

REPUBLIC OF CROATIA
MINISTRY OF FINANCE



ANNUAL REPORT

OF THE MINISTRY OF
FINANCE FOR **2009**

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A WORD FROM THE MINISTER OF FINANCE



The onset of the global economic crisis left trace on macroeconomic developments, both in Croatia and in the rest of the world. Financial crisis which spread in the second half of 2008 washed over the real sector during 2009, thus necessitating an adjustment of the economic policy to the new conditions. Public finances, i.e. fiscal policy, were in the focus of attention.

Specifically, negative trends which materialised in the sphere of public finances, first under the impact of the global financial crisis, but then also the economic crisis, were significant and of such character that the adjustment to the new conditions was neither simple nor easy. In such unfavourable environment, we experienced particularly negative trends regarding budget revenues, but under the influence of financial trends we also experienced limitations of the possibility of sustaining budget expenses on levels before the crisis, or the possibility of potential significant budget deficit increase so that the fiscal policy can influence stronger stabilisation of macroeconomic conditions. In such conditions, the Government of the Republic of Croatia, together with the Ministry of Finance, faced a significant and not at all an easy task of focusing their fiscal policy on achievement of the highest possible level of social benefits in conditions in which the room for manoeuvre in this segment of economic policy was extremely narrow. Intensification of the crisis and its course throughout the year continued confronting us with new obstacles which we had to acknowledge, but which we still managed to overcome successfully and to the maximum extent, under the given conditions. We adopted three budget revisions within which we made important decisions on decreasing the basis for calculation of salaries in civil and public services, decreasing the basis for calculation of salaries of government officials, lifting the standard VAT rate by one percentage point, introducing a special tax on salaries, pensions and other receivables, and numerous other measures which helped us to rationalise, as far as practicable, the functioning of the state and to adjust it to the current conditions.

Not all measures which we implemented were easy, either for those operating the policy in that segment or for those sharing through such measures a part of the burden placed upon us by this extraordinary financial and economic situation in which our country, as well as the rest of the world, found itself. In this context, it should be pointed out that the fiscal policy has a task of ensuring a redistribution of such scant resources in a way to achieve the best economic and social results. This was particularly evident in the conditions which characterised 2009. In this sense, the fiscal policy was implemented in order to ensure viability of the public finances in the most challenging economic conditions ever since the great crisis of the 1920s, and to place new foundations for the recovery of our economy and its steady growth in the years to come. Of course, another thing which should be pointed out is that the results which we achieved in the preservation of the public finances are the outcome not just of the efforts of the Croatian Government or the Ministry of Finance, but also of general participation of all Croatian citizens who, in order to eliminate the effects of the crisis and ensure a stable economy for the future, carried some burden.

Finally, I would like to conclude that the fiscal policy played a significant role in the struggle with challenges of the global economic crisis which urged for a quick and effective action according to the current conditions and possibilities, and all for the purpose of ensuring a social cohesion, but also further investments in the economy.

I would therefore like to use this opportunity to thank all associates and employees of the Ministry of Finance for their devoted work in the challenging year of 2009, and I hope that this Annual Report for 2009, which consolidates our cooperation and achievements in the sphere of fiscal policy, will be helpful and satisfactory to our respected readers.

Ivan Šuker



Deputy Prime Minister
of the Republic of Croatia
Minister of Finance

Zagreb, November 2010

1. MACROECONOMIC DEVELOPMENTS IN 2009

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1.1. INTERNATIONAL ENVIRONMENT

In 2009, as a result of the financial crisis that started in the USA in 2008, the world economy experienced its deepest recession since World War II. A strong decrease of economic activities was recorded in almost all developed economies, whereas the growth of economic activity in 2009 referred exclusively to developing countries, particularly the most significant Asian economies. Trends in annual inflation rates during 2009 were influenced by weakening of demand and drop of prices of primary commodities on the world market.

According to the International Monetary Fund¹, the real drop in global economy amounted to 0.6 percent in 2009, which was a slowdown of 3.6 percentage points as compared to the increase recorded in 2008. A much more pronounced reduction was recorded in international trade, with a drop in the volume of world trade in 2009 amounting to a high 11.3 percent, after the growth of 2.8 percent in 2008. Among major developed world economies, the most pronounced drop in real gross domestic product in 2009, amounting to 5.2 percent, was recorded in Japan, while the drop in gross domestic product in the USA amounted to 2.4 percent, as compared to 2008 when the American economy grew at a rate of 0.4 percent.

The euro area economy recorded a real drop in gross domestic product of 4.1 percent in 2009, which is a decrease of 4.5 percentage points as compared to the growth recorded in 2008. In the European Union, the drop in gross domestic product amounted to 4.2 percent, which was 4.7 percentage points lower as compared to the growth in 2008. The largest contribution to the weakening of economic activity came from a drop of investments and personal consumption. In 2009, a drop of personal consumption amounted to 1.7 percent in the European Union, and 1.1 percent in the euro area. Government consumption increased by 2.2 percent in the European Union and 2.4 percent in the euro area. The real drop in investments amounted to 12.0 percent in the European Union, and 11.3 percent in the euro area. Exports of goods and services recorded a real drop of 12.5 percent in the European Union and 13.1 percent in the euro area, and imports of goods and services declined by 12.3 percent in the European Union and 11.7 percent in the euro area.

Table 1.1. International Environment - Macroeconomic Indicators

	2006	2007	2008	2009
The real growth of gross domestic product, %				
World	5.1	5.2	3.0	-0.6
European Union	3.2	2.9	0.7	-4.2
Germany	3.2	2.5	1.3	-4.9
Italy	2.0	1.5	-1.3	-5.0
Slovenia	5.8	6.8	3.5	-7.8
Austria	3.6	3.7	2.2	-3.9
euro area	2.9	2.7	0.5	-4.1
Inflation, %				
European Union	2.2	2.3	3.7	1.0
euro area	2.2	2.1	3.3	0.3
Oil price growth, %	20.5	10.7	36.4	-36.3

Source: European Commission, International Monetary Fund

¹ World Economic Outlook Update, July 2009

After a strong year-on-year growth of primary commodities price index² on the world market in 2008, its pronounced drop in the amount of 31.0 percent was recorded in 2009. Oil prices³ had the largest impact on its trend, being reduced by 36.3 percent, i.e. from an average of USD 97.0 per barrel in 2008 to USD 61.8 per barrel in 2009. At the same time, oil prices during 2009 increased, with minor oscillations, from the level of slightly above USD 40.0 per barrel at the beginning of the year to slightly above USD 70.0 per barrel at the end of the year. A drop in prices of primary commodities during 2009 was also affected by year-on-year price drop of food products amounting to 13.1 percent, a price drop of metals amounting to 28.6 percent and a price drop of agricultural commodities amounting to 17.0 percent.

Inflation in the euro area, measured by the harmonised index of consumer prices, amounted to 0.3 percent in 2009, which is 3.0 percentage points less when compared to 2008 and at its minimum level since the adoption of euro. Inflation in the euro area was reduced from 1.1 percent in January to the lowest level of -0.6 percent in July, only to increase again to 0.9 percent in December. In the European Union, inflation was at 1.0 percent, i.e. it was 2.7 percentage points lower than in 2008.

In response to the financial crisis, the reference interest rate of the European Central Bank was lowered four times in the first half of 2009. It was first lowered from the level of 2.50 percent at the end of 2008 to 2.00 percent in January, and then on three occasions down to 1.00 percent in May, where it remained until the end of the year. During 2009, the American Central Bank (FED), in an attempt to encourage economic activity, did not change its target interest rate which remained at the level between 0.0 and 0.25 percent throughout the year.

All major Croatian trading partners also recorded a strong reduction in real economic activity in 2009. The real drop of Germany's gross domestic product amounted to 4.7 percent in 2009, which was 5.7 percent points less as compared to the growth achieved in 2008. Reduction in economic activity was, for the most part, a result of a negative contribution of net exports, which was the main generator of economic growth in the recent period, as well as the reduction of investments. Gross domestic product of Italy recorded a real drop of 5.0 percent in 2009, which was 3.7 percentage points less as compared to 2008. The main contribution to its reduction came from falling investments and net exports. Economic downturn in Slovenia amounted to 8.1 percent in 2009, which was as much as 11.8 percentage points less as compared to the growth from 2008. Reduction in economic activity was for the most part a result of the negative contribution of investments. Austrian economy recorded a real drop in gross domestic product of 3.9 percent in 2009, which was 6.1 percentage points less as compared to the growth achieved in 2008, and the largest contribution to the drop of gross domestic product came from reduction of investments and net export.

² World Economic Outlook Update, July 2009

³ Average oil price was calculated as the average value of crude oil prices for U.K. Brent, Dubai and West Texas Intermediate types, Source: International Monetary Fund

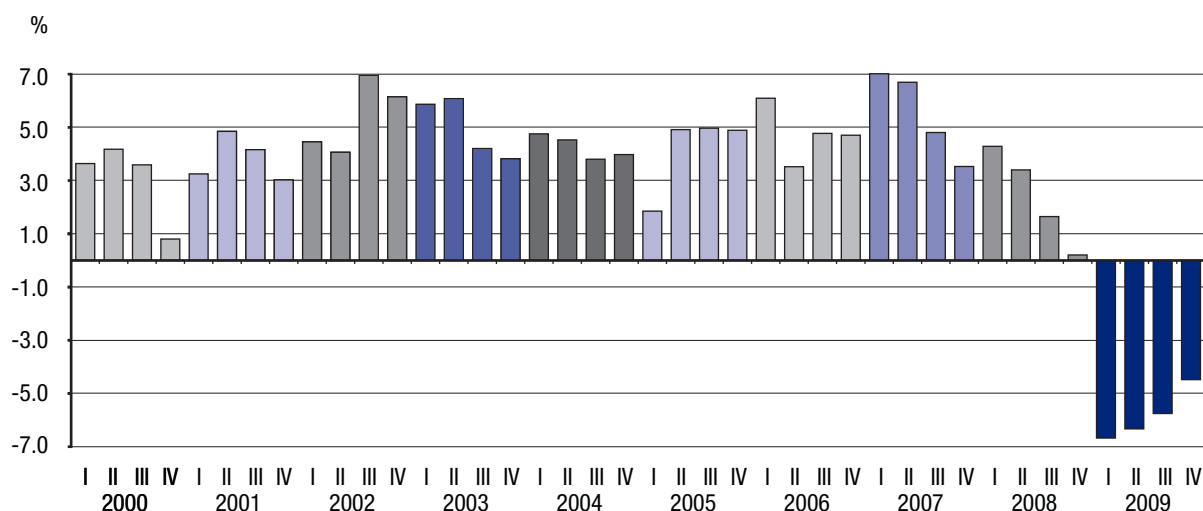
1.2. REAL SECTOR

Due to negative impacts of the global economic crisis, which in 2009 affected Croatian economy with full intensity, Croatia experienced a strong recession in 2009 and the gross domestic product recorded a real drop of 5.8 percent. Prominent negative movements were recorded in other macroeconomic indicators as well. Industrial production in 2009 decreased by 9.2 percent on year-on-year level, the real retail trade turnover decreased by 15.3 percent, while the index of construction works recorded a drop of 6.5 percent. Physical indicators in tourism recorded a relatively small drop in spite of the economic crisis, and the total number of tourist arrivals was reduced by 2.9 percent, and overnight stays by 1.4 percent in 2009. After the high inflation in 2008, which amounted to 6.1 percent, the year-on-year growth of consumer price index decreased to 2.4 percent in 2009, primarily as a result of the decreased households' demand. The drop in economic activity also affected the labour market trends. Thus the average number of registered unemployed persons increased by 26.4 thousand, or 11.2 percent. Administrative unemployment rate increased from an average of 13.2 percent in 2008 to 14.9 percent in 2009, while the labour force survey unemployment rate in the same period increased from 8.4 percent to 9.1 percent.

1.2.1. Gross Domestic Product

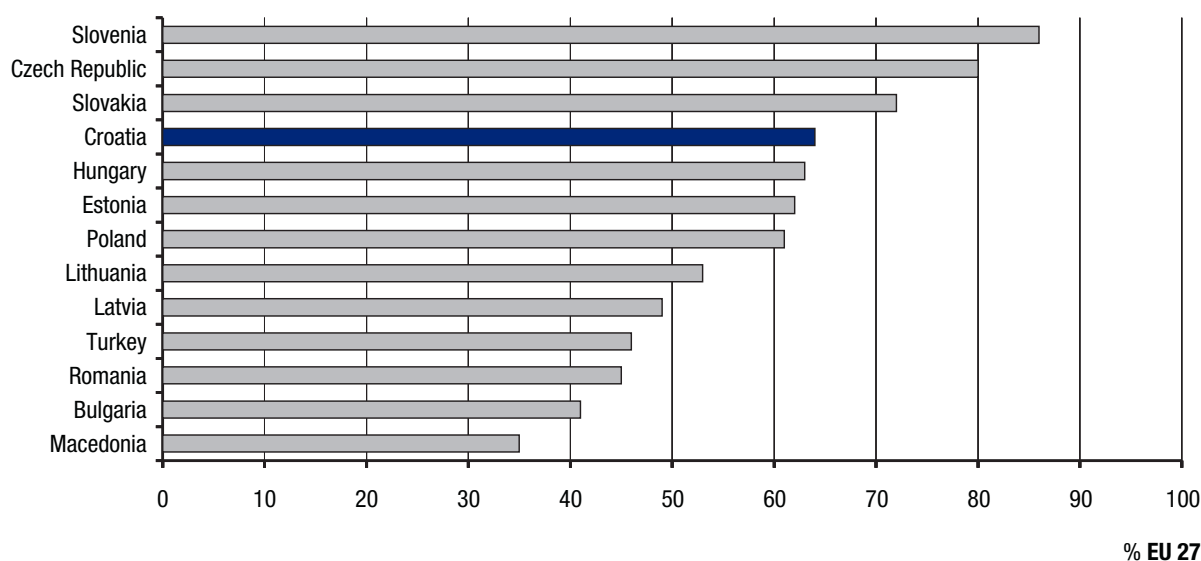
Gross domestic product recorded a real drop of 5.8 percent in 2009, which is 8.2 percentage points less when compared to the growth registered in 2008. The drop in economic activity was most pronounced in the first quarter, when the real year-on-year drop of gross domestic product amounting to 6.7 percent was recorded, while it was gradually slowing down towards the end of the year, at first to 6.3 percent in the second quarter, 5.7 percent in the third quarter and 4.5 percent in the fourth quarter of 2009.

Chart 1.1. Real Quarterly Gross Domestic Product Growth



Source: Central Bureau of Statistics

The nominal drop of gross domestic product amounted to 2.7 percent in 2009, by which the nominal amount of gross domestic product was reduced to HRK 333.1 billion. Growth of gross domestic product deflator amounted to 3.3 percent in 2009, which was 3.0 percentage points less as compared to 2008. Gross domestic product per capita reduced from around EUR 10,700 in 2008 to around EUR 10,200 in 2009. In terms of purchasing power parity, Croatian GDP reached 64.0 percent of average GDP per capita of EU 27 countries, which was an increase of one percentage point as compared to 2008.

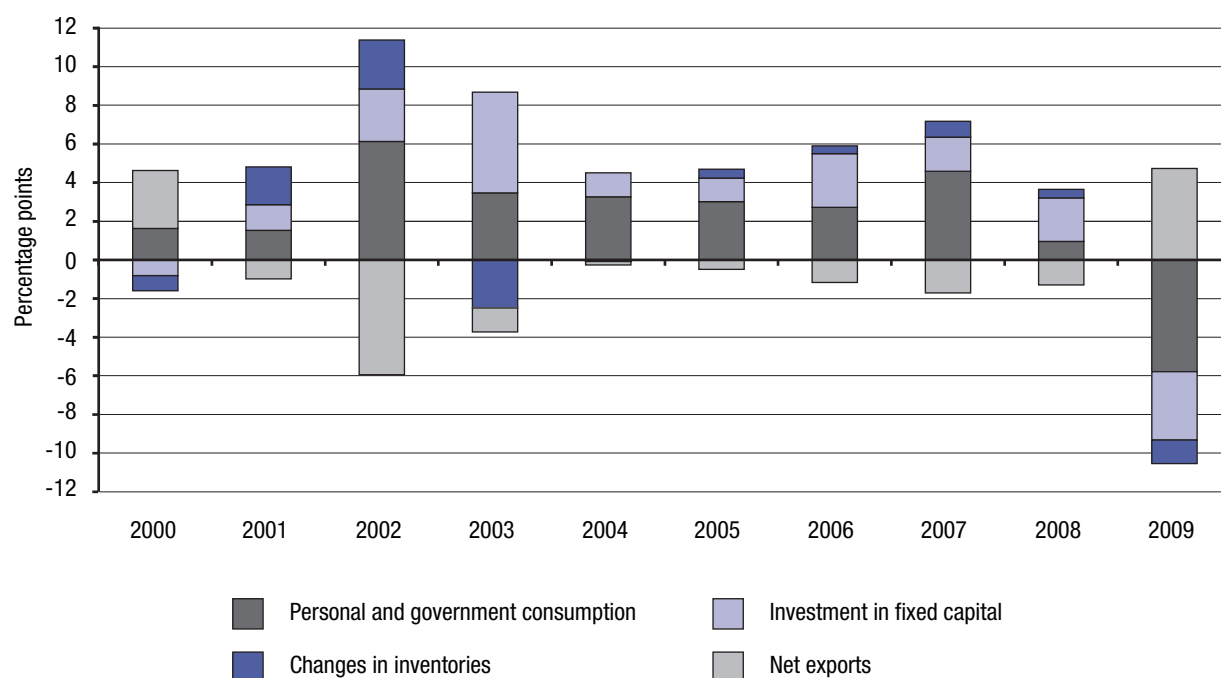
Chart 1.2. Gross Domestic Product per Capita in 2009

Source: Eurostat

1.2.2. Expenditure Side of Gross Domestic Product

All components from the expenditure side of GDP, except the government consumption, recorded their largest real drop on year-on-year level. Reduction of disposable income and the consumer pessimism were the main reasons for real drop of personal consumption, which amounted to 8.5 percent. Investments in fixed capital in real terms were reduced by 11.8 percent due to the decrease of both public and private investments. Such a trend was primarily determined by lower availability and higher cost of capital which, in combination with a drop in aggregate demand and pessimistic expectations, resulted in postponement of the investment projects. Reduction of domestic aggregate demand also affected reduction in imports of goods and services, which dropped, in real terms, by 20.7 percent in 2009. As a result of decreased foreign demand, the real reduction in export of goods and services amounted to 16.2 percent. Government consumption recorded a real growth of 0.2 percent. By observing the contributions to the real drop of gross domestic product, the largest contribution to the drop, in the amount of 7.3 percentage points, came from the export of goods and services. However, due to high positive contribution of imports of goods and services in the amount of 12.0 percentage points, contribution of net exports was positive, and it amounted to 4.7 percentage points. The contribution of personal consumption to the reduction in economic activity amounted to 5.3 percentage points, contribution of investments in fixed capital amounted to 3.4 percentage points, and contribution of changes in inventories (which include statistical discrepancy) amounted to 1.2 percentage points. The contribution of government consumption was neutral in 2009.

Chart 1.3. Contributions of Individual Components to the Gross Domestic Product Growth



Source: Central Bureau of Statistics

1.2.3. Production Side of Gross Domestic Product

The real year-on-year reduction in total gross value added amounted to 4.0 percent in 2009, which was 6.8 percentage points less as compared to the growth registered in 2008. Calculation of gross domestic product from the production side shows that the largest year-on-year real reduction of gross value added in 2009 was registered in trade⁴ (-14.3 percent). Then follow industry⁵ (the real drop of gross value added of 8.5 percent), transport, storage and communication (-6.4 percent), construction industry (-6.1 percent) and hotels and restaurants (-2.9 percent). Increase of gross value added on year-on-year level was achieved in agriculture⁶ (2.1 percent), financial intermediation⁷ (1.4 percent) and public administration⁸ (1.1 percent). The largest contribution to the reduction of gross value added came from trade, which had a share of 12.9 percent in total gross value added expressed in constant prices, then industry with a share of 20.8 percent in gross value added, transport, storage and communication with a share of 10.3 percent and construction with a share of 7.0 percent. The largest positive contribution to the gross value added in 2009 came from financial intermediation (with a 19.3 percent share in gross value added) and public administration (16.9 percent share).

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

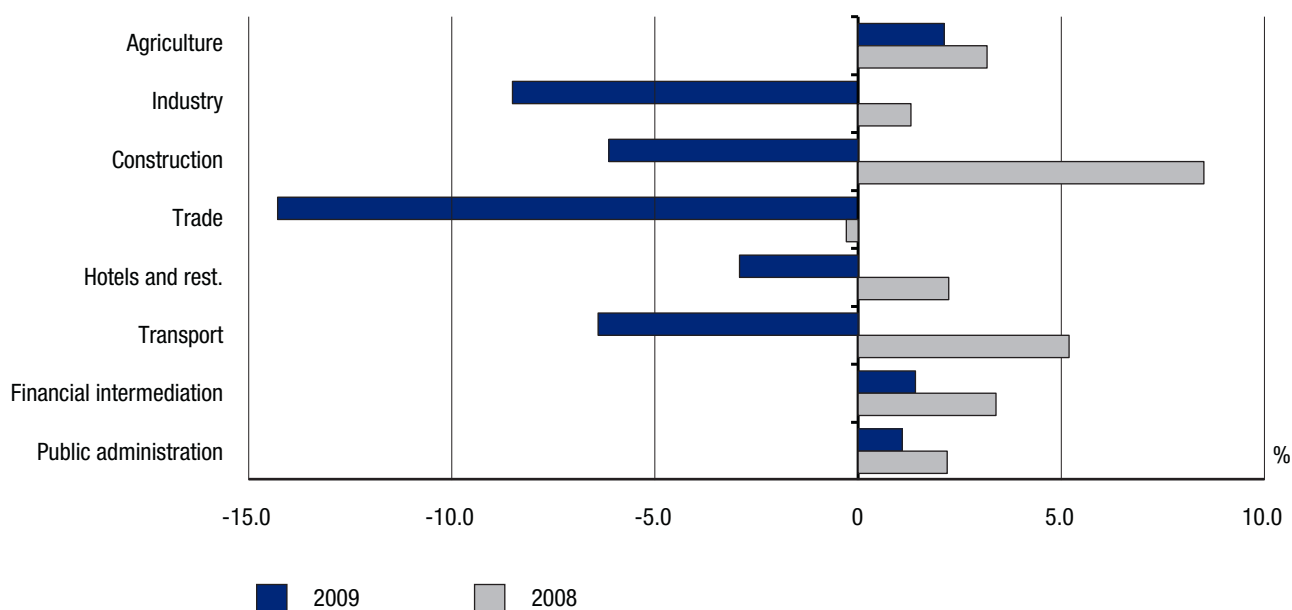
⁵ Includes mining and quarrying, manufacturing, electricity, gas and water supply.

⁶ Includes agriculture, hunting and forestry and fishing.

⁷ The category includes financial intermediation, real estate, renting and business activities.

⁸ The category includes public administration and defence, compulsory social security, education, health and social work, other community, social and personal services and activities of households.

Chart 1.4. Real Growth in Gross Value Added by Activities



Source: Central Bureau of Statistics

Industrial Production

Industrial production recorded a year-on-year decrease of 9.2 percent in 2009, which was a slowdown in the amount of 10.5 percentage points as compared to 2008. Observed by main industrial groupings, the largest decrease in industrial production in 2009 was recorded in production of durable consumer goods (-18.8 percent). Production of capital goods was reduced by 15.0 percent on the year-on-year level, of intermediate goods by 11.1 percent and of non-durable consumer goods by 10.0 percent. Only energy production recorded an increase on the year-on-year level, in the amount of 1.9 percent. Observing by activities, mining and quarrying decreased by 10.8 percent on the year-on-year level in 2009, while the electricity, gas, steam and air conditioning supply recorded a year-on-year increase of 2.3 percent. Manufacturing, the sector that had the largest share in total industrial production (84.31 percent) decreased by 10.6 percent on the year-on-year level in 2009. The largest contribution to the reduction of manufacturing came from the manufacture of fabricated metal products, except machinery and equipment, which recorded a year-on-year reduction in the amount of 24.3 percent, manufacture of basic pharmaceutical products and pharmaceutical preparations (-42.8 percent), manufacture of machinery and equipment (-28.3 percent), manufacture of other non-metallic mineral products (-10.8 percent) and manufacture of food products (-5.0 percent). Total number of persons employed in industry during 2009 was reduced by 9.3 percent on the year-on-year level, while the labour productivity in industry grew by 0.1 percent.

Construction

During 2009, the year-on-year reduction of construction works index was recorded in the amount of 6.5 percent, with the largest decrease of 12.9 percent being recorded in the fourth quarter of 2009. When observed by type of construction, the buildings' construction works index decreased by 7.2 percent in 2009 as compared to 2008, and the civil engineering works construction index by 5.9 percent. The total number of issued building permits in 2009 decreased by 4.4 percent as compared to 2008.

Retail Trade

The turnover of retail trade in 2009 recorded a nominal year-on-year reduction by 14.1 percent, while, in real terms, it decreased by 15.3 percent. With regards to indicators that may affect the retail trade, the number of persons in employment in 2009 decreased by approximately 56,000 on the year-on-year level, loans to households (excluding housing loans) decreased by 5.8 percent, and the number of overnight tourist stays recorded a year-on-year decrease of 1.4 percent. Observing the nominal turnover of retail trade by branches, the most significant contribution to trade reduction in 2009 came from automotive fuels (year-on-year reduction by 16.6 percent) and motor vehicles (-58.1 percent).

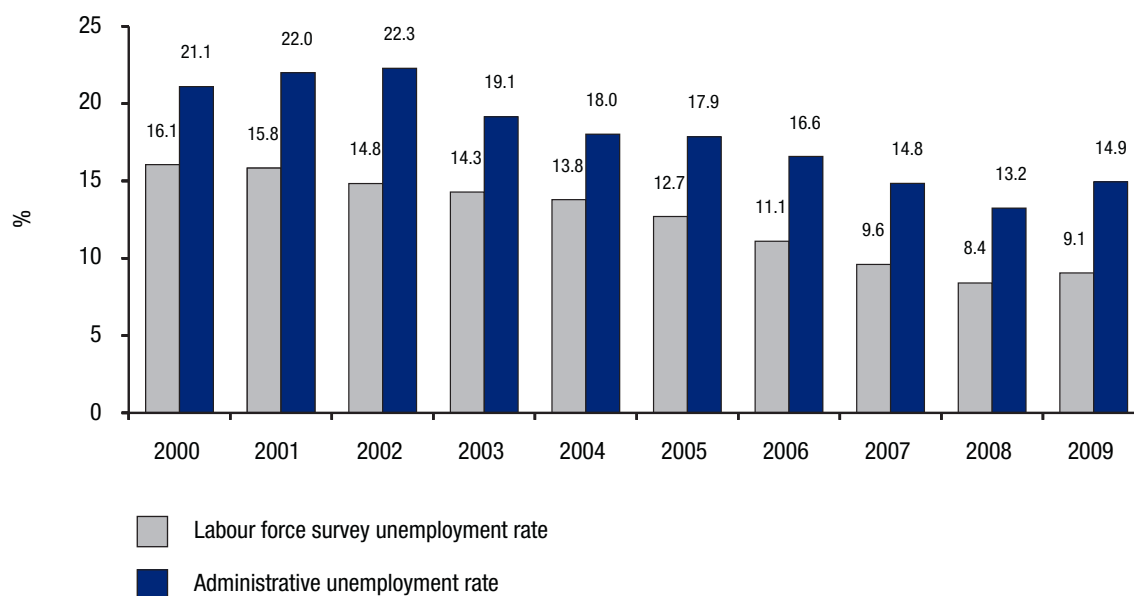
Tourism

The total number of tourist arrivals amounted to 10.9 million in 2009 and decreased by 2.9 percent on the year-on-year level, while the total number of overnight tourist stays amounted to 56.3 million and decreased by 1.4 percent. Foreign tourist arrivals decreased by 0.9 percent on the year-on-year level in 2009, and domestic tourist arrivals by 13.3 percent, while the overnight foreign tourist stays decreased by 0.2 percent, and overnight domestic tourist stays by 10.5 percent. In 2009, averagely 5.1 overnight stays per tourist arrival were achieved, which amounts to 0.1 overnight stay more than in 2008. In 2009 overnight stay structure, 89.7 percent of total overnight stays were achieved by foreign tourists, most of which came from Germany (22.7 percent of total foreign tourist overnight stays), Slovenia (11.2 percent), Italy (10.2 percent), Austria (8.9 percent) and Czech Republic (8.0 percent). As a reflection of reduced consumption due to economic crisis, revenues from tourism recorded lower achievements than physical indicators in tourism and, with the total amount of EUR 6.4 billion in 2009, they decreased by 14.5 percent on the year-on-year level.

1.2.4. Labour Market

Macroeconomic disturbances caused by global financial crisis also affected the labour market in 2009. So, starting from February, year-on-year increase in number of unemployed persons, or reduction in number of employed persons, accelerated throughout the 2009. The average number of unemployed persons amounted to 263.2 thousand in 2009 and increased by 26.4 thousand or 11.2 percent on the year-on-year level. At the same time, the average number of employed persons decreased by 56.0 thousand or 3.6 percent. The average administrative unemployment rate amounted to 14.9 percent in 2009, which is 1.7 percentage points more than in 2008.

Observing the 2009 average, according to the labour force survey, the working age population amounted to 3,707,750 persons, 47.6 percent of which were people working or actively looking for a job, i.e. they could be classified as labour force. As compared to the 2008 survey results, the working age population increased by 27,500, while the category of labour force reduced by 20,000 persons. The total number of employed persons in 2009 was on an average level of 1,605,250, which was a decrease of 30,500 as compared to 2008, while the average number of unemployed persons increased by 10,500 and amounted to 159,750. The average survey unemployment rate amounted to 9.1 percent in 2009, which was 0.7 percentage points more as compared to 2008.

Chart 1.5. Labour Force Survey and Administrative Unemployment Rates

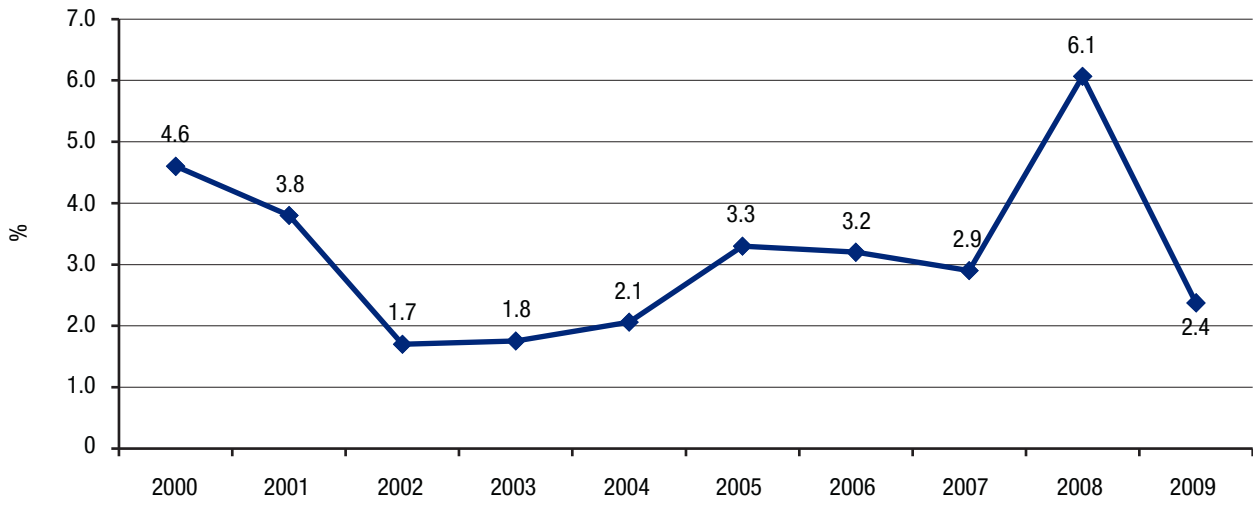
Source: Central Bureau of Statistics

Due to the economic crisis, as an adjustment to the changed economic conditions, both nominal and real gross and net earnings growth were slowed down as compared to 2008. The average gross earnings amounted to HRK 7,711 in 2009, and increased by 2.2 percent as compared to 2008, while the average net earnings amounted to HRK 5,311 and increased by 2.6 percent on the year-on-year level. In 2009, gross earnings were reduced by 0.2 percent on the year-on-year level in real terms, while the net earnings recorded a real growth of 0.2 percent. Observed by activity, the highest gross earnings in 2009 were recorded in the financial and insurance services, while the lowest gross earnings were recorded in administrative and support service activities.

1.2.5. Prices

Mostly due to weakening of domestic inflationary pressures, which reflected in year-on-year drop of personal consumption, inflation measured by consumer price index slowed down in 2009 to 2.4 percent, which was 3.7 percentage points less than in 2008. In addition, the reduction of imported inflation, which was reflected in year-on-year drop in prices of primary commodities on the world market as well as the low impact of inflation transfer from 2008, also affected the slowdown of inflation rate. The largest contribution to prices increase in 2009 came from tobacco prices, which, as compared to 2008, increased by 17.3 percent, and food prices, which increased by 1.7 percent. Within the food category, meat prices were the largest contributor to the price increase (year-on-year growth of 4.3 percent), as well as the prices of bread and cereals (3.2 percent). Growth of gas prices (17.4 percent) in 2009 also significantly contributed to price increase, as well as growth of electricity prices (7.4 percent), prices of hospital services (78.4 percent) and prices of medical services (36.8 percent). Prices of automotive fuels for personal transport equipment had the largest impact in the opposite direction in 2009, decreasing by 13.9 percent as compared to 2008. The core inflation, which does not include prices of agricultural products and administered prices, slowed down from 5.7 percent in 2008 to 2.8 percent in 2009. Producers' price index of industrial products recorded a year-on-year drop of 0.4 percent in 2009, while they grew by 8.3 percent in 2008.

Chart 1.6. Year-to-Year Growth of Consumer Price Index



Source: Central Bureau of Statistics

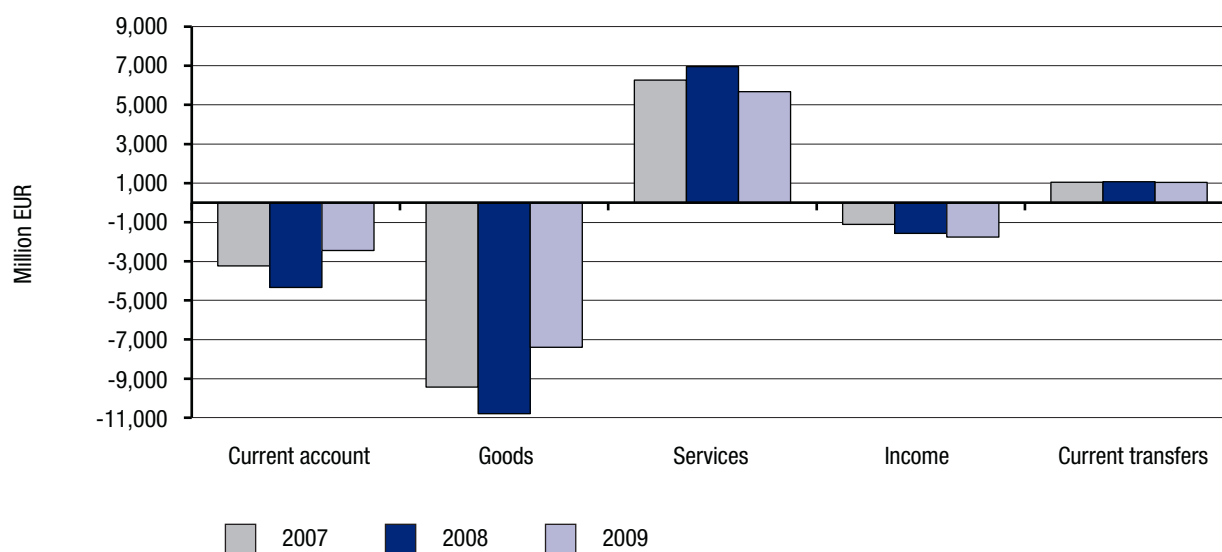
1.3. INTERNATIONAL SECTOR

In 2009, trends in international sector were also marked by the influence of economic crisis. Taking into account the structural features of Croatian economy, the effect of correction in domestic demand was more pronounced than the effect of reduction in foreign demand, resulting in partial correction of foreign trade imbalance. So, during 2009, and as a result of goods trade deficit reduction, current account deficit of the balance of payments was almost halved. Deficit reduction on current account would have been even more pronounced had the surplus on the balance of services not been reduced so much, which was primarily a result of falling revenues from tourism. Main feature of the financial account of the balance of payments was the pronounced inflow reduction of direct investments into Croatia. As compared to 2008, increase of external debt slowed down by half, primarily under the influence of a slowing rate of external debt growth of other domestic sectors and banks. Despite the economic disruptions, exchange rate of kuna remained stable against euro and recorded only a slight depreciation as compared to 2008.

1.3.1. Balance of Payments

Current account deficit of the balance of payments in 2009 amounted to EUR 2.4 billion and decreased by EUR 1.9 billion or 43.6 percent as compared to 2008. Such a trend is a result of deficit on the account of goods which recorded a year-on-year reduction by 31.5 percent and amounted to EUR 7.4 billion. Surplus in the balance of services amounted to EUR 5.7 billion and, as compared to 2008, it decreased by 18.4 percent, influenced mostly by the decrease in tourism revenues, which amounted to EUR 6.4 billion in 2009 and recorded the year-on-year drop of 14.5 percent. Deficit on the income account was increased in 2009 by 12.0 percent, to the level of EUR 1.8 billion, while the surplus on the balance of current transfers decreased by 3.3 percent, to EUR 1.0 billion. The current account deficit, expressed in a percentage of gross domestic product, decreased from 9.2 percent in 2008 to 5.4 percent in 2009. Coverage of the imports of goods and services by the exports of goods and services amounted to 90.3 percent in 2009 and, as compared to 2008, increased by 6.5 percentage points.

Chart 1.7. Balance of Payments Current Account



Current account deficit in 2009 was financed mostly by other investments, recording the net inflow of EUR 2.7 billion, which was 9.9 percent less than in 2008. The largest net inflow of other investments was recorded in banks, in the amount of EUR 1.5 billion, then in other sectors, in the amount of EUR 1.2 billion, while the government sector recorded a net outflow of funds in the amount of EUR 8.6 million. Net direct investments amounted to EUR 1.2 billion in 2009 and, as compared to 2008, they decreased by 63.3 percent. On the portfolio investments balance, a net inflow of EUR 155.7 million was recorded in 2009. Net errors and omissions amounted to EUR -725.2 million in 2009, and international reserves were increased by EUR 896.4 million.

1.3.2. Foreign Trade in Goods

Total merchandise exports expressed in HRK recorded a year-on-year reduction by 20.1 percent in 2009, while merchandise imports decreased by 25.7 percent. Total value of merchandise exports was HRK 55.3 billion, and of merchandise imports HRK 111.8 billion. Foreign deficit amounted to HRK 56.5 billion in 2009, which represents a year-on-year reduction of 30.4 percent. If we exclude the category of other transport equipment from merchandise exports and imports, which distorts the trend in overall trade because of the accounting methodology for ship finishing works on a gross basis, merchandise exports in 2009 decreased by 15.5 percent, and imports by 23.7 percent. Coverage of merchandise imports by exports amounted to 49.5 percent in 2009, which was an increase of 3.5 percentage points as compared to 2008. If we observe foreign trade in goods expressed in US dollars, merchandise export in 2009 recorded a year-on-year reduction by 25.7 percent, while imports decreased by 31.0 percent. Considering that the majority of Croatian foreign trade in goods takes place with the European Union countries, the exchange rate of USD against EUR also affects growth of exports and imports expressed in USD.

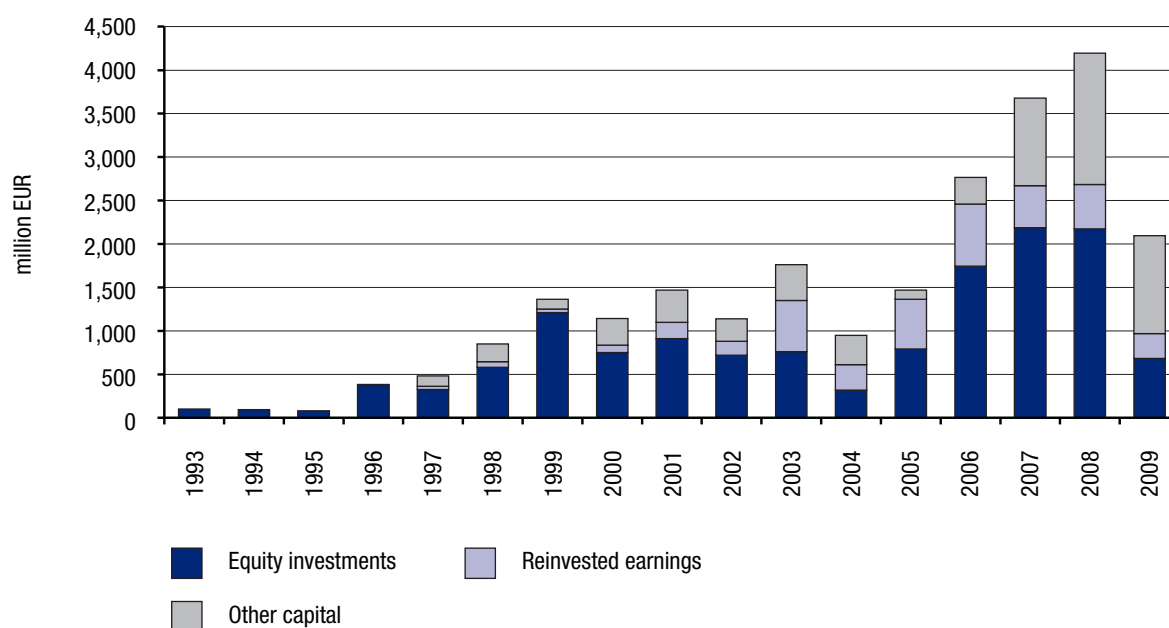
When considering the trade by types of industry, the largest contribution to exports reduction in 2009 came from the manufacture of other transport equipment, whose exports decreased by 49.1 percent, then from the manufacture of chemicals and chemical products (-32.7 percent), manufacture of coke and refined petroleum products (-24.0 percent), manufacture of machinery and equipment (-24.1 percent) and manufacture of fabricated metal products, except machinery and equipment (-19.6 percent). Categories which in 2009 contributed to the reduction of merchandise imports the most were the manufacture of motor vehicles, trailers and semi-trailers (a year-on-year reduction of imports by 47.9 percent), manufacture of other transport equipment (-61.0 percent), manufacture of basic metals (-39.0 percent), manufacture of coke and refined petroleum products (-50.2 percent) and extraction of crude petroleum and natural gas (-22.6 percent).

When considering the structure of exports by countries, the following countries had the largest share in total Croatian merchandise exports in 2009: Italy (19.0 percent), Bosnia and Herzegovina (12.8 percent), Germany (11.0 percent), Slovenia (7.4 percent) and Austria (5.4 percent). If compared to 2008, exports to those mentioned countries recorded a reduction, with the exports to Bosnia and Herzegovina decreased by 33.1 percent, to Austria by 25.7 percent, to Slovenia by 23.8 percent, to Italy by 20.8 percent and to Germany by 18.2 percent. Exports to EU countries accounted for 60.6 percent of total Croatian merchandise exports in 2009 and as compared to 2008 they decreased by 20.6 percent, while the imports from EU countries accounted for 62.7 percent of total imports and decreased by 27.3 percent as compared to 2008.

1.3.3. Foreign Direct Investments

Total stock of foreign direct investments in Croatia at the end of 2009 was at the level of EUR 24.0 billion. During 2009, EUR 2.1 billion were invested in Croatia, which is 50.0 percent less as compared to 2008. Other capital investments accounted for EUR 1.1 billion, or 53.8 percent of total investments in 2009. Equity investments amounted to EUR 682 million in 2009 and accounted for 32.5 percent of total investments, while reinvested earnings amounted to EUR 286 million and accounted for 13.7 percent of total investments. When considering the structure of foreign direct investments in Croatia by countries of origin, most investments during 2009 came from the Netherlands (EUR 877 million), Austria (EUR 413 million), Luxembourg (EUR 176 million), Germany (EUR 169 million) and Hungary (EUR 165 million). Observed by activities, during 2009 the largest amount was invested in wholesale trade and commission trade (EUR 741 million), financial intermediation, except insurance and pension funds (EUR 654 million), other business activities (EUR 317 million), extraction of crude petroleum and natural gas (EUR 127 million), retail trade, except of motor vehicles and motorcycles (EUR 120 million) and the manufacture of coke and refined petroleum products (EUR 110 million).

Chart 1.8. Foreign Direct Investments in Croatia

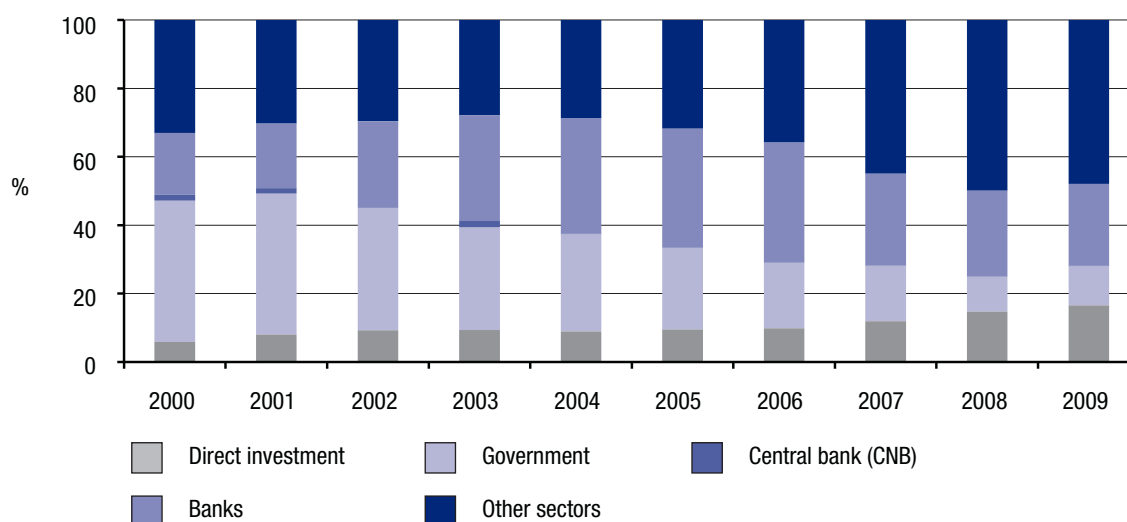


Source: Croatian National Bank

1.3.4. External Debt

By the end of 2009, total external debt amounted to EUR 44.6 billion and during the year it was increased by EUR 4.3 billion or 10.6 percent. The share of external debt in gross domestic product increased from 85.1 percent in 2008 to 98.2 percent in 2009. The largest increase in external debt during 2009 was recorded by the external debt of ownership-related companies through foreign direct investments, in the amount of EUR 1.4 billion, and the external debt of other sectors, which increased by EUR 1.2 billion. Government's external debt was increased by EUR 998 million during 2009, and the external debt of banks by EUR 616 million. When considering the structure of external debt, the share of external debt based on foreign direct investments in total external debt increased from 14.8 percent at the end of 2008 to 16.6 percent at the end of 2009, and the share of government's external debt from 10.3 percent to 11.6 percent of total external debt. External debt of banks decreased in the same period from 25.0 percent to 24.0 percent, and the external debt of other sectors from 49.9 percent to 47.9 percent of total external debt.

Chart 1.9. Structure of Croatia's External Debt by Domestic Sectors



Source: Croatian National Bank

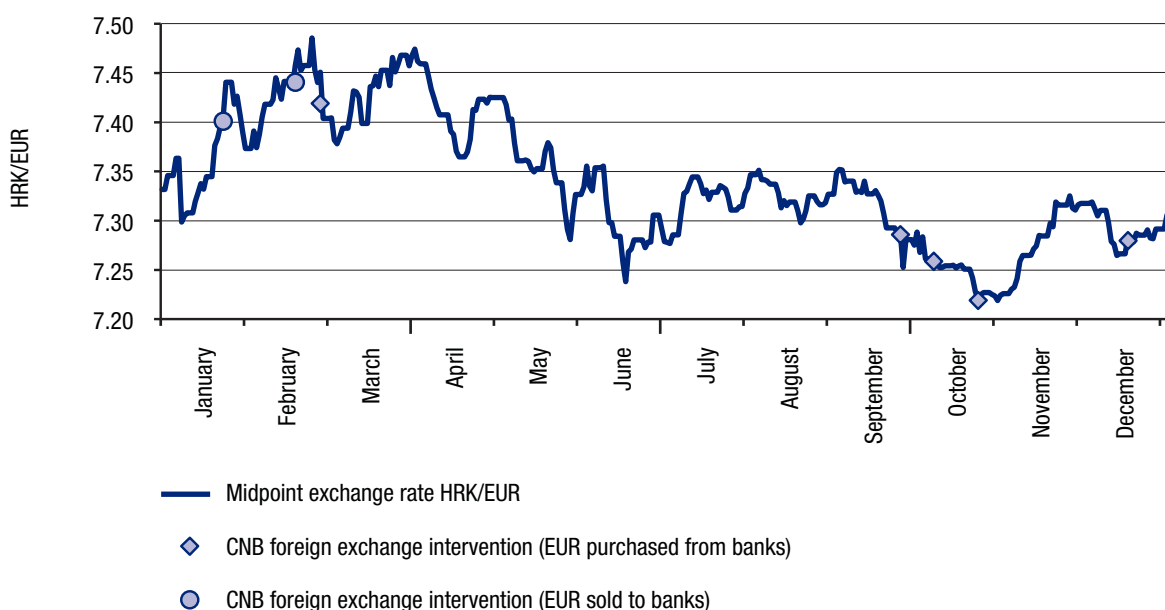
1.3.5. Exchange Rate

Except at the beginning of 2009 when, as a reflection of reduced foreign exchange liquidity in extremely adverse macroeconomic conditions, more pronounced pressures on the weakening of kuna appeared, exchange rate against euro was exposed to occasional mild appreciation pressures during 2009, which were primarily caused by the inflow of foreign currency due to borrowings of domestic sectors, and the stability of exchange rate was not compromised.

Thus the average annual exchange rate of kuna against euro increased from 7.22 kunas for one euro in 2008 to 7.34 kunas for one euro in 2009, which represented a depreciation of kuna against euro by 1.6 percent. The end period exchange rate of kuna against euro appreciated slightly, from 7.32 kunas for one euro at the end of 2008 to 7.31 kunas for one euro at the end of 2009. During 2009, the Croatian National Bank intervened seven times on the foreign exchange market. With two interventions at the beginning of the year, aiming at mitigating depreciation pressures, a total of EUR 513.0 million were sold to the banks. The remaining five interventions, of which the first was at the end of February, and the others at the end of the year, consisted of purchasing foreign currency from banks in the total amount of EUR 837.8 million.

Exchange rate of US dollar against kuna followed fluctuations of dollar against euro on the global foreign exchange market. So by the end of December 2009 it amounted to 5.09 kunas for one dollar, which represented an appreciation of 1.3 percent as compared to the end of 2008, while the average exchange rate in 2009 amounted to 5.28 kunas for one dollar and, as compared to 2008, kuna weakened against dollar by 7.0 percent.

Chart 1.10. Midpoint Exchange Rate of Kuna against Euro and Croatian National Bank Foreign Exchange Interventions



Source: Croatian National Bank

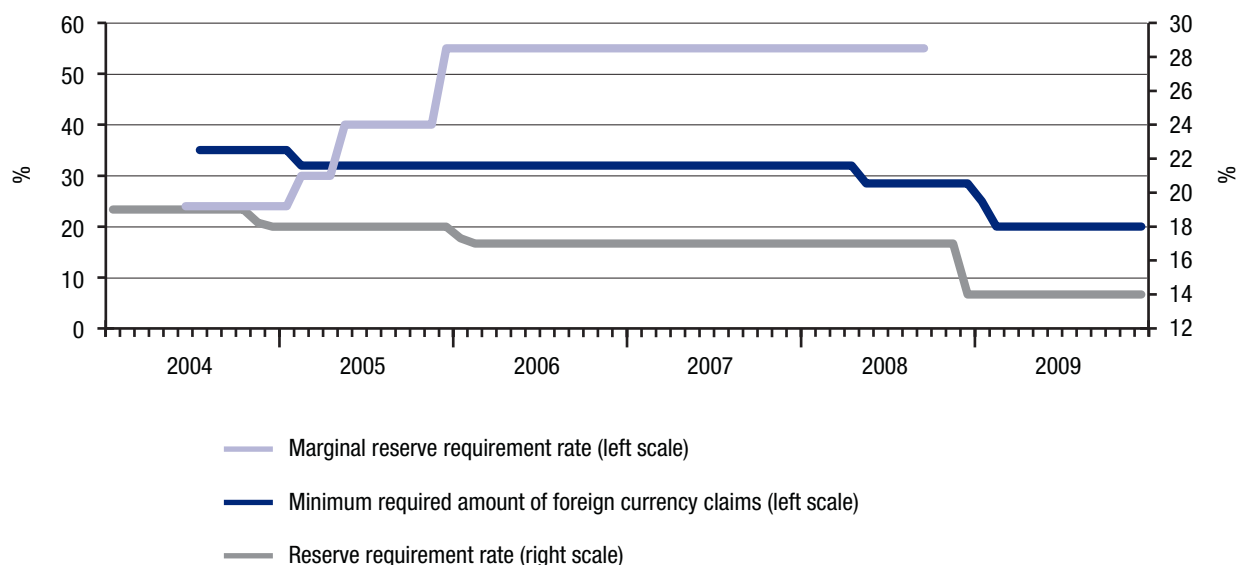
1.4. FINANCIAL SECTOR

During 2009, the monetary policy was focused primarily on maintaining the stability of kuna exchange rate in the circumstances of unfavourable macroeconomic developments, both in the international environment and in the Croatian economy. Thus, at the beginning of the year and in the circumstances of depreciation pressures, it preserved its more restrictive character from the end of 2008, and then in continuation, with the weakening of depreciation risks, it was directed towards ensuring and retaining the favourable level of kuna liquidity in the financial system, giving a stimulus to the domestic economy within its possibilities. In accordance with the needs, the monetary policy instruments changed during 2009. Developments in monetary and credit aggregates in 2009 reflected the influence of the economic crisis, where we introductorily need to point out a negative growth rate of bank credit to the non-banking sector. Money market was characterised by significant volatility of interest rates, while a further reduction in turnover volumes was recorded in the capital market with a moderate recovery in prices of securities.

1.4.1. Monetary Policy and Developments of Credit Aggregates

Depreciation pressures from the end of 2008 also continued in early 2009, but to a lesser extent. Specifically, in conditions of reduced inflow of foreign capital and pessimistic expectations, increased demand of domestic sector for foreign currency, with the aim to settle due foreign liabilities, created pressures to weaken kuna. With the aim to increase foreign exchange liquidity the Central Bank reacted by changing the monetary policy instruments, meaning that it increased the calculated foreign currency reserve requirement allocated in kunas from 50.0 percent to 75.0 percent in January, and reduced the percentage of minimum required foreign currency claims from 28.5 percent to 20.0 percent. In addition, we must also mention two interventions of selling foreign currency to commercial banks in January and February, as well as decreased volume of repo auctions during that period. In the rest of 2009 depreciation pressures stopped and pressures in the direction of strengthening of the kuna prevailed, primarily as a result of foreign exchange inflows due to the borrowings of domestic sectors abroad, especially of the government sector. Purchase of foreign currency from the government, and then the remaining five foreign exchange interventions, which were all referring to the purchase of foreign currency from commercial banks, as well as the allocation of special drawing rights by the International Monetary Fund in August, all allowed the recovery and further strengthening of international reserves of Central Bank towards the end of the year. Given the high level of kuna liquidity, created primarily by the mentioned foreign exchange transactions, the volume of repo operations was limited throughout the 2009, while liquidity was still withdrawn from the system, for the most part, through the reserve requirements. Considering that bank lending was significantly reduced as a result of financial crisis, decision on the registration of obligatory CNB bills, which in recent years aimed to suppress the increase of bank loans, was revoked in November.

