.4	127.4	435.9	208.2
314	Nonproduced assets	-38,818.3	-9,134.4	-91,972.4	-100,253.0	-	10,703.7	-
<b>32</b>	<b>Net acquisition of financial assets</b>	<b>785,185.5</b>	<b>197,223.8</b>	<b>76,344.6</b>	<b>-303,883.4</b>	<b>-</b>	<b>-53,130.0</b>	<b>-</b>
321	Domestic	786,827.7	203,921.8	78,038.8	-303,883.4	-	-53,130.0	-
322	Foreign	-1,642.2	-6,698.0	-1,694.2	0.0	-	0.0	-
<b>33</b>	<b>Net incurrence of liabilities</b>	<b>-40,092.0</b>	<b>-81,745.7</b>	<b>135,080.4</b>	<b>-223,452.8</b>	<b>-</b>	<b>-9,714.3</b>	<b>-</b>
331	Domestic	-26,851.1	7,415.1	232,026.2	-130,446.8	-	80,882.2	-
332	Foreign	-13,240.9	-89,160.8	-96,945.8	-93,006.0	-	-90,596.5	-



## Appendix 20: Consolidated general government 2002-2006

	(000 HRK)	2002	2003	2004	2005	Index 2005/2004	2006	Index 2006/2005
<b>1</b>	<b>REVENUE</b>	<b>82,895,735.6</b>	<b>89,314,500.8</b>	<b>96,426,967.1</b>	<b>103,100,940.9</b>	<b>106.9</b>	<b>112,293,777.0</b>	<b>108.9</b>
<b>11</b>	<b>Taxes</b>	<b>50,665,636.0</b>	<b>53,834,653.3</b>	<b>56,425,728.1</b>	<b>60,521,399.0</b>	<b>107.3</b>	<b>66,768,245.5</b>	<b>110.3</b>
<b>111</b>	<b>Taxes on income, profits, and capital gains</b>	<b>10,940,797.1</b>	<b>11,516,423.2</b>	<b>12,160,712.0</b>	<b>13,396,909.8</b>	<b>110.2</b>	<b>15,972,290.5</b>	<b>119.2</b>
1111	Payable by individuals	7,226,672.0	7,197,917.0	7,764,614.8	7,824,668.1	100.8	8,812,854.7	112.6
1112	Payable by corporations and other enterprises	3,714,125.1	4,318,506.2	4,396,097.2	5,572,241.7	126.8	7,159,435.8	128.5
<b>113</b>	<b>Taxes on property</b>	<b>623,973.9</b>	<b>605,840.0</b>	<b>730,912.8</b>	<b>763,635.2</b>	<b>104.5</b>	<b>961,823.3</b>	<b>126.0</b>
<b>114</b>	<b>Taxes on goods and services</b>	<b>36,563,587.6</b>	<b>39,547,168.8</b>	<b>41,587,966.2</b>	<b>44,414,502.5</b>	<b>106.8</b>	<b>47,894,481.3</b>	<b>107.8</b>
1141	General taxes on goods and services	26,127,927.3	28,302,815.6	30,057,274.5	32,446,852.9	108.0	35,143,439.3	108.3
11411	Value-added taxes	25,952,486.3	28,129,299.9	29,864,904.7	32,243,371.6	108.0	34,931,749.5	108.3
11412	Sales taxes	175,441.0	173,515.7	192,369.8	203,481.3	105.8	211,689.8	104.0
1142	Excises	9,835,295.1	10,482,097.1	10,625,357.7	10,939,144.1	103.0	11,564,709.0	105.7
115	Taxes on international trade and transactions	2,050,624.3	1,810,866.2	1,590,727.3	1,562,930.2	98.3	1,588,456.0	101.6
116	Other taxes	486,653.1	354,355.1	355,409.8	383,421.3	107.9	351,194.4	91.6
<b>12</b>	<b>Social contributions</b>	<b>25,200,022.1</b>	<b>27,424,607.5</b>	<b>29,477,597.2</b>	<b>31,301,339.6</b>	<b>106.2</b>	<b>33,877,147.6</b>	<b>108.2</b>
<b>121</b>	<b>Social security contributions</b>	<b>25,200,022.1</b>	<b>27,424,607.5</b>	<b>29,477,597.2</b>	<b>31,301,339.6</b>	<b>106.2</b>	<b>33,877,147.6</b>	<b>108.2</b>
<b>13</b>	<b>Grants</b>	<b>1,190.2</b>	<b>12,034.1</b>	<b>13,991.7</b>	<b>28,149.2</b>	<b>201.2</b>	<b>200,132.9</b>	<b>711.0</b>
<b>14</b>	<b>Other revenue</b>	<b>7,028,887.3</b>	<b>8,043,205.9</b>	<b>10,509,650.1</b>	<b>11,250,053.1</b>	<b>107.0</b>	<b>11,448,251.0</b>	<b>101.8</b>
<b>2</b>	<b>EXPENSE</b>	<b>81,318,570.6</b>	<b>87,295,862.7</b>	<b>94,286,501.1</b>	<b>100,510,748.2</b>	<b>106.6</b>	<b>107,721,681.0</b>	<b>107.2</b>
<b>21</b>	<b>Compensation of employees</b>	<b>22,181,946.0</b>	<b>24,065,457.3</b>	<b>25,505,196.0</b>	<b>26,679,699.7</b>	<b>104.6</b>	<b>28,208,212.7</b>	<b>105.7</b>
211	Wages and salaries	18,966,242.7	20,495,806.7	21,723,668.4	22,731,437.0	104.6	24,035,666.5	105.7
