



**REPUBLIC OF CROATIA  
MINISTRY OF FINANCE**

A large, stylized background graphic of the Croatian coat of arms, showing a red and white checkerboard pattern with a red border on the right and bottom sides.

# **ANNUAL REPORT OF THE MINISTRY OF FINANCE FOR 2012**

**Zagreb, 2014**

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## FOREWORD

Unfavourable economic movements caused by global financial crisis continued in 2012. Gross domestic product of the Republic of Croatia recorded, for the fourth year in a row, the real decline of 2 percent. In such circumstances, the budgetary policy was directed towards the elimination of negative pressures from the economy, which, due to a difficult economic situation, but also due to failing to take necessary reform activities, were reflected on the budget revenues and expenses of previous years. The budget policy activity was directed, during the year, towards the adjustment of the fiscal policy with real possibilities of the economy and towards the creation of the conditions for the recovery in the subsequent years. It was decided that the budgetary policy should operate through the savings on the expense side and by changing the tax policy on the revenue side. Stronger adjustment of budget expenses with the collected revenues required a shift regarding specific expense policies as well as the aspiration to halt the lack of tax discipline which had been tolerated until then.

During the year, the Government of the Republic of Croatia changed the legal framework which provided for the implementation of reforms the main goal of which was the creation of entrepreneurship climate and of possibilities for loyal market competition. The competition was tried to be encouraged by undertaking certain measures on both the revenue and expense side. Thus, the rate of contribution for mandatory health insurance was reduced as well as some non-tax levies, and the entrepreneurs were given a possibility of decreased tax base for reinvested profit. On the other hand, in cooperation with the Croatian National Bank and commercial banks, economy development programmes were adopted, the purpose of which was to try to help entrepreneurs in settling their liabilities towards the creditors, as well as to promote more significant investment activities. In addition, the Act on Investment Promotion and Development of Investment Climate was adopted, primarily for manufacturing-processing activities, development-investment activities, business support, high value-added services and tourist activities.

In terms of the tax policy, the reform of shifting the tax burden from labour to consumption and property was continued, with an aim to increase the labour competition, to preserve potential growth and to create preconditions for positive changes on the labour market. The activities directed towards the increase of tax discipline and the collection of tax revenues through new measures of combating the grey economy continued to be carried out.

One of the main elements of the fiscal policy activity in 2012 was the reduction of government consumption. Certain measures were carried out on the expenditure side of the budget which reflected the need for faster offsetting of fiscal imbalances and the need for providing the sustainable level of financing in still unfavourable financial and economic conditions. The efficiency of public consumption was getting strengthened by applying a differential approach in the budget funds spending. In the area of social welfare, health and pension systems, certain measures were carried out, necessary for providing fiscal sustainability. In addition, the multi-annual structural challenges were also addressed, as for example the shipbuilding industry, with an aim to improve sector competitiveness and sustainability in the long term.

A detailed analysis of trends in the field of public finances of the Republic of Croatia in 2012 is presented in the follow-up of the document for the purpose of promoting the dialogue on fiscal policy.

## **1. MACROECONOMIC DEVELOPMENTS IN 2012**

## 1.1 INTERNATIONAL ENVIRONMENT

Slowdown of the global economic growth, which started in 2011, continued during 2012. The growth of global economy amounted to 3.2 percent<sup>1</sup> in 2012, which is 0.8 percentage points lower than in 2011. The developed economies recorded the economic growth of 1.2 percent, while the growth of the developing countries amounted to 5.1 percent. Among major developed economies, the real growth of gross domestic product of the USA was speeded up to 2.2 percent in 2012, while the real growth of gross domestic product of Japan amounted to 2.0 percent. The growth of the scope of the global trade significantly slowed down during 2012 to 2.5 percent.

After two consecutive years of the economic activity growth, during 2012 negative movements in the European economy were recorded again. Real gross domestic product was lowered by 0.4 percent in the European Union, and 0.6 percent in the Eurozone. The decrease in domestic consumption, particularly in gross investments in fixed capital and household spending as well as the change in inventories, contributed to the decrease in gross domestic product, while the contribution of net foreign demand was positive. During 2012, the slowing down of inflation was recorded at 2.6 percent in the European Union and 2.5 percent in the Eurozone. Considering the most important Croatian trading partners, Germany and Austria continued their economic growth in 2012, although following slower dynamics, while in Italy and Slovenia negative movements were recorded. The real growth of gross domestic product of Germany amounted to 0.7 percent in 2012 and was primarily based on positive contribution of net export, while the growth of Austrian economy amounted to 0.9 percent. In 2012, Italy recorded real decrease in gross domestic product of 2.4 percent, and Slovenia of 2.5 percent, with the strong decrease in domestic consumption, particularly in household consumption and investments, having contributed to it the most.

**Table 1.1. International environment – macroeconomic indicators**

	2008	2009	2010	2011	2012
<b>Real GDP growth, %</b>					
World	2.8	-0.6	5.2	4.0	3.2
European Union	0.4	-4.5	2.1	1.6	-0.4
Austria	1.4	-3.8	1.8	2.8	0.9
Italy	-1.2	-5.5	1.7	0.4	-2.4
Germany	1.1	-5.1	4.2	3.0	0.7
Slovenia	3.4	-7.8	1.2	0.6	-2.3
Euro area	0.4	-4.4	2.0	1.5	-0.6
<b>Inflation rate, %</b>					
European Union	3.7	1.0	2.1	3.1	2.6
Euro area	3.3	0.3	1.6	2.7	2.5
<b>Oil prices growth, %</b>	36.4	-36.3	27.9	31.6	1.0

Source: Eurostat, International Monetary Fund

The index of primary commodity prices<sup>2</sup> on the global market recorded a decrease of 3.2 percent in 2012.

<sup>1</sup> International Monetary Fund, World Economic Outlook, April 2013

<sup>2</sup> Source: International Monetary Fund

The decrease in prices of metals (-16.8 percent) and in prices of agricultural raw materials (-12.7 percent) contributed the most to the decrease in prices of primary commodities, while only the prices of oil<sup>3</sup> operated towards the increase in prices of primary commodities. Oil prices were increased by 1.0 percent in comparison to 2011, that is, from USD 104.0 per barrel in 2011 to USD 105.0 per barrel in 2012.

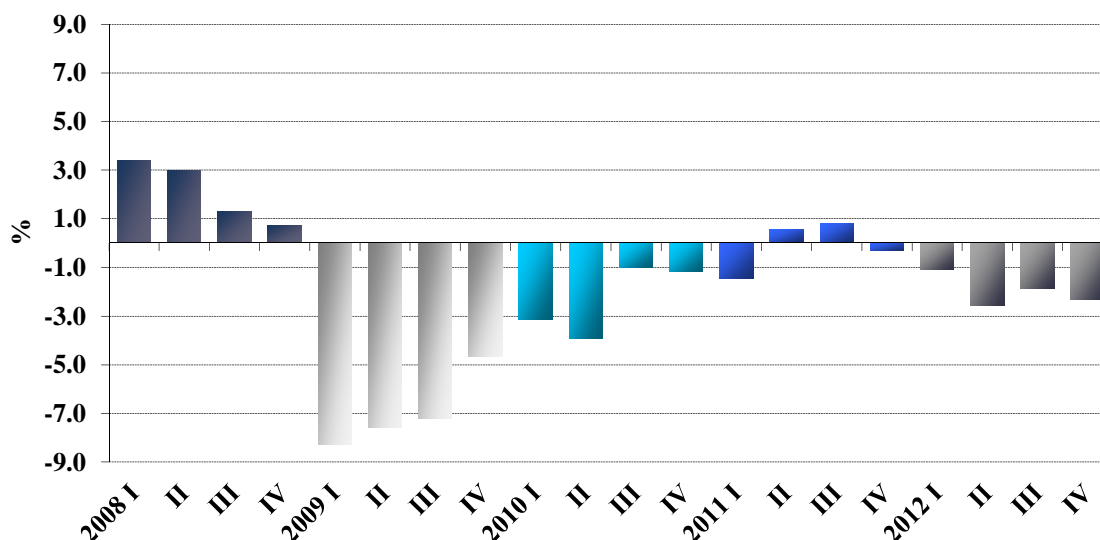
## 1.2 REAL SECTOR

Following the stagnation in 2011, during 2012 the decline in economic activity was again recorded in domestic economy. Negative movements were also registered at the majority of high-frequency indicators, such as industrial production, retail trade and construction, while tourism continued to register positive results. Unfavourable movements on the labour market continued during 2012. The average inflation was accelerated during 2012, primarily due to the increase in energy and food prices.

### 1.2.1 Gross Domestic Product

Real decrease in gross domestic product amounted to 2.0 percent in 2012. This was a result of the real year-on-year decrease in GDP of 1.1 percent in the first quarter, of 2.5 percent in the second quarter, of 1.9 percent in the third quarter and of 2.3 percent in the last quarter of 2012. Nominal gross domestic product amounted to HRK 330,232 million in 2012, which represents the stagnation in comparison to 2011, while the increase in deflator of gross domestic product amounted to 2.0 percent. Croatian GDP per capita was, in 2012, at the level of 61 percent of the gross domestic product of the European Union, which is the same as the previous year.

**Figure 1.1. Real Gross Domestic Product Year-on-Year Growth**



Source: Croatian Bureau of Statistics

<sup>3</sup> Average oil price is calculated as an average of prices of raw oil of the U.K. Brent, Dubai and West Texas Intermediate type; source: International Monetary Fund

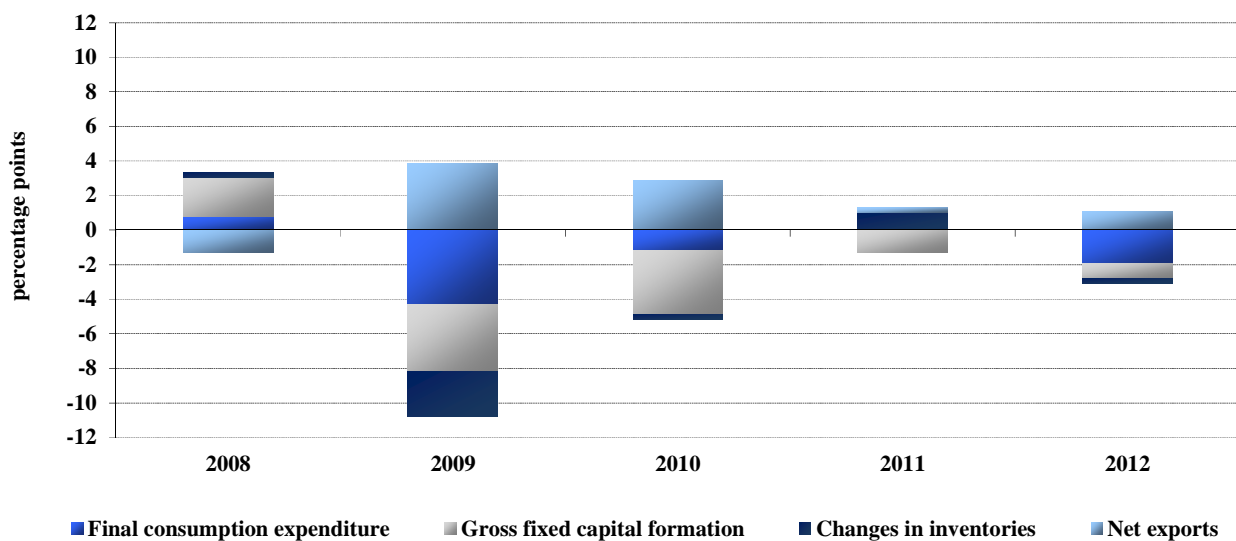


### 1.2.2 Expenditure Side of Gross Domestic Product

In 2012, all components on the expenditure side of gross domestic product, except the export of goods and services, recorded a real decrease in comparison to 2011. The biggest year-on-year decrease, as well as in two previous years, came from gross investments in fixed capital (-4.6 percent), followed by household consumption (-3.0 percent), import of goods and services (-2.1 percent), consumption by non-profit institutions that serve households (-1.2 percent) and government consumption (-0.8 percent), while the export of goods and services was, in comparison to previous year, 0.4 percent higher. In 2012, the trend of negative contribution of domestic demand to the change in gross domestic product continued, as well as the positive contribution of net foreign demand.

The biggest contribution to the decrease in domestic demand came from the household consumption (-1.8 percentage points), which is followed by the contribution of gross fixed capital formation (-0.9 percentage points), which has been registering continuously negative contributions since 2009. The contributions of the changes in inventories, government consumption and consumption by non-profit institutions serving households, were minor (-0.3, -0.2 and 0.0 percentage points, respectively). Positive contribution of net foreign demand to the change of gross domestic product amounted to 1.1 percentage point, which had derived from the positive contribution of the import of goods and services (0.9 percentage points), as well as the export of goods and services (0.2 percentage points).

**Figure 1.2. Contributions of Individual Components to Gross Domestic Product Growth**

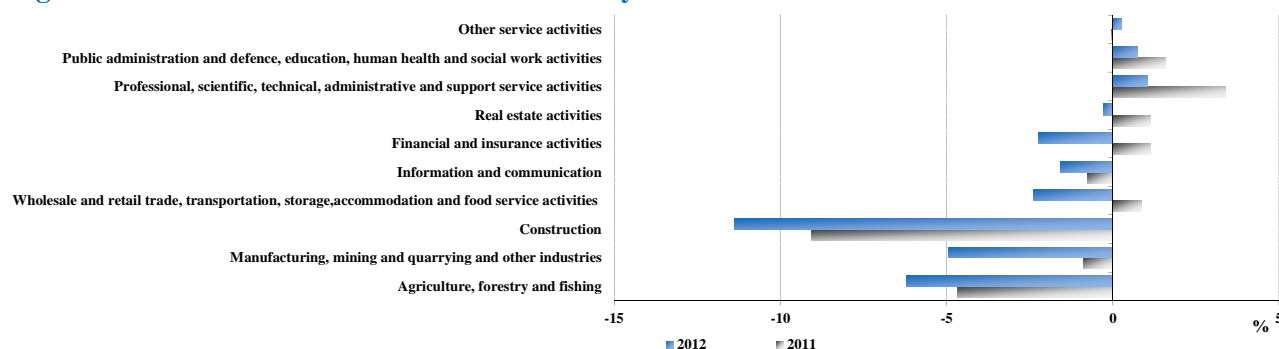


Source: Croatian Bureau of Statistics

### 1.2.3 Production Side of Gross Domestic Product

Total gross value added recorded a real decrease of 2.6 percent in 2012. The biggest contribution to the decrease in gross value added in 2012 came from the reduction of gross value added in manufacturing, mining, quarrying and other industries (-4.9 percent), construction (-11.4 percent) and retail and wholesale trade, transportation, storage, accommodation, and food service activities (-2.4 percent). On the other hand, the contribution to the increase in total gross value added came from the real increase in gross value added in the activities of public administration and defence, education, health care and social care (0.7 percent) and in professional, scientific, technical, administrative and support service activities (1.0 percent).

**Figure 1.3. Real Growth of Gross Value Added by Activities**



Source: Croatian Bureau of Statistics

## Industrial Production

In 2012, the reduction in industrial production of 5.5 percent<sup>4</sup> was recorded, which accelerated the decrease in industrial production by 4.3 percentage points in comparison to 2011. The reduction in production in 2012 was registered in all five industrial groups. The biggest contribution to the reduction in industrial production came from the production of intermediate goods, which was reduced by 9.3 percent, followed by the production of capital goods (-7.9 percent) and energy production (-3.9 percent). The production of durable consumer goods was reduced by 5.3 percent in 2012, while the production of non-durable consumer goods was reduced by 1.3 percent. Considering the activities, the manufacturing industry, which has the largest share in total industrial production (80.0 percent), contributed the most to the reduction of total production in 2012, recording a decrease of 5.1 percent. Mining and quarrying was reduced by 15.7 percent at a year-on-year level, while the electricity, gas, steam and air-conditioning supply recorded a decrease of 2.2 percent. The analysis of production activity by single section of activities shows that the biggest contribution to the reduction in total industrial production in 2012 came from the reduction in the production of machinery and equipment (-30.0 percent), extraction of crude petroleum and natural gas (-14.7 percent), production of electrical equipment (-14.2 percent) and manufacturing wood and cork, except the furniture; production of products made of straw and wickerwork materials (-14.7 percent). The increase in the production of basic pharmaceutical products and pharmaceutical preparations (+21.0 percent) contributed the most to the increase in the industrial production in 2012.

## Construction

Negative movements in the construction industry continued in 2012. The calendar-adjusted construction works index recorded a reduction of 9.7 percent, which is an acceleration of the decrease in comparison to the previous year. The reduction in total number of issued building permits of 13.2 percent, in comparison to 2011, was also recorded.

## Retail Trade

In 2012, the turnover of the retail trade recorded, according to calendar-adjusted indexes, a nominal reduction of 0.9 percent and a real reduction of 4.3 percent in comparison to 2011. The original indexes show that the most significant contribution to the reduction in nominal turnover of the retail trade in 2012 came from the decrease in the turnover of motor vehicles, other retail trade in specialized stores and from the turnover of textile, clothing, footwear and leather goods, while the increase in the turnover in non-specialized

<sup>4</sup> According to working-day adjusted (calendar-adjusted) indexes.

stores with mostly groceries contributed the most to the lessening of the decrease in nominal turnover of the retail trade.

## **Tourism**

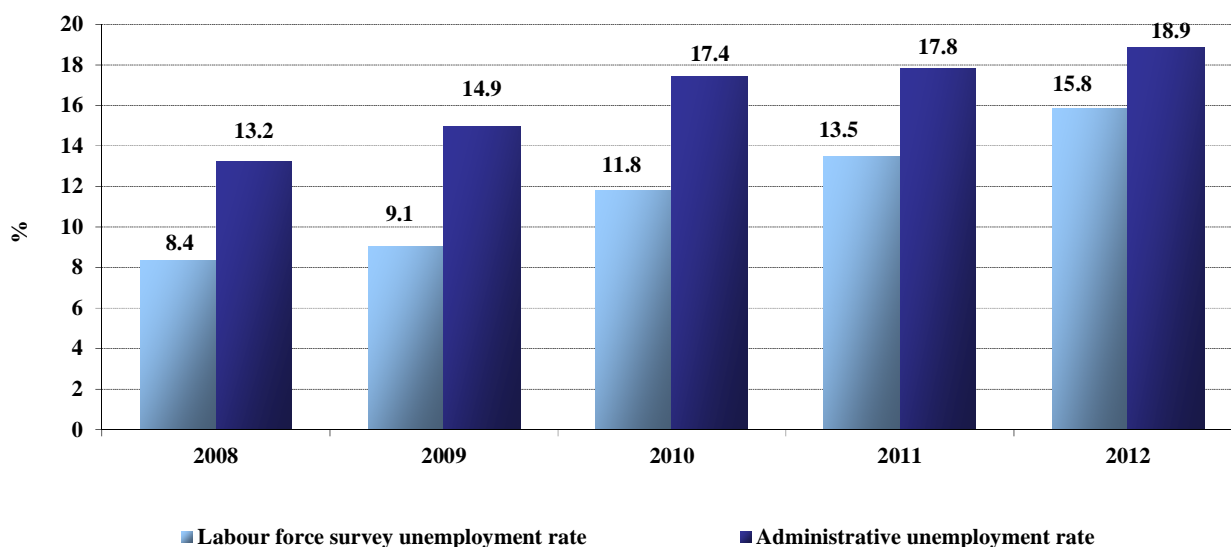
In 2012, a record number of tourist arrivals and overnight stays was recorded. In total, there were 11.8 million tourist arrivals, which is an increase of 3.3 percent in comparison with 2011. Total number of overnight stays was realized at the level of 62.7 million, recording an increase of 4.0 percent in comparison to 2011. In 2012, there were 5.3 overnight stays on average per tourist arrival, which is the same as in the last two years. Foreign tourists contributed solely to this increase in physical indicators in 2012; they participated with 87.6 percent in total number of arrivals and with 91.7 percent in total number of tourists' overnight stays. More precisely, the foreign tourist arrivals were increased by 4.5 percent in 2012, and the domestic tourist arrivals were reduced by 4.1 percent, while the foreign tourist overnight stays were increased by 5.1 percent and those of domestic tourists were reduced by 6.8 percent. Regarding the structure of foreign tourists' overnight stays, tourists from Germany prevailed (24.2 percent), followed by tourists from Slovenia (10.8 percent), Austria (8.9 percent), Italy (7.9 percent), and the Czech Republic (7.9 percent). In 2012, revenues from tourism amounted to EUR 6.9 billion and, in comparison to 2011, were increased by 3.7 percent.

### **1.2.4 Labour Market**

Weak economic activity during 2012 influenced the continuation of unfavourable movements on the labour market. The average number of registered unemployed people in 2012 amounted to 324,323, which is for 18,990 persons or 6.2 percent more than in 2011. In 2012, the average number of employed persons amounted to 1,395,116 and was reduced by 16,122 or 1.1 percent, primarily due to the reduction in the employment in the manufacturing industry, construction and trade. The average administrative unemployment rate was increased from 17.8 percent in 2011 to 18.9 percent in 2012.

According to the data of the labour force survey, the working age population amounted to 3,794,250 persons in 2012, 45.3 percent of which were working or actively seeking work, that is, they may be classified as labour force. In comparison to the 2011 survey results, the working age population was increased by 17,000 persons, while the labour force category was reduced by 6,500 persons. In 2012, the average number of employed people was 1,445,750, which is the reduction of 46,500 in comparison to 2011, while the average number of unemployed people amounted to 271,750, which is an increase of 39,500. The average survey unemployment rate amounted to 15.8 percent in 2012, which is an increase of 2.4 percentage points in comparison to 2011.

Figure 1.4. Labour Force Survey and Administrative Unemployment Rate



Source: Croatian Bureau of Statistics

In spite of their nominal increase, in 2012, the trend of real wage reduction continued. The average gross wage amounted to HRK 7,875 in 2012, and was increased by 1.0 percent in comparison to 2011, while the average net wage amounted to HRK 5,478, which is an increase of 0.7 percent. The elimination of the influence of inflation shows that the average gross wage was reduced in real terms by 2.3 percent, and net wage by 2.6 percent in 2012. The highest gross wages in 2012 were registered in financial and insurance activities, while the lowest gross wages were registered in administrative and support service activities.

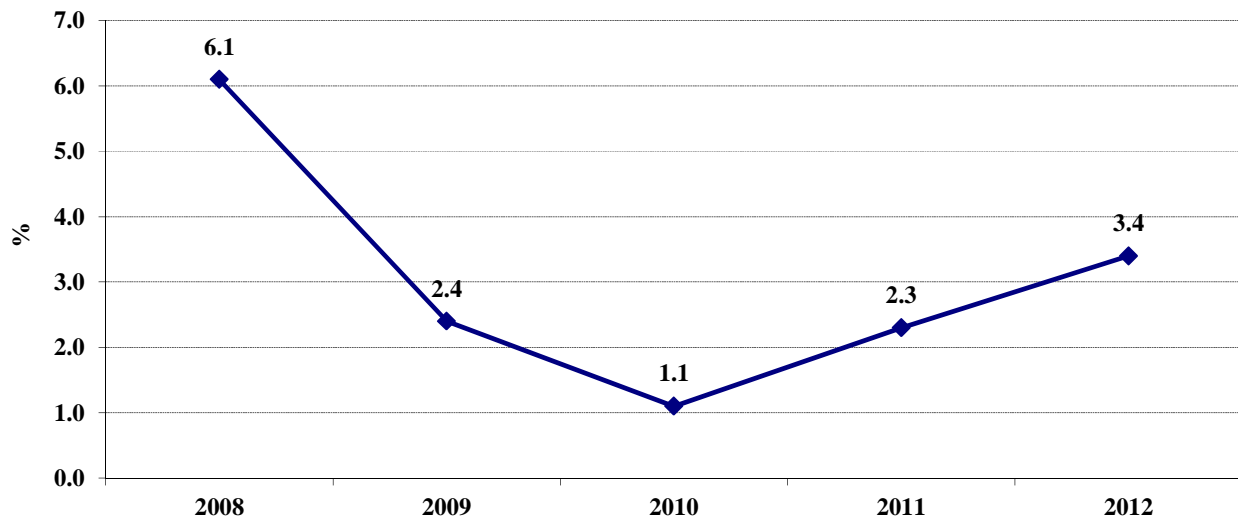
### 1.2.5 Prices

The average inflation measured by the consumer prices index amounted to 3.4 percent in 2012, which is an acceleration of 1.1 percentage point in comparison to 2011. The inflation movement in 2012 was, to the greatest extent, under the influence of changes in VAT system<sup>5</sup>, adjustments of administrative prices of electricity and gas<sup>6</sup> and raise in prices of non-processed food products caused by draught and raise in prices of food raw materials on the global market. Thus, the energy and food prices gave the most significant contribution to the rise in prices during 2012. More precisely, the energy prices (with the share of 17.3 percent in the consumer basket) were increased by 10.5 percent in 2012, contributing to the rise in consumer prices with 1.8 percentage points. The increase in electricity prices (16.4 percent) and gas prices (21.3 percent) had the most significant influence on the increase of this price category in 2012. The food prices, which have the biggest share in the consumer basket (26.7 percent), contributed to the increase in consumer prices with 1.0 percentage point in 2012, which is an increase of 3.9 percent in comparison to 2011, mostly due to the increase in prices of meat of 5.9 percent. If we exclude the energy and food prices from the consumer prices index, consumer prices in 2012 were increased by only 1.0 percent. Core inflation, which does not include the prices of agricultural products and administered prices, amounted to 1.9 percent in 2012.

<sup>5</sup> Since March 1, 2012, the general VAT rate has been increased from 23 percent to 25 percent, while at the same time, the lower VAT rate of 10 percent has been introduced for certain goods and services (eatable oils and fats, water delivery, sugar and children food).

<sup>6</sup> Electric power and gas prices for households have been increased since May 1, 2012.

**Figure 1.5. Growth of Consumer Prices Index**



Source: Croatian Bureau of Statistics

### 1.3 INTERNATIONAL SECTOR

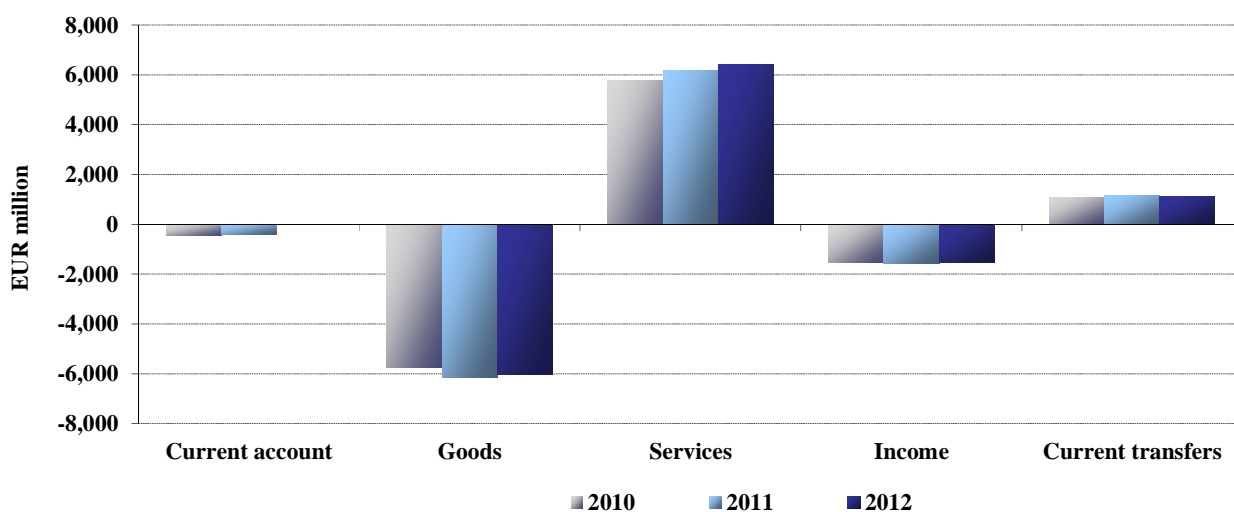
The reduction in domestic demand influenced further correction of foreign-trade imbalances of the country. In 2012, the reduction in the current account deficit on the balance of payments was recorded, primarily due to positive movements on the services account and to reduction of deficit on the goods account. Net inflows of foreign capital were modest during 2012. The average kuna/euro exchange rate remained stable, recording a slight depreciation in comparison to 2011.

#### 1.3.1 Balance of Payments

In 2012, for the fourth consecutive year, the reduction of disequilibrium on the balance of payments continued. The current account deficit on the balance of payments amounted, according to the preliminary data, to EUR 26 million in 2012, which represents the reduction by EUR 362 million or 93.4 percent.

Expressed as a percentage of GDP, the current account deficit on the balance of payments was 0.1 percent of GDP, which was 0.8 percentage points less than in 2011. The increase in positive balance on the services account, for EUR 234 million or 3.8 percent in comparison to 2011, had the most significant influence on the reduction of the current account deficit on the balance of payments in 2012. After the increase in deficit in 2011, the goods account recorded favourable movements in 2012. More precisely, the deficit on the goods account was reduced by EUR 106 million or 1.7 percent, which had derived from the reduction in goods expenses (-0.4 percent) and increase in goods revenues (0.4 percent). The deficit on the income account was reduced during 2012 by EUR 34 million or 2.2 percent. At the same time, there was a reduction in surplus on the balance of current transfers by EUR 13 million or 1.1 percent. The coverage of import of goods and services by export of goods and services amounted to 102.0 percent in 2012, and, in comparison to 2011, it was increased by 1.8 percentage points.

**Figure 1.6. Balance of Payments Current Account**



Source: Croatian National Bank

Net inflows of foreign capital were modest during 2012. On the financial account of the balance of payments there was a net inflow of EUR 548 million recorded in 2012, which represents a reduction of 70.4 percent in comparison to 2011. The reduction is a consequence of net outflows on the account of other investments of EUR 2.4 billion, to which the fact that banks were reducing the foreign debt contributed the most. Net inflow of EUR 1.7 billion was registered on the portfolio investments balance, which was the result of the issuance of government bonds and bonds of several companies, while net inflow of EUR 1.2 billion was registered on the direct investments balance. Net errors and omissions amounted to EUR -507 million in 2012, while international reserves were increased by EUR 46 million.

### 1.3.2 Foreign Trade in Goods

Total value of the export of goods was HRK 72.4 billion, and that of the import of goods was HRK 121.9 billion in 2012. The export of goods recorded an increase of 1.6 percent, while the import of goods was increased by 0.7 percent in 2012. Foreign-trade deficit was lowered by 0.6 percent in 2012, in comparison to 2011, amounting to HRK 49.5 billion. The coverage of the import of goods by the export of goods was 59.4 percent in 2012, which is 0.5 percentage points higher than in 2011.

The largest contribution to the increase in export in 2012 came from the production of coke and refined petroleum products (12.2 percent), and from crop and livestock production, hunting and service activities linked with them (35.7 percent), while the reduction in the production of other transport equipment by 32.1 percent acted in the opposite direction.

Categories that contributed the most to the increase in the import of goods in 2012 were the production of other transport equipment (64.2 percent), production of food products (12.4 percent), extraction of crude petroleum and natural gas (6.2 percent) and electricity, gas, steam and air-conditioning supply (22.3 percent).

Considering the structure of the export of goods by countries, the following countries had the largest share in the total Croatian export of goods in 2012: Italy (15.3 percent), Bosnia and Herzegovina (12.8 percent), Germany (10.2 percent), Slovenia (8.6 percent) and Austria (6.5 percent). With regard to exports in the

abovementioned countries, as compared to 2011, there was an increase in the export of goods to Austria (16.1 percent), Slovenia (5.4 percent), Bosnia and Herzegovina (5.8 percent) and Germany (2.6 percent), while the export to Italy was reduced by 1.4 percent. The export to the European Union states represented 58.2 percent of the total Croatian export of goods in 2012 and it was decreased by 1.2 percent in comparison to 2011, while the import from the European Union states represented 62.5 percent of the total import, recording an increase of 1.8 percent in comparison to 2011.

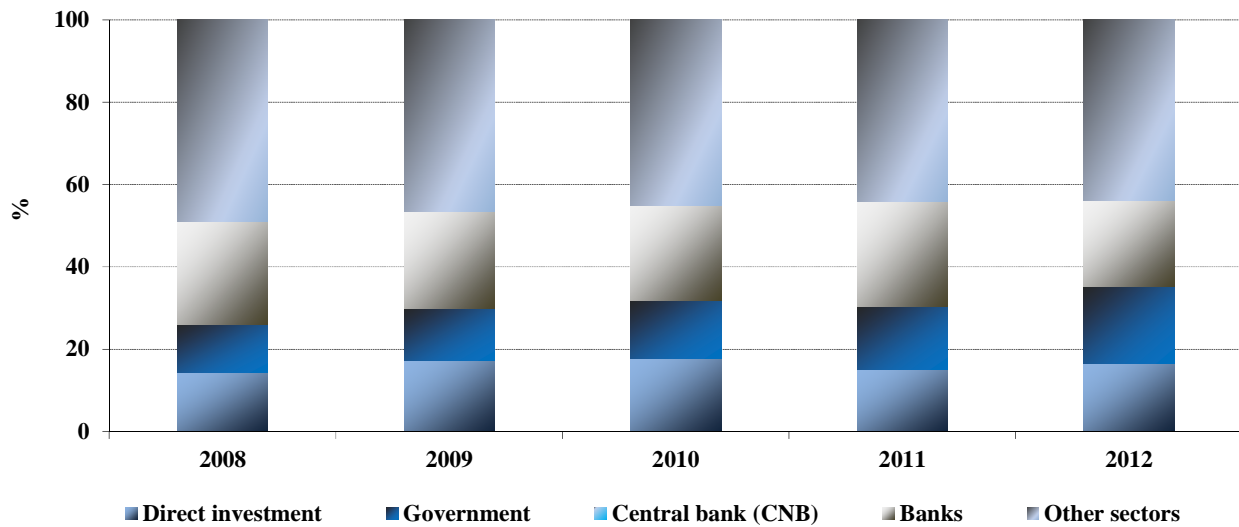
### **1.3.3 Foreign Direct Investments**

Total stock of foreign direct investments in Croatia, at the end of 2012, was at the level of EUR 26.8 billion. In 2012, EUR 1.1 billion were invested in Croatia, which is 4.3 percent less than the previous year. Out of total investments in 2012, the largest part referred to equity investments, which amounted to EUR 870 million. The retained earnings amounted to EUR 183 million, while other investments recorded a net inflow of funds in the amount of EUR 2 million. Regarding the structure of foreign direct investments in Croatia by the country of origin, the majority of investments in 2012 came from Austria (EUR 664 million), Luxembourg (EUR 171 million) and Turkey (EUR 121 million). As observed by activities, in 2012, the largest amount was invested in real estate activities (EUR 164 million), wholesale trade and trade intermediation (EUR 125 million), and recreational, cultural and sport activities (EUR 112 million).