Chart 1.11. Changes in Monetary Policy Instruments

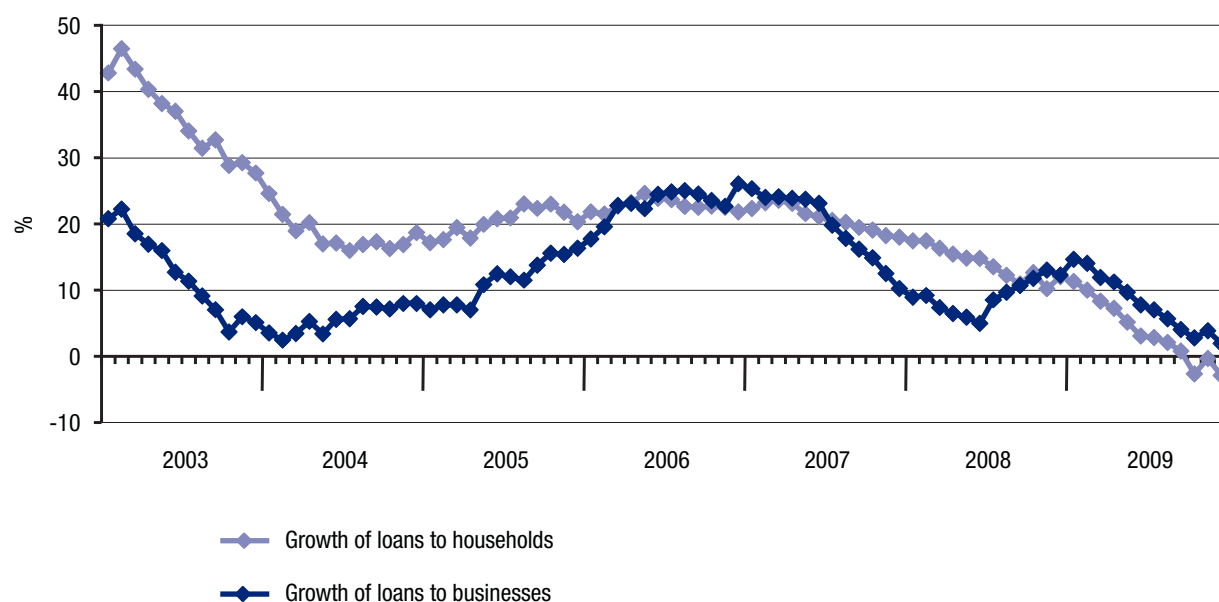


Source: Croatian National Bank

Monetary developments in 2009 were under the dominant influence of economic crisis and total domestic credit of commercial banks recorded a negative growth rate for the first time since 1999. On the one hand, the decline in economic activity and pessimism of all economic operators resulted in reduction of demand for new loans. As for the loan supply, the increase of the share of bad assets in the banking system and the increase of uncertainty caused changes in risk perception which, along with the rise in the cost of financing, led to tightening of loan terms and increase in active interest rates. Despite the strong reduction of money M1 and domestic currency deposits, broadest money recorded only a slight drop as compared to the end of 2008, as a result of strong growth in foreign currency deposits of households. Also, under the influence of described macroeconomic developments and changes in Central Bank instruments, a further deterioration of the banking sector's foreign position occurred, as a result of slowing growth of foreign liabilities as compared to 2008 and a slight drop in foreign bank assets.

Total commercial bank loans amounted to HRK 252.3 billion by the end of 2009. Their year-on-year growth amounted to 2.3 percent by the end of 2009, which was a slowdown of 12.1 percentage points as compared to 2008. Loans to households recorded a year-on-year reduction by 2.9 percent at the end of 2009, which represented a slowdown of 15.0 percentage points as compared to 2008. Year-on-year growth of housing loans, which had a share of 43.1 percent in total loans to households at the end of the year, slowed down to 1.2 percent, while loans to households, excluding housing loans, recorded a year-on-year reduction of 5.8 percent. Year-to-year growth of loans to enterprises amounted to 2.0 percent in 2009, indicating a slowdown of 10.3 percentage points as compared to 2008. Commercial bank loans to the central and local government increased by 32.3 percent on the year-on-year level by the end of 2009.

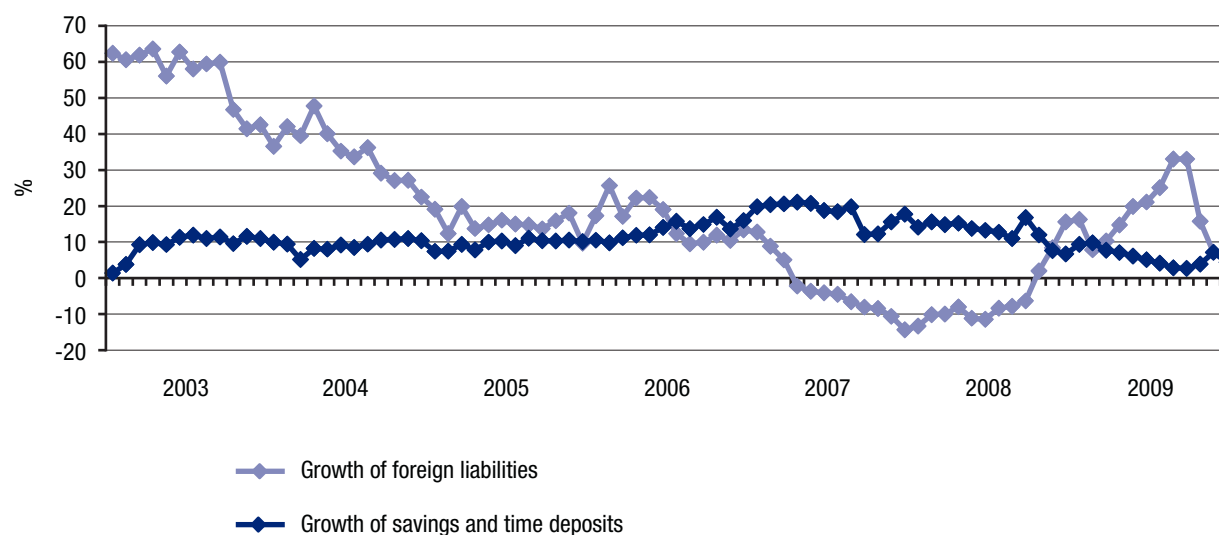
Chart 1.12. Year-on-Year Growth of Loans to Enterprises and Households



Source: Croatian National Bank

Total domestic currency and foreign currency savings and time deposits with commercial banks amounted to HRK 174.6 billion by the end of 2009, and increased by HRK 7.3 billion as compared to 2008. When considering the year-on-year growth rate, total domestic currency and foreign currency savings and time deposits in 2009 grew by 4.4 percent, which was a slowdown of 2.4 percentage points as compared to the previous year. Total domestic currency savings and time deposits with commercial banks decreased by HRK 10.9 billion or 21.8 percent in 2009. The largest contribution to this reduction came from deposits of households, which decreased by HRK 6.2 billion, and deposits of enterprises, which decreased by HRK 4.6 billion. Foreign currency deposits increased by HRK 18.2 billion or by 15.5 percent during 2009. The largest contribution to the increase of foreign currency deposits came from the sector of households whose deposits increased by HRK 14.6 billion and enterprises whose deposits increased by HRK 2.2 billion.

Chart 1.13. Growth of Foreign Liabilities and Savings and Time Deposits of Banks



Source: Croatian National Bank

Total foreign assets of commercial banks amounted to HRK 49.6 billion by the end of 2009, and as compared to 2008 they decreased by HRK 669.7 million or by 1.3 percent. Total foreign liabilities of banks increased by HRK 5.1 billion or 6.7 percent during 2009, and by the end of the year they amounted to HRK 80.4 billion. These trends determined net foreign assets which amounted to HRK -30.8 billion by the end of 2009 and they were decreased by HRK 5.7 billion during the year.

1.4.2. Money Market

A pronounced volatility of interest rates was recorded on the money market in 2009. At the beginning of the year, the interest rates of the money market were at the highest levels in the past ten years, and came down to the lowest levels since 2002 with improvement in financial system liquidity. So the highest average monthly interest rate of 18.63 percent was recorded in February, and the lowest, of 0.98 percent, in December 2009. In the entire 2009, the average interest rate on the Zagreb Money Market amounted to 7.58 percent and as compared to 2008 it increased by 1.6 percentage points. Monthly turnover on the Zagreb Money Market fluctuated throughout the 2009 above HRK 2.0 billion, except in November and December when it was somewhat lower because of weaker demand in the conditions of extremely favourable financial system liquidity. The average monthly turnover in 2009 amounted to HRK 2.3 billion.

1.4.3. Capital Market

During 2009, global economic trends had a dominant influence on Croatian capital market, and domestic market closely followed the global financial trends. Announcements of support and rehabilitation for financial institutions, as well as stimulation of economic recovery by the largest economies in the world by the end of the first quarter of 2009 had the effect of reducing the investors' pronounced aversion towards the risk, which was present in the beginning of 2009. Optimism of the world's financial markets spread to the domestic capital market, and the recovery of stock-exchange indices followed, extending until the last quarter of 2009. Negative trends on the domestic capital market reappeared because of the news about negative expectations and concerns of investors for macroeconomic developments in international environment, and because weak economic indicators of Croatian economy stirred up pessimism again, but the resulting fall of stock-exchange indices at the end of the year was not significant.

Domestic capital market in 2009 was characterised by further strong reduction of volume of securities trading. The total turnover on the Zagreb Stock Exchange in 2009 amounted to HRK 10.9 billion, which was 64.9 percent lower as compared to 2008. Stock market was marked by low liquidity and a moderate increase in value of shares with pronounced fluctuation rate, where mentioned value increase related primarily to the most liquid shares. Regular turnover recorded a year-on-year reduction by 55.9 percent and amounted to HRK 7.4 billion by the end of 2009. CROBEX, the stock index of the Zagreb Stock Exchange, increased from 1,722 points at the end of 2008 to 2,004 points at the end of 2009, or by 16.4 percent. Market capitalisation of shares in 2009 recorded a year-on-year reduction by 4.7 percent. In September, the Zagreb Stock Exchange introduced a new stock index called CROBEX 10 whose value was 18.5 percent higher at the end of 2009 than at the end of 2008. Unfavourable trends were noted on the debt securities market as well. Regular bond turnover amounted to HRK 202.8 million at the end of 2009 and recorded a reduction by 49.1 percent as compared to the previous year. Bond index CROBIS increased during the year by 5.8 percent, from 90.62 points at the end of 2008 to 95.84 points at the end of 2009. On the domestic market in 2009 only two new corporate bonds were issued by the end of the year and there were no additional government bond issuances.

Chart 1.14. Fluctuations of Zagreb Stock Exchange Indices



Source: Zagreb Stock Exchange

Net assets of pension funds in 2009 significantly accelerated their growth as compared to 2008. So at the end of 2009 they amounted to HRK 30.6 billion and as compared to 2008 they increased by 30.1 percent. After a sharp downturn in 2008, net assets of open investment funds increased during 2009 by 21.7 percent as compared to 2008, and at the end of the year they amounted to HRK 12.0 billion.

2. FISCAL POLICY AND BUDGETARY CENTRAL GOVERNMENT IN 2009

2.1. FISCAL POLICY IN 2009

According to the new Budget Act¹, which came into force on the 1 January 2009, the Croatian Parliament, along with the State budget for the following fiscal year, brought projections for the following two years for the first time. Strategic planning and obligation to prepare a three-year Government Programs Strategy preceded the preparation of a three-year budget, so that strategic priorities and goals of government policy could directly affect funds allocation within the budget.

In accordance with that, in December 2008, a budget was adopted for 2009, as well as projections for 2010 and 2011. Budget revenues were planned in the amount of HRK 124.2 billion, which, on the annual basis, represented an increase by 7.3 percent. On the other hand, Budgetary Central Government expense was planned in the amount of HRK 123.4 billion, or 7.0 percent more as compared to the 2008 outturn.

Unfavourable macroeconomic developments during 2009 also meant that there was a need for new measures to ensure stability and liquidity of public finances. Therefore, a package consisting of ten anti-recession measures was adopted in February 2009.

Within these measures, in April 2009, the first budget revision was introduced, which decreased the total revenue by 2.4 percentage points of GDP, and total expense by 1.4 percentage points of GDP, as compared to the original budget plan. The basis for calculation of salaries in state and public services was reduced to the level of December 2008, while the basis for calculation of salaries of government officials decreased by ten percent. In July, the second and third budget revisions were adopted, which decreased the revenues by 1.6 percentage points of GDP, and expenses by 0.2 percentage points of GDP, as compared to the previous plan.

On the revenue side, certain legal changes were introduced in the tax system. Thus the general value added tax rate increased from 22 to 23 percent. Also, a special tax on salaries, pensions and other receivables was introduced², namely on net payments in the amount higher than HRK 3,000 (2 percent), or higher than HRK 6,000 (4 percent), for a limited period. In addition, the Act on Special Tax on Receipts from Independent Activity and Other Receivables³ was adopted, which introduced taxation of receipts above HRK 3,000 (2 percent tax rate), and above HRK 6,000 (4 percent tax rate). The Act on the Fees for the Provision of Services in Mobile Electronic Communication Networks⁴ introduced payment of compensation for provision of mobile electronic communication network services in the amount of 6 percent of the basis, i.e. the revenue from services offered in the accounting period. Also, there was harmonisation of criteria of taxation of vessels and aircraft with that of passenger vehicles and motorcycles.

As for expense, further savings were achieved and redistribution within the budget was realised. There were further cuts of the basis for calculation of salaries of government officials by additional 5 percent, as well as pensions determined by the Act on Rights and Obligations of Representatives in the Croatian Parliament⁵ by ten percent. In addition to the above, free transport of high school students, as well as free textbooks, were repealed for all except for students of poor financial standing.

Toward the end of the year, State budget execution was for the largest part in conformity with the plan defined within the third budget revision for 2009. Therefore the total budget deficit amounted to HRK 9.5 billion, i.e. 2.9 percent of GDP. At the same time, Extrabudgetary Users recorded a planned deficit of 0.1

¹ Official Gazette, numbers 96/2003 and 87/2008

² Official Gazette, number 94/2009

³ Official Gazette, number 119/2009

⁴ Official Gazette, number 94/2009

⁵ Official Gazette, number 86/09

percent, and the Local and Regional Self-Government Units of 0.3 percent. This resulted with a total deficit of Consolidated General Government in the amount of HRK 10.8 billion, which makes 3.2 percent of GDP or 0.3 percentage points more with respect to the plan.

In addition to the above mentioned measures, and for the purpose of opening an additional space for the private sector for financing on domestic financial market, after five years of absence from foreign financial markets, in May 2009 the Government issued a Eurobond for EUR 750 million, with maturity in January 2015. Furthermore, in November the second bond was issued on the US financial market for USD 1.5 billion, with 10 year maturity.

Such trends affected the level of public debt so that by the end of 2009 the total public debt reached a level of HRK 117.8 billion, or 35.4 percent of GDP. At the same time, a share of domestic debt was 68.2 percent, whereas the foreign debt recorded a share of 31.8 percent in the total public debt.

In the context of public finance management projects, it should be mentioned that a new Strategy for development of public internal financial control system in Croatia for the period 2009 to 2011 was adopted, which the Government of the Republic of Croatia adopted in September 2009 within the budget reforms initiated by the Strategy for Improvement and Modernisation of the Processes within the State Treasury from 2007 to 2011, in conformity with the new Budget Act. Earlier Strategies were aimed at creation of necessary conditions for establishment and development of the mentioned system for budget users, including the creation of regulatory framework and organisational capacities, whereas the purpose of the new Strategy was further development of the established system as a tool of management structure for responsible, transparent and successful management of budget funds.

In the context of strengthening of the administrative framework for the execution of EU assistance programmes, it is important to mention that the Anti Fraud Coordinating Structure System (the AFCOS system) is fully functional and ready for timely detection and reporting of irregularities and frauds.

The mentioned measures during 2009 contributed to the stability of public finances under conditions of economic crisis and created a starting point for further implementation of fiscal policy in the next three-year period, in order to ensure system liquidity and create preconditions for economic recovery.

2.2. BUDGETARY CENTRAL GOVERNMENT REVENUE

Unfavourable economic trends in 2009, both domestic and global, affected the collection of Budgetary Central Government revenue. According to the final data on the State budget execution for 2009, the total revenue was realised in the amount of HRK 110.3 billion, which was 99.4 percent of the planned amount. With respect to 2008, the budget revenues showed a decrease of 4.8 percent, whereas their share in the value of gross domestic product fell from 33.8 percent in 2008 to 33.1 percent in 2009.

Table 2.1. Budgetary Central Government Revenue in the 2007 - 2009 Period

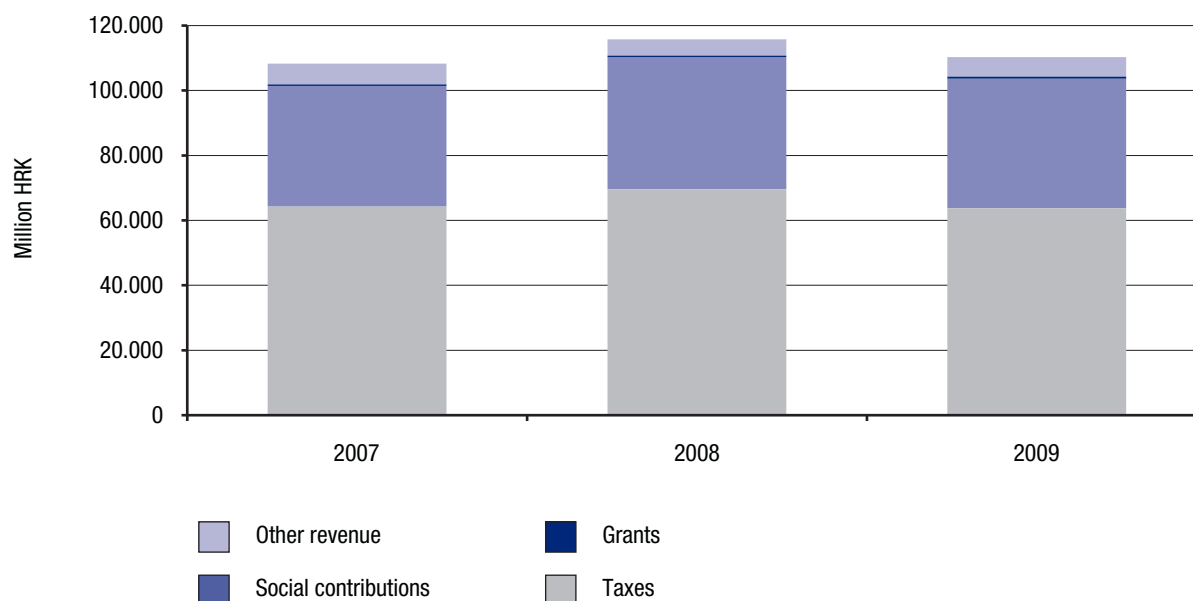
	(000 HRK)	2007	2008	Plan 2009	2009	Index 2008/2007	Index 2009/2008	Index 2009/ Plan 2009
1	REVENUE	108,320,595	115,772,655	110,871,511	110,257,947	106.9	95.2	99.4
11	Taxes	64,234,530	69,572,699	63,202,863	63,678,926	108.3	91.5	100.8
111	Taxes on income, profits and capital gains	10,589,083	12,252,205	11,105,988	10,839,269	115.7	88.5	97.6
1111	Payable by individuals	1,772,708	1,687,502	1,555,815	1,399,411	95.2	82.9	89.9
1112	Payable by corporations and other enterprises	8,816,375	10,564,703	9,550,173	9,439,858	119.8	89.4	98.8
113	Taxes on property	578,621	635,930	596,426	532,297	109.9	83.7	89.2
114	Taxes on goods and services	51,099,930	54,482,172	48,791,226	49,238,277	106.6	90.4	100.9
1141	General taxes on goods and services	37,916,509	41,474,566	36,961,031	37,173,833	109.4	89.6	100.6
11411	Value-added taxes	37,747,987	41,308,036	36,818,812	37,050,354	109.4	89.7	100.6
11412	Sales taxes	168,522	166,531	142,219	123,479	98.8	74.1	86.8
1142	Excises	12,168,666	11,875,126	10,664,564	10,998,910	97.6	92.6	103.1
1144	Taxes on specific services	24,500	27,000	29,092	14,964	110.2	55.4	51.4
1145	Taxes on use of goods and on permission to use goods or perform activities	480,619	561,612	605,126	517,870	116.9	92.2	85.6
1146	Other taxes on goods and services	509,636	543,868	531,413	532,700	106.7	97.9	100.2
115	Taxes on international trade and transactions	1,641,478	1,900,865	1,784,632	1,721,164	115.8	90.5	96.4
116	Other taxes	325,418	301,527	924,590	1,347,920	92.7	447.0	145.8
12	Social contributions	37,203,486	40,703,484	40,771,078	39,994,739	109.4	98.3	98.1
121	Social security contributionse	37,203,486	40,703,484	40,771,078	39,994,739	109.4	98.3	98.1
1211	Employee contributions	16,531,305	18,100,364	17,988,507	17,925,299	109.5	99.0	99.6
1212	Employer contributions	19,845,488	21,758,077	21,926,473	21,373,979	109.6	98.2	97.5

	(000 HRK)	2007	2008	Plan 2009	2009	Index 2008/2007	Index 2009/2008	Index 2009/Plan 2009
1213	Self-employed or nonemployed contributions	826,692	845,043	856,097	695,462	102.2	82.3	81.2
13	Grants	428,038	468,634	983,810	616,307	109.5	131.5	62.6
14	Other revenue	6,454,541	5,027,838	5,913,761	5,967,975	77.9	118.7	100.9
141	Property income	3,526,540	1,612,229	2,345,964	2,367,214	45.7	146.8	100.9
1411	Interests	164,558	147,911	171,310	123,488	89.9	83.5	72.1
1412	Dividends	1,194,582	212,387	89,899	106,625	17.8	50.2	118.6
1413	Withdrawal from income of quasi-corporations	117,730	504,074	1,343,052	1,342,502	428.2	266.3	100.0
1415	Rent (concessions etc.)	2,049,670	747,856	741,702	794,600	36.5	106.3	107.1
142	Sales of goods and services	1,526,646	1,450,683	1,646,337	1,682,037	95.0	115.9	102.2
143	Fines, penalties and forfeits	429,034	490,600	499,325	515,461	114.4	105.1	103.2
144	Voluntary transfers other than grants	11,241	9,384	11,744	15,865	83.5	169.1	135.1
145	Miscellaneous and unidentified revenue	961,080	1,464,942	1,410,390	1,387,397	152.4	94.7	98.4

Source: Ministry of Finance

Tax revenue is the most significant Budgetary Central Government revenue, and during 2009 they made 57.7 percent of the total budget revenue. The second most important are the revenue from social contributions, with the share of 36.3 percent, while the remainder of the revenue is comprised of grants, property revenue, revenue from sales of goods and services, fines, penalties and forfeits, voluntary transfers other than grants, miscellaneous and unidentified revenue. During 2009 the share of tax revenue in the total revenue structure decreased, whereas other revenue categories recorded a slight increase or stagnation as compared to the previous year.

Chart 2.1. Revenue Structure of Budgetary Central Government in the 2007 - 2009 Period



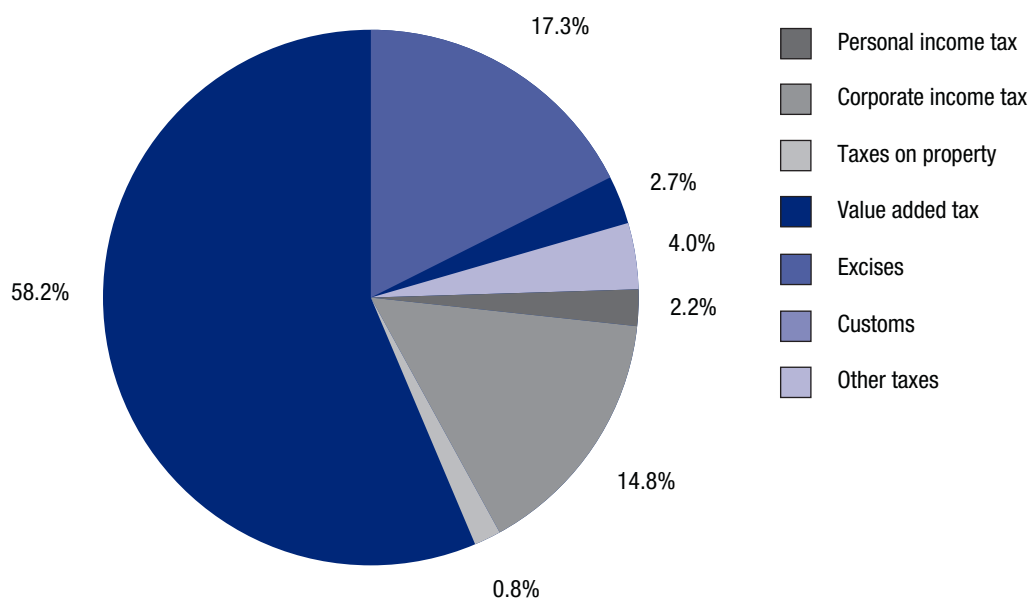
Source: Ministry of Finance

2.2.1. Tax Revenue

During 2009, tax revenue was realised in the amount of HRK 63.7 billion, which was a year-on-year decrease of 8.5 percent. Tax revenue was realized more or less according to the planned amount, i.e. by 0.8 percent higher. The share of this revenue in the total Budgetary Central Government revenue was reduced by 2.3 percentage points, i.e. from 60.1 percent in 2008 to 57.8 percent in 2009. The largest reduction was in the share of value added tax, by 2.1 percentage points, followed by: corporate income tax revenue (decrease of 0.6 percentage points), excises (decrease of 0.3 percentage points), personal income tax revenue (decrease of 0.2 percentage points) and customs duties and taxes on property (decrease of 0.1 percentage points). Other tax revenues increased their share in total budget revenue by 0.9 percentage points because of the introduction of the special tax on salaries, pensions and other receivables.

The most significant share in tax revenue belongs to VAT revenues, with 58.2 percent, followed by revenue from excises with 17.3 percent and corporate income tax revenue with 14.8 percent. Other Budgetary Central Government tax revenue has a smaller share in total taxes.

Chart 2.2. Structure of Tax Revenue in 2009



Source: Ministry of Finance

Personal Income Tax

Personal income tax revenue is the revenue of Local and Regional Self-Government Units, although a smaller part of this revenue is collected at the level of the Budgetary Central Government, and later, through equalisation functions, transferred to local self-government units. At the level of Budgetary Central Government in 2009 they were collected in the amount of HRK 1.4 billion, which was a decrease of 17.1 percent as compared to 2008. With unfavourable overall economic conditions, which resulted with unfavourable trends on the labour market during 2009, the main cause of the year-on-year decrease was a year-round effect of amendments to the Income Tax Act, which was implemented in mid-2008.

The mentioned amendments to the Income Tax Act increased the basic personal allowance from HRK 1,600 to HRK 1,800, and the increase in the basic personal allowance also raised non-taxable parts of personal allowance for dependent family members, dependent children, and for disability/physical damage. Such an increase in the basic personal allowance affects the tax base to differing degrees. Because the amendments to the Income Tax Act reduced the general government's overall revenue from personal income tax, an

additional allocation of income tax funds to Local Government Units was made, to enable them to carry out their functions in light of amendments to the Act on Financing Local and Regional Self-Government Units. The previous distribution of income tax was changed so that the share of personal income tax which went to cities and municipalities was increased by 3 percentage points and the share which went to counties was increased by 0.5 percentage points. Amendments to the Act on Financing Local and Regional Self-Government Units caused additional reduction of Budgetary Central Government revenues based on personal income taxes.

Most of the income tax was collected by taxation of income from non-self employment and taxation of self-employment activities, with tax also being collected on property, property rights and taxation of capital.

In 2009, personal income tax was calculated as follows:

1. 15 percent of the amount from the tax base to double the basic personal allowance;
2. 25 percent of the difference of the annual tax base between double and five times the basic personal allowance;
3. 35 percent of the amount exceeding five times the basic personal allowance;
4. 45 percent of higher salaries.

Throughout 2009, the basic personal allowance was HRK 1,800.

Corporate Income Tax

In 2009, corporate income tax revenue amounted to HRK 9.4 billion, which was a year-on-year decrease of 10.6 percent. In relation to the planned amount, these revenues were lower by 1.2 percent. As the corporate income tax is calculated based on company dealings throughout the previous year, the reason for lower realisation of these revenues lies in bad business results of companies during 2008, which were caused by the global economic crisis.

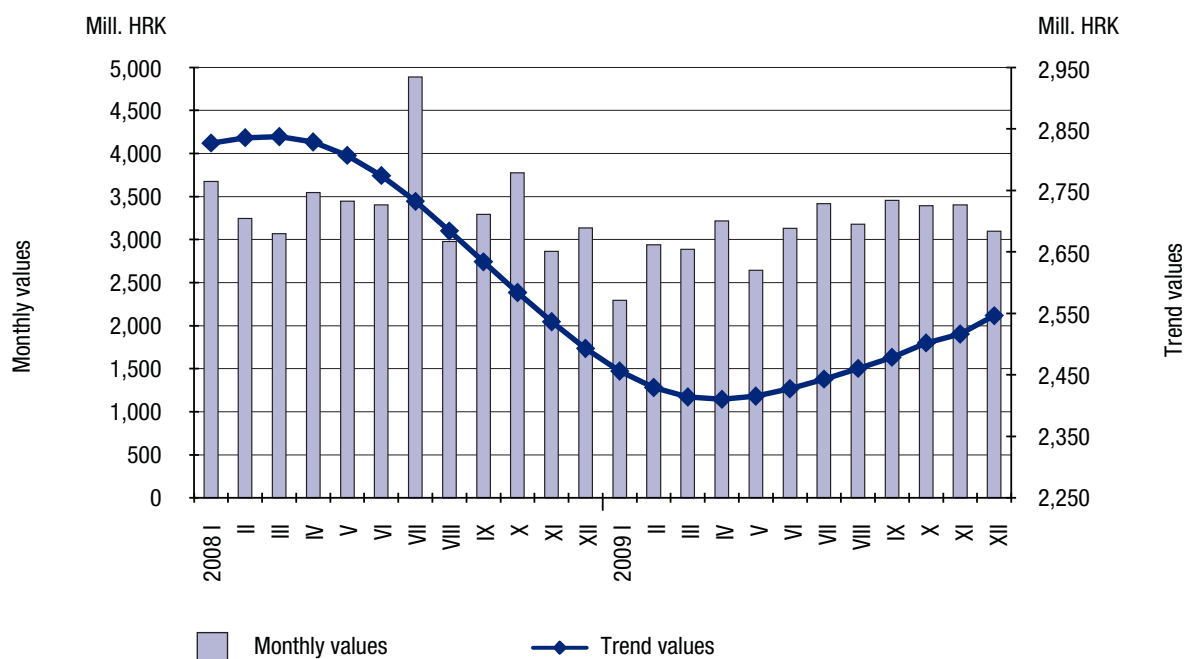
Property Tax

In 2009, property tax revenue was realised in the amount of HRK 532.3 million, which was 10.8 percent below the plan and 16.3 percent less than in 2008. Such realisation was a result of decrease of turnover on the real estate market.

Value-Added Tax

In 2009, VAT revenue amounted to HRK 37.1 billion, which was 0.6 percent more than the planned amount. However, these revenues showed a year-on-year decrease of 10.3 percent, which was a result of decreased economic activities in 2009, and particularly of a decreased personal consumption. In July 2009, general value-added tax rate was increased from 22 percent to 23 percent, which resulted in larger VAT revenue during the second half of the year, especially in July and September. Such monthly dynamics was caused by revenues collected from those taxpayers which settle their VAT liability on quarterly basis (those whose supplies of goods and services did not exceed HRK 300,000 annually), as well as the influence of the tourist season and an increased consumption during summer months. In the value-added tax revenue structure, the largest share refers to the value added tax paid at import.

Chart 2.3. Value-Added Tax Revenue Monthly Trends



Source: Ministry of Finance

Excises

Revenue from excises in 2009 amounted to HRK 11.0 billion, which is 7.4 percent less than in 2008. That was 3.1 percent higher than planned. In 2009, all types of excises recorded a year-on-year decrease, only the excise taxes on petroleum products and excise taxes on tobacco products realised approximately the amount as in 2008, but still below that level.

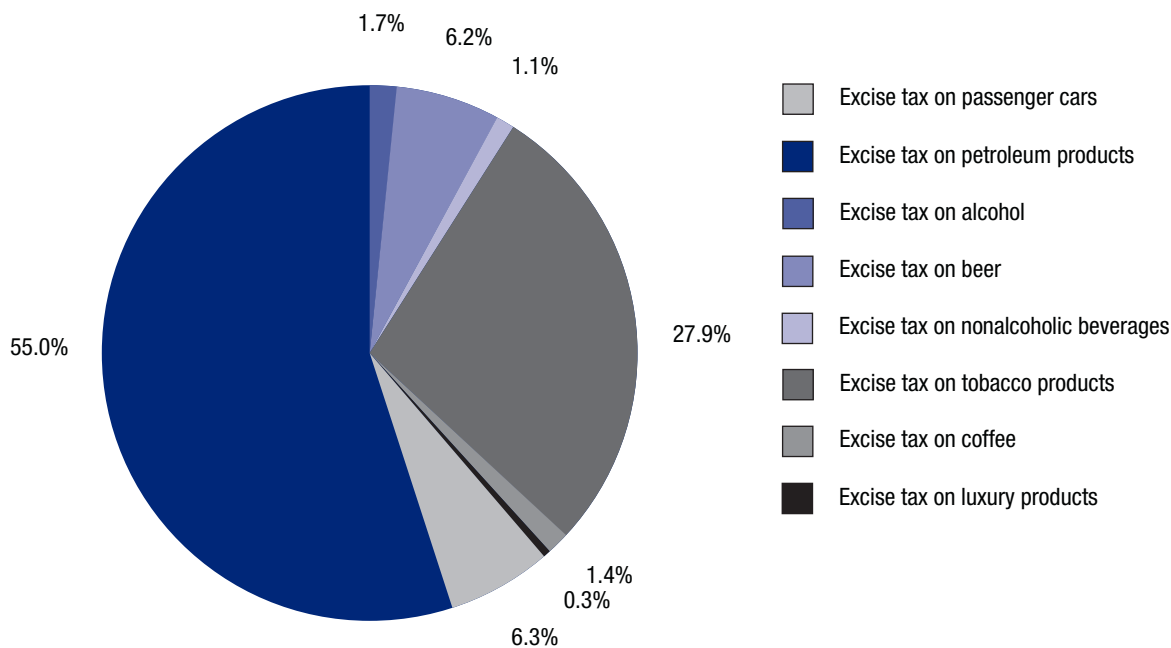
Table 2.2. Excise Tax Revenue Trend

(000 HRK)	2007	2008	Plan 2009	2009	Index 2008/2007	Index 2009/2008	Index 2009/Plan 2009
Excises	12,168,666	11,875,126	10,664,564	10,998,910	97.6	92.6	103.1
- Excise tax on passenger cars	1,433,427	1,452,827	964,181	696,791	101.4	48.0	72.3
- Excise tax on petroleum products	6,484,816	6,065,140	5,798,872	6,045,624	93.5	99.7	104.3
- Excise tax on alcohol	231,342	218,786	157,568	189,895	94.6	86.8	120.5
- Excise tax on beer	743,000	717,401	687,789	680,567	96.6	94.9	98.9
- Excise tax on nonalcoholic beverages	142,462	139,160	131,365	125,817	97.7	90.4	95.8
- Excise tax on tobacco and tobacco products	2,943,649	3,084,293	2,737,342	3,073,671	104.8	99.7	112.3
- Excise tax on coffee	161,936	166,979	155,686	156,910	103.1	94.0	100.8
- Excise tax on luxury products	28,033	30,540	31,761	29,635	108.9	97.0	93.3

Source: Ministry of Finance

Most excise tax revenues came from petroleum products (55.0 percent), followed by tobacco products (28.0 percent). Excise taxes on cars, other motor vehicles, vessels and aircraft considerably reduced their share in the total excise tax revenue. That is, with 12.2 percent in 2008, these excises taxes fell to only 6.3 percent in 2009. The reason was that car dealerships were cut by half if compared to the year before the crisis.

Chart 2.4. Excise Tax Revenue Structure in 2009



Source: Ministry of Finance

Excise taxes on petroleum products amounted to HRK 6.0 billion and they are approximately on the same level as they were the year before, or reduced by 0.3 percent. The greatest amount of this revenue was collected during summer months, which was a direct result of turnover increase during the tourist season.

If we look at the trend of delivered quantities of petroleum derivatives in 2009, it is clear that consumption of unleaded gasoline increased by 0.6 percent, while diesel fuel consumption dropped by 2.0 per cent compared to 2008. At the same time, the delivered amounts of blue diesel dropped by 8.8 percent year-on-year.

Table 2.3. Quantities of Petroleum Products in 2008 and 2009

hectolitres	BMB			DIESEL			BLUE DIESEL		
	2008	2009	Index 09/08	2008	2009	Index 09/08	2008	2009	Index 09/08
January	630,482	639,752	101.5	1,080,755	999,606	92.5	130,139	122,081	93.8
February	643,609	595,326	92.5	1,226,500	1,108,169	90.4	166,300	94,060	56.6
March	676,920	712,399	105.2	1,236,625	1,335,241	108.0	110,700	174,866	158.0
April	751,913	778,540	103.5	1,403,106	1,344,376	95.8	180,654	174,980	96.9
May	790,319	763,839	96.6	1,411,756	1,358,120	96.2	209,308	154,287	73.7
June	762,798	812,144	106.5	1,383,367	1,412,237	102.1	188,148	153,713	81.7
July	991,160	1,007,531	101.7	1,684,307	1,702,662	101.1	213,597	195,692	91.6
August	995,075	1,022,317	102.7	1,586,265	1,651,101	104.1	185,413	155,568	83.9
September	755,132	801,495	106.1	1,469,740	1,455,600	99.0	196,373	214,626	109.3
October	761,571	752,155	98.8	1,484,486	1,373,320	92.5	268,801	239,066	88.9
November	668,892	642,928	96.1	1,251,370	1,204,774	96.3	173,218	170,541	98.5
December	750,603	703,873	93.8	1,214,284	1,163,901	95.9	125,302	109,455	87.4
TOTAL	9,178,474	9,232,300	100.6	16,432,561	16,109,106	98.0	2,147,953	1,958,935	91.2

Source: Ministry of Finance – Customs Administration

Excise tax revenue on tobacco products are the second in rank order in the total excise taxes, and during 2009 they amounted to HRK 3.1 billion, which was approximately the same as in 2008, i.e. 0.3 percent less. This was 12.3 percent above the planned revenue. The largest amount of excise tax revenue on tobacco products was collected in January. That is, because of the announced amendments to the Act on Excise Tax on Tobacco Products and a new method of taxation, during December 2008 the traders bought supplies of cigarettes based on the old method of taxation and at the old price, so in January 2009 the Budgetary Central Government acquired larger amounts of funds from these excise taxes. The new method of taxation of tobacco products was implemented for the purpose of adjustment with EU legal regulations. In the following several months the payment of revenues on the basis of excise taxes on tobacco were significantly reduced, because of the mentioned supplies, whereas regular monthly payments restabilised during May.

In 2009, amendments were introduced to the Act on Excise Tax on Passenger Cars, Other Motor Vehicles, Vessels and Aircraft which equated the criteria for taxation of vehicles and aircraft with passenger vehicles and motorcycles so that the tax base was then identified according to their value, i.e. the sales price. The amendments were made to the fixed part and the percentage of excise tax, with introduction of three new price classes. This further improved the character of taxation according to economic strength, which means that buyers of expensive passenger vehicles, vessels and aircraft, both in relative and absolute amounts, would carry larger tax burden.

In 2009, revenues from excise taxes on cars, other motor vehicles, vessels and aircraft amounted to HRK 696.8 million and showed a year-on-year decrease of as much as 52.0 percent. Such reduction of revenues was a result of losses occurring in automotive industry due to the economic crisis and reduced purchasing power. A significant reduction of these revenues collection on a monthly basis was observed throughout the year.

Revenues from other excisable products (excise taxes on coffee, beer, alcohol and alcoholic beverages, nonalcoholic beverages and luxury products) amounted to HRK 1.2 billion, which was 7.1 percent less than in 2008. Revenues from excise taxes on coffee amounted to HRK 156.9 million and, when compared to 2008, they dropped by 6.0 percent, but were approximately equal to the planned amount. Although these revenues reduced during 2009, there was an increase of delivered quantities of sold unroasted and roasted coffee, but also of sold amounts of ready-made coffee beverages and beverages containing coffee, extracts etc.

Excise tax revenues on alcohol were collected in the amount of HRK 189.8 million and showed a year-on-year decrease of 13.2 percent.

Table 2.4. Quantities of Alcoholic Beverages in the 2007 - 2009 Period

hectolitres	2007	2008	2009	2009/2008
January	236,303	215,501	246,997	114.6
February	249,095	236,399	234,726	99.3
March	315,918	305,260	251,920	82.5
April	381,452	336,940	277,763	82.4
May	335,591	327,288	481,873	147.2
June	387,648	449,272	416,843	92.8
July	436,153	443,597	437,417	98.6
August	411,681	405,088	384,195	94.8
September	342,868	374,279	303,887	81.2
October	318,809	288,161	266,769	92.6
November	368,754	350,445	368,805	105.2
December	508,853	516,990	472,441	91.4
TOTAL	4,293,124	4,249,220	4,143,634	97.5

Source: Ministry of Finance – Customs Administration

Excise tax revenues on beer also fell year-on-year by 5.1 percent, and they were collected in the amount of HRK 680.6 million. This was 1.1 percent below the planned amount. Delivered quantities of beer were 5.7 percent lower than in 2009. On a monthly basis, the delivered quantities of beer reduced throughout the year, with a slight increase recorded only in March and September.

Table 2.5. Beer Quantities in the 2007 - 2009 Period

hectolitres	2007	2008	2009	2009/2008
January	154,185	137,050	126,173	92.1
February	204,674	185,989	163,390	87.8
March	256,874	225,319	228,900	101.6
April	303,968	327,682	325,832	99.4
May	411,002	383,209	352,436	92.0
June	443,082	429,892	402,837	93.7
July	495,445	518,612	469,508	90.5
August	473,200	468,229	441,154	94.2
September	273,071	291,488	293,838	100.8
October	271,145	257,526	230,441	89.5
November	229,386	194,438	178,400	91.8
December	264,725	277,888	275,317	99.1
TOTAL	3,780,757	3,697,322	3,488,226	94.3

Source: Ministry of Finance – Customs Administration

In 2009, excise taxes on nonalcoholic beverages amounted to HRK 125.8 million of the Budgetary Central Government revenue, which was a year-on-year decrease of 9.6 percent. Revenues from these excise taxes were by 4.2 percent lower than planned. At the same time, the delivered quantities of nonalcoholic beverages fell by 5.1 percent as compared to the previous year.

Excise taxes on luxury products were 29.6 percent below the previous year, i.e. HRK 29.6 million. In relation to the planned amount, excise amount was 6.7 percent below the planned amount.

Revenue from Customs Duties

Revenue from customs duties in 2009 was HRK 1.7 billion, which represented a year-on-year decrease of 9.5 percent. Also, realised revenue was 3.6 percent less than the planned revenue. Relatively large reduction of the Budgetary Central Government revenue based on customs duties is the result of import decline. For the purpose of the development of international cooperation, in recent years many agreements on the avoidance of double taxation have been signed, as well as numerous free trade agreements, which has facilitated import and export, but also reduced the revenue originating from those areas, in comparison to the period before such agreements.

Other Tax Revenue

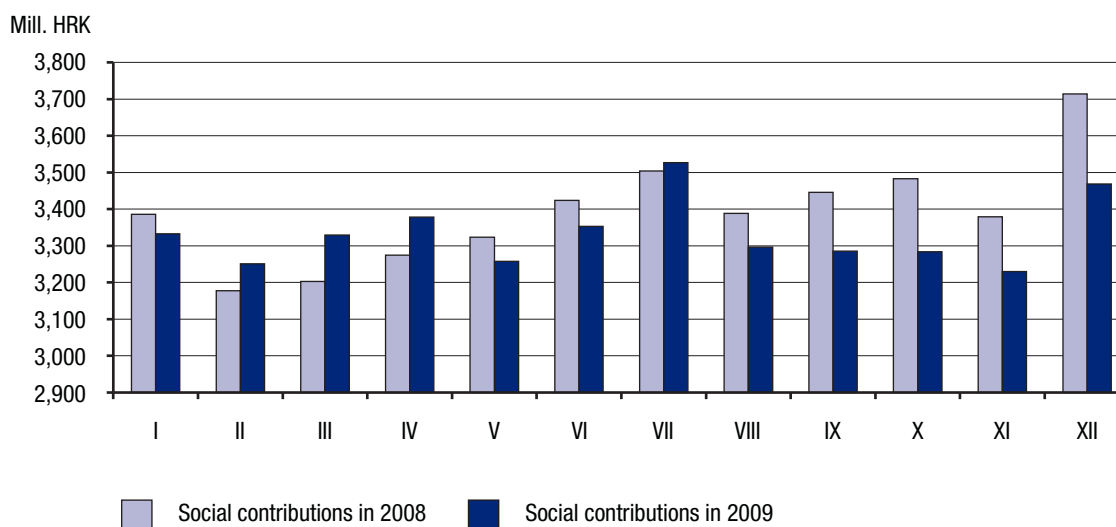
In addition to the abovementioned, during 2009, the Budgetary Central Government also collected tax revenue from taxes and fees on games of chance and entertainment games, revenue from other taxes on goods and services and other taxes. Other tax revenue includes state administrative and court fees and special tax on salaries, pensions and other receivables introduced in July 2009. As previously mentioned, this tax applies to income exceeding HRK 3,000 at the rate of 2 percent, while the 4 percent rate applies to income exceeding HRK 6,000. Special tax on salaries, pensions and other receivables applies in the limited time period.

In 2009 revenue from taxes and fees on games of chance and entertainment games amounted to HRK 532.8 million, which is a year-on-year decrease of 9.5 percent. Revenue from other taxes on goods and services amounted to HRK 532.7 million, with a year-on-year level decrease of 2.1 percent. Revenue from tax on salaries, pensions and other receivables during 2009 amounted to HRK 1.1 billion. Revenue collected from state, administrative and court fees amounted to HRK 290.5 million.

2.2.2. Social Security Contributions

Social security contributions are the second most significant category of the Budgetary Central Government revenue. During 2009 they amounted to HRK 40.0 billion, with a year-on-year decrease of 1.7 percent. Realised revenue was 1.9% below the planned revenue amount. The trend of revenue from social contributions depends on trends on the labour market. In the second half of 2009 the reduction of revenue from social contributions was more noticeable than in the beginning of the year. This is because in the first five months of 2009 civil service employees received salaries with the basis increased by 6 percent in relation to 2008, while, as of June, the basis returned to its 2008 level, so, accordingly, less revenue from social contributions was collected.

In the structure of total social contributions 53.4 percent refers to employer contributions which record a year-on-year fall of 2.5 percent, and amount to HRK 21.4 billion. The largest part of employer contributions refers to health insurance contributions, while the rest refers to employment contributions. Employee contributions almost completely refer to pension insurance contributions, and during 2009 they amounted to HRK 17.9 billion. This category amounts to 44.8 percent of total revenue from social contributions, recording a year-on-year decrease of 0.4 percent. Contributions from the self-employed and nonemployed constitute the smallest portion of total social contributions of only 1.7 percent. Also, this category of social contributions recorded the largest year-on-year decrease of 18.8 percent, and amounted to HRK 695.5 million. Contributions from the self-employed or nonemployed comprise, in roughly equal proportion, health and pension insurance contributions of persons carrying out independent business activities. Trends of particular social contribution categories progress differently. This is due to the fact that health insurance contribution is the revenue which goes entirely to the Budgetary Central Government, while only part of the pension insurance contribution goes to the Budgetary Central Government, with the remainder going to the private sector, that is, to the second pillar of the pension insurance system.

Figure 2.5. Social Contributions Revenue Trends in 2008 and 2009, by Months

Source: Ministry of finance

2.2.3. Grants

During 2009, the Budgetary Central Government collected HRK 616.3 million of grants. Grants were collected through grants from foreign governments, grants from other general government units and grants from international organisations. Precisely the grants from international organisations make up the largest share in total grants, as much as 98.0 percent, and primarily refer to withdrawals from pre-accession EU funds.

2.2.4. Property Income

Total property income in 2009 was collected in the amount of HRK 2.4 billion, which is 0.9 percent above the planned amount. At a year-on-year level, property income increased by as much as 46.8 percent.

Property income is classified in revenue from financial assets and revenue from nonfinancial assets. Revenue from financial assets comprises interest revenue, dividend revenue, revenue from profits of government-owned trading companies and banks, and other revenue from financial assets, which, in 2009, amounted to HRK 1.6 billion, which is almost twice as much in relation to 2008. Maximum revenue from financial assets in 2009 refers to the revenue from the profit of trading companies and banks, or revenue from the profit of the Croatian National Bank in the amount of HRK 1.3 billion, which is also the key cause of more significant annual increase of this revenue. Interest revenue amounted to HRK 123.5 million, and referred to interest on given loans, securities interest, time deposit interest and sight deposit interest, as well as overdue interest. In relation to the previous year, interest revenue is 16.5 percent less. Dividend revenue in 2009 amounted to HRK 106.6 million, which is almost twice as less in relation to 2008. This revenue was collected primarily through the HT dividend payment.

Revenues from nonfinancial assets comprise revenue from rents, which amounted to HRK 794.6 million in 2009. In relation to 2008 these revenues represent an increase of 6.3 percent. In their structure, revenues from rent comprise: concession revenues, revenues from property lease and rent and other revenues from nonfinancial assets. The most important revenue from nonfinancial assets are concession revenues, which in 2009 amounted to HRK 626.3 million, which makes 78.8 percent of total revenue from nonfinancial assets. Revenue from concessions at a year-on-year level rose by 44.6 percent, and were realised from fees for frequency concessions, concessions for waters and public water resources, road concessions, monthly

concession fees for casinos, fees for the concession on the maritime domain, fees for the concession on public roads, fees for customs zone concession, and other concession fees.

In the concession fee revenue structure, the biggest part is made of revenues from fees for public telecommunications concessions and radio frequency use concessions. The increase in revenues from fees for telecommunications concessions and concessions for radio frequency use was influenced by an unusual increase in revenues in March, June and September 2009, when Croatian Telecommunications Agency, based on its annual financial statement, paid surplus revenues in excess of expenses from the previous year, according to the law, in the state budget. Revenues from casino concession fees for the period from January to December 2009 amounted to HRK 45.1 million, which, in relation to the same period in 2008, represents a 14.5 percent reduction. The reason for this is less activity in casinos due to the global financial crisis. The biggest part of revenues from property lease and rent refers to revenues from agricultural land leases, and based on property lease and rent, the following revenues were also realised: revenues from property lease, RoC owned agricultural land easement fees, RoC owned agricultural land usage fee, and RoC owned forest easement fee. The biggest item of other revenues from nonfinancial assets is monument annuity and oil ports and pipeline usage fee.

2.2.5. Revenues from Sales of Goods and Services

Revenues from sales of goods and services comprise revenues from administrative fees and revenues from incidental sale on the market. Revenues from sales of goods and services during 2009 amounted to HRK 1.7 billion, which is 15.9 percent more in relation to 2008. Revenues from administrative fees were generated by various public notary fees, fees from the sale of stamp duties, state issued guarantee fees, fees for the issuing of long-term securities, fees for issued border crossing permits, fees and compensations paid by persons in transit, industrial property rights fees, and various other fees.

2.2.6. Revenue from Fines, Penalties and Forfeits, Voluntary Transfers and Miscellaneous Unidentified Revenue

Revenue from penalties and forfeits in 2009 amounted to HRK 515.5 million and recorded a year-on-year growth of 5.1 percent. The largest share in total penalties refers to traffic fines, followed by customs fines and tax penalties. Other penalties make up far less of total penalties, and comprise criminal penalties, penalties for violations of foreign exchange regulations, penalties for economic offences, penalties for fire protection offences, etc.

Voluntary transfers other than grants in 2009 amounted to HRK 15.9 million, and consisted of current and capital donations from legal and natural persons outside the general government.

Miscellaneous and unidentified revenue of HRK 1.4 billion was collected, representing a year-on-year decrease of 5.3 percent. In the category of miscellaneous and unidentified revenue the most significant one is revenue derived from supplementary health insurance, and in addition to this, miscellaneous and unidentified revenue also comprises revenue from fire-insurance premiums, revenue based on reimbursement of expenses from previous years, revenue from exchange gains, revenue from insurance-based damages and other unspecified revenue.

2.3. BUDGETARY CENTRAL GOVERNMENT EXPENSE

Total Budgetary Central Government expense in 2009 amounted to HRK 117.9 billion, which was an increase of 2.3 percent compared to 2008, i.e. outturn was 0.1 percent less than planned.

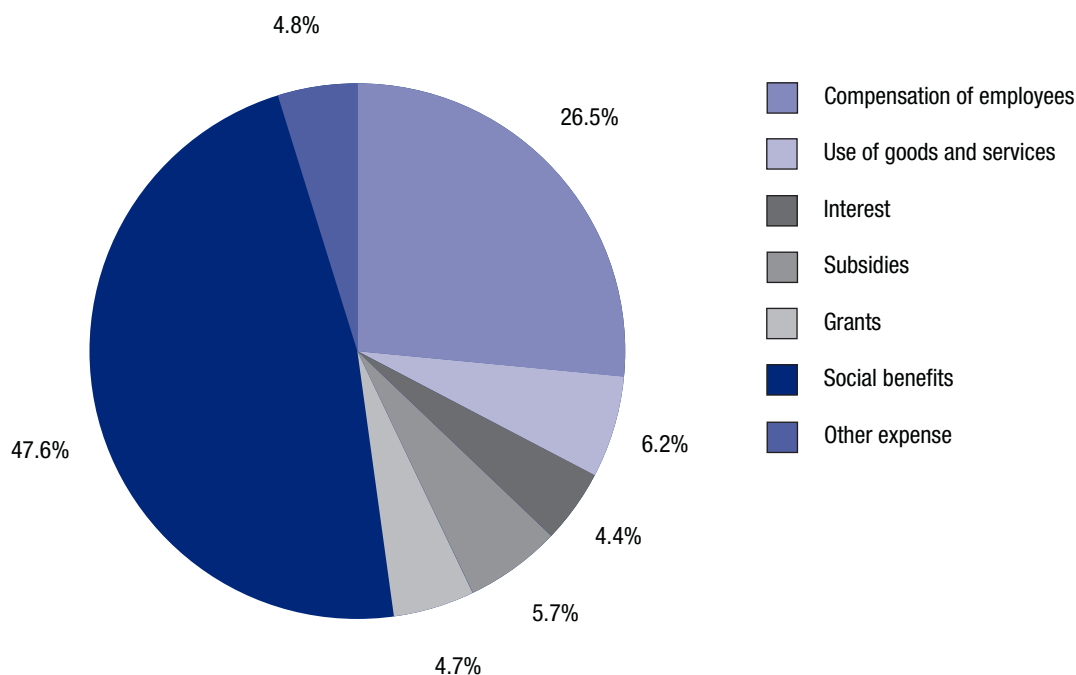
Table 2.6. Budgetary Central Government Expense in the 2007 – 2009 Period

	(000 HRK)	2007	2008	Plan 2009	2009	Index 2008 /2007	Index 2009 /2008	Index 2009 /Plan 2009
2	EXPENSE	108,007,605	115,292,426	118,041,064	117,923,992	106.7	102.3	99.9
21	Compensation of employees	27,545,141	29,948,535	30,976,553	31,289,325	108.7	104.5	101.0
211	Wages and salaries	23,237,088	25,453,436	26,306,006	26,555,399	109.5	104.3	100.9
212	Social contributions	4,308,053	4,495,099	4,670,548	4,733,926	104.3	105.3	101.4
2121	Actual social contributions	4,308,053	4,495,099	4,670,548	4,733,926	104.3	105.3	101.4
22	Use of goods and services	7,162,402	8,113,694	7,962,914	7,363,814	113.3	90.8	92.5
24	Interest	4,535,008	4,683,219	4,727,151	5,225,174	103.3	111.6	110.5
241	To nonresidents	1,672,563	1,542,146	1,549,553	1,391,408	92.2	90.2	89.8
242	To residents other than general government	2,862,444	3,141,074	3,177,599	3,833,767	109.7	122.1	120.6
25	Subsidies	6,492,010	6,859,512	6,985,483	6,710,033	105.7	97.8	96.1
251	To public corporations	3,007,099	3,199,114	3,079,503	3,134,258	106.4	98.0	101.8
252	To private enterprises	3,484,912	3,660,398	3,905,981	3,575,775	105.0	97.7	91.5
26	Grants	8,363,202	5,783,063	5,402,248	5,559,586	69.1	96.1	102.9
261	To foreign governments	103,410	89,446	79,750	78,184	86.5	87.4	98.0
2611	Current	75,261	60,246	68,750	68,150	80.0	113.1	99.1
2612	Capital	28,149	29,200	11,000	10,034	103.7	34.4	91.2
262	To international organisations	73,941	96,503	75,800	134,031	130.5	138.9	176.8
2621	Current	73,941	96,503	74,726	133,061	130.5	137.9	178.1
2622	Capital	0	0	1,074	970	-	-	90.3
263	To other general government units	8,185,852	5,597,115	5,246,698	5,347,372	68.4	95.5	101.9
2631	Current	2,305,125	2,291,490	2,788,486	2,598,678	99.4	113.4	93.2
2632	Capital	5,880,726	3,305,625	2,458,212	2,748,694	56.2	83.2	111.8
27	Social benefits	48,175,989	52,593,214	55,911,564	56,148,498	109.2	106.8	100.4
271	Social security benefits	34,167,894	37,600,722	40,491,690	40,605,352	110.0	108.0	100.3
272	Social assistance benefits	13,815,777	14,745,264	15,218,355	15,258,436	106.7	103.5	100.3
273	Employer social benefits	192,318	247,228	201,518	284,709	128.6	115.2	141.3
28	Other expense	5,733,853	7,311,189	6,075,150	5,627,561	127.5	77.0	92.6
281	Property expense other than interest	1,132	16,015	0	7,730	-	48.3	-
282	Miscellaneous other expense	5,732,721	7,295,174	6,075,150	5,619,832	127.3	77.0	92.5
2821	Current	2,837,557	2,626,644	2,401,026	2,174,864	92.6	82.8	90.6
2822	Capital	2,895,164	4,668,530	3,674,124	3,444,968	161.3	73.8	93.8

Source: Ministry of Finance

In the structure of the realised Budgetary Central Government expense in 2009, social benefits expense represents the largest share of 47.6 percent. Expense for the compensation of employees come next with the 26.5 percent share, then the use of goods and services with 6.2 percent, subsidies with 5.7 percent, other expense with 4.8 percent, grants with 4.7 percent and interest with 4.4 percent.