212	Social contributions	3,215,703.3	3,569,650.6	3,781,527.6	3,948,262.7	104.4	4,172,546.2	105.7
<b>22</b>	<b>Use of goods and services</b>	<b>9,772,568.5</b>	<b>9,494,184.1</b>	<b>9,679,315.7</b>	<b>10,876,095.4</b>	<b>112.4</b>	<b>13,302,369.1</b>	<b>122.3</b>
<b>24</b>	<b>Interest</b>	<b>3,761,201.0</b>	<b>4,039,182.1</b>	<b>4,423,238.9</b>	<b>5,102,696.5</b>	<b>115.4</b>	<b>5,468,594.7</b>	<b>107.2</b>
241	To nonresidents	1,927,686.4	2,071,500.4	2,201,889.8	2,402,223.1	109.1	2,393,739.8	99.6
242	To residents other than general government	1,833,514.6	1,967,681.7	2,221,349.1	2,700,339.0	121.6	3,074,682.9	113.9
<b>25</b>	<b>Subsidies</b>	<b>4,146,063.6</b>	<b>4,915,835.0</b>	<b>5,694,424.8</b>	<b>6,000,064.2</b>	<b>105.4</b>	<b>6,561,952.3</b>	<b>109.4</b>
251	To public corporations	2,189,092.7	2,513,649.6	3,420,618.6	3,438,743.6	100.5	3,407,080.7	99.1
252	To private enterprises	1,956,970.9	2,402,185.4	2,273,806.2	2,561,320.6	112.6	3,154,871.6	123.2
<b>26</b>	<b>Grants</b>	<b>535,489.2</b>	<b>557,296.9</b>	<b>1,008,884.4</b>	<b>1,390,464.0</b>	<b>137.8</b>	<b>1,466,028.9</b>	<b>105.4</b>
261	To foreign governments	66,004.3	43,918.0	76,464.4	73,639.3	96.3	64,913.2	88.2
262	To international organizations	38,682.7	41,239.1	83,433.8	93,831.7	112.5	89,720.3	95.6
263	To other general government units	430,802.2	472,139.8	848,986.2	1,222,993.0	144.1	1,311,395.4	107.2
<b>27</b>	<b>Social benefits</b>	<b>36,129,008.5</b>	<b>38,254,499.6</b>	<b>41,021,807.6</b>	<b>42,468,952.0</b>	<b>103.5</b>	<b>44,828,002.8</b>	<b>105.6</b>
271	Social security benefits	19,534,517.5	30,639,144.5	29,100,970.6	29,879,823.4	102.7	31,276,694.3	104.7
272	Social assistance benefits	16,224,953.7	7,056,206.2	11,552,422.5	12,318,373.1	106.6	13,411,044.9	108.9
273	Employer social benefits	369,537.3	559,148.9	368,414.5	270,755.5	73.5	140,263.6	51.8
<b>28</b>	<b>Other expense</b>	<b>4,792,293.8</b>	<b>5,969,407.7</b>	<b>6,953,633.7</b>	<b>7,992,776.4</b>	<b>114.9</b>	<b>7,886,520.5</b>	<b>98.7</b>
281	Property expense other than interest	451.8	6,766.9	3,954.6	4,919.8	124.4	7,599.8	154.5
282	Miscellaneous other expense	4,791,842.0	5,200,020.8	6,949,679.1	7,987,856.6	114.9	7,878,920.7	98.6
2821	Current	2,564,357.5	3,571,263.4	3,144,491.2	3,751,941.8	119.3	3,632,427.2	96.8
2822	Capital	2,227,484.5	1,628,757.4	3,805,187.9	4,235,914.8	111.3	4,246,493.5	100.2
<b>31</b>	<b>Net acquisition of nonfinancial assets</b>	<b>7,265,355.0</b>	<b>9,664,413.9</b>	<b>10,494,817.9</b>	<b>9,059,706.4</b>	<b>86.3</b>	<b>9,082,941.4</b>	<b>100.3</b>
311	Fixed assets	7,071,324.8	9,543,004.8	10,371,226.7	8,900,042.8	85.8	8,751,828.2	98.3
312	Inventories	7.2	0.0	0.0	0.0	-	-80,226.0	-
313	Valuables	71,953.2	6,884.6	7,682.5	7,429.4	96.7	8,261.7	111.2
314	Nonproduced assets	122,069.8	114,524.5	115,908.7	152,234.2	131.3	403,077.5	264.8
<b>32</b>	<b>Net acquisition of financial assets</b>	<b>1,301,495.7</b>	<b>-767,908.2</b>	<b>104,241.8</b>	<b>1,305,876.1</b>	<b>-</b>	<b>-2,629,878.3</b>	<b>-</b>
321	Domestic	1,289,648.5	-771,136.3	96,150.2	1,310,733.0	-	-2,646,558.9	-
322	Foreign	11,847.2	3,228.1	8,091.6	-4,856.9	-	16,680.6	-
<b>33</b>	<b>Net incurrence of liabilities</b>	<b>6,989,685.7</b>	<b>6,877,867.6</b>	<b>8,458,593.7</b>	<b>7,775,389.8</b>	<b>-</b>	<b>1,880,967.1</b>	<b>24.2</b>
331	Domestic	2,051,749.1	954,394.5	4,339,219.2	11,911,230.9	-	5,363,614.9	45.0
332	Foreign	4,937,936.6	5,923,473.1	4,119,374.5	-4,135,841.1	-	-3,482,647.8	-