### **1.3.4 External Debt**

At the end of 2012, the total external debt amounted to EUR 44.8 billion. Expressed as a percentage of GDP, external debt was at the level of 102.1 percent of GDP, which is a decrease of 1.2 percentage points compared to 2011. In 2012 the external debt decreased by EUR 1.0 billion or 2.3 percent in comparison to 2011. In 2012, the decrease in external debt was recorded in the external debt of credit institutions, in the amount of EUR 2.2 billion, and in the external debt of other sectors, in the amount of EUR 497 million. On the other hand, the increase in external debt during 2012 was recorded in the government's external debt, in the amount of EUR 1.4 billion and in the debt of ownership-related companies through foreign direct investments in the amount of EUR 298 million. Considering the external debt structure, the largest share in the total external debt of the Republic of Croatia, at the end of 2012, was held by domestic sectors (43.9 percent), followed by banks (20.9 percent), government (18.6 percent) and the debt incurred on the basis of foreign direct investments (16.6 percent).

**Figure 1.7. Croatian Foreign Debt Structure by Domestic Sectors**



Source: Croatian National Bank

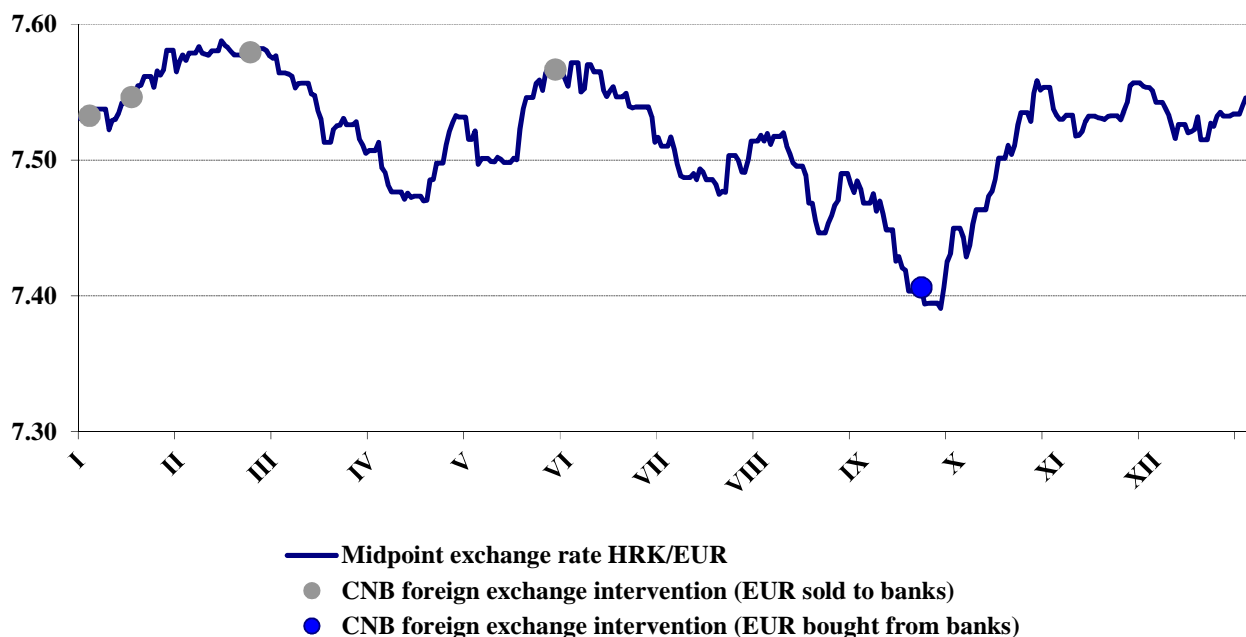
### 1.3.5 Foreign Exchange Rate

The average annual exchange rate of kuna against euro amounted to 7.52 HRK for 1 EUR in 2012, which represents a depreciation of 1.1 percent in comparison to the previous year. Depreciation pressures on the exchange rate of kuna against euro, that appeared in the first half of the year, were stabilized by the central bank, the Croatian National Bank - CNB, through foreign exchange interventions and through the increase in the reserve requirement rate. In four foreign exchange interventions carried out in the first half of the year, total amount of EUR 724.4 was sold to commercial banks. In the third quarter of 2012, there were usual appreciation pressures on the domestic currency exchange rate encouraged by seasonal reduction in kuna liquidity, so the CNB intervened on the foreign exchange market by repurchasing EUR 58.1 million. In the last quarter, there were some slight depreciation pressures due to seasonal current account deficit on the balance of payment. The exchange rate of kuna against euro at the end of the period was increased from 7.53 kuna for 1 euro by the end of 2011 to 7.55 kuna for 1 euro by the end of 2012, which represents depreciation of 0.2 percent.

The average annual exchange rate of kuna against US dollar was 5.85 kuna for 1 US dollar in 2012, and, in comparison to 2011, it recorded a depreciation of 9.5 percent, while the exchange rate at the end of 2012 amounted to 5.73 kuna for 1 US dollar, which represents an appreciation of 1.6 percent in comparison to the end of 2011.



**Figure 1.8. Midpoint Exchange Rate of Kuna against Euro and Croatian National Bank Foreign Exchange Interventions in 2012**



Source: Croatian National Bank

## 1.4 FINANCIAL SECTOR

Monetary and credit aggregates in 2012 reflected the continuation of unfavourable movements in real sector of the economy. Credit activity significantly slowed down during 2012, in spite of the high liquidity of domestic financial system. The money market in 2012 was characterized by a low turnover and low interest rates. There was a decline of the total turnover registered at the capital market, along with almost unchanged values of stock-exchange indexes and the increase in value of bond index.

### 1.4.1 Monetary Developments

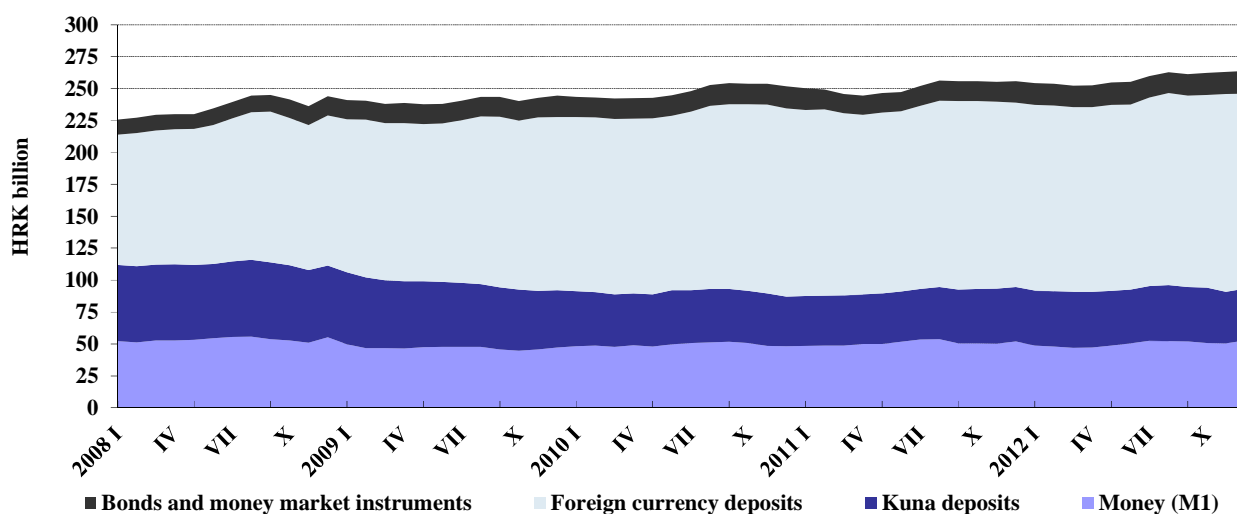
The high liquidity of domestic financial system continued during 2012, and it was supported with an aim of inducing the spill-over of the surplus of free monetary assets of banks, to the greatest possible extent, into the revival of credit activity. Depreciation pressures on the exchange rate of kuna against euro, which occurred in the first half of the year were stabilized by the CNB through foreign exchange interventions and an increase in the reserve requirement rate from 14 percent to 15 percent in January. However, in April there was a new liquidity relief which was the result of the reduction in the reserve requirement rate from 15 percent to 13.5 percent, the purpose of which was to influence commercial banks to, in cooperation with HBOR, direct these funds, under more favourable conditions, towards the stimulation of economic recovery. In the third quarter of 2012, there were usual appreciation pressures on the domestic currency exchange rate, stimulated by seasonal reduction in kuna liquidity, so the CNB intervened on the foreign exchange market by

repurchasing euro. Gross international reserves of the CNB amounted to EUR 11.2 billion by the end of 2012, which is an increase of EUR 41 million or 0.4 percent in comparison to 2011.

Money supply (M1) amounted to HRK 52.8 billion at the end of 2012 and it recorded an increase of HRK 846 million or 1.6 percent, which is 5.9 percentage points lower in comparison to 2011. Total domestic currency and foreign currency savings and time deposits with credit institutions amounted to HRK 193.2 billion at the end of 2012, and, in comparison to 2011, were increased by HRK 6.2 billion or 3.3 percent, which is an acceleration of 2.9 percentage points in comparison to 2011. This increase of total deposits derived from the increase in foreign currency deposits, by HRK 8.2 billion or 5.6 percent, while kuna deposits were decreased by HRK 2.0 billion or 4.6 percent.

As observed by sectors, the increase in total deposits was primarily the consequence of the increase in the deposits of households, while the largest decrease in deposits was registered in non-financial companies. The broadest monetary aggregate M4, referring to total liquid assets, recorded an increase of HRK 8.1 billion or 3.2 percent in 2012, which is an acceleration of 1.6 percentage points in comparison to the last year. The largest contribution to the increase in total liquid assets came from the foreign currency deposits. The increase in domestic deposits and reduced credit activity enabled commercial banks to use free assets for settling foreign debts, which resulted in the improvement of their net foreign position.

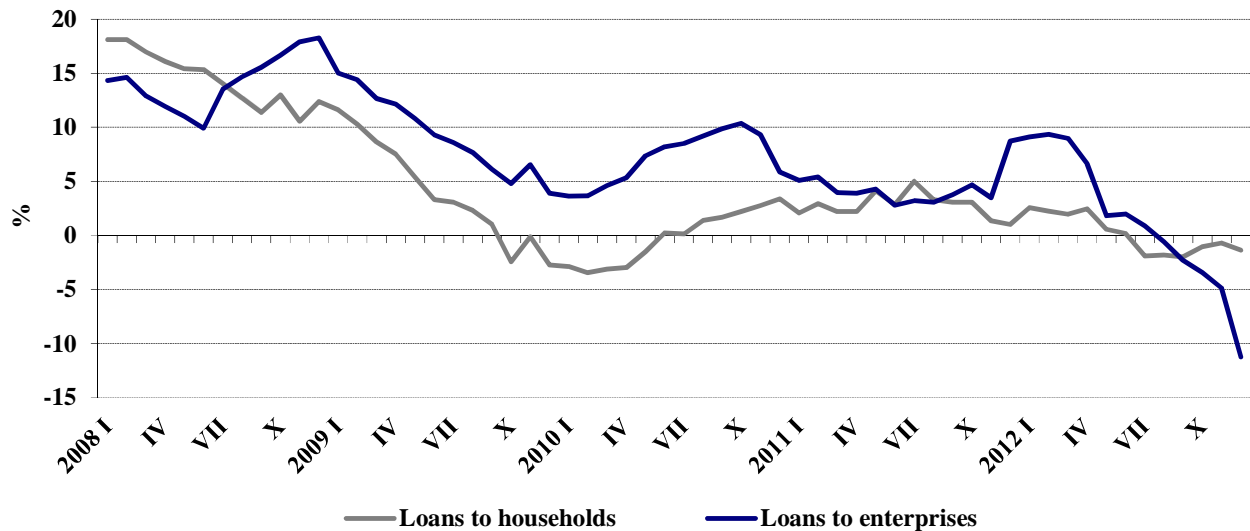
**Figure 1.9. Monetary aggregate M4**



Source: Croatian National Bank

High liquidity of the banking system during 2012 was not used for the intensification of credit activity. More precisely, total loans of credit institutions amounted to HRK 284.2 billion at the end of 2012, which represents a reduction of 2.4 percent in comparison to 2011. The increase in loans in 2012 was recorded only in the government sector, while the loans to households and companies, which together participated with over 80 percent in total credits, recorded a decrease. Thus, the largest contribution to the reduction in total loans of credit institutions in 2012 came from loans to companies, which were decreased by 11.2 percent in comparison to 2011. The loans to households were reduced by 1.4 percent in 2012, whereby the largest contribution came from the decline of loans for cars (-30.1 percent) and housing loans (-0.6 percent). Loans to the central government were increased by 17.1 percent in 2012, but it should be emphasized that taking over credit liabilities of the shipyards partly had an impact on the movement of the loans to the government.

Figure 1.10. Year-on-year Growth of Loans to Companies and Households



Source: Croatian National Bank

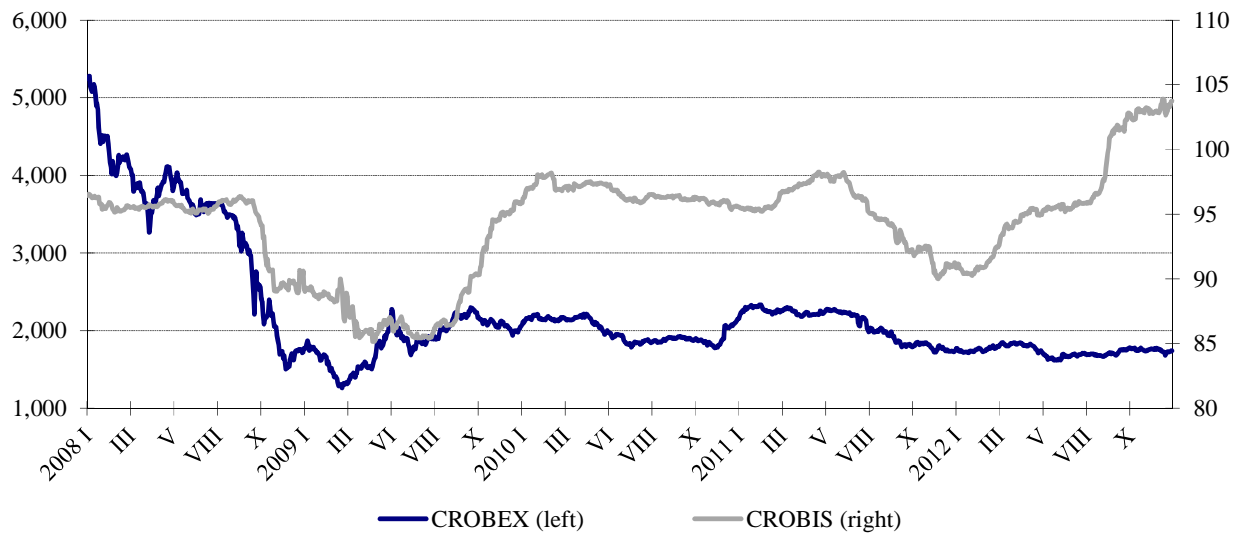
### 1.4.2 Money Market

Considering the high liquidity of the financial system throughout the whole year, the interest rates on the Zagreb Money Market in 2012 remained at low levels. Average interest rate amounted to 1.58 percent in 2012, which is 0.34 percentage points higher in comparison to 2011. The beginning of 2012 was characterized by volatility of interest rates. Thus, the biggest average monthly interest rate in 2012, of 3.52 percent, was registered in February, followed by its reduction until May, when it registered the lowest level of 0.91 percent. After that, in the period up to September, there was an increase of the average monthly interest rate up to the level of 2.21 percent and then the reduction in the remaining three months of 2012. Besides the low interest rates, during 2012, the low turnover on the Zagreb Money Market was also registered. More precisely, the average monthly turnover of kuna amounted to HRK 1.2 billion in 2012, recording the increase of 9.2 percent in comparison to 2011.

### 1.4.3 Capital Market

In 2012, the Zagreb Stock Exchange recorded the reduction in the total turnover (regular and block trade) by 34.9 percent, to the level of HRK 3.9 billion. The largest contribution to this reduction came from negative movements on the stock market since the decline in regular turnover of stocks of 44.3 percent was registered to the level of HRK 2.9 billion. Stock index of the Zagreb Stock Exchange, CROBEX, at the end of 2012, amounted to 1,740 points, the same as at the end of 2011. Stock index CROBEX 10, which includes shares with the highest market capitalisation and turnover, recorded a slight reduction, of 0.5 percent. Market capitalization of shares was reduced by 2.2 percent in 2012. In 2012, regular bond turnover amounted to HRK 285.3 million and it recorded an increase of 107.6 percent in comparison to 2011. Bond index CROBIS was increased by 13.7 percent in 2012, from 91.27 points at the end of 2011, to 103.75 points at the end of 2012. Market capitalization of bonds registered the increase of 14.6 percent in 2012.

Figure 1.11. Movement of Zagreb Stock Exchange Index



Source: Zagreb Stock Exchange

## **2. FISCAL POLICY AND BUDGETARY CENTRAL GOVERNMENT IN 2012**

## 2.1 FISCAL POLICY IN 2012<sup>7</sup>

Fiscal trends in 2012 were marked with the continuation of multiannual unfavourable economic developments that affected both the revenue and expense side of the budget. Since there were the parliamentary elections held at the end of 2011, in the first three months of 2012 there was a temporary financing in force. After the formation of the new Government, the budget preparation process began and in February the plan for 2012, as well as the projections for 2013 and 2014, was adopted. However, during the year, the worsening of macroeconomic conditions resulted in the reduction of macroeconomic projections and in the amendments to the budget plan in November 2012. By these amendments, the Budgetary Central Government deficit was kept at the level of 3.4 percent of GDP, which was realized by the appropriate increase in revenues and by redistribution of certain categories of expenses. The public debt rose from 47.2 percent in 2011 to 53.7 percent of the GDP in 2012.

During 2012, the implementation of reforms and other activities the goal of which was to strengthen the public finance quality on both the revenue side and the expense side of the Budgetary Central Government of the Republic of Croatia, continued. Regarding the revenue side of the Budgetary Central Government, in 2012 there were some reforms carried out within the taxation system. Among these reforms, the most important were the changes in the taxation of income, value-added tax, and changes in the contribution system, which will further be explained in the follow-up of this Chapter. In addition, during the year, there were some significant measures for combating tax evasion carried out, especially in the part of better collection of tax debts, whether of those from earlier periods or current debts. Along with the cleaning of the taxpayer register (separation of active from inactive), the possibility of restructuring and pre-bankruptcy settlements and of the write-off of stale debts, some other activities of forced collection were strengthened, which reflected through better execution of planned budget revenues and increase in the collection of total tax revenues. With an aim to strengthen financial discipline, the list of tax debtors was published (publicly disclosed). In May 2012, the Government adopted the Regulation which forbids the reimbursement of salaries without paying contributions.

Regarding other significant reforms carried out in 2012, the adoption of the Act of Financial Operations and Pre-Bankruptcy Settlement<sup>8</sup> should be pointed out. Its purpose was to try to find the way for over-indebted companies, that is, to enable them to establish liquidity and solvency, and to facilitate the access for financing and further continuation of economic activity, along with the protection of the number of people employed in these companies.

During 2012, the priorities in terms of the expense side of the budget, that were oriented towards the fiscal sustainability, were clearly determined. In that regard, some significant savings were made on the expense side in relation to the previous year, which are reflected in the rationalization of all categories of Budgetary Central Government expense, except for the interests expense. In addition, it should be mentioned that during the year, all liabilities from earlier periods were paid or regulated by contracts.

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<sup>7</sup> The Methodology of the International Monetary Fund for the public finance statistics GFS 2001 (*Government Finance Statistics*) was used.

<sup>8</sup> Official Gazette, number 108/2012 and 144/2012

## 2.2 BUDGETARY CENTRAL GOVERNMENT REVENUE

In 2012, total revenues of the Budgetary Central Government were realized in line with the planned ones. Along with the measures oriented towards the strengthening of fiscal discipline that contributed to better collection of the budget revenues, legal changes in the taxation policy also entered into force during the year. Further adjustment of the Croatian legislation with the EU *acquis communautaire* also had an influence on the collection of budget revenues. The measures that the Government of the Republic of Croatia carried out on the revenue side of the budget were oriented towards the redirection of the tax burden from labour to consumption, which created the preconditions for raising entrepreneurship competitiveness.

According to the final data on the state budget execution for 2012, total revenue of the Budgetary Central Government amounted to HRK 109.6 billion, which is for about HRK 500 million less than the planned amount, that is, the budget was realized at the level of 99.5 percent of the plan. In relation to the previous year, the revenues registered an increase of 2.3 percent, while their share in the value of gross domestic product was increased from 32.4 percent of GDP in 2011 to 33.2 percent of GDP in 2012.

**Table 2.1. Revenues of the Budgetary Central Government in the 2010-2012 Period**

	(000 HRK)	2010	2011	2012 Plan	2012	Index 2011/2010	Index 2012/2011	Index 2012/ 2012 Plan
<b>1</b>	<b>REVENUE</b>	<b>107,466,351</b>	<b>107,069,670</b>	<b>110,057,903</b>	<b>109,558,928</b>	<b>99.6</b>	<b>102.3</b>	<b>99.5</b>
<b>11</b>	<b>Taxes</b>	<b>62,856,582</b>	<b>61,422,186</b>	<b>64,266,283</b>	<b>64,693,898</b>	<b>97.7</b>	<b>105.3</b>	<b>100.7</b>
111	Taxes on income, profits, and capital gains	7,608,630	8,595,516	8,951,996	8,966,867	113.0	104.3	100.2
1111	Payable by individuals	1,201,546	1,307,486	1,283,250	1,269,525	108.8	97.1	98.9
1112	Payable by corporations and other enterprises	6,407,084	7,288,030	7,668,746	7,697,342	113.7	105.6	100.4
<b>113</b>	<b>Taxes on property</b>	<b>443,983</b>	<b>448,489</b>	<b>390,762</b>	<b>397,736</b>	<b>101.0</b>	<b>88.7</b>	<b>101.8</b>
1134	Taxes on financial and capital transactions	443,983	448,489	390,762	397,736	101.0	88.7	101.8
<b>114</b>	<b>Taxes on goods and services</b>	<b>50,980,460</b>	<b>50,244,065</b>	<b>52,784,117</b>	<b>53,205,019</b>	<b>98.6</b>	<b>105.9</b>	<b>100.8</b>
1141	General taxes on goods and services	37,812,425	37,847,826	40,581,333	40,778,865	100.1	107.7	100.5
11411	Value-added taxes	37,688,520	37,718,154	40,451,706	40,652,023	100.1	107.8	100.5
11412	Sales taxes	123,905	129,672	129,627	126,841	104.7	97.8	97.9
1142	Excises	11,972,326	11,215,054	10,976,601	11,206,489	93.7	99.9	102.1
1144	Taxes on specific services	10,486	30,995	32,560	30,444	295.6	98.2	93.5
1145	Taxes on use of goods, permission to use goods or perform activities	661,146	635,373	678,420	675,389	96.1	106.3	99.6
11452	Other taxes on use of goods, permission to use goods or perform activities	661,146	635,373	678,420	675,389	96.1	106.3	99.6
1146	Other taxes on goods and services	524,078	514,817	515,204	513,833	98.2	99.8	99.7
115	Taxes on international trade and transactions	1,644,448	1,766,356	1,791,012	1,754,364	107.4	99.3	98.0
1151	Customs and other import duties	1,644,448	1,766,356	1,791,012	1,754,364	107.4	99.3	98.0
116	Other taxes	2,179,061	367,761	348,397	369,912	16.9	100.6	106.2
<b>12</b>	<b>Social contributions</b>	<b>38,712,382</b>	<b>38,605,067</b>	<b>37,967,820</b>	<b>37,845,871</b>	<b>99.7</b>	<b>98.0</b>	<b>99.7</b>
<b>121</b>	<b>Social security contributions</b>	<b>38,712,382</b>	<b>38,605,067</b>	<b>37,967,820</b>	<b>37,845,871</b>	<b>99.7</b>	<b>98.0</b>	<b>99.7</b>
1211	Employee contributions	17,290,552	17,302,315	17,531,464	17,493,535	100.1	101.1	99.8
1212	Employer contributions	20,783,571	20,686,181	19,828,208	19,771,608	99.5	95.6	99.7
1213	Self-employed or nonemployed contributions	638,260	616,570	608,148	580,727	96.6	94.2	95.5
<b>13</b>	<b>Grants</b>	<b>637,087</b>	<b>868,988</b>	<b>1,478,206</b>	<b>968,378</b>	<b>136.4</b>	<b>111.4</b>	<b>65.5</b>
131	From foreign governments	13,236	39,130	5,824	20,024	295.6	51.2	-
132	From international organizations	615,102	827,432	1,471,881	947,857	134.5	114.6	64.4
133	From other general government units	8,749	2,426	500	497	27.7	20.5	99.3
<b>14</b>	<b>Other revenue</b>	<b>5,260,300</b>	<b>6,173,430</b>	<b>6,345,595</b>	<b>6,050,782</b>	<b>117.4</b>	<b>98.0</b>	<b>95.4</b>
141	Property income	1,298,345	1,869,510	2,350,849	1,963,801	144.0	105.0	83.5
142	Sales of goods and services	1,856,422	1,381,724	996,324	1,662,470	74.4	120.3	166.9
143	Fines, penalties, and forfeits	524,795	534,434	531,585	525,955	101.8	98.4	98.9
144	Voluntary transfers other than grants	15,940	29,068	17,884	46,341	182.4	159.4	259.1
145	Miscellaneous and unidentified revenue	1,564,799	2,358,694	2,448,953	1,852,214	150.7	78.5	75.6

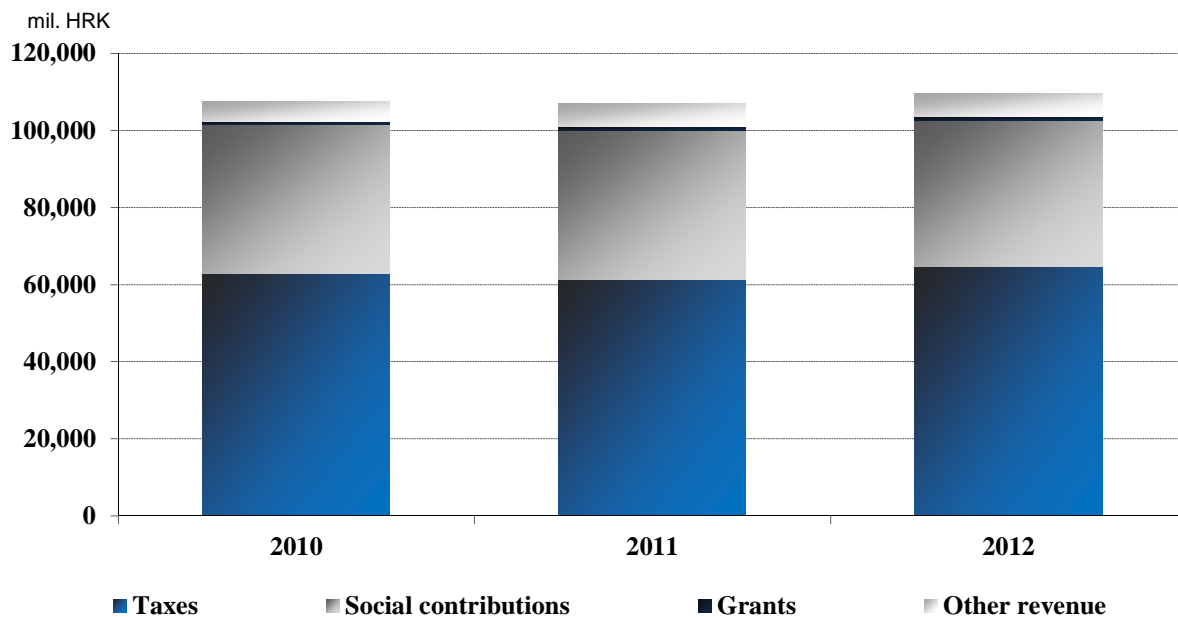
Source: Ministry of Finance

Within total revenues of the Budgetary Central Government, tax revenues represent the most significant item, with the share of 59 percent, and they are followed by the contributions with the share of 34.5 percent, while the remaining part refers to the property income, miscellaneous and unidentified revenues, revenues from sales of goods and services and grants. In the structure of total revenue, there was an increase in the

share of revenues from taxes, while the share of contributions was reduced, and the share of other revenue categories was retained at the approximately same level as in the previous year.

During 2012, there were some changes implemented in the taxation system that had a significant impact on the collection of the Budgetary Central Government revenues. Therefore, the amendments were made to the Income Tax Act, Corporate Income Tax Act, Value-Added Tax Act, Act on Contributions and to the General Taxation Act. Regulations on the level of excise duties on tobacco and oil derivatives were also amended. Legal amendments will further be explained in more details in the follow-up.

**Figure 2.1. Structure of the Budgetary Central Government Revenues in the 2010-2012 Period**



Source: Ministry of Finance

### 2.2.1 Tax Revenue

Tax revenues in 2012 represented 59 percent of current revenue of the Budgetary Central Government, and they were realized in the amount of HRK 64.7 billion. The year-on-year increase in these revenues amounted to 5.3 percent, while, in relation to the planned amount, they were realized with 0.7 percent above planned. In the conditions of the reduced economic activity, the increase in tax revenues by 5.3 percent is very significant, and it is primarily the result of the amendments made to the taxation policy, increase in the taxation discipline, and of the adoption of the legal framework which enables the entrepreneurs affected by the economic crisis to settle their debts in an easier way and to continue with their business operations.

In that regard, the Act on Measures for the Collection of Tax Debt Caused by Economic Crisis<sup>9</sup> was adopted, and it provides the possibility to extend the deadline for tax debt payment by restructuring thereof. This possibility is provided to the entrepreneurs with liquidity problems, whose tax debt is caused by the

<sup>9</sup> Official Gazette, number 25/2012 and 78/2012



economic crisis. In addition, in 2012, the Act on Financial Operations and Pre-Bankruptcy Settlement<sup>10</sup> was adopted with an aim to provide for the creditors the most favourable conditions for settling their claims and to provide the conditions for restructuring the debtors and for giving them new opportunity to continue their business operations, and in case this is not possible, for excluding such entity from economic operations as soon as possible. In other words, when it is not possible to achieve timely agreement between debtors and creditors, or when there are no conditions for economic recovery, the solutions are effective because they enable the automatic initiation of the bankruptcy procedure.

For the purpose of the improvement of tax debt collection, the General Taxation Act was amended as well. The Amendments to the General Taxation Act<sup>11</sup> prescribe direct and indirect measures for the improvement of tax debt collection. Three important amendments are: publishing the list of tax debtors – application of the tax secret institute, piercing the corporate veil institute and legal set-off of all debts and claims of the state budget. The possibility of concluding administrative contracts or administrative settlements was also introduced (compliance with the provisions of the General Administrative Procedure Act).

The Amendments to the General Taxation Act prescribe the annulment of the postponement of the tax debt collection from the tax-debtor relation, and of the postponement of the tax debt collection from the tax-debtor relationship in case of initiating the administrative proceedings. They also prescribe the mandatory contents of cash accounts with an aim to equalize the contents of accounts for all activities, and the provision which regulates the obligation for all value-added tax payers to submit their tax returns by electronic means. Other provisions refer to the statute of limitation of the right to determination of tax liabilities and interests, to the definition of the tax debt collection plan within the same type of tax, and to selling or write-off of tax debt from tax-debtor relation. In addition, the excise duties are included in public levies, whereby the compliance with the Excise Duties Act was achieved.

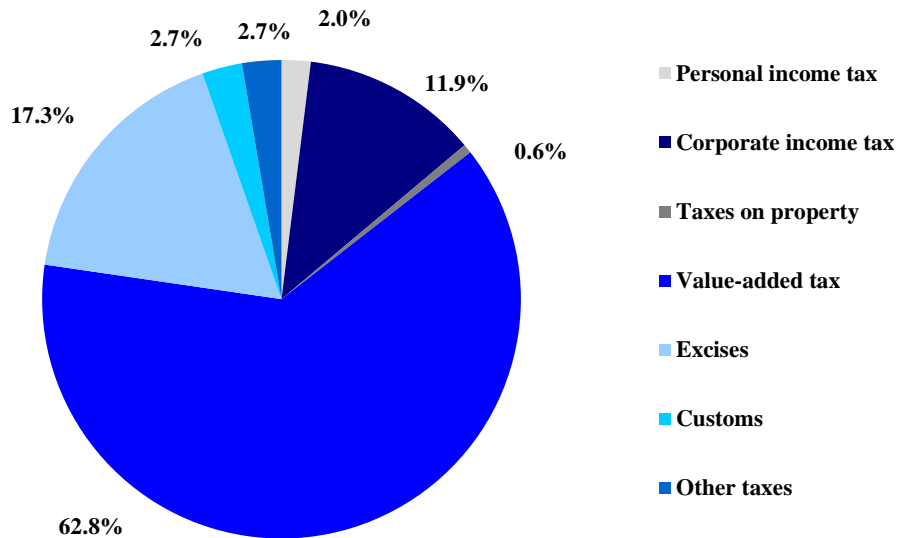
In the tax revenues structure, the most significant share is the revenue from VAT, which participates with 62.8 percent in total tax revenues, and is followed by the revenue from excise duties that represent 17.3 percent of total tax revenues and the revenue from corporate income tax with the share of 11.9 percent. Other tax revenues of the Budgetary Central Government have smaller share in total taxes.

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<sup>10</sup> Official Gazette, number 108/2012 and 144/2012

<sup>11</sup> Official Gazette, number 78/2012

**Figure 2.2. Tax Revenues Structure in 2012**



Source: Ministry of Finance

### Personal Income Tax

Revenues collected from the personal income tax are divided between the Budgetary Central Government and Local and Regional Self-Government Units. At the Budgetary Central Government level, the amount of HRK 1.3 billion was collected through the personal income tax revenues, which is a reduction by 2.9 percent in relation to 2011. Such realization of personal income tax revenues was the result of legal amendments implemented in 2010 and 2012. More precisely, the amendments implemented in the personal income tax system in 2012 ensure the higher degree of progressivity so that the well-off citizens pay relatively higher tax, while those with lower income pay lower tax. In addition, this Act complies the provisions on the pension bonuses, which, according to special regulation, became an integral part of the pension as of January 1, 2012, and, consequently, it is no longer exempt from taxation. On the other hand, during 2012 (on the basis of the tax return for 2011), there was a visible yearly effect of the amendments to the Personal Income Tax Act implemented in July 2010 when tax reliefs for paid health services had been annulled together with the exemptions for life insurance premiums, costs for housing needs etc., which resulted in the reduction of the tax return payments, and, consequently, in increased budget revenues on the basis of personal income tax. Revenues refund from personal income tax by annual personal income tax return in 2012 amounted to HRK 618.8 million, which is by 15.8 percent less than in the previous year.