Figure 2.6. Structure of the Budgetary Central Government Expense in 2009



Source: Ministry of Finance

2.3.1. Compensation of Employees

Expense for the compensation of employees amounted to HRK 31.3 billion, which represents an annual increase of 4.5 percent. Increase in comparison to 2008 is primarily the result of an increased basis for the calculation of salaries in the first four months of 2009. However, because of necessary savings in April, the basis was restored to its 2008 level. Apart from the reduction of the basis for the calculation of salaries of public and civil servants, during 2009, government official salaries were also reduced by ten percent, and the second budget revision of July 2009 reduced the basis for the calculation of salaries of government officials by further 5 percent in relation to the April 2009 basis. Out of total expenses for the compensation of employees, 84.9 percent refers to wages and salaries expense, and the remaining 15.1 percent refers to social contribution expense.

2.3.2. Use of Goods and Services

Expense for the use of goods and services amounted to HRK 7.4 billion, which is a 9.2 percent reduction in relation to 2008, but also a 7.5 percent reduction in relation to the plan for 2009. Rationalisation measures were carried out with regard to business travel costs, material and energy expenses, regular and investment maintenance, marketing and representation.

2.3.3. Interest

Interest expense in 2009 was HRK 5.2 billion, or 10.5 percent above the plan for the observed year. Compared to 2008, expense rose by 11.6 percent, primarily as a result of deterioration of conditions in the financial market caused by global financial and economic crisis.

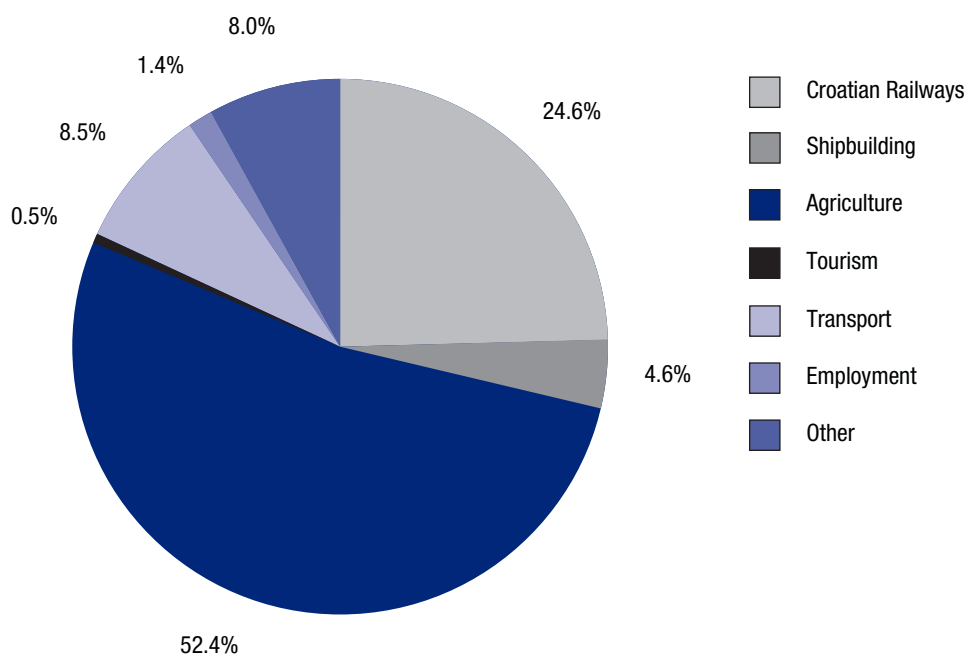
In the structure of the realised interest expense, interest expense for issued bonds prevails. So, in respect of interests on bonds, a total of HRK 2.9 billion was secured, which makes 55.5 percent of the total amount of interest expense. The remaining part refers to interest on domestic and foreign loans and domestic treasury bills.

2.3.4. Subsidies

Expense for subsidies amounted to HRK 6.7 billion, which is 3.9 percent lower than the amount planned for 2009. At the same time, this outturn represents a year-on-year decrease of subsidy expense of 2.2 percent.

Subsidies to private enterprises amounted to 53.3 percent of the total subsidy expense, while 46.7 percent went to public corporations. The largest part refers to agricultural subsidies (52.4 percent) and subsidies to Croatian Railways (24.6 percent). Other subsidies refer to shipbuilding, tourism, transport, employment and other.

Figure 2.7. Subsidy Expense Structure in 2009



Source: Ministry of Finance

2.3.5. Grants

In 2009 expense for grants amounted to HRK 5.6 billion, which is 2.9 percent above the plan for the observed year, or 3.9 percent less in relation to 2008.

Total grants consisted of grants to foreign governments and international organisations, as well as grants to other general government units. Around 96.2 percent refers to grants to other general government units, of which 51.4 percent were capital grants, the largest part of which refers to road charges to Croatian Roads (Hrvatske ceste). The remaining 48.6 percent of grants to other general government units refer to additional funding for the equalisation of decentralised functions, integral development of local community in the coastal area, improvement of quality and availability of health services, etc.

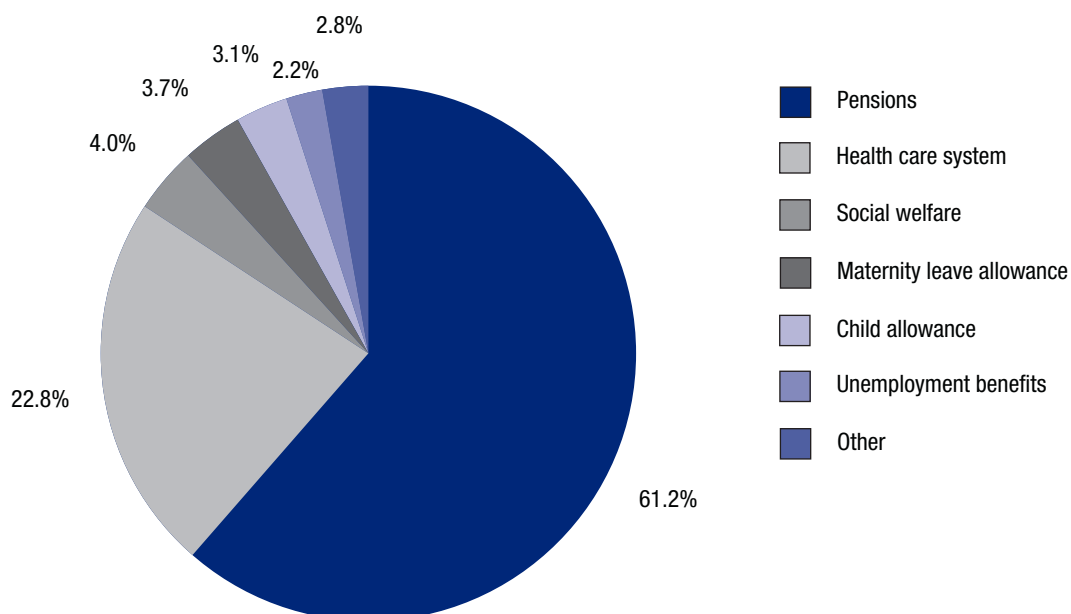
2.3.6. Social Benefits

Social benefits expense amounted to HRK 56.1 billion, or 0.4 percent above the planned amount for 2009. In relation to 2008, this expense records a year-on-year increase of 6.8 percent.

Of total social benefits in 2009, 72.3 percent refer to social security benefits, 27.2 percent refer to social assistance benefits, and the remaining 0.5 percent to employer social benefits. The largest allocations were to pensions, health care system, social welfare, child allowance, maternity leave allowance and unemployment benefits. Pension amounts totalled HRK 34.4 billion, which is HRK 1.6 billion more than in the previous year. A total of HRK 12.8 billion was spent on the health care system. Payments for social welfare, maternity leave allowance and unemployment benefits also increased. HRK 2.2 billion was spent on social welfare, HRK 2.1 billion on maternity leave allowance, HRK 1.8 billion on child allowance, and HRK 1.2 billion on unemployment benefits.

The structure of social benefits shows that pension and health care system expenses make up 84.1 percent of total social benefits.

Figure 2.8. Social Benefits Structure in 2009



Source: Ministry of Finance

2.3.7. Other Expense

Other expense is classified into property expense other than interest, and miscellaneous other expense which includes other current and capital expense. It amounted to HRK 5.6 billion, which is 7.4 percent less compared to the planned amount. At the same time, this represents a reduction of 23.0 percent compared to the previous year. Charges in the fuel price of Croatian Motorways (Hrvatske autoceste) amounted to HRK 1.4 billion and make up 40.4 percent of other capital expense.

Other current expense amounted to HRK 2.2 billion and as such make up 38.6 percent of total other expense.

Reduction in other expense mostly referred to the current budget reserve, cultural heritage protection and culture programme, transport infrastructure development, support to religious groups, rural development and the programme for the return of displaced persons, refugees and resettled persons. At the same time, there was an increase in sums paid for the development programmes aiming at small and medium enterprises in tourism and for socio-economic recovery of the areas of special state concern.

2.3.8. Budgetary Central Government Expenditure by Functional Classification

Overview of the realisation of the Budgetary Central Government expenditure by functional classification gives insight in the execution of expenditure with regard to main functions fulfilled by its execution, i.e., shows fiscal policy priorities within a certain time period. Insight in the functional classification of expenditure also enables quality international comparison and analysis of public expenditure. In conformity with the GFS 2001 methodology, according to which the overview of functional classification of expenditure was laid down in this chapter, the Budgetary Central Government expenditures include total current expense increased by expense for the acquisition of nonfinancial assets.

The total Budgetary Central Government expenditure by functional classification in 2009 reached a level of HRK 120.2 billion, i.e. recorded an annual increase of 1.4 percent.

General public services expenditure recorded a slight reduction in terms of its share of total expenditure, and an increase in terms of its share of gross domestic product by 0.1 percentage points. This category of expenditure derived primarily from transactions associated with public debt and executive and legislative affairs.

At the same time, stabilisation of the defence expenditure as a share of GDP can be noticed, as well as a slight reduction (0.2 percentage points) of the expenditure as a share of total expenditure, as a result of implementing measures of rationalisation of organisation and modernisation in the armed forces. In the last year, defence expenditure accounted for 4.2 percent of total annual expenditure, i.e. the average annual share of GDP was 1.5 percent.

Public order and safety expenditure was also stable in the observed period, both as a proportion of total expenditure, and as a share of GDP. Thus, in the period from 2007 to 2009, this expenditure recorded an average annual share of 6.4 percent of total expenditure, i.e. an average annual share of 2.3 percent of GDP. The largest portion of this expenditure traditionally refers to police forces and the judicial system.

In 2009 economic affairs expenditure decreased by 1.1 percentage points as a proportion of total expenditure, and by 0.2 percentage points as a proportion of GDP. The main items of expenditure within this category are transport (especially by road and rail), agriculture, general economic and trade affairs associated with labour, mining, manufacturing and construction.

In terms of its share of total annual expenditure, health expenditure rose by 0.1 percentage points. The share of gross domestic product increased by 0.6 percent, i.e. reached the level of 6.0 percent of GDP.

In terms of its share of total expenditure, education expenditure was the same as in the previous year, and recorded a slight increase of 0.1 percentage points of GDP in 2009. The same applies to expenditure for recreation, culture and religion and research and development related expenditure.

The largest part of total Budgetary Central Government expenditure by functional classification refers to social protection. In terms of its share of total expenditure it rose by 1.5 percentage points, or by 1.1 percentage points as a share of GDP compared to 2008. In other words, its share of total expenditure amounted to 39.5 percent, or 14.3 percent as the share of GDP.

Table 2.7. Budgetary Central Government Expenditure by Function in the 2007 - 2009 Period

	(000 HRK)	2007	2008	2009	Index 2008/2007	Index 2009/2008
7	Total expenditure	111,051,510	118,583,975	120,191,398	106.8	101.4
701	General public services	11,912,164	12,136,850	12,176,736	101.9	100.3
702	Defence	4,509,048	5,217,233	4,997,410	115.7	95.8
703	Public order and safety	7,297,692	7,433,652	7,626,856	101.9	102.6
704	Economic affairs	15,452,384	14,756,380	13,675,761	95.5	92.7
705	Environment protection	311,389	305,950	288,526	98.3	94.3
706	Housing and community amenity affairs	2,480,524	2,867,353	1,896,281	115.6	66.1
707	Health	16,875,901	18,459,942	19,883,412	109.4	107.7
708	Recreation, culture and religion	1,738,689	2,070,967	1,714,807	119.1	82.8
709	Education	9,293,917	10,247,052	10,395,997	110.3	101.5
710	Social protection	41,179,803	45,088,595	47,535,611	109.5	105.4

Source: Ministry of Finance

2.4. TRANSACTIONS IN NONFINANCIAL ASSETS OF THE BUDGETARY CENTRAL GOVERNMENT

Transactions in nonfinancial assets refer to all expenditure associated with the acquisition of nonfinancial assets and to all receipts associated with the disposal of nonfinancial assets. In this sense, the amount of net transactions in nonfinancial assets is the net result of all acquisitions and disposals, i.e. total acquisitions reduced by the total disposals of nonfinancial assets.

In 2009, total net acquisition of nonfinancial assets amounted to HRK 2.0 billion, which is 9.0 percent lower than the planned amount. At the same time, this represents a year-on-year decrease of 34.3 percent. The total net acquisition of nonfinancial assets is the result of the acquisition of nonfinancial assets in the amount of HRK 2.3 billion and disposals in the amount of HRK 304.0 million.

The acquisition of nonfinancial assets mostly refers to the acquisition of fixed assets, which is dominated by the acquisition of buildings and structures in the amount of HRK 1.1 billion, and machinery and equipment in the amount of HRK 937.1 million. On the other hand, disposals were mostly the result of the disposal of buildings and structures in the amount of HRK 251.9 million.

Net acquisition of inventories amounted to HRK 35.4 million, which is the result of acquisitions in the amount of HRK 43.1 million and disposals in the amount of HRK 7.7 million.

Total net acquisition of valuables amounted to HRK 8.9 million, accounted for entirely by the acquisition of valuables, as no disposals occurred.

Acquisition of nonproduced assets amounted to HRK 117.7 million, and in the most part arose from the acquisition of licences and other rights, while disposals in the amount of HRK 38.4 million are almost entirely accounted for by sales of land.

Table 2.8. Transactions in Nonfinancial Assets of the Budgetary Central Government in the 2007 - 2009 Period

	(000 HRK)	2007	2008	2009	Index 2008/2007	Index 2009/2008
31	NET ACQUISITION OF NONFINANCIAL ASSETS	2,545,220	2,988,129	1,963,401	117.4	65.7
311	Fixed assets	2,625,692	2,719,479	1,839,720	103.6	67.6
311,1	Acquisitions: fixed assets	2,906,863	2,973,830	2,097,601	102.3	70.5
311,2	Disposals: fixed assets	281,171	254,352	257,881	90.5	101.4
3111	Buildings and structures	1,154,132	1,109,578	824,283	96.1	74.3
3111,1	Acquisitions: buildings and structures	1,423,340	1,357,524	1,076,215	95.4	79.3
3111,2	Disposals: buildings and structures	269,208	247,947	251,932	92.1	101.6
3112	Machinery and equipment	1,338,275	1,505,694	931,108	112.5	61.8
3112,1	Acquisitions: machinery and equipment	1,350,238	1,512,098	937,057	112.0	62.0
3112,2	Disposals: machinery and equipment	11,963	6,404	5,949	53.5	92.9
3113	Other fixed assets	133,285	104,208	84,330	78.2	80.9
3113,1	Acquisitions: other fixed assets	133,285	104,209	84,330	78.2	80.9
3113,2	Disposals: other fixed assets	0	1	0	-	-
312	Inventories	-161,383	79,444	35,412	-49.2	44.6
312,1	Acquisitions: inventories	36,574	86,829	43,144	237.4	49.7
312,2	Disposals: inventories	197,957	7,385	7,732	3.7	104.7
313	Valuables	9,620	10,126	8,929	105.3	88.2
313,1	Acquisitions: valuables	9,620	10,126	8,929	105.3	88.2
313,2	Disposals: valuables	0	0	0	-	-
314	Nonproduced assets	71,291	179,081	79,340	251.2	44.3
314,1	Acquisitions: nonproduced assets	90,848	220,764	117,733	243.0	53.3
314,2	Disposals: nonproduced assets	19,557	41,683	38,392	213.1	92.1
3141	Land	-19,492	-41,626	-38,175	213.6	91.7
3141,1	Acquisitions: land	58	56	125	97.9	222.0
3141,2	Disposals: land	19,549	41,683	38,300	213.2	91.9
3142	Subsoil assets	0	0	-93	-	-
3144	Intangible nonproduced assets	90,782	220,707	117,608	243.1	53.3

Source: Ministry of Finance

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

The total net acquisition of financial assets of the Budgetary Central Government is the difference between domestic and foreign acquisitions and disposals of financial assets and the change in currency and deposits. In 2009 the net acquisition of domestic financial assets in the amount of HRK 6.8 billion was the result of HRK 4.1 billion change in currency and deposits, the net acquisition of loans in the amount of HRK 2.3 billion, and the net acquisition of shares and other equity in the amount of HRK 378.6 million. The positive amount of currency and deposits represents an increase in the amount of funds in the state account in the observed period which is influenced by disposals of securities during 2009. The net acquisition of domestic loans is the result of acquisition of loans in the amount of HRK 2.5 billion and disposals of loans in the amount of HRK 142.2 million. Acquisitions of loans in the most part refer to loans to companies in the public sector, i.e. payments for protested guarantees in the amount of HRK 2.1 billion, then to loans to domestic private companies, small business, small and medium-size enterprises, and loans to non-profit organizations, citizens and households. Disposals of domestic loans refer to loan repayments by domestic private companies and small and medium-sized enterprises, followed by loan repayments by non-profit organisations, citizens and households.

The net acquisition of domestic shares and other equity in the amount of HRK 378.6 million is the result of acquisitions of shares and other equity in the amount of HRK 387.0 million and their disposals in the amount of HRK 8.4 million. Acquisitions of domestic shares and other equity in the most part referred to shares and equity in banks and other financial institutions.

Foreign net acquisition of financial assets amounted to HRK 2.3 million, and was the result of acquisitions of loans and acquisitions of shares and equity in foreign banks and other financial institutions.

Table 2.9. Transactions in Financial Assets of the Budgetary Central Government in the 2007 - 2009 Period

	(000 HRK)	2007	2008	2009
32	NET ACQUISITION OF FINANCIAL ASSETS	-3,734,781	1,702,947	6,825,544
321	Domestic	-3,752,817	1,690,502	6,823,196
3212	Currency and deposits	-1,721,591	1,440,588	4,127,800
3214	Loans	674,350	384,361	2,316,757
3214,1	Acquisition	837,699	852,673	2,458,939
3214,2	Disposal	163,350	468,312	142,181
3215	Shares and other equity	-2,705,576	-134,447	378,639
3215,1	Acquisition	226,005	552,156	387,017
3215,2	Disposal	2,931,581	686,603	8,378
322	Foreign	18,036	12,445	2,348
3224	Loans	0	0	1,447
3224,1	Acquisition	0	0	1,447
3224,2	Disposal	0	0	0
3225	Shares and other equity	18,036	12,445	901
3225,1	Acquisition	18,036	12,445	901
3225,2	Disposal	0	0	0

Source: Ministry of Finance

In 2009, the total net incurrence of liabilities of the Budgetary Central Government amounted to HRK 16.5 billion, resulting from the net incurrence of domestic liabilities in the amount of HRK 9.6 billion and the net incurrence of foreign liabilities in the amount of HRK 6.9 billion.

The net incurrence of domestic liabilities is the result of incurrence and repayments on the domestic financial market. Total incurrence on the domestic market amounted to HRK 12.3 billion, while domestic repayments amounted to HRK 2.7 billion. As regards the incurrence on the domestic financial market, HRK 7.2 billion referred to incurrence through loans, and HRK 5.1 billion to incurrence through securities other than shares, that is, through treasury bills. Domestic repayment amounted to HRK 2.4 billion on the basis of loans and HRK 273.9 million on the basis of securities other than shares.

The net acquisition of foreign liabilities comprised total foreign incurrence in the amount of HRK 13.9 billion and total foreign repayments in the amount of HRK 7.0 billion. Foreign incurrence in 2009 was, in the most part, realised through securities other than shares, that is, through the issuing of two bonds in the value of HRK 12.9 billion. The first bond was issued in May 2009 in the amount of EUR 750 million, and the second in November 2009 in the amount of USD 1.5 billion. Foreign repayments comprised repayments of securities other than shares in the amount of HRK 5.1 billion, and primarily referred to the repayment of EUR 500 million of bonds issued in 2002 and 25 billion yen of bonds issued in 2003. Foreign loan repayments in 2009 amounted to HRK 1.9 billion.

Observing the total (domestic and foreign) incurrence, or total (domestic and foreign) repayments of the Budgetary Central Government in 2009, we can say that the net incurrence of liabilities of the Budgetary Central Government is the difference between the incurrence in the amount of HRK 26.2 billion and repayments in the amount of HRK 9.7 billion.

Table 2.10. Transactions in Liabilities of the Budgetary Central Government in the 2007 - 2009 Period

	(000 HRK)	2007	2008	2009
33	NET INCURRENCE OF LIABILITIES	-1,502,551	4,210,848	16,454,990
33,1	Total repayments	8,333,537	6,922,174	9,700,319
33,2	Total incurrence	6,830,986	11,133,022	26,155,309
331	Domestic	1,477,615	5,656,636	9,576,610
331,1	Repayment	4,604,573	3,871,657	2,704,283
331,2	Incurrence	6,082,188	9,528,293	12,280,893
3313	Securities other than shares	3,520,136	1,089,917	4,855,440
3313,1	Repayment	3,513,172	2,897,430	273,892
3313,2	Incurrence	7,033,308	3,987,347	5,129,332
3314	Loans	-2,042,521	4,566,719	4,721,170
3314,1	Repayment	1,091,402	974,227	2,430,391
3314,2	Incurrence	-951,119	5,540,946	7,151,562
332	Foreign	-2,980,166	-1,445,788	6,878,380
332,1	Repayment	3,728,963	3,050,517	6,996,036
332,2	Incurrence	748,798	1,604,729	13,874,416
3323	Securities other than shares	-1,757,723	-1,112,673	7,801,073
3323,1	Repayment	1,757,723	1,112,673	5,054,565
3323,2	Incurrence	0	0	12,855,638
3324	Loans	-1,222,442	-333,116	-922,693
3324,1	Repayment	1,971,240	1,937,845	1,941,471
3324,2	Incurrence	748,798	1,604,729	1,018,778

Source: Ministry of Finance

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

Net operating balance, defined as the difference between the revenue and the expense of the Budgetary Central Government, amounted to HRK -7.7 billion in 2009 and, in relation to 2008, influenced by the crisis and a year-on-year decrease in revenue, was decreased by HRK 8.1 billion.

The primary operating balance is also considered as a measure of budgetary deficit/surplus and is an indicator of current fiscal policy as it excludes interest payments from the previous calculation of deficits/surpluses, and thereby the impact of previous deficits and the accumulated public debt. In 2009 primary operating balance amounted to HRK -2.4 billion, which is a reduction of HRK 7.6 billion compared to 2008.

The category of net lending/borrowing is defined as the difference between the net operating balance and net acquisitions of nonfinancial assets. In 2009 net lending/borrowing was recorded at the level of HRK -9.6 billion, or 2.9 percent of GDP. Total financing of this amount is the result of previously described net incurrence of liabilities in the amount of HRK 16.5 billion and net acquisitions of financial assets in the amount of HRK 6.8 billion. In other words, repayments were below incurrence on the liability side of the Budgetary Central Government, whilst on the financial assets side, disposals were below the acquisitions of financial assets.

Table 2.11. Budgetary Central Government Deficit/Surplus and Financing in the 2007 - 2009 Period

	(000 HRK)	2007	2008	2009
	TRANSACTIONS AFFECTING NET WORTH			
1	Revenue	108,320,595	115,772,655	110,257,947
2	Expense	108,007,605	115,292,426	117,923,992
24	Interest	4,535,008	4,683,219	5,225,174
	Net - gross operating balance (1 - 2)	312,990	480,229	-7,666,045
	Primary operating balance (1 - 2 + 24)	4,847,997	5,163,448	-2,440,871
	TRANSACTIONS IN NONFINANCIAL ASSETS			
31	Net acquisition of nonfinancial assets	2,545,220	2,988,129	1,963,401
	Net lending - borrowing (1 - 2 - 31)	-2,232,230	-2,507,901	-9,629,446
	Financing (33-32)	2,232,230	2,507,901	9,629,446
	TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES			
32	Net acquisition of financial assets	-3,734,781	1,702,947	6,825,544
33	Net incurrence of liabilities	-1,502,551	4,210,848	16,454,990

Source: Ministry of Finance

3. EXTRABUDGETARY USERS IN 2009

3.1. EXTRABUDGETARY USERS

During 2009, the following five Extrabudgetary Users were covered by the general government budget: Croatian Waters (Hrvatske vode - HV), the Environmental Protection and Energy Efficiency Fund (Fond za zaštitu okoliša i energetske učinkovitost - FZOEU), Croatian Roads (Hrvatske ceste - HC), the State Agency for Deposit Insurance and Bank Rehabilitation (Državna agencija za osiguranje štednih uloga i sanaciju banaka - DAB) and the Croatian Privatization Fund (Hrvatski fond za privatizaciju - HFP).

3.2. REVENUE OF EXTRABUDGETARY USERS

The total revenue of Extrabudgetary Users in 2009 was HRK 5.5 billion. Broken down by user, HV accounted for the largest part, or 40.9 percent, HC for 26.9 percent, the FZOEU for 21.2 percent, the DAB for 10.3 percent, and the HFP for 0.6 percent.

Within the structure of the total revenue of Extrabudgetary Users, by economic classification, the largest contribution comes from revenues from sales of goods and services, which in 2009 amounted to HRK 3 billion. The largest part of these revenues refers to revenues of the water resources management within HV (HRK 1.8 billion) and environment protection fees within the FZOEU (HRK 1.2 billion).

Total revenue from grants amounted to HRK 1.7 billion, of which 99.8 percent refers to grants from other general government units. Of these, the largest part refers to capital grants from the Budgetary Central Government within HC, while the rest refers to capital grants from the Budgetary Central Government to HV.

Property income amounted to HRK 643.8 million, of which the DAB contributed the most (80.4 percent), followed by HV (8.6 percent) and HFP (5.2 percent). The biggest amount of revenue in this part refers to deposit insurance premiums at the DAB.

Extrabudgetary Users also realised HRK 122.6 million in miscellaneous and unidentified revenue, the major part of which was realised by the DAB (40.1 percent) and HRK 40.5 million of revenue from voluntary transfers other than grants.

3.3. EXPENSE OF EXTRABUDGETARY USERS

In 2009, the total expense of Extrabudgetary Users amounted to HRK 4.3 billion. Within its structure, the biggest contribution came from HV (40.6 percent), followed by the FZOEU (26.9 percent), HC (24.4 percent), the DAB (6.2 percent) and the HFP (1.9 percent).

Within the structure of the total expense of Extrabudgetary Users, by economic classification, the most significant is the expense for the use of goods and services, which, in the observed period, amounted to HRK 2.5 billion. The largest part of this expense refers to HV (HRK 1.1 billion), FZOEU (HRK 874.9 million) and HC (HRK 524.7 million), while the rest refers to the DAB and the HFP. Here the largest part of the expense refers to expense for services, specifically, services of regular and investment maintenance at HV and HC.

With regard to the amount of realised expenses, the abovementioned is followed by other expenses which amounted to HRK 930.9 million in 2009. The largest part of these expenses refer to HV (48.6 percent), followed by the DAB (27.2 percent) and HC (22.4 percent).

At the level of Extrabudgetary Users, HRK 285.6 million was spent on compensations of employees, of which HRK 245.8 million referred to wages and salaries, and HRK 39.8 million to social contributions.

Grants from other general government units amounted to HRK 233.9 million, where the largest part refers to FZOEU and HV.

During 2009, Extrabudgetary Users also spent HRK 284.6 million in respect of interest expenses. The largest part of this amount refers to HC in the amount of HRK 221.5 million.

Expense for subsidies amounted to HRK 89.7 million, the largest part of which, i.e. HRK 62.9 million, referred to subsidies to private enterprises, while the rest were subsidies to public corporations. Expense for subsidies was realised by the FZOEU as part of the environmental protection programme and project.

Social benefits are realised in the amount of HRK 218.0 thousand at DAB items.

3.4. TRANSACTIONS IN NONFINANCIAL ASSETS OF EXTRABUDGETARY USERS

Net acquisition of non-financial assets of Extrabudgetary Users in 2009 amounted to HRK 1.6 billion. This amount is the result of the total acquisition of non-financial assets in the amount of HRK 1.7 billion and the disposal of non-financial assets in the amount of HRK 21.7 million. Considering the types of non-financial assets, 84.9 percent refer to fixed assets, and the remaining 15.1 percent to transactions in non-produced assets. In the largest part, transactions in fixed assets refer to acquisitions of buildings and structures of HC (HRK 1.1 billion) and of HV (HRK 254.2 million).

Non-produced assets refer to land acquisition in the amount of HRK 254.1 million, which was mainly realised by HC. Land disposal was realised by the HFP in the amount of HRK 7.3 million.

3.5. TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES OF EXTRABUDGETARY USERS

In the structure of net acquisitions of financial assets of Extrabudgetary Users in 2009, currency and deposits record positive amounts (HRK 532.2 million), of which the largest part refer to the DAB and HV. The net acquisition of loans was also recorded in the positive amount of HRK 213.9 million. It is the result of total acquisitions in the amount of HRK 553.5 million and total disposals, or repayments of given loans in the amount of HRK 339.6 million. HC accounts for the largest part of domestic loan transactions. The net acquisition of shares and equity amounted to HRK -207.8 million, primarily as a result of disposals of shares and equity in the capital. The DAB accounts for most of such transactions.

In the same period the net incurrence of liabilities of Extrabudgetary Users amounted to HRK 977.0 million. This amount is a result of total incurrence on domestic and foreign market in the amount of HRK 1.3 billion and domestic and foreign repayments in the amount of HRK 357.3 million. At the same time, domestic liabilities of Extrabudgetary Users amounted to HRK 553.6 million, and foreign liabilities to HRK 423.4 million. All incurrences and all repayments in the observed period referred to the category of loans, and, in terms of amount, the most significant transactions in liabilities of Extrabudgetary Users during 2009 were realised at items for HC.

Table 3.1. Transactions in Financial Assets and Liabilities of Extrabudgetary Users in 2009

	(000 HRK)	Croatian Waters	Environment Protection Fund	Croatian Roads	State Agency for Deposit Insurance and Bank Rehabilitation	Croatian Privatization Fund	TOTAL
32	Net acquisition of financial assets	222,116	2,401	41,652	299,045	-26,890	538,324
321	Domestic	222,116	2,401	41,652	299,045	-26,890	538,324
	Currency and deposits	141,278	6,638	-52,662	420,670	16,277	532,201
	Loans	80,838	-4,237	94,314	0	42,984	213,899
	Acquisitions	80,838	37,290	271,144	0	164,202	553,474
	Disposals	0	41,527	176,830	0	121,218	339,575
	Shares and other equity	0	0	0	-121,625	-86,151	-207,776
	Acquisitions	0	0	0	0	200	200
	Disposals	0	0	0	121,625	86,351	207,976
322	Foreign	0	0	0	0	0	0
33	Net incurrence of liabilities	-9,098	0	979,260	0	6,880	977,042
331	Domestic	-115,831	0	696,394	0	-26,934	553,629
	Loans	-115,831	0	696,394	0	-26,934	553,629
	Repayments	115,831	0	83,629	0	39,303	238,763
	Incurrences	0	0	780,023	0	12,369	792,392
	Securities other than shares	0	0	0	0	0	0
	Repayments	0	0	0	0	0	0
	Incurrences	0	0	0	0	0	0
332	Foreign	106,733	0	282,866	0	33,814	423,413
	Loans	106,733	0	282,866	0	33,814	423,413
	Repayments	21,760	0	58,994	0	37,738	118,492
	Incurrences	128,493	0	341,860	0	71,552	541,905

Source: Ministry of Finance

3.6. DEFICIT/SURPLUS MEASURES AND FINANCING OF EXTRABUDGETARY USERS

The net operating balance of Extrabudgetary Users in 2009 amounted to HRK 1.2 billion. At the same time, the primary operating balance amounted to HRK 1.5 billion.

Net lending/borrowing was HRK -438.7 million, which represents 0.1 percent of GDP. Total financing is the difference between the net incurrence of liabilities in the amount of HRK 977.0 million and the net acquisition of financial assets in the amount of HRK 538.3 million.

Table 3.2. Measures of Deficit/Surplus and Financing of the Extrabudgetary Users in 2009

(000 HRK)	Croatian Waters	Environment Protection Fund	Croatian Roads	State Agency for Deposit Insurance and Bank Rehabilitation	Croatian Privatization Fund	TOTAL
TRANSACTIONS AFFECTING NET WORTH						
1 Revenue	2,253,976	1,168,578	1,481,919	566,470	33,540	5,504,483
2 Expense	1,748,448	1,159,521	1,048,486	267,167	81,841	4,305,463
24 Interest	29,863	32	221,474	736	32,535	284,640
Net/Gross operating balance (1 - 2)	505,528	9,057	433,433	299,303	-48,301	1,199,020
Primary operating balance (1 - 2 + 24)	535,391	9,089	654,907	300,039	-15,766	1,483,660
TRANSACTIONS IN NONFINANCIAL ASSETS						
31 Net acquisition of nonfinancial assets	274,314	6,656	1,371,041	258	-14,531	1,637,738
Net lending/borrowing (1 - 2 - 31)	231,214	2,401	-937,608	299,045	-33,770	-438,718
Financing (33 - 32)	-231,214	-2,401	937,608	-299,045	33,770	438,718
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES						
32 Net acquisition of financial assets	222,116	2,401	41,652	299,045	-26,890	538,324
33 Net incurrence of liabilities	-9,098	0	979,260	0	6,880	977,042

Source: Ministry of Finance

4. LOCAL AND REGIONAL SELF-GOVERNMENT UNITS IN 2009

4.1. LEGAL FRAMEWORK

The Act on the Territories of Counties, Cities, and Municipalities establishes the regional organisational structure of the Republic of Croatia and determines the territories of all counties, cities and municipalities in the Republic of Croatia, their titles and centres, methods of defining and changing borders of municipalities and cities, procedure preceding the changes of the regional organisational structure and other issues of importance for regional organisational structure of local or regional self-government units.

The territory of the Republic of Croatia consists of a total of 576 local and regional self-government units, of which 20 are regional self-government units (counties), 555 are local self-government units (126 cities and 429 municipalities) and the City of Zagreb.

A local and regional self-government unit (local unit) is a municipality, city and a county whose bodies perform services, duties and adopt programmes prescribed by law and decisions issued under the law, for which the resources are provided within their budget.

As part of their self-government authority, municipalities and cities deal with affairs of local importance which directly address the needs of citizens, and which are not assigned to state bodies by the Constitution or by law, especially affairs dealing with the following: settlement improvement and residence, physical and urban-development planning, utility services, child care, social welfare, primary health care, upbringing and primary education, culture, physical education and sports, consumer protection, natural environment protection and improvement, fire-prevention and civil protection, transport on their territory and other activities according to relevant acts.

Big cities are local self-government units which are also economic, financial, cultural, health, traffic and scientific centres of the development of a wider area which have more than 35,000 inhabitants. As part of their self-government authority, big cities, as well as cities which are county centres, carry out the same activities of local importance as other cities and municipalities, together with some additional activities concerning the maintenance of public roads, issuance of construction and location permits and other documents concerning construction, implementation of physical planning documents and other activities according to relevant acts.

As part of their self-governing authority, counties perform activities of regional importance, especially activities concerning education, health care system, physical and urban-development planning, economic development, transport and transport infrastructure, maintenance of public roads, planning and development of the network of educational, health, social and cultural institutions, issuance of construction and location permits, other documents concerning construction and the implementation of physical planning documents for the county area outside of the big city area, and other activities according to relevant acts.

Financing of local units is regulated by the Constitution¹, Act on Local and Regional Self-Government², Budget Act³, Act on the Financing of Local and Regional Self-Government Units⁴, Act on Areas of Special State Concern⁵, Act on Hilly and Mountainous Areas⁶, Act on the City of Zagreb⁷, Islands Act⁸, Act on the Execution of the State Budget for 2009⁹, acts decentralising the services of primary and secondary education,

¹ Official Gazette, numbers 56/1990, 135/1997, 8/1998 - final version, 113/2000, 124/2000 - final version, 28/2001, 41/2001 - final version, 55/2001 - corrigendum, 76/2010, 85/2010 - final version

² Official Gazette, numbers 33/2001, 60/2001, 129/2005, 109/2007, 125/2008 and 36/2009

³ Official Gazette, number 87/2008

⁴ Official Gazette, numbers 117/1993, 69/1997, 33/2000, 73/2000, 127/2000, 59/2001, 107/2001, 117/2001, 150/2002, 147/2003, 132/2006, 26/2007 - Decision of the Constitutional Court of the Republic of Croatia and 73/2008

⁵ Official Gazette, number 86/2008

⁶ Official Gazette, numbers 12/2002, 32/2002, 117/2003, 42/2005, 90/2005 and 80/2008

⁷ Official Gazette, numbers 62/2001, 125/2008 and 36/2009

⁸ Official Gazette, numbers 34/1999, 32/2002 and 33/2006

⁹ Official Gazette, numbers 149/2008, 44/2009, 86/2009 and 95/2009

health care system, social welfare and firefighting, and annual regulations of the Government of the Republic of Croatia which regulate minimum financial norms for the financing of decentralised services.

Based on the analysis of the current situation and the knowledge of “the best world and European practice” in the public finance management, a new Budget Act was prepared in 2008 and came into force on 1 January 2009. The Act refers to three main areas:

1. the area of planning, preparing and passing budget for one year and a forecast for the following two years, as well as executing the budget at the state and local unit level;
2. the area of managing budget funds, property of the state and local units and public debt, and debt incurrence and the provision of guarantees;
3. the area of budget relations in the public sector, as well as relations between the budget and budget users, on the one part, and entities outside the budget system, or the public sector, on the other.

As regards the financing of local units, the following obligations are introduced:

- monitoring revenues and receipts and expenses and expenditures based on the financing source;
- passing budget for one budget year and forecasts for the next two by the representative body;
- adoption of a semi-annual report on budget execution by the representative body, not later than 30 October of the current year;
- adoption of an annual report on budget execution by the representative body, not later than 15 July of the current year;
- including guarantees and approvals given by a local unit to a legal entity majority owned, either directly or indirectly, by that local unit and to an institution founded by that local unit for fulfilling the obligations of a legal entity and an institution within the scope of possible debt incurrence of this local unit;
- obtaining prior approval of the Minister of Finance for local units that wish to give a guarantee, or an approval to a legal entity majority owned, either directly or indirectly, by that local unit, and to an institution founded by that local unit;
- publishing the adopted semi-annual report on budget execution in a local official journal and
- preparation and implementation of training and advanced training for public sector employees working in the field of finance.

Also, it should be pointed out that since July 2008 the Amendments to the Income Tax Act apply, whereby non-taxable basic personal allowance is increased from HRK 1,600 to 1,800, and by increasing the basic personal allowance, the non-taxable parts of personal allowance for dependent immediate family members, dependent children, and disability/physical injury are also increased. Considering that this Act reduced the total revenue on the basis of personal income taxes, an additional distribution of personal income taxes to local units was made so that such units might perform their duties. Based on this, the Act on the Financing of Local and Regional Self-Government Units was amended, according to which the distribution within the personal income tax valid so far changed in such a way as to increase the cities and municipalities' share of the personal income tax by 3 percentage points, and counties' share by 0.5 percentage points.

4.2. FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

Local and regional self-government unit budget is a document estimating revenues and receipts and identifying expenses and expenditures of a local unit for one year, in accordance with the law and the decision issued under the law, and adopted by its representative body (county assembly, City Assembly of the City of Zagreb and the municipality and city council).

The outturn of budget for the fiscally most significant 53 local units (all 20 counties, 32 cities and the City of Zagreb) is given below.

4.2.1. Budget Revenue of Local and Regional Self-Government Units

Municipalities, cities and counties use their budget revenue to finance their self-government activities. The Act on the Financing of Local and Regional Self-Government Units defines types of revenue, its distribution and rates, and the limits within which it is prescribed. In addition to the above regulations, local and regional self-government units must also comply with other acts and regulations governing various areas of public spending, through which units independently and within the legally prescribed framework collect and determine revenue by special regulation and capital revenue.

According to data on budget execution for 53 local units, total revenue in 2009 amounted to HRK 16.1 billion, which is a 4.5 percent reduction compared to the previous year.

Table 4.1. Budget Revenue in the 2007 - 2009 Period for 53 Local Units

	(000 HRK)	2007	2008	2009	Index 2008/2007	Index 2009/2008
1	REVENUE	15,502,588	16,825,641	16,062,945	108.5	95.5
11	Taxes	9,157,897	10,097,177	9,891,927	110.3	98.0
111	Taxes on income, profits, and capital gains	8,173,413	9,074,234	8,961,506	111.0	98.8
1111	Payable by individuals	8,165,275	9,074,234	8,961,506	111.1	98.8
1112	Payable by corporations and other enterprises	8,138	0	0	-	-
113	Taxes on property	576,591	595,032	512,708	103.2	86.2
114	Taxes on goods and services	391,511	413,202	406,662	105.5	98.4
1141	General taxes on goods and services	55,553	58,225	52,947	104.8	90.9
11412	Sales taxes	55,553	58,225	52,947	104.8	90.9
1144	Taxes on specific services	17,216	17,509	16,702	101.7	95.4
1145	Taxes on use of goods and on permission to use goods or perform activities	313,321	332,093	331,726	106.0	99.9
11451	Motor vehicles taxes	241,140	258,023	263,123	107.0	102.0
11452	Other taxes on use of goods and on permission to use goods or perform activities	72,181	74,070	68,603	102.6	92.6
1146	Other taxes on goods and services	5,422	5,375	5,287	99.1	98.4

	(000 HRK)	2007	2008	2009	Index 2008/2007	Index 2009/2008
116	Other taxes	16,382	14,709	11,052	89.8	75.1
13	Grants	2,137,646	2,085,584	2,034,478	97.6	97.5
131	From foreign governments	9,631	6,079	1,248	63.1	20.5
132	From international organisations	4,447	1,342	1,946	30.2	145.0
133	From other general government units	2,123,569	2,078,163	2,031,284	97.9	97.7
14	Other revenue	4,207,045	4,642,880	4,136,540	110.4	89.1
141	Property income	844,311	965,963	983,916	114.4	101.9
142	Sales of goods and services	2,635,736	3,001,558	2,842,416	113.9	94.7
1422	Administrative fees	2,602,429	2,972,624	2,622,462	114.2	88.2
1423	Incidental sales by nonmarket establishments	33,307	28,933	219,954	86.9	760.2
143	Fines, penalties, and forfeits	7,857	8,677	7,570	110.4	87.2
144	Voluntary transfers other than grants	41,212	40,717	35,992	98.8	88.4
145	Miscellaneous and unidentified revenue	677,929	625,966	266,646	92.3	42.6

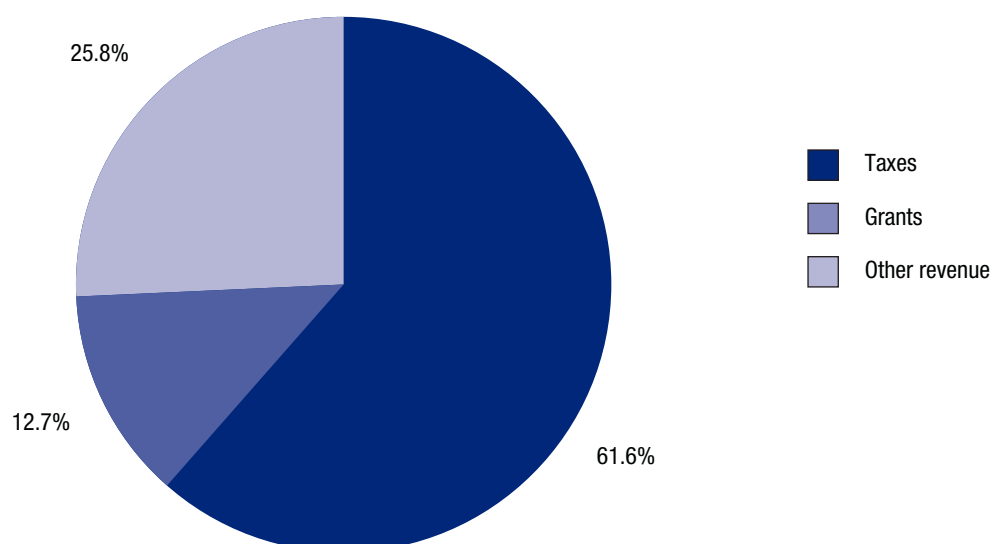
Source: Ministry of Finance

Tax revenue is the most abundant local unit revenue. In 2009 it amounted to HRK 9.9 billion, which makes 61.6 percent of total revenue. In relation to 2008, tax revenue was 2.0 percent less.

Grants amounted to 2.0 HRK billion, which is 2.5 percent less than in 2008. Their share of total revenue was 12.7 percent.

In 2009 there was a reduction of other revenue, which makes the second group of the most abundant local unit revenue (25.8 percent of total revenue). Compared to the previous year, this revenue reduced by 10.9 percent and amounted to HRK 4.1 billion.

Figure 4.1. Structure of Total Revenue of 53 Local Units in 2009



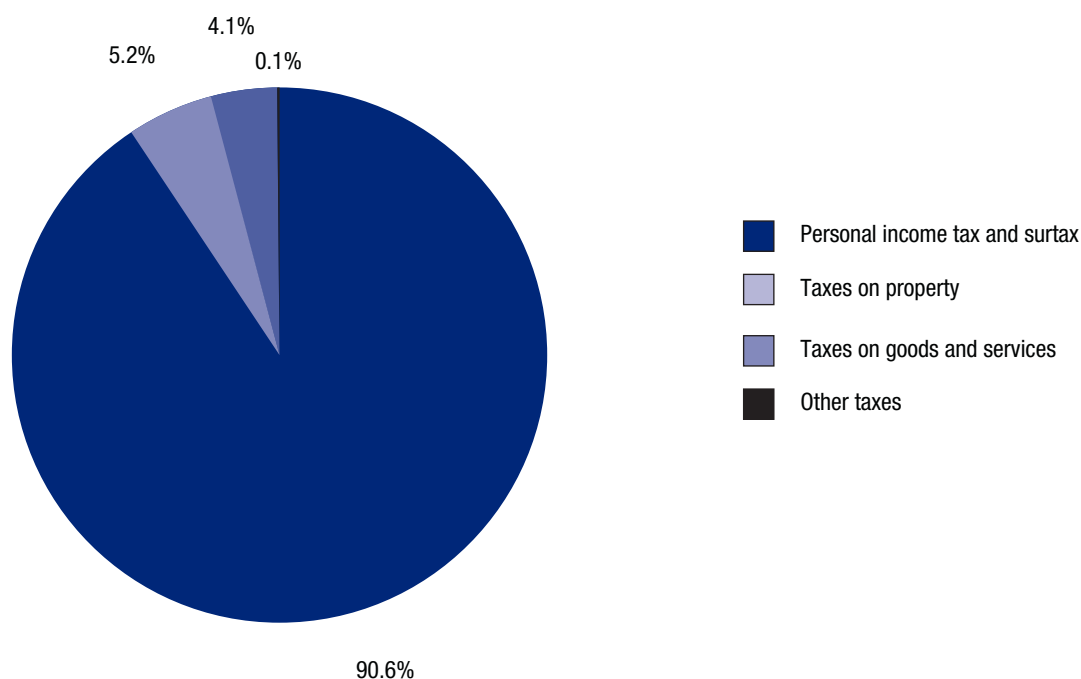
Source: Ministry of Finance

4.2.1.1. Taxes

The Act on the Financing of Local Units defines sources of funds by revenue levels and categories, and types of joint taxes and their distribution between the state, counties, municipalities and cities.

Within the structure of tax revenue, the major part came from personal income tax and surtax revenue (90.6 percent), followed by tax on property (5.2 percent), taxes on goods and services (4.1 percent) and other taxes (0.1 percent).

Figure 4.2. Structure of Tax Revenue for 53 Local Units in 2009



Source: Ministry of Finance

Amendments to the Act on the Financing of Local Units from 2001 and 2003 and amendments to other individual acts created presumptions of law for the decentralisation of functions of primary and secondary education, social welfare, health care system and firefighting (public fire brigades) to local and regional self-government units.

A part of the functions/expenses for educational system, health care and social welfare were handed over to 54 largest units, that is, 20 counties, 33 cities and the City of Zagreb, and the regular activities of public fire brigades are financed by 130 municipalities/cities. Units have received an additional share of the personal income tax for each individual delegated function. These additional shares of the personal income tax cover the minimum financial standards determined according to objective criteria regulated by annual decisions of the Government of the Republic of Croatia for the respective areas. In addition, in accordance with the mentioned Act, units which collect insufficient resources to cover the minimum financial standards, despite an additional share of the personal income tax, can also have their right to equalisation grants for the decentralised functions from the state budget.

In January 2009, the Government adopted individual decisions for 2009 on the criteria and standards for determining balance rights for financing the minimum financial standards for the public needs of secondary schools and student homes, primary education, or minimum financial standards applicable to material and financial expense for social welfare centres and for assistance in covering housing costs of users who use wood for heating, as well as for decentralised functions related to health care services, and decentralised funding for homes for the elderly and disabled, and for regular activities of public fire brigades. Pursuant to the Regulation on the Method for Calculating the Amount of Equalisation Grants for Decentralised Functions of Local and Regional Self-Government Units for 2009¹⁰ from January 2009, total funding for decentralised functions in the amount of HRK 2.8 billion was established, assigned by units and purpose.

¹⁰ Official Gazette, numbers 8/2009, 43/2009 and 76/2009

Table 4.2. Local Units Financing the Decentralised Functions

Decentralised functions	Counties	Cities	Municipalities	TOTAL	
Health care and social welfare	20	-	-	-	20
Secondary education		-	-	-	20
Primary education		32	2	-	54
Public fire brigades	32		66	130	
TOTAL NUMBER OF UNITS	20	66	66	152	

Source: Ministry of Finance

In 2009, total liabilities for the transferred decentralised functions amounted to HRK 2.7 billion, which represents an increase of 2.3 percent in relation to the previous year.

Table 4.3. Financing of Decentralised Functions in 2009

(000 HRK)	Counties and the City of Zagreb	Cities	Cities/ Municipalities	TOTAL
Health care	476,975			476,975
Social welfare	354,914			354,914
Secondary education	519,846			519,846
Primary education	776,237	274,659		1,050,896
Public fire brigades	43,667	186,305	101,086	331,058
TOTAL	2,171,640	460,963	101,086	2,733,689

Source: Ministry of Finance

Additional shares of personal income tax revenue in 2009 amounted to HRK 1.3 billion, which was sufficient for financing about 47 percent of total decentralised functions, while the remainder of liabilities was covered from equalisation grants. This points to the fact that in 2009 more funds were extracted from equalisation grants, than collected based on an additional share of the personal income tax. Unequal economic strength and institutional network coverage, which is often not proportional to a unit's fiscal capacity, can also be seen in the relationship between the additional shares of the personal income tax for decentralised functions and the allocated equalisation grants. In 2009, all counties and cities, except for the City of Zagreb, used the equalisation grants. In terms of counties, the highest additional shares in the personal income tax for delegated functions went to Zagreb, Istarska and Primorsko-goranska County (more than 50 percent), and Ličko-senjska, Požeško-slavonska and Virovitičko-podravska County had the biggest demand for equalisation grants.

4.2.1.2. Grants

Grants are current or capital transfers to local unit budgets from foreign governments, international organisations and other general government units. The total amount of grants also includes a part of the personal income tax obtained as an equalisation grant from the state budget for decentralised functions.

Table 4.4. Grants Revenue in the 2007 - 2009 Period for 53 Local Units

	(000 HRK)	2007	2008	2009	Index 2008/2007	Index 2009/2008
13	Grants	2,137,646	2,085,584	2,034,478	97.6	97.5
131	From foreign governments	9,631	6,079	1,248	63.1	20.5
1311	Current	6,084	6,079	1,245	99.9	20.5
1312	Capital	3,547	0	3	-	-
132	From international organisations	4,447	1,342	1,946	30.2	145.0
1321	Current	1,280	301	856	23.5	284.5
1322	Capital	3,166	1,041	1,090	32.9	104.7
133	From other general government units	2,123,569	2,078,163	2,031,284	97.9	97.7
1331	Current	1,852,142	1,833,872	1,845,638	99.0	100.6
1332	Capital	271,427	244,291	185,646	90.0	76.0

Source: Ministry of Finance

Grants from other general government units also include grants realised by local and regional self-government units from the State budget from the items of the Ministry of Finance. Therefore, counties, municipalities and cities of the first and second category in the areas of special state concern which meet the criteria for the calculation and allocation of grants receive grants from the State budget, whose identification, allocation and use is defined by the Act on the Execution of the State Budget for the respective years. In the Act on the Execution of the State Budget of the Republic of Croatia for 2009, this is regulated by the Article 38.

These grants in 2009 amounted to HRK 90.0 million, which represents an increase of 2.9 percent compared to the previous year. During the year, grants were allocated to 13 counties and 13 cities and 35 municipalities of the first and second category in the areas of special state concern. Amounts of grants paid to counties range between HRK 1.7 and 10.3 million, depending on the fulfilment of the criteria for the calculation of grants, for cities between HRK 22.6 thousand to 2.7 million, and for municipalities between HRK 14.1 thousand and 2.9 million.

Table 4.5. Grants to Local Units in the Areas of Special State Concern from the State Budget in 2009

(000 HRK)	2007	2008	2009	Index 2008/2007	Index 2009/2008
Grants to Local Units	82.740	87.513	90.009	105,8	102,9
Grants to Counties	44.044	46.334	49.063	105,2	105,9
Grants to Cities	5.409	15.501	13.833	286,6	89,2
Grants to Municipalities	33.287	25.678	27.113	77,1	105,6

Source: Ministry of Finance

In accordance with the Act on the Execution of the State Budget, counties must distribute at least 75 percent of the received grant to municipalities and cities from their area which are not direct users of these grants.

Counties can use grants only for capital programme investments, except for the procurement of passenger vehicles, and municipalities and cities also for financing material and energy expenses.

From the State budget, local self-government units in the areas of special state concern and hilly and mountainous areas also receive grants in the amount of corporate income tax realised in the area of special state concern and the hilly and mountainous area. Payments of the said grants in 2009 are defined in Article 39 of the Act on the Execution of the State Budget of the Republic of Croatia for 2009. All 230 local units located in the areas of special state concern and the hilly and mountainous areas received grants in the amount of corporate income tax from their territory in the total amount of HRK 301.7 million.

Table 4.6. Grants for Local Units from the State Budget in the Amount of Corporate Income Tax from their Territory in 2009

(000 HRK)	Total number of Units	out of which		2007			2008			2009		
		Cities	Municipalities	Cities	Municipalities	Total	Cities	Municipalities	Total	Cities	Municipalities	Total
Areas of special State concern	185	30	155	117,908	82,120	200,029	127,294	80,618	207,913	102,507	75,081	177,587
Hilly and mountainous areas	45	12	33	61,220	47,818	109,038	90,587	49,612	140,200	81,222	42,879	124,100
Total	230	42	188	179,128	129,938	309,066	217,882	130,230	348,112	183,728	117,959	301,687

Source: Ministry of Finance

Pursuant to the provisions of the Act on the Execution of the State Budget of the Republic of Croatia for 2009, a personal income tax return was paid, based on an annual application, to taxpayers from the areas of special state concern (first, second and third category) and hilly and mountainous areas, from the revenue which belongs to the State budget, in the total amount of HRK 611.8 million. Considering that the personal income tax return is paid directly to taxpayers, citizens, local and regional self-government units on behalf of which the Republic of Croatia returns the overpaid amount do not register these funds as the received grant.

Table 4.7. Personal Income Tax Return Based on an Annual Application which the State Returns on Behalf of Local Units

(000 HRK)	2007	2008	2009	Index 2008/2007	Index 2009/2008
Personal Income Tax Return	499,842	585,014	611,828	117.0	104.6
on behalf of regional units	52,249	60,867	63,718	116.5	104.7
on behalf of local units	447,593	524,148	548,110	117.1	104.6

Source: Ministry of Finance

4.2.1.3. Other Revenue

Other revenue, as the second most significant revenue of local units, amounted to HRK 4.1 billion in 2009, which represents a reduction of 10.9 percent compared to 2008. It can be classified in five main categories: property income, revenue from sales of goods and services, fines, penalties and forfeits, voluntary transfers other than grants, and miscellaneous unidentified revenue.

The share of revenues from sales of goods and services in other revenues is 68.7 percent. In 2009 these amounted to HRK 2.8 billion, with the reduction of 5.3 percent in relation to the previous year. Revenues from sales of goods and services are the revenues from sales of fee stamps, residence charges, utility-service fees, utility-service payments and other fees.

The second biggest revenue within other revenue is property income (23.8 percent) which consists of revenue from movables and immovables, concessions, fees for the use of space in power plants, mineral ore fees, fees for the use of public areas etc. In 2009 this revenue amounted to HRK 983.9 million, which represents an increase of 1.9 percent compared to 2008.