**ACTS THAT ALIGN THE LEGISLATION OF THE REPUBLIC OF CROATIA WITH EUROPEAN UNION REGULATIONS FROM THE SCOPE OF MINISTRY OF FINANCE - YEAR 2006**



No	LEGISLATIVE MEASURES	INSTITUTION	GOVERNMENT OF THE REPUBLIC OF CROATIA	CROATIAN PARLIAMENT	OFFICIAL GAZETTE
<b>PARLIAMENT SESSION 1<sup>st</sup> QUARTER</b>					
1	Profit Tax Act	MFIN-TA	28 April 2006	12 May 2006	57/2006
<b>PARLIAMENT SESSION 4<sup>th</sup> QUARTER</b>					
2	Act on Amendments to the Foreign Exchange Act	MFIN / CNB	26 October 2006	24 November 2006	132/06
3	Act on Amendments to the Croatian National Bank Act	MFIN / CNB	10 November 2006	1 December 2006	135/06
4	Act on Amendments to the Customs Act	MFIN - CA	23 November 2006	8 December 2006	138/06
5	Act on Credit Unions	MFIN	23 November 2006	15 December 2006	141/06
6	Act on Amendments to the Banking Law	MFIN / CNB	23 November 2006	15 December 2006	141/06
7	Act on Amendments to the Securities Market Act	MFIN / CFSSA	23 November 2006	8 December 2006	138/06
8	Act on Croatian Bank for Reconstruction and Development (HBOR)	MFIN / HBOR	30 November 2006	8 December 2006	138/06
9	Act on the Public Internal Financial Control	MFIN	07 December 2006	15 December 2006	141/06

**SUBORDINATE REGULATIONS THAT ALIGN THE LEGISLATION OF THE REPUBLIC OF CROATIA WITH EUROPEAN UNION REGULATIONS FROM THE SCOPE OF MINISTRY OF FINANCE - YEAR 2006**

No	LEGISLATIVE MEASURES	INSTITUTION	GOVERNMENT OF THE REPUBLIC OF CROATIA	OFFICIAL GAZETTE
<b>GOVERNMENT SESSION 2<sup>nd</sup> QUARTER</b>				
1	Regulation on State Aid	MFIN	28 April 2006	50/06
<b>GOVERNMENT SESSION 4<sup>th</sup> QUARTER</b>				
2	Regulation on Amendments to the Regulation on the implementation of the Customs Act	MFIN - CA	05 January 2007	5/07
3	Regulation on conditions and procedures for customs duty relief	MFIN - CA	05 January 2007	5/07