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

Until March 1, 2012, personal income tax was calculated as follows:

1. at the rate of 12 percent of tax base up to the level of double amount of basic personal allowance;
2. at the rate of 25 percent on the tax base difference between double and six times the amount of basic personal allowance;
3. at the rate of 40 percent on the tax base exceeding the six times the amount of basic personal allowance.

Basic personal allowance amounted to HRK 1,800.

Pensioners' personal allowance amounted to HRK 3,200.

After March 1, 2012, personal income tax was calculated as follows:

1. at the rate of 12 percent of tax base up to the level of the amount of basic personal allowance;
2. at the rate of 25 percent on the tax base difference between the amount of basic personal allowance and four times the amount of basic personal allowance;
3. at the rate of 40 percent on the tax base exceeding the four times the amount of basic personal allowance.

Basic personal allowance amounted to HRK 2,200.

Pensioners' personal allowance amounted to HRK 3,400.

In 2012, some additional tax changes were introduced in the personal income tax system. Thus, the Amendments to the Personal Income Tax Act<sup>12</sup> introduced the taxation of dividends and shares in profit above HRK 12,000 per year, as a source of income from capital the advance of which is taxed at the rate of 12 percent. There is also a condition prescribed pursuant to which natural persons on the basis of activities of agriculture and forestry are income taxpayers if, among other things, they have realized, on that basis, in the tax period, total annual receipt higher than 35 percent of the amount prescribed for mandatory inclusion in the VAT system. In addition, it is also prescribed that a taxpayer that performs independent activity of craftsmanship/trade and activity of agriculture and forestry, and is not a VAT payer, and that on the basis of that activity in the tax period does not realize a receipt higher than 65 percent of the amount prescribed for mandatory inclusion in the VAT system, may determine the income and income tax as the flat rate amount. By the end of 2012, the Personal Income Tax Act<sup>13</sup> was amended one more time. These amendments provided a legal framework for the introduction of a unique form for collecting data on paid receipts, accrued tax and contributions, and it will also be used for reporting on the receipts on which the personal income tax is not to be paid as well as on the receipts which are not considered as an income. Furthermore, it is prescribed that the receipts paid from European Union funds and programmes, via accredited bodies in the Republic of Croatia, and for the purpose of education and professional training, should be considered as receipts on which the income tax is not to be paid. Selling three properties of the same type or three property rights of the same type in the period of five years is not considered as an income from independent activity any more, but as a property and property rights income, and it is prescribed that within the procedure of verifying the source of property, the source of the entire property held by a natural person acquired as of January 1, 2005, should be verified.

### Corporate Income Tax

Revenues from the corporate income tax in 2012 were realized in line with the planned ones, and in the amount of HRK 7.7 billion, which represents a year-on-year increase on the basis of this tax by 5.6 percent. The increase in these revenues is the result of the increased profit of companies, in the first place of banks, during 2011. During 2012, some tax changes were also implemented in the corporate income tax system. Thus, the amendments to the Corporate Income Tax Act introduce the possibility of reducing the corporate income tax base for the income realized in that tax period under the condition that it is registered as an increase in equity capital. However, this provision has an impact on budget revenues as of 2013, since the reinvested profit may be deducted in annual corporate income tax calculation for 2012. In addition, these amendments to the Corporate Income Tax Act prescribe the provision on disputing the right of reduced tax base if it is subsequently determined that the increase in equity capital has been executed with an aim to

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<sup>12</sup> Official Gazette, number 22/2012

<sup>13</sup> Official Gazette, number 144/2012

evade tax payment (for example, the reduction in equity capital due to payment to stockholders and members of a company). The obligation of paying tax upon the deduction when paying dividends and shares in profit to foreign legal persons, is introduced, at the rate of 12 percent. According to this Act, as of the day of the accession of the Republic of Croatia in the European Union, the Council Directives 1990/435/EEC, 2003/123/EC and 2006/98/EC, which determine in a specific way the payment of tax upon the deduction on dividends and shares in profit among related companies, are to be applied obligatorily.

In line with the amendments to the Corporate Income Tax Act, the Ordinance on Corporate Income Tax<sup>14</sup> has also been amended and the procedure of using tax relief for reinvested profit has been prescribed. The Ordinance also prescribes the procedure of excluding from taxation by tax upon the deduction when paying dividends and shares in profit to related persons - EU members according to Directives that are to be applied obligatorily as of the day of entry into the EU. Furthermore, the way of selecting methods when determining tax-recognized prices and other contracts among related persons (residents and non-residents) and residents in case of possibilities of transferring profit, is described in more details. At the end of 2012, the Ordinance on Corporate Income Tax<sup>15</sup> was again amended when the amendments were carried out due to the application of the Act on Investment Promotion and Improving the Investment Climate on the basis of which corporate income tax payers may pay corporate income tax by reduced tax rates. The Ordinance also prescribes declaring tax relief for executed investments at special ordinal numbers in corporate income tax return, and therefore, the corporate income tax form is also amended in a way that the set form is retained.

## Property Tax

In 2012, revenues from property tax, that is, real estate transfer tax revenue, was collected in the amount of HRK 397.7 million, which is 11.3 percent less than in previous year, and it reflects the transfer on the real estate market that significantly slowed down. It can be seen that in times of economic crisis fewer inhabitants decide to buy a real estate so there is a larger number of unsold flats on the market.

## Value-Added Tax

Revenues from value-added tax are the most significant budget revenue and it represents 62.8 percent of total tax revenues, and 37.1 percent of total budget revenues. During 2012, the revenues from VAT were realized in the amount of HRK 40.7 billion, which is by 7.8 percent more than in relation to the previous year and 0.5 percent more than in relation to the planned amount. The value-added tax revenues depend on the personal consumption trend which in 2012 declined in relation to the previous year, so the increase in the VAT revenues was primarily the result of the increase in the general rate of VAT and of the improved collection. In 2012, the VAT revenues were under the influence of legal amendments. Thus, since March 1, 2012, new general rate of value-added tax of 25 percent has been applied. However, the purpose of certain amendments within the system was to facilitate the influence of changes on low-income citizen categories, so the reduced rate on some products and services was introduced. Thus, the reduced VAT rate of 10 percent has been applied to edible oils and fats of vegetable and animal origin, children food and processed food based on cereals for infants and small children, water delivery, except for water put on the market in bottles or other packaging, and on white sugar from sugar cane and sugar beet. Along with these amendments, there is a complete restriction of the pre-tax deduction for the supply and lease of vessels intended for entertainment, planes, personal cars and other means of personal transportation, including the supply of all goods and services related to these goods, prescribed within the VAT system. In addition, the limits to the pre-tax

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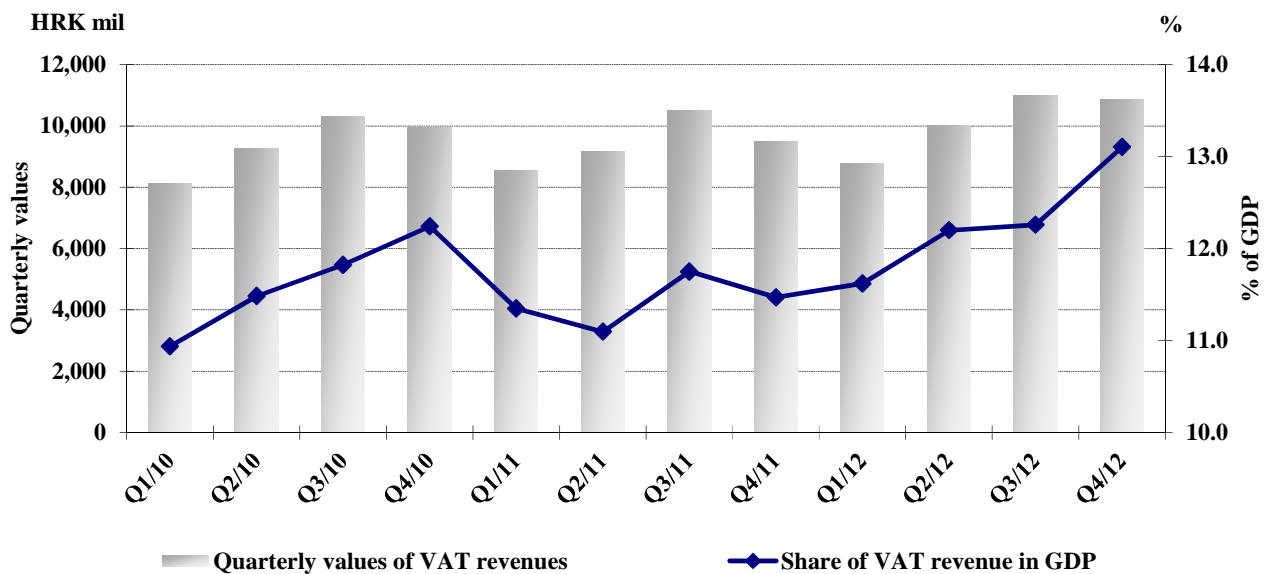
<sup>14</sup> Official Gazette, number 61/2012

<sup>15</sup> Official Gazette, number 146/2012

deduction for the supply of goods and services for the representation purpose are also prescribed. Along with the positive fiscal effect, these provisions simplify the procedure of determining the tax obligation and they reduce tax evasion. Due to the implementation of these measures, the revenue from VAT increased its share in GDP from 11.4 percent in 2011 to 12.3 percent in 2012.

The largest revenues from value-added tax were collected during summer months, and in April and October. The influence of tourist season and increased consumption during summer months contributed to such monthly dynamics, as well as the revenues of those tax payers that settle their VAT liability quarterly. Within the structure of the revenues from value-added tax, the value-added tax paid on import is the most significant one.

**Figure 2.3. Quarterly Value-Added Tax Revenue Trends in the 2010-2012 Period**



Source: Ministry of Finance

### Excises

In 2012, total excises were realized in the amount of HRK 11.2 billion, which is approximately at the level of 2011. In relation to the planned amount, these revenues were realized by 2.1 percent higher, primarily due to an increased realization of revenues from excise tax on tobacco products. During 2012, only excise tax on tobacco products and alcohol and alcoholic drinks registered an increase. Other excise revenues registered a year-on-year decrease, including the most important revenue, the revenue from excise tax on energy sources and electricity.

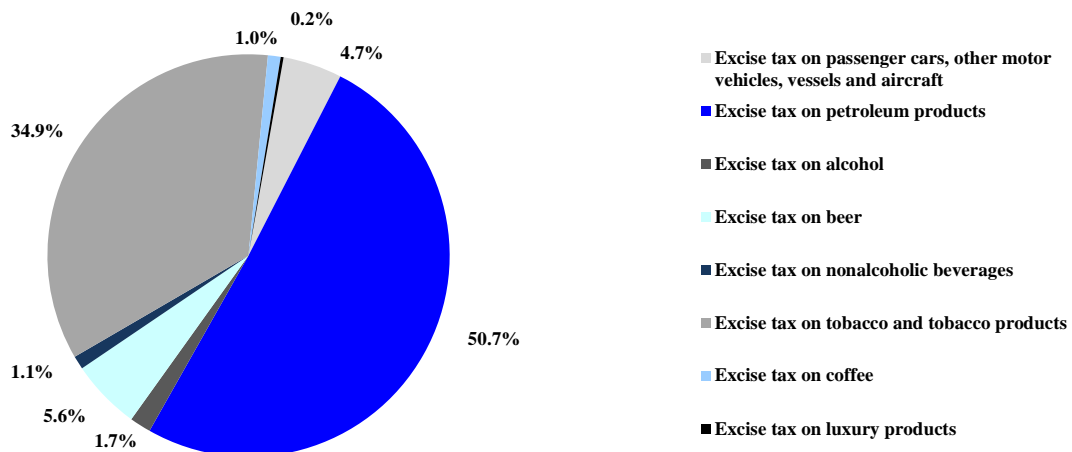
**Table 2.2. Excise Duties Revenues Trends**

(HRK 000)	2010	2011	2012 Plan	2012	Index 2011/2010	Index 2012/2011	Index 2012/2012 Plan
<b>Excises</b>	<b>11,972,326</b>	<b>11,215,054</b>	<b>10,976,601</b>	<b>11,206,489</b>	<b>93.7</b>	<b>99.9</b>	<b>102.1</b>
Excise tax on passenger cars, other motor vehicles, vessels and aircraft	589,983	663,585	552,611	532,226	112.5	80.2	96.3
Excise tax on petroleum products	6,932,709	5,978,413	5,699,647	5,678,586	86.2	95.0	99.6
Excise tax on alcohol	207,445	172,083	172,859	190,874	83.0	110.9	110.4
Excise tax on beer	655,266	653,951	642,074	631,038	99.8	96.5	98.3
Excise tax on nonalcoholic beverages	121,615	123,347	122,512	119,379	101.4	96.8	97.4
Excise tax on tobacco and tobacco products	3,292,993	3,473,375	3,645,246	3,915,174	105.5	112.7	107.4
Excise tax on coffee	149,682	126,424	117,224	116,045	84.5	91.8	99.0
Excise tax on luxury products	22,633	23,875	24,427	23,168	105.5	97.0	94.8

Source: Ministry of Finance

Excise tax on energy sources and electricity, with the share of 50.7 percent, are the most significant in the structure of total excises, and they are followed by excise tax on tobacco products with the share of 34.9 percent.

**Figure 2.4. Excise Duties Revenues Structure in 2012**



Source: Ministry of Finance

In 2012, the revenues from excise tax on energy sources and electricity were collected in the amount of HRK 5.7 billion, which, at a year-on-year level, represents the decrease by 5 percent. The reason of such year-on-year trend, along with the reduced consumption of petroleum derivatives due to high prices, is the influence of the base effect from the beginning of 2011. More precisely, at the beginning of March 2011, due to strong pressures on the prices of petroleum derivatives, the level of excise tax on motor petrol and diesel fuels was changed by the Regulation of the Government of the Republic of Croatia, in a way that all excise taxes are reduced by 15 lipas per litre of fuel. This Regulation was in force throughout the whole 2012, which means that in the first three months of 2012, lower excise taxes were paid than in the first three months of 2011, so the budget revenues on this basis were lower. If we look at the trend of the delivered quantities of petroleum derivatives during 2012, it is visible that the consumption of all types of fuels was reduced. Thus, the delivered quantities of unleaded motor petrol fell by 6.7 percent at a year-on-year level, while the delivered quantities of diesel fuel were reduced by 2 percent and of blue diesel by 8.8 percent. The share of excise tax on energy sources and electricity in total excise tax in 2012 registers annual decline of 2.6 percentage points.

**Table 2.3. Delivered Quantities of Petroleum Products in 2011 and 2012**

litres	BMB			DIESEL			BLUE DIESEL		
	2011	2012	Index 2012/2011	2011	2012	Index 2012/2011	2011	2012	Index 2012/2011
January	55,720,098	51,896,096	93.1	106,373,045	99,611,983	93.6	7,847,372	4,912,828	62.6
February	63,995,695	60,325,178	94.3	124,313,177	120,185,699	96.7	10,045,394	12,189,511	121.3
March	70,115,853	58,951,390	84.1	126,058,186	118,773,894	94.2	16,986,741	11,497,440	67.7
April	68,858,910	68,939,263	100.1	131,084,868	133,131,674	101.6	12,392,273	10,842,737	87.5
May	77,713,589	71,786,978	92.4	141,410,514	133,420,065	94.3	13,212,029	12,965,337	98.1
June	90,679,669	88,681,667	97.8	162,605,788	167,305,757	102.9	13,842,758	16,619,270	120.1
July	98,479,008	93,173,646	94.6	170,555,172	173,863,558	101.9	13,259,278	13,029,337	98.3
August	73,369,304	65,115,993	88.8	145,878,936	135,179,252	92.7	13,285,791	14,668,236	110.4
September	67,898,369	65,100,727	95.9	136,411,691	135,164,260	99.1	23,222,561	20,752,833	89.4
October	62,512,779	57,997,122	92.8	122,427,135	122,195,053	99.8	15,167,928	14,056,740	92.7
November	65,018,325	57,601,375	88.6	115,358,547	107,924,160	93.6	17,356,381	14,878,415	85.7
December	853,783,994	796,462,262	93.3	1,581,118,547	1,549,138,274	98.0	167,727,897	152,929,624	91.2
<b>TOTAL</b>	<b>1,648,145,593</b>	<b>1,536,031,697</b>	<b>93.2</b>	<b>3,063,595,606</b>	<b>2,995,893,629</b>	<b>97.8</b>	<b>324,346,403</b>	<b>299,342,308</b>	<b>92.3</b>

Source: Ministry of Finance - Customs administration

The revenue from excise tax on tobacco products is the second important in the structure of excise tax and it represents 34.9 percent of total excise tax in 2012. In relation to the earlier year, this share was increased by 4 percentage points. During 2012, the revenue from excise tax on tobacco products was realized in the amount of HRK 3.9 billion and it registers a year-on-year increase of 12.7 percent. Such a high increase is first of all the result of the stocks accumulated by manufacturers due to an increase in excise tax on tobacco products. More precisely, at the end of November 2012, the amount of the rate of proportional excise tax on cigarettes was changed in a way that it was increased from 33 percent to 36 percent of the retail price, as well as the amount of minimal excise tax from HRK 375 to HRK 486 for 1000 pieces of cigarettes. Increase in the excise tax on cigarettes is carried out in order to gradually meet the minimum conditions and amounts of excise tax on cigarettes, prescribed by EU directives. In order to avoid paying excise tax under new levels, in November, tobacco manufacturers created stocks of cigarettes for several months in advance and, thus, in December, they paid, through excise tax, a far higher amount than regular payment, and therefore in that way they increased the total annual revenues for 2012.

Tobacco products retail trade in 2012 was increased by 6.3 percent in nominal amount in relation to 2011. At the same time, the export of tobacco products at a year-on-year level was stagnant, while the import was increased by 23.9 percent.

In addition, lower realization in relation to the planned amounts was also registered regarding special taxes on passenger cars, other motor vehicles, vessels and aircrafts which also registered the highest year-on-year reduction by 19.8 percent. More precisely, after the slight recovery of car demand in 2011, in 2012 there is again the decline in car sales, and consequently lower levels of paid excise tax.

In 2012, the revenues from excise tax on beer were realized in the amount of HRK 631 million and they register a year-on-year reduction by 3.5 percent. Such a realization is at the same time lower by 1.7 percent than the plan. The revenues from other excise tax products (excise tax on coffee, alcohol and alcoholic beverages, non-alcoholic beverages and luxury products), were collected in the amount of HRK 449.5 million, which represents 2.8 percent more than planned and 0.8 percent more than in the previous year. Within these revenues, the revenues from excise tax on coffee were realized in the amount of HRK 116 million and in relation to 2011 they register the reduction by 8.2 percent. Excise tax on alcohol and alcoholic beverages were realized in the amount of HRK 190.9 million and they register a year-on-year increase by 10.9 percent. In 2012, by excise tax on non-alcoholic beverages, the amount of HRK 119.4 million of Budgetary Central Government revenues was collected, which represents 3.2 percent less than in the

previous year. Excise tax on luxury products were realized by 3 percent less than in 2011, that is, in the amount of HRK 23.2 million.

### Revenue from Customs Duties

In 2012, the revenues from taxes on international trade and transactions (customs) were realized in the amount of HRK 1.8 billion, which is by 0.7 percent less than in 2011, but by 2 percent higher than in relation to the plan.

### Other Tax Revenue

The category of taxes on special services includes revenues from taxes on gains from games of chance and other taxes from games of chance that, in 2012, amounted to HRK 30.4 million.

Taxes on the use of goods or on the permission to use include fees for organizing games of chance that amounted to HRK 675.4 million, that is, 6.3 percent more than in 2011.

In addition, this category includes revenues from other taxes on goods and services, which mostly refer to the tax on automobile liability insurance premiums and tax on full-coverage car insurance (Kasko) premiums, which are realized in the amount of HRK 513.8 million, that is, by 0.2 percent less than in 2011.

In 2012, the Ordinance on the amendments to the Ordinance on space and technical conditions for organizing games of chance in casinos, on automatic machines and payment spots of betting facilities<sup>16</sup>. This Ordinance annuls the provision on the distance between the premises of future automatic machines clubs and casinos and educational institutions and religious facilities, as well as the obligation of installing the readers of smart electronic identification cards in supermarket/self-service terminals placed in catering facilities, but it prescribes a more appropriate provision for preventing the receipt of payments for betting from minors in a way that it introduces the obligation of the owner of a catering facility to apply legal provisions on the forbiddance of receiving payments for betting from minors.

Other tax revenues, according to GFS 2001 methodology, include state administration and court fees and other revenues from taxes paid by natural persons. In 2012, this revenue category was realized in the amount of HRK 369.9 million, which represents a year-on-year increase by 0.6 percent. The amount of HRK 361.8 million refers to the revenues collected from state administration and court fees and these revenues register a year-on-year increase of 8.5 percent.

### 2.2.2 Social Security Contributions

Revenues from social security contributions are the second most significant category of Budgetary Central Government revenues, and they participate with 34.5 percent in total operating revenues. In relation to 2011, the share of revenues from social security contributions was reduced by 1.5 percentage points, and the cause of this was the reduction of the rate of contribution for health insurance. During 2012, the revenues from social security contributions were realized in the amount of HRK 37.8 billion, which represents a year-on-year reduction by 2 percent. In relation to the planned amount, this revenue was realized at the level of 99.7 percent of the plan. The year-on-year reduction of revenues from contributions is in line with the trends on

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<sup>16</sup> Official Gazette, number 15/2012



the labour market in 2012, and with the Amendments to the Contributions Act. As of May 1, 2012, the Amendments to the Contributions Act entered into force, prescribing the rate of contributions for mandatory health insurance, paid by employers on gross salary of their employees, reduced by two percentage points, from 15 to 13 percent. The purpose of this amendment was to insure tax relief of gross labour price and to create prerequisites for new investments and for the increase in competitiveness of domestic economy.

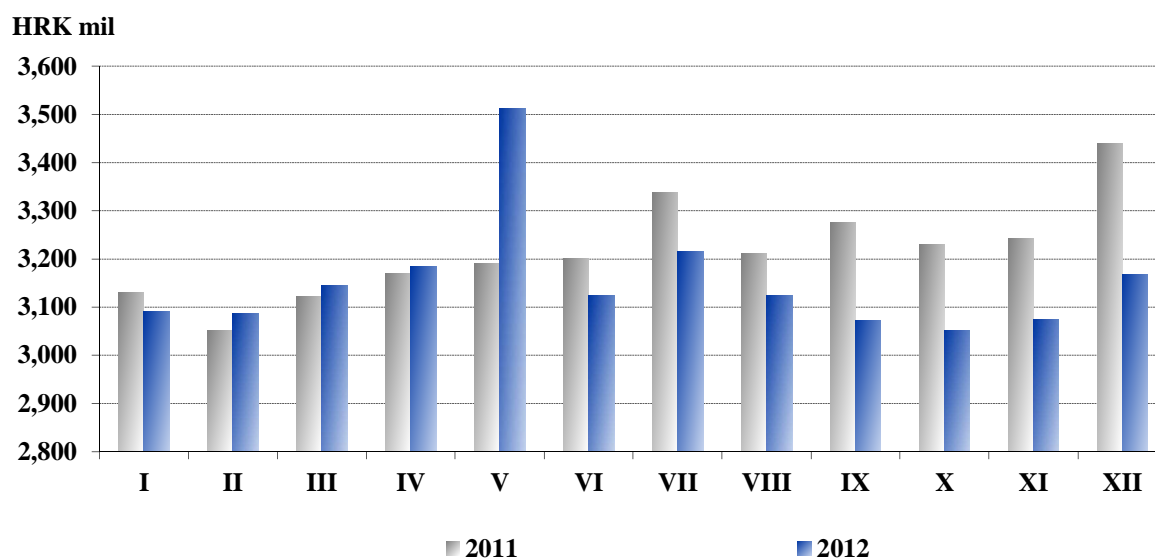
The Amendments to the Contributions Act<sup>17</sup> also introduce the obligation of settling the claims on the basis of a contractual relationship with the Croatian Health Insurance Institute with the debt for contributions, and the Government of the Republic of Croatia was given a possibility to prescribe, by a regulation, the way of carrying out the contributions payment. Furthermore, the Contributions Act is aligned with the Act on Pension Insurance and the Act on Pension Bonuses, as well as with the Maritime Code according to which seamen in international and domestic navigation, for the time spent on board, have the right to pension insurance seniority with increased duration (beneficial seniority). Along with the reduction of the rate of contributions for health insurance, the Regulation on the way of implementing the payment of contributions according to salary, receipts accompanying the salary, that is monthly basis for the accrual of contributions on the basis of the employment, also entered into force. This Regulation disables the payment of salary without paying contributions, and, at the same time, it also contributes to the strengthening of fiscal discipline and to better collection of revenues on the basis of social security contributions.

Revenue from social contributions consists of employee contributions, employer contributions and self-employed and unemployed contributions. The largest share in total contributions refers to employer contributions that, in 2012, amounts to 52.2 percent. These contributions were collected in the amount of HRK 19.8 billion, whereby the largest part refers to the contributions for health insurance and the remaining part to employment contributions. Due to the reduction in the rate of contributions for health insurance, these contributions register a year-on-year decrease of 4.4 percent. The following are, according to the importance in the structure of contributions, the employer contributions which represent 46.2 percent of total social security contributions in 2012, and they almost completely refer to the contributions for pension insurance. Revenues from employee contributions were realized in the amount of HRK 17.5 billion and they register a year-on-year increase of 1.1 percent. Such an increase is a result of an improved collection of contributions, that is, of the application of the aforementioned Regulation. The smallest share in total social security contributions refers to the self-employed or unemployed contributions, and this category of contributions represents 1.5 percent of total revenues from contributions. These contributions are realized in the amount of HRK 580.7 million, and they include, in an equal ratio, contributions for health and pension insurance of persons performing an activity independently.

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<sup>17</sup> Official Gazette, number 22/2012

Figure 2.5. Social Security Contributions Trends in 2011 and 2012, by months



Source: Ministry of Finance

### 2.2.3 Grants

In 2012, revenues from grants amounted to HRK 968.4 million, whereby a year-on-year increase of 11.4 percent was realized. These revenues consist of grants from foreign governments, grants from international organizations and grants within general government. The most significant category of grants are grants from international organizations and EU institutions and bodies, representing 97.9 percent of total collected revenues from grants and amounting to HRK 947.9 million. The largest part of these funds refers to the use of means from European Union pre-accession funds with the purpose of financing certain projects. In 2012, the revenues from grants from foreign governments amounted to HRK 20 million and represented 2.1 percent of total revenues from grants. The smallest category of revenues from grants are grants within general government, and this revenue amounted to only HRK 497 thousand in 2012.

### 2.2.4 Property Income

Property income consists of interest revenues, dividend revenues and revenues from rents. In 2012, total property income was collected in the amount of HRK 2 billion, which represents an increase at a year-on-year level by 5 percent.

In 2012, dividend revenues amounted to HRK 681.8 million and are less by 26.3 percent than in 2011. At the item of dividend revenues, mostly dividend revenues and profits of state-owned companies were realized. Thus, at this item, the largest paid revenue was the one from the profit of the Croatian National Bank in the amount of HRK 480.1 million. The following one, according to the size, was the revenues from the Croatian Compulsory Oil Stocks Agency (HANDA) in the amount of HRK 166 million. Regarding the revenues from HANDA, it is about the payment of earmarked funds from fuels which, by the new calculation as of January 2013, were included in excise tax, due to the adjustment of the amount of excise tax on petroleum derivatives and to reaching the minimal excise taxes prescribed by the European Union directive. The smaller part of dividend revenues was realized via the revenues from profits of public companies (FINA, AKD, *Hrvatska lutrija* and the like).

Interest revenues were realized in the amount of HRK 59.2 million, and they refer to the interests for given loans, interests by securities, interests on term deposits and demand deposits, and interests on arrears. These revenues are smaller by 48.5 percent at a year-on-year level.

In 2012, revenues from rents were realized in the amount of HRK 1.2 billion, and they consist of concession revenues, revenues from property lease and rent, and other revenues from non-financial assets. Concession revenues have the most significant share in the revenues from rents, and in 2012 they were realized in the amount of HRK 909.4 million, which represents a year-on-year increase of 67.9 percent. The reason of such a large year-on-year increase is the payment of concessions for 4G network in the amount of HRK 300 million. Other concession revenues were collected from the fees for concessions for frequencies, concessions on waters and water public good, concessions on roads, monthly concession fees for gambling houses, fees for concession on maritime good, fees for concession on public roads, fees for concession for customs areas, and other concession fees.

Regarding the revenues from property lease and rent, the largest part refers to the revenues from agricultural land lease, and at that item, the revenues from real estate lease, fees for easement on agricultural land in the ownership of the Republic of Croatia, fees for using agricultural land in the ownership of the Republic of Croatia and fees for easement in the woods owned by the Republic of Croatia were also realized. The largest items of other revenues from rents are monument annuity and fees for using oil harbours and oil pipelines. Hereby, it is necessary to mention that in 2012, the revenues from monument annuity were reduced. More precisely, payment of indirect monument annuity for certain activities (whole trade of food, beverages, pharmaceutical products etc.) has been annulled in order to facilitate the burden of non-tax levies for entrepreneurs.

### **2.2.5 Revenue from Sales of Goods and Services**

Revenues from sales of goods and services consist of revenues from administrative fees and revenues from incidental sale on the market. In 2012, these revenues amounted to HRK 1.7 billion, which represent a year-on-year increase of 20.3 percent, whereby the revenues from incidental sale on the market amounted to HRK 671.6 million in 2012, while the revenues from administrative fees amounted to HRK 990.8 million. In 2012, the revenues from administrative fees were less by 14.1 percent than those realized during 2011. The reason for the reduction of this category of revenues was the annulment of fees for providing services of mobile electronic and telecommunication networks as of July 1, 2012. Along with the mentioned fees for providing services of mobile and telecommunication networks, the revenues from administrative fees represent consist of the revenues collected on the basis of various public notary fees, fees from the sale of state stamp duties, state issued guarantee fees, fees for issued 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 and Unidentified Revenue**

In 2012, revenues from fines, penalties and forfeits were realized in the amount of HRK 526 million which represents a year-on-year reduction of 1.6 percent. The largest share in total penalties consists of traffic fines, and they are followed by customs fines and tax penalties. Other penalties include criminal penalties, penalties for violation of foreign exchange regulations, penalties for economy offences, various administrative measures, penalties for fire protection offences, etc.

In 2012, voluntary transfers other than subsidies amounted to HRK 46.3 million, and at a year-on-year level they were increased by 59.4 percent.

In 2012, miscellaneous and unidentified revenues were collected in the amount of HRK 1.9 billion, which represents a year-on-year reduction by 21.5 percent. The most significant revenues in this category are the revenues from supplementary health insurance. In 2012, the revenues from supplementary health insurance were realized in the amount of HRK 910.3 million, which is for 23.4 less than in 2011. These revenues are also the cause of the reduction of the whole group of miscellaneous and unidentified revenues. Along with the revenues from supplementary health insurance, miscellaneous and unidentified revenues also consist of revenues 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 revenues.

### 2.3 BUDGETARY CENTRAL GOVERNMENT EXPENSE

By observing according to the GFS 2001 Methodology, the Budgetary Central Government expense in 2012 was realized in the amount of HRK 118.7 billion, which is for 0.2 percent less in relation to the planned amount at an annual level. In comparison to 2011, the Budgetary Central Government expense was less by 1 percent, that is, by HRK 1.2 billion. Savings were realized in all categories of expenses, in the total amount of HRK 2.4 billion. Only the expenses for interests were increasing, in the amount of HRK 1.2 billion.