Miscellaneous and unidentified revenue amounted to HRK 266.6 million. Fines, penalties and forfeits amounted to HRK 7.6 million, which represents a reduction of 12.8 percent compared to 2008, and voluntary transfers other than grants amounted to HRK 36.0 million, which represents a reduction of 11.6 percent compared to the previous year.

Revenues from fines and charges determined by the special regulations are earmarked revenues, which can be used only for activities for which they were introduced. Introduction of these revenues and their amounts are determined by local units themselves, within legal limits.

4.2.2. Budget Expense of Local and Regional Self-Government Units

Budget expense of counties, cities and municipalities are defined not only by laws and by own decisions issued under the law that determine their obligations, but also by the realisation of budget revenue. Local unit expense refers to the performance of activities within the authority of local and regional self-government.

Expense financing is planned on the basis of laws and on decisions made by units, whereas execution is ensured by decisions on budget execution, with budget users obliged to rationally and effectively use funds for earmarked purposes, and on the basis of the planned revenue.

Total expense in 2009 amounted to HRK 14.0 billion which is, compared to 2008, an increase of 1.9 percent. The major part refers to the use of goods and services (HRK 5.2 billion), because of financing of operating expenses as part of decentralised functions and material expenses from the area of activity of local units. Expense for the use of goods and services include expenses necessary for the regular functioning of all users. Resources were spent on materials, energy, public lighting, cleaning of public areas, utilities and other services for regular needs and expenses for the regular maintenance of buildings and equipment. Expense for the use of goods and services recorded an increase of 1.7 percent in comparison to 2008.

Table 4.8. Budget Expense for 53 Units in the 2007 - 2009 Period

	(000 HRK)	2007	2008	2009	Index 2008/2007	Index 2009/2008
2	EXPENSE	11,868,231	13,697,135	13,958,975	115.4	101.9
21	Compensation of employees	2,957,745	3,390,267	3,665,254	114.6	108.1
211	Wages and salaries	2,572,575	2,946,424	3,175,226	114.5	107.8
212	Social contributions	385,169	443,843	490,028	115.2	110.4
22	Use of goods and services	4,678,873	5,079,050	5,167,299	108.6	101.7
24	Interest	93,250	133,675	115,495	143.4	86.4
25	Subsidies	993,791	1,231,477	1,275,536	123.9	103.6
251	To public corporations	777,982	1,004,965	1,078,024	129.2	107.3
252	To private enterprises	215,809	226,513	197,512	105.0	87.2
26	Grants	334,732	362,220	328,602	108.2	90.7
263	To other general government units	327,484	362,220	328,602	110.6	90.7
2631	Current	125,322	145,359	182,045	116.0	125.2
2632	Capital	202,162	216,861	146,557	107.3	67.6
27	Social benefits	554,175	688,166	779,170	124.2	113.2
272	Social assistance benefits	534,276	664,798	755,214	124.4	113.6
273	Employer social benefits	19,899	23,368	23,956	117.4	102.5
28	Other expense	2,255,665	2,812,280	2,627,619	124.7	93.4
282	Miscellaneous other expense	2,255,665	2,812,280	2,627,619	124.7	93.4
2821	Current	1,424,157	1,726,978	1,609,480	121.3	93.2
2822	Capital	831,509	1,085,302	1,018,139	130.5	93.8

Source: Ministry of Finance

Compensation of employees (salaries and contributions), in the amount of HRK 3.7 billion, increased by 8.1 percent in comparison to the previous year. Apart from the salaries of employees in local units, compensation of employees also includes salaries of their budgetary users (theatres, museums, libraries, kindergartens, etc.).

Interest amounted to HRK 115.5 million, which is a year-on-year decrease of 13.6 percent. Most interest was for the settlement of credit liabilities of local units from previous years.

Subsidies are current funds transfers that are given once or on a regular basis, for example interest subsidies, subsidies for employee training programmes, etc. In total they amounted to HRK 1.3 billion, which is an increase of 3.6 percent in comparison with 2008. For the most part they were intended for public corporations, while a smaller part was intended for those outside the public sector, mostly farmers, trades and crafts businesses and small and medium-sized enterprises.

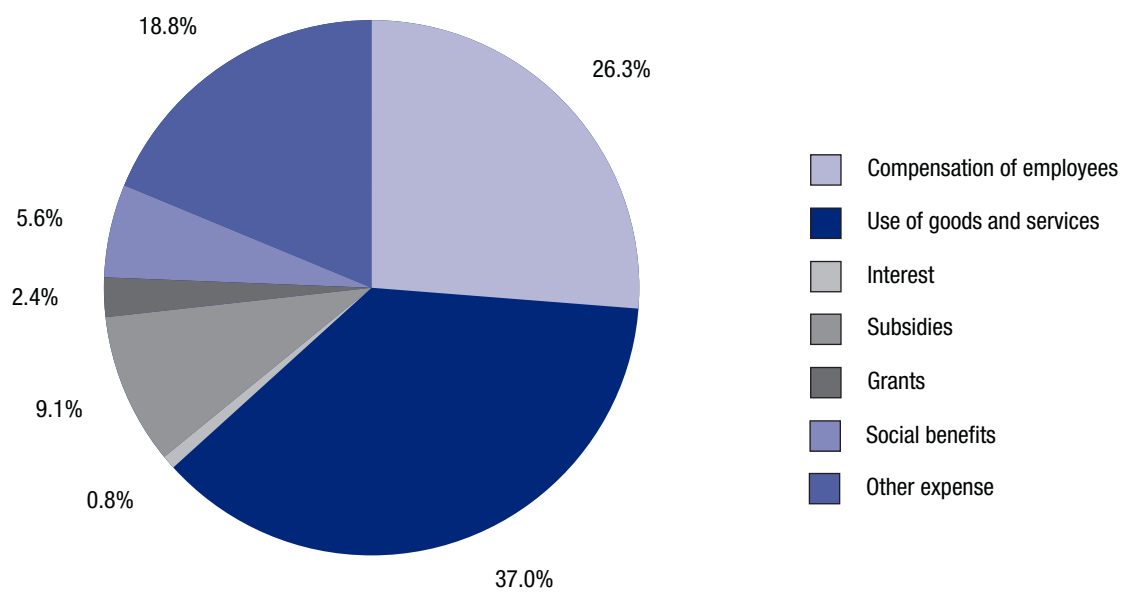
Expense for social benefits amounted to HRK 779.2 million, which is an increase of 13.2 percent compared to the previous year.

Grants are non-compulsory current and/or capital transfers which are allocated to budget users for the co-financing of their current and capital expense. In 2009, this expense amounted to HRK 328.6 million, which is 9.3 percent less when compared to 2008. Capital grants for road construction, spatial plan preparation, water supply construction, etc. make 44.6 percent of total allocations for grants.

Other expense (donations) includes current and capital expense which amounted to HRK 2.6 billion in 2009. In other words, this was a year-on-year reduction of 6.6 percent. Looking at the structure of other expense, 61.3 percent refers to current expense, and 38.7 percent to capital expense. Donations are mostly intended for non-profit organisations and non-economic investments, reparations following natural disasters, and acquisition of equipment, and for the acquisition of nonfinancial assets for companies and non-profit institutions owned by local units.

Within the structure of total expense, expense for the use of goods and services accounted for 37.0 percent, compensation of employees for 26.3 percent, other expense for 18.8 percent, subsidies for 9.1 percent, social benefits for 5.6 percent, grants for 2.4 percent and interest for 0.8 percent.

Figure 4.3. Structure of Total Expense for 53 Units in 2009



Source: Ministry of Finance

4.3. TRANSACTIONS IN NONFINANCIAL ASSETS OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

In 2009, net transactions in nonfinancial assets amounted to HRK 2.8 billion, a decrease of 11.5 percent. Nonfinancial assets include fixed assets, valuables and nonproduced assets. Fixed assets include buildings and structures, machinery and equipment and other fixed assets.

Expense for the acquisition of fixed assets amounted to HRK 2.9 billion, which is a reduction of 24.1 percent compared to 2008. Of that, the major part referred to schools and health facilities, cultural facilities, preschool institutions, entrepreneurial zones, business buildings, road reconstruction and construction, sports and recreational centres, furniture, equipment and other. Revenue from the disposal of long-term nonfinancial assets amounted to HRK 134.0 million, which is primarily due to disposal of buildings and structures.

Nonproduced nonfinancial assets comprise land, subsoil assets, other naturally occurring assets and other rights (concessions, licences, patents, etc.). Disposal of nonproduced nonfinancial assets (98.7 percent) in 2009 refers almost completely to land disposal, as well as the larger part of the acquisition of nonproduced nonfinancial assets.

Table 4.9. Transactions in Nonfinancial Assets for 53 Units in the 2007 - 2009 Period

(000 HRK)	2007	2008	2009	Index 2008/2007	Index 2009/2008
NET ACQUISITION OF NONFINANCIAL ASSETS	3,204,000	3,115,950	2,756,124	97.3	88.5
Fixed assets	3,381,738	3,231,840	2,773,332	95.6	85.8
Acquisitions: fixed assets	3,654,365	3,829,898	2,907,375	104.8	75.9
Disposals: fixed assets	272,627	598,059	134,042	219.4	22.4
Buildings and structures	2,847,978	2,667,444	2,354,629	93.7	88.3
Acquisition: buildings and structures	3,119,813	3,264,107	2,487,885	104.6	76.2
Disposal: buildings and structures	271,835	596,663	133,256	219.5	22.3
Machinery and equipment	389,070	407,674	307,583	104.8	75.4
Acquisition: machinery and equipment	389,839	408,992	308,167	104.9	75.3
Disposal: machinery and equipment	769	1,318	584	171.4	44.3
Other fixed assets	144,691	156,722	111,121	108.3	70.9
Acquisition: other fixed assets	144,713	156,800	111,323	108.4	71.0
Disposal: other fixed assets	22	78	203	354.5	259.7
Valuables	196	183	203	93.4	110.7
Acquisition: valuables	196	183	203	93.4	110.7
Disposal: valuables	0	0	0	-	-
Nonproduced assets	-177,934	-116,073	-17,411	65.2	15.0
Acquisition: nonproduced assets	286,233	333,337	297,960	116.5	89.4
Disposal: nonproduced assets	464,167	449,410	315,371	96.8	70.2
Land	-236,373	-203,283	-86,030	86.0	42.3
Acquisition: land	197,620	242,174	225,338	122.5	93.0
Disposal: land	433,993	445,457	311,368	102.6	69.9
Other naturally occurring assets	5,182	6,293	1,883	121.4	29.9
Acquisition: other naturally occurring assets	5,182	6,293	1,883	121.4	29.9
Disposal: other naturally occurring assets	0	0	0	-	-
Intangible nonproduced assets	53,257	80,917	66,737	151.9	82.5
Acquisition: intangible nonproduced assets	83,431	84,870	70,739	101.7	83.4
Disposal: intangible nonproduced assets	30,175	3,953	4,003	13.1	101.3

Source: Ministry of Finance

4.4. TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

In 2009, net transactions in financial assets amounted to HRK -634.6 million, whereas net liabilities amounted to HRK 17.6 million.

The net amount of transactions in financial assets results from expenditures and receipts on the basis of financial assets, and changes in the status of currency and deposits. Transactions in financial assets include primarily:

- Reduction in the status of currency and deposits by HRK 613.7 million;
- Acquisition of loans in the country in the amount of HRK 73.2 million, as well as acquisitions from the purchase of shares and equities in companies' capital in the amount of HRK 55.8 million;
- Disposals of loans worth HRK 126.5 million, and disposals from the sale of shares and equities in companies in the amount of HRK 23.4 million.

Transactions in liabilities include incurrences and repayments of received loans on the basis of issued securities. Incurrences in 2009 were domestic incurrences, in the total amount of HRK 338.3 million, mostly by taking loans from domestic commercial banks. Repayments are mostly related to domestic loans, and less to domestic issued securities and foreign loans, and amounted to HRK 320.7 million, which was less than receipts from borrowing.

Table 4.10. Transactions in Financial Assets and Liabilities for 53 Units in the 2007 - 2009 Period

(000 HRK)	2007	2008	2009
Net acquisition of financial assets	536,090	141,447	-634,558
Domestic	536,090	141,447	-634,558
Currency and deposits	423,445	94,452	-613,723
Securities other than shares	0	0	0
Loans	92,989	6,640	-53,268
Acquisitions	173,237	121,525	73,194
Disposals	80,247	114,885	126,462
Shares and other equity	19,082	40,355	32,433
Acquisitions	44,407	63,683	55,832
Disposals	25,325	23,329	23,399
Other accounts receivable	573	0	0
Foreign	0	0	0
Net incurrence of liabilities	105,732	128,891	17,596
Domestic	130,416	153,766	39,441
Securities other than shares	176,521	298,636	-11,633
Repayments	9,389	8,571	13,571
Incurrences	185,910	307,207	1,938
Loans	-46,105	-144,869	51,074
Repayments	272,145	336,595	285,276
Incurrences	226,040	191,726	336,350
Foreign	-24,684	-24,876	-21,844
Loans	-24,684	-24,876	-21,844

(000 HRK)	2007	2008	2009
Repayments	24,684	24,876	21,844
Incurrences	0	0	0

Source: Ministry of Finance

Local units are given the possibility of incurrence for the financing of investments (capital projects) as provided in the Budget Act, the Act on the Execution of the State Budget for particular years, and secondary legislations. Counties, cities and municipalities can incur a debt by taking loans and issuing securities only at banks on the territory of the Republic of Croatia for capital projects which are financed from their budgets, and which were verified by the representative body, with the prior approval of the Government.

The Budget Act prescribes the limit of liabilities, annuity and the base for determining the scope of borrowing. Annuity of loans, guarantees and others arrears can amount up to 20 percent of units' revenue realised in a year preceding the year in which liabilities were incurred. Also, municipalities, cities and counties can issue guarantees for borrowing to a public institution or trading company of which they are founders and majority owners. Such guarantees are included in the aforementioned annual borrowing limit of the respective unit.

The units are also allowed to refinance former loan liabilities due to more favourable loan conditions, primarily due to a drop in interest rates on the capital markets. A loan with the approval of the Government of the Republic of Croatia can be refinanced under the condition that refinancing does not increase the existing liabilities of the respective unit.

The Act on the Execution of the State Budget prescribes the measures of limitation by means of which the Government can annually grant its consent on borrowing to local units. In accordance with this Act, municipalities, cities and counties could apply for borrowing if their reported financial revenue exceeded operating expense for 2008, and the Government could give its consent on borrowing up to 2.3 percent of total realised revenues of all local units stated in the financial report for 2008. 2.3 percent of total realised revenue in 2008 amounted to HRK 541.7 million, which means that, in 2009, local units could borrow up to that amount. The Act on the Execution of the State Budget regulates derogation from the application of this limitation. The provision on the limits of the amount to which the Government may approve borrowing does not apply to units in the areas of special state concern and to the units that receive proceeds of the loan from the Republic of Croatia Regional Development Fund or from the Development and Employment Fund.

Local units used these legal provisions in accordance with their abilities, that is, to finance the construction of municipal infrastructure, roads, public lighting, business zones, libraries, school sports halls and other activities.

4.5. DEFICIT/SURPLUS MEASURES AND FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

As a result of local unit revenue and expense trends, the net operating balance in 2009 amounted to HRK 2.1 billion. At the same time, the primary operating balance was HRK 2.2 billion.

If the net operating balance is reduced by the value of the net acquisition of nonfinancial assets, we arrive at the category of net lending/borrowing, and in 2009 this amounted to HRK -652.2 million. Financing of this measure of deficit is the result of the difference between the net incurrence of liabilities in the amount of HRK 17.6 million and the net acquisition of financial assets in the amount of HRK -634.6 million.

Table 4.11. Deficit/Surplus Measures and Financing of the 53 Units in the 2007 - 2009 Period

(000 HRK)	2007	2008	2009
TRANSACTIONS AFFECTING NET WORTH			
1 Revenue	15,502,588	16,825,641	16,062,945
2 Expense	11,868,231	13,697,135	13,958,975
24 Interest	93,250	133,675	115,495
Net/Gross operating balance (1 - 2)	3,634,357	3,128,506	2,103,970
Primary operating balance (1 - 2 + 24)	3,727,607	3,262,181	2,219,464
TRANSACTIONS IN NONFINANCIAL ASSETS			
31 Net acquisition of nonfinancial assets	3,204,000	3,115,950	2,756,124
Net lending/borrowing (1 - 2 - 31)	430,357	12,556	-652,155
Financing (33 - 32)	-430,357	-12,556	652,155
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES			
32 Net acquisition of financial assets	536,090	141,447	-634,558
33 Net incurrence of liabilities	105,732	128,891	17,596

5. TOTAL
DEFICIT/SURPLUS OF THE
CONSOLIDATED GENERAL
GOVERNMENT IN 2009

5.1. TOTAL DEFICIT/SURPLUS OF THE CONSOLIDATED GENERAL GOVERNMENT

The total deficit of the Consolidated General Government in 2009, expressed in accordance with the accounting principles of GFS 2001 methodology, amounted to HRK 10.8 billion or 3.2 percent of GDP, which is 0.3 percentage points higher than the planned amount. All levels of the General Government budget made a significant contribution to it. Most of the deficit of 2.9 percent of GDP was recorded by the Budgetary Central Government, whose execution followed the plan to the maximum extent. This is followed by the Local and Regional Self-Government Units with the realised deficit of 0.3 percent of GDP, which is 0.3 percentage points higher compared to the annual planned amount. At the same time, Extrabudgetary Users recorded a deficit of 0.1 percent of GDP.

Calculation of the General Government's total deficit starts with the category of net lending/borrowing, which presents the difference between revenue, expense and net acquisitions of nonfinancial assets. The starting point for the calculation is not a purely cash principle, as it also includes a review of the transactions calculation principle for both Croatian Motorways (Hrvatske autoceste) and Croatian Roads (Hrvatske ceste) in the 2005 to 2007 period, and in 2008 and 2009 for Croatian Roads only. Consequently, the trends in revenue and expense and acquisition of nonfinancial assets of the Consolidated General Government in 2009 resulted in net lending/borrowing in the amount of HRK -10.5 billion. If we add changes in the arrears of the Central and Local Government, the total deficit of the Consolidated General Government reaches the level of HRK 10.8 billion, which represents 3.2 percent of GDP.

Table 5.1. Total Deficit/Surplus of the Consolidated General Government in the 2005 - 2009 Period

CONSOLIDATED GENERAL GOVERNMENT							
	(000 HRK)	2005	2006	2007	2008	Plan 2009	2009
1	Revenue	103,065,140	112,237,278	126,621,570	134,735,549	128,320,020	128,089,920
2	Expense	100,476,847	107,644,348	118,818,568	130,381,146	131,988,860	132,447,149
31	Nonfinancial assets	9,201,169	9,080,989	11,666,135	7,353,658	6,070,172	6,134,006
I	Net lending/borrowing (1-2-31)	-6,612,877	-4,488,059	-3,863,132	-2,999,255	-9,739,012	-10,491,235
II	Arrears	455,824	482,182	-155,463	237,876		302,269
	Total deficit/surplus of Consolidated General Government (I - II)	-7,068,700	-4,970,242	-3,707,669	-3,237,131	-9,739,012	-10,793,504
	GDP, %	-2.7	-1.7	-1.2	-0.9	-2.9	-3.2

Source: Ministry of Finance

The tables below show a review of deficit for all levels of the General Government in the 2005 to 2009 period.

Table 5.2. Total Deficit/Surplus of the Consolidated General Government according to Government Level in the 2005 - 2009 Period

BUDGETARY CENTRAL GOVERNMENT							
	(000 HRK)	2005	2006	2007	2008	Plan 2009	2009
1	Revenue	85,653,010	95,235,557	108,320,595	115,772,655	110,871,511	110,257,947
2	Expense	87,857,465	95,949,951	108,007,605	115,292,426	118,041,064	117,923,992
31	Nonfinancial assets	1,553,668	1,555,792	2,545,220	2,988,129	2,157,519	1,963,401
I	Net lending/borrowing (1-2-31)	-3,758,123	-2,270,186	-2,232,230	-2,507,901	-9,327,072	-9,629,446
II	Arrears	445,017	454,600	-437,749	351,713		-133,559
	Total deficit/surplus of Budgetary Central Government (I - II)	-4,203,140	-2,724,786	-1,794,482	-2,859,613	-9,327,072	-9,495,887
	GDP, %	-1.6	-1.0	-0.6	-0.8	-2.8	-2.9

EXTRABUDGETARY USERS							
	(000 HRK)	2005	2006	2007	2008	Plan 2009	2009
1	Revenue	8,099,139	9,414,767	10,465,139	6,324,346	5,260,789	5,659,418
2	Expense	5,586,251	7,038,342	6,609,484	5,578,677	4,568,381	4,454,571
31	Nonfinancial assets	5,287,211	4,550,883	5,916,914	1,249,579	1,104,496	1,414,481
I	Net lending/borrowing (1-2-31)	-2,774,323	-2,174,458	-2,061,259	-503,910	-412,088	-209,634
	GDP, %	-1.0	-0.8	-0.7	-0.1	-0.1	-0.1

LOCAL GOVERNMENT							
	(000 HRK)	2005	2006	2007	2008	Plan 2009	2009
1	Revenue	12,162,401	13,560,211	15,502,588	16,825,641	15,742,401	16,062,945
2	Expense	9,882,542	10,629,313	11,868,231	13,697,135	12,934,095	13,958,975
31	Nonfinancial assets	2,360,290	2,974,314	3,204,000	3,115,950	2,808,157	2,756,124
I	Net lending/borrowing (1-2-31)	-80,431	-43,416	430,357	12,556	148	-652,155
II	Arrears	10,807	27,582	282,286	-113,837		435,828
	Total deficit/surplus of Local Government (I - II)	-91,238	-70,998	148,071	126,393	148	-1,087,983
	GDP, %	0.0	0.0	0.0	0.0	0.0	-0.3

Source: Ministry of Finance

6. PUBLIC DEBT AND
INTERNATIONAL FINANCIAL
RELATIONS OF THE REPUBLIC
OF CROATIA IN 2009

6.1. PUBLIC DEBT OF THE REPUBLIC OF CROATIA

The Budget Act¹ specifies the scope of public debt, objectives of public debt management, and borrowing terms and competences. The Act defines the State debt as a debt of the central budget, and the public debt as a debt of the general government budget.

The central budget consists of the State budget and the financial plans of the State budget's extrabudgetary users. The general budget is defined as the central budget plus the budgets of the local and regional self-governments, and of the extrabudgetary users from the units of local and regional self-government.

The main aim of borrowing and managing public debt is to secure the financial needs of the central budget through achieving the lowest medium and long-term financial expenditure and by taking over a reasonable degree of risk.

At the end of 2009, total public debt amounted to HRK 117.8 billion, which was 35.4 percent of the nominal GDP for 2009. At the end of 2009, total domestic and foreign guarantees issued by the Republic of Croatia amounted to HRK 38.2 billion, while the HBOR debt was HRK 12.3 billion in the same period.

Table 6.1. Public Debt in the 2005 - 2009 Period

PUBLIC DEBT at the end of the period in million HRK	2005	2006	2007	2008	2009
1. Domestic Public Debt	56,120	60,851	64,811	69,857	80,331
1.1 Domestic Debt of the Republic of Croatia	50,839	54,490	56,882	64,960	74,471
Treasury Bills	12,278	12,413	11,741	14,441	18,803
Money Market Instruments	1			11	19
Bonds	31,152	35,250	39,274	39,307	39,369
Bank Loans	7,409	6,827	5,868	11,201	16,280
1.2 Domestic Debt of Extrabudgetary Users	3,953	5,198	6,358	3,035	3,794
Money Market Instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Bank Loans	3,953	5,198	5,959	3,035	3,794
1.3 Local Government's Domestic Debt	1,327	1,164	1,572	1,862	2,066
Money Market Instruments	41	29	37	12	7
Bonds	185	294	472	583	575
Bank Loans	1,102	840	1,063	1,268	1,485
2. Foreign Public Debt	45,364	41,660	39,658	30,287	37,510
2.1 Foreign Debt of the Republic of Croatia	36,415	32,557	29,424	28,459	35,786
Money Market Instruments	-	-	-	-	-
Bonds	27,020	22,837	20,397	18,768	26,102
Loans	9,394	9,720	9,027	9,691	9,684
2.2 Foreign Debt of Extrabudgetary Users	8,750	8,938	10,187	1,800	1,715
Money Market Instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Loans	8,750	8,938	10,187	1,800	1,715

¹ Official Gazette, number 87/2008

PUBLIC DEBT at the end of the period in million HRK	2005	2006	2007	2008	2009
2.3 Local Government's Foreign Debt	199	166	48	27	9
Money Market Instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Loans	199	166	48	27	9
Total Public Debt (1+2)	101,484	102,512	104,470	100,144	117,841
1. Guarantees Issued by the Republic of Croatia	12,455	14,188	17,399	33,835	38,209
1.1. Domestic	5,268	7,252	7,868	12,447	15,611
1.2. Foreign	7,187	6,936	9,531	21,388	22,598
2, Total Debt of HBOR	7,139	7,686	9,662	10,813	12,312
Public Debt (% GDP)	38.4%	35.8%	33.2%	29.3%	35.4%

Source: Ministry of Finance

6.1.1. Credit Rating of the Republic of Croatia

The top three specialised credit ratings agencies who assess the Republic of Croatia are Moody's Investors Service, Standard & Poor's (S&P) and Fitch Ratings. In addition, the Republic of Croatia is also rated by the Japanese agency R&I, specialised in rating Japanese security issuers.

S&P, Moody's and Fitch Ratings granted initial ratings to the Republic of Croatia in January 1997, while Japanese rating agency R&I granted its rating in 1998. Each year these agencies have performed verifications of the ratings granted, which in 2009 resulted in confirmation of the investment credit rating to the Republic of Croatia.

Table 6.2. Overview of Credit Ratings of the Republic of Croatia at the End of 2009

	Long term rating Foreign currency	Long term rating Domestic currency	Short term rating Foreign currency
Moody's Investors Service	Baa3 / stable "outlook"	Baa3	P-1
Standard & Poors	BBB / negative "outlook"	BBB	A-3
Fitch Ratings	BBB- / negative "outlook"	BBB	
R & I	BBB+ / stable "outlook"		

Source: Ministry of Finance

Table 6.3. Comparison of Credit Ratings at the End of 2009

Country	Moody's (Long-term Rating in Foreign Currency)	Standard and Poor's (Long-term Rating in Foreign Currency)
Year	end of 2009	end of 2009
Bulgaria	Baa3	BBB
Czech Republic	A1	A
Croatia	Baa3	BBB
Hungary	Baa1	BBB-
Poland	A2	A-
Romania	Baa3	BB+
Slovakia	A1	A+

Source: Ministry of Finance

6.1.2. State Budget's Domestic Debt in 2009

6.1.2.1. Domestic Debt Categories

At the end of 2009 domestic debt amounted to HRK 72.3 billion, while, at the end of 2008, it amounted to HRK 62.1 billion. The increase in domestic debt during 2009 was due to the emission of treasury bills by the Ministry of Finance and due to the borrowing of banks. Funds gathered on the domestic market were used for financing the budget deficit, as well as for repayment of previous loans.

Table 6.4. The Central Domestic Debt of the Republic of Croatia in thousand HRK, as of 31 December

Debt Item:	Original currency	2008		2009		Maturity:	Coupon:
		Amount owed in original currency	Amount owed in HRK	Amount owed in original currency	Amount owed in HRK		
Big Bonds Series I	HRK	2,179,752	2,179,752	2,140,826	2,140,826	2011	5.000%
Big Bonds Series II	EUR	32,301	236,586	22,283	162,803	2011	7.200%
Big Bonds Series III	EUR	35,143	257,403	25,979	189,809	2012	7.200%
Bonds – Series 03 D-12	EUR	500,000	3,662,213	500,000	3,653,100	2012	6.875%
Bonds – Series 05 D-14	EUR	650,000	4,760,876	650,000	4,749,029	2014	5.500%
Bonds – Series 07 D-19	EUR	500,000	3,662,213	500,000	3,653,100	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	2,563,549	350,000	2,557,170	2015	4.250%
Bonds – Series 10 D-15	HRK	5,500,000	5,500,000	5,500,000	5,500,000	2015	5.250%
Bonds – Series 11 D-13	HRK	4,000,000	4,000,000	4,000,000	4,000,000	2013	4.500%
Bonds – Series 12 D-17	HRK	5,500,000	5,500,000	5,500,000	5,500,000	2017	4.750%
Bank Rehabilitation - Series II	EUR	13,407	98,200	9,809	71,665	2012	5.000%
Bank Rehabilitation - Series III	EUR	36,441	266,906	26,938	196,817	2012	7.200%
Bank Rehabilitation - Series IV	EUR	18,352	134,421	13,427	98,099	2012	5.000%
Syndicated Foreign Currency Loan I	EUR	500,000	3,662,213	500,000	3,653,100	2010	5.450%
Syndicated Foreign Currency Loan II	EUR	760,000	5,566,563	760,000	5,552,711	2010	4.710%
Syndicated Foreign Currency Loan III	EUR			750,000	5,479,649	2010	6.900%
Medium and long term debt			45,050,894		50,157,877		
Treasury Bills	HRK	14,605,000	14,605,000	12,135,000	12,135,000		
	EUR	296,292	2,170,169	1,364,359	9,968,278		
Other Short term debt	HRK	300,000	300,000				
Short term debt			17,075,169		22,103,278		
Total debt			62,126,062		72,261,156		

Source: Ministry of Finance

Table 6.5. Amortisation of Domestic Debt

(HRK million)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Amortisation	8,769	2,460	6,548	8,603	6,576	8,057	0	5,500	0	3,653
Big Bonds 1	0	2,149	0	0	0	0	0	0	0	0
Big Bonds II (RB, SB)	78	84	0	0	0	0	0	0	0	0
Big Bonds III (PBZ)	72	77	41	0	0	0	0	0	0	0
Bank Rehabilitation-Series II (PBZdm)	28	29	15	0	0	0	0	0	0	0
Bank Rehabilitation-Series III (PBZk)	75	80	42	0	0	0	0	0	0	0
Bank Rehabilitation-Series IV (PBZk5)	38	40	21	0	0	0	0	0	0	0
Bonds - Series 03 D-12	0	0	3,653	0	0	0	0	0	0	0
Bonds - Series 05 D-14	0	0	0	0	4,749	0	0	0	0	0
Bonds - Series 07 D-19	0	0	0	0	0	0	0	0	0	3,653
Bonds - Series 08 D-10 (HRK)	3,000	0	0	0	0	0	0	0	0	0
Bonds - Series 09 D-15	0	0	0	0	0	2,557	0	0	0	0
Bonds - Series 10 D-15 (HRK)	0	0	0	0	0	5,500	0	0	0	0
Bonds - Series 11 D-13 (HRK)	0	0	0	4,000	0	0	0	0	0	0
Bonds - Series 12 D-17 (HRK)	0	0	0	0	0	0	0	5,500	0	0
Syndicated Foreign Currency Loan I	0	0	0	1,827	1,827	0	0	0	0	0
Syndicated Foreign Currency Loan II	0	0	2,776	2,776	0	0	0	0	0	0
Syndicated Foreign Currency Loan III	5,480	0	0	0	0	0	0	0	0	0
Payment of interest	2,450	1,950	1,693	1,441	1,009	855	458	327	196	196
Big Bonds I	86	86	0	0	0	0	0	0	0	0
Big Bonds II (RB, SB)	11	5	0	0	0	0	0	0	0	0
Big Bonds III (PBZ)	12	7	1	0	0	0	0	0	0	0
Bank Rehabilitation-Series II (PBZdm)	3	2	0	0	0	0	0	0	0	0
Bank Rehabilitation-Series III (PBZk)	13	7	2	0	0	0	0	0	0	0
Bank Rehabilitation-Series IV (PBZk5)	4	3	1	0	0	0	0	0	0	0
Bonds - Series 03 D-12	251	251	126	0	0	0	0	0	0	0
Bonds - Series 05 D-14	261	261	261	261	131	0	0	0	0	0
Bonds - Series 07 D-19	196	196	196	196	196	196	196	196	196	196
Bonds - Series 08 D-10 (HRK)	101	0	0	0	0	0	0	0	0	0
Bonds - Series 09 D-15	109	109	109	109	109	109	0	0	0	0
Bonds - Series 10 D-15 (HRK)	289	289	289	289	289	289	0	0	0	0
Bonds - Series 11 D-13 (HRK)	180	180	180	180	0	0	0	0	0	0
Bonds - Series 12 D-17 (HRK)	261	261	261	261	261	261	261	131	0	0
Syndicated Foreign Currency Loan I	190	190	190	119	24	0	0	0	0	0
Syndicated Foreign Currency Loan II	103	103	77	26	0	0	0	0	0	0
Syndicated Foreign Currency Loan III	378	0	0	0	0	0	0	0	0	0
Total	11,219	4,409	8,241	10,044	7,585	8,912	458	5,827	196	3,849

Source: Ministry of Finance

During 2009, there were no new emissions of bonds of the Republic of Croatia on the domestic market, so at the end of 2009, in the first quotation of the Zagreb Stock Exchange, there were eight emissions of bonds of the Republic of Croatia listed altogether, and their list with the conditions is presented in Table 6.6.

Table 6.6. Overview of Domestic Bonds Issued by the Republic of Croatia or with Croatian State Guarantees

DAB Bonds for Insured Savings I	DAB Bonds for Insured Savings II
DAB-0-03CA	DAB-0-05CA
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 managers: Privredna banka Zagreb and Zagrebačka banka Zagreb	Lead managers: Privredna banka Zagreb and Zagrebačka banka Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 19 December 2000	Date of Issue: 19 December 2000
Date of Maturity: 19 December 2003	Date of Maturity: 19 December 2005
The bond was fully repaid at maturity.	The bond was fully repaid at maturity.
HZZO Bonds	Bonds – Series 01 D-04
HZZO-0-047A	RHMF-0-049A
Issuer: Croatian Institute for Health Insurance	Issuer: Republic of Croatia
EUR 222,000,000	EUR 200,000,000
4 years	3 years
8.5% coupon	6.5% coupon
Lead manager: Zagrebačka banka Zagreb	Lead managers: Privredna banka Zagreb and Zagrebačka banka Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 19 July 2000	Date of Issue: 20 September 2001
Date of Maturity: 19 July 2004	Date of Maturity: 20 September 2004
The bond was fully repaid at maturity.	The bond was fully repaid at maturity.
Bonds – Series 02 D-08	Bonds – Series 03 D-12
RHMF-0-08CA	RHMF-0-125A
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 managers: Privredna banka Zagreb and Zagrebačka banka Zagreb	Lead managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisen bank Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 14 December 2001	Date of Issue: 23 May 2002
Date of Maturity: 14 December 2008	Date of Maturity: 23 May 2012
The bond was fully repaid at maturity.	
Bonds – Series 04 D-08	Bonds – Series 05 D-14
RHMF-0-085A	RHMF-0-142A
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 managers: Riječka banka Rijeka and Splitska banka Split	Lead managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisen bank Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 28 May 2003	Date of Issue: 10 February 2004
Date of Maturity: 28 May 2008	Date of Maturity: 10 February 2014
The bond was fully repaid at maturity.	

Bonds – Series 06 D-07	Bonds – Series 07 D-19
RHMF-O-077A	RHMF-O-19BA
Issuer: Republic of Croatia	Issuer: Republic of Croatia
EUR 400,000,000	EUR 500,000,000
3 years	15 years
3.875% coupon	5.375% coupon
Lead managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisen bank Zagreb	Lead managers: Erste & Steiermärkische Bank, Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisen bank Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 7 July 2004	Date of Issue: 29 November 2004
Date of Maturity: 7 July 2007	Date of Maturity: 29 November 2019
The bond was fully repaid at maturity.	
Bonds – Series 08 D-10	Bonds – Series 09 D-15
RHMF-O-103A	RHMF-O-157A
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 managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisen bank Zagreb	Lead manager: Erste & Steiermärkische Bank
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 8 March 2005	Date of Issue: 14 July 2005
Date of Maturity: 8 March 2010	Date of Maturity: 14 July 2015
Bonds – Series 10 D-15	Bonds – Series 11 D-13
RHMF-O-15CA	RHMF-O-137A
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 managers: Erste & Steiermärkische Bank, HVB Splitska banka, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb	Lead managers: Erste & Steiermärkische Bank, HVB Splitska banka, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 15 December 2005	Date of Issue: 11 July 2006
Date of Maturity: 15 December 2015	Date of Maturity: 11 July 2013
Bonds – Series 12 D-17	
RHMF-O-172A	
Issuer: Republic of Croatia	
HRK 5,500,000,000	
10 years	
4.75% coupon	
Lead managers: Erste & Steiermärkische Bank, SG Splitska banka, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb	
Listing: Zagreb Stock Exchange	
Date of Issue: 8 February 2007	
Date of Maturity: 8 February 2017	

Source: Ministry of Finance

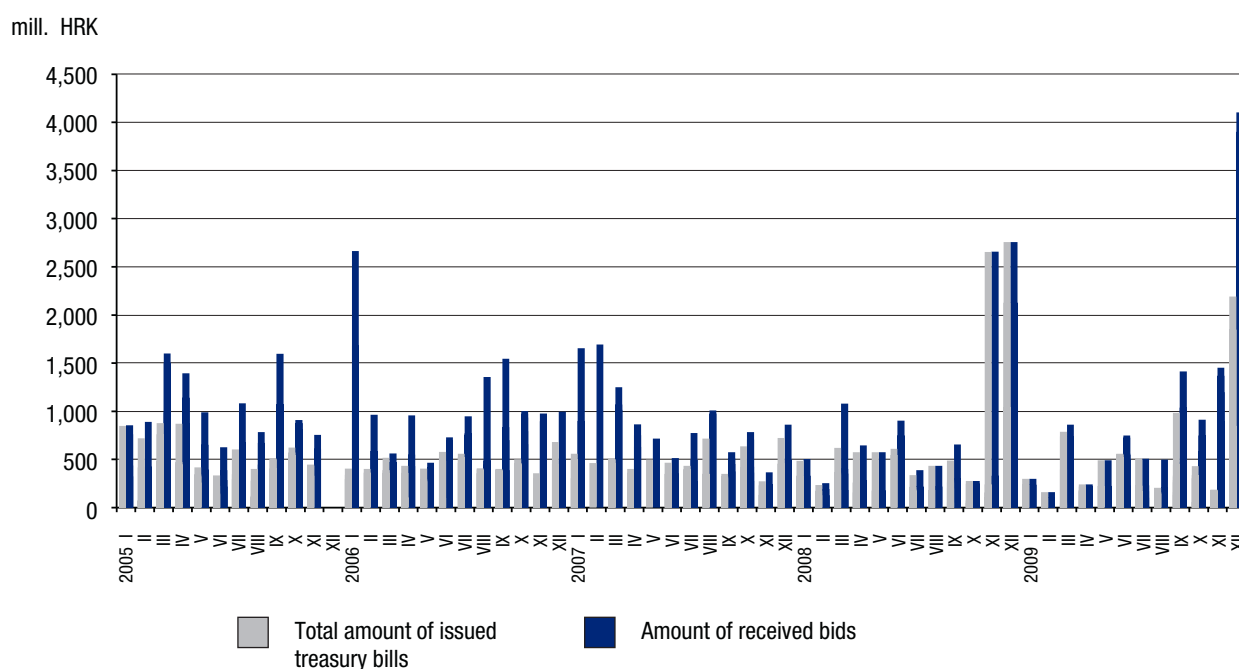
6.1.2.2. Treasury Bills

The Ministry of Finance carries out the auction of treasury bills in conformity with Regulations and conditions for auctions of treasury bills using the electronic Bloomberg bond auction system (BAS).

During 2009, 34 auctions of treasury bills were held, with a total of 89 issues, 15 of which were 91-day issues, 17 were 182-day issues, 31 were 364-day issues and 26 were 364-day issues expressed in EUR and payable in HRK.

During last year, at treasury bill auctions, a total of HRK 12.7 billion and EUR 1.37 billion of treasury bills was issued, while HRK 15.2 billion and EUR 296.3 million of treasury bills was redeemed. The balance of registered treasury bills of the Ministry of Finance in 2009 increased from HRK 16.8 billion at the end of 2008 to HRK 22.1 billion at the end of 2009.

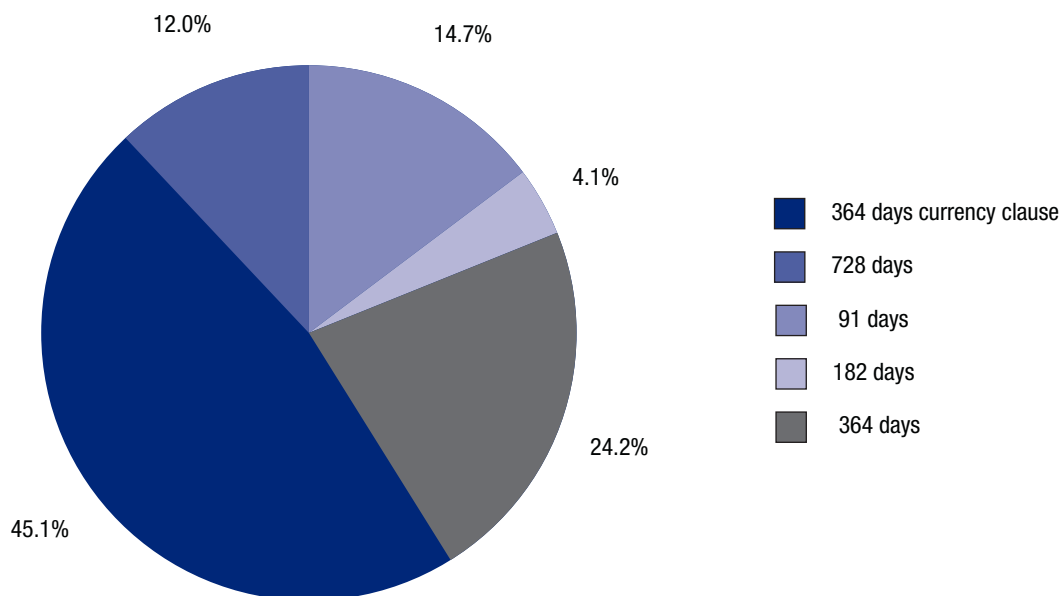
Figure 6.1. Results of Treasury Bill Auctions



Source: Ministry of Finance

At the end of 2009, out of the total amount of registered treasury bills of the Ministry of Finance, the share of treasury bills with a maturity term of 364 days expressed in HRK amounted to 24.2 percent, and treasury bills with a maturity term of 364 days expressed in EUR comprised 45.1 percent. The share of 728-day treasury bills amounted to 12.0 percent, 182-day treasury bills make up 4 percent and 91-day treasury bills 14.7 percent.

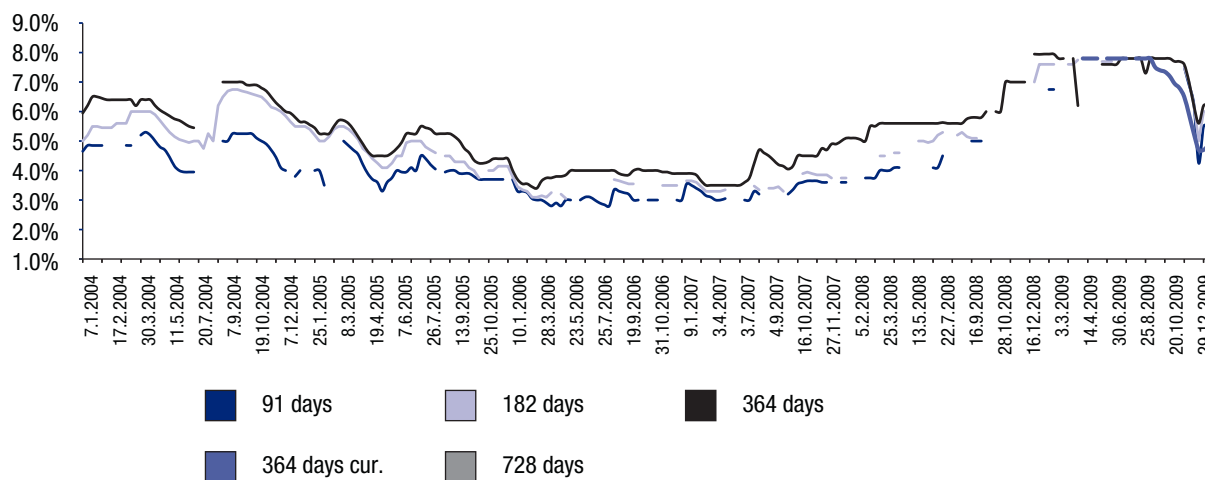
Figure 6.2. Maturity Structure of Treasury Bills as of 31 December 2009



Source: Ministry of Finance

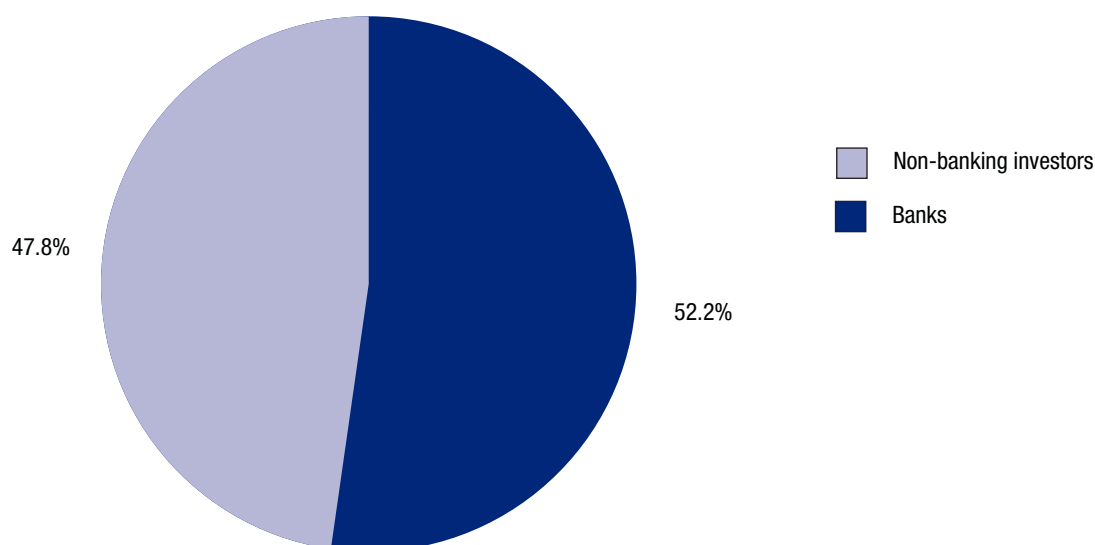
During 2009, interest rates for treasury bills decreased compared to 2008 and at the end of 2009 they amounted to 4.7 percent for 91-day bills, 5.2 percent for 182-day bills, 5.99 percent for 364-day bills and 4.5 percent for 364-day treasury bills with a currency clause.

Figure 6.3. Interest Rates on Treasury Bills



Source: Ministry of Finance

During 2009, the share of the banking sector in the structure of buyers of treasury bills decreased compared to 2008. The share of the banking sector in the total registered bills at the end of 2009 amounted to 52.2 percent, while at the end of 2008 it amounted to 66.8 percent.

Figure 6.4. Structure of Treasury Bills by Investors as of 31 December 2009

Source: Ministry of Finance

6.1.3. Foreign Debt of the Republic of Croatia

6.1.3.1. International Bonds of the Republic of Croatia

At the end of 2009, a total of 6 issues of Croatian government bonds were listed on foreign capital markets. In February of 2009, EUR 500 million of bonds issued in 2002 matured and was repaid, and in June of 2009, JPY 25 billion of bonds issued in 2003 matured and was repaid. During 2009, the Republic of Croatia organised two issues of international bonds, in June and November.

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

London Club Series A:	London Club Series B:
USD 857,796,000	USD 604,426,000
3 year grace period, 11 years repayment	10 year repayment
USD 6 Month LIBOR+ 81.25 bp	USD 6 Month LIBOR+ 81.25 bp
Listing: Luxembourg	Listing: Luxembourg
Date of Issue: 31 July 1996	Date of Issue: 31 July 1996
Date of Maturity: 31 July 2010	Date of Maturity: 31 July 2006
	The Bond was fully repaid at maturity.
Euro-dollar bonds:	Euro-DEM bonds:
USD 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 Relevant Bund)
Lead managers: Merrill Lynch and UBS	Lead managers: Credit Suisse and Deutsche Morgan Grenfell
Listing: Luxembourg	Listing: Frankfurt
Date of Issue: 6 February 1997	Date of Issue: 1 July 1997
Date of Maturity: 27 February 2002	Date of Maturity: 16 July 2004
The Bond was fully repaid at maturity.	The Bond was fully repaid at maturity.

Matador Bonds:	Euro-EUR bonds / I:
ESP 15 billion	EUR 300 million
3 years, bullet	7 years, bullet
6.5 % coupon	7.375 % coupon
(225 bps over Relevant Spanish Bonds)	(375 bps over 7-years German Bund)
Lead managers: Santander Investment	Lead managers: Credit Suisse and Dresdner Kleinwort Benson
Listing: Madrid	Listing: Luxembourg
Date of Issue: 4 March 1998	Date of Issue: 23 February 1999
Date of Maturity: 26 March 2001	Date of Maturity: 10 March 2006
The Bond was fully repaid at maturity.	The Bond was fully repaid at maturity.
Samurai bond / I:	Euro-EUR bonds / II:
JPY 25 billion	EUR 500 million
5 years, bullet	5 years, bullet
4% coupon	7% coupon
(310 bps over 5-year Yen LIBOR)	(210 bps over 5-year German Bund)
Lead manager: Daiwa Securities SB	Lead manager: Dresdner Kleinwort Benson
Listing: Tokyo	Listing: Luxembourg
Date of Issue: 14 December 1999	Date of Issue: 28 March 2000
Date of Maturity: 14 December 2004	Date of Maturity: 28 March 2005
The Bond was fully repaid at maturity.	The Bond was fully repaid at maturity.
Samurai bond / II:	Samurai bond / III:
JPY 40 billion	JPY 25 billion
7 years, bullet	5 years, bullet
3% coupon	2,5% coupon
(135 bps over 7-year Yen LIBOR)	(152 bps over 5-year Yen LIBOR)
Lead manager: Daiwa Securities SB	Lead manager: Daiwa Securities SB
Listing: Tokyo	Listing: Tokyo
Date of Issue: 11 July 2000	Date of Issue: 6 February 2001
Date of Maturity: 11 July 2007	Date of Maturity: 23 February 2006
The Bond was fully repaid at maturity.	The Bond was fully repaid at maturity.
Euro-EUR bonds / III:	Euro-EUR bonds / IV:
EUR 750 million	EUR 500 million
10 years, bullet	7 years, bullet
6.75 % coupon	6.25 % coupon
(215 bps over 10-year German Bund)	(158 bps over 7-year German Bund)
Lead managers: JP Morgan and Deutsche Bank	Lead managers: Deutsche Bank and CSFB
Listing: Luxembourg	Listing: Luxembourg
Date of Issue: 6 March 2001	Date of Issue: 28 January 2002
Date of Maturity: 14 March 2011	Date of Maturity: 11 February 2009
	The Bond was fully repaid at maturity.
Samurai bond / IV:	Euro-EUR bonds / V:
JPY 25 billion	EUR 500 million
6 years, bullet	7 years, bullet
2.15% coupon	4.625 % coupon
(144 bps over 6-year Yen LIBOR)	(95 bps over 7-year Euribor)
Lead managers: Daiwa Securities SMBC and Nomura Securities	Lead managers: Deutsche Bank and Citigroup
Date of Issue: 26 June 2002	Listing: Luxembourg
Date of Maturity: 26 June 2008	Date of Issue: 24 February 2003
The Bond was fully repaid at maturity.	Date of Maturity: 24 February 2010

Samurai bond / V:	Euro-EUR bonds / VI:
JPY 25 billion	EUR 500 million
6 years, bullet	10 years, bullet
1.23% coupon	5 % coupon
(99 bps over 6-year Yen LIBOR)	(100 bps over 10-year Euribor)
Lead managers: Daiwa Securities SMBC and Nomura Securities	Lead managers: JP Morgan and UBS Investment Bank
Date of Issue: 26 June 2003	Listing: Luxembourg
Date of Maturity: 26 June 2009	Date of Issue: 15 April 2004
The Bond was fully repaid at maturity.	Date of Maturity: 15 April 2014
Euro-EUR bonds / VII:	Euro-USD bonds / I:
EUR 750 million	USD 1,5 billion
6 years, bullet	10 years, bullet
6.5 % coupon	6.75% coupon
(369,2 bps over 10-year German Bund)	(350 bps over 10-year US Treasury)
Lead managers: BNP Paribas, Deutsche Bank and Unicredit	Lead managers: Barclays Capital, Citigroup and JP Morgan
Listing: Luxembourg	Listing: Luxembourg
Date of Issue: 5 June 2009	Date of Issue: 5 November 2009
Date of Maturity: 5 January 2015	Date of Maturity: 5 November 2019

Source: Ministry of Finance

On 5 June 2009, the Republic of Croatia issued euro-bonds in the amount of EUR 750 million with a maturity on 5 January 2015 with a fixed coupon rate of 6.5 percent annually². The bonds were purchased by investors from 25 countries, and were marketed by bond issue managers from BNP Paribas, Deutsche Bank and UNICredit Group/Zagrebačka banka d.d.

On 5 November 2009, the Republic of Croatia issued euro-bonds in the amount of USD 1.5 billion.³ The bonds were issued with the maturity set at 10 years and a fixed interest rate of 6.75 percent annually. For the optimum realisation of the euro-bond issue, it was of great significance to expand the circle of potential investors, which was done by selecting the USD as the foreign currency denomination, and by including a legal format ("Reg S/144A") that enabled the issue of the bonds to institutional investors in the USA. More than half of the bonds were sold in the USA (55 percent), 25 percent of the bonds were sold in Great Britain, 13 percent was sold in other European countries and 7 percent in Asian countries.

The two successful bond issues of the Republic of Croatia on the international financial market demonstrate that the international financial market assesses the management of the Croatian economic and monetary policies in globally complex conditions as positive.

Out of the six international bonds of the Republic of Croatia, whose repayment projection is presented in Table 6.8., four are denominated in EUR, and two in USD. The total nominal value of all six issues of Croatian bonds on foreign markets at the end of 2009 amounts to EUR 3.6 billion.

² Official Gazette, number 62/2009

³ Official Gazette, number 132/2009

Table 6.8. Projection of Repayments of International Bonds issued by the Republic of Croatia

	Amount of original principal in EUR*	2010 (EUR*)	2011 (EUR*)	2012 (EUR*)	2013 (EUR*)	2014 (EUR*)	2015 (EUR*)	2016 (EUR*)	2017 (EUR*)	2018 (EUR*)	2019 (EUR*)
London Club Series A: USD 857,796,000	Principal	54,319,765	0								
Floating Rate, Maturity 2010	Interest**:	506,066	0								
EUR 750,000,000	Principal	0	750,000,000								
6.75 % , Maturity 2011	Interest	50,625,000	50,625,000								
EUR 500,000,000	Principal	500,000,000									
4.625% , Maturity 2010	Interest	23,125,000									
EUR 500,000,000	Principal	0	0	0	0	500,000,000					
5.0 % , Maturity 2014	Interest	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000					
EUR 750,000,000	Principal	0	0	0	0	0	750,000,000				
6.5 % , Maturity 2015	Interest	28,582,192	48,750,000	48,750,000	48,750,000	48,750,000	48,750,000				
USD 1,044,859,304	Principal	0	0	0	0	0	0	0	0	0	1,044,859,304
6.75 % , Maturity 2019	Interest	70,528,003	70,528,003	70,528,003	70,528,003	70,528,003	70,528,003	70,528,003	70,528,003	70,528,003	70,528,003
Principal Repayment (EUR)		554,319,765	750,000,000	0	0	500,000,000	750,000,000	0	0	0	1,044,859,304
Interest Payment (EUR)		198,366,261	194,903,003	144,278,003	144,278,003	144,278,003	119,278,003	70,528,003	70,528,003	70,528,003	70,528,003
Total Servicing Costs (princ.+ int.) (EUR)		752,686,027	944,903,003	144,278,003	144,278,003	644,278,003	869,278,003	70,528,003	70,528,003	70,528,003	1,115,387,307
Total Principal Outstanding (at year end) (EUR)		3,044,859,304	2,294,859,304	2,294,859,304	2,294,859,304	1,794,859,304	1,044,859,304	1,044,859,304	1,044,859,304	1,044,859,304	0

Source: Ministry of Finance

* Midpoint exchange rate of the CNB as of 31 December 2009

** 6m USD LIBOR + 13/16

6.2. INTERNATIONAL FINANCIAL RELATIONS IN 2009

6.2.1. Relations with International Financial Institutions

6.2.1.1. International Bank for Reconstruction and Development (IBRD⁴)

The role of IBRD and its financial support to the Republic of Croatia are defined under the Partnership Strategy of the World Bank and the Republic of Croatia for the 2009-2012 period, adopted by the Government of the Republic of Croatia at its session on 31 July 2008, and by the World Bank Board of Executive Directors at its session held on 30 September 2008. The goal of the Partnership strategy is the support provided by the World Bank to the Republic of Croatia for a quick and successful completion of the EU accession process, acceleration of the convergence with income levels of current EU member states in a fiscally, socially and environmentally sustainable manner and the provision of a more quality living standard of Croatian citizens. There are four priority areas in which the World Bank will provide support: a) maintaining macroeconomic stability; b) strengthening growth of the private sector and accelerating convergence with the EU; c) increasing the quality and effectiveness of the social system and d) advancing the sustainability of long-term development. The strategy envisages a four-year loan programme for project financing in the Republic of Croatia in the amount of USD 1 to 1.4 billion as a base case loan scenario (projects in the transport, energetics, education, environmental protection, adaptation to climate changes, health care, the judiciary) and analytical support funds. This base case scenario programme could be supplemented by development policy loans (DPL), as special support to reforms in the public sector and for the improvement of the economy's competitiveness. If this possibility is used, the Strategy envisages expanding the base case scenario programme to a high case scenario loan programme of USD 1.4 to 1.8 billion.