**PROJECTS FROM EUROPEAN UNION ASSISTANCE PROGRAMMES WITHIN THE JURISDICTION OF MINISTRY OF FINANCE - YEAR 2006**

Project Title	Aim of the Project	Budget and type of contract	Project status in 2006	Remarks
<b>Current Projects</b>				
<b>Central part of the Ministry of Finance</b>				
CARDS 2002 Fiscal decentralisation	Promotion of fiscal decentralisation process in the Republic of Croatia with a goal of establishing public administration aligned with European Union standards	Acquisition and Technical assistance 1,300,000.00 €	Implementation phase	
CARDS 2002 Development of Public Debt Management Capacity	Strengthening of the legislative and institutional framework in the public debt management system, development of the organisational structure of the Cash and Public Debt Management Department and capacity strengthening of staff in the Cash and Public Debt Management Department	Acquisition and Technical assistance 1,500,000.00 €	Implementation phase	
CARDS 2003 Development of Methodology for Obtaining Key Statistic Indicators in the Field of Public Finances	Goals: Improvement in public finances management in the Republic of Croatia; assurance of reliable, internationally comparable data on public finances, aligned among the insitutions	<i>Twinning</i> 798,159.00 €	Implementation phase	
CARDS 2004 Strengthening of Public Internal Financial Control and Internal Audit	Horizontal and vertical strengthening of the Public Internal Financial Control system at the level of local and regional self-government units, developing the Public Internal Financial Control methodology and organisational structure at the level of local and regional self-government units, capacity strengthening for the implementation of Public Internal Financial Control and Internal Audit procedures at the level of local and regional self-government units	Technical assistance and Acquisition 1,500,000.00 €	Implementation phase	Acquisition component decentralised
CARDS 2004 Support to the National Authorising Officer and National Coordinators in Decentralised Implementation and Management of European Assistance	Development of administrative capacities of the Croatian public administration with a goal of efficient use of the EU pre-accession assistance funds. Preparation of administrative capacities for transition from accredited DIS system to completely decentralised system (EDIS) of management of EU pre-accession assistance funds	Technical assistance 1,500,000.00 €	Implementation phase	
PHARE 2006 Improvement in financial processes with a goal of efficient financial management	Effective and sustainable system of financial management based on modern instruments and mechanisms made by European Union standards.	Technical assistance and Acquisition 4,095,000.00 €	Programming phase completed	Decentralised



Project Title	Aim of the Project	Budget and type of contract	Project status in 2006	Remarks
<b>Current Projects</b>				
<b>Tax Administration</b>				
CARDS 2004 Strengthening of the Tax System in the Field of VAT as a Basis for the Development of a VIES Interconnected IT System	Strengthening the administrative capacity of the Croatian Tax Administration for the implementation of new legal provisions and procedures in the area of VAT, and strengthening the capacity of the Tax Administration with the objective of introducing the VIES (VAT Information Exchange System) interconnected IT system	<i>Twinning</i> 1,300,000.00 €	Implementation phase	
CARDS 2004 Assessment and development of the strategy based on Fiscal Blueprints	Improvement in administrative capacities of the Tax Administration of the Republic of Croatia within assistance in preparation of the general Business Change Management Plan on the basis of <i>Fiscal Blueprint documents</i> , and within assistance in preparation of general IT strategy that represents basis for further organisation of Tax Administration IT	Framework Contract 199,250.00 €	Implementation phase	Decentralised
PHARE 2005 Strengthening and Modernisation of Tax Administration in the field of VAT pursuant to EU standards	Development of capacities for introduction of VIES information system of connectivity in the Tax Administration of the Republic of Croatia	<i>Twinning</i> and Technical assistance 3,000,000.00 €	Beginning of the tender procedure	Decentralised
PHARE 2006 Strengthening the informatic function of Tax Administration with the Objective of Achieving EU Standards in the Field of VAT	Establishment of VIES ( <i>VAT Information Exchange System</i> ) and VES ( <i>VAT on e-services</i> ) information systems of connectivity	<i>Twinning</i> and Technical assistance 3,000,000.00 €	Programming phase completed	Decentralised