**Table 2.4. Budgetary Central Government Expense in the 2010–2012 Period**

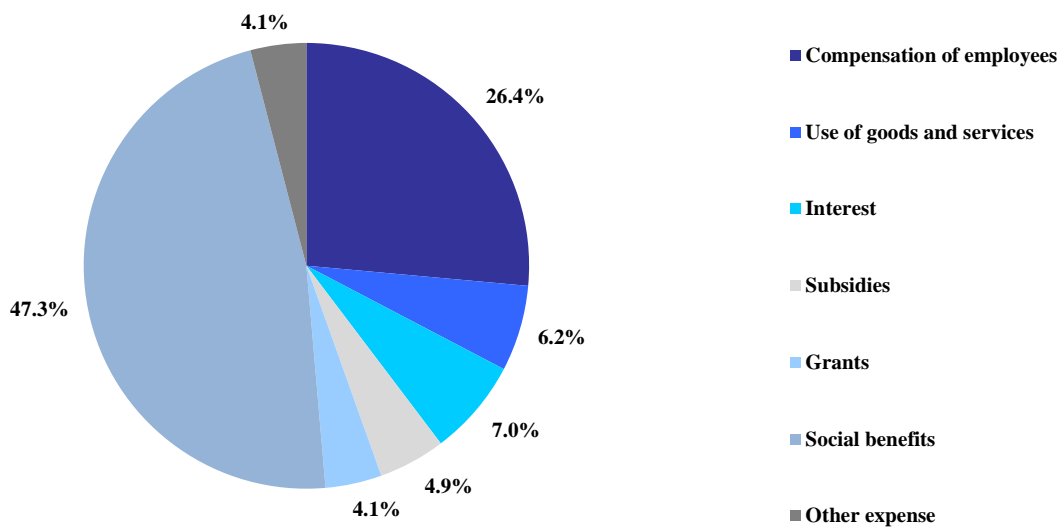
(000 HRK)		2010	2011	2012 Plan	2012	Index 2011/2010	Index 2012/2011	Index 2012/ 2012 Plan
2	<b>EXPENSE</b>	<b>120,323,332</b>	<b>119,939,511</b>	<b>119,024,629</b>	<b>118,729,992</b>	<b>99.7</b>	<b>99.0</b>	<b>99.8</b>
21	<b>Compensation of employees</b>	<b>31,096,464</b>	<b>31,737,350</b>	<b>31,910,094</b>	<b>31,383,210</b>	<b>102.1</b>	<b>98.9</b>	<b>98.3</b>
211	Wages and salaries	26,391,104	26,932,391	27,375,184	26,910,038	102.1	99.9	98.3
212	Social contributions	4,705,360	4,804,959	4,534,909	4,473,172	102.1	93.1	98.6
22	<b>Use of goods and services</b>	<b>7,655,745</b>	<b>7,943,604</b>	<b>7,826,612</b>	<b>7,406,320</b>	<b>103.8</b>	<b>93.2</b>	<b>94.6</b>
24	<b>Interest</b>	<b>6,236,482</b>	<b>7,097,592</b>	<b>7,880,807</b>	<b>8,335,656</b>	<b>113.8</b>	<b>117.4</b>	<b>105.8</b>
241	To nonresidents	1,723,831	2,491,668	3,067,129	3,123,476	144.5	125.4	101.8
242	To residents other than general government	4,512,651	4,605,924	4,813,679	5,212,180	102.1	113.2	108.3
25	<b>Subsidies</b>	<b>6,582,192</b>	<b>6,555,277</b>	<b>5,861,303</b>	<b>5,762,321</b>	<b>99.6</b>	<b>87.9</b>	<b>98.3</b>
251	To public corporations	3,186,622	3,063,739	2,211,949	2,216,271	96.1	72.3	100.2
252	To private enterprises	3,395,569	3,491,538	3,649,354	3,546,050	102.8	101.6	97.2
26	<b>Grants</b>	<b>5,778,575</b>	<b>5,083,665</b>	<b>4,970,372</b>	<b>4,843,769</b>	<b>88.0</b>	<b>95.3</b>	<b>97.5</b>
261	To foreign governments	58,594	39,806	28,992	25,615	67.9	64.4	88.4
2611	Current	49,412	34,346	21,135	21,078	69.5	61.4	99.7
2612	Capital	9,181	5,459	7,857	4,537	59.5	83.1	57.7
262	To international organizations	175,808	212,234	250,459	247,448	120.7	116.6	98.8
2621	Current	175,808	212,234	250,459	247,448	120.7	116.6	98.8
2622	Capital	0	0	0	0	-	-	-
263	To other general government units	5,544,174	4,831,625	4,690,921	4,570,706	87.1	94.6	97.4
2631	Current	2,663,291	2,468,917	2,376,571	2,440,511	92.7	98.8	102.7
2632	Capital	2,880,883	2,362,708	2,314,351	2,130,195	82.0	90.2	92.0
27	<b>Social benefits</b>	<b>56,906,555</b>	<b>56,482,968</b>	<b>55,588,936</b>	<b>56,169,850</b>	<b>99.3</b>	<b>99.4</b>	<b>101.0</b>
271	Social security benefits	43,008,291	42,752,824	42,159,208	42,797,897	99.4	100.1	101.5
272	Social assistance benefits	13,728,987	13,602,326	13,337,132	13,240,668	99.1	97.3	99.3
273	Employer social benefits	169,277	127,817	92,596	131,285	75.5	102.7	141.8
28	<b>Other expense</b>	<b>6,067,319</b>	<b>5,039,054</b>	<b>4,986,505</b>	<b>4,828,865</b>	<b>83.1</b>	<b>95.8</b>	<b>96.8</b>
281	Property expense other than interest	88	12	21	66	13.9	-	-
282	Miscellaneous other expense	6,067,231	5,039,042	4,986,484	4,828,799	83.1	95.8	96.8
2821	Current	2,280,627	2,018,297	2,205,087	2,068,407	88.5	102.5	93.8
2822	Capital	3,786,604	3,020,745	2,781,397	2,760,392	79.8	91.4	99.2

Source: Ministry of Finance

During the year, all liabilities from earlier periods were paid or regulated by contracts. Therefore, for example, the dynamics of debt repayment towards the Catholic Church and FINA was agreed upon, liabilities towards farmers and shipping companies were settled and liabilities towards shipyards were established according to the restructuring plans.

Within the structure of realized expense for the observed period, 47.3 percent refers to social benefits. They are followed by compensation of employees, with the share of 26.4 percent, interests with 7 percent, use of goods and services with 6.2 percent, subsidies with 4.9 percent, grants with 4.1 percent, and other expense with 4.1 percent.

**Figure 2.6. Structure of the Budgetary Central Government Expense in 2012**



Source: Ministry of Finance

### 2.3.1 Compensations of Employees

Expenses for the compensation of employees that, besides the salaries of civil servants and employees, include the salaries and accompanying employers' contributions on salaries of workers employed in health institutions owned by the Republic of Croatia, that is in local and regional self-government units, and were realized in the amount of HRK 31.4 billion in 2012, which represents 1.7 percent less than the planned amount. In relation to 2011, these expenses were less by 1.1 percent or HRK 354.1 million. Within their structure of total expenses for compensation of employees, 85.7 represent the expenses for salaries and wages, and the remaining 14.3 percent for social contributions. The reduction of this category of expenses is, to the greatest extent, the result of the reduction in special bonuses and in employing servants for a determined period of time, of limiting over-time work and of savings on special working conditions. Besides that, this year the Christmas bonus was not paid to civil and public servants, which was regulated by contracts concluded between the Government and unions of civil and public servants. Furthermore, the changes included a modified way of calculating fees for transport, non-paying the vacation bonus in 2013, as well as some bonuses on salaries, reduction in the level of daily allowances and field bonuses, and the reduction in jubilee awards.

### 2.3.2 Use of Goods and Services

Expense for the use of goods and services was realized in the amount of HRK 7.4 billion, which is for 5.4 percent less than the amount planned for 2012. At a year-on-year level, they register a reduction of 4.8 percent or HRK 537.3 million. Allocations for certain categories did not change significantly in relation to the previous year, except for the expenses for services that are smaller, at the first place due to a significant reduction in paying for intellectual and personal services.

### 2.3.3 Interest

Interest expense in 2012 was HRK 8.3 billion, or HRK 1.2 billion more at a year-on-year level, that is, 5.8 percent more than planned for the observed year. This increase is the result of the increase in financing costs due to paid interests on the assumed debt of shipyards and due to the interests on bonds issued at the American market, which are to be paid on the semi-annual basis.

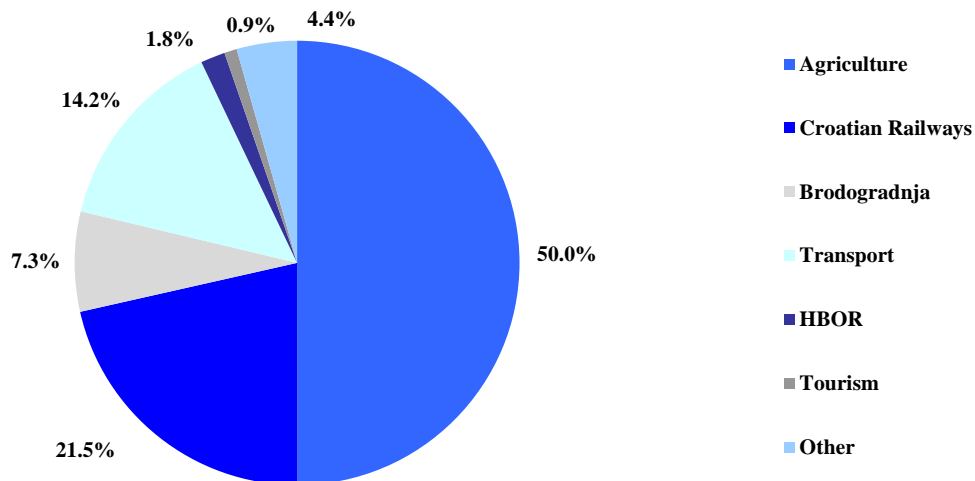
In respect of interests on issued bonds, the total of HRK 5.8 billion was secured, that is 69 percent of the total amount of interest expense. The remaining part refers to interests on the received domestic and foreign credits and loans, and on issued treasury bills.

### 2.3.4 Subsidies

Expense for subsidies amounted to HRK 5.8 billion, which was 1.7 percent less than the planned amount for 2012 and HRK 793 million less at a year-on-year level.

Within these expenses, the subsidies to private companies represent 61.5 percent, while 38.5 percent went to public corporations. The largest part of total expense for subsidies refers to agricultural subsidies that were executed in the amount of HRK 2.8 billion which is HRK 882.3 million less in relation to the previous year. Subsidies to the Croatian Railways were executed in the amount of HRK 1.2 billion which is by HRK 284.7 million less at annual level. Savings were also registered regarding the subsidies given to HBOR in the amount of HRK 137.4 million and in tourism in the amount of HRK 29.1 million. Subsidies to shipbuilding industry were paid in the amount of HRK 407.5 million, and subsidies to road, air and water traffic in the amount of HRK 797.6 million.

Figure 2.7. Subsidy Expense Structure in 2012



Source: Ministry of Finance

### 2.3.5 Grants

In 2012, the expense for grants amounted to HRK 4.8 billion, which was 2.5 percent less than planned for the observed year, and HRK 239.9 million less at a year-on-year level.

Out of total grants, 94.4 percent refers to grants to general government units. Regarding that amount, 53.4 percent are current grants to other general government units that mostly refer to additional funding for equalization of decentralized functions, grants to local and regional self-government units on the basis of the criteria established by the State Budget Execution Act of the Republic of Croatia for 2012, grants to areas of special state concern and hilly-mountainous areas, and others. The remaining 46.6 percent are capital grants where the largest part refers to road charges for *Hrvatske ceste* (Croatian Roads).

Furthermore, during the year, current and capital grants were given for regional programmes (development of assisted areas, housing care in the areas of special state concern, cross-border cooperation programme, programme of integral development of local community, etc.) and current grants for financing scientific activities, lease of town sports halls, lifelong learning programmes, public inter-city transport for students, etc.

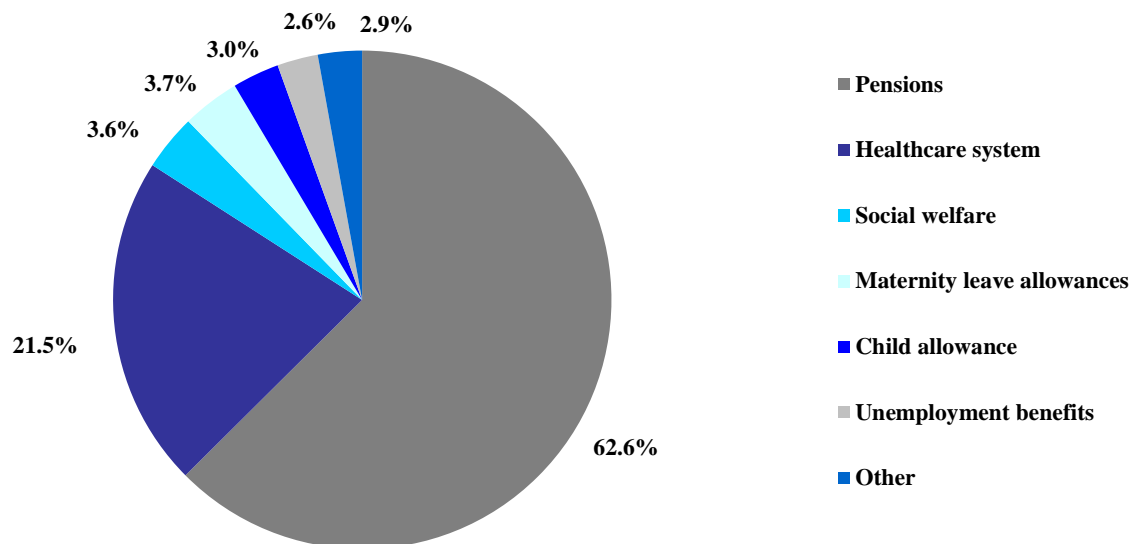
Other grants refer to grants to international organizations and foreign governments.

### 2.3.6 Social Benefits

Social benefits expense amounted to HRK 56.2 billion, which was 1 percent higher than the amount planned for 2012 and by HRK 313.1 million higher at a year-on-year level. Within their structure, 76.2 percent refers to the social security benefits, 23.6 percent to social assistance benefits, and the remaining 0.2 percent to employer social benefits.

In 2012, pensions and pension receipts and compensations in the healthcare system represented 85 percent of total social benefits. The pension expense amounted to HRK 35.1 billion and the compensations in the healthcare system amounted to HRK 12.1 billion. During the year, the amount of HRK 2 billion was allocated for social welfare for particular population groups. Furthermore, maternity leave allowances amounted to HRK 2.1 billion, child allowance expense amounted to HRK 1.7 billion, and unemployment benefits to HRK 1.5 billion.

**Figure 2.8. Social Benefits Structure in 2012**



Source: Ministry of Finance

### 2.3.7 Other Expense

Other expense is divided between the property expense other than interest, and miscellaneous other expense, that include other current and capital expense. It amounted to HRK 4.8 billion which was 3.2 percent less than the amount planned for other expense and HRK 210.2 million less in relation to the previous year.

Other expense mostly consist of transfers to Croatian Motorways (HAC), expense for housing accommodation, investments in modernisation of Croatian Railways (HŽ), student living standard and student accommodation, investment in culture, etc. The largest item in this category of expense are capital miscellaneous other expenses in the amount of HRK 2.8 billion, of which HRK 1.4 billion refers to the transfer to HAC for the part of the corresponding fee in the fuel price, and HRK 387.6 million was allocated for capital grants to HŽ.

### 2.3.8 Budgetary Central Government Expenditure by Function

In line with the GFS 2001 methodology, according to which the overview of the functional classification of expenditure is presented in this chapter, the Budgetary Central Government expenditure includes total current expense increased by the expense for the acquisition of nonfinancial assets.



The overview of the realization of the Budgetary Central Government expenditure according to functional classification provides an insight into the execution of the expenditure with regard to the main functions that are met by the execution thereof, that is, it shows fiscal policy priorities within a certain time period. The insight into the functional classification of expenditure also provides a proper international comparison and the analysis of public expenditure.

In 2012, the total Budgetary Central Government expenditure, according to the functional classification, amounted to HRK 119.8 billion, which represents a year-on-year decrease of 1.3 percent or HRK 1.6 billion.

The largest allocations, in terms of function, were those for social protection and health, with the total share of 56 percent of total expenditure in 2012. The share of social protection expenditure in total expenditure was increased by 0.3 percentage points in relation to 2011, while the share of health expenditure was increased by 0.2 percentage points. Regarding the share of these categories of expenditure in GDP, it can be noticed that there was a year-on-year decrease of 0.1 percentage points for social protection while the share of allocations for health remained at the same level.

The following larger allocations were to general public services and economic affairs. The expenditure for general public services, which mainly result from transactions related to public debt and executive and legislative affairs, increased their share in total expenditure by 0.7 percentage points, and in GDP by 0.2 percentage points. Expenditure for economic affairs decreased their share in total expenditure by 0.6 percentage points and in GDP by 0.3 percentage points. In this group of expenditure, the most significant ones are expenditure for transport (especially road and railway transport), agriculture, forestry, fishery and hunting, and general economic, commercial and labour affairs.

Expenditure for education register an increase of share in total expenditure by 0.1 percentage points, whereby the share in GDP remains unchanged. Expenditure for recreation, culture and religion retain their share in GDP, as well as in total expenditure.

Expenditure for public order and safety, which traditionally refer to police force and judiciary, and the expenditure for services of housing and community amenity, primarily in the category of housing development, register a reduction of shares in total expenditure by 0.2 percentage points. Expenditure for defence and environment protection reduced their share in expenditure by 0.1 percent, primarily on the basis of the reduction of expenditure for waste water management and waste management and for other environment protection tasks and services. All these expenditure categories register at the same time the reduction of shares in GDP by 0.1 percentage point.

**Table 2.5. Budgetary Central Government Expenditure by Function in the 2010-2012 Period**

	(000 HRK)	2010	2011	2012	Index 2011/2010	Index 2012/2011
<b>7</b>	<b>Total expenditure</b>	<b>121,874,004</b>	<b>121,425,489</b>	<b>119,837,973</b>	<b>99.6</b>	<b>98.7</b>
701	General public services	13,507,060	14,059,500	14,767,291	104.1	105.0
702	Defense	4,678,530	5,008,713	4,792,880	107.1	95.7
703	Public order and safety	7,535,152	7,827,335	7,529,589	103.9	96.2
704	Economic affairs	14,180,173	12,954,014	12,013,410	91.4	92.7
705	Environment protection	450,058	641,062	461,872	142.4	72.0
706	Housing and community amenity affairs	1,677,274	1,398,986	1,107,461	83.4	79.2
707	Health	20,152,144	19,762,452	19,697,243	98.1	99.7
708	Recreation, culture and religion	1,741,378	1,661,596	1,591,743	95.4	95.8
709	Education	10,277,096	10,483,615	10,520,709	102.0	100.4
710	Social protection	47,675,139	47,628,215	47,355,775	99.9	99.4

Source: Ministry of Finance

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

Transactions in nonfinancial assets include all expense associated with acquisition, that is, with the procurement of nonfinancial assets, as well as all receipts associated with disposal of nonfinancial assets. In this regard, the amounts of net transactions in nonfinancial assets are also the net result of these acquisitions, procurements and disposals, that is, the total acquisition was reduced by total disposal of nonfinancial assets.

In 2012, total net acquisition of nonfinancial assets amounted to HRK 830 million, which represents a year-on-year decrease of 27.2 percent. Total net acquisition of nonfinancial assets was a result of the acquisition of nonfinancial assets in the amount of HRK 1.1 billion and of disposal in the amount of HRK 278 million.

The acquisition of nonfinancial assets mostly referred to the acquisition of fixed assets, in which the acquisition of buildings and structures dominated with the amount of HRK 514.5 million, and of machinery and equipment in the amount of HRK 441 million. On the other hand, the disposal mostly referred to the disposal of buildings and structures within the fixed assets in the amount of HRK 248.9 million.

Net acquisition of inventories amounted to HRK 29.3 million, which is a result of the acquisition in the amount of HRK 33.5 million and of disposal in the amount of HRK 4.2 million.

Total net acquisition of valuables amounted to HRK 3.5 million and it completely referred to the acquisition of valuables, and there were no disposals.

The acquisition of nonproduced assets in the amount of HRK 42.6 million mostly referred to the acquisition of licences and other rights, while disposals in the amount of HRK 17.9 million mostly referred to the sales of land.

**Table 2.6. Transactions in Nonfinancial Assets of the Budgetary Central Government in the 2010-2012 Period**

(HRK 000)		2010	2011	2012	Indeks 2011/2010	Indeks 2012/2011
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>1,232,366</b>	<b>1,138,970</b>	<b>829,626</b>	<b>92.4</b>	<b>72.8</b>
<b>311</b>	<b>Fixed assets</b>	<b>1,200,398</b>	<b>1,118,710</b>	<b>772,151</b>	<b>93.2</b>	<b>69.0</b>
<b>311,1</b>	<i>Acquisitions: fixed assets</i>	<b>1,466,817</b>	<b>1,420,148</b>	<b>1,028,403</b>	<b>96.8</b>	<b>72.4</b>
<b>311,2</b>	<i>Disposals: fixed assets</i>	<b>266,419</b>	<b>301,438</b>	<b>256,251</b>	<b>113.1</b>	<b>85.0</b>
3111	Buildings and structures	608,822	484,370	265,596	79.6	54.8
3111,1	Acquisitions: buildings and structures	872,737	783,289	514,471	89.8	65.7
3111,2	Disposals: buildings and structures	263,915	298,919	248,875	113.3	83.3
3112	Machinery and equipment	529,521	594,015	433,550	112.2	73.0
3112,1	Acquisitions: machinery and equipment	532,022	596,534	440,927	112.1	73.9
3112,2	Disposals: machinery and equipment	2,502	2,519	7,376	100.7	292.8
3113	Other fixed assets	62,056	40,325	73,005	65.0	181.0
3113,1	Acquisitions: other fixed assets	62,058	40,325	73,005	65.0	181.0
3113,2	Disposals: other fixed assets	2	0	0	-	-
<b>312</b>	<b>Inventories</b>	<b>10,955</b>	<b>2,473</b>	<b>29,280</b>	<b>22.6</b>	<b>-</b>
<b>312,1</b>	<b>Acquisitions: inventories</b>	<b>16,910</b>	<b>3,237</b>	<b>33,475</b>	<b>19.1</b>	<b>-</b>
<b>312,2</b>	<b>Disposals: inventories</b>	<b>5,954</b>	<b>763.8</b>	<b>4,194.9</b>	<b>12.8</b>	<b>-</b>
<b>313</b>	<b>Valuables</b>	<b>6,136</b>	<b>3,741</b>	<b>3,494</b>	<b>61.0</b>	<b>93.4</b>
<b>313,1</b>	<b>Acquisitions: valuables</b>	<b>6,136</b>	<b>3,741</b>	<b>3,494</b>	<b>61.0</b>	<b>93.4</b>
<b>313,2</b>	<b>Disposals: valuables</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>314</b>	<b>Nonproduced assets</b>	<b>14,877</b>	<b>14,046</b>	<b>24,700</b>	<b>94.4</b>	<b>175.8</b>
<b>314,1</b>	<b>Acquisitions: nonproduced assets</b>	<b>60,809</b>	<b>58,852</b>	<b>42,610</b>	<b>96.8</b>	<b>72.4</b>
<b>314,2</b>	<b>Disposals: nonproduced assets</b>	<b>45,933</b>	<b>44,806</b>	<b>17,910</b>	<b>97.5</b>	<b>40.0</b>
3141	Land	-45,536	-42,728	-17,166	93.8	40.2
3141,1	<i>Acquisitions: land</i>	396	1,988	744	-	37.4
3141,2	<i>Disposals: land</i>	45,933	44,716	17,910	97.4	40.1
3142	Subsoil assets	0	-90	0	-	-
3142,2	<i>Disposals: subsoil assets</i>	0	90	0	-	-
3144	Intangible nonproduced assets	60,413	56,864	41,866	94.1	73.6
3144,1	<i>Acquisitions: intangible nonproduced assets</i>	60,413.1	56,863.9	41,865.9	94.1	73.6

Source: Ministry of Finance

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

Total net acquisition of financial assets of the Budgetary Central Government is a result of the difference between domestic and foreign acquisitions and disposals of financial assets and changes in currency and deposits.

In 2012, net acquisition of domestic financial assets in the amount of HRK -461.5 million is a result of HRK -1.2 billion change in currency and deposits, the net acquisition of loans in the amount of HRK 92.4 million and the net acquisition of shares and other equity in the amount of HRK 648.2 million. Negative amount of currency and deposits represents a decrease in the amount of funds in the state account in the observed period. Net acquisition of domestic loans was the result of the expenses for loans in the amount of HRK

857.1 million and the receipts on the basis of loans in the amount of 764.7 million. The acquisition of loans mostly referred to loans to companies in the public sector, that is, to the payments for protested guarantees in the amount of HRK 534.3 million. They are followed by loans to other levels of government (HRK 212 million), loans to non-profit organizations, citizens and households (HRK 84.4 million) and loans to companies and small businesses outside public sector (HRK 17.3 million). Disposals of domestic loans mostly referred to loan principal repayments by private corporations in the amount of HRK 697.1 million, and to loan principal repayments by non-profit organizations, citizens and households in the amount of HRK 65.2 million.

Net acquisition of domestic shares and other equity in the amount of HRK 648.2 million was a result of the acquisitions of shares and other equity in the amount of HRK 650.4 million and of the disposals of shares and other equity in the amount of 2.2 million. Acquisition of domestic shares and other equity mostly referred to the shares and equity in the principal of credit institutions and other financial institutions in public sector, in the amount of HRK 650 million.

Foreign net acquisition of financial assets amounted to HRK 6.5 million, and was the result of the acquisition of shares and equity, while the acquisitions and disposals of foreign loans amounted to HRK 1.8 million.

**Table 2.7. Transactions in Financial Assets of the Budgetary Central Government in the 2010-2012 Period**

(HRK 000)		2010	2011	2012
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>2,022,682</b>	<b>-618,448</b>	<b>-461,514</b>
<b>321</b>	<b>Domestic</b>	<b>2,022,294</b>	<b>-623,788</b>	<b>-468,017</b>
3212	Currency and deposits	569,502	-2,198,870	-1,208,562
3214	Loans	657,093	1,024,421	92,382
3214,1	Acquisition	1,366,444	1,841,105	857,099
3214,2	Disposal	709,351	816,684	764,717
3215	Shares and other equity	795,699	550,660	648,163
3215,1	Acquisition	803,044	550,660	650,353
3215,2	Disposal	7,345	0	2,190
<b>322</b>	<b>Foreign</b>	<b>388</b>	<b>5,341</b>	<b>6,503</b>
3224	Loans	388	0	0
3224,1	Acquisition	2,365	1,793	1,826
3224,2	Disposal	1,977	1,793	1,826
3225	Shares and other equity	0	5,341	6,503
3225,1	Acquisition	0	5,341	6,503
3225,2	Disposal	0	0	0

Source: Ministry of Finance

In 2012, total net incurrence of liabilities of the Budgetary Central Government amounted to HRK 9.5 billion, and it was the result of net incurrence of domestic liabilities in the amount of HRK 1.4 billion and of net incurrence of foreign liabilities in the amount of HRK 8.1 billion.

Net incurrence of domestic liabilities is the result of incurrence and repayments through securities other than shares and of loans on the domestic financial market. Total incurrence on the domestic market amounted to HRK 11.2 billion, while domestic repayments amounted to HRK 9.8 billion. Regarding the incurrence on the domestic financial market, HRK 9.9 billion referred to the incurrence through securities other than shares. Domestic repayments on the basis of securities other than shares amounted to HRK 3.9 billion. Domestic repayments on the basis of loans amounted to HRK 5.9 billion.

Net incurrence of foreign liabilities included total foreign incurrence in the amount of HRK 9.4 billion and total foreign repayment in the amount of HRK 1.3 billion. In 2012, foreign incurrence was mostly realized through securities other than shares in total amount of HRK 8.6 billion. Incurrence through loans on the foreign financial market amounted to HRK 876.6 million. Foreign repayments included the repayments of foreign loans in the amount of HRK 1.3 billion.

Considering total (domestic and foreign) incurrence, that is, total (domestic and foreign) repayments of the Budgetary Central Government in 2012, it should be noted that net incurrence of liabilities of Budgetary Central Government was a result of the difference between the incurrence in the amount of HRK 20.6 billion and repayments in the amount of HRK 11.1 billion.

**Table 2.8. Transactions in Liabilities of the Budgetary Central Government in the 2010-2012 Period**

(HRK 000)		2010	2011	2012
33	<b>NET INCURRENCE OF LIABILITIES</b>	<b>16,112,029</b>	<b>13,390,363</b>	<b>9,539,175</b>
33.1	<b>Total repayments</b>	<b>17,999,196</b>	<b>11,320,894</b>	<b>11,059,657</b>
33.2	<b>Total incurrence</b>	<b>34,111,225</b>	<b>24,711,257</b>	<b>20,598,833</b>
331	<b>Domestic</b>	<b>11,835,071</b>	<b>4,793,136</b>	<b>1,413,994</b>
331.1	<b>Repayment</b>	<b>12,815,011</b>	<b>3,124,139</b>	<b>9,759,469</b>
331.2	<b>Incurrence</b>	<b>24,650,082</b>	<b>7,917,275</b>	<b>11,173,464</b>
3313	Securities other than shares	12,222,784	3,023,835	6,035,183
3313,1	Repayment	3,289,266	2,689,441	3,902,510
3313,2	Incurrence	15,512,050	5,713,276	9,937,693
3314	Loans	-387,713	1,769,302	-4,621,189
3314,1	Repayment	9,525,745	434,698	5,856,959
3314,2	Incurrence	9,138,032	2,203,999	1,235,770
332	<b>Foreign</b>	<b>4,276,958</b>	<b>8,597,227</b>	<b>8,125,181</b>
332.1	<b>Repayment</b>	<b>5,184,185</b>	<b>8,196,755</b>	<b>1,300,188</b>
332.2	<b>Incurrence</b>	<b>9,461,143</b>	<b>16,793,982</b>	<b>9,425,369</b>
3323	Securities other than shares	3,517,533	7,786,583	8,548,785
3323,1	Repayment	3,655,005	5,541,105	0
3323,2	Incurrence	7,172,538	13,327,688	8,548,785
3324	Loans	759,425	810,644	-423,604
3324,1	Repayment	1,529,180	2,655,650	1,300,188
3324,2	Incurrence	2,288,606	3,466,295	876,584

Source: Ministry of Finance

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

Net operating balance, defined as a difference between the revenue and the expense of the Budgetary Central Government, amounted to HRK -9.2 billion in 2012.

As a budget deficit/surplus measure, the primary operating balance is also observed as an indicator of current fiscal policy because it excludes interest expenses from the previous calculation of deficit/surplus, and thereby the impact of previous deficits and the accumulated public debt. In 2012, primary operating balance amounted to -835.4 million.

The category of net lending/borrowing is defined as a difference between net operating balance and net acquisition of non-financial assets. In 2012, net lending/borrowing was recorded at the level of HRK -10 billion or 3 percent of GDP. Total financing of that amount is a result of the previously described net incurrence of liabilities in the amount of HRK 9.5 billion and of net acquisition of financial assets in the amount of HRK -461.5 million. In other words, the repayments were below incurrence on the liability side of the Budgetary Central Government, while on the financial assets side, disposals were below the expenses for acquisition of financial assets.

**Table 2.9. Budgetary Central Government Deficit/Surplus and Financing in the 2010-2012 Period**

<b>(HRK 000)</b>		<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>TRANSACTIONS AFFECTING NET WORTH</b>				
1	Revenue	107,466,351	107,069,670	109,558,928
2	Expense	120,323,332	119,939,511	118,729,992
24	Interest	6,236,482	7,097,592	8,335,656
	<b>Net - gross operating balance (1-2)</b>	<b>-12,856,981</b>	<b>-12,869,841</b>	<b>-9,171,064</b>
	<b>Primary operating balance (1-2+24)</b>	<b>-6,620,499</b>	<b>-5,772,249</b>	<b>-835,407</b>
<b>TRANSACTIONS IN NONFINANCIAL ASSETS</b>				
31	Net acquisition of nonfinancial assets	1,232,366	1,138,970	829,626
	<b>Net lending - borrowing (1-2-31)</b>	<b>-14,089,347</b>	<b>-14,008,811</b>	<b>-10,000,689</b>
	<b>Financing (33-32)</b>	<b>14,089,347</b>	<b>14,008,811</b>	<b>10,000,689</b>
<b>TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES</b>				
32	Net acquisition of financial assets	2,022,682	-618,448	-461,514
33	Net incurrence of liabilities	16,112,029	13,390,363	9,539,175

Source: Ministry of Finance

### **3. EXTRABUDGETARY USERS IN 2012**

### 3.1 EXTRABUDGETARY USERS

During 2012, within the scope of the general government budget, there were five Extrabudgetary Users covered: Croatian Waters (*Hrvatske vode* - HV), Environmental Protection and Energy Efficiency Fund (*Fond za zaštitu okoliša i energetske učinkovitost* - FZOEU), Croatian Roads (*Hrvatske ceste* - HC), State Agency for Deposit Insurance and Bank Rehabilitation (*Državna agencija za osiguranje štednih uloga i sanaciju banaka* - DAB) and Government Asset Management Agency (*Agencija za upravljanje državnom imovinom* - AUDIO).

### 3.2 REVENUE OF EXTRABUDGETARY USERS

In 2012, total revenues of Extrabudgetary Users were realized in the amount of HRK 5 billion. By observing the structure thereof, the largest part or 37.2 percent refers to HV, 29.1 percent to HC, 21.1 percent to FZOEU, 11.5 percent to DAB and 1.1 percent to AUDIO.

Within the structure of total revenues of Extrabudgetary Users, the largest contribution comes from the revenues of sales of goods and services which, in 2012, were realized in the amount of HRK 2.5 billion. The largest part of these revenues refers to the revenues from administrative fees at HV (HRK 1.4 billion) and at FZOEU (HRK 1 billion).

Total revenues from grants were realized in the amount of HRK 1.7 billion, whereby the grants from other general government units represent 99.9 percent. Out of that amount, 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 and FZOEU.

The collected property income amounted to HRK 650.6 million, of which DAB contributed the most (84.1 percent), followed by AUDIO (8.3 percent) and HV (4.7 percent). The largest property income revenue refers to the withdrawal of income of quasi-corporations that are part of DAB.

Besides that, Extrabudgetary Users realized HRK 131.2 million in miscellaneous and unidentified revenues, the most of which was realized by HV (56.2 percent), and HRK 43.9 million of revenues from voluntary transfer, except for state aid.

### 3.3 EXPENSE OF EXTRABUDGETARY USERS

In 2012, total expense of Extrabudgetary Users was executed in the amount of HRK 3.9 billion. Within the structure thereof, HV had the largest share (37.5 percent), followed by HC (32.9 percent), FZOEU (24.7 percent), AUDIO (2.5 percent) and DAB (2.3 percent).



Within the structure of total expense of Extrabudgetary Users, the most significant are the expense for the use of goods and services, which, in the observed period, were executed in the amount of HRK 2.4 billion. The largest part of these expense refers to HV (HRK 875.9 million), FZOEU (HRK 797.9 million) and HC (HRK 655.1 million), while the rest refers to AUDIO and DAB. The largest part of the expenses are the expenses for services, that is, services of regular and investment maintenance at HV and HC, as well as other unmentioned operating expenses in FZOEU.

With regard to the amount of realised expense, the above-mentioned are followed by other expenses that in 2012 amounted to HRK 717.6 million. The largest part of these expenses refers to HV (53.8 percent), then HC (33.2 percent) and DAB (10.6 percent).

At the level of Extrabudgetary Users, the compensations of employees amounted to HRK 280.4 million, of which HRK 244 million refer to salaries and wages, and HRK 36.4 million to social contributions.

Grants to other general government units amounted to HRK 141.6 million, and these refer to FZOEU and HV.

During 2012, Extrabudgetary Users also spent HRK 378.3 million on interest expenses, of which the largest part refers to HC, in the amount of HRK 295.8 million.

Expense for subsidies amounted to HRK 983 thousands, of which the largest part refers to subsidies to companies outside public sector. Expense for subsidies was realised by FZOEU within the environmental protection programme and project.

### **3.4 TRANSACTIONS IN NONFINANCIAL ASSETS OF EXTRABUDGETARY USERS**

In 2012, net acquisition of nonfinancial assets of Extrabudgetary Users amounted to HRK 2.3 billion. This amount was the result of the total acquisition of nonfinancial assets in the amount of HRK 2.3 billion and of revenues from the disposal of nonfinancial assets in the amount of HRK 30.8 million. Considering the types of nonfinancial assets, 94.5 percent refers to fixed assets, and the remaining 5.5 percent to transactions in nonproduced assets. Transactions in fixed assets in the largest part consist of the acquisition of buildings and structures of HV (HRK 1.3 billion) and HC (HRK 869.1 million).

Nonproduced assets refer to the land acquisition in the amount of HRK 135.8 million, which was mostly realized by HC. The land disposal in the amount of HRK 11.4 million was entirely realized by AUDIO.

### 3.5 TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES OF EXTRABUDGETARY USERS

Within the structure of net acquisition of financial assets of Extrabudgetary Users in 2012, currency and deposits recorded positive amounts (HRK 534.7 million), of which the largest part refers to DAB and HC. Net acquisition of loans was also recorded in the positive amount of HRK 33.3 million. This is the result of total acquisitions in the amount of HRK 110.6 million and of total disposals, that is, of the repayments of given loans in the amount of HRK 77.4 million. Net acquisition of shares and equity amounted to HRK -88.8 million, primarily as a result of disposals of shares and equity in the capital.