New Loans and Grants Contracted with IBRD in 2009

In 2009, three loan agreements, one advance payment agreement and one grant agreement were signed with the IBRD:

- a) loan No. 76400-HR (EUR 60 million), for the Coastal cities pollution control project 2 (improvement of collection and municipal wastewater treatment systems of towns along the Adriatic coast and on islands; beneficiaries: Hrvatske vode and the Ministry of Environmental Protection, Physical Planning and Construction (MEPPPC));
- b) loan No. 76380-HR (EUR 84 million) with state guarantee, for the Rijeka Gateway Project II (modernisation, capacity expansion and improvement of financial results and service quality at Port of Rijeka in order to meet the growing demands of transport, through a public private partnership; beneficiary: Rijeka Port Authority);
- c) loan No. 77740-HR (EUR 100 million) with state guarantee, for Export Finance Intermediation (funding through the Croatian Bank for Reconstruction and Development (HBOR)), small and medium enterprises, small-business and investment capital, primarily from exporters and other companies with foreign-exchange revenue);
- d) advance no. P4500-HR (USD 500 thousand) for the preparation of the Nature protection investment project (establishment and implementation of an integrated ecological network that will improve harmonisation and integration with the EU Birds Directive and Habitat Directive; beneficiary: Ministry of Culture) and
- e) grant no. TF 92704 (USD 6.4 million) via the Global Environment Facility for the Coastal cities pollution control project 2 (improved provision of an effective and sustainable wastewater management service in selected municipalities of the coastal area; beneficiaries: Hrvatske vode and the Ministry of Environmental Protection, Physical Planning and Construction).

⁴ The International Bank for Reconstruction and Development – IBRD – is a special development institution within the World Bank group. The Republic of Croatia is a full member of IBRD since 25 February 1993 and owns 0.15 percent of its shares and has 0.16 percent of voting power. In IBRD's Board of Directors the Republic of Croatia, along with twelve other countries, is represented by the executive director from the Netherlands

Overview of Loans, Disbursed Funds and Outstanding Debt to the IBRD

In the 1994-2009 period, the IBRD granted to the Republic of Croatia EUR 1.5 billion⁵ and USD 648.2 million for project financing and programmes, through a total of 45 long-term loans (Table 6.9.), 30 of which are direct loans and 15 sovereign guarantee loans⁶. In accordance with decisions of the IBRD Board of Directors and current practice towards borrowers who settle their debts for contracted loans in a timely manner, savings of EUR 1.5 million, USD 575.8 thousand and JPY 925 million were achieved for direct loans and sovereign guarantee loans. During 2009, accrued interests were paid semi-annually with the following floating rates, which range depending on the type of the loan: a) for currency pooled loans (CPL) - from 7.39 percent to 7.43 percent; b) for variable spread loans (VS): 1. contracted in EUR or converted into EUR - from 1.62 percent to 5.77 percent; 2. contracted in USD - from 1.61 percent to 4.80 percent and c) for fixed spread loans (FS), contracted in EUR or converted into EUR - from 1.69 percent to 5.87 percent. Front-end fees were calculated and paid at a rate of 0.25 percent of the loan amount, and the commitment charges at a rate of 0.25 percent and 0.35 percent.

Table 6.9. Overview of IBRD Loans Concluded in the 1994-2009 Period, with a Review of Outstanding Debt and Disbursed Funds on 31 December 2009, and Disbursement of Funds During 2009

DIRECT LOANS									
Signing Date	The Law Published in NN/MU No.	Effectiveness /Closing Date	Curr.	Amount	Disbursed	Undisbursed	Debt Outstanding	Principal Repayment. First and Last	Disbursed in 2009
Emergency Reconstruction Project - Loan No. 37600 - HR CPL									
27.06.1994	7/1994	19.08.1994. 31.12.1999	000 USD	128,000.00	128,000.00	0.00	21,505.00	15.12.1998 15.06.2011	0.00
Health Project - Loan No. 38430 - HR CPL (1)									
08.03.1995	7/1995	17.08.1995 31.12.1999	000 USD	38,925.50	38,925.50	0.00	6,503.90	15.06.2000 15.12.2011	0.00
Highway Sector Project - Loan No. 38690 - HR CPL (2)									
27.04.1995	8/1995		000 USD	79,878.49	79,878.49	0.00	21,422.65	15.12.1999 15.06.2012	0.00
Capital Market Development Project - Loan No. 39990 - HR VSL									
23.04.1996.	1/1996 and 9/1996	22.07.1996 30.06.1999	000 EUR	7,260.35	7,260.35	0.00	2,132.09	15.10.2001 15.04.2013	0.00
Farmer Support Services Project - Loan No. 39880 - HR CPL (3)									
23.04.1996	1/1996 and 9/1996	22.07.1996 31.12.2002	000 USD	14,258.75	14,258.75	0.00	4,080.34	01.09.2001 01.03.2013	0.00
Technical Assistance Project - Loan No. 39890 - HR VSL									
23.04.1996	1/1996 and 8/1996	22.07.1996 30.04.2000	000 USD	5,000.00	5,000.00	0.00	1,430.00	15.10.2001 15.04.2013	0.00
Emergency Reconstruction Transport and Mine Clearing Project - Loan No. 41040 - HR VSL (4)									
04.12.1996	3/1997	4.03.1997 31.12.2001	000 EUR	74,797.17	74,797.17	0.00	18,634.71	15.07.2002 15.01.2012	0.00
Coastal Forest Reconstruction Project - Loan No. 41190 - HR CPL (5)									
31.01.1997	8/1997	31.07.1997 30.06.2003	000 USD	38,589.31	38,589.31	0.00	12,564.91	15.06.2002 15.12.2013	0.00
Enterprise and Financial Sector Adjustment Loan - Loan No. 41590 - HR VSL EFSAL									
04.06.1997	17/1997	05.11.1997 31.12.2001	000 EUR	81,806.70	81,806.70	0.00	20,451.68	15.12.2002 15.06.2012	0.00

⁵ This amount in EUR is a sum of the amounts of loans originally contracted in EUR and the amounts of loans originally contracted in DEM and converted into EUR.

⁶ Loan No. 30690-HR, granted in the amount of USD 28 million, was taken over on the basis of the Act on the Ratification of the Guarantee Agreement between the Republic of Croatia and the IBRD and the Loan Agreement between the Republic of Croatia and the IBRD, concluded on 25 February 1993 (Official Gazette - International agreements, number 7/1994). In January of 2001 undisbursed amounts of approximately USD 1.98 million were called off and the loan was closed for disbursement. The loan was paid off in 2004.

Reconstruction Project for Eastern Slavonia, Baranja and Western Srijem - Loan No. 43510 - HR VSL (6)									
08.09.1998	15/1998	06.01.1999 31.12.2004	000 EUR	36,600.50	36,600.50	0.00	14,516.74	15.01.2004 15.07.2013	0.00
Railway Modernisation and Restructuring Project - Loan No. 44330 - HR VSL (7)									
20.01.1999	4/1999	09.06.1999 30.06.2005	000 EUR	85,398.55	85,398.55	0.00	38,429.25	15.09.2004 15.03.2014	0.00
Technical Assistance Project for Instit. and Legis. Changes for Private Sector Developm. - Loan No. 44600 - HR VSL (8)									
05.05.1999	8/1999	03.08.1999 30.06.2006	000 USD	7,253.43	7,253.43	0.00	3,257.09	15.10.2004 15.04.2014	0.00
Health System Project - Loan No. 45130 - HR VSL (9)									
07.10.1999	14/1999	28.03.2000 30.12.2005	000 USD	26,155.16	26,155.16	0.00	12,970.26	15.06.2005 15.12.2014	0.00
Trade and Transport Facilitation in Southeast Europe Project - Loan No. 45820 - HR VSL (10)									
27.10.2000	5/2001	02.05.2001 31.03.2005	000 EUR	13,813.21	13,813.21	0.00	8,288.41	15.05.2006 15.11.2015	0.00
Court and Bankruptcy Administration Project - Loan No. 46130 - HR VSL (11)									
03.07.2001	14/2001 and 5/2002	29.01.2002 31.01.2007	000 USD	4,636.27	4,636.27	0.00	2,971.87	15.12.2006 15.06.2016	0.00
Structural Adjustment Loan - Loan No. 46410 - HR VSL SAL									
05.12.2001	2/2002 and 5/2002	08.02.2002 31.10.2003	000 USD	202,000.00	202,000.00	0.00	141,400.00	15.04.2007 15.10.2016	0.00
Pension System Investment Project - Loan No. 46720 - HR VSL (12)									
17.09.2002	2/2003 and 3/2003	20.02.2003 31.12.2008	000 USD	21,221.14	21,221.14	0.00	14,776.07	15.11.2007 15.05.2017	643.53
Real Property Registration and Cadastre Project - Loan No. 46740 - HR VSL									
18.09.2002	2/2003 and 6/2003	20.02.2003 30.06.2010	000 EUR	26,000.00	24,768.90	1,231.10	19,568.90	15.05.2008 15.11.2017	3,381.83
Coastal Cities Pollution Control Project - Loan No. 72260 - HR FSL									
02.07.2004	11/2004 and 2/2005	17.12.2004 30.11.2009	000 EUR	40,000.00	37,820.42	2,179.58	36,149.56	15.10.2009 15.04.2019	12,074.35
Social and Economic Recovery Project - Loan No. 72830 - HR FSL									
02.05.2005	9/2005 and 11/2005	30.09.2005 30.06.2010	000 EUR	35,000.00	32,581.93	2,418.07	32,581.93	15.05.2010 15.11.2019	17,437.16
Social Welfare Development Project - Loan No. 73070 - HR FSL									
06.07.2005	11/2005	30.01.2006 15.06.2010	000 EUR	31,000.00	28,842.13	2,157.87	28,842.13	15.11.2010 15.05.2020	10,960.84
Science and Technology Project - Loan No. 73200 - HR FSL (13)									
16.09.2005	12/2005 and 5/2006	11.05.2006 31.05.2011	000 EUR	29,995.62	14,548.78	15,446.84	14,548.78	15.11.2010 15.05.2020	4,696.38
Programmatic Adjustment Loan - Loan No. 73300 - HR FSL PAL									
20.09.2005	12/2005 and 3/2006	19.12.2005 30.06.2006	000 EUR	150,000.00	150,000.00	0.00	150,000.00	15.09.2015	0.00
Education Sector Development Project - Loan No. 73320 - HR FSL									
17.10.2005	12/2005 and 1/2007	15.03.2006 31.03.2011	000 EUR	67,800.00	35,500.00	32,300.00	35,500.00	15.11.2010 15.05.2020	15,800.00
Agricultural Acquis Cohesion Project - Loan No. 73600 - HR FSL (14)									
08.05.2006	10/2006 and 1/2007	21.11.2006 31.10.2010	000 EUR	25,500.00	8,443.71	17,056.29	8,443.71	15.04.2011 15.10.2020	3,845.09
Second Programmatic Adjustment Loan - Loan No. 74500 - HR FSL (15)									
11.06.2007	7/2007 and 3/2008	28.04.2008 31.10.2008	000 EUR	100,000.00	100,000.00	0.00	100,000.00	15.10.2012 15.04.2022	0.00

Inland Waters Project - Loan No. 74530 - HR FSL									
12.06.2007	8/2007	29.01.2008 31.12.2012	000 EUR	100,000.00	14,080.66	85,919.34	14,080.66	15.04.2012 15.10.2022	11,613.81
Revenue Administration Modernisation Project - Loan No. 74710 - HR FSL									
03.07.2007	8/2007	21.12.2007 30.06.2013	000 EUR	50,000.00	5,192.94	44,807.06	5,192.94	01.11.2012 01.05.2022	3,692.94
Judicial Reform Project - Pre-Loan No. PPA P4420 – HR (16)									
08/01/2008	not to be published	01.08.2008 30.04.2010	000 USD	653.00	251.96	401.04	251.96	see note	251.96
Development of Emergency Medical Services and Investment Planning Project - Loan No. 75980 - HR IFL FS (17)									
10.21.2008	12/2008	not effective 30.06.2013	000 EUR	18,100.00	545.25	17,554.75	545.25	15.10.2013 15.04.2038	545.25
Coastal Cities Pollution Control Project 2 - Loan No. 76400 - HR IFL FS									
06.02.2009	4/2009	04.06.2009 30.09.2014	000 EUR	60,000.00	0.00	60,000.00	0.00	15.04.2014 15.10.2023	0.00
Nature Protection Investment Project - Pre-Loan No. PPA P4500-HR (18)									
05.03.2009	not to be published	05.03.2009 20.05.2010	000 USD	500.00	154.04	345.96	154.04	see note	154.04
TOTAL DIRECT LOANS			000 USD	567,071.05	566,324.05	747.00	243,288.09		1,049.53
			100.00%		99.87%	0.13%			
			000 EUR	1,033,072.10	752,001.20	281,070.90	547,906.74		84,047.65
			100.00%		72.79%	27.21%			

LOANS WITH THE GUARANTEE OF THE RoC

Signing Date	The Law Published in NN/MU No.	Effectiveness / Closing Date	Curr.	Amount	Disbursed	Undisbursed	Debt Outstanding	Principal Repayment, First and Last	Disbursed in 2009
Istria Water Supply and Sewerage Project - Loan No. 30690 - HR CPL (19)									
01.02.1990.	7/1994	31.05.1990 30.06.2000	000 USD	26,016.29	26,016.29	0.00	0.00	15.10.1994 15.04.2004	0.00
Investment Recovery Project (4 loans) - Loans No. 42460 - HR VSL (Varaždinska banka - Zagrebačka banka d.d), 42470 - HR VSL (Dalmatinska banka d.d. - Nova banka), 42480 - HR VSL (Slavonska banka d.d.) and 42490 - HR VSL (Alpe Jadran banka d.d. in bankrup.) (20)									
04.12.1997.	3/1998	17.03.1998 31.12.2002	000 EUR	21,589.50	21,589.50	0.00	6,454.81	15.03.2003 15.09.2012	0.00
Municipal Environmental Infrastructure Project - Loan No. 43520 - HR VSL									
25.09.1998.	2/1999	28.06.1999 31.12.2007	000 EUR	33,233.97	33,233.97	0.00	11,631.89	15.11.2003 15.05.2013	0.00
Rijeka Gateway Project - Loan No. 47140 - HR VSL (Hrvatske autoceste) (21)									
12.07.2003.	16/2003 and 18/2003	10.10.2003 31.12.2010	000 EUR	8,700.00	5,653.79	3,046.21	4,349.09	15.12.2008 15.06.2018	1,879.74
Rijeka Gateway Project - Loan No. 47150 - HR VSL (Rijeka Port Authority) (22)									
12.07.2003.	16/2003 and 18/2003	10.10.2003 31.12.2010	000 USD	55,100.00	34,233.93	20,866.07	25,968.93	15.12.2008 15.06.2018	3,822.84
Rijeka Gateway Project - Loan No. 47160 - HR VSL (Hrvatske ceste)									
12.07.2003.	16/2003 and 18/2003	10.10.2003 30.09.2009	000 EUR	76,200.00	76,200.00	0.00	64,770.00	15.12.2008 15.06.2018	0.00
Energy Efficiency Project - Loan No. 71980 - HR FSL (Hrvatska elektroprivreda)									
10.11.2003.	3/2004	08.04.2004 30.06.2010	000 EUR	4,400.00	4,159.58	240.42	4,145.58	15.04.2009 15.04.2019	449.88

District Heating Project - Loan No. 48280 - HR VSL (HEP - Toplinarstvo)									
11.09.2006	1/2007	09.03.2007 30.06.2010	000 EUR	24,000.00	18,696.59	5,303.41	18,696.59	15.03.2012 15.09.2021	7,460.02
Trade and Transport Integration Project - Loan No. 74100 - HR FSL (Ploče Port) (23)									
20.11.2006	3/2007 and 1/2008	20.03.2007 31.12.2011	000 EUR	58,800.00	20,691.35	38,108.65	20,691.35	01.04.2012 01.10.2021	8,719.89
Additional Loan for the Rijeka Gateway Project - Loan No. 47151 - HR VSL (Rijeka HM Office)									
11.06.2007	9/2007 and 1/2008	21.11.2007 31.12.2010	000 EUR	35,300.00	1,005.05	34,294.95	1,005.05	15.10.2011 15.04.2020	1,005.05
Rijeka Gateway II Project - Loan No. 76380 - HR IFL VS (Rijeka HM Office)									
17.04.2009	6/2009 and 8/2009	14.07.2009 15.12.2014	000 EUR	84,000.00	210.58	83,789.42	210.58	15.03.2019 15.09.2031	210.58
Export Finance Intermediation Loan Project - Loan No. 77740 - HR IFL FS (HBOR)									
02.09.2009	11/2009	25.11.2009 31.08.2013	000 EUR	100,000.00	15,000.00	85,000.00	15,000.00	15.10.2016 15.10.2037	15,000.00
TOTAL LOANS WITH THE GUARANTEE OF THE RoC			000 USD	81,116.29	60,250.22	20,866.07	25,968.93		3,822.84
				100.00%	74.28%	25.72%			
			000 EUR	446,223.47	196,440.41	249,783.06	146,954.94	34,725.16	
				100.00%	44.02%	55.98%			
GRAND TOTAL DIRECT + WITH THE GUARANTEE OF THE RoC			000 USD	648,187.34	626,574.27	21,613.07	269,257.02		4,872.37
				100.00%	96.67%	3.33%			
			000 EUR	1,479,295.57	948,441.61	530,853.96	694,861.68	118,772.81	
				100.00%	64.11%	35.89%			

Source: Ministry of Finance

Overview of Grants

In the period between 1995 and the end of 2009, 58 grant contracts were signed for project implementation in the Republic of Croatia in the field of infrastructure, environmental protection and private sector development as well as structural adjustment in health care and welfare, agriculture, education, public finances and the judiciary (Table 6.10.). In 2009, a grant was contracted between the Republic of Croatia, HBOR and KfW (Kreditanstalt für Wiederaufbau), in the amount of EUR 1.5 million for the financing of costs concerning the IBRD loan for the Energy efficiency and renewable energy sources project.

Table 6.10. Overview of IBRD and the Netherlands Constituency Grants within IBRD on 31 December 2009

No.	Year of Granting	Grant Reference	Grant Name	Curr.	Contracted Amount of Grant in the Payment Currency (000)	Cancelled Amount in the Payment Currencies (000)	Undisbursed Amount in the Payment Currency (000)
A. Grants Contracted with the IBRD							
1.	1995	28851 (closed)	Preparation of Procurement Legislation	USD	148.00	101.47	0.00
2.	1995	29116 (closed)	Private Farms Support Services Project	JPY	56,600.00	13,888.31	0.00

No.	Year of Granting	Grant Reference	Grant Name	Curr.	Contracted Amount of Grant in the Payment Currency (000)	Cancelled Amount in the Payment Currencies (000)	Undisbursed Amount in the Payment Currency (000)
3.	1995	29117 (closed)	Coastal Forrest Reconstruction and Protection Project	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)	Agriculture Structural Adjustment Project	JPY	29,400.00	24,096.29	0.00
6.	1995	29316 (closed)	Railway Project	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)	Zagreb Urban Transport Project	USD	800.00	0.00	0.00
9.	1997	28360 (closed)	Biodiversity Strategy and Action Plan	USD	102.00	0.00	0.00
10.	1997	27098 (closed)	Private Sector Development Project	USD	398.00	216.25	0.00
11.	1997	25539 (closed)	Public Finance Management Project	USD	314.00	130.49	0.00
12.	1997	25229 (closed)	Enterprise and Financial Sector Adjustment Project	JPY	28,900.00	21,561.55	0.00
13.	1998	27099 (closed)	Eastern Slavonia Emergency Reconstruction Project	USD	200.00	3.05	0.00
14.	1998	25139 (closed)	Health Project II	USD	418.26	2.16	0.00
15.	1998	25597 (closed)	Sava River Flood Protection Project	USD	476.15	0.00	0.00
16.	1999	20574 (closed)	Information Development Program	USD	80.00	0.00	0.00
17.	1999	27259 (closed)	Environmental Policy Development and Regulatory Capacity Building	USD	276.49	7.67	0.00
18.	1999	22644 (closed)	Kopački rit Wetlands	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 Technical Assistance Project	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)	Rijeka Port Project	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)	Adriatic Municipal Water Pollution Control Project	USD	325.00	0.00	0.00
26.	2001	29810 (closed)	Social Protection Project	GBP	352.80	2.83	0.00

No.	Year of Granting	Grant Reference	Grant Name	Curr.	Contracted Amount of Grant in the Payment Currency (000)	Cancelled Amount in the Payment Currencies (000)	Undisbursed Amount in the Payment Currency (000)
27.	2003	52381 (closed)	Zagreb Municipal Nutrient Reduction Project	USD	350.00	350.00	0.00
28.	2002	50539 (closed)	Karst Ecosystem Conservation Project	USD	5,070.00	104.48	0.00
29.	2002	50513 (closed)	Social and Economic Recovery Project	USD	425.36	27.84	0.00
30.	2003	51107 (closed)	Renewable Energy Sources Project	USD	350.00	15.93	0.00
31.	2003	52014 (closed)	Institutional Capacity Building for Monitoring Judicial Efficiency	USD	350.00	47.82	0.00
32.	2003	52062 (closed)	Strengthening Budget Management	USD	368.00	9.46	0.00
33.	2003	51781 (closed)	Real Property Registration and Cadastre Project	EUR	4,900.00	0.51	0.00
34.	2004	52141	Energy Efficiency Project	USD	7,000.00	0.00	1,823.55
35.	2003	52844 (closed)	Regional Integrated Ecosystem Management of the Neretva - Trebišnjica River Basin	USD	145.00	6.20	0.00
36.	2004	52657 (closed)	Real Property Registration and Cadastre Project: Maritime Domain Support	EUR	1,960.00	0.00	0.00
37.	2004	53149 (closed)	Preparation of the Education Sector Support Project	USD	766.15	396.55	0.00
38.	2005	53150 (closed)	Preparation of the Sustainable Health System Project	USD	425.00	1.46	0.00
39.	2005	53242 (closed)	Co-financing of the Karst Ecosystem Conservation Project	USD	200.00	13.97	0.00
40.	2005	54973	Renewable Energy Resources Project	USD	5,500.00	0.00	3,759.54
41.	2005	55104 (closed)	Real Property Registration and Cadastre Project, Phase II Support	EUR	4,410.00	0.00	0.00
42.	2005	55789 (closed)	Statistical Capacity Building	USD	89.75	5.66	0.00
43.	2006	54882 (closed)	Technical Assistance to Support the Implementation of the Coastal Cities Pollution Control Project	USD	2,461.67	0.03	0.00
44.	2006	56237 (closed)	Co-financing the Social Welfare Development Project	SEK	14,700.00	90.69	0.00
45.	2006	56572 (closed)	Preparation of the Inland Waters Project	USD	500.00	15.61	0.00
46.	2006	56514 (closed)	Public Administration Reform Support	SEK	8,550.00	0.00	0.00
47.	2006	56498	Technical Assistance to Support the Implementation of the Agricultural Acquis Cohesion Project	USD	4,750.06	0.00	2,733.73
48.	2007	90642	Enhancing Corporate Financial Reporting in Croatia	USD	260.00	0.00	210.00
49.	2008	90845	Agricultural Pollution Control Project	USD	5,000.00	0.00	4,600.00

No.	Year of Granting	Grant Reference	Grant Name	Curr.	Contracted Amount of Grant in the Payment Currency (000)	Cancelled Amount in the Payment Currencies (000)	Undisbursed Amount in the Payment Currency (000)
50.	2008	91967	Neretva and Trebišnjica Management Project	USD	2,000.00	0.00	1,600.00
51.	2009.	92704	Coastal Cities Pollution Control Project 2	USD	6,400.00	0.00	6,400.00
TOTAL (1. - 51.):				USD	48,836.93	1,575.90	21,126.82
				JPY	270,500.00	70,655.27	0.00
				GBP	352.80	2.83	0.00
				EUR	11,270.00	0.51	0.00
				SEK	23,250.00	90.69	0.00
TOTAL (1. - 51.) in				EUR	49,976.51		

B. Grants of the Netherlands Constituency within the IBRD

1.	2004	5105 CF (closed)	Development of Financial Management Information System (FMIS) Strategy Study	EUR	30.00	0.00	0.00
2.	2004	5105 CF (closed)	Financial Management Information System Rationalisation (FMIS) Study	EUR	30.00	0.00	0.00
3.	2007	5105 CF (closed)	Project of Development of the HRM for Ministry of Finance Croatia	EUR	44.82	0.00	0.00
4.	2008	NOK07/HR/3/1	Development of HRM and Adaptation of the Conference Halls and Rearrangement of the Archive with Library	EUR	523.50	0.00	392.63
5.	2008	NOK07/HR/3/2 (closed)	Ministry of Finance - Business Intelligence System	EUR	300.00	0.00	5.96
TOTAL (1. - 5.):				EUR	928.32	0.00	398.59

C. Grants of the Federal Republic of Germany

1.	2005		Financing of Consultants' Services for the refinancing of Sub-Loans granted for the rehabilitation and extension of Water Supply and Waste Water Disposal Facilities in RoC Project	EUR	1,782.30	0.00	1,597.69
2.	2009		Financing of Consultants' Services for the Promotion of Energy Efficiency and Renewable Energies in Republic of Croatia Project	EUR	1,500.00	0.00	1,155.99
TOTAL (1. - 2.):				EUR	3,282.30	0.00	2,753.68

No.	Year of Granting	Grant Reference	Grant Name	Curr.	Contracted Amount of Grant in the Payment Currency (000)	Cancelled Amount in the Payment Currencies (000)	Undisbursed Amount in the Payment Currency (000)
			TOTAL (A. + B. + C.):	USD	48,836.93	1,575.90	21,126.82
				JPY	270,500.00	70,655.27	0.00
				GBP	352.80	2.83	0.00
				EUR	15,480.62	0.51	3,152.27
				SEK	23,250.00	90.69	0.00
			TOTAL (A. + B. + C.) in:	EUR	54,187.12		

Source: Ministry of Finance

Projects in Preparation during 2009

In 2009, negotiations for a Development Policy Loan in the fiscal, welfare and financial sector were carried out (amount of potential loan: EUR 200 million) as well as activities concerning the preparation and definition of: a) the Disaster Risk Mitigation and Adaptation Project (amount of potential loan: USD 36.2 million) and b) the Judiciary grant project (amount of potential loan: up to EUR 28 million) for which negotiations during 2010 are planned.

6.2.1.2. International Development Association (IDA)⁷

From 1993 until the end of 2009, the Republic of Croatia participated in all regular IDA replenishments. At the end of 2009, a meeting was announced on the subject of the 16th IDA replenishment for 2010 and the Republic of Croatia was invited to participate as a donor.

6.2.1.3. European Bank for Reconstruction and Development (EBRD)⁸

The value of the granted loans/investments in the Republic of Croatia from 1994 until today amounts to around EUR 2.2 billion for 94 projects whose total value reaches EUR 5.3 billion. The Bank also finances 143 technical assistance projects of the total value of EUR 16.1 million. The average annual value of investments of EBRD funds in the Republic of Croatia amounts to around EUR 150 million, while investments in the private sector make up around 70 percent of all investments of the EBRD in the Republic of Croatia, and public sector projects are supported by around 30 percent. In the sector funding structure, infrastructure and energetics (35 percent), financial institutions (32 percent) and entrepreneurship (33 percent) dominate.

In conformity with the EBRD - Strategy for Croatia for the 2007 - 2009 period, priority sectors for EBRD investments in the Croatian economy are: 1. entrepreneurship; 2. infrastructure and environment and 3. financial services.

⁷ The International Development Association (IDA) is a special development institution within the World Bank group founded in 1960 to fund economic and social development of the poorest countries through grants and interest-free loans. The Republic of Croatia became a member of IDA on 25 February 1993.

⁸ The Republic of Croatia is a full member of the European Bank for Reconstruction and Development (EBRD) from 15 April 1993 and owns 0.37 percent of its shares and has 0.37 percent voting power. In the EBRD Board of Directors, the Republic of Croatia, together with three other states, in the period from 1 January 2009 to 01 May 2009 was represented by the executive director from Hungary, and from 1 May 2009, will be represented by the executive director from the Czech Republic.

EBRD Investments in the Republic of Croatia in 2009

During 2009, the EBRD approved a total of EUR 245 million for the financing of four new projects in the Republic of Croatia, EUR 175 million of which was approved for three projects in the private sector, and EUR 70 million for the financing of one project in the public sector (loan No. 40223 to the company Plinacro d.o.o., with a state guarantee, for the Plinacro gas storage project - the funding of the acquisition of a 100-percent ownership share in the company Podzemno skladište plina d.o.o.).

Overview of Loans, Disbursement and State of Debt towards the EBRD

In the period from 1994 to the end of 2009, the EBRD granted a total of 18 loans for the funding of public projects in the Republic of Croatia (in the total amount of USD 66.2 million and EUR 506,3 million), 3 of which are direct loans and 15 sovereign guarantee loans (Table 6.11.). Interests for loans contracted in euros or converted into euros are paid at an annual rate between 1.43 percent and 7.44 percent, and interest for loans obtained in US dollars are paid at rates ranging from 2.31 percent to 3.63 percent. Front-end fees were calculated and charged at the contract rate of 1 percent of the loan amount, and commitment charges were calculated and charged at a rate of 0.5 percent annually.

Table 6.11. Overview of EBRD loans concluded in the period from 1994 to the end of 2009 with the review of the state of debt and loan disbursements on the 31.12.2009 and with the loan disbursements through 2009

DIRECT LOANS									
Signing date	Law published in Official Gazette No.:	Loan closing date	Currency	Loan amount in 000 USD/000 EUR	Disbursed in 000 USD/000 EUR	Undisbursed in 000 USD/000 EUR	Outstanding in 000 USD/000 EUR	Principal maturity date: first and last	Disbursed in 2009, in 000 USD/000 EUR
Air Navigation System Project - Loan No. 231 (1)									
21.09.1994	13/1994	31.12.2001	USD	19,735.52	19,735.52	0.00	0.00	21.09.1996 21.03.2004	0.00
Croatian Highway Reconstruction Project (HC) - Loan No. 286 (2)									
17.01.1995	6/1995	28.02.1999	EUR	36,195.88	36,195.88	0.00	0.00	10.04.1998 10.10.2009	0.00
Croatia Wholesale Markets Project - Loan No. 627 (3)									
08.12.1997	7/1998	24.03.2002	EUR	3,203.56	3,203.56	0.00	640.71	24.05.2002 24.11.2011	0.00
TOTAL DIRECT LOANS			USD	19,735.52	19,735.52	0.00	0.00		0.00
			EUR	39,399.44	39,399.44	0.00	640.71		0.00

LOANS GUARANTEED BY THE RoC									
Signing date	Law published in Official Gazette No.:	Loan closing date	Currency	Loan amount in 000 USD/000 EUR	Disbursed in 000 USD/000 EUR	Undisbursed in 000 USD/000 EUR	Outstanding in 000 USD/000 EUR	Principal maturity date: first and last	Disbursed in 2009, in 000 USD/000 EUR
Croatia Electricity Network Reconstruction Project - Loan No. 283									
02.02.1995	6/1995	30.06.2000	EUR	32,211.39	32,211.39	0.00	0.00	10.03.1998 10.03.2005	0.00
Croatian Tourism Credit Line (HBOR) - Loan No. 443									
26.06.1996	1/1996 and 10/1996	01.05.1998	EUR	25,564.59	25,564.59	0.00	0.00	23.12.1998 23.12.2002	0.00
Municipal Environmental Infrastructure Investment Programme (HBOR) - Loan No. 494 (4)									
09.12.1996	4/1997	31.01.2004	EUR	31,575.22	31,575.22	0.00	6,815.04	10.04.2001 10.10.2011	0.00
Croatian Railways Locomotive Rehabilitation Project (HŽ) - Loan No. 733									
08.12.1998	4/1999	05.02.2004	USD	35,000.00	35,000.00	0.00	11,666.66	20.05.2002 20.11.2013	0.00
The Small and Medium Entrepreneurship Project (HBOR) - Loan No. 923 (5)									
20.03.2001.	9/2001 and 5/2002	19.09.2004	EUR	4,685.36	4,685.36	0.00	0.00	Principal prepayment as of 05.08.2005	0.00
Zagreb-Rijeka Motorway Project (ARZ) - Loan No. 975 (6)									
22.10.2001.	8/2002	08.01.2008	EUR	60,000.00	60,000.00	0.00	40,000.00	12.05. 2005 12.11. 2019	0.00
EBRD-Refund Guarantee Facility (Ujjanik Shipyard-construction of the tanker No. 450) - Loan No. 18149									
26.02.2002	7/2002 and 11/2002	4 guarantees issued until 07.12.2004	USD	11,490.00	11,490.00	0.00	0.00	guarantees returned on 03.03.2005	0.00
Zagreb Area Control Centre Project - Loan No. 25800 (7)									
05.09.2002	14/2002	31.12.2006	EUR	24,944.05	24,944.05	0.00	10,907.37	20.11.2005 20.05.2013	0.00
Croatia-Motorway Rehabilitation Project (Corridor X: Zabok-Zagreb-Brodski Stupnik) (HAC) - Loan No. 27171 (8)									
13.12.2002	10/2003	01.09.2006	EUR	45,254.45	45,254.45	0.00	30,133.53	20.05.2006 20.11.2017	0.00
Croatia Corridor X Motorway Completion Project (Županja-Lipovac) (HAC) - Loan No. 31848 (9)									
12.11.2003	6/2004	09.12.2007	EUR	44,983.88	44,983.88	0.00	36,056.60	20.05.2007 20.11.2021	0.00
Port of Dubrovnik Infrastructure Modernisation Project (Port of Dubrovnik Authority) - Loan No. 13451									
01.02.2005	7/2005 and 11/2005	31.12.2009	EUR	26,500.00	22,658.02	3,841.98	19,307.42	10.04.2008 10.10.2017	5,675.22
Rijeka-Zagreb Motorway Phase IIB (Kikovica-Susica) (ARZ) - Loan No. 35790									
26.07.2006	11/2006	01.10.2010	EUR	50,000.00	50,000.00	0.00	50,000.00	17.12.2010 17.06.2031	0.00
Rijeka Bypass Project (Hrvatske ceste d.o.o.) - Loan No. 31849									
12.12.2006	4/2007 and 1/2008	31.03.2010	EUR	40,000.00	23,429.14	16,570.86	23,429.14	23.09.2010 23.09.2031	22,302.54
Port of Ploče Bulk Terminal/Trade and Transport Integration Project (Port of Ploče Authority) - Loan No. 36127									
09.11.2007	2/2008	01.09.2011	EUR	11,200.00	216.77	10,983.23	216.77	20.03.2012. 20.09.2022	63.14
Plinacro Gas Storage Project (Plinacro d.o.o.) - Loan No. 40223									
13.05.2009	6/2009	30.04.2010	EUR	70,000.00	70,000.00	0.00	70,000.00	15.05.2010 15.11.2014	70,000.00
TOTAL LOANS GUARANTEED BY THE RoC			USD	46,490.00	46,490.00	0.00	11,666.66		0.00
			EUR	466,918.94	435,522.87	31,396.07	286,865.87		98,040.90
TOTAL DIRECT LOANS + GUARANTEES			USD	66,225.52	66,225.52	0.00	11,666.66		0.00
			EUR	506,318.38	474,922.31	31,396.07	287,506.58		98,040.90

Source: Ministry of Finance

6.2.1.4. Council of Europe Development Bank (CEB⁹)

During 2009, the cooperation of the Republic of Croatia and the CEB concerned project implementation in education, health care and culture, projects for the modernisation of rural areas through the construction of municipal and social infrastructure on Croatian islands and the HBOR funding programme for production investment projects of small and medium enterprises. The foundation for this cooperation is the CEB Strategy for Croatia for the 2005-2009 period, which defines potential CEB areas of activity in the Republic of Croatia within the following welfare sectors: 1. refugees and displaced persons, 2. health care, 3. education, 4. construction of welfare residential buildings, 5. improvement of living conditions in urban and rural areas, 6. environmental protection, 7. employment and vocational training, 8. cultural heritage and 9. improvement of living conditions of minorities (issue of the Roma people). The strategy envisages that CEB investments in the Republic of Croatia tentatively amount to up to EUR 600 million for the 2005-2009 period. In 2009, no new framework loan contracts were signed with the CEB.

Overview of Loans, Disbursement of Funds and State of Debt towards CEB

In the period between 1998 and the end of 2009, the Republic of Croatia directly contracted 12 framework loans with CEB for the co-financing of projects, and provided guarantees for two CEB framework loans to HBOR (Table 6.12.). All direct framework loans and sovereign guarantee loans were disbursed on the basis of additional concluded contracts, in instalments, each of which is considered a separate loan. The instalments of direct loans were contracted in euros and US dollars, with a repayment period between 5 and 10 years, with a maximum 5-year grace period. They are paid off at a fixed interest rate, which, in the period between 1998 and the end of 2009, ranged from 2.89 percent and 5.56 percent for instalments disbursed in euros, while the instalments disbursed in US dollars were contracted at a 5.71 percent interest rate. In 2009, four instalments of the direct framework loans were disbursed in the total amount of around EUR 29 million (in 2009, the fixed interest rate ranged from 2.97 percent to 4.75 percent). The instalments of CEB framework loans to HBOR were contracted in euros, with a repayment period of 6 to 10 years, with a 2-3 year grace period for the repayment of the principal amount. They are repaid at a floating interest rate based on EURIBOR increased by 0.24 percent to 0.4 percent annually, while two instalments¹⁰ were contracted at a fixed interest rate between 3.79 and 4.37 percent. In 2009, only one framework loan was active, and from it one instalment was disbursed in the amount of EUR 25 million (4.37 percent fixed interest rate).

Table 6.12. Overview of CEB loans Concluded in the 1998 - 2009 period, with a Review of the State of Debt and Loan Disbursement on 31 December 2009 and with the Loan Disbursement during 2009

DIRECT LOANS							
Signing date	Law published in Official Gazette No.:	Framework Loan amount in 000 HRK	Disbursed in 000 HRK	Undisbursed in 000 HRK	Outstanding in currency (000 EUR)	Outstanding in currency (000 USD)	Disbursed in 2009., in 000 HRK
Reconstruction of Health Facilities in Eastern Slavonia - Loan No. F/P 1278/1998							
16.7.1998	13/1998 and 15/1998	172,744.13	172,744.13	0.00	4,960.00	0.00	0.00
Rehabilitation of School Facilities in Eastern Slavonia - Loan No. F/P 1279/1998 (1)							
16.7.1998	13/1998 and 15/1998	66,380.80	66,380.80	0.00 Cancelled: 987.21	1,212.00	0.00	0.00
Reconstruction / Repair of 41 School Facilities in Croatia - Loan No. F/P 1352/1999 (2)							
19.1.2001 26.1.2001	7/2001	96,935.64	96,935.64	0.00 Cancelled: 1,746.36	8,247.00	0.00	0.00
Reconstruction and Housing Project for the Return of Displaced Persons and Refugees in the Republic of Croatia - Loan No. F/P 1378/2000							
2.2.2001 7.2.2001	7/2001	232,000.00	232,000.00	0.00	19,280.00	0.00	0.00

⁹ The Republic of Croatia became a full member of the Council of Europe Development Bank (CEB) on 24 June 1997 and owns 12.8 billion euro of its stock and has 0.39 percent voting power.

¹⁰ Funding of production investment projects of small and medium enterprises (SMEs) throughout Croatia - loan No. F/P 1646/2008.

Cultural Heritage Restoration Project of the Franciscan Monastery "Male braće" in Dubrovnik - Loan No. F/P 1379/2000 (3)							
19.6.2001.	14/2001 and 2/2002	10,324.79	10,324.79	0.00 Cancelled: 0.67	1,110.90	0.00	0.00
Project for the Renovation and Modernisation of the "Andrija Štampar" School of Public Health in Zg and of the International Centre for Health Service Management "Andrija Štampar" in Du - Loan No. F/P 1419/2001							
29.3.2002	10/2002 and 12/2002	21,395.00	21,395.00	0.00	2,444.48	0.00	1,638.59
Investments in Health Facilities throughout Croatia - Loan No. F/P 1351/1999 (4)							
23.10.2001 30.10.2001	9/2002 and 12/2002	186,054.94	186,054.94	0.00 Cancelled: 782.09	21,862.40	0.00	47,997.95
Sustainable Return of Displaced Persons and Refugees - Loan No. F/P 1435/2002 (5)							
3.1.2004 30.1.2004	6/2004	292,304.13	292,304.13	0.00 Cancelled: 46.87	39,861.00	0.00	0.00
Construction and Reconstruction of School Facilities in the Republic of Croatia - Loan No. F/P 1456/2004							
15.12.2004	5/2005 and 8/2005	402,456.00	362,433.30	40,022.70	49,131.00	0.00	0.00
Construction of Municipal and Social Infrastructure Facilities on Croatian Islands - Loan No. F/P 1498/2004							
15.12.2004	5/2005 and 8/2005	193,364.37	106,334.32	87,030.05	14,389.00	0.00	0.00
Project "Research, Reconstruction and Revitalisation of Cultural Heritage Ilok – Vukovar - Vučedol" - Loan No. F/P 1511/2005							
23.5.2005	8/2005 and 9/2005	169,716.27	67,855.48	101,860.79	9,230.00	0.00	25,603.34
Financing of Health Facilities throughout the Republic of Croatia - Loan No. F/P 1576/2006 W (6)							
1.6.2007	9/2007 and 1/2008	327,679.34	219,743.37	107,935.97	30,100.00	0.00	137,984.48
TOTAL PUBLIC LOANS		2,171,355.41	1,834,505.90	336,849.51	201,827.78	0.00	213,224.36
		100%	84.49%	15.51%			

CREDITS GUARANTEED BY THE R o C

Signing date	Law published in Official Gazette No.:	Framework Loan amount in 000 EUR	Disbursed in 000 EUR	Undisbursed in 000 EUR	Outstanding in currency (000 EUR)	Disbursed in 2009., in 000 EUR
HBOR - Small and Medium-sized Enterprises Credit Programme Financing - Loan No. F/P 1392/2000						
13 th 20 th and 27 th Apr 2006	9/2006 and 1/2007	8,000.00	8,000.00	0.00	4,708.33	0.00
Financing of Productive Investment Projects in Small and Medium-sized Enterprises (SMEs) throughout Croatia- Loan No. F/P 1646/2008						
17.12.2008	has not been published	50,000.00	50,000.00	0.00	50,000.00	25,000.00
TOTAL CREDITS GUARANTEED BY THE R o C		58,000.00	58,000.00	0.00	54,708.33	25,000.00
		100%	100.00%	0.00%		

TOTAL DEBT PUBLIC LOANS + GUARANTEES	000 EUR	256,536.11
	000 USD	0.00

Notes:

- 1 - loan contracted in the amount of 67.4 million HRK, but has been cancelled in the amount of 987.2 thousand HRK
- 2 - loan contracted in the amount of 98.6 million HRK, but has been cancelled in the amount of 1.8 million HRK
- 3 - loan contracted in the amount of 10.3 million HRK, but has been cancelled in the amount of 0.7 thousand HRK
- 4 - loan contracted in the amount of 186.8 million HRK, but has been cancelled in the amount of 782.1 thousand HRK
- 5 - loan contracted in the amount of 292.4 million HRK, but has been cancelled in the amount of 46.9 thousand HRK
- 6 - loan closing date has been contracted: 30.6.2010

Source: Ministry of Finance

Projects in Preparation during 2009

In 2009, activities were carried out in connection with the preparation and definition of: a) HBOR partially financing production investment projects of micro, small and medium enterprises in the area of the Republic of Croatia (the amount of the potential loan: EUR 50 million) and b) projects in the prison system field: the Zagreb Prison building upgrade project (the amount of the potential loan: EUR 5.8 million) and the Šibenik correctional facility and prison construction project (the amount of the potential loan: EUR 36 million).

6.2.1.5. European Investment Bank (EIB11)

During 2009, EIB approved a total of EUR 410 million for the financing of three new projects in the Republic of Croatia, EUR 310 million of which was approved for two projects in the public sector, and for the private sector a loan was approved in the amount of EUR 100 million.¹²

New Loans Contracted in 2009

During 2009 the following loan agreements were signed with EIB:

- loan no. FINo. 24.891 (EUR 250 million) with a state guarantee, for the Project "Financing of SME projects, environmental protection and infrastructure projects in the public and private sector" (beneficiary: HBOR) and
- loan no. FINo. 25.417 (EUR 60 million) with a state guarantee, for the Project "Rehabilitation of national roads II (Croatia)/B" (continuation of the project "Rehabilitation of national roads II", which consists of the rehabilitation of 304 km of the state network of roads in the Republic of Croatia on 26 sections; beneficiary: Hrvatske ceste d.o.o.).

Overview of Loans, Disbursement of Funds and State of Debt towards EIB

Since 2001, EIB has financed projects with long-term loans in the Republic of Croatia. In the period from 2001 to the end of 2009 it approved 27 loans in the total amount of EUR 1.9 billion. It has approved 3 direct loans and 16 sovereign guarantee loans, in the total amount of EUR 1.6 billion and 8 global loans without state guarantee to commercial banks for the financing of small and medium private businesses and leasing companies in the total amount of EUR 276 million (Table 6.13.).

Table 6.13. Overview of EIB Loans Concluded in the 2001-2009 period, with a Review of Outstanding Debt and Funds Disbursement on 31 December 2009 and Funds Disbursement during 2009.

DIRECT LOANS							
Signing Date	The Law Published in NN/MU No.:	Loan Amount (000 EUR)	Disbursed (000 EUR)	Undisbursed (000 EUR)	Debt Outstanding in the Currency of Withdrawal (000 EUR)	Closing Date	Disbursed in 2009 (000 EUR)
Project "Croatian Railway, Corridor Vc" - Loan FINo. 21.051 (HZ)*							
24. and 31.5.2001	2/2002	39,000.00	39,000.00	0.00	32,949.14	31.12.2007	0.00
Project "Municipal Infrastructure Framework Loan" - Loan FINo. 22.165 (MRDFWM/MSTI)*							
30.7.2003	16/2003	49,082.01	49,082.01	0.00	49,082.01	30.9.2008	0.00
Project "Municipal Infrastructure Multi-Sector Framework Loan" - Loan FINo. 22.881 (MRDFWM/MSTI)							
20. and 24.12.2004	7/2005	150,000.00	59,000.00	91,000.00	59,000.00	31.12.2010	25,000.00
TOTAL DIRECT LOANS		238,082.01	147,082.01	91,000.00	141,031.15		25,000.00

* The contracted amount of the loan for the Project "Croatian Railway, Corridor Vc", was EUR 40 million. In April 2008 EUR 1 million was cancelled.

* The contracted amount of the loan for the Project "Municipal Infrastructure Framework Loan" was EUR 50 million. In October 2008 the unused portion of the loan in the amount of EUR 917,988.00 was cancelled.

¹¹ Activities of the European Investment Bank (EIB) in the Republic of Croatia are regulated by the Framework Agreement between the Republic of Croatia and the European Investment Bank from 13 December 2000. Based on the Framework agreement, the EIB Board of Governors approved, on 6 February 2001, lending for investment projects in the Republic of Croatia, which enabled the signing of the first loan contracts. With EU accession, the Republic of Croatia will become an EIB member.

¹² Loan to Zagrebačka banka for small and medium enterprises.

LOANS WITH GUARANTEE OF RoC							
Project "Rehabilitation of National Roads" (HC) - Loan FINo. 21.262							
29.10.2001	4/2002	60,000.00	60,000.00	0.00	59,510.64	30.6.2007	0.00
HBOR Global Loan - Loan FINo. 21.316							
26.11.2001	4/2002	10,000.00	10,000.00	0.00	4,705.88	26.11.2004	0.00
"Rijeka - Zagreb Motorway Project" (ARZ) - Loan FINo. 21.609							
24.6.2002	10/2002	60,000.00	60,000.00	0.00	55,133.33	30.12.2007	0.00
"Zagreb Air Traffic Control Project" (HKZP) - Loan FINo. 21.677							
10. and 12.09.2002	14/2002	20,000.00	20,000.00	0.00	13,819.44	30.6.2007	0.00
Project "Rehabilitation of Motorways" (HAC) - Loan FINo. 21.850							
13.12.2002	10/2003	50,000.00	50,000.00	0.00	48,577.93	31.12.2006	0.00
"Plinacro Gas Pipelines Project" (Plinacro) - Loan FINo. 22.374							
16.12.2003	3/2004	90,000.00	90,000.00	0.00	90,000.00	1.12.2007	0.00
Project "Zupanja - Lipovac Motorway Section" (HAC) - Loan FINo. 22.639							
22. and 29.7.2004	1/2005	45,000.00	45,000.00	0.00	45,000.00	1.4.2007	0.00
Project "Croatian Roads - Split By-Pass" (HC) - Loan FINo. 23.135							
20.7.2005	2/2006	60,000.00	10,000.00	50,000.00	10,000.00	31.12.2009	0.00
Project "Rijeka - Zagreb Motorway Completion" (ARZ) - Loan FINo. 23.419							
9.3.2006	8/2006	210,000.00	210,000.00	0.00	210,000.00	8.3.2009	24,000.00
Project "Croatian Roads Rehabilitation II" (HC) - Loan FINo. 23.780							
12.12.2006	5/2007	60,000.00	54,700.00	5,300.00	54,700.00	11.12.2010	24,700.00
Project "Plinacro Gas Pipelines II" (Plinacro) - Loan FINo. 24.067							
31.7.2007	11/2007	190,000.00	60,000.00	130,000.00	60,000.00	31.7.2012	60,000.00
Project "Zadar New Port" (LUZ) - Loan FINo. 24.093							
7.9.2007	10/2007	100,000.00	600.00	99,400.00	600.00	31.12.2012	600.00
HBOR Global Loan IIA (HBOR) - Loan FINo. 24.125							
16.10.2007	-	40,000.00	40,000.00	0.00	40,000.00	16.4.2009	0.00
HBOR Global Loan IIB (HBOR) - Loan FINo. 24.500							
20.6.2008	-	60,000.00	60,000.00	0.00	60,000.00	20.12.2009	0.00
HBOR Loan for SMEs and Mid-Cap (HBOR) - Loan FINo. 24.891							
24.3.2009	-	250,000.00	69,023.92	180,976.08	69,023.92	31.3.2011	69,023.92
Project "Croatian Roads Rehabilitation II/B" (HC) - Loan FINo. 25.417							
28. and 30.12.2009		60,000.00	0.00	60,000.00	0.00	30.11.2012	0.00
TOTAL LOANS WITH THE GUARANTEE OF THE REPUBLIC OF CROATIA		1,365,000.00	839,323.92	525,676.08	821,071.15		178,323.92
GRAND TOTAL DIRECT + GUARANTEED		1,603,082.01	986,405.93	616,676.08	962,102.30		203,323.92

Source: Ministry of Finance

EIB loans are disbursed in instalments. All instalments, except those disbursed for the implementation of the "Rijeka-Zagreb Motorway" project and the "Rijeka - Zagreb Motorway Completion" project were disbursed at a fixed interest rate, which from 2001 to the end of 2009 ranged from 3.479 percent to 5.26 percent. During 2009, 10 instalments were disbursed in the total amount of EUR 203.3 million. When loan funds were disbursed at a fixed interest rate, in 2009 this rate ranged from 3.666 percent to 4.467 percent. The floating interest rate for the loan funds disbursed for the "Rijeka - Zagreb Motorway Completion project" in 2009 was 2.964 percent. An overview of loans disbursed by EIB is given in the Table 6.14. The final maturity date for the disbursed loans was 15 March 2009 and the debt amount on 31 December 2009 was HRK 0.00.

Table 6.14. Overview of EIB Assumed Loans and the Debt Outstanding on 31 December 2009

LOANS ASSUMED						
Loan Amount in (000 EUR)	Date of Signing	Interest Rate %	First Maturity of Principal	Last Maturity of Principal	Currencies of Payment	Debt Outstanding in the Currency of Payment (000)
Loan no. 16275 EEMS-HE CRO (HEP) - RC Guarantee						
10,552.50	17.12. 1982	11.50	31.5. 1992	30.11.2001	(1)	0.00
Loan No. 16279 TYH-II-HC CRO (HC)						
16,000.00	21.7. 1983	10.50	15.1. 1988	15.7.2003	(2)	0.00
Loan No. 16284 TYR-I-HZ CRO (HŽ) - RC Guarantee						
29,190.00	3.2. 1984	10.75	31.1. 1988	31.1.2004	(3)	0.00
Loan No. 16289 TYH-III-HC CRO (HC)						
15,250.00	10.10.1984	10.25	15.3.1990	15.9.2004	(4)	0.00
Loan no. 13554 TYH-IV-HC CRO (HC)						
60,000.00	20.9.1988	7.65	15.3.1994	15.9.2008	(5)	0.00
Loan No. 14090 TYR-IIB-HZ CRO (HŽ) - RC Guarantee						
18,000.00	24.7. 1989	8.20	15.9.1994	15.3.2009	(6)	0.00
TOTAL:	148.992,50				HRK	0,00

Notes:

(1) currencies of payment were EUR and GBP; (2) currencies of payment were EUR and USD; (3) currencies of payment were EUR, DKK, GBP and USD; (4) currencies of payment were EUR, DKK, GBP, USD and CHF; (5) currencies of payment were EUR, CHF, GBP and JPY; (6) currencies of payment were EUR, GBP, CHF and USD.

Source: Ministry of Finance

Projects in Preparation during 2009

During 2009, two HBOR projects were in preparation whose financing is planned for 2010 through sovereign guarantee loans: a) "Dina Petrokemija" project (the amount of the potential loan: EUR 34 million) and b) "SMEs and medium capitalised companies" project (the amount of potential loan: EUR 250 million).

6.2.2. Bilateral and Multilateral Financial Relations

6.2.2.1. Bilateral Financial Cooperation

The Republic of Croatia is provided considerable technical and financial aid in the implementation of economic reforms and the development of a market economy by the Federal Republic of Germany, (hereinafter: FR Germany). The economic cooperation between RoC and FR Germany in 2009 entailed activities concerning financial cooperation framework agreements signed between them in previous years.

Through the financial cooperation agreement for the financing of phase II of the Water supply and wastewater disposal project on the southern Adriatic coast, signed on 6 July 2004, in force since 8 March 2005¹³, the Republic of Croatia was granted a loan of up to EUR 12 million at a reduced interest rate, a so-called soft loan of up to EUR 3 million and a grant of up to one million euro for the financing of accompanying measures. Pursuant to that Agreement, HBOR signed on 16 December 2008 a loan contract with the Kreditanstalt für Wiederaufbau in the amount of EUR 12 million, with a usage period until 30 June 2013, repayments in 20 equal semi-annual instalments, at a fixed interest rate of 1.6 percent annually, with a front-end fee of 0.5 percent and commitment charges of 0.25 percent per year. On the same date, HBOR and KfW signed a loan agreement in the amount of up to EUR 3 million, with a usage period until 30 June 2013, repayment in 40

¹³ Official Gazette – International agreements, number 2/2005 and 4/2005

equal semi-annual instalments, and at a fixed interest rate of 2 percent per year and commitment charges of 0.25 percent annually. In 2009, the Ministry of Finance sent to Germany a request to expand the purpose of the funds of this agreement to the territory of the entire Republic of Croatia and these negotiations are under way, and the signing of this amendment is envisaged for 2010. Also under way are the negotiations for a Financial Cooperation Agreement for the financing of phase III of the same Project.

Furthermore, through a financial cooperation agreement with the Federal Republic of Germany, signed on 20 March 2007, which came into force on 21 August 2007¹⁴, the Republic of Croatia was granted a loan for the financing of an Energy efficiency and renewable energy sources project in the amount of up to EUR 20 million at a reduced interest rate and a grant of up to EUR 1.5 million for accompanying measures. Based on this framework agreement, HBOR signed, with the Kreditanstalt für Wiederaufbau, on 08 November 2007, a loan contract in the amount of up to EUR 19.5 million, with a usage period until 31 December 2012, repayment in 20 equal semi-annual instalments, at an interest rate equal to the cost of financing of the Kreditanstalt für Wiederaufbau two days before disbursing the funds, decreased by 114 base points, and with a front-end fee of 0.4 percent and commitment charges of 0.25 percent annually. On 5 March 2009, a grant contract was signed between the Kreditanstalt für Wiederaufbau, the Ministry of Finance and HBOR in the amount of up to EUR 1.5 million for the financing of accompanying measures during the project implementation of this project.

6.2.2.2. Other bilateral and multilateral relations

In 2009, the Ministry of Finance continued its cooperation with the Committee for the distribution of financial assets and liabilities of former SFRY from Annex C of the Agreement on Succession Issues signed on 29 June 2001, which came into force on 2 June 2004¹⁵ and its cooperation with the Croatian National Bank and other authorities nationally and abroad in the resolution of all issues in the field of succession within its authority.