Project Title	Aim of the Project	Budget and type of contract	Project status in 2006	Remarks
<b>Current Projects</b>				
<b>Customs Administration</b>				
CARDS 2003 Support to the Customs Administration in the Area of Excise duties	Strengthening the administrative efficiency of the Customs Administration in the area of excise duties and preparations for the introduction of appropriate IT structures for excise duties in line with EU standards	<i>Twimming</i> 800,000.00 €	Implementation phase	
CARDS 2003 Support to Customs Laboratories System	Support to customs laboratories development	<i>Twimming light</i> 150,000.00 €	Implementation phase	Decentralised
CARDS 2004 Preparation for the Establishment of the Integrated Tariff of the European Communities (TARIC)	Further harmonisation of the legal framework in the field of Union transit, preparation for joining the TARIC system and strengthening the institutional capacities of the Customs Administration	<i>Twimming</i> 1,350,000.00 €	Implementation phase	
PHARE 2005 Computerised operational connection of the customs system of the Republic of Croatia to the EU customs system and modernisation of customs laboratories in the Republic of Croatia	Strengthening of operative capacity of the Customs Administration of the Republic of Croatia in the field of control of transit and control of movement of goods on which excise duties apply, because of achieving complete compatibility and connectivity of the Croatian Customs Administration IT system to the EU IT systems	<i>Twimming</i> and Technical assistance 8,700,000.00 €	Beginning of the tender procedure	Decentralised
PHARE 2006 Integration of the Croatian Customs Information Systems with the EU Customs Information Systems	Achieving complete compatibility and connectivity of the Croatian Customs Administration information system with the EU IT systems	<i>Twimming, Twimming light,</i> Technical assistance 6,450,000.00 €	Programming phase completed	Decentralised
IPA 2007 Development of the Customs Laboratories System in the Republic of Croatia	Further development of the customs laboratories in order to achieve operative capacity congruent to European Union requests	<i>Twimming</i> and Acquisition 2,900,000.00 €	Beginning of the programming phase	Decentralised
IPA 2007 Acquisition of equipment for mobile units of the Customs Administration of the Republic of Croatia for the purpose of fight against trafficking	Strengthening of customs control and supervision in the customs zone of the Republic of Croatia area	Acquisition 4,700,000.00 €	Beginning of the programming phase	Decentralised



Project Title	Aim of the Project	Budget and type of contract	Project status in 2006	Remarks
<b>Completed Projects</b>				
<b>Central part of the Ministry of Finance</b>				
CARDS 2003 Support to the Ministry of Finance of the Republic of Croatia in reporting on the level of fiscal deficit and public debt according to the ESA 95 methodology	Improvement in reporting on fiscal deficit and public debt monitoring according to European Union requests, that is ECOFIN and ECOSTAT, and improvement in capacities in Bureau for Macroeconomic Analysis and Planning for the purpose of harmonization in reporting on fiscal deficit and public debt according to ESA 95 methodology	<i>Twinning</i> 60,000.00 €	Project completed	
<b>Completed Projects</b>				
<b>Customs Administration</b>				
CARDS 2002 Establishment of the NCTS Transit System	Development of NCTS transit system ( <i>New Computerized Transit System</i> ) through strengthening the administrative capacity of the Customs Administration for implementation of new legal regulations and procedures in the field of Union transit, and through preparation of transit system compatible to NCTS and based on MCC (Minimal Common Core) IT platform	<i>Twinning</i> 1,000,000.00 €	Project completed	
CARDS 2004 Support to the customs service in preparation of Business Change Management Plan (BCMP) and IT strategy	Assistance to the Croatian Customs Administration in preparation of long-term Business Change Management Plan in main administrative and operative fields related to customs. The assistance to the Croatian Customs Administration in preparation of long-term IT strategy that would provide basis for further IT organisation in the Customs Administration, especially concerning introduction of IT interoperable systems	Framework Contract 150,000.00 €	Project completed	



PUBLISHER:  
Ministry of Finance of the Republic of Croatia  
Zagreb, Katančićeva 5

Editor:  
Bureau for Macroeconomic Analysis and Planning

Prepared by:  
Bureau for Macroeconomic Analysis and Planning  
Public Debt Management Department  
Sector for Budget Preparation  
Sector for Budget Execution  
Department for International Financial Institutions and European Integration  
Department for Financing EU Assistance Programs and Projects  
Department for Financial System  
Department of Economy  
Internal Audit and Control Department  
Ministry Secretariat  
Tax Administration  
Customs Administration  
Financial Police  
Foreign Exchange Inspectorate  
Money Laundering Prevention Department

Technical editor:



Printing:



Edition:  
550 copies

ISSN 1331 - 6125

Those using data from the Annual Report are requested to cite the source.

Available on the Internet:  
[www.mfin.hr](http://www.mfin.hr)

Zagreb, 2007