In the same period, net incurrence of liabilities of Extrabudgetary Users amounted to HRK 1.7 billion. This amount is the result of total incurrence of liabilities on both domestic and foreign markets in the amount of HRK 3.3 billion and of domestic and foreign repayments in the amount of HRK 1.7 billion. At the same time, domestic liabilities of Extrabudgetary Users amounted to HRK 1.7 billion, and the foreign ones to HRK -69.2 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 were the ones realised in HC during 2012.

**Table 3.1. Transactions in Financial Assets and Liabilities of the Extrabudgetary Users in 2012**

(000 HRK)		Croatian Waters	Fund for Environmental Protection and Energy Efficiency	Croatian Roads Ltd.	State Agency for Deposit Insurance and Bank Rehabilitation	Government Asset Management Agency	TOTAL
32	<b>Net acquisition of financial assets</b>	<b>-161,607</b>	<b>76,873</b>	<b>113,328</b>	<b>486,496</b>	<b>-35,878</b>	<b>479,212</b>
321	<b>Domestic</b>	<b>-161,607</b>	<b>76,873</b>	<b>113,328</b>	<b>486,496</b>	<b>-35,878</b>	<b>479,212</b>
	Currency and deposits	-153,263	92,218	113,328	492,296	-9,869	534,710
	Loans	0	-15,345	0	0	48,621	33,276
	Acquisitions	0	49,945	0	0	60,694	110,639
	Disposals	0	65,290	0	0	12,073	77,363
	Shares and other equity	-8,344	0	0	-5,800	-74,630	-88,774
	Acquisitions	0	0	0	0	0	0
	Disposals	8,344	0	0	5,800	74,630	88,774
322	<b>Foreign</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
33	<b>Net incurrence of liabilities</b>	<b>753,695</b>	<b>0</b>	<b>918,998</b>	<b>0</b>	<b>-14,111</b>	<b>1,658,582</b>
331	<b>Domestic</b>	<b>767,823</b>	<b>0</b>	<b>946,007</b>	<b>0</b>	<b>13,909</b>	<b>1,727,739</b>
	Loans	767,823	0	946,007	0	13,909	1,727,739
	Repayments	79,125	0	902,770	0	562,294	1,544,189
	Incurrences	846,948	0	1,848,777	0	576,203	3,271,928
	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	<b>Foreign</b>	<b>-14,128</b>	<b>0</b>	<b>-27,009</b>	<b>0</b>	<b>-28,020</b>	<b>-69,157</b>
	Loans	-14,128	0	-27,009	0	-28,020	-69,157
	Repayments	14,128	0	90,640	0	28,020	132,788
	Incurrences	0	0	63,631	0	0	63,631

Source: Ministry of Finance

### 3.6 DEFICIT/SURPLUS MEASURES AND FINANCING OF EXTRABUDGETARY USERS

Net operating balance of Extrabudgetary Users in 2012 amounted to HRK 1.1 billion. At the same time, the primary operating balance amounted to HRK 1.5 billion.

Net lending/borrowing amounted to HRK -1.2 billion, which represents 0.4 percent of GDP. Total financing is the difference between net incurrence of liabilities in the amount of HRK 1.7 billion and net acquisition of financial assets in the amount of HRK 479.2 million.

**Table 3.2. Measures of Deficit/Surplus and Financing of the Extrabudgetary Users in 2012**

(000 HRK)	Croatian Waters	Fund for Environmental Protection and Energy Efficiency	Croatian Roads Ltd.	State Agency for Deposit Insurance and Bank Rehabilitation	Government Asset Management Agency	TOTAL
<b>TRANSACTIONS AFFECTING NET WORTH</b>						
1 Revenue	1,860,067	1,056,742	1,454,458	576,101	56,687	5,004,055
2 Expense	1,455,994	959,728	1,276,972	89,460	97,832	3,879,986
24 Interest	46,035	4,517	295,772	117	31,882	378,323
<b>Net/Gross operating balance (1-2)</b>	<b>404,073</b>	<b>97,014</b>	<b>177,486</b>	<b>486,641</b>	<b>-41,145</b>	<b>1,124,069</b>
<b>Primary operating balance (1-2+24)</b>	<b>450,108</b>	<b>101,531</b>	<b>473,258</b>	<b>486,758</b>	<b>-9,263</b>	<b>1,502,392</b>
<b>TRANSACTIONS IN NONFINANCIAL ASSETS</b>						
31 Net acquisition of nonfinancial assets	1,319,375	20,141	983,156	145	-19,378	2,303,439
<b>Net lending/borrowing (1-2-31)</b>	<b>-915,302</b>	<b>76,873</b>	<b>-805,670</b>	<b>486,496</b>	<b>-21,767</b>	<b>-1,179,370</b>
<b>Financing (33-32)</b>	<b>915,302</b>	<b>-76,873</b>	<b>805,670</b>	<b>-486,496</b>	<b>21,767</b>	<b>1,179,370</b>
<b>TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES</b>						
32 Net acquisition of financial assets	-161,607	76,873	113,328	486,496	-35,878	479,212
33 Net incurrence of liabilities	753,695	0	918,998	0	-14,111	1,658,582

Source: Ministry of Finance

## **4. FINANCING OF LOCAL AND REGIONAL SELF- GOVERNMENT UNITS IN 2012**

## 4.1 LEGAL FRAMEWORK

The Act on the Areas of Counties, Cities and Municipalities in the Republic of Croatia<sup>18</sup> establishes the regional organizational 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, way of determining and changing borders of municipalities and cities, the procedure preceding the change in regional organization and other issues important for regional organization of local and regional self-government units.

The territory of the Republic of Croatia consists of 576 local and regional self-government units, of which 20 units are regional self-government units (counties), 555 are local self-government units (126 towns and 429 municipalities) and the City of Zagreb which has a special status, that is, special rights and duties of both a city and a county.

A local and regional self-government unit (hereinafter referred to as: local unit) is a municipality, city or county the bodies of which carry out functions, execute tasks and adopt programmes prescribed by acts and decisions issued on the basis of law, for which the funds are provided in their budgets.

As a part of their self-government authority, municipalities and cities carry out tasks of local significance which directly address citizens' needs, and which are not assigned to state bodies by the Constitution or law, especially tasks referring to: improving settlements and lodgement, physical and urban planning, utility services, child care, social welfare, primary health care, upbringing and primary education, culture, physical education and sport, consumer protection and natural environment protection and improvement, fire-prevention and civil protection, transport on their territory, and other tasks in line with relevant acts.

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

As a part of their self-government authority, counties carry out the activities of regional significance, especially activities referring to: education, health care system, physical and urban-development planning, economic development, transport and transport infrastructure, maintenance of public roads, planning and development of a network of educational, health, social and cultural institutions, issuance of construction and location permits, other documents concerning construction and implementation of physical planning documents for the county area outside the big city area, and other activities in line with relevant acts.

Financing of local units is regulated by the Constitution<sup>19</sup>, Act on Local and Regional Self-Government<sup>20</sup>, Budget Act<sup>21</sup>, Act on Financing of Local and Regional Self-Government Units<sup>22</sup>, Act on Areas of Special

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<sup>18</sup> Official Gazette, number 86/2006, 125/2006, 16/2007, 46/2010 and 145/2010

<sup>19</sup> Official Gazette, number 56/1990, 135/1997, 8/1998 – consolidated version, 113/2000, 124/2000 – consolidated version, 28/2001, 41/2001 – consolidated version, 55/2001 – correction, 76/2010, 85/2010 – consolidated version

<sup>20</sup> Official Gazette, number 33/2001, 60/2001, 129/2005, 109/2007, 125/2008, 36/2009, 150/2011 and

<sup>21</sup> Official Gazette, number 87/2008 and 136/2012 (except for Articles 4 - 11, 18, 19, 20, 26 and 35 that entered into force on January 1, 2013)

State Concern<sup>23</sup>, Act on Hilly and Mountainous Areas<sup>24</sup>, Act on the City of Zagreb<sup>25</sup>, Act on Islands<sup>26</sup>, 2012 State Budget Execution Act<sup>27</sup>, special acts prescribing the decentralization of the services of elementary-school and secondary-school education, healthcare system, social welfare and fire-fighting, and by annual regulations of the Government of the Republic of Croatia by which minimum financial standards for financing of decentralized services have been regulated. The Republic of Croatia is a signatory of the European Charter of Local Self-Government of the Council of Europe, which has been ratified and confirmed by the Act on the Confirmation of the European Charter of Local Self-Government<sup>28</sup>. European Charter of Local Self-Government guarantees a political, administrative and financial independence of local self-government units.

The Budget Act<sup>29</sup> that entered into force on January 1, 2009, regulates three main areas:

1. area of budget planning, preparation and adoption for one year and of the projections for the next two years as well as the budget execution at both the state and local units levels;
2. area of managing budget funds, state assets and local units assets, and public debt, as well as borrowing and providing guarantees;
3. area of budget relations in the public sector, as well as of the relations between the budget and budgetary users, and the entities outside the budget system, that is outside public sector.

The Act on the Amendments to the Budget Act<sup>30</sup> defines more precisely the development programmes plan as a document prepared for a three-year period containing goals and priorities of the development of local units linked with the programme and organizational classification of the budget. These Amendments to the Act prescribe the obligation of publishing semi-annual and annual reports on the budget execution on web pages of local and regional self-government units.

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

The budget of a local and regional self-government unit is an act which estimates revenues and receipts and which determines expenditures and expenses of a local unit for one year, in line with the law and the decision issued pursuant to the law, and it is adopted by its representative body (county assembly, City Assembly of the City of Zagreb, and municipality and city council).

In the follow-up, there is an overview of budget outturn for 53 local units (City of Zagreb, twenty counties, all cities which are county centres and the following cities: Velika Gorica, Samobor, Vrbovec, Zaprešić, Crikvenica, Opatija, Vinkovci, Pula, Labin, Poreč, Rovinj and Umag).

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<sup>22</sup> Official Gazette, number 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, 73/2008, 25/2012

<sup>23</sup> Official Gazette, number 86/2008 and 57/2011

<sup>24</sup> Official Gazette, number 12/2002, 32/2002, 117/2003, 42/2005, 90/2005 and 80/2008

<sup>25</sup> Official Gazette, number 62/2001, 125/2008 and 36/2009

<sup>26</sup> Official Gazette, number 34/1999, 32/2002 and 33/2006

<sup>27</sup> Official Gazette, number 24/2012 and 132/2012

<sup>28</sup> Official Gazette – International Agreement, number 14/1997 and 4/2008

<sup>29</sup> Official Gazette, number 87/2008

<sup>30</sup> Official Gazette, number 136/2012 (except Articles 4 - 11, 18, 19, 20, 26 and 35 which entered into force as of January 1, 2013)

#### 4.2.1 Budget Revenues of Local and Regional Self-Government Units

Municipalities, cities and counties use their budget revenues for financing their self-government activities. The Act on Financing of Local and Regional Self-Government Units defines types of revenues, distribution thereof and rates, that is, the limits within which they are prescribed. Besides the aforementioned regulation, local and regional self-government units also have to adhere to other special acts and regulations that regulate various public spending areas for which the units independently, but within legally prescribed framework, collect and determine the revenues by special regulations and capital revenues.

According to the data on the budget execution for 53 local units, total revenues in 2012 were realized in the amount of HRK 15.0 billion, which represents an increase of 1.8 percent in relation to the realization in previous year.

**Table 4.1. Budget Revenue in the 2010-2012 Period for 53 Local Units**

(000 HRK)		2010	2011	2012	Index 2011/2010	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>15,041,812</b>	<b>14,763,088</b>	<b>15,035,185</b>	<b>98.1</b>	<b>101.8</b>
<b>11</b>	<b>Taxes</b>	<b>8,872,440</b>	<b>8,805,856</b>	<b>9,423,857</b>	<b>99.2</b>	<b>107.0</b>
111	Taxes on income, profits, and capital gains	8,021,829	7,965,284	8,606,644	99.3	108.1
1111	Payable by individuals	8,021,829	7,965,284	8,606,644	99.3	108.1
113	Taxes on property	439,983	437,557	404,927	99.4	92.5
114	Taxes on goods and services	398,714	392,941	402,483	98.6	102.4
1141	General taxes on goods and services	49,883	51,404	55,378	103.0	107.7
11412	Sales taxes	49,883	51,404	55,378	103.0	107.7
1144	Taxes on specific services	15,153	13,167	12,840	86.9	97.5
1145	Taxes on use of goods, permission to use goods	328,302	323,113	328,973	98.4	101.8
11451	Motor vehicles taxes	256,786	249,977	250,959	97.3	100.4
11452	Other	71,516	73,136	78,014	102.3	106.7
1146	Other taxes on goods and services	5,376	5,256	5,291	97.8	100.7
116	Other taxes	11,913	10,075	9,804	84.6	97.3
<b>13</b>	<b>Grants</b>	<b>2,147,948</b>	<b>2,122,230</b>	<b>1,798,058</b>	<b>98.8</b>	<b>84.7</b>
131	From foreign governments	3,776	549	11	14.5	2.0
132	From international organizations	2,367	8,814	23,687	-	268.7
133	From other general government units	2,141,806	2,112,867	1,774,361	98.6	84.0
<b>14</b>	<b>Other revenue</b>	<b>4,021,424</b>	<b>3,835,003</b>	<b>3,813,270</b>	<b>95.4</b>	<b>99.4</b>
141	Property income	945,050	886,337	921,297	93.8	103.9
142	Sales of goods and services	2,747,197	2,684,869	2,509,775	97.7	93.5
1422	Administrative fees	2,497,536	2,422,160	2,280,181	97.0	94.1
1423	Incidental sales by nonmarket establishments	249,662	242,571	202,247	97.2	83.4
143	Fines, penalties, and forfeits	13,734	54,327	71,122	-	130.9
144	Voluntary transfers other than grants	32,054	33,759	55,680	105.3	164.9
145	Miscellaneous and unidentified revenue	283,389	175,710	255,396	62.0	145.4

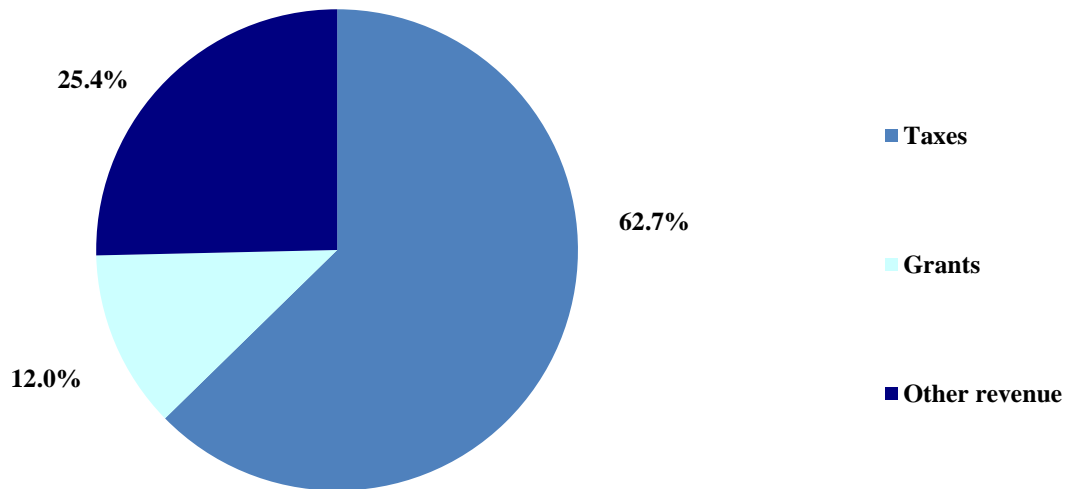
Source: Ministry of Finance

The most abundant revenues of local units are tax revenues. In 2012, they were realized in the amount of HRK 9.4 billion, which represents 62.7 percent of total revenues. In relation to 2011, tax revenues were increased by 7.0 percent.

Revenues from grants were realized in the amount of HRK 1.8 billion, that is by 15.3 percent less than in 2011. Their share in total revenues was 12.0 percent.

In 2012, there was also a reduction in other revenues which represent the second group of the most abundant revenues of local units (25.4 percent of total revenues). In relation to the previous year, they were decreased by 0.6 percent, that is, they amounted to HRK 3.8 billion.

**Figure 4.1. Structure of Total Revenue of 53 Local Units in 2012**



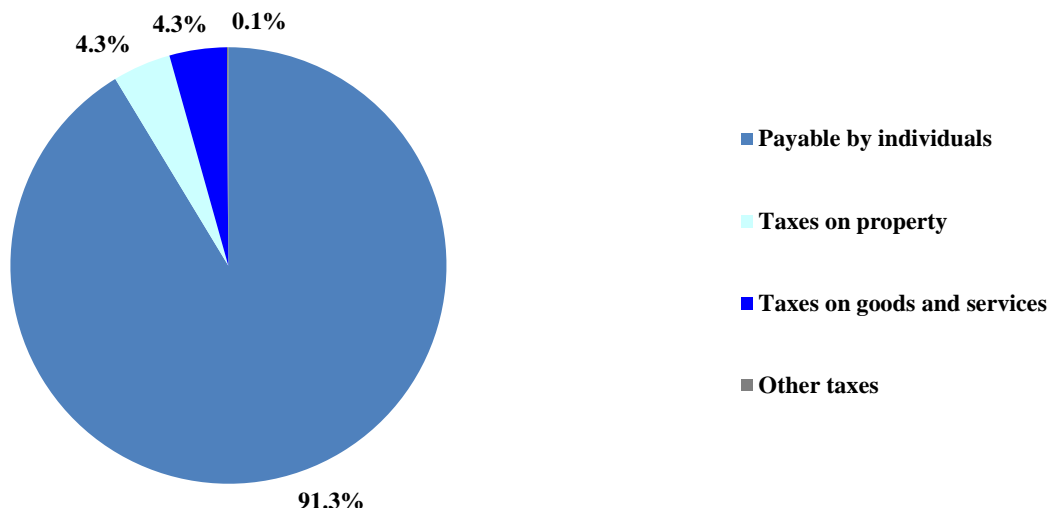
Source: Ministry of Finance

#### 4.2.1.1 Taxes

The Act on Financing Local Units defines the sources of funds by categories and types of revenues, and types of joint taxes and the distribution thereof among the state, counties, municipalities and cities.

Within the structure of tax revenues, the largest share came from the revenues from personal income tax and the revenues from surtax to personal income tax, 91.3 percent, followed by the tax on property and taxes on goods and services with equal shares in total tax revenues of 4.3 percent. Other taxes represent 0.1 percent of tax revenues of local units.

**Figure 4.2. Structure of Tax Revenues for 53 Local Units in 2012**



Source: Ministry of Finance

In 2012, the revenues from personal income taxes and surtaxes were increased in relation to the previous year by 8.1 percent, and they amounted to HRK 8.6 billion. This increase is partly a consequence of the



amendments to the Act on the Amendments to the Act on Financing of Local and Regional Self-Government Units<sup>31</sup>, which entered into force on March 1, 2012.

This Act amends the distribution of revenues from personal income tax. The share of a municipality, that is, of a city in the distribution of the revenues from personal income tax is increased from 55 percent to 56.5 percent, and the share of a county is increased from 15.5 percent to 16 percent along with the simultaneous reduction in the share of the position for equalization fund for decentralized functions from 17.5 percent to 15.5 percent. The reduction of the share of equalization fund also influenced the reduction in the revenues from grants to local and regional self-government units. In case of the City of Zagreb that has functions of both a city and a county, the share of the City in the distribution of the revenues from personal income tax was increased from 70.5 percent to 72.5 percent along with the simultaneous reduction in appropriations for equalization fund for decentralized functions from 17.5 percent to 15.5 percent.

The Amendments to the Act on Financing of Local Units from 2001 and 2003, and the amendments to special acts created a legal framework for the decentralization of functions of elementary-school and secondary-school education, social welfare, healthcare and fire-fighting system (public fire-fighting brigades) to local and regional self-government units.

A part of the functions/expenses for education, health system and social welfare was transferred to 54 largest units – 20 counties, 34 cities and the City of Zagreb, and the regular activity of fire-fighting brigades is financed by 130 municipalities/cities. Regarding the transferred functions, the units dispose of the additional share in personal income tax for each of them. The additional shares in personal income tax are used to cover the minimum financial standards determined by objective criteria regulated by annual decisions of the Government of the Republic of Croatia for respective areas. Furthermore, in line with the mentioned Act, the units which do not collect sufficient funds to cover the minimum financial standards, despite the additional shares in personal income tax, have the right to use the equalization fund from the funds for decentralized functions from the State Budget.

In December 2011, the Government adopted individual decisions for the first quarter of 2012 on criteria and benchmarks for determining balance rights for financing the minimum financial standard of the public needs of secondary schools and students dormitories, elementary-school education, and the minimum financial standards applicable to material and financial expenses of the social welfare centres and for assistance in covering housing costs to users who use wood for heating, as well as for decentralized functions related to healthcare services and decentralized funding for homes for senior citizens and the disabled, and for regular activity of public fire-fighting brigades<sup>32</sup>. At the beginning of May 2012, the Government adopted these decisions for the period of the whole 2012<sup>33</sup>, and in September and October 2012, it adopted the amendments to thereof<sup>34</sup>. Pursuant to the Regulation on the Method for Calculating the Amount of Equalization Grants for Decentralized Functions of Local and Regional Self-Government Units for 2012 (Official Gazette, number 52/12), total funding for decentralized functions was determined in the amount of HRK 2.41 billion, and they were distributed by units and purposes.

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<sup>31</sup> Official Gazette, number 25/2012

<sup>32</sup> Official Gazette, number 149/2011

<sup>33</sup> Official Gazette, number 52/2012

<sup>34</sup> Official Gazette, number 105/2012, 111/2012 and 114/2012

**Table 4.2. Number of Local Units Financing the Decentralized Functions in 2012**

	Health care	Social welfare	Secondary education	Primary education	Public fire brigades	Total number of units
<b>Counties</b>	20				-	<b>20</b>
<b>Cities</b>	-	-	-	32		<b>66</b>
				2	32	
<b>Municipalities</b>	-	-	-	-	66	<b>66</b>
<b>TOTAL</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>54</b>	<b>130</b>	<b>152</b>

Source: Ministry of Finance

**Table 4.3. Financing of Decentralized Functions in 2012**

(000 HRK)	Counties and the City of Zagreb	Cities	Municipalities	TOTAL
Health care	482,435			482,435
Social welfare	361,082			361,082
Secondary education	451,810			451,810
Primary education	709,525	242,412		951,937
Public fire brigades	57,546	241,482	31,597	330,625
<b>TOTAL</b>	<b>2,062,398</b>	<b>483,894</b>	<b>31,597</b>	<b>2,577,889</b>

Source: Ministry of Finance

The total amount of HRK 2.6 billion was distributed for financing of the decentralized functions in 2012. The largest part of that amount may be attributed to counties and the City of Zagreb with the total of HRK 2.1 billion of expenditures.

According to the criterion of functions, the largest amount was spent for the function of elementary-school education in the amount of HRK 952 million. Regarding the expenditures, the elementary-school education is followed by the healthcare system, secondary-school education, social welfare, while the smallest amount of HRK 331 million was appropriated for the function of fire-fighting.

#### 4.2.1.2. Grants

Grants are current and capital transfers to the budgets of local units from foreign governments, international organizations and other general government units. Total amount of grants includes a part of personal income tax obtained as an equalization grant from the State Budget for decentralized functions. In the fiscal year of 2012, total grants paid in the budgets of local units amounted to HRK 1.8 billion, which represents the reduction by 15.3 percent in relation to the previous year.

**Table 4.4. Grants Revenue Achieved in 2010-2012 Period for 53 Local Units**

(000 HRK)		2010	2011	2012	Index 2011/2010	Index 2012/2011
<b>13</b>	<b>Grants</b>	<b>2,147,948</b>	<b>2,122,230</b>	<b>1,798,058</b>	<b>98.8</b>	<b>84.7</b>
<b>131</b>	<b>From foreign governments</b>	<b>3,776</b>	<b>549</b>	<b>11</b>	<b>14.5</b>	<b>2.0</b>
1311	Current	3,660	481	11	13.1	2.3
1312	Capital	116	68	0	58.7	0.0
<b>132</b>	<b>From international organizations</b>	<b>2,367</b>	<b>8,814</b>	<b>23,687</b>	<b>-</b>	<b>268.7</b>
1321	Current	1,487	6,016	14,446	-	240.1
1322	Capital	880	2,798	9,241	-	-
<b>133</b>	<b>From other general government units</b>	<b>2,141,806</b>	<b>2,112,867</b>	<b>1,774,361</b>	<b>98.6</b>	<b>84.0</b>
1331	Current	1,972,006	1,669,772	1,462,860	84.7	87.6
1332	Capital	169,800	443,095	311,500	261.0	70.3

Source: Ministry of Finance

The grants from other general government units also include the grants realized by local and regional self-government units from the State Budget. Thus, counties, municipalities and cities of the first and the second category of areas of special state concern, which meet the criteria for the calculation and allocation of grants, receive grants from the State Budget. The determination, allocation and use of these grants is established by the Act on the State Budget Execution for respective years. In the Act on the Execution of the State Budget of the Republic of Croatia for 2012, the aforementioned was regulated by Article 35.

In 2012, these grants were realized in the amount of HRK 83.7 million, which represents a decline of 0.7 percent in relation to the previous year. The grants were received by 14 counties, 11 cities and 38 municipalities of the first and the second category of areas of special state concern. The amounts of grants paid to counties range from HRK 419 thousand to HRK 9.6 million, depending on the fulfilment of the criteria for the calculation of grants; for cities the amounts range from HRK 60 thousand to HRK 2.6 million, and for the municipalities between HRK 37 thousand and HRK 3.7 million.

**Table 4.5. Grants to Regional and Local Units in the Areas of Special State Concern from the State Budget in 2012**

(000 HRK)	2010	2011	2012	Index 2011/2010	Index 2012/2011
<b>Grants to Local Units</b>	<b>89,049</b>	<b>84,289</b>	<b>83,735</b>	<b>94.7</b>	<b>99.3</b>
Grants to Counties	47,935	44,148	45,097	92.1	102.1
Grants to Cities	7,700	9,880	11,575	128.3	117.2
Grants to Municipalities	33,414	30,261	27,063	90.6	89.4

Source: Ministry of Finance

In line with the Act on the Execution of the State Budget, the counties have to distribute at least 75 percent of the amount of the received grant to municipalities and cities in the territory thereof which are not direct beneficiaries of these grants.

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

Local self-government units in the areas of special state concern and hilly-mountainous areas also receive grants in the amount of corporate income tax, paid from the State Budget, that are realized in the area of special state concern and in the hilly-mountainous areas. The payment of these grants in 2012 was defined in Article 36 of the Act on the Execution of the State Budget of the Republic of Croatia for 2012. All 230 local units that are situated in the areas of special state concern and in hilly-mountainous areas received the grant in the amount of the corporate income tax realized on the territory thereof in total amount of HRK 266.9 million, which, in comparison to the previous-year amount of HRK 222.9 million of refund on the basis of corporate income tax, represents a significant increase. Out of the total amount of HRK 187.4 million of refund of corporate income tax to municipalities and cities in the area of special state concern in 2012, the municipalities and cities from the II category of the area of special state concern had the largest share in tax refunds, and they received HRK 109.5 million. In 2012, the amount of HRK 79.5 million was refunded to municipalities and cities in the hilly-mountainous areas on the same basis.

**Table 4.6. Grants for Regional and Local Units from the State Budget in the Amount of Corporate Income Tax from their Territory in 2010–2012 Period**

(000 HRK)	Total number of Units	out of which		2010			2011			2012		
		Cities	Municipalities	Cities	Municipalities	Total	Cities	Municipalities	Total	Cities	Municipalities	Total
<b>Areas of special State concern</b>	<b>185</b>	30	155	86,122	57,874	<b>143,996</b>	81,230	74,350	<b>155,580</b>	103,970	83,381	<b>187,350</b>
Group I	<b>50</b>	8	42	24,643	12,007	<b>36,650</b>	28,368	16,241	<b>44,609</b>	29,425	18,435	<b>47,860</b>
Group II	<b>61</b>	21	40	61,012	23,012	<b>84,024</b>	52,247	27,622	<b>79,868</b>	74,218	35,244	<b>109,463</b>
Group III	<b>74</b>	1	73	467	22,855	<b>23,322</b>	616	30,487	<b>31,103</b>	326	29,701	<b>30,028</b>
<b>Hilly and mountainous areas</b>	<b>45</b>	12	33	50,778	37,029	<b>87,807</b>	36,026	31,296	<b>67,322</b>	45,052	34,494	<b>79,546</b>
<b>Total</b>	<b>230</b>	42	188	136,900	94,903	<b>231,803</b>	117,256	105,646	<b>222,902</b>	149,021	117,875	<b>266,896</b>

Source: Ministry of Finance

Pursuant to the provisions of Article 34 of the Act on the Execution of the State Budget of the Republic of Croatia for 2012, personal income tax return was paid, based on annual return application, to taxpayers from the areas of special state concern (first, second and third category) and hilly-mountainous areas, from the revenue which belongs to the State Budget, in the total amount of HRK 451.2 million. Since the personal income tax return is paid directly to taxpayers, citizens, the local units on behalf of which the Republic of Croatia returns the overpaid amount of tax, do not register these funds as the received grant. Only 10.2 percent of total refunds of income tax in the areas of special state concern in 2012 was returned instead of counties, while the remaining 89.9 percent was returned instead of local self-government units, that is, the amount of 405 million.

**Table 4.7. Personal Income Tax Return Based on an Annual Application which the State Returns on Behalf of Regional and Local Units in 2010 - 2012 Period**

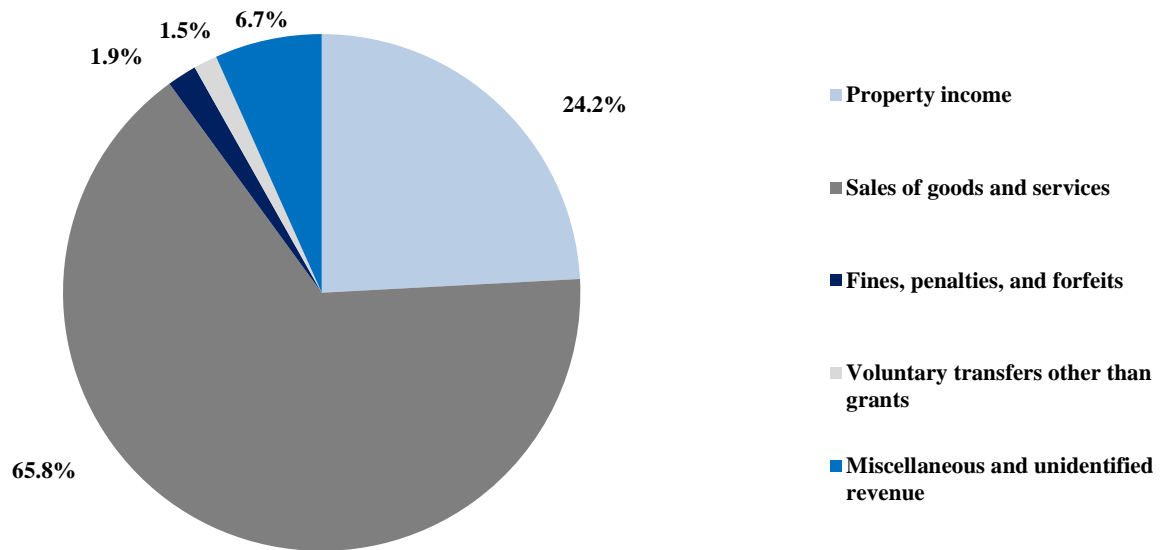
(000 HRK)	2010	2011	2012	Index 2011/2010	Index 2012/2011
<b>Personal Income Tax Return</b>	<b>593,436</b>	<b>501,898</b>	<b>451,194</b>	<b>84.6</b>	<b>89.9</b>
on behalf of regional units	61,854	51,840	46,206	83.8	89.1
on behalf of local units	531,582	450,058	404,988	84.7	90.0

Source: Ministry of Finance

#### 4.2.1.2 Other Revenue

In 2012, other revenues, as the second most important revenues of local units, were realized in the amount of HRK 3.8 billion, which represents the reduction by 0.6 percent in relation to 2011. Other revenues of local and regional self-government units may be classified in five main categories: property income, revenues from sales of goods and services, fines, penalties and forfeits, voluntary transfers other than subsidies, and miscellaneous and unidentified revenues.

**Figure 4.3. Structure of Other Revenues of 53 Local Units in 2012**



Source: Ministry of Finance

In 2012, the revenues from sales of goods and services had a share of 65.8 percent in other revenues, in the amount of HRK 2.5 billion, which represents the reduction by 6.5 percent in relation to the previous year. Revenues from sales of goods and services are revenues from the sales of fee stamps, residence charges, utility-service fees, utility-service payments and other fees.

The second group of revenues according to its size of the share in other revenues are property income with 24.2 percent which consists of the revenues 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 2012, they were realized in the amount of HRK 921.3 million, which represents an increase by 3.5 percent in relation to 2011.

Miscellaneous and unidentified revenues amounted to HRK 255.4 million, and therefore, they were increased at a year-on-year level by 45.4 percent. Fines, penalties and forfeits amounted to HRK 71.1 million, which represents an increase by 30.9 percent in relation to 2011, and voluntary transfers other than subsidies amounted to HRK 55.7 million, which represents an increase by 64.9 percent in relation to the previous year.

Revenues from fees and charges determined by special regulations are earmarked revenues that may be used only for activities for which they have been introduced. The introduction of these revenues and the amounts thereof are established by local units themselves within the legal framework.

#### **4.2.2 Budget Expense of Local and Regional Self-Government Units**

Budget expenses of counties, cities and municipalities are conditioned not only by laws and own decisions adopted pursuant to law that set up the obligations thereof, but also by the realization of budget revenues. Expenses of local units refer to the performance of activities that are under the competence of local and regional self-government.

Expense financing is planned on the basis of special laws and decisions made by the units, and the execution is ensured by decisions on budget execution, along with the obligation of budgetary users to use the funds rationally and efficiently for earmarked purposes, on the basis of the planned revenues in the budget.

In 2012, total executed expenses amounted to HRK 13.3 billion and in relation to 2011 they were increased by 4.8 percent. The largest part of the expenses refers to the use of goods and services (HRK 5.2 billion), due to financing of current expenses as part of decentralised functions and material expenses from within the scope of activity of local units. Expenses for the use of goods and services include expenses necessary for the regular functioning of all users. The funds were spent on materials, energy, public lighting, cleaning of public areas, utilities and other services for regular needs, and expenses for regular maintenance of buildings and equipment. Expenses for the use of goods and services were increased by 4.6 percent in relation to 2011.