¹⁴ Official Gazette – International agreements, number 7/2007 and 9/2007

¹⁵ Official Gazette – International agreements, number 2/2004 and 5/2004

7. RELATIONS
WITH THE EUROPEAN
UNION IN 2009

7.1 FINANCIAL MANAGEMENT OF FUNDS FROM THE CARDS, PHARE, ISPA, SAPARD AND IPA PRE-ACCESSION PROGRAMMES

During 2009, the Ministry of Finance effectively managed funds from the pre-accession programmes CARDS, PHARE, ISPA and SAPARD and with funds from the five components of the pre-accession programme IPA: component I - Transition Assistance and Institution Building, component II - Cross-border co-operation, component III - Regional development, component IV - Human resources development and component V - Rural development (IPARD) in a system with ex-ante controls by the Delegation of the European Union. Preparatory activities for obtaining conferral of management for work in a system without ex-ante controls by the Delegation of the European Union were continued. Also, preparatory activities for the use of structural funds and Cohesion fund, which will be at the disposal of the Republic of Croatia after EU accession, were enhanced.

Within the EU financial perspective for the 2000-2006 period, funds granted to the Republic of Croatia from the CARDS 2003 programme amounted to EUR 29.4 million, from the CARDS 2004 programme EUR 46.5 million, from the PHARE 2005 programme EUR 73.1 million, from the PHARE 2006 programme EUR 64.1 million, from the ISPA program EUR 59 million, and from the SAPARD program EUR 25 million.

In the new EU financial perspective for the 2007 - 2013 period, the Republic of Croatia was granted, for all five IPA components, a total of EUR 141.2 million for the year 2007, a total of EUR 146 million for the year 2008, EUR 151.2 million for 2009, EUR 154.2 million for 2010 and EUR 157.2 million for 2011.

In order to use the allocated funds from pre-accession programmes efficiently the Ministry of Finance has actively participated in the establishment of a structure of institutions in charge for management and implementation and developed an internal control system and procedures for efficient and effective financial management of funds. Institutions involved in the management of the CARDS, PHARE, ISPA and SAPARD programmes received conferral of management from the European Commission in 2006, and institutions involved in the management of IPA components I, II, III and IV received conferral of management in 2008. In 2009, institutions involved in the management of component V (IPARD) received their conferral of management for measure 101 "Investments in agricultural holdings to restructure and to upgrade to Community standards" and measure 103 "Investments in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them to Community standards". During 2009, special attention was given to strengthening the administrative capacity through numerous educational activities and new employment, the continuous raising of the quality of project and tender documentation, the introduction of additional control mechanisms and the acceleration of tender procedures for the purpose of achieving an as high as possible rate of contracted funds and a maximum absorption of funds that are at the disposal of the Republic of Croatia.

During 2009, the Ministry of Finance was subject to a total of seven audit missions by auditors of the European Commission (two accreditation and five control audits of granted accreditations) and one audit by the European Court of Auditors. The goal of these audits was to verify the compliance of the established financial management systems with accreditation criteria.

During 2009, the Ministry of Finance requested funds from the European Commission in the amount of EUR 92.3 million, EUR 86.8 million of which was received. The difference between the requested and received funds occurs because of the in-house procedure of the European Commission for the approval of applications, which takes three to four months before the incoming payment on the account of the Sector for national fund affairs.

In November of 2009, the payment deadline for the PHARE programme 2005 - Cross-border cooperation of the Republic of Croatia and the Republic of Hungary and the Republic of Slovenia, PHARE programme 2005 - Cross-border co-operation of the Republic of Croatia and Italy and PHARE programme 2005 - Nuclear Safety expired, while the payment deadline for the programme CARDS 2003 and SAPARD expired in December of 2009. Payments based on all contracts within these programmes have been carried out and the refund of funds is expected in case of irregularities or on account of incompletely used advance payments.

Table 7.1: Allocated, contracted, requested, received and paid funds up to 31 December 2009

PROGRAMME	ALLOCATED FUNDS	CONTRACTED FUNDS	CONTRACTED / ALLOCATED	REQUESTED FUNDS	RECEIVED FUNDS	PAID FUNDS	PAID / CONTRACTED
CARDS 2003	29,366,415	28,685,856	97.7%	28,537,956	28,537,956	27,281,381	95.1%
CARDS 2004	46,573,630	44,065,285	94.6%	43,730,289	43,610,008	39,987,312	90.7%
PHARE 2005	73,141,000	63,985,408	87.5%	64,457,531	63,536,450	56,628,960	88.5%
PHARE 2006	64,148,500	54,669,487	85.2%	48,187,299	45,588,243	32,636,324	59.7%
ISPA	59,000,000	35,169,222	59.6%	25,548,113	20,846,023	14,175,086	40.3%
SAPARD	25,000,000	15,425,682	61.7%	13,960,234	13,960,233	12,083,170	78.3%
IPA Component I 2007	44,554,000	14,471,405	32.5%	16,426,844	16,426,844	6,956,226	48.1%
IPA Component I 2008	41,374,000	5,180,588	12.5%	8,695,604	8,586,654	5,034,104	97.2%
IPA Component II 2007	2,653,020	439,135	16.6%	220,000	0	175,400	39.9%
IPA Component IIIa - Transport	53,500,500	149,111	0.3%	16,139,616	16,139,616	89,466	60.0%
IPA Component IIIb - Environmental Protection	53,499,750	92,048	0.2%	16,105,154	16,105,154	55,229	60.0%
IPA Component IIIc - Regional Competitiveness	35,349,750	1,355,250	3.8%	10,604,925	10,604,925	149,925	11.1%
IPA Component IV - Human Resources Development	38,277,000	6,964,288	18.2%	12,739,055	12,739,055	1,255,955	18.0%
TOTAL	566,437,565	270,652,764	47.8%	305,352,619	296,681,162	196,508,538	72.6%

Source: Ministry of Finance

Also, the Ministry of Finance, during 2009, was host to a total of seven delegations (Albania, Armenia, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and the Ukraine) for the purpose of presenting the Croatian model of financial management of pre-accession programmes.

7.2 PREPARATORY ACTIVITIES FOR OBTAINING CONFERRAL OF MANAGEMENT IN A SYSTEM WITHOUT EX-ANTE CONTROLS BY THE EU DELEGATION

The currently established and accredited management system is a system with ex-ante controls by the Delegation of the European Union, which means that before any publication of tenders, tender documentation, appointments of evaluation committees for the choice of the best tenderer or the selection of the best tenderer, the complete documentation and activities undertaken must be approved by the Delegation of the European Union.

By obtaining the conferral of management, accredited institutions will be able to manage projects without ex-ante controls by the Delegation of the European Union. For that purpose, it is necessary to meet a series of criteria set by the European Commission, with which the readiness and competence of institutions of the Republic of Croatia for the independent implementation of EU programmes and projects is proven. Obtaining an accreditation for a system without ex-ante controls by the Delegation of the European Union is a precondition for the use of structural funds and the Cohesion fund once the Republic of Croatia becomes a member of the European Union.

On the basis of the provisions of Financing Agreements concluded between the Government of the Republic of Croatia and the European Commission, the Ministry of Finance, during 2009, actively participated in the preparation of the Roadmap to waive ex-ante controls by the Delegation of the European Union, which describes detailed steps that institutions of the Republic of Croatia need to undertake before applying for the accreditation of a system without ex-ante controls by the Delegation of the European Union with the European Commission.

Since the management system will no longer require ex-ante controls by the Delegation of the European Union, it is also necessary to strengthen the control mechanism within the bodies involved in the implementation of EU pre-accession programmes, to increase the number of skilled staff involved in the implementation and to educate and perfect those employed in the implementation of EU programmes.

Therefore, the Government of the Republic of Croatia, at the proposal of the Minister of Finance, on 28 May 2009, adopted the Decision on the activities that the ministries and other institutions involved in the implementation of the IPA programmes need to undertake by the end of 2009 in order to prepare for accreditation (conferral of management) of the EU pre-accession programme management system without ex-ante controls by the Delegation of the European Union.

7.3 MONITORING IMPLEMENTATION SYSTEM FOR THE IPA PRE-ACCESSION PROGRAMME AND FUTURE EUROPEAN UNION FUNDS

During 2009, the Ministry of Finance developed the IPA programme Management Information System (MIS). This system enables the effective monitoring of all projects financed through the IPA components I-IV, from contracting to payment, as well as the monitoring of requests for funds addressed to the European Commission. The system also includes performance indicators of individual projects and greatly facilitates the overview and control of all significant information. This system will be the basis for the establishment of the Cohesion policy funds management information system once Croatia becomes an EU member state.

7.4 IRREGULARITIES MANAGEMENT SYSTEM

In 2009, the Ministry of Finance, in accordance with the recommendations and opinions of the European Anti-Fraud Office (OLAF), prepared the “National Anti-fraud Strategy for the protection of the financial interests of the European Union in the Republic of Croatia for the 2010 - 2012 period” and the Action plan for its implementation. The goals and measures indicated within the Strategy are oriented towards the achievement of an efficient coordination of legislative, administrative and operational activities in the Republic of Croatia concerning the detection and prevention of irregularities and fraud as well as an effective cooperation with OLAF, in order to protect the financial interests of the European Union.

Also, in cooperation with OLAF, during 2009, training programmes were carried out for representatives of bodies involved in anti-fraud coordination structure on the subject “Interviewing skills for investigators”, “Implementation of OLAF investigations” and “Financial investigations and EU funds”.

7.5 PREPARATORY ACTIVITIES FOR USING FUTURE EU FUNDS (STRUCTURAL FUNDS AND THE COHESION FUND)

Cohesion policy includes areas of responsibility of almost all departments of the Government bodies of the Republic of Croatia considering that from this budget item of the European Union social and economic development is financed (transport, environmental, energy and other infrastructure, entrepreneurship, education and employment...). The envisaged financial allocation from Cohesion policy funds for the Republic of Croatia for 2012 and 2013 is EUR 2.2 billion (for 2012 it is EUR 916 million, and for 2013 it is EUR 1.3 billion).

It was therefore necessary to establish an institutional framework that includes institutions that have received conferral of management for the IPA programme. During 2009, the Ministry, together with the Central State Office for Development Strategy and Co-ordination of EU Funds, coordinated the preparation of the draft Strategy of institutional development and capacity building and organisational development strategy for every institution envisaged to work with future EU Funds with a detailed illustration of the current situation and transition to the implementation of future EU Funds, including the estimate of necessary employees and training programmes until 2013, based on estimates of operations and activities that are expecting us in the future period.

During 2009, negotiations were held with the European Commission on the draft National strategic reference framework for the 2012-2013 period and individual operational programmes in which fields of investment are proposed, which must be based on quality projects.

7.6 TRAINING OF EMPLOYEES IN THE FIELD OF EU FUNDS MANAGEMENT

Because of the importance of putting additional effort in further trainings of staff and including new personnel in the system, taking account of the increase in the funding amount that will initially be at our disposal in 2012 and 2013, the Ministry of Finance, during 2009, in cooperation with the Kingdom of Denmark, developed a comprehensive training course in the field of preparation, financial management, control and monitoring of projects that are already in implementation for employees of institutions that are currently involved in EU pre-accession programmes management or will manage funds from structural funds and the Cohesion fund after the accession of Croatia to the European Union. A total of 42 state employees were trained and received a lecturer certificate.

Within activities carried out by the Central Finance and Contracting Agency (CFCA) numerous educational activities were held (seminars, workshops, presentations, consultations) in order to transfer specific knowledge and skills from the field of project preparation, contracting and implementation. The target groups for these activities were primarily employees of state and public administration bodies who deal with the implementation of projects financed from EU assistance programmes.

7.7. ACCESSION NEGOTIATIONS AND PROJECTS FROM EU ASSISTANCE PROGRAMMES

During 2009, work at the Croatian EU accession process was continued intensively. Since the beginning of the accession negotiations until the end of 2009, 28 chapters were opened, 17 of which were temporarily closed. The Ministry of Finance participated in the negotiations as the implementing agency and a co-implementing agency of seventeen chapters. It was the sole implementing agency in the following chapters: 9 Financial services, 16 Taxation, 29 Customs Union, 32 Financial control and 33 Financial and budgetary provisions. In chapter 9 Financial services, for which the Republic of Croatia submitted documentation to the EU for meeting the closing benchmarks on 9 June 2009, negotiations were temporarily closed at the accession conference held on 27 November 2009.

During 2009, Chapter 16 Taxation was in the phase of the Common Negotiation Position being adopted by the Council of Europe and was blocked by the Republic of Slovenia. After the agreement of the Republic of Croatia and the Republic of Slovenia on unblocking the Croatian accession negotiations with the EU and the continuation of the negotiations on resolving the border dispute, the chapter was opened at the accession conference held on 2 October 2009. In the EU Common Position, three closing benchmarks were set for this chapter.

During 2009, Chapter 29 Customs Union was also blocked by the Republic of Slovenia, and after being unblocked, the negotiations on this chapter were temporarily closed at the accession conference with the Republic of Croatia held on 2 October 2009.

Chapter 32 Financial control was opened in 2008 and closing benchmarks were established. On 19 June 2009, the Republic of Croatia submitted to the EU documentation for meeting the closing benchmarks for this chapter.

Chapter 33 Financial and budgetary provisions was opened during 2007 and one closing benchmark was set. During 2009, intense activities were put into meeting that benchmark. The *Acquis Communautaire* in this field is directly binding and does not need to be transposed into the national legislation.

Furthermore, all acts within the competence of the Ministry of Finance, envisaged by the National programme for accession to the European Union for 2009, were passed. These are: Act on Excise Duties, Act on Amendments to the Value Added Tax Act, Consumer Credit Act, Act on Games of Chance, Payment System Act, Act on Amendments to the Credit Institutions Act and the Act on the Amendments to the Deposit Insurance Act.

Below is an overview of acts and secondary legislation with which the legislation of the Republic of Croatia was harmonised with EU regulations from the scope of the Ministry of Finance in 2009.

Table 7.2. Overview of the Legislation from the Jurisdiction of the MFRC that harmonised Croatian Legislation with European Union Regulations in 2009

ACTS WITHIN THE JURISDICTION OF THE MFRC ALIGNING CROATIAN LEGISLATION WITH EUROPEAN UNION REGULATIONS IN 2009					
No.	LEGISLATIVE MEASURES	COMPETENT AUTHORITY	GOVERNMENT OF THE REPUBLIC OF CROATIA	CROATIAN PARLIAMENT	OFFICIAL GAZETTE
1	Act on Excise Duties	MFRC-CA	08.06.2009	7/3/09	83/09
2	Act on Amendments to the Value Added Tax Act	MFRC-TA	02. 07. 2009	7/10/09	87/09
3	Consumer Credit Act	MFRC	21.05.2009	6/19/09	75/09
4	Act on Games of Chance	MFRC-TA	02. 07. 2009	7/10/09	87/09
5	Act on Amendments to the Customs Act	MFRC-CA	25.03.2009	4/3/09	45/09
6	Act on Amendments to the Act on Compulsory Insurance in Traffic	MFRC	26.02.2009	3/13/09	36/09
7	Payment System Act	MFRC-CNB	10.09.2009	10/23/09	133/09
8	Act on Amendments to the Credit Institutions Act	MFRC-CNB	21.11.2009	12/11/09	153/09
9	Act on the Amendments to the Deposit Insurance Act	MFRC-CNB	21.11.2009	12/11/09	153/09
SECONDARY LEGISLATION WITHIN THE JURISDICTION OF THE MFRC ALIGNING CROATIAN LEGISLATION WITH EUROPEAN UNION LEGISLATION IN 2009					
No.	SECONDARY LEGISLATION	COMPETENT AUTHORITY	GOVERNMENT OF THE REPUBLIC OF CROATIA	OFFICIAL GAZETTE	
I. QUARTER					
1	Regulation on Amending Regulation Implementing the Customs Act	MFRC-CA	6/26/09	76/09	
2	Regulation on Amending Regulation on Accountancy of Non-profit Organisations	MFRC	1/8/09	07/09	
3	Regulation on Amending Regulation on conditions and procedures for achieving relief from customs duty	MFRC-CA	12/17/09	153/09	
4	Decision on publishing list of state aid rules	MFRC	1/22/09	12/09	
5	Decision on publishing general rules on block exemptions in the domain of state aid	MFRC	3/18/09	37/09	
6	Decision on publishing rules on state aid in the form of guarantees	MFRC	3/25/09	39/09	
7	Decision on publishing rules of temporary framework for state aid measures to support access to finance in the current financial and economic crisis	MFRC	5/7/09	56/09	
8	Ordinance on Value Added Tax	MFRC	//	149/09	

Source: Ministry of Finance

The Republic of Croatia, as a candidate country for membership in the European Union, is a beneficiary of pre-accession programmes such as CARDS, Phare and IPA, intended for the public sector and non-governmental organisations, and their purpose is to assist candidate countries and potential candidate countries in their harmonisation with the EU *acquis* and its implementation, and in fields such as agriculture, environmental protection and transport.

During 2009, four projects were implemented in the Ministry of Finance from the 2006 PHARE Programme and the 2007 IPA TAF program in the amount of EUR 10.2 million and the preparation of tender documentation for 11 projects from the 2007 IPA, 2007 IPA TAF, 2008 IPA FPP RAC and 2009 IPA programme in the amount of EUR 10.4 million was under way.

Below is a detailed overview of projects of the Ministry of Finance funded from EU assistance programmes that were in the preparation and implementation phase in 2009:

7.3. EU assistance projects of the Ministry of Finance in the preparation and implementation phases in 2009

Project	Project Aim	Budget and type of contract in 000 EUR	Project status
Ministry of Finance - Headquarters			
Phare 2006 Improving Budget Processes for Effective Financial Management	Efficient and sustainable financial management system based on modern instruments and mechanisms tailored to the standards of the European Union.	Technical assistance and supply 4,095.00	Implementation
IPA 2007 TAF Strengthening Croatian AFCOS System with the Aim of Protection of EU Financial Interests	AFCOS development system in Croatia which would allow the coordination of all legislative, administrative and operational activities conducted to protect the financial interests of the EU and cooperation with OLAF.	Twinning Light 250.00	Start of tender procedure
IPA 2007 TAF Strengthening the Administrative Capacity for Implementation of the Own Resources Rules	Preparation of procedural rules for the efficient coordination and functioning system for managing EU's own resources which would enable the proper implementation of rules for their own resources.	Twinning Light 250.00	End of tender procedure and implementation phase
IPA 2007 TAF Further Strengthening and Enhancement of Croatian Public Internal Financial Control	Further strengthening of internal financial control system in Croatia with methodological tools to improve financial management and internal audits and by coordinating role of the Central Harmonisation Unit.	Twinning Light 250.00	End of tender procedure
IPA 2007 TAF Strengthening the Administrative Capacity of the Ministry of Finance of the Republic of Croatia Regarding the Implementation of the New Concession and Public- Private Partnership Legislation	The implementation of a coherent and transparent system for concessions and public-private partnership in the Republic of Croatia, which will be based on the new law for concessions and public-private partnership, a new institutional framework	Twinning Light 250.00	Start of tender procedure
IPA 2007 TAF Support to NAO/ NF in Implementation of SAPARD and IPA Component V - RURAL DEVELOPMENT	Support to the National Fund to establish an effective system of management and supervision IPARD to guarantee the legality and regularity of transactions.	Framework contract 105.47	Start of tender procedure
IPA 2007 TAF Support to NAO/ NF in further development of decentralised management DIS leading to the EDIS	Support to the National Authorising Officer and the National Fund for further development of decentralised management system with the aim of establishing a fully decentralised system of governance.	Framework contract 186.00	Completion of the tender procedures and start the implementation phase
Tax Administration			
PHARE 2005 Assistance to the Tax Administration in developing activities that proceed from fiscal blueprints	Establishment and efficient management of VAT information exchange system (VIES system) through adjustment of the existing national information system	Twinning and technical assistance 3,000	The project ended in May 2009
PHARE 2006 Strengthening and Enhancement of the Croatian Tax Administration IT Function to Achieve the EU Standards in the VAT Field	Establishment of the VIES (VAT Information Exchange System) and VES (VAT on e-services), information systems interconnection.	Twinning and technical assistance 3,000.00	Implementation
IPA 2008 FPP RAC Strengthening of the Tax Administration in the fight against corruption	Enhancing the transparency of the Tax Administration in the detection and prosecution of corruption offences.	Twinning Light 230,000	Start of tender procedure

IPA 2008 FPP RAC Strengthening the capacity of Croatian Tax Administration in the field of exchange of information related to Savings Directive	Exchange of information and development of information systems related to income from savings to combat tax fraud.	Twinning Light 230,000	Start of tender procedure
IPA 2009 Enhancement of the administrative capacity of CTA in the field of audit	Strengthening Tax Administration in the area of tax control and the fight against tax fraud in accordance with best practice in the European Union.	Twinning 1,000.00	Start of tender procedure
IPA 2010 Strengthening administrative and institutional capacity of the Tax Administration in the scope of VAT application on the Common European Union Market	Strengthening the administrative and institutional capacity of the Tax Administration for the purpose of successfully implementing EU common market VAT regulations.	Twinning 800	Beginning of the project programming
Customs Administration			
PHARE 2006 Integration of the Croatian Customs Information Systems with the EU Customs Information Systems	Ensuring full compatibility and interconnectivity of IT systems Croatian Customs Administration with the relevant IT systems of the European Union.	Twinning light, technical assistance and Procurement service 6,450.00	Implementation
IPA 2007 Development of the customs laboratories in Croatia	Further development of the Customs Laboratory to achieve operational capacity in line with EU requirements.	Twinning and Procurement service 2,900.00	Start of tender procedure
IPA 2007 Supply of equipment for the Croatian Customs Administration Anti-smuggling Mobile Units	Strengthening of customs control and supervision in the customs territory of Croatia.	Procurement service 5,600.00	Start of tender procedure
IPA 2008 FPP RAC Strengthening anti-corruption activities of the Customs Administration	Assistance to the Customs Administration in the implementation of anti-corruption programs through adjustments of the corruption prevention and enforcement of EU standards, using the most effective methods of combating corruption	Twinning Light 230,000	Start of tender procedure

Source: Ministry of Finance

During 2009, 5 projects of the Ministry of Finance were finished successfully with a total value of EUR 13.6 million. These projects are the following:

- CARDS 2004 “Strengthening the structure of internal financial control in the Republic of Croatia”
 - The Project lasted from April 2006 to January 2009. With this project, the field of internal audit and financial management and control (FMC) was completely harmonised with international standards and the best practice of the European Union. The project was realised through technical assistance and procurement contracts. The value of the project is EUR 1.5 million.
- PHARE 2006 PPF “Further strengthening of SAPARD programme certification bodies and technical assistance for the body for the revision of the IPA programme”
 - The project lasted from August 2008 to August 2009. This project provided assistance in preparing a revision system of the SAPARD/IPARD programme and technical assistance in the establishment of a body for the revision of the IPA programme. The value of the project amounts to EUR 198 thousand.
- PHARE 2006 PPF “Development of system for internal financial control in the State treasury”
 - The project lasted from January to June 2009. This project developed an efficient system of internal financial controls in the State treasury in accordance with international standards. As part of the project, operational processes and procedures were successfully developed and a risk analysis, audit trail analysis and analysis of other elements necessary for the establishment of a comprehensive public internal financial control system within the State treasury were carried out. The value of this twinning light project amounts to EUR 206 thousand.

- PHARE 2005 “Assistance to the Croatian Tax Administration in development activities proceeding from EU fiscal blueprints”
 - o The project lasted from December 2007 to May 2009. This project created preconditions for the introduction of a VAT information exchange system (VIES) and the efficient management of this system by adapting the existing national information system; the development of this system represents a precondition for EU accession. The project was realised through twinning and service contracts, and its value amounts to EUR 3 million.
- PHARE 2005 “Interconnection of information technology systems and EU customs systems”
 - o The project lasted from September 2007 to June 2009. The total value of this project is EUR 8.7 million, and it was realised through 6 components: EMCS development - support to management - twinning; EMCS phase 2 software development - services; NCTS implementation- support to management - twinning; NCTS implementation - upgrade of national transit application software development - services; TARIC Adaptation-support to management - twinning; TARIC Adaptation - software development - services, which were successfully carried out and completed. This project strengthened the operational capacity of the Croatian Customs Administration in the field of transit control and control of movement of goods to which excise duties are applied, for the purpose of ensuring the complete compatibility and interconnection of IT systems of the Croatian Customs Administration and the corresponding EU IT systems. In that respect, as part of these subprojects, customs information systems of interconnectivity were developed: a new computerised transit procedure (NCTS), Community customs tariff (TARIC) and the Excise Movement Control System - phase 2 (EMCS Phase 2).

In 2009, the following projects were in the implementation phase:

- PHARE 2006 “Strengthening and improving the function of information technology in the Tax Administration in order to achieve the EU standard in the field of VAT”
 - o The Project is realised through twinning and service contracts. The activities of the project have included further development and advancement of the VAT Information Exchange System through the development of new functionalities and new modules (VAT-Refund, VAT on electronic services, advanced VIES, one-stop-shop, e-forms).
- PHARE 2006 “Integration of Croatian customs information systems with EU customs information systems”
 - o The project consists of the following subprojects: ITMS implementation - twinning, ITMS - Software development, NCTS II - software development, ECS implementation - twinning, EMCS & AEO - twinning, EMCS phase 3 - software development, CCN/CSI implementation - procurement of equipment. The purpose of this project is the continuation of software development of customs systems of interconnectivity, which are necessary for information exchange with EU bodies and EU member states. Within the project, the following systems are developed: The economic module of NCTS, Export control system (ECS), Integrated tariff management system (ITMS), phases 3 of EMCS and the Common Communications Network/Common System Interface (CCN/CSI) system.

With the purpose of further strengthening of operational and administrative capacity, activities were continued on programming, preparing the tender documentation and the implementation of the tender procedure for project proposals that are to be financed from IPA 2007-2010 pre-accession funds.

- IPA 2007 - as part of this programme, according to the procurement plan and in cooperation with the administrative and technical service, the tender documentation was successfully prepared and the tender procedure carried out, and bidders for the project “Customs laboratory development” were chosen. The tender procedure for the project “Customs laboratory development” - Contract for the procurement of equipment for the customs laboratory - is planned to be completed in 2010.

- IPA TAF 2008 - from this programme, two twinning light project proposals were prepared:
 - o “Strengthening the Tax Administration in the fight against corruption” and
 - o “Strengthening administrative capacities of the Croatian Tax Administration in the field of information exchange concerning taxation of savings income in the form of interest payment”.
- IPA 2009 - from this programme, the funding of the following twinning project was approved:
 - o “Strengthening administrative capacity in the field of control”, on the basis of which the following is expected: further improvement of operation in the implementation of strategic access to control, of modern procedures and procedures compatible with the European Union, methods and techniques of operation, implementation of electronic monitoring, supervision of value added tax and fight against tax evasion.
- IPA 2010 - from this programme the following twinning project proposal was prepared:
 - o “Strengthening administrative and institutional capacity of the Tax Administration in the field of VAT implementation on the Common EU Market”.

Besides these, the project financed through the technical assistance of the Dutch Government - MATRA “Risk management in the Tax Administration - risk analysis with the aim of selecting taxpayers for control” was completed as well. Through 6 specific operations, the project includes fields concerning risk management during the planning of tax control, the development of indicators necessary for the selection of taxpayers for control as well as the preparation of a draft control plan for 2010. In connection with this project, in cooperation with experts from the Dutch Tax and Customs Administration, the project MATRA-FLEX “Preparation of the control plan for 2010” was realised as well

Besides the assistance programmes, the Republic of Croatia participates in Community Programmes as well, which refer to activities implemented by the European Union to promote the cooperation among member states in different fields concerning Community policies. In principle, these programmes are intended for member states exclusively based on a special item in the EU general budget. As a candidate country, the Republic of Croatia does not contribute to the Community budget and as such is obliged to pay a fee for participating in Community Programmes. The Ministry of Finance is competent for Customs and Fiscalis programmes. The Customs programme includes the coordination of the operation of customs authorities in member states. The Fiscalis Programme is intended for the improvement of the tax system in the internal market by stimulating cooperation in the field of taxation policies.

8. TAX AND CUSTOMS
POLICY GUIDELINES
IN 2009

8.1. LEGAL FRAMEWORK

During 2009, significant activities in the legislation in the field of taxes and customs were carried out, mostly concerning the further harmonisation of Croatian laws with the EU acquis. Below, the main determinants that have influenced trends in fiscal policy in 2009 are given.

8.1.1. Value Added Tax

In order to harmonise with Directive 2006/112/EC and Directive 86/560/EEC, the Act on Amendments to the Value Added Tax Act¹ was passed, which is entered into force on 1 January 2010 and which partially carried out the harmonisation with Directive 2006/112/EC in the field of taxation, places of service taxation, tax bases at import, exemptions from payment of value added tax, special procedures of value added tax taxation, which concerns the taxation of used goods and refunds of value added tax to foreign entrepreneurs and natural persons.

The Ordinance on Value Added Tax was published² entering into force on 1 January 2010, nullifying the previous Ordinance on Value Added Tax³. This ordinance regulates the application of the value added tax in more detail, especially in the part harmonised with Directive 2006/112/EC.

Also passed was the Act on Amendments to the Value Added Tax Act⁴, because of the change of the value added tax rate from 22 percent to 23 percent, which entered into force on 1 August 2009. With regard to the amendments to the Value Added Tax Act, the Ordinance on Amendments to the Ordinance on Value Added Tax⁵ was passed and entered into force on 07 August 2009.

The Act on Fees for the Provision of Services in Mobile Electronic Communications Networks⁶ was passed and entered into force on 1 August 2009, and in this context the Ordinance on the form and content of reports on offered services in mobile electronic communications networks⁷ was passed as well, entering into force on 7 August 2009.

In order to further harmonise the Croatian Value Added Tax Act with the EU acquis, project activities within the PHARE 2006 Programme 2006 - Twinning project were continued and preparatory activities for the amendments to the Value Added Tax Act were carried out, which completely harmonised it with EU directives in the field of value added tax.

¹ Official Gazette, number 87/2009

² Official Gazette, number 149/2009

³ Official Gazette, number 60/1006, 113/1999, 7/1999, 112/1999, 119/1999 - correction, 44/2000, 63/2000, 80/2000, 109/2000, 54/2001, 58/2003, 198/2003, 55/2004, 77/2004 - correction, 153/2005, 79/2007, 34/2008 and 97/2009

⁴ Official Gazette 94/2009

⁵ Official Gazette 97/2009

⁶ Official Gazette 94/2009

⁷ Official Gazette 97/2009

8.1.2. Personal Income Tax

Because of the adoption of the new Income Tax Act⁸ with effect from 1 January 2009 the Ordinance on amendments to the ordinance on value added tax⁹ was passed with which the forms ID, IDD and IDD-1 have been changed.

Furthermore, the Ordinance on amendments to the ordinance on value added tax¹⁰ prescribes provisions on the introduction of the personal identification number (OIB) in all forms and records prescribed for personal income tax and amendments to the forms IP, ID-1 and the Certificate on paid income because of the introduction of the special tax on salaries, pensions and other receivables. The UPO Annex ("Determining income tax") which is part of the income tax return - Form DOH, was changed as well because of the change in personal allowance in 2008, which resulted in a different calculation of the annual tax base for 2009. Furthermore, the DPOM form was changed insignificantly, because of the new prescribed method of determining the number of days which seafarers spent in training onboard ships in international shipping. The Ordinance introduces new provisions regarding payments of indemnities on account of industrial accidents as well as the implementation of tax regulations during payments of salaries in settlements reached with the competent State Attorney's Office in proceedings for amicable settlements of disputes and in settlements reached in conciliation procedures in individual labour-disputes in accordance with the Mediation Act.

The Ordinance on Amendments to the Ordinance on renting of apartments, rooms and beds to the passengers and tourists and organising camps that are taxed at a flat-rate, on the amount of flat rate tax and the method of payment of flat-rate tax¹¹ introduces the obligation of stating the personal identification number (OIB) on the transport register - the EP form - which constitutes an integral part of this Ordinance.

8.1.3. Corporate Income Tax

The Ordinance on Amendments to the Ordinance on value added tax¹² entered into force on 1 January 2010, and with this the corporate income tax system, especially the part concerning income tax registration - Form PD, is harmonised with provisions of the Personal Identification Number Act¹³, i.e. the obligation to indicate one's personal identification number (OIB) on the income tax registration - Form PD is introduced.

With regard to the Act on Areas of Special State Concern¹⁴, Act on Hilly and Mountainous Areas¹⁵ and the Act on Reconstruction and Development of the Town of Vukovar¹⁶ the Ordinance on tax relief for profit tax payers in areas of special state concern¹⁷, Ordinance on tax relief for profit tax payers in hilly and mountainous areas¹⁸ and the Ordinance on tax relief for profit tax payers in the area of the Town of Vukovar¹⁹. These Ordinances regulate how the right to tax relief is obtained by profit tax payers whose business is registered in areas of special state concern, hilly and mountainous areas and the territory of the town of Vukovar.

Also, the Ordinance on Amendments to the Ordinance on the content of records of state aid for education and training was passed²⁰ amending the previous Ordinance on the content of records of state aid for education and training²¹ considering that during 2008 the Act on State Aid for Education and Training was amended²² and is under the authority of the Ministry of Economy, labour and entrepreneurship. Namely, in the manner and under the circumstances prescribed in these regulations, in the income tax registration, the profit tax base can be reduced by the amount of the state aid for education and training.

⁸ Official Gazette, number 84/08 and 152/08

⁹ Official Gazette, number 2/2009

¹⁰ Official Gazette, number 146/2009

¹¹ Official Gazette, number 148/2009

¹² Official Gazette, number 146/2009

¹³ Official Gazette, number 60/2008

¹⁴ Official Gazette, number 86/2008

¹⁵ Official Gazette, number 12/2002, 32/2002, 117/2003, 42/2005, 90/2005 and 80/2008

¹⁶ Official Gazette, number 44/2001, 90/2005, 80/2008 and 38/2009

¹⁷ Official Gazette, number 53/2009

¹⁸ Official Gazette, number 53/2009

¹⁹ Official Gazette, number 53/2009

²⁰ Official Gazette, number 13/2009

²¹ Official Gazette, number 12/2008

²² Official Gazette, number 109/2007 and 152/2008

8.1.4. Special Tax on Salaries, Pensions and Other Receivables and Special Tax on Receipts from Independent Activity and Other Receivables

On 1 August 2009 the Act on the Special Tax on Salaries, Pensions and Other Receivables entered into force²³, introducing an emergency tax on Salaries, pensions and other receivables into the tax system in order to overcome the economic crisis in the Republic of Croatia. Based on this Act, the Ordinance on the Special Tax on Salaries, Pensions and Other Receivables was passed²⁴ which fully regulates the implementation of this Act, and the content and form of the report on paid revenue and paid special tax. For the same reasons, the Act on the Special Tax on Receipts from Independent Activity and Other Receivables was passed²⁵, entering into force on 01 October 2009, and based on it, the Ordinance which regulates its implementation and the content and form of reports on paid revenue and calculated and paid special tax was passed as well²⁶.

8.1.5. Games of Chance and Prize Games

In 2009, the new Act on Games of Chance was passed²⁷ entering into force on 01 January 2010. One of the reasons of passing a new Act on Games of Chance was the harmonisation with the EU *acquis* concerning the prevention of money laundering and terrorism financing, which is why these provisions have been integrated into the Act on Games of Chance.

8.1.6. Tax Proceedings

As provided for by the General Tax Code²⁸, with effect from 1 January 2009, the following bylaws were passed:

- Ordinance on the Principle of Acting in Good Faith for Participants of the Tax Law Relation, on the Business Unit as well as on the Forms for Reporting Tax Relevant Facts and the Declaration on the Sources of Acquiring the Assets²⁹. The adoption of this Ordinance, which, among other things, prescribes the types of property and data on the property of natural persons which the Tax Administration will collect for the purpose of monitoring the state of property of natural person and the sources of its acquisition, is one of the preconditions for the realisation of the asset and income declaration project.
- Ordinance on the form, content, deadline and delivery of commercial books, records and reports saved in electronic form³⁰. The Ordinance regulates the method of submitting data important for tax base assessment (commercial books, records and similar) which taxpayers manage in electronic form via computer files, the format and content of files and method of keeping and protection of these electronic records.
- Ordinance on determining the fees and compensation for costs of officially appointed representatives³¹. This Ordinance regulates the official appointment of representatives by the tax authority, and representatives officially assigned by the competent court upon the request of the tax authority, as provided for by the General Tax Act.

All three bylaws are in force and apply from 22 May 2009.

²³ Official Gazette, number 94/2009

²⁴ Official Gazette, number 96/2009

²⁵ Official Gazette, number 119/2009

²⁶ Official Gazette, number 131/2009

²⁷ Official Gazette, number 87/2009

²⁸ Official Gazette, number 148/2009

²⁹ Official Gazette, number 59/2009

³⁰ Official Gazette, number 59/2009

³¹ Official Gazette, number 59/2009

8.1.7. Compulsory Insurance Contributions

Act on the Amendment to the Contributions Act³² amends the provision of Article 78 of the Contributions Act³³ in the part which prescribes the coefficient for the calculation of monthly calculation basis for contributions for persons insured on the basis of an independent business activity - freelance artists, whose contributions are paid from the state budget, and instead of the coefficient 1.2, prescribes the coefficient 0.8. Based on the indicated amendment to the Contributions Act, texts of the Contributions Ordinance and of the Order on the Compulsory Insurance Contributions Calculation Basis for 2009³⁴ have been harmonised.

Order on the Compulsory Insurance Contributions Calculation Basis for 2010³⁵, Ordinance on the Manner of Reporting, Form and Content and the Deadline for Submitting the Report on the Calculated Additional Health Insurance Contribution³⁶, Ordinance on the Method of Payment and Reporting and the Procedure and Authorisation for the Control of Calculation and Payment of Revenue from Compulsory Automobile Liability Insurance³⁷ and the Ordinance on the Procedure for Set-off of Claim Based on the Right to a Refund of Paid Salary Compensation and the Right to Salary Compensation with the Obligation Based on Owed Contributions³⁸ have been adopted. For the purpose of regulating the conduct of participants in the set-off process as referred to in the Ordinance (HZZO or HZZOZZR, FINA, APIS IT), the Protocol on the Procedure for the Exchange of Data on Acquirers of the Right to Refund of Calculated and Paid Salary Compensation and the Right to Salary Compensation for the purpose of Set-off of the Claim with the Obligation Based on Owed Contributions has also been prepared.

8.1.8. Customs Regulations

Since its establishment in the year 2000, the Croatian customs system and its fundamental regulations, the Customs Act³⁹, the Regulation Implementing the Customs Act⁴⁰, the Regulation on Conditions and Procedures for Obtaining Customs Duty Exemptions⁴¹, the Regulation Concerning Customs Action against Goods Suspected of Infringing Certain Intellectual Property Rights⁴² and the Ordinance on the Use of Forms in the Implementation of the Customs Act⁴³, have achieved a high level of adjustment to the European customs system, with small remaining discrepancies with respect to which the harmonisation obligation was taken on in the Negotiating Position for the mentioned chapter, that is, which cannot be harmonised until the time of accession.

Further harmonisation of the legislation accomplished in 2009 includes the adoption of the Act on the Amendment to the Customs Act⁴⁴, Regulation on the Amendment to Regulation Implementing the Customs Act⁴⁵, as well as the Regulation on the Amendment to Regulation on Conditions and Procedures for Obtaining Customs Duty Exemptions⁴⁶.

According to the obligation to harmonise the provisions on subsequent entry of customs debt in the accounts taken on as part of negotiations in Chapter 33 - Financial and Budgetary Provisions, and as part of further harmonisation of the provisions of Croatian customs legislation with the EU acquis in Chapter 29 - Customs Union, provisions of the Act on the Amendment to Customs Act⁴⁷ amend the provision of Article 224 of the Customs Act.

That is, the new provision of Article 224 of the Customs Act comprehensively regulates legal relations in connection with the obligation of subsequent entry in the accounts when the amount of duty resulting from the customs debt was not entered in the prescribed manner or was entered as less than the amount claimed, and in this way the provisions of the Customs Act regulating the subsequent entry of customs debt in the accounts have been completely harmonised with the provisions of the Community Customs Code.

³² Official Gazette no. 94/2009

³³ Official Gazette no. 84/2008 and 152/2008

³⁴ Official Gazette no. 97/2009

³⁵ Official Gazette no. 141/2009

³⁶ Official Gazette no. 28/2009

³⁷ Official Gazette no. 118/2009

³⁸ Official Gazette no. 147/2009

³⁹ Official Gazette no. 78/1999 to 45/2009

⁴⁰ Official Gazette no. 161/2003 to 76/2009

⁴¹ Official Gazette no. 5/2007

⁴² Official Gazette no. 50/2006 and 82/2007

⁴³ Official Gazette no. 176/2003

⁴⁴ Official Gazette no. 45/2009

⁴⁵ Official Gazette no. 76/2009

⁴⁶ Official Gazette no. 153/2009

⁴⁷ Official Gazette no. 45/2009

Following the mentioned amendment to the Customs Act, the following most important amendments have been made by the implementation of amendments to the Regulation Implementing the Customs Act:

- provisions on the application of the provision of Article 224 of the Customs Act regulating the legal relations in connection with the obligation of subsequent entry in the accounts; implementing provisions are entirely harmonised with the corresponding European regulations
- in accordance with the express request of the European Commission in the negotiation process in Chapter 33 - Financial and Budgetary Provisions, the need has arisen for additional harmonisation with the corresponding European regulation with respect to the determination of lower limits of the following amounts prescribed by the provisions of the Regulation Implementing the Customs Act:
 - o minimum amount for the charging of default interest to the amount of individual customs debt incurred for obtained products or imported goods in inward processing or temporary admission procedures⁴⁸,
 - o minimum amount for the carrying out of subsequent entry of import or export duty in the accounts⁴⁹,
 - o minimum amount for forced collection of customs debt with the accrued default interests which was not paid in due time, as well as the minimum amount for the performance of forced collection of the amount which refers only to the payment of default interests⁵⁰,
 - o minimum amount for the customs to carry out procedures for repayment of overpaid customs debt or remission of customs debt⁵¹.
- The remaining provisions depend on the need to have an unambiguously prescribed legal basis for the adoption of rules which regulate specific features of customs treatment in international passenger and maritime cargo transport, and air and river transport, that is, the Ordinance on the Implementation of Customs Procedure in International Maritime, River and Air Transport.

The Regulation on the Conditions and Procedures for Obtaining Customs Duty Exemptions was also amended during 2009 for the purpose of further harmonisation of the field of duty exemptions with the relevant institutions of the European customs regulations.

On 17 December 2009 the Government of the Republic of Croatia adopted the Regulation on the Amendment to Regulation on Conditions and Procedures for Obtaining Customs Duty Exemptions⁵², which entered into force on 1 January 2010. The mentioned Regulation prescribes the amount of HRK 1,000 (instead of the earlier HRK 300) as the limit for duty exemption of non-commercial goods in passenger transport, and in order to comprehensively transpose relevant institutions of the European customs law which regulate the field of duty exemptions, the institution of duty exemption for consignments of negligible value has been introduced.

8.1.9. Excise Duties (Harmonised and Non-Harmonised)

For the purpose of harmonisation of excise legislation of the Republic of Croatia with the excise legislation of the European Union, the Act on Excise Duties⁵³ was adopted on 15 July 2009 and enters into force on 1 January 2010. The Act is for the most part harmonised with nine EU Directives and five EU Regulations, and the remaining EU *acquis* from the field of excise duties.

The mentioned Act regulates the new system of charging excise duties on alcohol and alcoholic beverages (including beer), tobacco products, energy products (including natural gas, coal and coke) and electricity which are produced or imported and distributed for consumption on the territory of the Republic of Croatia.

⁴⁸ EEC Commission Regulation No. 2454/93, Art. 519 para. 4 point b)

⁴⁹ EEC Commission Regulation No. 2454/93, Art. 868 para. 1

⁵⁰ EEC Commission Regulation No. 2454/93, Art. 868 para. 2

⁵¹ EEC Commission Regulation No. 2454/93, Art. 898

⁵² Official Gazette no. 153/2009

⁵³ Official Gazette no. 83/2009

The Act introduces new excise law institutions that operate in the duty suspension system:

- authorised excise warehousekeeper,
- excise warehouse,
- exempt user of excise products,
- registered consignee,
- temporary registered consignee.

The basic principle applied in the EU with respect to excisable products, which says that the obligation to pay excise duty arises at the time of release of excisable products for consumption or when losses/shortages are established which are subject to excise duty payment, is being introduced.

The Act regulates the movement of excisable goods in the duty suspension system, and for the movement of excisable goods in the suspension system it is mandatory to provide a guarantee for excise duty, whereby the movement of excisable goods itself in a duty suspension arrangement is possible only with the accompanying excise document.

The part of the Act entitled “Alcohol and Alcoholic Beverages” has been completely harmonised with the EU *acquis* with respect to the subject of taxation, tax base, as well as the amounts of excise duties.

In the field of production of ethyl alcohol for personal needs, a novelty is being introduced which is in conformity with the *acquis communautaire*. In particular, small producers of strong alcoholic beverages which produce them for personal needs will become excise duties payers and will pay “flat rate” excise duty depending on the volume of their still, which will result in the registration of all small producers of strong alcoholic beverages.

The part of the Act entitled “Tobacco Products” prescribes and defines the subjects of taxation harmonised with the *acquis communautaire* - cigarettes, cigars, cigarillos and other tobacco products.

The prescribed amount of excise duty for cigarettes is charged as a two-component specific and proportional excise duty, whereas for other tobacco products this duty is charged as a specific excise duty per item or kilogram. The Act retains the marking of tobacco products with tobacco stamps, or, in case of export, with identification stamps.

The part of the Act entitled “Energy Products and Electricity” includes the collection of excise duties for energy products if they are intended for use as a motor fuel, or for heating, and of electricity. Besides the petrol and gas oil and other oil derivatives, new subjects of excise duties are being introduced: natural gas, coal, coke, electricity and pure biofuels.

The Act prescribes exemption for energy products used as fuel in air transport and for navigation in international transport, except when they are used for private purposes.

The Act on Amendments to the Act on Excise Duty on Tobacco Products⁵⁴, which entered into force on 1 January 2009, introduced the European system of excise duties on cigarettes with the excise base of 1000 cigarettes and the retail price of cigarettes, and this excise duty is expressed as a two-component duty consisting of the specific excise duty set in the amount for 1000 items and the proportional excise duty set as a percentage of the retail price of cigarettes, and in this way we have partially harmonised our legislation with the EU *acquis*.

The Act on Amendment to the Act on Excise Duty on Tobacco Products⁵⁵ of 27 March 2009, with effect from 4 April 2009, introduced the same specific excise duty on all classes of cigarettes, A, B and C, in the amount of HRK 180 for 1000 cigarettes, while retaining the proportional excise duty of 30 percent from the retail price of cigarettes. The said amendment to the Act introduced equal tax burden for all classes of cigarettes in the Republic of Croatia in accordance with the EU *acquis*.

⁵⁴ Official Gazette number 152/2008

⁵⁵ Official Gazette number 38/2009

Act on Amendment to the Act on Special Tax on Passenger Cars, Other Motor Vehicles, Vessels and Aircraft⁵⁶, which entered into force on 9 August 2009, and was passed for the purpose of implementing anti-recession measures, changed the existing Act in terms of equalising the criteria for taxation for all subjects of taxation and tax bases, and of taxation according to the economic strength of taxpayers.

Ordinance on Supplementation of the Ordinance on Special Tax on Luxury Products⁵⁷ which entered into force on 5 March 2009 was also prepared. The Ordinance primarily aims to enable domestic producers of guns and revolvers to enter the world market more easily and to be competitive on this market, and to stimulate the export of the concerned products by not charging these special tax if they are exported.

Ordinance on Amendment to the Ordinance on Special Tax on Luxury Products⁵⁸ which entered into force on 2 July 2009 has also been prepared. The amendment to the Ordinance was made in order to equalise the tax statuses of sport pistols and sport rifles intended for members of the shooting sport association actively competing in shooting sport.

The Ordinance on Excise Duties in force since 2 January 2010, regulating the process of application of the Excise Duties Act, was also prepared during 2009. The Ordinance prescribes:

- the procedure and instructions for filling out the supporting excise document which accompanies the movement of excisable products in the duty suspension system,
- tax deductible loss or shortages causing no excise duty payment obligation,
- excise duty refund and excise duty exemption procedures,
- general operating conditions for excise warehouses,
- provisions on the depositing of payment guarantee for excise duty,
- general operating conditions for the exempt user of excise products,
- more detailed description of the procedure with excisable products: alcohol and alcoholic beverages (beer, wine, other fermented beverages apart from beer and wine, intermediate products and ethyl alcohol), tobacco products and energy products - marking, placing on the market, presenting reports, record keeping etc.

Ordinance on the Application of the Excise Duties Act Concerning Blue-Dyed Gas Oil Intended for Use in Agriculture, Fishery and Aquaculture⁵⁹, in force since 2 January 2010 was also prepared during 2009 with the previous opinion of the Ministry of Agriculture, Fisheries and Rural Development. The Ordinance regulates:

- the contents, form and method of using the blue-dyed gas oil consumption control forms, until the introduction of card-based transactions,
- the marking and dyeing of gas oil intended for use in agriculture, fishery and aquaculture, which is performed until the full introduction of card-based transactions,
- the right to annual consumption of blue-dyed gas oil for users in agriculture for the purposes of agricultural activity, as well as for users who have the special right of commercial fishing, or farming, i.e. aquaculture,
- the parameters of the right to consumption of blue-dyed gas oil, determined by the Ministry of Agriculture, Fisheries and Rural Development, for users in agriculture and fisheries,
- the contents of fuel booklets stating the precise amount of blue-dyed gas oil approved for annual consumption in litres, and keeping records of the remaining amount, which was not practiced before.

Regulation on the Amount of Excise Duty for LPG (liquefied petroleum gas) was prepared during 2009, with entry into force on 8 January 2010, changing the amount of excise duty for LPG (liquefied petroleum gas) from tariff headings CN 2711 12 11 to 2711 19 00, as prescribed by the Excise Duties Act. The concerned Regulation thus reduced the amount of excise duties as a motor fuel, and increased the amount of excise duty for heating, by which the amounts of excise duty for heating and fuel have been equalised for LPG - liquefied petroleum gas, with the amount of excise duties as a propellant reduced from HRK 912.5/1000 kg to HRK 100.0 /1000 kg, and the amount for heating increased from HRK 0.0/1000 kg to HRK 100/1000 kg.

⁵⁶ Official Gazette number 139/1997, 105/1999, 55/2000, 127/2000, 107/2001, 95/2004 and 94/2009

⁵⁷ Official Gazette number. 25/2009, 26/2009 – corr. and 27/2009 – corr. of corr.

⁵⁸ Official Gazette number 75/2009

⁵⁹ Official Gazette number 1/2010

8.2. PERSONAL IDENTIFICATION NUMBER

Allocation of personal identification numbers (Croatian: osobni identifikacijski broj, OIB) to natural and legal persons has been completed. Also, a separate allocation of OIB to “already registered” persons, whose OIB was not determined in the mass allocation for justified reasons, has been finished, whereas the allocation of OIB to “new” persons continues.

For the purpose of OIB allocation, the Tax Administration has (in one place) designed the Record of Personal Identification Numbers in which it gathers personal identification data, with the competent public bodies obliged to report all changes and perform all updates exactly in the mentioned Record (forename, surname/company name, permanent residence/seat address, nationality/legal form and other). Thus the OIBs record has become the single place for integral, always up to date personal identification data.

OIB is being entered as a permanent identification code into all official records, which creates the basic preconditions for computer-based data exchange between the public bodies, i.e. property records authorities, with the Tax Administration as a coordinating body, for the purpose of creating asset and income declarations.

8.3. INTERNATIONAL AGREEMENTS

In 2009 the Tax Administration completed the negotiations on Agreements for the Avoidance of Double Taxation with Kazakhstan and the Czech Republic (Protocol to the Agreement), whereas the negotiations on the agreements with Pakistan, Great Britain and Portugal are in progress. The Agreement between the Republic of Croatia and the Sultanate of Oman for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed on 21 December 2009 in Muscat, Oman. Draft proposals for the Act on Ratification of Agreement on the Avoidance of Double Taxation with Armenia and Indonesia were also prepared.

The agreement between the Government of the Republic of Croatia and the Government of the Russian Federation on mutual assistance in customs matters was signed in Moscow on 18 February 2009. The purpose of this agreement is the improvement of cooperation between the customs services of the Republic of Croatia and the Russian Federation and the correct application of customs legislation, more efficient customs control and information exchange, everything with the aim to prevent, investigate and fight unlawful activities and facilitate legal trade.

9. INSPECTION/SUPERVISION OF THE FISCAL POLICY IMPLEMENTATION IN 2009

9.1. TAX ADMINISTRATION INSPECTION IMPLEMENTATION

9.1.1. Tax Inspection and Tax Crimes Detection

7,689 tax inspection notifications were delivered to taxpayers in 2009, of which 61 percent referred to legal and 39 percent to natural persons.

Irregularities were established in 68.9 percent of the mentioned inspections. The most frequent unlawful activities and irregularities include the failure to keep books, not keeping books up-to-date and inaccurate bookkeeping, non-issuance of invoices, not reporting turnover through payment devices, not charging and not paying value added tax, profit tax and income tax and pension and health insurance and employment contributions, failure to submit monthly reports on the charged and paid value added tax etc. 5,606 motions to indict and 150 reports of criminal offences were filed.

Based on the Plan of Measures for Fighting Grey Economy, and in conformity with the conclusions of the Committees, the Tax Administration also directed its inspections towards taxpayers who perform cash transactions. Thus as a part of the total number of performed controls, control of invoicing related to the control of value added tax was carried out at 2,631 taxpayers', 78 decisions on Temporary Business Activity Prohibition were issued, new value added tax liabilities in the amount of HRK 39.7 million were determined by estimate, due tax debt of HRK 65.9 million was collected and 1,672 motions to indict filed.

Intensified tax inspection was conducted during the tourist season. In coordination with the Customs Administration, the Financial Police, the State Inspectorate and the Ministry of the Interior, 124 tax inspections of taxpayers, natural and legal persons, were carried out and, on account of established illegal activities, 41 motions to indict were filed.

As a result of inspection of businesses organising games of chance and entertainment games, 238 slot machines for games of chance and 109 entertaining games machines were temporarily seized.

Apart from the activities in this field carried out on the basis of the inspection plan, a significant part of activities is also based on orders by other state bodies, in the sense of tax crime detection and prosecution. Most outstanding orders were issued at the request of the Ministry of the Interior, 119 of them. 20 requests were submitted by County State Attorney's Offices, 64 requests by Municipal State Attorney's Offices, 91 requests by the Tax Administration - Central Office, 27 requests by USKOK, 29 requests by the State Inspectorate, and 68 requests upon citizens' reports. Also, 316 requests were submitted by Regional Offices due to reasonable suspicion of tax crime committed by taxpayers. Of the above mentioned requests, 27 orders are labelled Secret, and 28 Restricted, of which 26 cases labelled Restricted were submitted by the Anti-Money Laundering Office. 867 orders for the detection of tax crimes and investigatory actions were thus issued. Of the total number of outstanding orders 634 were completed and 233 orders have been transferred to 2010. After the completion of procedures based on orders, 147 tax assessment notices were issued. Also, 197 misdemeanour charges were brought against taxpayers. Based on the conclusions in these cases, a total of 109 reports of criminal offences were filed against 196 natural and legal persons for 191 criminal offences committed.

9.1.2. Distraint Procedures

9.1.2.1. Collection of Taxes and other Public Charges in Distraint Procedure

The Tax Administration, in accordance with its competence, performs the distraint procedure in order to secure payment of income taxes and other public charges from the taxpayer, by applying the provisions of the General Tax Act¹, Administrative Procedure Act² and Distraint Act³. The distraint, as a form of enforced collection, is initiated by the Tax Administration when no other instrument enables the collection in the regular procedure. It is performed over the entire property of the tax debtor: monetary assets, movable property, debtors' claims towards its debtors and other property rights, whereas the distraint of immovable property is performed by the competent court at the request of the Tax Administration and at the proposal of the State Attorney's Office.

Of the total collected revenue in distraint procedures in 2009, the largest part concerns the revenue collected by seizure of monetary assets (65.8 percent).

Table 9.1. Review of Debt Collected in Distraint Procedures, by Distraint Measures, in HRK 000

DISTRAINT MEASURES	YEAR 2009	SHARE %
Distraint order for the seizure of monetary assets	1,798,215	65.8
Distraint order for the seizure of debtors' claims	173,023	6.3
Distraint order for the seizure of claims based on shares in capital	17	0.0
Distraint order for the seizure of movable property	595,593	21.8
Distraint on real-estate	117,246	4.3
Collected at the requests of other bodies *	49,763	1.8
TOTAL COLLECTED	2,733,857	100.0

* Claims collected at the requests of other bodies not in the records of the Tax Administration (tourist tax and similar) as well as claims of other bodies kept in the records of the Tax Administration and collected after letters of warning or based on the decision brought by the Tax Administration under Article 40 paragraph 3 of the Court Fees Act (Official Gazette, number 26/2003 - final version)

Source: Ministry of Finance - Tax Administration

9.1.2.2. Ensuring Payment of a Tax Debt by Lien on Real Estate

To ensure payment of a tax debt, the Tax Administration uses measures to ensure debt collection by enforcement of a lien upon the property of a tax debtor. The number of claims submitted by the Tax Administration to the State Attorney's Office regarding proposals to impose the enforcement of a lien over the property of a tax debtor has been increasing, as is evident from the review in Table 9.2.

¹ Official Gazette, number 147/2008

² Official Gazette, number 47/2009

³ Official Gazette, number 57/1996, 29/1999, 42/2000, 173/2003, 194/2003, 151/2004, 88/2005 and 67/2008

Of the total number of requests filed with the State Attorney's Office for the submission of proposals to the court for securing the monetary claim by lien on real-estate in 2009, 2,883 requests were made by natural persons and 540 by legal entities. Of the total number of requests filed with the State Attorney's Office for the submission of proposals to the court for the enforcement on real-estate in 2009, 407 requests were made by natural persons and 71 by legal entities.