**Table 4.8. Budget Expense in the 2010-2012 Period for 53 Local Units**

(000 HRK)		2010	2011	2012	Index 2011/2010	Index 2012/2011
<b>2</b>	<b>EXPENSE</b>	<b>13,066,277</b>	<b>12,661,547</b>	<b>13,269,948</b>	<b>96.9</b>	<b>104.8</b>
<b>21</b>	<b>Compensation of employees</b>	<b>3,622,102</b>	<b>3,604,127</b>	<b>3,717,421</b>	<b>99.5</b>	<b>103.1</b>
211	Wages and salaries	3,133,718	3,088,997	3,210,747	98.6	103.9
212	Social contributions	488,383	515,130	506,675	105.5	98.4
<b>22</b>	<b>Use of goods and services</b>	<b>4,995,571</b>	<b>4,998,530</b>	<b>5,228,358</b>	<b>100.1</b>	<b>104.6</b>
<b>24</b>	<b>Interest</b>	<b>102,517</b>	<b>126,181</b>	<b>134,863</b>	<b>123.1</b>	<b>106.9</b>
<b>25</b>	<b>Subsidies</b>	<b>1,253,408</b>	<b>1,043,625</b>	<b>1,037,691</b>	<b>83.3</b>	<b>99.4</b>
251	To public corporations	1,066,185	882,406	891,619	82.8	101.0
252	To private enterprises	187,223	161,219	146,072	86.1	90.6
<b>26</b>	<b>Grants</b>	<b>299,226</b>	<b>291,279</b>	<b>313,289</b>	<b>97.3</b>	<b>107.6</b>
263	To other general government units	299,226	290,163	307,765	97.0	106.1
2631	Current	167,229	153,746	160,947	91.9	104.7
2632	Capital	131,997	136,417	146,818	103.3	107.6
<b>27</b>	<b>Social benefits</b>	<b>647,916</b>	<b>652,601</b>	<b>710,944</b>	<b>100.7</b>	<b>108.9</b>
272	Social assistance benefits	616,744	623,596	689,990	101.1	110.6
273	Employer social benefits	31,172	29,005	20,954	93.0	72.2
<b>28</b>	<b>Other expense</b>	<b>2,145,538</b>	<b>1,945,205</b>	<b>2,127,383</b>	<b>90.7</b>	<b>109.4</b>
282	Miscellaneous other expense	2,145,538	1,945,205	2,127,383	90.7	109.4
2821	Current	1,483,437	1,372,127	1,423,299	92.5	103.7
2822	Capital	662,101	573,078	704,084	86.6	122.9

Source: Ministry of Finance

Compensations of employees (salaries and contributions) were executed in the amount of HRK 3.7 billion, that is, in relation to the previous year, they were increased by 3.1 percent. Besides the salaries of employees in local units bodies, compensations of employees also include the salaries of their budgetary users (theatres, museums, libraries, kindergartens, etc.).

The interests amounted to HRK 134.9 million, which represents 6.9 percent more at a year-on-year level. They were mostly designated for the settlement of credit liabilities of local units from previous periods.

Subsidies are current transfers of funds that are given once or on a regular basis, and, according to purposes, they may be allocated for interests, employee training programmes, etc. They were executed in total amount of HRK 1 billion, that is, they declined by insignificant 0.6 percent in relation to 2011. They were mostly intended for public corporations, while the smaller part thereof was intended for those outside the public sector – mostly farmers, craftsmen and independent traders, and small and medium entrepreneurs.

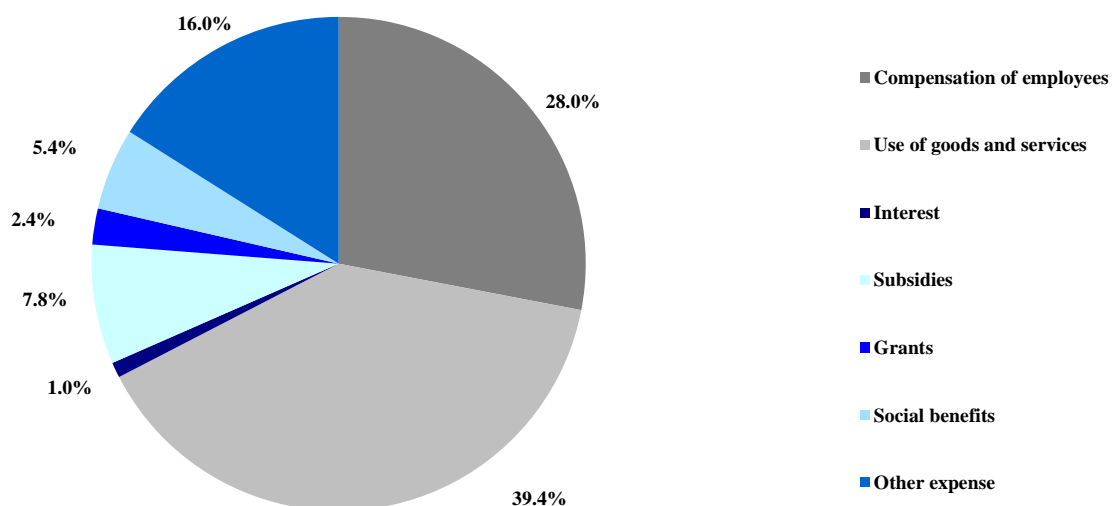
Expenses for social benefits were executed in total amount of HRK 710.9 million and were significantly increased at a year-on-year level, that is, by 8.9 percent in relation to previous year.

Grants are non-compulsory current and/or capital transfers that are allocated to budgetary users for co-financing of their current and capital expense. In 2012, these expense amounted to HRK 313.3 million, which is 7.6 percent more than in relation to 2011. Capital grants represented 46.8 percent of total allocations for grants.

Other expenses (donations) include current and capital expenses which, in 2012, were executed in the amount of HRK 2.1 billion. In other words, they were increased by 9.4 percent at a year-on-year level. Looking at the structure of other expense, 66.9 percent of that amount refers to current other expenses, and the rest to capital other expenses. Donations are mostly intended for non-profit organisations for non-economic investments, reparations following natural disasters, and for the procurement of equipment, and for companies and non-profit institutions owned by local units for the acquisition of nonfinancial assets.

Within the structure of total expense, the expense for the use of goods and services accounted for 39.4 percent, compensations of employees accounted for 28 percent, other expense for 16 percent, subsidies for 7.8 percent, social benefits for 5.4 percent, grants for 2.4 percent and interests for 1 percent.

**Figure 4.4. Structure of Total Expenses of 53 Local Units in 2012**



Source: Ministry of Finance

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

In 2012, net transactions in nonfinancial assets amounted to HRK 1.4 billion, which means that they were reduced by 13.8 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 1.6 billion, that is, they were reduced by 15.6 percent in relation to 2011. The largest part of these referred to schools and healthcare institutions, cultural

facilities, preschool institutions, entrepreneurial zones, business buildings, road reconstruction and construction, sport and recreational centres, furniture, equipment and other. Revenues from the disposal of fixed nonfinancial assets amounted to HRK 160.1 million.

Nonproduced nonfinancial assets comprise land, ore assets, other naturally occurring assets and other rights (concessions, licenses, patents, etc.). The largest part of the disposal of nonproduced nonfinancial assets realized in 2012 refers to land disposal in the amount of HRK 126.2 million. The majority of the acquisition of nonproduced nonfinancial assets is also in the land.

**Table 4.9. Transactions in Nonfinancial Assets in the 2010-2012 Period for the 53 Local Units**

(000 HRK)	2010	2011	2012	Index 2011/2010	Index 2012/2011
<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>2,168,528</b>	<b>1,671,392</b>	<b>1,440,588</b>	<b>77.1</b>	<b>86.2</b>
<b>Fixed assets</b>	<b>2,223,776</b>	<b>1,642,846</b>	<b>1,427,353</b>	<b>73.9</b>	<b>86.9</b>
<i>Acquisitions: fixed assets</i>	<b>2,366,044</b>	<b>1,880,738</b>	<b>1,587,482</b>	<b>79.5</b>	<b>84.4</b>
<i>Disposals: fixed assets</i>	<b>142,268</b>	<b>237,892</b>	<b>160,129</b>	<b>167.2</b>	<b>67.3</b>
Buildings and structures	1,844,836	1,330,805	1,140,733	72.1	85.7
<i>Acquisition: buildings and structures</i>	1,986,047	1,565,770	1,299,706	78.8	83.0
<i>Disposal: buildings and structures</i>	141,210	234,966	158,973	166.4	67.7
Machinery and equipment	304,061	247,130	233,789	81.3	94.6
<i>Acquisition: machinery and equipment</i>	305,067	248,822	234,914	81.6	94.4
<i>Disposal: machinery and equipment</i>	1,006	1,692	1,124	168.2	66.5
Other fixed assets	74,879	64,911	52,831	86.7	81.4
<i>Acquisition: other fixed assets</i>	74,930	66,146	52,862	88.3	79.9
<i>Disposal: other fixed assets</i>	51	1,235	32	-	2.6
<b>Valuables</b>	<b>69</b>	<b>146</b>	<b>93</b>	<b>210.4</b>	<b>63.9</b>
<i>Acquisition: valuables</i>	<b>69</b>	<b>146</b>	<b>93</b>	<b>210.4</b>	<b>63.9</b>
<i>Disposal: valuables</i>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>Nonproduced assets</b>	<b>-55,318</b>	<b>28,400</b>	<b>13,142</b>	<b>-</b>	<b>46.3</b>
<i>Acquisition: nonproduced assets</i>	<b>254,896</b>	<b>243,344</b>	<b>146,075</b>	<b>95.5</b>	<b>60.0</b>
<i>Disposal: nonproduced assets</i>	<b>310,214</b>	<b>214,945</b>	<b>132,933</b>	<b>69.3</b>	<b>61.8</b>
Land	-122,696	-46,877	-27,653	38.2	59.0
<i>Acquisition: land</i>	183,672	165,566	98,555	90.1	59.5
<i>Disposal: land</i>	306,367	212,443	126,208	69.3	59.4
Other naturally occurring assets	14	16	346	115.9	-
<i>Acquisition: other naturally occurring assets</i>	14	16	346	115.9	-
<i>Disposal: other naturally occurring assets</i>	0	0	0	-	-
Intangible nonproduced assets	67,364	75,260	40,449	111.7	53.7
<i>Acquisition: intangible nonproduced assets</i>	71,211	77,762	47,175	109.2	60.7
<i>Disposal: intangible nonproduced assets</i>	3,847	2,502	6,725	65.0	268.8

Source: Ministry of Finance

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

In 2012, net acquisition of financial asset amounted to HRK 247.2 million, while net liabilities were reduced by HRK 77.5 million.

Net amount of transactions in financial asset is a result of expenses and receipts on the basis of financial asset and of changes in the status of currency and deposit. Transactions in financial asset include first of all:



- increase in the status of currency and deposit by HRK 186.1 million;
- acquisition of domestic loans, in the amount of HRK 39.7 million, and acquisitions of shares and equity chasing shares in the capital of companies in the amount of HRK 60.2 million;
- disposals of loans, in the amount of HRK 33.2 million and disposals of shares and equity in companies in the amount of HRK 5.9 million.

Transactions in liabilities include incurrences and repayments of received loans on the basis of issued securities. In 2012 incurrences were carried out domestically, in total amount of HRK 389.8 million, and mostly by taking loans from domestic commercial banks (HRK 389.2 million). Repayments mostly referred to domestic loans (HRK 408.4 million), and in smaller part to domestic issued securities and foreign loans. Total repayments in 2012 amounted to HRK 467.2 million.

**Table 4.10. Transactions in Financial Assets and Liabilities in the 2010-2012 Period for 53 Local Units**

(000 HRK)	2010	2011	2012
<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>-226,342</b>	<b>440,757</b>	<b>247,184</b>
<b>Domestic</b>	<b>-226,342</b>	<b>440,757</b>	<b>247,184</b>
Currency and deposits	-172,226	459,173	186,135
Securities other than shares	0	0	279
Loans	-75,065	-5,665	6,531
<i>Acquisitions</i>	52,960	50,506	39,732
<i>Disposals</i>	128,024	56,171	33,201
Shares and other equity	20,949	-12,751	54,240
<i>Acquisitions</i>	32,969	18,791	60,171
<i>Disposals</i>	12,020	31,542	5,932
Other accounts receivable	0	0	0
<b>Foreign</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>NET INCURRENCE OF LIABILITIES</b>	<b>-33,349</b>	<b>10,608</b>	<b>-77,465</b>
<b>Domestic</b>	<b>-20,901</b>	<b>17,113</b>	<b>-71,266</b>
Securities other than shares	-23,991	-80,891	-52,080
<i>Repayments</i>	26,386	164,912	52,656
<i>Incurrences</i>	2,395	84,021	576
Loans	3,090	98,004	-19,186
<i>Repayments</i>	338,103	394,015	408,389
<i>Incurrences</i>	341,193	492,019	389,204
<b>Foreign</b>	<b>-12,448</b>	<b>-6,505</b>	<b>-6,199</b>
Loans	-12,448	-6,505	-6,199
<i>Repayments</i>	12,448	6,505	6,199
<i>Incurrences</i>	0	0	0

Source: Ministry of Finance

Local units were given a possibility of incurrence for the financing of investments (capital projects), in line with the provisions of the Budget Act, act on the State Budget execution for single years and secondary legislation. Counties, cities and municipalities may incur a debt by taking credits and loans and by issuing securities at the banks on the territory of the Republic of Croatia, and at international financial institutions for capital projects that are financed from their budgets and which were confirmed by the representative body with the prior consent of the Government.

The Budget Act prescribes the limit of liabilities, annual annuity and the base for determining the space of borrowing. Annual annuity of loans, guarantees and other arrears can amount up to 20 percent of realized revenues of a unit in the year preceding the year in which the liabilities were incurred. This limit of 20 percent of debt (liability per credits, guarantees and consents, and arrears from previous periods) is not to be applied on projects co-financed or financed from the European Union funds, that is, for pre-financing of such projects. In addition, municipalities, cities and counties can issue guarantees for borrowing to a public

institution or to a company founded and majority-owned by it. These guarantees are included in the aforementioned annual borrowing limit of the respective unit.

The units are allowed to re-finance former loan liabilities due to more favourable loan conditions, primarily to the reduction of interest rates on the capital market. A loan that was taken with the approval the Government and the rest of the debt based on issued securities, for the issuance of which the Government has given its consent, may also be re-financed under the condition that the re-financing does not increase the existing liabilities of the respective local unit.

The State Budget Execution Act (Article 16) prescribes the measures of limitation by means of which the Government can annually give its consent on borrowing to local units. In line with the Act, municipalities, cities and counties may apply for borrowing, and the Government could give its consent on borrowing in total value up to 2.5 percent of total realized revenues from business operations of all local units, stated in the financial report for 2011. 2.5 percent of total realized revenues in 2011 amounted to HRK 506.3 million, which means that, in 2012, local units could have borrowed up to that amount.

The State Budget Execution Act also prescribes a derogation from the application of this limitation. More precisely, the provision on the limits of the amount up to which the Government may give its consent on borrowing, is not applied to the units in the areas of special state concern, to the units that borrow for projects co-financed from the European Union pre-accession programmes, nor to the units that borrow for energy efficiency projects (ESCO projects).

Local units used these legal provisions in accordance with the regulations, primarily to finance the construction of municipal infrastructure, roads, public lighting, business zones, libraries, school-sport halls, energy efficiency projects and other activities.

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

As a result of local unit revenues and expenses trends, net operating balance in 2012 amounted to HRK 1.8 billion. At the same time, the primary operating balance reached the level of HRK 1.9 billion.

If the net operating balance is reduced by the value of the net acquisition of nonfinancial assets, the result is the category of net lending/borrowing, which, in 2012, amounted to HRK 324.6 million. Financing of this measure is a result of the difference between the net acquisition of financial assets in the amount of HRK 247.2 million and the net incurrence of liabilities in the amount of HRK 77.5 million.

**Table 4.11. Deficit/Surplus Measures and Financing in the 2010-2012 Period for 53 Local Units**

(000 HRK)	2010	2011	2012
<b>TRANSACTIONS AFFECTING NET WORTH</b>			
1 Revenue	15,041,811	14,763,088	15,035,185
2 Expense	13,066,277	12,661,547	13,269,948
24 Interest	102,517	126,181	134,863
<b>Net/Gross operating balance (1 - 2)</b>	<b>1,975,535</b>	<b>2,101,541</b>	<b>1,765,237</b>
<b>Primary operating balance (1 - 2 + 24)</b>	<b>2,078,051</b>	<b>2,227,722</b>	<b>1,900,099</b>
<b>TRANSACTIONS IN NONFINANCIAL ASSETS</b>			
31 Net acquisition of nonfinancial assets	2,168,528	1,671,392	1,440,588
<b>Net lending/borrowing (1 - 2 - 31)</b>	<b>-192,993</b>	<b>430,149</b>	<b>324,649</b>
<b>Financing (33 - 32)</b>	<b>192,993</b>	<b>-430,149</b>	<b>-324,649</b>
<b>TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES</b>			
32 Net acquisition of financial assets	-226,342	440,757	247,184
33 Net incurrence of liabilities	-33,349	10,608	-77,465

Source: Ministry of Finance

## **5. TOTAL DEFICIT/SURPLUS OF THE CONSOLIDATED GENERAL GOVERNMENT IN 2012**

## 5.1 TOTAL DEFICIT/SURPLUS OF THE CONSOLIDATED GENERAL GOVERNMENT

The calculation of total deficit of the General Government starts with the category of net lending/borrowing which represents the difference between revenue, expense and net acquisitions of nonfinancial assets. The starting point for the calculation of deficit is not entirely a pure cash principle because it includes a calculation principle of the review of the transactions of the Croatian Motorways (Hrvatske autoceste) in the 2008–2011 period. According to this, the trends in revenue and expense and acquisition of nonfinancial assets of the Consolidated General Government in 2012 resulted in net lending/borrowing in the amount of HRK -11.2 billion, that is, 3.4 percent of GDP, which is by 0.1 percentage point less than in relation to the planned amount.

The majority of the deficit, 3 percent of GDP, was recorded at the level of the Budgetary Central Government, while the budget of Extrabudgetary Users recorded the deficit of 0.5 percent of GDP, and Local and Regional Self-Government Units recorded the surplus of 0.1 percent of GDP.

**Table 5.1. Total Deficit/Surplus of the Consolidated General Government in the 2008-2012 Period**

CONSOLIDATED GENERAL GOVERNMENT						
(HRK 000)	2008	2009	2010	2011	2012 Plan	2012
1 Revenue	134,735,549	128,089,920	123,715,244	123,034,566	125,102,033	126,138,159
2 Expense	130,381,146	132,447,149	133,658,424	132,888,884	130,987,670	132,449,869
31 Net acquisition nonfinancial assets	7,353,658	6,134,006	4,796,378	5,023,525	5,684,661	4,913,502
Net lending/borrowing (1-2-31)	-2,999,255	-10,491,235	-14,739,559	-14,877,843	-11,570,298	-11,225,212
<b>Total deficit/surplus of Consolidated General Government</b>	<b>-2,999,255</b>	<b>-10,491,235</b>	<b>-14,739,559</b>	<b>-14,877,843</b>	<b>-11,570,298</b>	<b>-11,225,212</b>
GDP, %	-0.9	-3.2	-4.6	-4.5	-3.5	-3.4

Source: Ministry of Finance

The following tables show a review of deficit/surplus of all levels of the Consolidated General Government in the 2008 to 2012 period.

**Table 5.2. Total Deficit/Surplus of the Consolidated General Government according to Government Level in the 2008-2012 Period**

BUDGETARY CENTRAL GOVERNMENT						
(HRK 000)	2008	2009	2010	2011	2012 Plan	2012
1 Revenue	115,772,655	110,257,947	107,466,351	107,069,670	108,648,663	109,558,928
2 Expense	115,292,426	117,923,992	120,323,332	119,939,511	117,115,552	118,729,992
31 Net acquisition nonfinancial assets	2,988,129	1,963,401	1,232,366	1,138,970	1,424,090	829,626
Net lending/borrowing (1-2-31)	-2,507,901	-9,629,446	-14,089,347	-14,008,811	-9,890,979	-10,000,689
<b>Total deficit/surplus of Budgetary Central Government</b>	<b>-2,507,901</b>	<b>-9,629,446</b>	<b>-14,089,347</b>	<b>-14,008,811</b>	<b>-9,890,979</b>	<b>-10,000,689</b>
GDP, %	-0.7	-2.9	-4.4	-4.2	-3.0	-3.0
EXTRABUDGETARY USERS						
(HRK 000)	2008	2009	2010	2011	2012 Plan	2012
1 Revenue	6,324,346	5,659,418	5,060,498	5,114,098	5,251,009	5,019,625
2 Expense	5,578,677	4,454,571	4,122,233	4,200,116	4,129,236	3,925,508
31 Net acquisition nonfinancial assets	1,249,579	1,414,481	1,395,484	2,213,163	1,937,003	2,643,288
Net lending/borrowing (1-2-31)	-503,910	-209,634	-457,219	-1,299,181	-815,230	-1,549,171
GDP, %	-0.1	-0.1	-0.1	-0.4	-0.2	-0.5

<b>LOCAL GOVERNMENT</b>						
<b>(HRK 000)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012 Plan</b>	<b>2012</b>
1 Revenue	16,825,641	16,062,945	15,041,812	14,763,088	14,630,684	15,035,185
2 Expense	13,697,135	13,958,975	13,066,277	12,661,547	13,171,205	13,269,948
31 Net acquisition nonfinancial assets	3,115,950	2,756,124	2,168,528	1,671,392	2,323,569	1,440,588
<b>Net lending/borrowing (1-2-31)</b>	<b>12,556</b>	<b>-652,155</b>	<b>-192,993</b>	<b>430,149</b>	<b>-864,090</b>	<b>324,649</b>
<b>Total deficit/surplus of Local Government</b>	<b>12,556</b>	<b>-652,155</b>	<b>-192,993</b>	<b>430,149</b>	<b>-864,090</b>	<b>324,649</b>
GDP, %	0.0	-0.2	-0.1	0.1	-0.3	0.1

Source: Ministry of Finance

## **6. PUBLIC DEBT OF THE REPUBLIC OF CROATIA AND INTERNATIONAL FINANCIAL RELATIONS IN 2012**

## 6.1 PUBLIC DEBT OF THE REPUBLIC OF CROATIA

The State Budget Act<sup>35</sup> prescribes the main objective of borrowing and debt management, aimed at securing the financial needs of the state budget by achieving the lowest medium-term and long-term financing cost, while taking a reasonable degree of risk.

The State Budget Act defines the state debt as the debt of the central budget, and the public debt as the debt of the general budget. The central budget includes state budget and financial plans of extra-budgetary users of the state budget. The general budget is defined as the central budget together with the budgets of local and regional self-government units and extra-budgetary users of local and regional self-government units.

Table 6.1 shows the trends of the public debt of the Republic of Croatia in the period from 2007 until 2012. At the end of 2012, total public debt amounted to HRK 177 billion, which is 53.7 percent of nominal GDP for 2012. Total domestic and foreign guarantees issued by the Republic of Croatia amounted to HRK 38.7 billion, while the debt of the Croatian Bank for Reconstruction and Development (HBOR) amounted to HRK 16.3 billion for the same period.

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<sup>35</sup> Official Gazette, number 87/2008 and 136/2012



**Table 6.1. Public Debt in the 2007-2012 Period**

<b>PUBLIC DEBT at the end of the period, in milion HRK</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>1. Domestic Public Debt</b>	<b>60,145.9</b>	<b>65,755.4</b>	<b>75,799.7</b>	<b>89,249.1</b>	<b>103,289.2</b>	<b>114,490.5</b>
1.1 Domestic Debt of the Republic of Croatia	51,924.0	61,006.1	70,447.0	82,952.1	95,720.7	105,395.1
Treasury Bills	11,420.6	14,260.3	17,558.3	16,886.5	18,990.4	18,032.6
Money Market Instruments	-	10.7	19.3	20.5	20.6	0.0
Bonds	34,634.4	35,531.3	36,586.8	48,862.5	56,191.2	63,651.7
Credits from the CNB	1.0	2.2	2.9	0.3	0.8	0.0
Bank Loans	5,867.9	11,201.5	16,279.8	17,182.3	20,517.7	23,710.7
1.2 Domestic Debt of Extrabudgetary Users	6,357.8	3,035.0	3,794.4	4,604.7	5,791.5	7,339.9
Money Market Instruments	-	-	-	-	-	-
Bonds	-	-	-	-	-	-
Bank Loans	6,357.8	3,035.0	3,794.4	4,604.7	5,791.5	7,339.9
1.3 Local Government's Domestic Debt	1,864.1	1,714.3	1,558.3	1,692.3	1,777.0	1,755.5
Money Market Instruments	36.8	12.0	6.8	1.6	6.4	0.0
Bonds	365.5	414.0	406.4	387.0	260.9	211.1
Bank Loans	1,461.8	1,288.3	1,145.1	1,303.6	1,509.6	1,544.4
<b>2. Foreign Public Debt</b>	<b>44,425.4</b>	<b>34,878.8</b>	<b>41,933.3</b>	<b>48,758.7</b>	<b>52,682.7</b>	<b>62,818.0</b>
2.1 Foreign Debt of the Republic of Croatia	34,091.7	32,619.4	39,812.5	46,445.4	50,365.2	60,352.5
Money Market Instruments	320.0	180.3	1,244.3	3,458.6	1,189.2	884.3
Bonds	24,844.4	22,991.6	28,884.2	31,684.5	36,962.4	45,909.2
Loans	8,927.3	9,447.4	9,684.1	11,302.3	12,213.6	13,559.0
2.2 Foreign Debt of Extrabudgetary Users	10,000.7	1,826.1	1,715.3	1,988.2	2,092.2	2,293.6
Money Market Instruments	-	-	-	-	-	-
Bonds	-	-	-	-	-	-
Loans	10,000.7	1,826.1	1,715.3	1,988.2	2,092.2	2,293.6
2.3. Local Government's Foreign Debt	333.0	433.4	405.5	325.1	225.4	171.9
Money Market Instruments	-	-	-	-	-	-
Bonds	106.8	168.7	168.2	168.7	135.9	134.8
Loans	226.1	264.7	237.2	156.4	89.5	37.1
<b>Total Public Debt (1+2)</b>	<b>104,571.2</b>	<b>100,634.2</b>	<b>117,733.0</b>	<b>138,007.8</b>	<b>155,971.9</b>	<b>177,308.5</b>
<b>PUBLIC DEBT (% GDP)</b>	<b>32.9%</b>	<b>29.3%</b>	<b>35.8%</b>	<b>42.6%</b>	<b>47.2%</b>	<b>53.7%</b>
<b>PUBLIC DEBT at the end of the period, in milion HRK</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
1. Guarantees Issued by the Republic of Croatia	17,472.6	33,892.9	38,621.7	44,864.4	46,570.4	38,776.6
1.1. Domestic	7,919.9	12,491.3	15,652.1	17,476.2	19,880.2	15,334.5
1.2. Foreign	9,552.7	21,401.6	22,969.6	27,388.2	26,690.2	23,442.1
2. Total Debt of HBOR	9,563.2	10,778.3	12,347.1	14,522.3	13,299.5	16,286.2

Source: Croatian National Bank, Ministry of Finance

### 6.1.1 Credit Rating of the Republic of Croatia

The Republic of Croatia received credit ratings of three leading specialised credit rating agencies, Moody's Investors Service, Standard & Poor's (S&P) and Fitch Ratings. Apart from these, the Republic of Croatia also received the rating from the Japanese R&I credit rating agency, specialised in rating those that issue securities in Japan.

S&P, Moody's and Fitch Ratings granted their initial ratings to the Republic of Croatia in January 1997, while the Japanese rating agency R&I granted its rating to the Republic of Croatia in 1998.

Each year, these agencies verify the granted credit ratings granted, which, in 2012 resulted in lowering of the credit rating of the Republic of Croatia by Standard & Poor's rating agency, while other rating agencies

confirmed the investment credit rating given to the Republic of Croatia. Table 6.2 provides an overview of the credit ratings of the Republic of Croatia at the end of 2012.

**Table 6.2. Overview of Credit Ratings of the Republic of Croatia at the End of 2012**

	Long Term Rating Foreign Currency	Long Term Rating Domestic Currency	Short Term Rating Foreign Currency
Mood's Investors Service	Baa3/stable " <i>outlook</i> "	Baa3	P-1
Standard & Poors	BB+/ stable " <i>outlook</i> "	BB+	B
Fitch Ratings	BBB-/negative " <i>outlook</i> "	BBB	
R & I	BBB/negative " <i>outlook</i> "		

Source: Ministry of Finance

**Table 6.3. Comparison of Credit Ratings at the End of 2012**

Country	Moody's (Long-term Rating in Foreign Currency)	Standard and Poor's (Long-term Rating in Foreign Currency)
Bulgaria	Baa2	BBB
Czech Republic	A1	AA-
Croatia	Baa3	BB+
Hungary	Ba1	BB
Poland	A2	A-
Romania	Baa3	BB+
Slovakia	A2	A

Source: Ministry of Finance

## 6.1.2 Domestic Debt of the State Budget in 2012

### 6.1.2.1 Domestic Debt Categories

During 2012, the domestic debt of the Republic of Croatia was increased from HRK 90.3 billion, as it had been at the end of 2011, to HRK 103.3 billion, as it was at the end of 2012. The increase in domestic debt during 2012 was realized by issuing bonds on the domestic capital market, by an increased net inscription of treasury bills and by assuming liabilities of shipyards per credits secured by state guarantees.

**Table 6.4. The Central Domestic Debt of the Republic of Croatia in thousand HRK**

Debt Item	Original currency	2011		2012		Maturity (Year)	Coupon
		Amount owed in original currency	Amount owed in HRK	Amount owed in original currency	Amount owed in HRK		
Big Bonds Series I	HRK	0	0	0	0	2011	5.000%
Big Bonds Series II	EUR	0	0	0	0	2011	7.200%
Big Bonds Series III	EUR	5,588	42,080		0	2012	7.200%
Bonds – Series 03 D-12	EUR	500,000	3,765,210		0	2012	6.875%
Bonds – Series 05 D-14	EUR	650,000	4,894,773	650,000	4,904,656	2014	5.500%
Bonds – Series 07 D-19	EUR	500,000	3,765,210	500,000	3,772,812	2019	5.375%
Bonds – Series 09 D-15	EUR	350,000	2,635,647	350,000	2,640,968	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%
Bonds – Series 13 D-20	HRK	5,000,000	5,000,000	5,000,000	5,000,000	2020	6.750%
Bonds – Series 14 D-20	EUR	1,000,000	7,530,420	1,000,000	7,545,624	2020	6.500%
Bonds – Series 15 D-17	HRK	4,000,000	4,000,000	4,000,000	4,000,000	2017	6.250%
Bonds – Series 16 D-16	HRK	1,500,000	1,500,000	3,500,000	3,500,000	2016	5.750%
Bonds – Series 17 D-22	EUR	600,000	4,518,252	1,000,000	7,545,624	2022	6.500%
Bank Rehabilitation - Series II	EUR	2,056	15,486		0	2012	5.000%
Bank Rehabilitation - Series III	EUR	5,794	43,634		0	2012	7.200%
Bank Rehabilitation - Series IV	EUR	2,815	21,198		0	2012	5.000%
Syndicated Foreign Currency Loan I	EUR	500,000	3,765,210	500,000	3,772,812	2014	4.335%
Syndicated Foreign Currency Loan II	EUR	760,000	5,723,119	380,000	2,867,337	2014	4.335%
Syndicated Foreign Currency Loan III	EUR	750,000	5,647,815	750,000	5,659,218	2014	4.596%
Syndicated Foreign Currency Loan IV	EUR	260,000	1,957,909	208,000	1,569,490	2016	5.500%
Other medium and long term debt	HRK			7,248,103	7,248,103		
<b>Medium and long term debt</b>			<b>69,825,963</b>		<b>75,026,644</b>		
Treasury Bills	HRK	15,285,000	15,285,000	15,625,000	15,625,000		
Treasury Bills VK	EUR	694,362	5,228,837	592,784	4,472,925		
Treasury Bills FX	EUR			763,920	5,764,253		
Other short term debt	HRK			2,365,281	2,365,281		
<b>Short term debt</b>			<b>20,513,837</b>		<b>28,227,459</b>		
<b>Total debt</b>			<b>90,339,800</b>		<b>103,254,103</b>		

Source: Ministry of Finance

In July 2012, the Republic of Croatia issued domestic market bonds in the amount of EUR 400,000,000.00 in HRK equivalent.

The bonds were issued per price of 100.73 of the nominal amount and they were consolidated with the previous-year issuance of EUR 600,000,000.00, under the mark RHMF-O-227E, and they represent an integral issuance with the maturity on July 22, 2022. Interest coupon rate is unchangeable and it amounts to 6.5 percent annually.

In addition, in July 2012, the Republic of Croatia issued bonds in the amount of HRK 2,000,000,000.00. The bonds were issued per price of 98.844 of the nominal amount and they were consolidated with the issuance in the amount of HRK 1,500,000,000.00 under the mark RHMF-O-167A and they represent an integral issuance with the maturity on July 22, 2016. Interest coupon rate is unchangeable and it amounts to 5.75 percent annually.

**Table 6.5. Amortisation of Domestic Debt**

(HRK million)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Amortisation</b>	<b>12,502.27</b>	<b>11,520.05</b>	<b>10,010.16</b>	<b>5,817.84</b>	<b>10,856.29</b>	<b>134.03</b>	<b>3,814.62</b>	<b>12,582.58</b>	<b>36.96</b>	<b>7,582.58</b>
Bonds – Series 05 D-14	0.00	4,904.66	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds – Series 07 D-19	0.00	0.00	0.00	0.00	0.00	0.00	3,772.81	0.00	0.00	0.00
Bonds - Series 09 D-15	0.00	0.00	2,640.97	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 10 D-15 (HRK)	0.00	0.00	5,500.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 11 D-13 (HRK)	4,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 12 D-17 (HRK)	0.00	0.00	0.00	0.00	5,500.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 13 D-20 (HRK)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	0.00	0.00
Bonds - Series 14 D-20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7,545.62	0.00	0.00
Bonds - Series 15 D-17 (HRK)	0.00	0.00	0.00	0.00	4,000.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 16 D-16	0.00	0.00	0.00	3,500.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 17 D-22	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7,545.62
Syndicated Foreign Currency	1,886.41	1,886.41	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated Foreign Currency	2,867.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated Foreign Currency	2,829.61	2,829.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated Foreign Currency	392.37	392.37	392.37	392.37	0.00	0.00	0.00	0.00	0.00	0.00
Other	526.55	1,507.01	1,476.82	1,925.47	1,356.29	134.03	41.81	36.96	36.96	36.96
<b>Payment of Interest</b>	<b>3,955.85</b>	<b>3,345.54</b>	<b>2,931.54</b>	<b>2,434.31</b>	<b>1,996.44</b>	<b>1,604.22</b>	<b>1,545.40</b>	<b>925.46</b>	<b>510.60</b>	<b>508.47</b>
Bonds – Series 05 D-14	269.76	134.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds – Series 07 D-19	202.79	202.79	202.79	202.79	202.79	202.79	202.79	0.00	0.00	0.00
Bonds - Series 09 D-15	112.24	112.24	112.24	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 10 D-15 (HRK)	288.75	288.75	288.75	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 11 D-13 (HRK)	180.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 12 D-17 (HRK)	261.25	261.25	261.25	261.25	130.63	0.00	0.00	0.00	0.00	0.00
Bonds - Series 13 D-20 (HRK)	337.50	337.50	337.50	337.50	337.50	337.50	337.50	168.75	0.00	0.00
Bonds - Series 14 D-20	490.47	490.47	490.47	490.47	490.47	490.47	490.47	245.23	0.00	0.00
Bonds - Series 15 D-17 (HRK)	250.00	250.00	250.00	250.00	250.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 16 D-16	201.25	201.25	201.25	201.25	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 17 D-22	490.47	490.47	490.47	490.47	490.47	490.47	490.47	490.47	490.47	490.47
Syndicated Foreign Currency	133.97	45.78	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated Foreign Currency	62.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated Foreign Currency	261.93	137.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated Foreign Currency	87.52	65.64	43.76	21.94	0.00	0.00	0.00	0.00	0.00	0.00
Other	325.15	327.54	253.07	178.65	94.60	83.00	24.18	21.01	20.13	18.00
<b>Total</b>	<b>16,458.13</b>	<b>14,865.60</b>	<b>12,941.70</b>	<b>8,252.15</b>	<b>12,852.73</b>	<b>1,738.25</b>	<b>5,360.02</b>	<b>13,508.04</b>	<b>547.56</b>	<b>8,091.05</b>

Exchange rate: Mid exchange rate of the CNB as of 31st December 2012

Source: Ministry of Finance

In May 2012, EUR 500 million of bonds, issued in 2002, matured and were redeemed.

All bonds of the Republic of Croatia were listed in the first quotation of Zagreb Stock Exchange, where, at the end of 2012, total of eleven emissions of bonds of the Republic of Croatia were listed (the list of these, with terms and 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**

<p><b>DAB Bonds for Insured Savings I</b> <b>DAB-O-03CA</b></p> <p>Issuer: State Agency for Deposit Insurance and Bank Rehabilitation EUR 105,000,000 3 years 8% coupon Lead managers: Privredna banka Zagreb and Zagrebačka banka Zagreb Listing: Zagreb Stock Exchange Date of Issue: 19 December 2000 Date of Maturity: 19 December 2003 <b>The bond was fully repaid at maturity.</b></p>	<p><b>DAB Bonds for Insured Savings II</b> <b>DAB-O-05CA</b></p> <p>Issuer: State Agency for Deposit Insurance and Bank Rehabilitation EUR 225,000,000 5 years 8.375% coupon Lead managers: Privredna banka Zagreb and Zagrebačka banka Zagreb Listing: Zagreb Stock Exchange Date of Issue: 19 December 2000 Date of Maturity: 19 December 2005 <b>The bond was fully repaid at maturity.</b></p>
<p><b>HZZO Bonds</b> <b>HZZO-O-047A</b></p> <p>Issuer: Croatian Institute for Health Insurance EUR 222,000,000 4 years 8.5% coupon Lead manager: Zagrebačka banka Zagreb</p> <p>Listing: Zagreb Stock Exchange Date of Issue: 19 July 2000 Date of Maturity: 19 July 2004 <b>The bond was fully repaid at maturity.</b></p>	<p><b>Bonds – Series 01 D-04</b> <b>RHMF-O-049A</b></p> <p>Issuer: Republic of Croatia EUR 200,000,000 3 years 6.5% coupon Lead managers: Privredna banka Zagreb and Zagrebačka banka Zagreb Listing: Zagreb Stock Exchange Date of Issue: 20 September 2001 Date of Maturity: 20 September 2004 <b>The bond was fully repaid at maturity.</b></p>
<p><b>Bonds – Series 02 D-08</b> <b>RHMF-O-08CA</b></p> <p>Issuer: Republic of Croatia EUR 200,000,000 7 years 6.875% coupon Lead managers: Privredna banka Zagreb and Zagrebačka banka Zagreb Listing: Zagreb Stock Exchange Date of Issue: 14 December 2001 Date of Maturity: 14 December 2008 <b>The bond was fully repaid at maturity.</b></p>	<p><b>Bonds – Series 03 D-12</b> <b>RHMF-O-125A</b></p> <p>Issuer: Republic of Croatia EUR 500,000,000 10 years 6.875% coupon Lead managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisen bank Zagreb Listing: Zagreb Stock Exchange Date of Issue: 23 May 2002 Date of Maturity: 23 May 2012 <b>The bond was fully repaid at maturity.</b></p>
<p><b>Bonds – Series 04 D-08</b> <b>RHMF-O-085A</b></p> <p>Issuer: Republic of Croatia HRK 1,000,000,000 5 years 6.125% coupon Lead managers: Riječka banka Rijeka i Splitska banka Split</p> <p>Listing: Zagreb Stock Exchange Date of Issue: 28 May 2003 Date of Maturity: 28 May 2008 <b>The bond was fully repaid at maturity.</b></p>	<p><b>Bonds – Series 05 D-14</b> <b>RHMF-O-142A</b></p> <p>Issuer: Republic of Croatia EUR 650,000,000 10 years 5.5% coupon Lead managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisen bank Zagreb Listing: Zagreb Stock Exchange Date of Issue: 10 February 2004 Date of Maturity: 10 February 2014</p>

<p><b>Bonds – Series 06 D-07</b> <b>RHMF-O-077A</b></p> <p>Issuer: Republic of Croatia EUR 400,000,000 3 years 3.875% coupon Lead managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisen bank Zagreb</p> <p>Listing: Zagreb Stock Exchange Date of Issue: 7 July 2004 Date of Maturity: 7 July 2007 <b>The bond was fully repaid at maturity.</b></p>	<p><b>Bonds – Series 07 D-19</b> <b>RHMF-O-19BA</b></p> <p>Issuer: Republic of Croatia EUR 500,000,000 15 years 5.375% coupon Lead managers: Erste&amp;Steiermarkische Bank, Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisenbank Zagreb Listing: Zagreb Stock Exchange Date of Issue: 29 November 2004 Date of Maturity: 29 November 2019</p>
<p><b>Bonds – Series 08 D-10</b> <b>RHMF-O-103A</b></p> <p>Issuer: Republic of Croatia HRK 3,000,000,000 5 years 6.750% coupon Lead managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisen bank Zagreb Listing: Zagreb Stock Exchange Date of Issue: 8 March 2005 Date of Maturity: 8 March 2010 <b>The bond was fully repaid at maturity.</b></p>	<p><b>Bonds – Series 09 D-15</b> <b>RHMF-O-157A</b></p> <p>Issuer: Republic of Croatia EUR 350,000,000 10 years 4.25% coupon Lead manager: Erste&amp;Steiermarkische Bank Listing: Zagreb Stock Exchange Date of Issue: 14 July 2005 Date of Maturity: 14 July 2015</p>
<p><b>Bonds – Series 10 D-15</b> <b>RHMF-O-15CA</b></p> <p>Issuer: Republic of Croatia HRK 5,500,000,000 10 years 5.25% coupon Lead managers: Erste&amp;Steiermärkische Bank, HVB Splitska banka, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb Listing: Zagreb Stock Exchange Date of Issue: 15 December 2005 Date of Maturity: 15 December 2015</p>	<p><b>Bonds – Series 11 D-13</b> <b>RHMF-O-137A</b></p> <p>Issuer: Republic of Croatia HRK 4,000,000,000 7 years 4.50% coupon Lead managers: Erste&amp;Steiermärkische Bank, HVB Splitska banka, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb Listing: Zagreb Stock Exchange Date of Issue: 11 July 2006 Date of Maturity: 11 July 2013</p>
<p><b>Bonds – Series 12 D-17</b> <b>RHMF-O-172A</b></p> <p>Issuer: Republic of Croatia HRK 5,500,000,000 10 years 4.75% coupon Lead managers: Erste&amp;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</p>	<p><b>Bonds – Series 13 D-20</b> <b>RHMF-O-203A</b></p> <p>Issuer: Republic of Croatia HRK 5,000,000,000 10 years 6.75% coupon Lead managers: Erste&amp;Steiermärkische Bank, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb Listing: Zagreb Stock Exchange Date of Issue: 5 March 2010 Date of Maturity: 5 March 2020</p>

<b>Bonds – Series 14 D-20</b> <b>RHMF-O-203E</b> Issuer: Republic of Croatia EUR 1,000,000,000 10 years 6.5% coupon Lead managers: Erste&Steiermärkische Bank, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb Listing: Zagreb Stock Exchange Date of Issue: 5 March 2010 Date of Maturity: 5 March 2020	<b>Bonds – Series 15 D-17</b> <b>RHMF-O-17BA</b> Issuer: Republic of Croatia HRK 4,000,000,000 7 years 6.25% coupon Lead managers: Erste&Steiermärkische Bank, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb Listing: Zagreb Stock Exchange Date of Issue: 25 November 2010 Date of Maturity: 25 November 2017
<b>Bonds – Series 16 D-16</b> <b>RHMF-O-167A</b> Issuer: Republic of Croatia HRK 3,500,000,000 5 years 5.75% coupon Lead managers: Erste&Steiermärkische Bank, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb Listing: Zagreb Stock Exchange Date of Issue: 22 July 2011 Date of Maturity: 22 July 2016	<b>Bonds – Series 17 D-22</b> <b>RHMF-O-227E</b> Issuer: Republic of Croatia EUR 1,000,000,000 11 years 6.5% coupon Lead managers: Erste&Steiermärkische Bank, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb Listing: Zagreb Stock Exchange Date of Issue: 22 July 2011 Date of Maturity: 22 July 2022

Source: Ministry of Finance

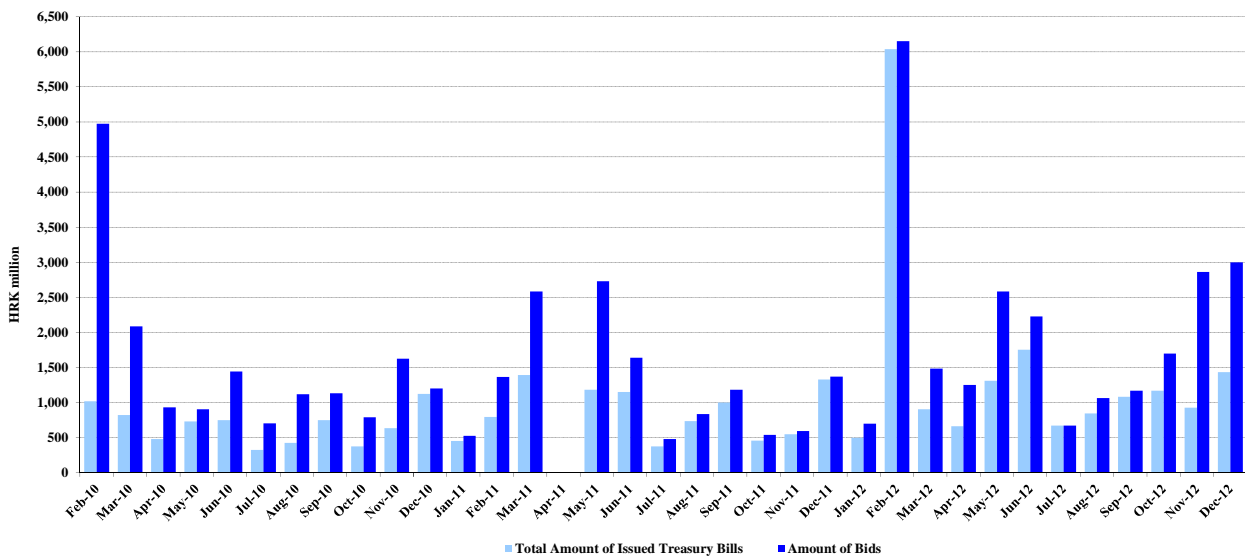
### 6.1.2.2 Treasury Bills

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

During 2012, there were 31 treasury bills auctions held, with the total of 144 issuances of which 86 were HRK issuances, 56 issuances of treasury bills expressed in EUR and payable in HRK, and 2 issuances of Euro FX treasury bills. Regarding the HRK issuances of treasury bills, 27 were 91-days issuances, 30 were 182-days issuances, 28 were 364-days issuances and one was 728-days issuance. Regarding the treasury bills expressed in EUR and payable in HRK, 28 were 91-days issuances and 28 were 364-days issuances. In 2012, there was one 364-days issuance of Euro FX treasury bills and one 546-days issuance of Euro FX treasury bills.

In 2012, total of HRK 23.1 billion of treasury bills, EUR 1.3 billion (payable in HRK) of treasury bills and EUR 730.4 million of Euro FX treasury bills were issued at treasury bills auctions. At the same time, HRK 22.8 billion and EUR 1.4 billion of treasury bills were redeemed, which was an increase from HRK 20.5 billion, as it had amounted to at the end of 2011, to HRK 25.9 billion at the end of 2012.

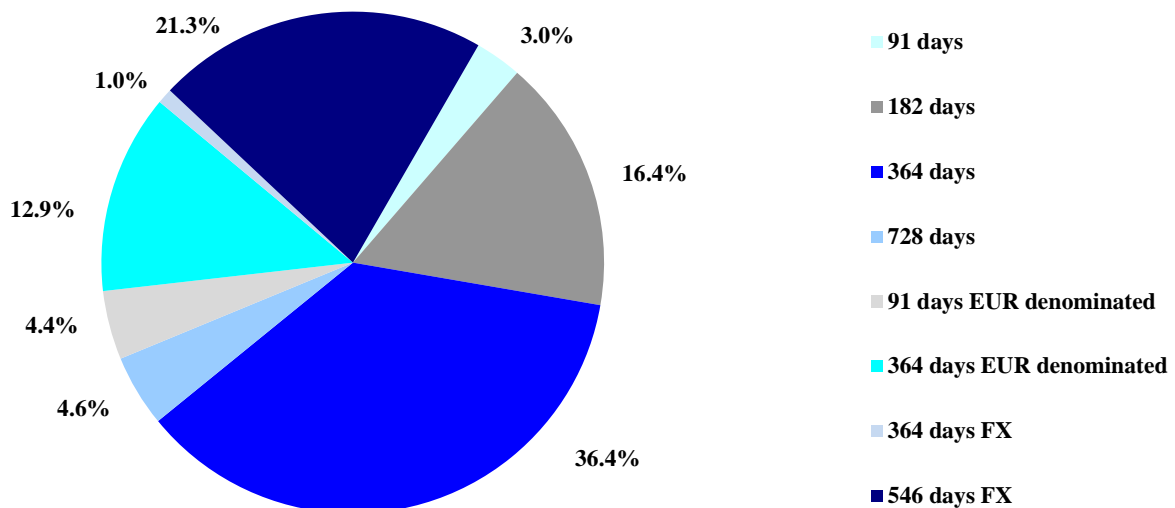
Figure 6.1. Results of Treasury Bills Auctions



Source: Ministry of Finance

At the end of 2012, out of the total amount of inscribed treasury bills of the Ministry of Finance, the largest share was held by HRK treasury bills with the maturity term of 364 days with 36.4 percent, and Euro FX treasury bills with the maturity term of 546 days with 21.3 percent. Out of total amount of inscribed treasury bills, HRK treasury bills with the maturity term of 182 days, represent 16.4 percent and treasury bills with the maturity term of 364 days, expressed in euro represent 12.9 percent.

Figure 6.2. Maturity Structure of Treasury Bills as of 31st December 2012



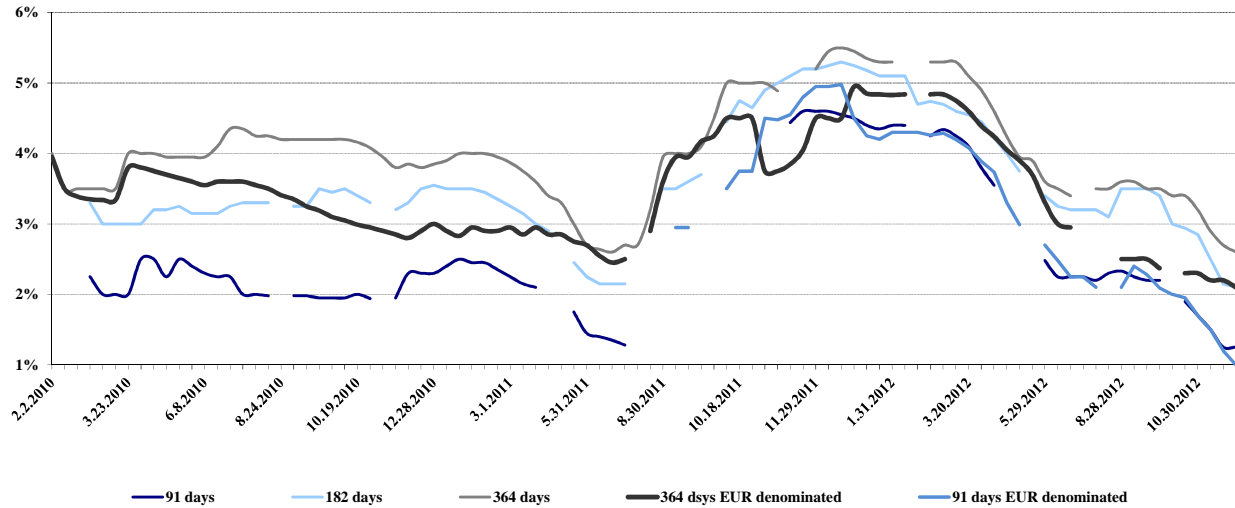
Source: Ministry of Finance

During 2012, there was a reduction in interest rates for treasury bills in relation to 2011. Interest rates for treasury bills with the maturity term of 31 days were reduced from 4.55 percent, as they had amounted to at the end of 2011, to 1.25 percent, as they amounted to at the end of 2012. Interest rates for treasury bills with the maturity term of 182 days were reduced from 5.3 percent to 2.10 percent, while those with the maturity term of 364 days were reduced from 5.5 percent to 2.60 percent. Interest rates for treasury bills with a currency clause and with the maturity term of 91 days were reduced from 4.5 percent, as they had amounted to at the end of 2011, to 1 percent, as they amounted to at the end of 2012, while interest rates for treasury



bills with a currency clause and with the maturity term of 364 days were reduced from 4.98 percent to 2.1 percent.

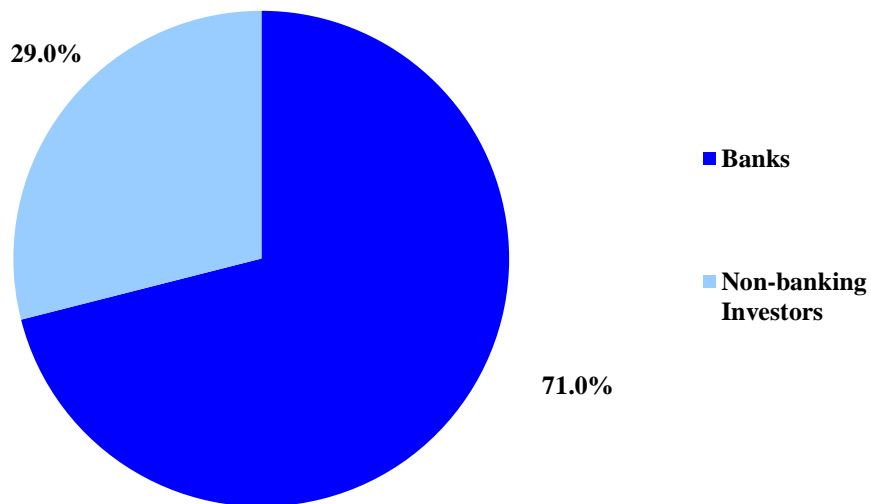
**Figure 6.3. Interest Rates of Treasury Bills**



Source: Ministry of Finance

During 2012, the share of the banking sector in the structure of buyers of treasury bills was increased in relation to 2011. The share of the banking sector in total inscribed bills at the end of 2012 amounted to 71 percent, while at the end of 2011 it had amounted to 68.6 percent.

**Figure 6.4. Structure of Treasury Bills by Investors as of 31st December 2012**



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 2012, the total of seven emissions of Croatian Government bonds were listed on foreign capital markets.

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

<b>London Club Series A:</b>	<b>London Club Series B:</b>
US\$ 857,796,000	US\$ 604,426,000
3 years grace period, 11 years repayment	10 years repayment
US\$ 6 Month LIBOR+81.25 bp	US\$ 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
<b>The Bond was fully repaid at maturity.</b>	<b>The Bond was fully repaid at maturity.</b>
<b>Euro-dollar bonds:</b>	<b>Euro-DEM bonds:</b>
US\$ 300 million	DEM 300 million
5 years, bullet	7 years, bullet
7% coupon	6.125% coupon
(80 bps over 5-year Treasuries)	(95 bps over 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
<b>The Bond was fully repaid at maturity.</b>	<b>The Bond was fully repaid at maturity.</b>
<b>Matador Bonds:</b>	<b>Euro-EUR bonds / I:</b>
ESP 15 billion	EUR 300 million
3 years, bullet	7 godina, 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
<b>The Bond was fully repaid at maturity.</b>	<b>The Bond was fully repaid at maturity.</b>
<b>Samurai bond / I:</b>	<b>Euro-EUR bonds / II:</b>
JPY 25 billion	EUR 500 million
5 years, bullet	5 years, bullet
4% coupon	7 % coupon
(310 bps over 5-year Yen LIBOR)	(210 bps over 5-year German Bund)
Lead manager: 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
<b>The Bond was fully repaid at maturity.</b>	<b>The Bond was fully repaid at maturity.</b>
<b>Samurai bond / II:</b>	<b>Samurai bond / III:</b>
JPY 40 billion	JPY 25 billion
7 years, bullet	5 years, bullet
3% coupon	2.5% coupon
(135 bps over 7-year Yen LIBOR)	(152 bps over 5-year Yen LIBOR)
Lead manager: 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
<b>The Bond was fully repaid at maturity.</b>	<b>The Bond was fully repaid at maturity.</b>

<p><b>Euro-EUR bonds / III:</b> EUR 750 milion 10 years, bullet 6.75 % coupon (215 bps over 10-year German Bund) Lead managers: JP Morgan and Deutsche Bank Listing: Luxembourg Date of Issue: 6 March 2001 Date of Maturity: 14 March 2011 <b>The Bond was fully repaid at maturity.</b></p>	<p><b>Euro-EUR bonds / IV:</b> EUR 500 milion 7 years, bullet 6.25 % coupon (158 bps over 7-year German Bund) Lead managers: Deutsche Bank and CSFB Listing: Luxembourg Date of Issue: 28 January 2002 Date of Maturity: 11 February 2009 <b>The Bond was fully repaid at maturity.</b></p>
<p><b>Samurai bond / IV:</b> JPY 25 billion 6 years, bullet 2.15% coupon (144 bps over 6-year Yen LIBOR) Lead managers: Daiwa Securities SMBC and Nomura Securities Date of Issue: 26 June 2002 Date of Maturity: 26 June 2008 <b>The Bond was fully repaid at maturity.</b></p>	<p><b>Euro-EUR bonds / V:</b> EUR 500 milion 7 years, bullet 4.625 % coupon (95 bps over 7-year Euribor) Lead managers: Deutsche Bank and Citigroup Listing: Luxembourg Date of Issue: 24 February 2003 Date of Maturity: 24 February 2010 <b>The Bond was fully repaid at maturity.</b></p>
<p><b>Samurai bond / V:</b> JPY 25 billion 6 years, bullet 1.23% coupon (99bps over 6-year Yen LIBOR) Lead managers: Daiwa Securities SMBC and Nomura Securities Date of Issue: 26 June 2003 Date of Maturity: 26 June 2009 <b>The Bond was fully repaid at maturity.</b></p>	<p><b>Euro-EUR bonds / VI:</b> EUR 500 milion 10 years, bullet 5 % coupon (100 bps over 10-year Euribor) Lead managers: JP Morgan and UBS Investment Bank Listing: Luxembourg Date of Issue: 15 April 2004 Date of Maturity: 15 April 2014</p>
<p><b>Euro-EUR bonds / VII:</b> EUR 750 milion 6 years, bullet 6.5 % coupon (369.2 bps over 10-year German Bund) Lead managers: BNP Paribas, Deutsche Bank and Unicredit Listing: Luxembourg Date of Issue: 5 June 2009 Date of Maturity: 5 January 2015</p>	<p><b>Euro-USD bonds / I:</b> USD 1,5 billion 10 years, bullet 6.75% coupon (350 bps over 10-years US Treasury) Lead managers: Barclays Capital, Citigroup and JP Morgan Listing: Luxembourg Date of Issue: 5 November 2009 Date of Maturity: 5 November 2019</p>
<p><b>Euro-USD bonds / II:</b> USD 1,25 billion (cross currency swap - 1,4165 USD za 1 euro) 10 years, bullet 6.625% coupon (381.3 bp over 10-years US Treasury) Lead managers: Barclays Capital, Citigroup and JP Morgan  Listing: Luxembourg Date of Issue: 14 July 2010 Date of Maturity: 14 July 2020</p>	<p><b>Euro-USD bonds / III:</b> USD 1,5 billion (cross currency swap - 1,3875 USD za 1 euro) 10 years, bullet 6,375% coupon (340 bp over 10-years US Treasury) Lead managers: Barclays Bank Plc, Deutsche Bank AG and JP Morgan Securities Ltd Listing: Luxembourg Date of Issue: 24 March 2011 Date of Maturity: 24 March 2021</p>

Euro-EUR bonds / VIII:	Euro-USD bonds / IV:
EUR 750 milion	USD 1,5 billion (cross currency swap - 1,3110 USD za 1 euro)
7 years, bullet	5 years, bullet
5,875 % coupon	6,25% coupon
Lead manager: Deutsche Bank A.G. London Branch, HSBC Bank Plc., Zagrebačka banka Zagreb, Erste Group Bank A.G. and Raiffeisen Bank Internacional A.G.	Lead manager: Citigroup Global Markets Limited, Deutsche Bank AG London and JP Morgan Securities Ltd
Listing: Luxembourg	Listing: Luxembourg
Date of Issue: 8 July 2011	Date of Issue: 27 April 2012
Date of Maturity: 9 July 2018	Date of Maturity: 27 April 2017

Source: Ministry of Finance

In April 2012, the Republic of Croatia issued Eurobonds in the amount of USD 1.5 billion, with the maturity term of 5 years and the unchangeable annual interest rate of 6.25.

As protection from inter-currency exchange rate changes, incoming payments and all outgoing payments of interests and principal of these bonds are converted into EUR according to the fixed exchange rate of USD 1.3110 for EUR 1.

The successful placement of the bonds of the Republic of Croatia on the international financial market indicates that international financial market estimates the management of Croatian economy and monetary policy in globally complex conditions as positive.

Out of the total of seven international bonds of the Republic of Croatia, the repayment projection of which is shown in table 6.8, three are denominated in EUR, and four in USD. The total nominal value of all seven emissions of Croatian bonds on international markets at the end of 2012 amounted to EUR 6.4 billion.

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

	Amount in (EUR*)	2013 (EUR*)	2014 (EUR*)	2015 (EUR*)	2016 (EUR*)	2017 (EUR*)	2018 (EUR*)	2019 (EUR*)	2020 (EUR*)	2021 (EUR*)
EUR 500,000,000	Principal	500,000,000	0	500,000,000						
5.0 %, Maturity: 2014	Interest		25,000,000	25,000,000						
EUR 750,000,000	Principal	750,000,000	0	0	750,000,000					
6.5 %, Maturity: 2015	Interest		48,750,000	48,750,000	48,750,000					
USD 1,500,000,000	Principal	1,138,433,481	0	0	0	0	1,138,433,481			
6.25% Maturity: 2017	Interest		71,152,093	71,152,093	71,152,093	71,152,093	35,576,046			
EUR 750,000,000	Principal	750,000,000	0	0	0	0	0	750,000,000		
5.875% , Maturity: 2018	Interest		44,062,500	44,062,500	44,062,500	44,062,500	44,062,500	44,062,500		
USD 1,500,000,000	Principal	1,138,433,481	0	0	0	0	0	0	1,138,433,481	
6.75 % , Maturity: 2019	Interest		76,844,260	76,844,260	76,844,260	76,844,260	76,844,260	76,844,260	76,844,260	
USD 1,250,000,000	Principal	948,694,568	0	0	0	0	0	0	0	948,694,568
6.625 % , Maturity: 2020	Interest		62,851,015	62,851,015	62,851,015	62,851,015	62,851,015	62,851,015	62,851,015	
USD 1,500,000,000	Principal	1,138,433,481	0	0	0	0	0	0	0	1,138,433,481
6.375% Maturity: 2021	Interest		72,575,134	72,575,134	72,575,134	72,575,134	72,575,134	72,575,134	72,575,134	36,287,567
Principal Repayment (EUR*)			0	500,000,000	750,000,000	0	1,138,433,481	750,000,000	1,138,433,481	948,694,568
Interest Payment (EUR*)			401,235,002	401,235,002	376,235,002	327,485,002	291,908,956	256,332,910	212,270,410	135,426,150
Total Servicing Costs (EUR*)			401,235,002	901,235,002	1,126,235,002	327,485,002	1,430,342,437	1,006,332,910	1,350,703,891	1,084,120,717
Total Principal Outstanding (at year end) (EUR*)			6,363,995,012	5,863,995,012	5,113,995,012	5,113,995,012	3,975,561,531	3,225,561,531	2,087,128,049	1,138,433,481

\* Exchange rate: Mid exchange rate of the CNB as of 31st December 2012

Source: Ministry of Finance

## 6.2 INTERNATIONAL FINANCIAL RELATIONS IN 2012

### 6.2.1 Relations with International Financial Institutions

#### 6.2.1.1 International Bank for Reconstruction and Development (IBRD<sup>36</sup>)

The role of IBRD and its financial support to the Republic of Croatia are defined within the IBRD Country Partnership Strategy for the Republic of Croatia for the period FY 2009 to FY 2012, adopted by the Government of the Republic of Croatia at its session held on July 31, 2008, and by the World Bank Board of Executive Directors at its session held on September 30, 2008. The extension of the Partnership Strategy by June 30, 2013 was accepted by the Government of the Republic of Croatia at its session held on July 5, 2012. The aim of the Partnership Strategy is to support the Republic of Croatia in the as fastest as possible and as successful as possible completion of the EU accession process, to accelerate the convergence of its income level with that of current EU member states in a fiscally, socially and environmentally sustainable way, and to provide for better standard of living for Croatian citizens. There are four priority areas in which the World Bank will provide its support: a) maintenance of macroeconomic stability; b) strengthening of the private sector led-growth and acceleration of convergence with the EU; c) increase in quality and efficiency of social welfare system, and d) improvement of sustainability of long-term development. The Strategy foresees a four-year loan programme for financing of projects 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, energy, education, environment protection, adaptation to climate changes, healthcare, judiciary), and the funds for analytical support. This base case scenario programme might be supplemented by Development Policy Loans (DPL), especially as a support to reforms in the public sector and for improving the competitiveness of the economy. By opening this possibility, the Strategy foresees the extension of the base case scenario programme to a high case scenario loan programme of USD 1.4 to 1.8 billion.

#### New Loans Contracted with IBRD in 2012 and Loans in Preparation during 2012

During 2012, one loan agreement and one advance agreement were concluded with IBRD:

- a) loan number 81930-HR (EUR 50 million) to the Croatian Bank for Reconstruction and Development (HBOR), with state guarantee, for Additional Financing for the Export Finance Intermediation Loan Project (provision of support to the maintenance and growth of export by gaining medium-term and long-term working capital and by financing the investments of exporters and enterprises with foreign currency revenues);
- b) advance no. PPA P4640-HR (USD 1.5 thousand) directly to the Republic of Croatia, for the preparation of the proposed Second Science and Technology Project (preparation of national strategy of science and technology, and establishment of research infrastructure, support to research and development financing programmes); user of funds: Ministry of Science, Education and Sport.

In 2012, the preparation of the Second Economic Recovery Development Policy Loan continued (amount of the potential loan is EUR 150 million).

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<sup>36</sup> International Bank for Reconstruction and Development (IBRD) is a special development institution within the World Bank group. The Republic of Croatia has been a full member of IBRD since February 25, 1993, and it owns 0.14 percent of shares in its capital and it has 0.16 percent of voting power. In the IBRD Board of Executive Directors, the Republic of Croatia, together with twelve other states, is represented by the executive director from the Netherlands.

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

In the period from 1994 to 2012, IBRD granted, for financing of projects and programmes in the Republic of Croatia, the amount of EUR 1.9 billion<sup>37</sup> and USD 648.6 million, through a total of 52 long-term loans (table 6.9), of which 35 were direct loans and 17 sovereign guarantee loans<sup>38</sup>. In line with the decisions of the IBRD Management and with current practice, towards the borrowers that timely settle their liabilities by contracted loans, savings of EUR 1.7 million and USD 358.1 thousand were achieved for direct loans and sovereign guarantee loans. During 2012, the accrued interest were paid semi-annually at the following floating rates, depending on the type of loan: a) for Currency Pooled Loans – CPL – from 1.64 percent to 1.90 percent; b) for Variable Spread Loans – VS: 1) contracted in EUR or converted into EUR – from 1.20 percent to 2.25 percent; 2) contracted in USD – from 0.87 percent to 1.30 percent, and c) for Fixed Spread Loans – FS, contracted in or converted into EUR – from 1.06 percent to 2.92 percent. Front-end Fees were calculated and paid at a rate of 0.25 percent of the loan amount, and Commitment Charges at a rate of 0.25 percent.

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<sup>37</sup> This amount in EUR is a sum of the amount of loans originally contracted in EUR and the amount of loans originally contracted in DEM and then converted in EUR.

<sup>38</sup> Loan no. 30690-HR, granted in the amount of USD 28 million, was taken over on the basis of the Act on Ratification of the Guarantee Agreement between the Republic of Croatia and IBRD and the Loan Assumption Agreement between the Republic of Croatia and IBRD, concluded on February 25, 1993 (*Official Gazette-International Agreements, number 7/1994*). In January 2001, the amount of approximately USD 1.98 million that had not been disbursed was called off, and the loan was closed for disbursement. The loan was paid off in 2004.