Table 9.2. Review of Number of Real-Estate Mortgage Enforcement Claims Delivered to the State Attorney's Office Requesting Submission to Courts to Secure Payment and Real-Estate Enforcement Proposals to Court in 2009

DESCRIPTION	for securing the monetary claim by lien on real-estate	for real-estate distraint
Legal entities	540	71
Natural persons	2,883	407
TOTAL	3,423	478

Source: Ministry of Finance - Tax Administration

9.2. CUSTOMS ADMINISTRATION INSPECTION/SUPERVISION IMPLEMENTATION

9.2.1. Implementation of Basic Activities

For the purpose of harmonisation of the Croatian customs system, the Customs Service Act⁴ which entered into force on 23 July 2009 was prepared and adopted. The new Customs Service Act regulates the organisation and range of activities of the customs service and the management of the customs service, the powers and responsibilities of customs officers and specific features of the legal status (with regard to labour law) and material rights of customs officers, as well as the disciplinary procedure.

The purpose of adoption of the new Customs Service Act was to achieve more efficiency in fighting criminal activities, all forms of smuggling, organised crime, terrorism, money laundering and grey economy, and to prevent the misuse of the financial system in the Republic of Croatia. Likewise, the clear and systematic prescribing of customs officers' powers in the enforcement of customs inspection/supervision implementation measures will contribute the effectiveness of customs checks, especially the checks of avoidance of customs inspection/supervision implementation measures as well as the effective protection of the integrity of the state border, the health and safety of persons, product safety, protection of intellectual property, cultural property, protected plant and animal species, as well as control of dual-use goods.

By having the customs officers' powers prescribed in a more systematic and clearer way, the Croatian Customs Administration will fulfil its role more effectively and more actively in the comprehensive common customs territory protection system, especially in the implementation of customs inspection/supervision, and checks measures and activities.

In this connection, the mentioned Act ensures material rights and better work conditions to authorised customs officers on account of their increased powers, that is, increased threat to their lives.

For the purpose of enabling more effective and more efficient performance and grouping of activities from the range of activities of the customs service and for the purpose of increasing customs officers' powers, and due to new tasks set before the administrative and technical service and other organisational units of the Customs Administration, the Government of the Republic of Croatia prepared and adopted amendments to the Regulation on Internal Organisation of the Ministry of Finance⁵.

For the purpose of further development and more efficient performance of duties, a new organisational unit, the Service for Compulsory Payments, was established by the new changes of the said Regulation, with the aim to considerably strengthen the function of collection of revenue from the range of activities of the customs service to the State budget, in order to increase fiscal transparency and improve efficiency.

It should also be emphasised that, with the new organisational structure, the Internal Audit and Control Service has been additionally strengthened by the establishment of the Central Internal Audit and Control Department, Regional Internal Audit and Control Departments (Split, Rijeka and Osijek) and the Internal Affairs Department, which will contribute to better and more frequent revision of the conducted customs procedures, which certainly ensures proper and consistent application of regulations in all organisational units of the Customs Administration.

⁴ Official Gazette number 83/2009

⁵ Official Gazette number 29/2009

9.2.2. Customs Inspection/Supervision and Crime Detection

On the basis of the new Customs Service Act⁶, the Ordinance on the Procedure for Stopping Vehicles on Roads for the Purpose of Customs Checks for Authorised Customs Officers⁷ was adopted in 2009 as an implementing regulation, as was the Training Programme for Authorised Customs Officers Stopping Vehicles in Road Traffic. Also, by Amendments to the mentioned Regulation on Internal Organisation of the Ministry of Finance⁸, in the part which refers to the Customs Administration, special Sections for Mobile Units were established within the scope of work of the Internal Audit and Control Service which, according to the above mentioned powers, independently or in coordination with Mobile Units for State Border Control, Border Police Directorate, General Police Directorate, Ministry of the Interior, perform customs inspection/supervision measures and customs checks on the entire customs territory of the Republic of Croatia. In this way 60 joint target activities were performed during 2009.

In 2009 the customs service temporarily seized a total of over 9 million cigarettes of different classes and 76.3 kilograms of tobacco intended for the Croatian and European black markets.

During the same period, 156 kilograms of drugs of different classes were seized. A total of EUR 1.1 million equivalent of cash illegally carried over the border was also temporarily seized during 2009.

2,463 subsequent verifications were performed during 2009 under Article 90 of the Customs Act, with misdemeanour proceedings initiated in 687 cases. The largest number of those verifications - 1,343 concerns excisable goods. Subsequent calculation of customs debt in the amount of HRK 54.1 million was performed.

Special activities were focused on the control of grey market charter and the temporary admission of vessels, as well as the trade of alcohol and alcoholic beverages. During 2009 a total of 314 controls were performed in connection with the control of business activities and the temporary admission of vessels and cars. In 47 cases irregularities were established and the additional calculation of customs debt in the amount of HRK 15.0 million performed. 247 controls of the alcohol and alcoholic beverages trade were performed. In 109 cases irregularities were established and the additional calculation of excise duties on alcohol and alcoholic beverages in the amount of HRK 5.6 million was performed.

Through regular and intensified customs checks measures, a total of 85,379 checks of dedicated use of fuel in vehicles, utility devices and machines were carried out on the entire customs territory of the Republic of Croatia, of which irregularities were detected in 2,684 cases, and on this basis the total calculated subsequently determined amount of excise debt is HRK 2.5 million. Also, 33 controls were performed with the payers of excise duties on oil derivatives, which resulted in additional calculation of excise duties on oil derivatives in the amount of HRK 1.0 million. 308 controls of petrol stations and 131 controls of wholesale oil derivatives warehouses were also performed. In 60 cases of petrol station control irregularities were established and misdemeanour proceedings initiated.

Based on the Criminal Procedure Act, four reports of criminal offences were filed in the same period on account of reasonable suspicion in the perpetration of the criminal offence of falsification of official document in connection with the falsification of fuel booklets for farmers in terms of dedicated use of 'eurodizel' Đ a diesel fuel coloured blue.

During 2009 continuous efforts were made to improve the risk management system, evaluated by the European Commission as the key closing benchmark for Chapter 29: Customs Union, functioning since 2008.

⁶ Official Gazette, number 83/2009

⁷ Official Gazette, number 147/2009

⁸ Official Gazette, number 29/2009

The risk management system has been implemented on the entire territory of the Croatian Customs Administration, and the main task of the system is as follows:

- to reduce the number of controlled consignments, while keeping the necessary level of control for the purpose of regular collection of budget revenue,
- to free legal trade of unnecessary customs controls and control only consignments and participants presenting a risk in the customs procedures,
- to speed up the clearance procedure for the purpose of reducing the cost of settlement of customs liability and in this way help the competitiveness of domestic economy,
- the standardisation of customs treatment,
- the performance of customs controls by using advanced information technology in conformity with the recommendations of the European Commission and the Kyoto Convention.

9.2.3. International Cooperation

On 1 September 2009 a meeting of directors of customs services of the Quadrilateral countries was held in Zagreb. The Quadrilateral is a regional initiative gathering the Republic of Croatia, the Republic of Hungary, the Republic of Slovenia and the Italian Republic and its goal is the cooperation of member states in the coordination of common interests in issues concerning the European Union and NATO, as well as the cooperation in different programming areas, among others, the coordination of work of the member states' customs services. The Republic of Croatia has been a member of this initiative since 2000.

The Convention of the Southeast European Law Enforcement Center - SELEC was signed in Bucharest on 9 November 2009. The Customs Administration was responsible for activities concerning the conduct of negotiations and the signing of the Convention. Goals of the SELEC Convention are to strengthen the coordination between member states in the prevention of and fighting against crime when such crime includes or could include the element of cross-border activity. Alongside the Republic of Croatia, members of the SELEC Convention are also Albania, Bosnia and Herzegovina, Bulgaria, Greece, Hungary, Macedonia, Moldova, Romania, Serbia, Slovenia, Turkey and Montenegro.

In the framework of international cooperation (the SECI Center, OLAF, WCO, EUROPOL and cooperation with customs administrations of other countries), during 2009 the Customs Administration participated in the implementation and coordination of the following international customs operations:

- "DEMETER" - focused on monitoring waste shipments and detecting illegal waste shipments;
- "PANDORA" - focused on the control of containerised maritime and road transport, and the fight against smuggling of all types of goods;
- "ATLAS" - focused on the prevention of smuggling cash through international airports, and monitoring of legal transfer of cash in international air transport;
- "BARTER" - focused on the prevention of smuggling narcotic drugs such as heroin and synthetic drugs;
- "TROJAN HORSE" - focused on the protection of intellectual property, that is, the fight against smuggling of counterfeit and pirated products;
- "MATTHEW II" - focused on the prevention of smuggling of cigarettes and tobacco products in road transport;
- one-day intensive operation with the aim of fighting illicit trade with endangered species of wild plants and animals included in the CITES Convention Appendices.

9.3. FINANCIAL CONTROL BY THE FINANCIAL POLICE

9.3.1. Implementation of Basic Activities

The Financial Police performs financial control of the legality, correctness and timeliness of calculation, reporting and payment of budget revenue and charges prescribed by law, which includes especially the following controls:

- production and transport of petroleum products, tobacco products, beer, alcohol, coffee and nonalcoholic beverages for the purpose of establishing the correctness of calculation and timeliness of excise duties payment,
- fulfilment of the obligation to calculate and pay compulsory insurance contributions,
- fulfilment of the obligation towards the budget taken on by a concession or lease contract.

Based on the submitted motions to indict, the competent misdemeanour bodies imposed fines in the total amount of HRK 4.7 million.

In 2009 the Financial Police achieved much better results as compared to 2008, especially in the increase of collected payments, amounts of newly determined liabilities, amounts of newly determined liabilities per inspector, number of issued decisions, number of filed reports of criminal offences and the number of submitted motions to indict.

In the said period the Financial Police submitted 37 reports of criminal offences (19 reports against 22 responsible persons of 18 trading companies and 18 reports against 23 natural persons - entrepreneurs). Also, in accordance with the Decision of the Government of the Republic of Croatia the financial police continued controls in the field of concessions and thus issued a total of 183 orders for financial control, of which 179 controls were completed during 2009.

9.3.2. Cooperation with other State Administration Bodies

For certain subjects of control the Financial Police cooperates with the State Attorney's Office, USKOK, the Ministry of the Interior, as well as the supervising authorities: Tax Administration, Customs Administration, Financial Inspectorate, Anti-Money Laundering Office and State Inspectorate.

Together with the Tax and Customs Administration, during 2009 the Financial Police carried out an action in which 211 controls of budget contributors who engage in oil derivatives distribution were performed. Irregularities in business operation were established in 66 controls on account of which motions to indict were submitted. 6 Temporary Business Activity Prohibition measures were issued as well.

The Financial Police also participates in the work of the Committee of the Government of the Republic of Croatia in joint activities for the fight against grey economy, in which several supervisory services of other ministries are also included. In cooperation with the Customs Administration, Tax Administration and the State Inspectorate, the Financial Police issued 61 orders for financial control of which 54 were processed and concluded during 2009. Irregularities in business operation of 34 legal and natural persons were established and 20 motions to indict were submitted.

The Croatian Health Insurance Institute submitted a request to the Financial Police for the control of insurance companies which are obliged to make payments for the financing of compulsory health insurance⁹. On this basis the Financial Police issued 7 warrants for financial control in this field. 6 warrants were processed during 2009 and payment obligations were established in this connection.

Pursuant to the Decision of the Government of the Republic of Croatia, the Financial Police, independently or in cooperation with the State Inspectorate, carried out the control of application of employment and occupational health and safety regulations¹⁰. In the mentioned period 43 financial controls were carried out and amounts to be paid established.

Based on USKOK's initiative, the Financial Police carried out the financial control of money flows and the provision of IT services in 4 companies which worked with the Croatian Health Insurance Institute or with each other, and related controls included another 6 companies which were in a business relationship or a management and ownership relationship with the concerned companies. Financial controls in this field established certain irregularities concerning the payment obligation.

Also, based on an initiative at the request of USKOK and the State Attorney's Office, cooperation with the Ministry of the Interior and the Tax Administration is in progress. The control will include about 40 legal and natural persons that participated in real estate transactions, as well as taxpayers that paid for market research, development services etc. to foreign entrepreneurs. The Financial Police issued 11 orders for financial control, of which 6 were processed in 2009, and the obligation for payment of budget revenue, that is, a reduction of tax loss to carry forward, was established in connection with them.

⁹ Compulsory Health Insurance Act (Official Gazette, numbers 150/2008, 94/2009, 153/2009)

¹⁰ Income Tax Act (Official Gazette, numbers 177/2004, 73/2008), Contributions Act (Official Gazette, numbers 84/2008, 152/2008, 94/2009)

10. FINANCIAL SYSTEM AND FINANCIAL DISCIPLINE IN 2009

10.1. FINANCIAL SYSTEM

During 2009 a number of activities were undertaken for the purpose of sustainable development and safety of the financial system. In the field of banks and financial conglomerates a new legal framework on capital adequacy was prepared through the June Act on Amendments to the Credit Institutions Act and December 2009 amendments¹.

The Republic of Croatia improved the existing Deposit Insurance Act, and the full harmonisation with the Directive on deposit-guarantee schemes as well as the amendments to this Directive was achieved through the adoption of the Act on Amendments to the Deposit Insurance Act in December 2009².

In the field of insurance, Amendments to the Deposit Insurance Act³ were adopted and thus the obligation of the Republic of Croatia for the closing of Chapter 9 - Financial Services has been fulfilled.

Harmonisation with the EU acquis in the field of insurance in traffic was performed through amendments to the Act on Compulsory Insurance within the Transport Sector⁴ of March and June 2009.

In the field of stock market and investment services, amendments to the Capital Market Act⁵ were adopted in June 2009, in the part which concerns high exposure, risk management and cooperation between the supervisors of states, which makes the legal framework in the mentioned field completely harmonised with the EU acquis.

The Act on the Takeover of Joint Stock Companies⁶ was amended in the part which concerns infringement provisions and the application of provisions of the Act in the transitional period or, more precisely, the obligation of takeover bid publication arisen at the time of validity of the earlier Act on the Takeover of Joint Stock Companies.

During 2009, for the purpose of better liquidity management and further financial system stability maintenance, as a result of the financial crisis the liberalisation of the capital account was postponed and the restrictions concerning the approval of short-term financial loans to non-residents retained, and then gradually liberalised during 2010.

In the field of accounting and audit, the strengthening of administrative and institutional capacity in the field of financial reporting and audit continued. In March 2009 the Audit Public Oversight Committee was established as an independent and autonomous body of public control over the Croatian Audit Chamber, audit companies, independent auditors and authorised auditors.

In the field of housing savings system the growth of the number of housing savers included in the housing savings system functioning according to Act on Housing Savings and State Incentives to Housing Savings⁷ continues. At the end of 2009 the number of savers grew by 33,663 or 5.5 percent as compared to the end of 2008. Also, the amendments to the mentioned Act enabled the expansion of housing development investment possibilities for the purpose of further development of the housing savings system.

¹ Official Gazette, numbers 117/2008, 74/2009, 153/2009

² Official Gazette, numbers 177/2004, 119/2008, 153/2009

³ Official Gazette, numbers 151/2005, 87/2008, 82/2009

⁴ Official Gazette, numbers 151/2005, 36/2009, 75/2009

⁵ Official Gazette, numbers 88/2008, 146/2008 - corr., 74/2009

⁶ Official Gazette, numbers 109/2007, 36/2009

⁷ Official Gazette, numbers 109/1997, 117/1997 - corr., 76/1999, 10/2001, 92/2005, 21/2010

With the mentioned activities of the Ministry of Finance as the designated competent authority or the co-designated competent authority in the negotiations during 2009, conditions were fulfilled for the closing of Chapters 6 - Company Law and 9 - Financial Services and for the opening of Chapter 4 - Free Movement of Capital.

Also, the Investor Protection Fund was constituted as a special entity introduced into the Croatian capital market based on provisions of the Capital Market Act the purpose of which is to protect the claims of investors who are Fund's members' clients.

10.2. FINANCIAL INSPECTORATE INSPECTION/SUPERVISION IMPLEMENTATION

10.2.1. Implementation of Basic Activities

The Financial Inspectorate Act⁸ determines the scope of work and legal competences of the Financial Inspectorate in the fields of prevention of money laundering and terrorist financing, foreign exchange transactions and provision payment system and money transfer services. Within the control activities and misdemeanour proceedings it conducts, the Financial Inspectorate contributes to the prevention and fight against different forms of misuse of the financial system, including money laundering and corruption.

The work of the Financial Inspectorate in 2009 was marked by the first year of application of the new Act on the Prevention of Money Laundering and Financing of Terrorism⁹ (hereinafter ZSPNFT) which entered into force on 1 January 2009. In cooperation with the Anti-Money Laundering Office a total of nine ordinances on the implementation of the mentioned Criminal Procedure Act were adopted and published in the Official Gazette.

According to the obligation from the ZSPNFT, in 2009 the Financial Inspectorate prepared and published Guidelines for the Application and Implementation of ZSPNFT for attorneys-at-law and public notaries. For the preparation of sector guidelines, specifically focused on particular categories of obliged entities from the non-banking sector, technical assistance of the World Bank and the IMF was requested and granted, so that this activity is carried out with the help of the mentioned institutions.

The majority of control activities were focused on the implementation of measures resulting from the ZSPNFT considering that the new Payment System Act¹⁰ enters into force on 1 January 2011, whereas in the area of foreign exchange transactions control responsibilities are decreased for the purpose of liberalisation of the foreign-exchange system. Also, amendments to the Foreign Exchange Act¹¹ resulted in further liberalisation of the capital system.

Changes of the acts from the scope of work and competences of the Financial Inspectorate initiated a new organisational structure of the Financial Inspectorate implemented in July 2009 (Regulation on Amendments to Regulation on Internal Organisation of the Ministry of Finance¹²).

According to the new organisational structure, the Financial Inspectorate has eight departments of which four perform control activities, two manage misdemeanour proceedings in the first degree, Department for Risk Assessment, Planning and Information System is newly established, and the Department for International Cooperation continues with the planning and performance of activities concerning international cooperation and communication with international organisations.

New departments which perform control activities are organised on the principle of sectoral distribution of obliged entities (Department of Credit Institutions and Payment Systems, Department of Financial Institutions and Financial Mediation and the Department of Nonfinancial and Non-profit Entities), whereas the Department of Financial Investigations is organised as a contact point and designated competent authority for inter-agency cooperation with the task of performing the most complex controls with respect to detection and prevention of criminal acts from the field of work of the Financial Inspectorate. Within its legal authorities, the inspectors

⁸ Official Gazette, number 85/2008

⁹ Official Gazette, number 87/2008

¹⁰ Official Gazette, number 133/2009

¹¹ Official Gazette, numbers 92/2009 and 153/2009

¹² Official Gazette, number 29/2009

of the Department participate in complex financial investigations of the competent authorities (HANFA, CNB, control authorities of the Ministry of Finance, the Ministry of the Interior) initiated and coordinated by the State Attorney's Office and USKOK.

Department for Risk Assessment, Planning and Information System has the task to determine the criteria for the assessment of potential money laundering and terrorist financing risk which the obliged entities, as well as some other entities, like non-profit institutions, are exposed to in the performance of their activities. Based on such assessment of sector risk and data from other relevant sources (e.g. reports of suspicious transactions, results of previously performed controls and other) plans are prepared for the implementation of control and other appropriate measures, in order to mitigate the potential risks of money laundering/terrorist financing for obliged entities assessed as risky or very risky.

10.2.2. Inspection and Misdemeanour Proceedings Management

The Financial Inspectorate plans, organises and conducts inspection in the fields of application of the prescribed foreign-exchange system, provision of payment system and money transfer services, and money laundering and terrorist financing, according to a schedule of activities and targeted requests from other control bodies and institutions.

By entry into force of the ZSPNFT, the Financial Inspectorate has been empowered for supervision of designated sectoral obliged entities in the sense of performing controls of the obliged entities' conformity with the measures, activities and procedures prescribed by the mentioned Act. The Financial Inspectorate, as the primary supervisor, was entrusted with the supervision of the following obliged entities:

- in the sector of the so-called non-banking financial institutions (authorised exchange officers, credit brokers, money transfer service providers, institutions for approval of consumer credits),
- in the sector of professional activities (attorneys-at-law, public notaries, auditors, accountants, financial consultants and others),
- natural and legal persons performing activities in connection with the trading in precious metals and stones and products made of them, trading in art objects and antiques, mediation in real estate transactions etc.

The Financial Inspectorate, as well as other appointed sector supervisors according to ZSPNFT, carries out targeted supervision based on information on suspicious transactions submitted by the Anti-Money Laundering Office and the State Attorney's Office.

During 2009 the Financial Inspectorate, within its overall legislative competences, performed 480 inspections, which is at the level of 2008, of which 350 cases concern regular inspection, and 130 cases targeted inspection at the request of other supervising authorities or institutions.

When it comes to preventive supervision of the implementation of measures for the prevention of money laundering/terrorist financing, during 2009 regular supervision included 304 obliged entities.

For the purpose of detecting the laundering of money obtained by criminal activity, targeted inspection through financial investigations conducted independently and in cooperation with other bodies included 89 business entities in 2009. The Financial Inspectorate initiated six controls concerning the mentioned targeted inspection, while other controls were initiated by other supervising authorities (Anti-Money Laundering Office 28, State Attorney's Office 24, the Ministry of the Interior 13, CNB 4, Tax Administration 4, HANFA 1 and other institutions 5). The initiated controls in the most part refer to the inspection of trading companies and other business entities (68), and a smaller part to the inspection of persons obliged to apply measures and activities prescribed by the ZSPNFT (21).

Based on unlawful activities established in the course of inspection, during 2009 the Financial Inspectorate submitted 148 motions to indict and 4 reports of criminal offences to the competent authorities.

While performing inspections from its field of competence, the Financial Inspectorate also submitted initiatives to other supervising authorities and institutions if the observed irregularities were a basis for them to act as competent authorities as well. A total of 42 initiatives for inspection or acting within legal competences were sent (Tax administration 26, Customs administration 4, Anti-Money Laundering Office 6, State Attorney's Office 1, USKOK 2, the Ministry of the Interior 2, HANFA 1).

The Financial Inspectorate conducts legal proceedings in the first degree for misdemeanours prescribed by the Foreign Exchange Transactions Act¹³, Financial Inspectorate Act of the Republic of Croatia¹⁴, Act on the Prevention of Money Laundering and Financing of Terrorism¹⁵ and the National Payment System Act¹⁶.

Misdemeanour proceedings are initiated on the basis of motions to indict which are officially submitted by authorised persons of the Financial Inspectorate, Croatian National Bank, the Ministry of the Interior, Tax and Customs Administration and other bodies authorised by law.

The High Misdemeanour Court of the Republic of Croatia decides in the second instance on the appeals against the decision of the Council for Misdemeanour Proceedings of the Financial Inspectorate.

During 2009, the departments for misdemeanour procedure received 292 motions to indict submitted by the following authorised submitters: Financial Inspectorate (148 motions to indict), Tax Administration (91 motions to indict), Customs Administration (42 motions to indict), the Ministry of the Interior (3 motions to indict), Croatian National Bank (2 motions to indict), Anti-Money Laundering Office (2 motions to indict), Financial Police (3 motions to indict) and HANFA (1 motion to indict).

During 2009, the Financial Inspectorate solved a total of 460 cases in misdemeanour proceedings and required fines and costs of proceedings to be paid. Through the safety measure of seizure of the object of misdemeanour, a total of EUR 784 thousand were seized in favour of the budget. After the completion of misdemeanour proceedings, the temporarily seized funds in the amount of EUR 378.1 thousand have been returned to the owners.

10.2.3. Inter-institutional Cooperation

During 2009, the Financial Inspectorate continued cooperation with other supervising institutions in accordance with Article 56 of the Foreign Exchange Act and through signed agreements and protocols on mutual cooperation:

- in accordance with the provisions of the Agreement on the Exchange of Information and Cooperation in the Area of Foreign Exchange Control of April 2007, information and data were exchanged with the Croatian National Bank;
- in accordance with the Protocol on Cooperation and the information exchange between the Ministry of Finance and the Ministry of the Interior, which applies since 2008, operational activities information and data were exchanged.

¹³ Official Gazette, numbers 96/2003, 140/2005, 132/2006, 150/2008, 92/2009, 153/2009

¹⁴ Official Gazette, number 85/2008

¹⁵ Official Gazette, number 87/2008

¹⁶ Official Gazette, number 117/2001

Also, the employees of the Financial Inspectorate actively participated in the organisation and work within different forms of inter-institutional cooperation:

- participation in the work of the Inter-institutional Working Group for the Prevention of Money Laundering/Terrorist Financing (MIRS), which includes 12 state institutions involved in the fight against money laundering/terrorist financing in the Republic of Croatia. The MIRS coordinates the implementation of measures and the reporting on the implementation of the Action Plan for the Prevention of Money Laundering and Terrorist Financing, coordinates the preparation of report defence for MONEYVAL, improves the cooperation among institutions in this field and proposes improvements of legal regulations, implementation rules, guidelines and other. Two MIRS meetings were held during 2009,
- participation of the Financial Inspectorate at regular meetings of the Moneyval, special committee of the Council of Europe for the prevention of money laundering in Strasbourg in France (29th, 30th and 31st Plenary Meetings),
- organisation of a series of meetings, in cooperation with the Anti-Money Laundering Office, with the persons obliged to apply and implement the Act on the Prevention of Money Laundering and Financing of Terrorism (attorneys-at-law, public notaries, auditors, Croatian Post and other) for the purpose of more effective sharing of experience and information important for strengthening the prevention of money laundering and the financing of terrorism, including fraudulent and corrupt activities in the public sector.

The Financial Inspectorate is the designated competent authority for the implementation of one part of measures of the Action Plan of the Government of the Republic of Croatia for the prevention of money laundering/financing of terrorism and it periodically informs the Anti-Money Laundering Office (designated competent authority for the implementation of the Action Plan) on the completed activities. During 2009, the Government of the Republic of Croatia accepted 2nd and 3rd Action Plan Implementation Report.

10.3. IMPLEMENTATION OF TASKS OF THE ANTI-MONEY LAUNDERING OFFICE

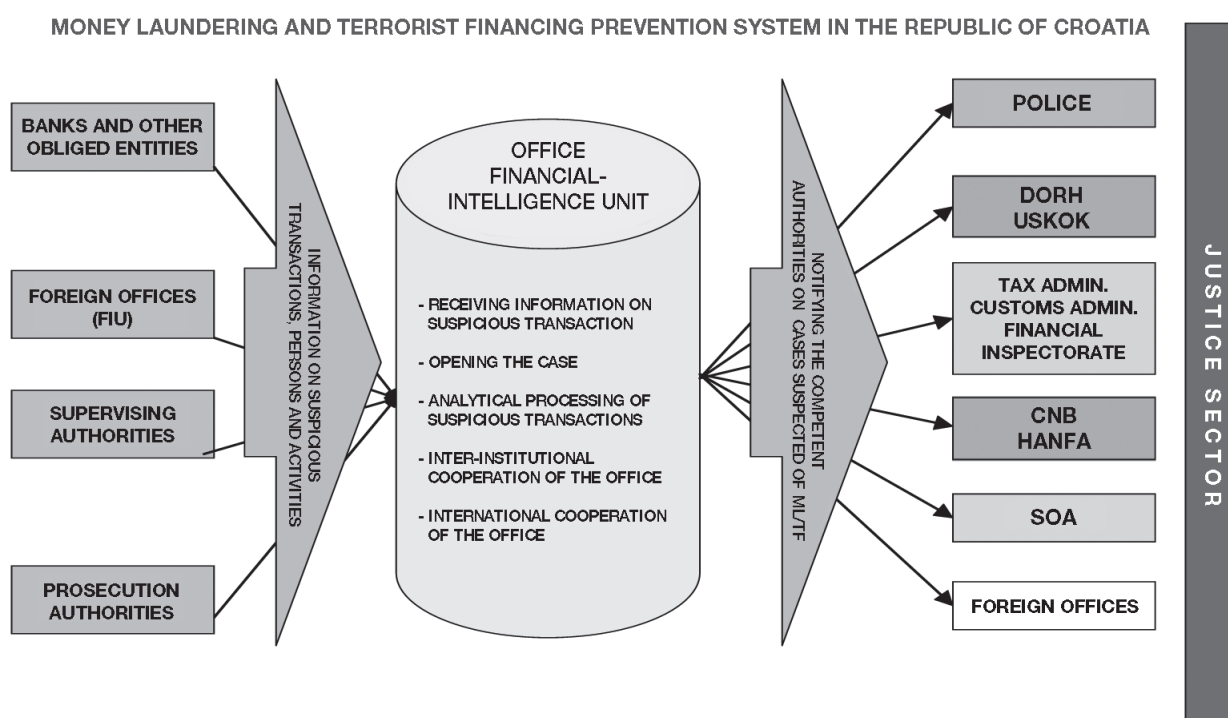
10.3.1. Money Laundering and Terrorist Financing Prevention System in the Republic of Croatia

Money laundering represents activities in banking, monetary or other economic operations whose purpose is to conceal the actual source of money, or assets or rights acquired with money known to have been obtained in an unlawful manner.

Act on the Prevention of Money Laundering and Financing of Terrorism (hereinafter: Act) and international standards provide that the money laundering and terrorist financing prevention system is not under the authority of only one institution but that it constitutes a system in which the roles of each participant have been legally defined, as well as their mutual interactions and cooperation, together with the role of the Anti-Money Laundering Office (hereinafter: the Office) as the financial intelligence unit.

Competent authorities from the money laundering and terrorist financing prevention system are as follows: prevention bodies (banks and other obliged entities), the Anti-Money Laundering Office, supervision bodies (CNB, HANFA, Tax Administration, Customs Administration, Financial Inspectorate), criminal prosecution bodies (the police, DORH and USKOK), and the justice sector (courts), as shown in Figure 10.1.

Figure 10.1.



¹⁷ Official Gazette, number 87/2008

The key element of the preventive system is the obligation of banks and other legally defined obliged entities to inform the Office on:

- suspicious (cash and non-cash) transactions when banks and other obliged entities establish a suspicion in money laundering and terrorist financing regardless of the amount of transaction (suspicious transactions system) (Art. 42 of the Act).

This means that the Office is only one link in the system for the fight against money laundering and terrorist financing which only in the interactive cooperation with other authorities (State Attorney's Office of the Republic of Croatia, USKOK, the Ministry of the Interior, SOA, CNB, HANFA and supervisory services of the Ministry of Finance) and foreign financial intelligence units can completely provide its full contribution with the aim of preventing the use of the financial system of the RoC for money laundering and terrorist financing.

10.3.2. Implementation of the Basic Activities of the Office

The Office, as a Financial Intelligence Unit (FIU) of the administrative type, is an administrative organisation within of the Ministry of Finance, which carries out tasks for the purpose of prevention of money laundering and terrorist financing, as well as other task prescribed by the Act.

According to international standards, the Croatian Office is the analytical service and the central body for prevention with the following primary tasks:

- analytical and intelligence processing of suspicious transactions received by the Office from banks and other entities; and provided that the Office assessed that in relation to a transaction or a certain person there are reasons for suspicion of money laundering or terrorist financing in the country or abroad, it will notify the competent State bodies about the case, especially the State Attorney's Office of the Republic of Croatia, and/or the Ministry of the Interior, as well as the Ministry of Finance's supervisory agencies and foreign offices, for their further treatment and processing (Art. 59 and Art. 65 of the Act);

The Office is authorised to initiate analytical transaction processing after:

- banks or other entities, with regard to a certain transaction or person, submit justified reasons for suspicion of money laundering or terrorist financing,
- foreign financial intelligence units (foreign offices) submit a written request or notification of suspicious transactions or suspicion of money laundering or terrorist financing,
- in exceptional cases, state authorities, courts, legal entities with public authorities and other subjects, submit a written motion indicating activities which were or could have been related to money laundering or terrorist financing, and which were established during activities within the scope of work of those authorities.

Since the Office obtains classified bank, personal and intelligence information in the country and abroad, according to international standards and the Act, all information on suspicious transactions and persons which the Office, as well as the Croatian Financial Intelligence Unit, collects and processes, represent classified information, and the proceedings performed by the Office are confidential. Therefore the Office is not authorised to inform the persons to whom that information refers, or third parties, on the information collected, or about the proceedings, based on the Act (Art. 75 Act and Art. 28 of the Third Directive 2005/60/EC).

10.3.3. Key Business Performance Indicators of the Office

Business performance of the Office is verified by key business performance indicators: number of open cases, number of blocked suspicious transactions and number of cases submitted to competent authorities for further processing (as shown in Table 10.1.); these are compared to the equivalent key performance indicators of foreign financial intelligence units and the Office's performance is evaluated by the relevant international bodies and organisations..

Table 10.1. Key Business Performance Indicators of the Office in 2009

KEY BUSINESS PERFORMANCE INDICATORS OF THE OFFICE		2009
NUMBER OF OPENED CASES DUE TO THE SUSPICION ON MONEY LAUNDERING AND TERRORISM FINANCING		327
NUMBER OF CASES SUBMITTED TO COMPETENT AUTHORITIES AND FOREIGN OFFICES FOR FURTHER PROCESSING		134
Type of information in submitted cases	NUMBER OF CASES SUSPECTED OF MONEY LAUNDERING	126
	NUMBER OF CASES SUSPECTED OF TERRORISM FINANCING	8
	NUMBER OF AMENDMENTS IN CASES OF MONEY LAUNDERING	48
	TOTAL NUMBER OF REPORTS ON ANALYTICAL PROCESSING	182
NUMBER OF ANALYSED AND ANALYTICALLY PROCESSED TRANSACTIONS IN CASES SUBMITTED TO COMPETENT AUTHORITIES		4,015
NUMBER OF PARTICIPANTS - NATURAL AND LEGAL PERSONS - IN ANALYSED TRANSACTIONS IN CASES SUBMITTED TO COMPETENT AUTHORITIES		1,015
NUMBER OF ORDERS ISSUED TO BANKS FOR POSTPONEMENT OF EXECUTION OF SUSPICIOUS TRANSACTIONS FOR 72 HOURS		3
TOTAL VALUE OF SUSPICIOUS TRANSACTIONS WHICH WERE TEMPORARILY POSTPONED		1,956,525.00 HRK
NUMBER ORDERS ISSUED TO BANKS FOR CONSTANT MONITORING OF FINANCIAL OPERATIONS		37
IN ORDER TO PREVENT TERRORISM FINANCING IN FINANCIAL SYSTEM OF THE REPUBLIC OF CROATIA IN 2009, 82 NATURAL AND LEGAL PERSONS WERE CHECKED, AS WELL AS 23 ENTITIES AND 17 CONSOLIDATED LISTS OF THE UN		

Source: Ministry of Finance, Anti-Money Laundering Office

10.3.3.1. Cases Submitted by the Office to the Competent Authorities

Following the analytical processing of suspicious transactions, the Office assessed that in 134 cases there was suspicion of money laundering or terrorist financing, and informed the competent national authorities and foreign offices about it. Within the scope of these cases, the Office submitted to the competent authorities and foreign offices a total of 182 reports on analytical and informative processing of suspicious transactions and persons, as shown in Table 10.2.

Table 10.2.

COMPETENT AUTHORITY	NUMBER OF ANALYTICAL REPORTS IN SUBMITTED CASES
MINISTRY OF THE INTERIOR	78
FINANCIAL INSPECTORATE	25
STATE ATTORNEY'S OFFICE	23
USKOK	15
TAX ADMINISTRATION	17
SECURITY INTELLIGENCE AGENCY	17
FOREIGN OFFICES	6
CUSTOMS ADMINISTRATION	1
TOTAL	182

Source: Ministry of Finance, Anti-Money Laundering Office

We emphasise that the cases that the Office forwarded to the competent State bodies and foreign offices with a suspicion of money laundering and terrorist financing are the subject of further procedures by the supervisory bodies and law enforcement agencies (conducting financial investigations, criminal investigations and criminal proceedings) aimed at establishing the legal nature of the funds analyzed in the suspicious transactions. Only by rendering a court judgment for the crime of money laundering is the illegality of assets proved, and in that case they are permanently seized.

10.3.3.2. Office Activities in the Anti-Corruption Measures Implementation

Starting from key business performance indicators of the Office, through the activities aimed primarily at the prevention and detection of money laundering and terrorism financing, and indirectly at the prevention and detection of corruption, the activities of the Office are presented which are related to analytical processing of suspicious transactions, including processing which also involves suspicion in criminal offences and corruption from the USKOK catalogue and from the line of work on economic crime prevention of the Ministry of the Interior.

Anti-Corruption Operational Cases of the Office

According to its statutory powers, the Office cooperates on specific cases of discovering money laundering and terrorism financing with all competent state administration bodies and it can confirm its work on majority of cases of organised crime and corruption as well as other serious criminal offences related to money laundering.

During 2009, the Office interactively cooperated with supervisory authorities (Ministry of the Interior, Public Prosecutor's Office of the Republic of Croatia, USKOK) to which it submitted 116 analytical reports, within which the Office analytically processed transactions related to 537 persons (374 physical and 163 legal entities), and the total value of the analysed transactions related to those persons amounted to HRK 766.7 million.

Furthermore, the Office continuously cooperates inter-institutionally and participates, within its legal authorities, in many cases of the Public Prosecutor's Office of the Republic of Croatia, USKOK and cases of police investigation related to abuse of public authorities for the purpose of achieving personal advantage.

In those cases the Office acquired and analytically processed data from the bank system of the RoC and obtained data about accounts and transactions from abroad, and it also performed checks and analyses regarding 193 physical and 41 legal entities, potential perpetrators of criminal offences of corruption and related parties, it issued 15 orders for monitoring of financial operations of persons and issued an order to a brokerage house for blocking performance of suspicious sales of shares in a money investment fund in the value of HRK 1.4 million, which was confirmed by a court decision.

10.3.4. Evaluation of the Office's Performance by International Institutions: Evaluation by MONEYVAL

The Office successfully performs its tasks, which was confirmed by international evaluators, as well as key business performance indicators of the Office. The Council of Europe Committee (MONEYVAL), in its 2008 Third Round Evaluation Report on anti-money laundering and combating the financing of terrorism in the RoC concluded:

- that the Office effectively performed its basic duties by directing, coordinating and assessing the system of reporting and analysing of received reports;
- the system was harmonised to a large extent, in the context of implementation of measures of prevention and detection of money laundering by the Office, which was fully operational and functional in its activities;
- Public Prosecutors and police members with whom the evaluators met reported that they were generally satisfied with the work of the Office and that reports which they received were of good quality for further processing;
- The Office is an active member of the Egmont Group and appears to provide timely and useful assistance to other FIUs, and it has the capacity to exchange information with all types of FIU.

The Council of Europe: The First MONEYVAL Progress Report on Anti-Money Laundering Measures and Terrorist Financing in the RoC

The Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) adopted on 18 March 2009 on its 29th plenary session a Progress Report on measures for prevention of money laundering and terrorist financing in the RoC after the 3rd round

of evaluation (“First written Progress Report submitted to MONEYVAL by Croatia”) and published it on the MONEYVAL website. The mentioned Report revealed an exceptional progress of the system for the prevention of money laundering and terrorism financing in all areas and fulfilment of relevant international standards. The Government of the Republic of Croatia adopted on 30 July 2009 the MONEYVAL Progress Report on implementation of measures for the prevention of money laundering and terrorism financing in the RoC.

Council of Europe – GRECO (Group of States against Corruption)

On the 44th plenary meeting of GRECO, in its Report from the 2nd round of evaluation in 2009, GRECO positively assessed the new Act on the Prevention of Money Laundering and Financing of Terrorism, which was harmonised with international standards and regulated both financial and nonfinancial sectors.

10.3.5. Inter-Institutional Cooperation of the Office with Supervisory and Enforcement Bodies

In case when, during the performance of their activities, competent authorities (Public Prosecutor’s Office of the Republic of Croatia, USKOK, Ministry of the Interior, Security and Intelligence Agency and courts), as well as supervisory authorities (CNB, HANFA, Financial Inspectorate, Tax Administration, Customs Administration and Financial Police and other state bodies, establish a suspicion on activities which are, or could be, related to money laundering or terrorism financing, they will be required to notify the Office in written and without delay, in accordance with Articles 58 and 64 of the Act.

During 2009, of the total of 327 cases, the Office opened 114 cases on the initiative of other authorities (supervisory authorities, enforcement bodies etc.), which confirmed a very good interactive inter-institutional cooperation of the Office and other authorities within the system of prevention of money laundering and terrorism financing, proving that there was a good cooperation in anti-corruption activities.

Consequently, the Office performed, on its own initiative or on the initiative of other enforcement bodies, among other things, analytical processing of suspicious transactions in cases involving suspicious transactions related to abuse of public authorities for the purpose of obtaining personal advantage, cases of suspicious transactions involving bank accounts of foreign citizens who were buying real estates in the Republic of Croatia through Croatian companies, illegal migrations and cases of suspicious transactions related to business of Croatian companies with offshore companies, as well as cases related to specific criminal groups in the Republic of Croatia and abroad.

10.3.6. International Cooperation

International cooperation of the Office involves cooperation between the Office and foreign financial intelligence units in relation with the exchange of relevant data, information and documentation requested by the Office for a foreign FIU, requested by a foreign FIU for the Office, and on initiative (spontaneously) of the Office for a foreign FIU, for the purpose of prevention of money laundering and terrorism financing (Art. 67 of the Act)

- In 2009, the Office sent 235 inquiries to 48 countries for the purpose of obtaining information from abroad required for discovering of money laundering and terrorism financing, and received 120 inquiries from 34 countries, also for the purpose of data exchange related to discovering of money laundering and terrorism financing.
- In 2009, in accordance with Art. 67 para. 3 of the Act, the Office signed 4 Memorandums of Understanding with the offices in Canada, the Russian Federation, the United Arab Emirates and Turkey, for the purpose of improvement of cooperation related to information exchange.

On 30 October 2009 in Zagreb, the Third Regional Conference of Heads of Financial Intelligence Units which was attended by representatives of money laundering prevention offices from the Croatia, Albania, Bosnia and Herzegovina, Montenegro, Former Yugoslav Republic of Macedonia, Slovenia and Serbia. The host of the third Regional Conference was the Anti-Money Laundering Office within the Ministry of Finance of the Republic of Croatia.

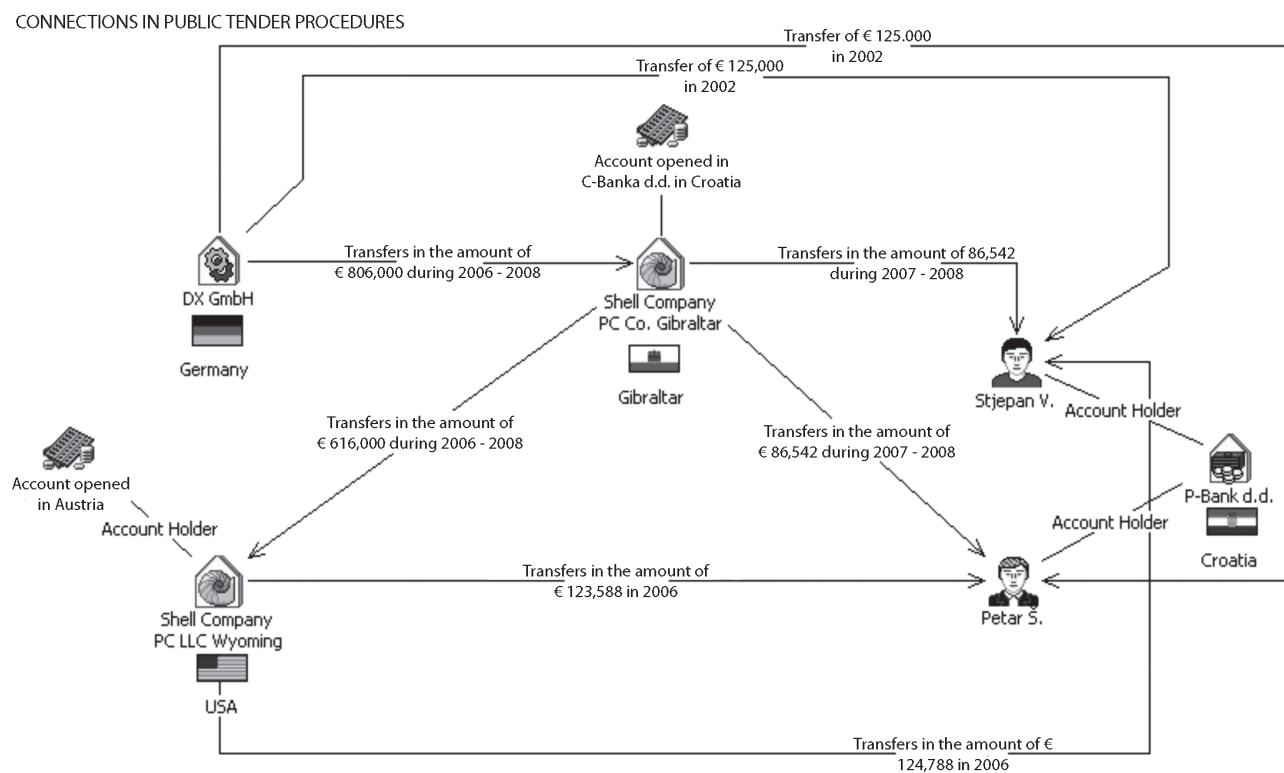
10.3.7. Cases Suspected of Money Laundering and Delivered by the Office to the Competent Authorities

Below is the summary of one of the cases suspected of money laundering submitted by the Office to the competent authorities for further treatment and processing.

CASE: Suspicious transactions involving bribery through offshore companies

Suspicious transactions through nonresidential accounts opened in a Croatian bank by order of an offshore company related to a Germany company which was under investigation for bribery. The Office submitted the case to the Public Prosecutor's Office of the Republic of Croatia for further processing.

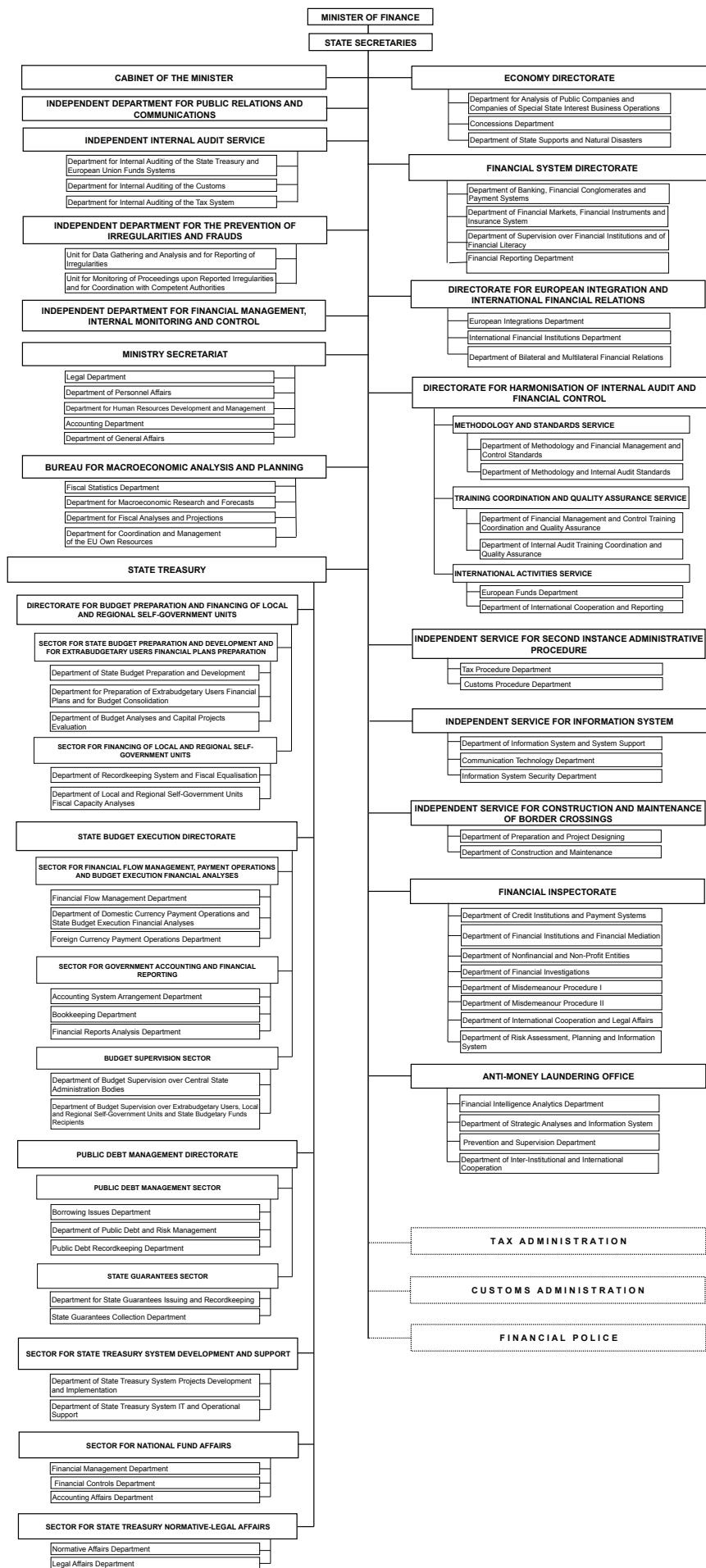
Figure 10.2.



Considering the cases opened by the Office with suspicion of money laundering and the typology in the open cases, it is our estimate that there are the following current and future threats of money laundering in the Republic of Croatia: business with offshore zones and noncooperative jurisdictions, new payment technologies (e-banking) and international investments in the RoC (real estate).

ORGANISATIONAL STRUCTURE
– ORGANIGRAM OF THE
MINISTRY OF FINANCE

ORGANISATIONAL STRUCTURE - ORGANIGRAM OF THE MINISTRY OF FINANCE



APPENDICES

Appendix 1: Basic Macroeconomic Indicators of Croatian Economy

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP, current prices (HRK million)	176,690	190,796	208,223	227,012	245,550	264,367	286,341	314,223	342,159	333,063
GDP, real growth (%)	3.0	3.8	5.4	5.0	4.2	4.2	4.7	5.5	2.4	-5.8
GDP, current prices (EUR million)	23,141	25,537	28,111	30,010	32,755	35,722	39,102	42,832	47,370	45,378
GDP per capita (EUR)	5,228	5,752	6,331	6,759	7,378	8,042	8,807	9,656	10,682	10,245
Consumer prices, average (%)	4.6	3.8	1.7	1.8	2.1	3.3	3.2	2.9	6.1	2.4
Producers prices, average (%)	9.7	3.6	-0.4	1.9	3.5	3.0	2.7	3.4	8.3	-0.4
Number of registered unemployed persons, average	357,872	380,195	389,740	329,799	309,875	308,739	291,616	264,446	236,741	263,174
Registered unemployment rate, average (%)	21.1	22.0	22.3	19.1	18.0	17.9	16.6	14.8	13.2	14.9
Labour force survey unemployment rate, average (%)	16.1	15.8	14.8	14.3	13.8	12.7	11.1	9.6	8.4	9.1
Average monthly gross wage, growth rate (%)	7.0	3.9	6.0	4.8	6.4	4.4	6.2	6.2	7.1	2.2
Average monthly gross wage, HRK	4,869	5,061	5,366	5,623	5,985	6,248	6,634	7,047	7,544	7,711
Average monthly net wage, growth rate (%)	8.9	6.5	5.0	5.9	5.9	4.9	5.2	5.2	7.0	2.6
Average monthly net wage, HRK	3,326	3,541	3,720	3,940	4,173	4,376	4,603	4,841	5,178	5,311
Industrial production volume index, growth rate (%)	1.5	5.9	5.0	3.3	3.2	4.6	4.1	4.9	1.2	-9.2
Retail trade turnover, real growth rate (%)	14.4	10.0	12.5	3.7	2.6	2.8	2.1	5.3	-0.5	-15.3
Number of tourist nights, growth rate (%)	47.5	10.8	3.0	4.3	2.5	7.6	3.1	5.7	2.0	-1.4
Construction work index, growth rate (%)	-9.1	3.6	12.8	22.8	2.0	-0.8	9.3	2.4	11.8	-6.5
Exchange rate HRK/USD, average	8.29	8.34	7.87	6.70	6.03	5.95	5.84	5.37	4.93	5.28
Exchange rate HRK/USD, end of period	8.16	8.36	7.15	6.12	5.64	6.23	5.58	4.99	5.16	5.09
Exchange rate HRK/EUR, average	7.63	7.47	7.41	7.56	7.50	7.40	7.32	7.34	7.22	7.34
Exchange rate HRK/EUR, end of period	7.60	7.37	7.44	7.65	7.67	7.38	7.35	7.33	7.32	7.31
Foreign trade balance (HRK million)	-27,788	-37,509	-45,459	-53,538	-51,654	-58,237	-64,812	-72,116	-81,149	-56,479
Exports (HRK million)	37,785	38,917	38,421	41,355	48,354	52,283	60,437	66,043	69,205	55,272
Imports (HRK million)	65,573	76,426	83,880	94,893	100,008	110,520	125,249	138,159	150,354	111,751
Current account balance (EUR million)	-568	-821	-2,099	-1,889	-1,434	-1,976	-2,726	-3,236	-4,338	-2,477
Current account balance (% of GDP)	-2.5	-3.2	-7.5	-6.3	-4.4	-5.5	-7.0	-7.6	-9.2	-5.5
External debt, end of period (EUR million)	12,264	13,609	15,143	19,884	22,933	25,748	29,274	32,929	39,950	44,588
External debt, end of period (% of GDP)	53.0	53.3	53.9	66.3	70.0	72.1	74.9	76.9	84.3	98.3
International reserves of CNB, end of period (EUR million)	3,783	5,334	5,651	6,554	6,436	7,438	8,725	9,307	9,121	10,376
Interest rate on treasury bills of 91 days maturity, end of period (%)	7.50	4.00	2.00	4.00	3.80	3.70	3.00	3.60	6.00	4.70
ZIBOR (3 m), average (%)	11.10	7.90	4.60	5.50	7.35	6.19	4.46	5.63	7.20	8.96

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

Appendix 2: Budgetary Central Government Revenue in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
1	REVENUE	85,653,010	95,235,557	108,320,595	115,772,655	106.9	110,257,947	95.2
11	Taxes	50,687,564	58,469,091	64,234,530	69,572,699	108.3	63,678,926	91.5
111	Taxes on income, profits, and capital gains	7,057,112	8,515,615	10,589,083	12,252,205	115.7	10,839,269	88.5
1111	Payable by individuals	3,106,476	3,459,649	1,772,708	1,687,502	95.2	1,399,411	82.9
1112	Payable by corporations and other enterprises	3,950,636	5,055,966	8,816,375	10,564,703	119.8	9,439,858	89.4
113	Taxes on property	375,501	482,331	578,621	635,930	109.9	532,297	83.7
1134	Taxes on financial and capital transactions	375,501	482,331	578,621	635,930	109.9	532,297	83.7
114	Taxes on goods and services	41,323,002	47,546,223	51,099,930	54,482,172	106.6	49,238,277	90.4
1141	General taxes on goods and services	32,399,952	35,091,381	37,916,509	41,474,566	109.4	37,173,833	89.6
11411	Value-added taxes	32,243,372	34,931,750	37,747,987	41,308,036	109.4	37,050,354	89.7
11412	Sales taxes	156,580	159,631	168,522	166,531	98.8	123,479	74.1
1142	Excises	8,177,659	11,564,709	12,168,666	11,875,126	97.6	10,998,910	92.6
1144	Taxes on specific services	20,000	22,000	24,500	27,000	110.2	14,964	55.4
1145	Taxes on use of goods and on permission to use goods or perform activities	299,563	409,511	480,619	561,612	116.9	517,870	92.2
11452	Other taxes on use of goods and on permission to use goods or perform activities	299,563	409,511	480,619	561,612	116.9	517,870	92.2
1146	Other taxes on goods and services	425,829	458,622	509,636	543,868	106.7	532,700	97.9
115	Taxes on international trade and transactions	1,562,930	1,588,456	1,641,478	1,900,865	115.8	1,721,164	90.5
1151	Customs and other import duties	1,562,930	1,588,456	1,641,478	1,900,865	115.8	1,721,164	90.5
116	Other taxes	369,019	336,466	325,418	301,527	92.7	1,347,920	-
12	Social contributions	31,301,340	33,877,148	37,203,486	40,703,484	109.4	39,994,739	98.3
121	Social security contributions	31,301,340	33,877,148	37,203,486	40,703,484	109.4	39,994,739	98.3
1211	Employee contributions	13,857,360	15,084,349	16,531,305	18,100,364	109.5	17,925,299	99.0
1212	Employer contributions	16,695,492	18,051,382	19,845,488	21,758,077	109.6	21,373,979	98.2
1213	Self-employed or nonemployed contributions	748,487	741,418	826,692	845,043	102.2	695,462	82.3
1214	Unallocable contributions	0	0	0	0	-	0	-
13	Grants	27,505	195,984	428,038	468,634	109.5	616,307	131.5
131	From foreign governments	107	2,099	8,580	8,583	100.0	5,450	63.5
1311	Current	107	1,712	5,044	6,452	127.9	3,992	61.9
1312	Capital	0	387	3,536	2,132	60.3	1,457	68.4
132	From international organisations	27,398	192,385	395,827	453,912	114.7	604,122	133.1
1321	Current	18,873	115,908	262,101	283,673	108.2	446,523	157.4
1322	Capital	8,525	76,478	133,726	170,240	127.3	157,599	92.6

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
133	From other general government units	0	1,500	23,632	6,138	26.0	6,735	109.7
14	Other revenue	3,636,601	2,693,335	6,454,541	5,027,838	77.9	5,967,975	118.7
141	Property income	2,226,647	832,400	3,526,540	1,612,229	45.7	2,367,214	146.8
1411	Interest	62,784	108,232	164,558	147,911	89.9	123,488	83.5
1412	Dividends	1,123,346	17,835	1,194,582	212,387	17.8	106,625	50.2
1413	Withdrawals from income of quasi-corporations	192,516	288,113	117,730	504,074	-	1,342,502	266.3
1414	Property income attrib. to insurance policyholders	0	0	0	0	-	0	-
1415	Rent	848,001	418,220	2,049,670	747,856	36.5	794,600	106.3
142	Sales of goods and services	782,428	1,209,296	1,526,646	1,450,683	95.0	1,682,037	115.9
1421	Sales of market establishments	0	0	0	0	-	0	-
1422	Administrative fees	397,066	821,741	1,318,050	1,274,882	96.7	981,712	77.0
1423	Incidental sales by nonmarket establishments	385,362	387,555	208,596	175,800	84.3	700,325	-
1424	Imputed sales of goods and services	0	0	0	0	-	0	-
143	Fines, penalties, and forfeits	360,707	391,616	429,034	490,600	114.4	515,461	105.1
144	Voluntary transfers other than grants	5,653	6,737	11,241	9,384	83.5	15,865	169.1
1441	Current	5,653	5,727	8,620	3,957	45.9	11,551	291.9
1442	Capital	0	1,010	2,622	5,427	207.0	4,314	79.5
145	Miscellaneous and unidentified revenue	261,166	253,286	961,080	1,464,942	152.4	1,387,397	94.7

Source: Ministry of Finance

Appendix 3: Budgetary Central Government Expense in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
2	EXPENSE	87,857,465	95,949,951	108,007,605	115,292,426	106.7	117,923,992	102.3
21	Compensation of employees	23,182,586	24,313,867	27,545,141	29,948,535	108.7	31,289,325	104.5
211	Wages and salaries	19,699,216	20,663,890	23,237,088	25,453,436	109.5	26,555,399	104.3
212	Social contributions	3,483,370	3,649,977	4,308,053	4,495,099	104.3	4,733,926	105.3
2121	Actual social contributions	3,483,370	3,649,977	4,308,053	4,495,099	104.3	4,733,926	105.3
2122	Imputed social contributions	0	0	0	0	-	0	-
22	Use of goods and services	4,951,917	6,069,116	7,162,402	8,113,694	113.3	7,363,814	90.8
23	Consumption of fixed capital	0	0	0	0	-	0	-
24	Interest	4,387,010	4,713,615	4,535,008	4,683,219	103.3	5,225,174	111.6
241	To nonresidents	2,053,588	1,863,999	1,672,563	1,542,146	92.2	1,391,408	90.2
242	To residents other than general government	2,333,422	2,849,616	2,862,444	3,141,074	109.7	3,833,767	122.1
243	To other general government units	0	0	0	0	-	0	-
25	Subsidies	5,248,744	5,670,789	6,492,010	6,859,512	105.7	6,710,033	97.8
251	To public corporations	2,784,825	2,692,785	3,007,099	3,199,114	106.4	3,134,258	98.0
252	To private enterprises	2,463,919	2,978,004	3,484,912	3,660,398	105.0	3,575,775	97.7
26	Grants	3,796,847	6,652,994	8,363,202	5,783,063	69.1	5,559,586	96.1
261	To foreign governments	73,639	64,795	103,410	89,446	86.5	78,184	87.4
2611	Current	49,174	37,760	75,261	60,246	80.0	68,150	113.1
2612	Capital	24,465	27,035	28,149	29,200	103.7	10,034	34.4
262	To international organisations	93,832	89,619	73,941	96,503	130.5	134,031	138.9
2621	Current	93,832	89,619	73,941	96,503	130.5	133,061	137.9
2622	Capital	0	0	0	0	-	970	-
263	To other general government units	3,629,376	6,498,581	8,185,852	5,597,115	68.4	5,347,372	95.5
2631	Current	2,623,246	2,663,156	2,305,125	2,291,490	99.4	2,598,678	113.4
2632	Capital	1,006,130	3,835,425	5,880,726	3,305,625	56.2	2,748,694	83.2
27	Social benefits	41,358,455	43,444,589	48,175,989	52,593,214	109.2	56,148,498	106.8
271	Social security benefits	29,308,716	30,535,396	34,167,894	37,600,722	110.0	40,605,352	108.0
272	Social assistance benefits	11,792,075	12,786,632	13,815,777	14,745,264	106.7	15,258,436	103.5
273	Employer social benefits	257,663	122,561	192,318	247,228	128.6	284,709	115.2
28	Other expense	4,931,907	5,084,980	5,733,853	7,311,189	127.5	5,627,561	77.0
281	Property expense other than interest	4,920	7,600	1,132	16,015	-	7,730	48.3
282	Miscellaneous other expense	4,926,987	5,077,381	5,732,721	7,295,174	127.3	5,619,832	77.0
2821	Current	2,154,806	2,304,214	2,837,557	2,626,644	92.6	2,174,864	82.8
2822	Capital	2,772,181	2,773,167	2,895,164	4,668,530	161.3	3,444,968	73.8

Source: Ministry of Finance

Appendix 4: Transactions in Nonfinancial Assets of the Budgetary Central Government in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
31	NET ACQUISITION OF NONFINANCIAL ASSETS	1,553,668	1,555,792	2,545,220	2,988,129	117.4	1,963,401	65.7
311	Fixed assets	1,516,968	1,595,121	2,625,692	2,719,479	103.6	1,839,720	67.6
311,1	Acquisitions: fixed assets	1,781,347	1,844,783	2,906,863	2,973,830	102.3	2,097,601	70.5
311,2	Disposals: fixed assets	264,379	249,663	281,171	254,352	90.5	257,881	101.4
3111	Buildings and structures	867,663	831,377	1,154,132	1,109,578	96.1	824,283	74.3
3111,1	Acquisitions: buildings and structures	1,131,302	1,080,074	1,423,340	1,357,524	95.4	1,076,215	79.3
3111,2	Disposals: buildings and structures	263,639	248,698	269,208	247,947	92.1	251,932	101.6
3112	Machinery and equipment	557,320	656,733	1,338,275	1,505,694	112.5	931,108	61.8
3112,1	Acquisitions: machinery and equipment	558,060	657,696	1,350,238	1,512,098	112.0	937,057	62.0
3112,2	Disposals: machinery and equipment	740	964	11,963	6,404	53.5	5,949	92.9
3113	Other fixed assets	91,986	107,011	133,285	104,208	78.2	84,330	80.9
3113,1	Acquisitions: other fixed assets	91,986	107,012	133,285	104,209	78.2	84,330	80.9
3113,2	Disposals: other fixed assets	0	1	0	1	-	0	-
312	Inventories	0	-80,226	-161,383	79,444	-	35,412	44.6
312,1	Acquisitions: inventories	0	1,048	36,574	86,829	237.4	43,144	49.7
312,2	Disposals: inventories	0	81,274	197,957	7,385	3.7	7,732	104.7
313	Valuables	7,220	7,826	9,620	10,126	105.3	8,929	88.2
313,1	Acquisitions: valuables	7,220	7,826	9,620	10,126	105.3	8,929	88.2
314	Nonproduced assets	29,480	33,072	71,291	179,081	251.2	79,340	44.3
314,1	Acquisitions: nonproduced assets	40,251	54,826	90,848	220,764	243.0	117,733	53.3
314,2	Disposals: nonproduced assets	10,771	21,754	19,557	41,683	213.1	38,392	92.1
3141	Land	-10,282	-21,650	-19,492	-41,626	-	-38,175	-
3141,1	Acquisitions: land	489	81	58	56	97.9	125	222.0
3141,2	Disposals: land	10,771	21,732	19,549	41,683	213.2	38,300	91.9
3142	Subsoil assets	0	-22	0	0	-	-93	-
3142,2	Disposals: subsoil assets	0	22	0	0	-	93	-
3143	Other naturally occurring assets	0	0	0	0	-	0	-
3144	Intangible nonproduced assets	39,762	54,744	90,782	220,707	243.1	117,608	53.3
3144,1	Acquisitions: intangible nonproduced assets	39,762	54,744	90,790	220,707	243.1	117,608	53.3
3144,2	Disposals: intangible nonproduced assets	0	0	8	0	-	0	-

Source: Ministry of Finance

Appendix 5: Transactions in Financial Assets of the Budgetary Central Government in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	2009
32	NET ACQUISITION OF FINANCIAL ASSETS	1,752,825	-3,047,174	-3,734,781	1,702,947	6,825,544
321	Domestic	1,757,681	-3,063,855	-3,752,817	1,690,502	6,823,196
3212	Currency and deposits	688,185	-1,449,670	-1,721,591	1,440,588	4,127,800
3213	Securities other than shares	0	0	0	0	0
3214	Loans	847,590	832,321	674,350	384,361	2,316,757
3214,1	Acquisitions: Loans	1,026,367	1,037,701	837,699	852,673	2,458,939
3214,2	Disposals: Loans	178,776	205,380	163,350	468,312	142,181
3215	Shares and other equity	221,906	-2,446,505	-2,705,576	-134,447	378,639
3215,1	Acquisitions: Shares and other equity	235,065	231,357	226,005	552,156	387,017
3215,2	Disposals: Shares and other equity	13,159	2,677,862	2,931,581	686,603	8,378
3216	Insurance technical reserves	0	0	0	0	0
3217	Financial derivatives	0	0	0	0	0
3218	Other accounts receivable	0	0	0	0	0
322	Foreign	-4,857	16,681	18,036	12,445	2,348
3222	Currency and deposits	0	0	0	0	0
3223	Securities other than shares	0	0	0	0	0
3224	Loans	0	0	0	0	1,447
3224,1	Acquisitions: Loans	0	0	0	0	1,447
3224,2	Disposals: Loans	0	0	0	0	0
3225	Shares and other equity	-4,857	16,681	18,036	12,445	901
3225,1	Acquisitions: Shares and other equity	2,699	16,681	18,036	12,445	901
3225,2	Disposals: Shares and other equity	7,556	0	0	0	0
3226	Insurance technical reserves	0	0	0	0	0
3227	Financial derivatives	0	0	0	0	0
3228	Other accounts receivable	0	0	0	0	0
323	Monetary gold and SDRs	0	0	0	0	0

Source: Ministry of Finance

Appendix 6: Transactions in Liabilities of the Budgetary Central Government in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	2009
33	NET INCURRENCE OF LIABILITIES	5,510,948	-776,988	-1,502,551	4,210,848	16,454,990
33,1	Total repayments	10,253,489	10,056,697	8,333,537	6,922,174	9,700,319
33,2	Total incurrence	15,764,437	9,279,708	6,830,986	11,133,022	26,155,309
331	Domestic	10,591,560	3,166,260	1,477,615	5,656,636	9,576,610
331,1	Repayments	4,389,323	4,250,184	4,604,573	3,871,657	2,704,283
331,2	Incurrence	14,980,882	7,416,444	6,082,188	9,528,293	12,280,893
3312	Currency and deposits	0	0	0	0	0
3313	Securities other than shares	9,636,343	5,648,934	3,520,136	1,089,917	4,855,440
3313,1	Repayments: Securities other than shares	2,844,601	550,859	3,513,172	2,897,430	273,892
3313,2	Incurrences: Securities other than shares	12,480,944	6,199,793	7,033,308	3,987,347	5,129,332
3314	Loans	955,217	-2,482,674	-2,042,521	4,566,719	4,721,170
3314,1	Repayments: Loans	1,544,722	3,699,325	1,091,402	974,227	2,430,391
3314,2	Incurrences: Loans	2,499,938	1,216,651	-951,119	5,540,946	7,151,562
3316	Insurance technical reserves	0	0	0	0	0
3317	Financial derivatives	0	0	0	0	0
3318	Other accounts payable	0	0	0	0	0
332	Foreign	-5,080,612	-3,943,248	-2,980,166	-1,445,788	6,878,380
332,1	Repayments	5,864,167	5,806,513	3,728,963	3,050,517	6,996,036
332,2	Incurrence	783,554	1,863,264	748,798	1,604,729	13,874,416
3322	Currency and deposits	0	0	0	0	0
3323	Securities other than shares	-3,713,935	-3,480,781	-1,757,723	-1,112,673	7,801,073
3323,1	Repayments: Securities other than shares	3,713,935	3,480,781	1,757,723	1,112,673	5,054,565
3323,2	Incurrences: Securities other than shares	0	0	0	0	12,855,638
3324	Loans	-1,366,677	-462,468	-1,222,442	-333,116	-922,693
3324,1	Repayments: Loans	2,150,232	2,325,732	1,971,240	1,937,845	1,941,471
3324,2	Incurrences: Loans	783,554	1,863,264	748,798	1,604,729	1,018,778
3326	Insurance technical reserves	0	0	0	0	0
3327	Financial derivatives	0	0	0	0	0
3328	Other accounts payable	0	0	0	0	0

Source: Ministry of Finance

Appendix 7: Transactions of Extrabudgetary Users in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
1	REVENUE	8,134,940	9,429,083	10,561,624	6,253,096	59.2	5,504,483	88.0
11	Taxes	2,761,485	0	0	0	-	0	-
1142	Excises	2,761,485	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	1,145,477	4,270,535	5,549,188	2,057,887	37.1	1,711,086	83.1
131	From foreign governments	0	0	0	19,044	-	0	-
132	From international organisations	0	0	18,197	0	-	3,397	-
133	From other general government units	1,145,477	4,270,535	5,530,991	2,038,843	36.9	1,707,689	83.8
1331	Current	834,991	690,117	3,643	34,848	-	15,364	44.1
1332	Capital	310,486	3,580,418	5,527,348	2,003,995	36.3	1,692,325	84.4
14	Other revenue	4,227,978	5,158,548	5,012,436	4,195,209	83.7	3,793,397	90.4
2	EXPENSE	5,620,152	7,073,492	6,563,438	5,382,651	82.0	4,305,463	80.0
21	Compensation of employees	1,117,529	1,199,095	609,484	281,788	46.2	285,596	101.4
211	Wages and salaries	966,616	1,035,834	524,596	242,569	46.2	245,800	101.3
212	Social contributions	150,913	163,261	84,888	39,219	46.2	39,796	101.5
22	Use of goods and services	2,148,315	3,124,365	3,354,913	3,354,711	100.0	2,480,509	73.9
24	Interest	617,640	683,431	926,232	217,619	23.5	284,640	130.8
241	To nonresidents	305,417	522,924	561,616	37,064	6.6	57,659	155.6
242	To residents other than general government	312,223	160,507	364,616	180,555	49.5	226,981	125.7
25	Subsidies	5,189	13,803	18,553	39,318	211.9	89,673	228.1
251	To public corporations	5,189	0	0	0	-	26,770	-
252	To private enterprises	0	13,803	18,553	39,318	211.9	62,903	160.0
26	Grants	153,390	457,883	672,734	273,622	40.7	233,938	85.5
263	To other general government units	153,390	457,883	672,734	273,622	40.7	233,938	85.5
2631	Current	0	0	1,500	4,238	282.6	4,800	113.3
2632	Capital	153,390	457,883	671,234	269,384	40.1	229,138	85.1
27	Social benefits	571,777	748,262	523	704	134.6	218	31.0
271	Social security benefits	571,107	741,298	523	704	134.6	218	31.0
272	Social assistance benefits	670	6,964	0	0	-	0	-
28	Other expense	1,006,312	846,653	980,999	1,214,889	123.8	930,889	76.6
31	NET ACQUISITION OF NONFINANCIAL ASSETS	5,145,748	4,552,835	5,265,736	1,240,070	23.5	1,637,738	132.1
31,1	Acquisition of nonfinancial assets	5,195,362	4,927,889	5,334,740	1,421,680	26.6	1,659,443	116.7
31,2	Disposal of nonfinancial assets	49,614	375,054	69,004	181,610	263.2	21,705	12.0
32	NET ACQUISITION OF FINANCIAL ASSETS	-133,065	470,485	795,625	1,073,617		538,324	
321	Domestic	-133,065	470,485	795,625	1,073,617		538,324	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	2,497,895	2,667,729	2,063,175	1,443,242		977,042	
331	Domestic	1,460,118	2,116,532	539,480	1,139,111		553,629	
332	Foreign	1,037,777	551,197	1,523,695	304,131		423,413	

Source: Ministry of Finance

Appendix 8: Transactions of the Croatian Waters in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
1	REVENUE	1,715,607	1,971,613	2,507,327	2,618,977	104.5	2,253,976	86.1
11	Taxes	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	487,813	444,762	542,884	588,928	108.5	342,007	58.1
131	From foreign governments	0	0	0	19,044	-	0	-
132	From international organisations	0	0	18,197	0	-	3,397	-
133	From other general government units	487,813	444,762	524,687	569,884	108.6	338,610	59.4
1331	Current	203,499	89,259	3,643	34,848	-	15,364	44.1
1332	Capital	284,314	355,503	521,044	535,036	102.7	323,246	60.4
14	Other revenue	1,227,794	1,526,851	1,964,443	2,030,049	103.3	1,911,969	94.2
2	EXPENSE	1,489,465	1,779,088	2,108,778	2,339,024	110.9	1,748,448	74.8
21	Compensation of employees	99,418	111,293	121,767	135,222	111.0	129,458	95.7
211	Wages and salaries	85,524	96,298	104,720	116,482	111.2	111,542	95.8
212	Social contributions	13,894	14,995	17,047	18,740	109.9	17,916	95.6
22	Use of goods and services	790,683	1,072,478	1,208,936	1,331,786	110.2	1,060,458	79.6
24	Interest	33,734	31,692	34,639	35,525	102.6	29,863	84.1
241	To nonresidents	8,652	7,073	5,852	4,803	82.1	2,793	58.2
242	To residents other than general government	25,082	24,619	28,787	30,722	106.7	27,070	88.1
243	To other general government units	0	0	0	0	-	0	-
25	Subsidies	0	0	0	0	-	0	-
251	To public corporations	0	0	0	0	-	0	-
252	To private enterprises	0	0	0	0	-	0	-
26	Grants	0	53,751	82,301	120,094	145.9	76,101	63.4
261	To foreign governments	0	0	0	0	-	0	-
262	To international organisations	0	0	0	0	-	0	-
263	To other general government units	0	53,751	82,301	120,094	145.9	76,101	63.4
2631	Current	0	0	1,500	3,600	240.0	4,800	133.3
2632	Capital	0	53,751	80,801	116,494	144.2	71,301	61.2
27	Social benefits	0	0	0	0	-	0	-
271	Social security benefits	0	0	0	0	-	0	-
272	Social assistance benefits	0	0	0	0	-	0	-
28	Other expense	565,630	509,874	661,135	716,397	108.4	452,568	63.2
31	NET ACQUISITION OF NONFINANCIAL ASSETS	230,292	223,123	315,004	245,968	78.1	274,314	111.5
31,1	Acquisition of nonfinancial assets	230,588	224,983	318,780	246,965	77.5	275,598	111.6
31,2	Disposal of nonfinancial assets	296	1,860	3,776	997	26.4	1,284	128.8
32	NET ACQUISITION OF FINANCIAL ASSETS	5,284	-32,316	116,100	32,151		222,116	
321	Domestic	5,284	-32,316	116,100	32,151		222,116	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	9,434	-1,718	32,555	-1,834		-9,098	
331	Domestic	-26,179	12,778	-2,259	-49,781		-115,831	
332	Foreign	35,613	-14,496	34,814	47,947		106,733	

Source: Ministry of Finance

Appendix 9: Transactions of the Environment Protection Fund in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
1	REVENUE	214,737	660,190	1,102,946	1,221,187	110.7	1,168,578	95.7
11	Taxes	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	0	350	0	0	-	0	-
131	From foreign governments	0	0	0	0	-	0	-
132	From international organisations	0	0	0	0	-	0	-
133	From other general government units	0	350	0	0	-	0	-
1331	Current	0	350	0	0	-	0	-
1332	Capital	0	0	0	0	-	0	-
14	Other revenue	214,737	659,840	1,102,946	1,221,187	110.7	1,168,578	95.7
2	EXPENSE	172,045	734,764	1,092,568	1,109,258	101.5	1,159,521	104.5
21	Compensation of employees	3,966	6,843	12,939	18,600	143.8	21,331	114.7
211	Wages and salaries	3,407	5,864	11,071	15,942	144.0	18,310	114.9
212	Social contributions	559	979	1,868	2,658	142.3	3,021	113.7
22	Use of goods and services	12,162	608,913	945,697	883,628	93.4	874,856	99.0
24	Interest	0	0	0	0	-	32	-
241	To nonresidents	0	0	0	0	-	0	-
242	To residents other than general government	0	0	0	0	-	32	-
25	Subsidies	5,189	13,803	18,553	39,318	211.9	89,673	228.1
251	To public corporations	5,189	0	0	0	-	26,770	-
252	To private enterprises	0	13,803	18,553	39,318	211.9	62,903	160.0
26	Grants	149,780	102,355	108,582	149,644	137.8	157,329	105.1
261	To foreign governments	0	0	0	0	-	0	-
262	To international organisations	0	0	0	0	-	0	-
263	To other general government units	149,780	102,355	108,582	149,644	137.8	157,329	105.1
2631	Current	0	0	0	638	-	0	-
2632	Capital	149,780	102,355	108,582	149,006	137.2	157,329	105.6
27	Social benefits	0	0	0	0	-	0	-
271	Social security benefits	0	0	0	0	-	0	-
272	Social assistance benefits	0	0	0	0	-	0	-
28	Other expense	948	2,850	6,797	18,068	265.8	16,300	90.2
31	NET ACQUISITION OF NONFINANCIAL ASSETS	12,917	14,151	20,189	3,926	19.4	6,656	169.5
31,1	Acquisition of nonfinancial assets	12,917	14,287	20,256	3,926	19.4	6,656	169.5
31,2	Disposal of nonfinancial assets	0	136	67	0	-	0	-
32	NET ACQUISITION OF FINANCIAL ASSETS	29,775	-88,725	-9,811	108,003		2,401	
321	Domestic	29,775	-88,725	-9,811	108,003		2,401	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	0	0	0	0		0	
331	Domestic	0	0	0	0		0	
332	Foreign	0	0	0	0		0	

Source: Ministry of Finance

Appendix 10: Transactions of the Croatian Roads in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
1	REVENUE	1,474,714	1,804,019	2,110,381	1,549,929	73.4	1,481,919	95.6
11	Taxes	1,380,732	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	0	1,739,270	1,990,435	1,468,959	73.8	1,369,079	93.2
131	From foreign governments	0	0	0	0	-	0	-
132	From international organisations	0	0	0	0	-	0	-
133	From other general government units	0	1,739,270	1,990,435	1,468,959	73.8	1,369,079	93.2
1331	Current	0	0	0	0	-	0	-
1332	Capital	0	1,739,270	1,990,435	1,468,959	73.8	1,369,079	93.2
14	Other revenue	93,982	64,749	119,946	80,970	67.5	112,840	139.4
2	EXPENSE	1,062,405	1,226,934	1,243,399	1,592,627	128.1	1,048,486	65.8
21	Compensation of employees	61,054	70,786	78,005	86,547	111.0	93,383	107.9
211	Wages and salaries	52,452	60,787	67,035	74,359	110.9	80,372	108.1
212	Social contributions	8,602	9,999	10,970	12,188	111.1	13,011	106.8
22	Use of goods and services	726,456	850,772	819,311	1,107,252	135.1	524,661	47.4
24	Interest	16,060	43,374	85,641	142,396	166.3	221,474	155.5
241	To nonresidents	8,268	11,834	17,185	22,804	132.7	47,942	210.2
242	To residents other than general government	7,792	31,540	68,456	119,592	174.7	173,532	145.1
25	Subsidies	0	0	0	0	-	0	-
251	To public corporations	0	0	0	0	-	0	-
252	To private enterprises	0	0	0	0	-	0	-
26	Grants	0	0	7,607	3,884	51.1	508	13.1
261	To foreign governments	0	0	0	0	-	0	-
262	To international organisations	0	0	0	0	-	0	-
263	To other general government units	0	0	7,607	3,884	51.1	508	13.1
2631	Current	0	0	0	0	-	0	-
2632	Capital	0	0	7,607	3,884	51.1	508	13.1
27	Social benefits	0	0	0	0	-	0	-
271	Social security benefits	0	0	0	0	-	0	-
272	Social assistance benefits	0	0	0	0	-	0	-
28	Other expense	258,835	262,002	252,835	252,548	99.9	208,460	82.5
31	NET ACQUISITION OF NONFINANCIAL ASSETS	923,171	1,350,834	1,603,747	1,142,207	71.2	1,371,041	120.0
31,1	Acquisition of nonfinancial assets	926,359	1,351,622	1,604,733	1,143,098	71.2	1,376,092	120.4
31,2	Disposal of nonfinancial assets	3,188	788	986	891	90.4	5,051	-
32	NET ACQUISITION OF FINANCIAL ASSETS	50,297	-29,083	-45,061	217,802		41,652	
321	Domestic	50,297	-29,083	-45,061	217,802		41,652	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	561,159	744,666	691,704	1,402,707		979,260	
331	Domestic	302,376	471,685	523,681	1,128,764		696,394	
332	Foreign	258,783	272,981	168,023	273,943		282,866	

Source: Ministry of Finance

Appendix 11: Transactions of the State Agency for Deposit Insurance and Bank Rehabilitation in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
1	REVENUE	367,438	409,581	391,441	808,342	206.5	566,470	70.1
11	Taxes	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	0	0	0	0	-	0	-
131	From foreign governments	0	0	0	0	-	0	-
132	From international organisations	0	0	0	0	-	0	-
133	From other general government units	0	0	0	0	-	0	-
1331	Current	0	0	0	0	-	0	-
1332	Capital	0	0	0	0	-	0	-
14	Other revenue	367,438	409,581	391,441	808,342	206.5	566,470	70.1
2	EXPENSE	182,993	27,354	47,820	254,706	532.6	267,167	104.9
21	Compensation of employees	5,621	5,713	6,076	6,966	114.6	7,159	102.8
211	Wages and salaries	4,821	4,896	5,208	5,972	114.7	6,134	102.7
212	Social contributions	800	817	868	994	114.5	1,025	103.1
22	Use of goods and services	21,092	12,472	20,359	10,274	50.5	5,493	53.5
24	Interest	121,940	239	345	8,886	-	736	8.3
241	To nonresidents	0	0	0	0	-	0	-
242	To residents other than general government	121,940	239	345	8,886	-	736	8.3
25	Subsidies	0	0	0	0	-	0	-
251	To public corporations	0	0	0	0	-	0	-
252	To private enterprises	0	0	0	0	-	0	-
26	Grants	0	0	0	0	-	0	-
261	To foreign governments	0	0	0	0	-	0	-
262	To international organisations	0	0	0	0	-	0	-
263	To other general government units	0	0	0	0	-	0	-
2631	Current	0	0	0	0	-	0	-
2632	Capital	0	0	0	0	-	0	-
27	Social benefits	1,511	1,357	523	704	134.6	218	31.0
271	Social security benefits	1,511	1,357	523	704	134.6	218	31.0
272	Social assistance benefits	0	0	0	0	-	0	-
28	Other expense	32,829	7,573	20,517	227,876	-	253,561	111.3
31	NET ACQUISITION OF NONFINANCIAL ASSETS	14,131	493	-18,959	-10,262	-	258	-
31,1	Acquisition of nonfinancial assets	14,232	565	1,202	25,070	-	258	1.0
31,2	Disposal of nonfinancial assets	101	72	20,161	35,332	175.2	0	-
32	NET ACQUISITION OF FINANCIAL ASSETS	-349,252	381,734	362,580	563,898		299,045	
321	Domestic	-349,252	381,734	362,580	563,898		299,045	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	-519,566	0	0	0		0	
331	Domestic	-519,566	0	0	0		0	
332	Foreign	0	0	0	0		0	

Source: Ministry of Finance

Appendix 12: Transactions of the Croatian Privatization Fund in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
1	REVENUE	237,044	65,871	58,324	54,661	93.7	33,540	61.4
11	Taxes	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	0	0	0	0	-	0	-
131	From foreign governments	0	0	0	0	-	0	-
132	From international organisations	0	0	0	0	-	0	-
133	From other general government units	0	0	0	0	-	0	-
1331	Current	0	0	0	0	-	0	-
1332	Capital	0	0	0	0	-	0	-
14	Other revenue	237,044	65,871	58,324	54,661	93.7	33,540	61.4
2	EXPENSE	182,119	78,375	88,241	87,036	98.6	81,841	94.0
21	Compensation of employees	35,996	31,920	36,285	34,453	95.0	34,265	99.5
211	Wages and salaries	31,273	27,508	31,233	29,814	95.5	29,442	98.8
212	Social contributions	4,723	4,412	5,052	4,639	91.8	4,823	104.0
22	Use of goods and services	33,545	30,039	34,173	21,771	63.7	15,041	69.1
24	Interest	0	16,416	17,783	30,812	173.3	32,535	105.6
241	To nonresidents	0	7,153	10,116	9,457	93.5	6,924	73.2
242	To residents other than general government	0	9,263	7,667	21,355	278.5	25,611	119.9
25	Subsidies	0	0	0	0	-	0	-
251	To public corporations	0	0	0	0	-	0	-
252	To private enterprises	0	0	0	0	-	0	-
26	Grants	0	0	0	0	-	0	-
261	To foreign governments	0	0	0	0	-	0	-
262	To international organisations	0	0	0	0	-	0	-
263	To other general government units	0	0	0	0	-	0	-
2631	Current	0	0	0	0	-	0	-
2632	Capital	0	0	0	0	-	0	-
27	Social benefits	0	0	0	0	-	0	-
271	Social security benefits	0	0	0	0	-	0	-
272	Social assistance benefits	0	0	0	0	-	0	-
28	Other expense	112,578	0	0	0	-	0	-
31	NET ACQUISITION OF NONFINANCIAL ASSETS	-40,272	-51,175	-23,514	-141,769	-	-14,531	-
31,1	Acquisition of nonfinancial assets	2,061	2,907	3,553	2,621	73.8	839	32.0
31,2	Disposal of nonfinancial assets	42,333	54,082	27,067	144,390	-	15,370	10.6
32	NET ACQUISITION OF FINANCIAL ASSETS	100,403	-87,682	82,691	151,763	-	-26,890	-
321	Domestic	100,403	-87,682	82,691	151,763	-	-26,890	-
322	Foreign	0	0	0	0	-	0	-
33	NET INCURRENCE OF LIABILITIES	5,206	-126,353	89,094	42,369	-	6,880	-
331	Domestic	5,206	-126,353	106,055	60,128	-	-26,934	-
332	Foreign	0	0	-16,961	-17,759	-	33,814	-

Source: Ministry of Finance

Appendix 13: Consolidated Central Government in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
1	REVENUE	92,642,473	100,392,605	113,386,165	120,036,688	105.9	114,086,889	95.0
11	Taxes	53,449,049	58,469,091	64,234,530	69,572,699	108.3	63,678,926	91.5
111	Taxes on income, profits, and capital gains	7,057,112	8,515,615	10,589,083	12,252,205	115.7	10,839,269	88.5
1111	Payable by individuals	3,106,476	3,459,649	1,772,708	1,687,502	95.2	1,399,411	82.9
1112	Payable by corporations and other enterprises	3,950,636	5,055,966	8,816,375	10,564,703	119.8	9,439,858	89.4
113	Taxes on property	375,501	482,331	578,621	635,930	109.9	532,297	83.7
114	Taxes on goods and services	44,084,487	47,546,223	51,099,930	54,482,172	106.6	49,238,277	90.4
1141	General taxes on goods and services	32,399,952	35,091,381	37,916,509	41,474,566	109.4	37,173,833	89.6
11411	Value-added taxes	32,243,372	34,931,750	37,747,987	41,308,036	109.4	37,050,354	89.7
11412	Sales taxes	156,580	159,631	168,522	166,531	98.8	123,479	74.1
1142	Excises	10,939,144	11,564,709	12,168,666	11,875,126	97.6	10,998,910	92.6
115	Taxes on international trade and transactions	1,562,930	1,588,456	1,641,478	1,900,865	115.8	1,721,164	90.5
116	Other taxes	369,019	336,466	325,418	301,527	92.7	1,347,920	-
12	Social contributions	31,301,340	33,877,148	37,203,486	40,703,484	109.4	39,994,739	98.3
13	Grants	27,505	194,484	481,173	537,458	111.7	651,853	121.3
14	Other revenue	7,864,579	7,851,883	11,466,977	9,223,047	80.4	9,761,372	105.8
2	EXPENSE	92,332,140	98,751,408	109,074,989	118,686,014	108.8	120,553,914	101.6
21	Compensation of employees	24,300,115	25,512,962	28,154,625	30,230,323	107.4	31,574,921	104.4
211	Wages and salaries	20,665,832	21,699,724	23,761,684	25,696,005	108.1	26,801,199	104.3
212	Social contributions	3,634,283	3,813,238	4,392,941	4,534,318	103.2	4,773,722	105.3
22	Use of goods and services	7,100,232	9,193,481	10,517,315	11,468,405	109.0	9,844,323	85.8
24	Interest	5,004,650	5,397,046	5,461,240	4,900,838	89.7	5,509,814	112.4
241	To nonresidents	2,359,005	2,386,923	2,234,179	1,579,210	70.7	1,449,067	91.8
242	To residents other than general government	2,645,645	3,010,123	3,227,060	3,321,629	102.9	4,060,748	122.3
25	Subsidies	5,253,933	5,684,592	6,510,563	6,898,830	106.0	6,799,706	98.6
251	To public corporations	2,790,014	2,692,785	3,007,099	3,199,114	106.4	3,161,028	98.8
252	To private enterprises	2,463,919	2,991,807	3,503,465	3,699,716	105.6	3,638,678	98.4
26	Grants	2,804,760	2,838,842	3,539,882	4,067,622	114.9	4,117,984	101.2
261	To foreign governments	73,639	64,795	103,410	89,446	86.5	78,184	87.4
262	To international organisations	93,832	89,619	73,941	96,503	130.5	134,031	138.9
263	To other general government units	2,637,289	2,684,429	3,362,532	3,881,673	115.4	3,905,769	100.6
27	Social benefits	41,930,232	44,192,851	48,176,512	52,593,918	109.2	56,148,716	106.8
271	Social security benefits	29,879,823	31,276,694	34,168,417	37,601,426	110.0	40,605,570	108.0
272	Social assistance benefits	11,792,745	12,793,596	13,815,777	14,745,264	106.7	15,258,436	103.5
273	Employer social benefits	257,663	122,561	192,318	247,228	128.6	284,709	115.2

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
28	Other expense	5,938,219	5,931,633	6,714,852	8,526,078	127.0	6,558,450	76.9
281	Property expense other than interest	4,920	7,600	1,132	16,015	-	7,730	48.3
282	Miscellaneous other expense	5,933,299	5,924,034	6,713,720	8,510,063	126.8	6,550,721	77.0
2821	Current	2,301,161	2,337,525	2,890,115	2,919,089	101.0	2,462,124	84.3
2822	Capital	3,632,138	3,586,509	3,823,605	5,590,974	146.2	4,088,597	73.1
31	NET ACQUISITION OF NONFINANCIAL ASSETS	6,699,416	6,108,627	7,810,956	4,228,199	54.1	3,601,139	85.2
311	Fixed assets	6,439,709	5,788,654	7,526,800	3,883,625	51.6	3,230,665	83.2
312	Inventories	0	-80,226	-161,383	79,444	-	35,412	44.6
313	Valuables	7,220	7,826	9,620	10,126	105.3	8,929	88.2
314	Nonproduced assets	252,487	392,374	435,919	255,005	58.5	326,133	127.9
32	NET ACQUISITION OF FINANCIAL ASSETS	1,609,760	-2,576,689	-2,939,156	2,776,564		7,363,868	
321	Domestic	1,614,616	-2,593,370	-2,957,192	2,764,119		7,361,520	
322	Foreign	-4,857	16,681	18,036	12,445		2,348	
33	NET INCURRENCE OF LIABILITIES	7,998,843	1,890,741	560,624	5,654,090		17,432,032	
331	Domestic	12,041,678	5,282,792	2,017,095	6,795,747		10,130,239	
332	Foreign	-4,042,835	-3,392,051	-1,456,471	-1,141,657		7,301,793	

Source: Ministry of Finance

Appendix 14: Consolidated Central Government by Government Level in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/2007	2009	Index 2009/2008
1	REVENUE	92,642,473	100,392,605	113,386,165	120,036,688	105.9	114,086,889	95.0
	Budgetary Central Government	85,653,010	95,234,057	108,296,963	115,766,517	106.9	110,251,211	95.2
	Extrabudgetary Users	6,989,463	5,158,548	5,089,202	4,270,171	83.9	3,835,678	89.8
	Croatian Institute for Pension Insurance	38,010	293,485	-	-	-	-	-
	Croatian Health Insurance Institute	863,868	848,683	-	-	-	-	-
	Croatian Employment Service	18,855	18,363	-	-	-	-	-
	Croatian Waters	1,227,794	1,526,851	2,041,209	2,105,011	103.1	1,954,250	92.8
	Environment Protection Fund	214,737	659,840	1,102,946	1,221,187	110.7	1,168,578	95.7
	Croatian Motorways Ltd.	2,547,003	1,271,125	1,375,336	-	-	-	-
	Croatian Roads Ltd.	1,474,714	64,749	119,946	80,970	67.5	112,840	139.4
	State Agency for Deposit Insurance and Bank Rehabilitation	367,438	409,581	391,441	808,342	206.5	566,470	70.1
	Croatian Privatization Fund	237,044	65,871	58,324	54,661	93.7	33,540	61.4
2	EXPENSE	92,332,140	98,751,408	109,074,989	118,686,014	108.8	120,553,914	101.6
	Budgetary Central Government	86,715,598	91,979,693	103,004,916	113,309,501	110.0	116,255,187	102.6
	Extrabudgetary Users	5,616,542	6,771,715	6,070,073	5,376,513	88.6	4,298,728	80.0
	Croatian Institute for Pension Insurance	382,162	565,857	-	-	-	-	-
	Croatian Health Insurance Institute	914,345	931,628	-	-	-	-	-
	Croatian Employment Service	145,931	155,002	-	-	-	-	-
	Croatian Waters	1,489,465	1,779,088	2,099,001	2,335,424	111.3	1,742,098	74.6
	Environment Protection Fund	172,045	734,764	1,083,268	1,106,720	102.2	1,159,136	104.7
	Croatian Motorways Ltd.	1,085,077	1,272,713	1,509,844	-	-	-	-
	Croatian Roads Ltd.	1,062,405	1,226,934	1,241,899	1,592,627	128.2	1,048,486	65.8
	State Agency for Deposit Insurance and Bank Rehabilitation	182,993	27,354	47,820	254,706	-	267,167	104.9
	Croatian Privatization Fund	182,119	78,375	88,241	87,036	98.6	81,841	94.0
31	NET ACQUISITION OF NONFINANCIAL ASSETS	6,699,416	6,108,627	7,810,956	4,228,199	54.1	3,601,139	85.2
	Acquisition	7,024,180	6,836,371	8,378,646	4,713,229	56.3	3,926,849	83.3
	Budgetary Central Government	1,828,818	1,908,482	3,043,906	3,291,549	108.1	2,267,406	68.9
	Extrabudgetary Users	5,195,362	4,927,889	5,334,740	1,421,680	26.6	1,659,443	116.7
	Disposals	324,763	727,744	567,689	485,029	85.4	325,710	67.2
	Budgetary Central Government	275,149	352,690	498,685	303,419	60.8	304,005	100.2
	Extrabudgetary Users	49,614	375,054	69,004	181,610	263.2	21,705	12.0

	(000 HRK)	2005	2006	2007	2008	Index 2008/2007	2009	Index 2009/2008
32	NET ACQUISITION OF FINANCIAL ASSETS	1,609,760	-2,576,689	-2,939,156	2,776,564		7,363,868	
321	Domestic	1,614,616	-2,593,370	-2,957,192	2,764,119		7,361,520	
	Budgetary Central Government	1,747,681	-3,063,855	-3,752,817	1,690,502		6,823,196	
	Extrabudgetary Users	-133,065	470,485	795,625	1,073,617		538,324	
322	Foreign	-4,857	16,681	18,036	12,445		2,348	
	Budgetary Central Government	-4,857	16,681	18,036	12,445		2,348	
	Extrabudgetary Users	0	-	-	-		-	
33	NET INCURRENCE OF LIABILITIES	7,998,843	1,890,741	560,624	5,654,090		17,432,032	
331	Domestic	12,041,678	5,282,792	2,017,095	6,795,747		10,130,239	
	Budgetary Central Government	10,591,560	3,166,260	1,477,615	5,656,636		9,576,610	
	Extrabudgetary Users	1,450,118	2,116,532	539,480	1,139,111		553,629	
332	Foreign	-4,042,835	-3,392,051	-1,456,471	-1,141,657		7,301,793	
	Budgetary Central Government	-5,080,612	-3,943,248	-2,980,166	-1,445,788		6,878,380	
	Extrabudgetary Users	1,037,777	551,197	1,523,695	304,131		423,413	

Source: Ministry of Finance

Appendix 15: Local Government (53 Units, 32 Cities, Counties and the City of Zagreb) in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
1	REVENUE	12,162,401	13,560,211	15,502,588	16,825,641	108.5	16,062,945	95.5
11	Taxes	7,072,350	8,299,155	9,157,897	10,097,177	110.3	9,891,927	98.0
111	Taxes on income, profits, and capital gains	6,339,798	7,456,676	8,173,413	9,074,234	111.0	8,961,506	98.8
1111	Payable by individuals	4,718,192	5,353,205	8,165,275	9,074,234	111.1	8,961,506	98.8
1112	Payable by corporations and other enterprises	1,621,606	2,103,470	8,138	0	-	0	-
113	Taxes on property	388,135	479,492	576,591	595,032	103.2	512,708	86.2
114	Taxes on goods and services	330,015	348,259	391,511	413,202	105.5	406,662	98.4
1141	General taxes on goods and services	46,901	52,059	55,553	58,225	104.8	52,947	90.9
11411	Value-added taxes	0	0	0	0	-	0	-
11412	Sales taxes	46,901	52,059	55,553	58,225	104.8	52,947	90.9
1142	Excises	0	0	0	0	-	0	-
115	Taxes on international trade and transactions	0	0	0	0	-	0	-
116	Other taxes	14,403	14,728	16,382	14,709	89.8	11,052	75.1
12	Social contributions	0	0	0	0	-	0	-
13	Grants	1,704,577	1,664,688	2,137,646	2,085,584	97.6	2,034,478	97.5
131	From foreign governments	207	2,356	9,631	6,079	63.1	1,248	20.5
132	From international organisations	437	3,292	4,447	1,342	30.2	1,946	145.0
133	From other general government units	1,703,933	1,659,039	2,123,569	2,078,163	97.9	2,031,284	97.7
14	Other revenue	3,385,474	3,596,368	4,207,045	4,642,880	110.4	4,136,540	89.1
2	EXPENSE	9,882,542	10,629,313	11,868,231	13,697,135	115.4	13,958,975	101.9
21	Compensation of employees	2,379,585	2,695,250	2,957,745	3,390,267	114.6	3,665,254	108.1
211	Wages and salaries	2,065,605	2,335,943	2,572,575	2,946,424	114.5	3,175,226	107.8
212	Social contributions	313,980	359,308	385,169	443,843	115.2	490,028	110.4
22	Use of goods and services	3,775,863	4,108,888	4,678,873	5,079,050	108.6	5,167,299	101.7
24	Interest	98,047	71,548	93,250	133,675	143.4	115,495	86.4
241	To nonresidents	43,218	6,817	4,391	3,597	81.9	1,511	42.0
242	To residents other than general government	54,694	64,560	88,781	130,032	146.5	113,976	87.7
25	Subsidies	746,132	877,361	993,791	1,231,477	123.9	1,275,536	103.6
251	To public corporations	648,730	714,296	777,982	1,004,965	129.2	1,078,024	107.3
252	To private enterprises	97,402	163,065	215,809	226,513	105.0	197,512	87.2
26	Grants	289,638	286,226	334,732	362,220	108.2	328,602	90.7
261	To foreign governments	0	118	0	0	-	0	-
262	To international organisations	0	102	7,249	0	-	0	-
263	To other general government units	289,638	286,006	327,484	362,220	110.6	328,602	90.7

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
2631	Current	123,770	116,216	125,322	145,359	116.0	182,045	125.2
2632	Capital	165,868	169,790	202,162	216,861	107.3	146,557	67.6
27	Social benefits	538,720	635,152	554,175	688,166	124.2	779,170	113.2
271	Social security benefits	0	0	0	0	-	0	-
272	Social assistance benefits	525,628	617,449	534,276	664,798	124.4	755,214	113.6
273	Employer social benefits	13,092	17,703	19,899	23,368	117.4	23,956	102.5
28	Other expense	2,054,558	1,954,887	2,255,665	2,812,280	124.7	2,627,619	93.4
281	Property expense other than interest	0	0	0	0	-	0	-
282	Miscellaneous other expense	2,054,558	1,954,887	2,255,665	2,812,280	124.7	2,627,619	93.4
2821	Current	1,450,781	1,294,903	1,424,157	1,726,978	121.3	1,609,480	93.2
2822	Capital	603,777	659,985	831,509	1,085,302	130.5	1,018,139	93.8
31	NET ACQUISITION OF NONFINANCIAL ASSETS	2,360,290	2,974,314	3,204,000	3,115,950	97.3	2,756,124	88.5
311	Fixed assets	2,460,334	2,963,175	3,381,738	3,231,840	95.6	2,773,332	85.8
312	Inventories	0	0	0	0	-	0	-
313	Valuables	209	436	197	183	93.3	203	110.5
314	Nonproduced assets	-100,253	10,704	-177,935	-116,073	-	-17,411	-
32	NET ACQUISITION OF FINANCIAL ASSETS	-303,883	-53,130	536,090	141,447		-634,558	
321	Domestic	-303,883	-53,130	536,090	141,447		-634,558	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	-223,453	-9,714	105,732	128,891		17,596	
331	Domestic	-130,447	80,882	130,416	153,766		39,441	
332	Foreign	-93,006	-90,597	-24,684	-24,876		-21,844	

Appendix 16: Consolidated General Government in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
1	REVENUE	103,100,941	112,293,777	126,716,000	134,737,775	106.3	128,087,106	95.1
11	Taxes	60,521,399	66,768,246	73,392,426	79,669,875	108.6	73,570,853	92.3
111	Taxes on income, profits, and capital gains	13,396,910	15,972,291	18,762,496	21,326,439	113.7	19,800,774	92.8
1111	Payable by individuals	7,824,668	8,812,855	9,937,983	10,761,736	108.3	10,360,916	96.3
1112	Payable by corporations and other enterprises	5,572,242	7,159,436	8,824,513	10,564,703	119.7	9,439,858	89.4
113	Taxes on property	763,635	961,823	1,155,212	1,230,962	106.6	1,045,005	84.9
114	Taxes on goods and services	44,414,503	47,894,481	51,491,441	54,895,374	106.6	49,644,939	90.4
1141	General taxes on goods and services	32,446,853	35,143,439	37,972,061	41,532,791	109.4	37,226,780	89.6
11411	Value-added taxes	32,243,372	34,931,750	37,747,987	41,308,036	109.4	37,050,354	89.7
11412	Sales taxes	203,481	211,690	224,074	224,756	100.3	176,427	78.5
1142	Excises	10,939,144	11,564,709	12,168,666	11,875,126	97.6	10,998,910	92.6
115	Taxes on international trade and transactions	1,562,930	1,588,456	1,641,478	1,900,865	115.8	1,721,164	90.5
116	Other taxes	383,421	351,194	341,800	316,235	92.5	1,358,971	-
12	Social contributions	31,301,340	33,877,148	37,203,486	40,703,484	109.4	39,994,739	98.3
121	Social security contributions	31,301,340	33,877,148	37,203,486	40,703,484	109.4	39,994,739	98.3
13	Grants	28,149	200,133	446,066	498,489	111.8	623,603	125.1
14	Other revenue	11,250,053	11,448,251	15,674,022	13,865,927	88.5	13,897,911	100.2
2	EXPENSE	100,510,748	107,721,681	118,770,467	130,258,596	109.7	132,450,162	101.7
21	Compensation of employees	26,679,700	28,208,213	31,112,370	33,620,589	108.1	35,240,175	104.8
211	Wages and salaries	22,731,437	24,035,667	26,334,260	28,642,429	108.8	29,976,425	104.7
212	Social contributions	3,948,263	4,172,546	4,778,110	4,978,161	104.2	5,263,750	105.7
22	Use of goods and services	10,876,095	13,302,369	15,196,188	16,547,455	108.9	15,011,623	90.7
24	Interest	5,102,697	5,468,595	5,554,489	5,034,513	90.6	5,625,309	111.7
241	To nonresidents	2,402,223	2,393,740	2,238,570	1,582,807	70.7	1,450,578	91.6
242	To residents other than general government	2,700,339	3,074,683	3,315,841	3,451,661	104.1	4,174,724	120.9
25	Subsidies	6,000,064	6,561,952	7,504,354	8,130,307	108.3	8,075,242	99.3
251	To public corporations	3,438,744	3,407,081	3,785,080	4,204,078	111.1	4,239,052	100.8
252	To private enterprises	2,561,321	3,154,872	3,719,274	3,926,229	105.6	3,836,190	97.7
26	Grants	1,390,464	1,466,029	1,701,861	2,305,289	135.5	2,383,858	103.4
261	To foreign governments	73,639	64,913	103,410	89,446	86.5	78,184	87.4
262	To international organisations	93,832	89,720	81,189	96,503	118.9	134,031	138.9
263	To other general government units	1,222,993	1,311,395	1,517,263	2,119,341	139.7	2,171,643	102.5
27	Social benefits	42,468,952	44,828,003	48,730,687	53,282,084	109.3	56,927,886	106.8
271	Social security benefits	29,879,823	31,276,694	34,168,417	37,601,426	110.0	40,605,570	108.0
272	Social assistance benefits	12,318,373	13,411,045	14,350,053	15,410,062	107.4	16,013,650	103.9
273	Employer social benefits	270,756	140,264	212,217	270,596	127.5	308,665	114.1

	(000 HRK)	2005	2006	2007	2008	Index 2008/ 2007	2009	Index 2009/ 2008
28	Other expense	7,992,776	7,886,521	8,970,517	11,338,358	126.4	9,186,070	81.0
281	Property expense other than interest	4,920	7,600	1,132	16,015	-	7,730	48.3
282	Miscellaneous other expense	7,987,857	7,878,921	8,969,385	11,322,343	126.2	9,178,340	81.1
2821	Current	3,751,942	3,632,427	4,314,271	4,646,067	107.7	4,071,604	87.6
2822	Capital	4,235,915	4,246,494	4,655,114	6,676,276	143.4	5,106,736	76.5
31	NET ACQUISITION OF NONFINANCIAL ASSETS	9,059,706	9,082,941	11,014,957	7,344,149	66.7	6,357,263	86.6
311	Fixed assets	8,900,043	8,751,828	10,908,538	7,115,465	65.2	6,003,997	84.4
312	Inventories	0	-80,226	-161,383	79,444	-	35,412	44.6
313	Valuables	7,429	8,262	9,817	10,309	105.0	9,132	88.6
314	Nonproduced assets	152,234	403,078	257,984	138,932	53.9	308,723	222.2
32	NET ACQUISITION OF FINANCIAL ASSETS	1,305,876	-2,629,878	-2,403,067	2,918,011		6,729,333	
321	Domestic	1,310,733	-2,646,559	-2,421,102	2,905,566		6,726,985	
322	Foreign	-4,857	16,681	18,036	12,445		2,348	
33	NET INCURRENCE OF LIABILITIES	7,775,390	1,880,967	666,357	5,782,980		17,449,652	
331	Domestic	11,911,231	5,363,615	2,147,511	6,949,513		10,169,704	
332	Foreign	-4,135,841	-3,482,648	-1,481,155	-1,166,533		7,279,948	

Appendix 17: Consolidated General Government by Government Level in the 2005 - 2009 Period

	(000 HRK)	2005	2006	2007	2008	Index 2008/2007	2009	Index 2009/2008
1	REVENUE	103,100,941	112,293,777	126,716,000	134,737,775	106.3	128,087,106	95.1
	Budgetary Central Government	85,653,010	95,234,057	108,296,963	115,766,517	106.9	110,251,211	95.2
	Extrabudgetary Users	6,989,463	5,158,548	5,040,018	4,223,781	83.8	3,804,235	90.1
	Croatian Institute for Pension Insurance	38,010	293,485	-	-	-	-	-
	Croatian Health Insurance Institute	863,868	848,683	-	-	-	-	-
	Croatian Employment Service	18,855	18,363	-	-	-	-	-
	Croatian Waters	1,227,794	1,526,851	1,992,025	2,058,621	103.3	1,922,807	93.4
	Environment Protection Fund	214,737	659,840	1,102,946	1,221,187	110.7	1,168,578	95.7
	Croatian Motorways Ltd.	2,547,003	1,271,125	1,375,336	-	-	-	-
	Croatian Roads Ltd.	1,474,714	64,749	119,946	80,970	67.5	112,840	139.4
	State Agency for Deposit Insurance and Bank Rehabilitation	367,438	409,581	391,441	808,342	206.5	566,470	70.1
	Croatian Privatization Fund	237,044	65,871	58,324	54,661	93.7	33,540	61.4
	Local Government	10,458,468	11,901,172	13,379,019	14,747,477	110.2	14,031,661	95.1
2	EXPENSE	100,510,748	107,721,681	118,770,467	130,258,596	109.7	132,450,162	101.7
	Budgetary Central Government	85,239,872	90,525,330	100,936,318	111,299,734	110.3	114,305,037	102.7
	Extrabudgetary Users	5,556,950	6,726,778	6,015,102	5,308,117	88.2	4,217,593	79.5
	Croatian Institute for Pension Insurance	382,162	565,857	-	-	-	-	-
	Croatian Health Insurance Institute	914,345	931,628	-	-	-	-	-
	Croatian Employment Service	145,931	155,002	-	-	-	-	-
	Croatian Waters	1,489,465	1,773,976	2,086,600	2,313,713	110.9	1,709,514	73.9
	Environment Protection Fund	112,453	694,939	1,047,292	1,063,919	101.6	1,111,094	104.4
	Croatian Motorways Ltd.	1,085,077	1,272,713	1,509,357	-	-	-	-
	Croatian Roads Ltd.	1,062,405	1,226,934	1,235,792	1,588,743	128.6	1,047,978	66.0
	State Agency for Deposit Insurance and Bank Rehabilitation	182,993	27,354	47,820	254,706	-	267,167	104.9
	Croatian Privatization Fund	182,119	78,375	88,241	87,036	98.6	81,841	94.0
	Local Government	9,713,927	10,469,573	11,819,047	13,650,745	115.5	13,927,532	102.0

	(000 HRK)	2005	2006	2007	2008	Index 2008/2007	2009	Index 2009/2008
31	NET ACQUISITION OF NONFINANCIAL ASSETS	9,059,706	9,082,941	11,014,957	7,344,149	66.7	6,357,263	86.6
	Acquisition	9,924,477	10,350,251	12,319,441	8,876,647	72.1	7,132,386	80.4
	Budgetary Central Government	1,828,818	1,908,482	3,043,906	3,291,549	108.1	2,267,406	68.9
	Extrabudgetary Users	5,195,362	4,927,889	5,334,740	1,421,680	26.6	1,659,443	116.7
	Local Government	2,900,297	3,513,880	3,940,795	4,163,418	105.6	3,205,537	77.0
	Disposals	864,771	1,267,310	1,304,484	1,532,498	117.5	775,123	50.6
	Budgetary Central Government	275,149	352,690	498,685	303,419	60.8	304,005	100.2
	Extrabudgetary Users	49,614	375,054	69,004	181,610	263.2	21,705	12.0
	Local Government	540,007	539,565	736,795	1,047,469	142.2	449,413	42.9
32	NET ACQUISITION OF FINANCIAL ASSETS	1,305,876	-2,629,878	-2,403,067	2,918,011		6,729,333	
321	Domestic	1,310,733	-2,646,559	-2,421,102	2,905,566		6,726,985	
	Budgetary Central Government	1,747,681	-3,063,913	-3,752,817	1,690,502		6,823,220	
	Extrabudgetary Users	-133,065	470,485	795,625	1,073,617		538,324	
	Local Government	-303,883	-53,131	536,090	141,447		-634,558	
322	Foreign	-4,857	16,681	18,036	12,445		2,348	
	Budgetary Central Government	-4,857	16,681	18,036	12,445		2,348	
	Extrabudgetary Users	0	0	0	0		0	
	Local Government	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	7,775,390	1,880,967	666,357	5,782,980		17,449,652	
331	Domestic	11,911,231	5,363,615	2,147,511	6,949,513		10,169,704	
	Budgetary Central Government	10,591,560	3,166,260	1,477,615	5,656,636		9,576,610	
	Extrabudgetary Users	1,450,118	2,116,532	539,480	1,139,111		553,629	
	Local Government	-130,447	80,823	130,416	153,766		39,465	
332	Foreign	-4,135,841	-3,482,648	-1,481,155	-1,166,533		7,279,948	
	Budgetary Central Government	-5,080,612	-3,943,248	-2,980,166	-1,445,788		6,878,380	
	Extrabudgetary Users	1,037,777	551,197	1,523,695	304,131		423,413	
	Local Government	-93,006	-90,597	-24,684	-24,876		-21,844	

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