**Table 6.9. Overview of Grants Contracted with the IBRD, Grants given by the Kingdom of the Netherlands and Federal Republic of Germany, and EBRD Grants on 31st December 2012**

DIRECT LOANS									
Signing Date	The Act published in Official Gazette No.:	Effective / Closing Date	Currency	Loan Amount	Disbursed	Undisbursed	Outstanding	Principal Repayment, First and Last	Disbursed in 2012
<b>Emergency Reconstruction Project - loan no. 37600 - HR CPL</b>									
27.06.1994	7/1994	19.08.1994 31.12.1999	000 USD	128,000.00	128,000.00	0.00	0.00	15.12.1998 15.06.2011	0.00
<b>Health Project - loan no. 38430 - HR CPL (1)</b>									
08.03.1995	7/1995	17.08.1995 31.12.1999	000 USD	38,925.50	38,925.50	0.00	0.00	15.06.2000 15.12.2011	0.00
<b>Highway Sector Project - loan no. 38690 - HR CPL (2)</b>									
27.04.1995	8/1995	26.07.1995 30.06.2001	000 USD	79,878.49	79,878.49	0.00	0.00	15.12.1999 15.06.2012	0.00
<b>Capital Market Development Project - loan no. 39990 - HR VSL</b>									
23.04.1996	1/1996 and 9/1996	22.07.1996 30.06.1999	000 EUR	7,260.35	7,260.35	0.00	322.11	15.10.2001 15.04.2013	0.00
<b>Farmer Support Services Project - loan no. 39880 - HR CPL (3)</b>									
23.04.1996	1/1996 and 9/1996	22.07.1996 31.12.2002	000 USD	14,258.75	14,258.75	0.00	557.14	01.09.2001 01.03.2013	0.00
<b>Technical Assistance Project - loan no. 39890 - HR VSL</b>									
23.04.1996	1/1996 and 8/1996	22.07.1996 30.04.2000	000 USD	5,000.00	5,000.00	0.00	170.00	15.10.2001 15.04.2013	0.00
<b>Emergency Reconstruction Transport and Mine Clearing Project - loan no. 41040 - HR VSL (4)</b>									
04.12.1996	3/1997	04.03.1997 31.12.2001	000 EUR	74,797.17	74,797.17	0.00	0.00	15.07.2002 15.01.2012	0.00
<b>Coastal Forest Reconstruction Project - loan no. 41190 - HR CPL (5)</b>									
31.01.1997	8/1997	31.07.1997 30.06.2003	000 USD	38,589.31	38,589.31	0.00	3,142.51	15.06.2002 15.12.2013	0.00
<b>Enterprise and Financial Sector Adjustments Loan - loan no. 41590 - HR VSL EFSAL</b>									
04.06.1997	17/1997	05.11.1997 31.12.2001	000 EUR	81,806.70	81,806.70	0.00	0.00	15.12.2002 15.06.2012	0.00
<b>Reconstruction Project for Eastern Slavonia, Baranja and Western Srijem - loan no. 43510 - HR VSL (6)</b>									
08.09.1998	15/1998	06.01.1999 31.12.2004	000 EUR	36,600.50	36,600.50	0.00	3,629.26	15.01.2004 15.07.2013	0.00
<b>Railway Modernization and Restructuring Project - loan no. 44330 - HR VSL (7)</b>									
20.01.1999	4/1999	09.06.1999 30.06.2005	000 EUR	85,398.55	85,398.55	0.00	12,809.85	15.09.2004 15.03.2014	0.00
<b>Technical Assistance Project for Institutional and Legislative Changes for Private Sector Development - loan no. 44600 - HR VSL (8)</b>									
05.05.1999	8/1999	03.08.1999 30.06.2006	000 USD	7,253.43	7,253.43	0.00	1,085.75	15.10.2004 15.04.2014	0.00
<b>Health System Project - loan no. 45130 - HR VSL (9)</b>									
07.10.1999	14/1999	28.03.2000 30.12.2005	000 USD	26,155.16	26,155.16	0.00	5,189.46	15.06.2005 15.12.2014	0.00
<b>Trade and Transport Facilitation in Southeast Europe Project - loan no. 45820 - HR VSL (10)</b>									
27.10.2000	5/2001	02.05.2001 31.03.2005	000 EUR	13,813.21	13,813.21	0.00	4,144.81	15.05.2006 15.11.2015	0.00
<b>Court and Bankruptcy Administration Project - loan no. 46130 - HR VSL (11)</b>									
03.07.2001	14/2001 and 5/2002	29.01.2002 31.01.2007	000 USD	4,636.27	4,636.27	0.00	1,600.27	15.12.2006 15.06.2016	0.00
<b>Structural Adjustment Loan - loan no. 46410 - HR VSL SAL</b>									
05.12.2001	2/2002 and 5/2002	08.02.2002 31.10.2003	000 USD	202,000.00	202,000.00	0.00	80,800.00	15.04.2007 15.10.2016	0.00
<b>Pension System Investment Project - loan no. 46720 - HR VSL (12)</b>									
17.09.2002	2/2003 and 6/2003	20.02.2003 31.12.2008	000 USD	21,221.14	21,221.14	0.00	8,865.64	15.11.2007 15.05.2017	0.00
<b>Real Property Registration and Cadastre Project - loan no. 46740 - HR VSL (13)</b>									
18.09.2002	2/2003 and 6/2003	20.02.2003 30.06.2010	000 EUR	25,973.29	25,973.29	0.00	12,980.92	15.05.2008 15.11.2017	0.00
<b>Coastal Cities Pollution Control Project - loan no. 72260 - HR FSL (14)</b>									
02.07.2004	11/2004 and 2/2005	17.12.2004 30.11.2009	000 EUR	39,047.24	39,047.24	0.00	25,563.32	15.10.2009 15.04.2019	0.00
<b>Social and Economic Recovery Project - loan no. 72830 - HR FSL (15)</b>									
02.05.2005	9/2005 and 1/1/2005	30.09.2005 31.12.2010	000 EUR	34,894.90	34,894.90	0.00	24,472.21	15.05.2010 15.11.2019	0.00
<b>Social Welfare Development Project - loan no. 73070 - HR FSL (16)</b>									
06.07.2005	11/2005	30.01.2006 31.03.2011	000 EUR	30,887.85	30,887.85	0.00	23,156.54	15.11.2010 15.05.2020	0.00

Signing Date	The Act published in Official Gazette No.:	Effective / Closing Date	Currency	Loan Amount	Disbursed	Undisbursed	Outstanding	Principal Repayment, First and Last	Disbursed in 2012
<b>Science and Technology Project - loan no. 73200 - HR FSL (17)</b>									
16.09.2005	12/2005 and 5/2006	11.05.2006 31.05.2011	000 EUR	29,750.47	29,750.47	0.00	22,823.96	15.11.2010 15.05.2020	0.00
<b>Programmatic Adjustment Loan (PAL) - loan no. 73300 - HR FSL PAL</b>									
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
<b>Education Sector Development Project - loan no. 73320 - HR FSL (18)</b>									
17.10.2005	12/2005 and 1/2007	15.03.2006 30.09.2011	000 EUR	66,282.45	66,282.45	0.00	51,145.08	15.11.2010 15.05.2020	0.00
<b>Agricultural Acquis Cohesion Project - loan no. 73600 - HR FSL (19)</b>									
08.05.2006	10/2006 and 1/2007	21.11.2006 31.07.2012	000 EUR	25,500.00	25,204.52	295.48	21,116.06	15.04.2011 15.10.2020	2,698.91
<b>Second Programmatic Adjustment Loan - loan no. 74500 - HR FSL PAL 2 (20)</b>									
11.06.2007	7/2007 and 3/2008	28.04.2008 31.10.2008	000 EUR	100,000.00	100,000.00	0.00	95,000.00	15.10.2012 15.04.2022	0.00
<b>Inland Waters Project - loan no. 74530 - HR FSL</b>									
12.06.2007	8/2007	29.01.2008 31.12.2012	000 EUR	100,000.00	85,399.67	14,600.33	79,521.78	15.04.2012 15.10.2022	30,718.79
<b>Revenue Administration Modernization Project - loan no. 74710 - HR FSL (21)</b>									
03.07.2007	8/2007	21.12.2007 30.06.2013	000 EUR	25,000.00	7,197.92	17,802.08	6,838.03	01.11.2012 01.05.2022	0.00
<b>Development of Emergency Medical Services and Investment Planning Project - loan no. 75980 - HR IFL FS</b>									
21.10.2008	12/2008	15.01.2009 30.06.2013	000 EUR	18,100.00	9,934.81	8,165.19	9,934.81	15.10.2013 15.04.2038	3,368.60
<b>Coastal Cities Pollution Control Project 2 - loan no. 76400 - HR IFL FS</b>									
06.02.2009	4/2009	04.06.2009 30.09.2014	000 EUR	60,000.00	18,279.80	41,720.20	18,279.80	15.04.2014 15.10.2023	7,448.09
<b>Fiscal, Social and Financial Sector Development Policy Loan - loan no. 78460 - HR IFL FS DPL</b>									
13.01.2010	1/2010	17.02.2010 30.04.2010	000 EUR	200,000.00	200,000.00	0.00	200,000.00	15.05.2025	0.00
<b>Justice Sector Support Project - loan no. 78880 - HR IFL FS (22)</b>									
13.04.2010	4/2010	12.07.2010 30.06.2015	000 EUR	26,000.00	6,279.62	19,720.38	6,279.62	15.10.2027	3,213.24
<b>European Union Natura 2000 Integration Project - loan no. 80210 - HR IFL FS (23)</b>									
22.02.2011	7/2011	19.05.2011 30.04.2016	000 EUR	20,800.00	5,305.95	15,494.05	5,305.95	15.05.2016 15.11.2030	3,809.40
<b>Economic Recovery Development Policy Loan - loan no. 80630 - HR IFL FS ERDPL</b>									
10.05.2011	8/2011	14.06.2011 31.12.2011	000 EUR	150,000.00	150,000.00	0.00	150,000.00	15.04.2026	0.00
<b>Integrated Land Administration System Project - loan no. 80860 - HR IFL FS (24)</b>									
17.08.2011	13/2011	15.11.2011 31.10.2015	000 EUR	16,500.00	2,424.92	14,075.08	2,424.92	15.11.2015 15.05.2031	1,461.64
<b>Advance for Preparation of Proposed Second Science and Technology Project - advance no. P4640 - HR FS</b>									
30.04.2012	Law is not necessary:	30.4.2012 17.04.2013	000 USD	1,552.00	1,186.30	365.70	1,186.30	plan: repayment from the proceeds of the	1,186.30
<b>TOTAL DIRECT LOANS</b>			000 USD	<b>567,470.05</b>	<b>567,104.35</b>	<b>365.70</b>	<b>102,597.07</b>		<b>1,186.30</b>
				<b>100.00%</b>	<b>99.94%</b>	<b>0.06%</b>			
			000 EUR	<b>1,418,412.68</b>	<b>1,286,539.89</b>	<b>131,872.79</b>	<b>925,749.03</b>		<b>52,718.67</b>
				<b>100.00%</b>	<b>90.70%</b>	<b>9.30%</b>			



**SOVEREIGN GUARANTEE LOANS**

Signing Date	The Act published in Official Gazette No.:	Effective / Closing Date	Currency	Loan Amount	Disbursed	Undisbursed	Outstanding	Principal Repayment, First and Last	Disbursed in 2012
<b>Istria Water Supply and Sewerage Project - loan no. 30690 - HR CPL (25)</b>									
01.02.1990 (undertaken 25.02.1993)	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
<b>Investment Recovery Project (4 loans) - loans no. 42460 - HR VSL (Varaždinska banka - Zagrebačka banka d.d), 42470 - HR VSL (Dalmatinska banka d.d - OTP banka), 42480 - HR VSL (Slavonska banka d.d - Hypo Alpe-Adria Bank d.d) and 42490 - HR VSL (Alpe Jadran banka d.d - bankrupt) (26)</b>									
04.12.1997	3/1998	17.03.1998 31.12.2002	000 EUR	21,589.50	21,589.50	0.00	0.00	15.03.2003 15.09.2012	0.00
<b>Municipal Environmental Infrastructure Project - loan no. 43520 - HR VSL (Croatian Bank for Reconstruction and Development)</b>									
25.09.1998	2/1999	28.06.1999 31.12.2007	000 EUR	33,233.97	33,233.97	0.00	1,661.70	15.11.2003 15.05.2013	0.00
<b>Rijeka Gateway Project - loan no. 47140 - HR VSL (Croatian Motorways) (27)</b>									
12.07.2003	16/2003 and 18/2003	10.10.2003 31.12.2010	000 EUR	8,061.29	8,061.29	0.00	4,353.32	15.12.2008 15.06.2018	0.00
<b>Rijeka Gateway Project - loan no. 47150 - HR VSL (Port of Rijeka Authority) (28)</b>									
12.07.2003	16/2003 and 18/2003	10.10.2003 31.08.2011	000 USD	55,100.00	55,100.00	0.00	30,305.00	15.12.2008 15.06.2018	0.00
<b>Rijeka Gateway Project - loan no. 47160 - HR VSL (Croatian Roads)</b>									
12.07.2003	16/2003 and 18/2003	10.10.2003 30.09.2009	000 EUR	76,200.00	76,200.00	0.00	41,910.00	15.12.2008 15.06.2018	0.00
<b>Energy Efficiency Project - loan no. 71980 - HR FSL (HEP d.d.) - prepaid</b>									
10.11.2003	3/2004	08.04.2004 30.06.2010	000 EUR	4,400.00	4,400.00	0.00	0.00	15.04.2009 15.10.2019	0.00
<b>District Heating Project - loan no. 48280 - HR VSL (HEP - Toplinarstvo d.o.o.) - prepaid</b>									
11.09.2006	1/2007	09.03.2007 30.06.2010	000 EUR	24,000.00	24,000.00	0.00	0.00	15.03.2012 15.09.2021	0.00
<b>Trade and Transport Integration Project - loan no. 74100 - HR FSL (Port of Ploče Authority) (29)</b>									
20.11.2006	3/2007 and 1/2008	20.03.2007 30.06.2014	000 EUR	58,800.00	39,409.05	19,390.95	35,811.86	01.04.2012 01.10.2021	3,640.69
<b>Additional Loan for the Rijeka Gateway Project - loan no. 47151 - HR VSL (Port of Rijeka Authority) (30)</b>									
11.06.2007	9/2007 and 1/2008	21.11.2007 30.09.2012	000 EUR	20,300.00	19,045.29	1,254.71	15,147.70	15.10.2011 15.04.2020	16,436.06
<b>Rijeka Gateway II Project - loan no. 76380 - HR IFL VS (Port of Rijeka Authority)</b>									
17.04.2009	6/2009 and 8/2009	14.07.2009 15.12.2014	000 EUR	84,000.00	2,218.89	81,781.11	2,218.89	15.03.2019 15.09.2031	2,003.30
<b>Export Finance Intermediation Loan Project - loan no. 77740 - HR IFL FS (Croatian Bank for Reconstruction and Development)</b>									
02.09.2009	11/2009	25.11.2009 31.08.2013	000 EUR	100,000.00	94,878.76	5,121.24	94,878.76	15.10.2016 15.10.2037	9,869.37
<b>Additional Financing for Trade and Transport Integration Project - loan no. 80770 - HR IFL VS (Port of Ploče Authority)</b>									
14.09.2011	15/2011	08.12.2011 30.06.2014	000 EUR	50,000.00	5,553.58	44,446.42	5,553.58	15.11.2023 15.05.2034	5,428.58
<b>Additional Financing for the Export Finance Intermediation Loan Project - loan no. 81930 - HR IFL FS (Croatian Bank for Reconstruction and Development)</b>									
29.10.2012	in preparation	effect.: 27.1.13 closing: 31.8.15	000 EUR	50,000.00	0.00	50,000.00	0.00	15.10.2019 15.10.2040	0.00
<b>TOTAL SOVEREIGN GUARANTEE LOANS</b>			000 USD	<b>81,116.29</b>	<b>81,116.29</b>	<b>0.00</b>	<b>30,305.00</b>		<b>0.00</b>
				<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>			
			000 EUR	<b>530,584.76</b>	<b>328,590.33</b>	<b>201,994.43</b>	<b>201,535.81</b>		<b>37,378.00</b>
				<b>100.00%</b>	<b>61.93%</b>	<b>38.07%</b>			
<b>TOTAL DIRECT + SOVEREIGN GUARANTEE LOANS</b>			000 USD	<b>648,586.34</b>	<b>648,220.64</b>	<b>365.70</b>	<b>132,902.07</b>		<b>1,186.30</b>
				<b>100.00%</b>	<b>99.94%</b>	<b>0.06%</b>			
			000 EUR	<b>1,948,997.44</b>	<b>1,615,130.22</b>	<b>333,867.22</b>	<b>1,127,284.84</b>		<b>90,096.67</b>
				<b>100.00%</b>	<b>82.87%</b>	<b>17.13%</b>			

Notes:

Loans no. 39990, 41040, 41590, 43510, 42460, 42470, 42480, 42490 and 43520 are contracted in DEM and on 30 November 2001 they were converted into Eur.

- 1 - a loan of USD 40 million contracted ; cancelled: USD 1,1 million
- 2 - a loan of USD 80 million contracted; cancelled: USD 121,5 thousand
- 3 - a loan of USD 17 million contracted; cancelled: USD 2,7 million
- 4 - cancelled: EUR 2,4 million
- 5 - a loan of USD 42 million contracted; cancelled: USD 3,4 million
- 6 - cancelled: EUR 1,2 million
- 7 - a loan of EUR 85,4 million contracted; cancelled: EUR 1,5 thousand
- 8 - a loan of USD 7,3 million contracted; cancelled: USD 46,6 thousand
- 9 - a loan of USD 29 million contracted; cancelled: USD 2,8 million
- 10 - a loan of EUR 14,8 million contracted; cancelled: EUR 986,8 thousand
- 11 - a loan of EUR 5 million contracted; cancelled: EUR 363,7 thousand

- 12 - Pension System Investment Project was prepared from pre-loan in the amount of USD 1.8 million, yet only USD 657.2 thousand was disbursed. That amount is included within the disbursed funds of the loan no. 46720 - HR. A loan of USD 27.3 million contracted; cancelled: USD 6.1 million
- 13 - a loan of EUR 26 million contracted; cancelled: EUR 26,7 thousand
- 14 - a loan of EUR 40 million contracted; cancelled: EUR 820,9 thousand; return of funds: 131,9 thousand
- 15 - a loan of EUR 35 million contracted; cancelled: EUR 105,1 thousand
- 16 - a loan of EUR 31 million contracted; cancelled: EUR 112,2 thousand
- 17 - a loan of EUR 31 million contracted; cancelled: EUR 1,2 million
- 18 - a loan of EUR 67,8 million contracted; cancelled: EUR 1,5 million
- 19 - Agricultural *Acquis* Cohesion Project was prepared from the pre-loan in the amount of USD 1.9 million, however, only USD 788.74 thousand was disbursed. That amount is included within the funds withdrawn from the loan no. 73600-HR
- 20 - a loan of EUR 150 million contracted; cancelled: EUR 50 million
- 21 - a loan of EUR 50 million contracted; cancelled: EUR 25 million
- 22 - Justice Sector Support Project was prepared from the pre-loan in the amount of USD 653 thousand, however, only USD 432 thousand was disbursed. That amount is included within the funds withdrawn from the loan no. 78880-HR
- 23 - European Union Natura 2000 Integration Project was prepared from the pre-loan in the amount of USD 500 thousand, however, only USD 491,1 thousand was disbursed. That amount is included within the funds withdrawn from the loan no. 80210-HR
- 24 - Integrated Land Administration System Project was prepared from the pre-loan in the amount of USD 1.5 million, however, only USD 1.2 million was disbursed. That amount is included within the funds withdrawn from the loan no. 80860-HR
- 25 - loan undertaken od 25.2.1993, contracted in the amount of USD 28 million; cancelled: USD 1,9 million
- 26 - For the implementation of the Project, four loans were contracted (users are the banks cited in the table)
- 27 - a loan of EUR 15,7 million contracted; cancelled: EUR 7,6 million
- 28 - Rijeka Getaway Project was prepared from pre-loan in the amount of USD 1.5 million, however, only USD 684,3 thousand was disbursed. That amount is included within the disbursed funds of the Loan no. 47150 - HR
- 29 - Trade and Transport Integration Project was prepared from pre-loan in the amount of USD 1.8 million, however, only USD 534,3 thousand was disbursed. That amount is included within the disbursed funds of the Loan no. 74100 - HR
- 30 - a loan of EUR 35,3 million contracted; cancelled: EUR 15 million

Source: Ministry of Finance

## Participation of the Republic of Croatia in the General Capital Increase of IBRD

Pursuant to the Decision of the Government of the Republic of Croatia of March 17, 2011 (Official Gazette, number 34/2011), the Republic of Croatia participated in the general capital increase of IBRD in 2011. In that context, in 2012 the payment of annual instalment of the capital for the benefit of IBRD was also executed.

### 6.2.1.2 European Bank for Reconstruction and Development (EBRD<sup>39</sup>)

The value of the granted loans/investments of the ERBD in the Republic of Croatia from 1994 until the end of 2012 amounted to EUR 2.7 billion for 152 projects the total value of which reached EUR 7.4 billion. The Bank also financed, with a total of EUR 22.3 million, 174 projects of technical assistance, and with approximately EUR 6.4 million, it financed over 500 projects of assistance to small and medium enterprises. Investments in the private sector represent around 64 percent of the overall EBRD investments in the Republic of Croatia, while public sector projects represent about 23 percent of the overall EBRD investments in the Republic of Croatia. In the structure of funding per sectors, the dominant ones are infrastructure (30 percent), entrepreneurship (26 percent), financial institutions (24 percent) and energy (20 percent). In line with the EBRD Strategy for Croatia for the period between 2010 and 2013, the priority sectors for EBRD

<sup>39</sup> The Republic of Croatia has been a full-right member of the European Bank for Reconstruction and Development (EBRD) since April 15, 1993, and it owns 0.37 percent of its shares and it has 0.37 percent voting power. In the EBRD Board of Directors, the Republic of Croatia, together with four other states, is represented by the Director from Hungary.

investment in the Croatian economy are: 1. entrepreneurship, 2. infrastructure, environment, and energy, and 3. financial services.

### EBRD Investments in the Republic of Croatia in 2012

During 2012, EBRD approved the total of EUR 201.4 million for financing of nine new projects in the Republic of Croatia, of which the total of EUR 164.4 million was approved for six projects in the private sector, and EUR 36.8 million for financing three projects in the public sector:

- Port of Split Infrastructure Rehabilitation Project (loan no. 42542 with state guarantee, in the amount of EUR 18.8 million, to the Port of Split Authority for modernization of the Port of Split and for the extension and reconfiguration of the passenger wharves);
- Šibenik Wastewater Investment Programme (loan in the amount of EUR 10 million, directly to the company *Vodovod i odvodnja Šibenik d.o.o.*, without state guarantee);
- North-Western Regional Waste Water Project (loan in the amount of EUR 8 million, directly to the company *Međimurske vode d.o.o.*, without state guarantee).

### Overview of Loans, Disbursement of Funds and State of Debt towards EBRD

In the period between 1994 and 2012, EBRD granted a total of 22 loans for financing of public projects in the Republic of Croatia (in the total amount of USD 66.2 million and EUR 633.5 million), 3 of which are direct loans and 19 sovereign guarantee loans (table 6.10.). Interest for loans contracted or converted in EUR were paid in semi-annual rates ranging from 1.11 percent to 7.44 percent, and interests for loans obtained in USD were paid in semi-annual rates ranging from 1.41 percent to 1.74 percent. Front-end fees were calculated and charged at a 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 6.10. Overview of EBRD Loans Concluded in the Period 1994 to 2012 with a Review of Outstanding Debt and Funds Disbursement Overview, as of 31 December 2012 and Disbursed Funds During 2012**

DIRECT LOANS									
Signing date	The Act published in Official Gazette No.:	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 2012, in 000 USD/000 EUR
<b>Air Navigation System Project - Loan No. 231 (1)</b>									
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
<b>Croatian Highway Reconstruction Project (HC) - Loan No. 286 (2)</b>									
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
<b>Croatia Wholesale Markets Project - Loan No. 627 (3)</b>									
08.12.1997	7/1998	25.03.2002	EUR	3,203.56	3,203.56	0.00	0.00	24.05.2002 24.11.2011	0.00
<b>TOTAL DIRECT LOANS</b>				<b>USD</b>	<b>19,735.52</b>	<b>19,735.52</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
				<b>EUR</b>	<b>39,399.44</b>	<b>39,399.44</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

SOVEREIGN GUARANTEE LOANS									
Signing date	The Act published in Official Gazette No.:	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 2012, in 000 USD/000 EUR
<b>Croatia Electricity Network Reconstruction Project (HEP) - Loan No. 283</b>									
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
<b>Croatian Tourism Credit Line (Croatian Bank for Reconstruction and Development) - Loan No. 443</b>									
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
<b>Municipal Environmental Infrastructure Investment Programme (Croatian Bank for Reconstruction and Development) - Loan No. 494 (4)</b>									
09.12.1996	4/1997	31.01.2004	EUR	31,575.22	31,575.22	0.00	0.00	10.04.2001 10.10.2011	0.00
<b>Croatian Railways Locomotive Rehabilitation Project (CR - Infrastructure) - Loan No. 733</b>									
08.12.1998	4/1999	05.02.2004	USD	35,000.00	35,000.00	0.00	2,916.65	20.05.2002 20.11.2013	0.00
<b>The Small and Medium Entrepreneurship Project (Croatian Bank for Reconstruction and Development) - Loan No. 923 (5)</b>									
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
<b>Zagreb-Rijeka Motorway Project (Rijeka - Zagreb Motorway) - Loan No. 975 (6)</b>									
22.10.2001	8/2002	08.01.2008	EUR	60,000.00	60,000.00	0.00	28,000.00	12.05.2005 12.11.2019	0.00
<b>EBRD-Refund Guarantee Facility (Uljanik Shipyard-construction of the tanker No. 450) - Loan No. 18149</b>									
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
<b>Zagreb Area Control Centre Project - Loan No. 25800 (7)</b>									
05.09.2002	14/2002	31.12.2006	EUR	24,944.05	24,944.05	0.00	1,558.20	20.11.2005 20.05.2013	0.00
<b>Croatia-Motorway Rehabilitation Project (Corridor X: Zabok-Zagreb-Brodski Stupnik) (Croatian Motorways) - Loan No. 27171 (8)</b>									
13.12.2002	10/2003	01.09.2006	EUR	45,254.45	45,254.45	0.00	18,833.46	20.05.2006 20.11.2017	0.00
<b>Croatia Corridor X Motorway Completion Project (Županja-Lipovac) (Croatian Motorways) - Loan No. 31848 (9)</b>									
12.11.2003	6/2004	09.12.2007	EUR	44,983.88	44,983.88	0.00	27,042.45	20.05.2007 20.11.2021	0.00
<b>Port of Dubrovnik Infrastructure Modernization Project (Port of Dubrovnik Authority) - Loan No. 13451 (10)</b>									
01.02.2005	7 and 11/2005 and 9/2010	31.12.2012	EUR	32,724.08	32,724.08	0.00	20,967.23	10.04.2008 10.10.2017	1,451.16
<b>Motorway Rijeka-Zagreb Phase IIB (Kikovica-Susica) (Rijeka - Zagreb Motorway) - Loan No. 35790</b>									
26.07.2006	11/2006	01.10.2010	EUR	50,000.00	50,000.00	0.00	44,047.62	17.12.2010 17.06.2031	0.00
<b>Rijeka Bypass Project (Croatian Roads) - Loan No. 31849 (11)</b>									
12.12.2006	4/2007 and 1/2008	31.12.2012	EUR	33,347.05	33,347.05	0.00	29,728.19	23.09.2010 23.09.2031	0.00
<b>Port of Ploče Bulk Terminal/Trade and Transport Integration Project (Port of Ploče Authority) - Loan No. 36127 - prepaid (12)</b>									
09.11.2007	2/2008	31.07.2012	EUR	338.19	338.19	0.00	0.00	20.03.2012 20.09.2022	0.00
<b>Plinacro Gas Storage Project (Plinacro d.o.o.) - Loan No. 40223</b>									
13.05.2009	6/2009	30.04.2010	EUR	70,000.00	70,000.00	0.00	28,000.00	15.05.2010 15.11.2014	0.00
<b>Port of Šibenik Infrastructure Modernization Project (Port of Šibenik Authority) - Loan No. 39749</b>									
15.05.2010	8/2010 and 10/2010	15.05.2014	EUR	12,000.00	1,812.43	10,187.57	1,812.43	20.05.2014 20.05.2025	189.33
<b>Corridor Vc completion Project (Croatian Motorways) - Loan No. 41325</b>									
24.11.2010	4/2011	24.11.2013	EUR	60,630.00	16,103.03	44,526.97	16,103.03	15.03.2014 15.03.2026	11,379.00
<b>Modernising Air Navigation System in the Republic of Croatia (Croatia Control) - Loan No. 42754</b>									
29.09.2011	15/2011	29.03.2015	EUR	47,000.00	30,828.88	16,171.12	30,828.88	20.05.2015 20.03.2025	28,795.06
<b>Financing of Port of Split infrastructure rehabilitation Project (Port of Split Authority) - Loan No. 42542</b>									
17.12.2012	in preparation	29.03.2015	EUR	18,800.00	0.00	18,800.00	0.00	10.03.2017 10.03.2028	0.00
<b>TOTAL SOVEREIGN GUARANTEE LOANS</b>				USD	<b>46,490.00</b>	<b>46,490.00</b>	<b>0.00</b>	<b>2,916.65</b>	<b>0.00</b>
				EUR	<b>594,058.26</b>	<b>504,372.60</b>	<b>89,685.66</b>	<b>246,921.49</b>	<b>41,814.55</b>
<b>TOTAL</b>				USD	<b>66,225.52</b>	<b>66,225.52</b>	<b>0.00</b>	<b>2,916.65</b>	<b>0.00</b>
<b>DIRECT + SOVEREIGN GUARANTEE LOANS</b>				EUR	<b>633,457.70</b>	<b>543,772.04</b>	<b>89,685.66</b>	<b>246,921.49</b>	<b>41,814.55</b>

Notes:

- 1 - loan contracted in the amount of USD 22 million; cancelled: USD 2.3 million
- 2 - loan contracted in the amount of DEM 70.9 million; cancelled: DEM 107 thousand. Loan converted into EUR
- 3 - loan contracted in the amount of DEM 33.5 million; cancelled: total DEM 27.2 million and EUR 11.4 thousand. Loan converted into EUR
- 4 - loan contracted in the amount of DEM 105 million; cancelled: total DEM 24.6 million and EUR 9.6 million. Loan converted into EUR

- 5 - loan contracted in the amount of EUR 12 million; cancelled: EUR 7.3 million
- 6 - loan contracted in the amount of EUR 90 million; EBRD has reduced loan for the amount of EUR 30 million
- 7 - loan contracted in the amount of EUR 25 million; cancelled: EUR 55.9 thousand
- 8 - loan contracted in the amount of EUR 46.5 million; cancelled: EUR 1.2 million
- 9 - loan contracted in the amount of EUR 45 million; cancelled: EUR 16.1 thousand
- 10 - loan contracted in the amount of EUR 34.5 million; cancelled: EUR 1.8 million
- 11 - loan contracted in the amount of EUR 40 million; cancelled: EUR 6.7 million
- 12 - loan contracted in the amount of EUR 11.2 million; cancelled: EUR 10.9 million

Source: Ministry of Finance

### 6.2.1.3 Council of Europe Development Bank (CEB<sup>40</sup>)

In 2012, the CEB approved EUR 50 million for financing of projects in the Republic of Croatia. This refers to the loan to the Croatian Bank for Reconstruction and Development<sup>41</sup> (no. FP 1775 (2012)), designated for financing of investment projects of micro, small and medium-sized enterprises and sub-projects of utility infrastructure for improving the living standards in town and rural areas, carried out by local and regional state authorities and/or other public sector entities throughout Croatia. Although approved in the middle of the year, even 50 percent of the loan was withdrawn in only six months. The funds of the loan were placed to end users via intermediary banks.

In the middle of 2012, the loan approved at the end of 2011 for the “Municipal Water Financing Facility” Project (loan no. FP 1751 (2011), in the amount of EUR 75 million) was also contracted, which enabled the preparation of projects of investments in water supply systems, collection and treatment of wastewater and drainage of rainwater in municipalities located in all Croatian counties with the exception of the City of Zagreb. The beneficiary of funds of this loan is the company the Croatian Waters (*Hrvatske vode*, Croatian national public water utility company).

The cooperation of the Republic of Croatia with the CEB was also taking place in the area of the implementation of earlier granted loans/projects for health, culture and prison system sectors and projects with the purpose of modernization of rural areas by building utility and social infrastructure on Croatian islands. In 2012, the Croatian Bank for Reconstruction and Development finished the implementation of the programme of financing productive investment projects of micro, small and medium-sized enterprises throughout Croatia (loan contract, no. FP 1690 (2009)) and at the end of 2012, it started the preparation of the second phase of the above-mentioned credit line for micro, small and medium-sized entrepreneurship and local and regional state authorities and/or other related public sector entities throughout Croatia. The potential loan of CEB for the co-financing of this credit line amounts to EUR 90 million.

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

In the period from 1998 until the end of 2012, the Republic of Croatia directly contracted 14 framework loans with the CEB for co-financing of projects, and it provided guarantees for 4 CEB framework loans to

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<sup>40</sup> The Republic of Croatia became a full member of Council of Europe Development Bank (CEB) on June 24, 1997, and it owns 0.391 percent of its shares and has 0.391 of voting power. The Republic of Croatia is represented by one representative in the Governing Board of the CEB and one representative in its Administrative Council.

<sup>41</sup> According to the Act on the Croatian Bank for Reconstruction and Development (Official Gazette, number 138/2006), the Republic of Croatia guarantees for the liabilities of the Croatian Bank for Reconstruction and Development unconditionally, irrevocably and on first demand, and without issuing any special guarantee document.

the Croatian Bank for Reconstruction and Development (table 6.11.). All direct framework loans and sovereign guarantee loans were being disbursed on the basis of supplemental/disbursement agreements, in instalments, each of which was considered a separate loan. The instalments of direct loans were contracted in EUR and USD, with the repayment period ranging from 5 to 15 years, with a maximum 5-year grace period. They are paid off at a fixed interest rate (semi-annual payment of interest), which, in the period between 1998 and the end of 2012 ranged from 2.65 percent to 5.56 percent for instalments disbursed in EUR, while the instalments disbursed in USD were contracted at the interest rate of 5.71 percent. In 2012, the disbursement of funds was executed for the benefit of "Construction of Municipal and Social Infrastructure Facilities on Croatian islands" Project (EUR 1.35 million were disbursed at the fixed interest rate of 2.65 percent) and the Project "Research, Reconstruction and Revitalization of the Cultural Heritage of *Ilok – Vukovar - Vučedol*" (EUR 7.6 million were disbursed at the fixed interest rate of 2.66 percent).

The instalments of CEB framework loans to the Croatian Bank for Reconstruction and Development were contracted in EUR, with the repayment period ranging from 8 to 15 years, including the grace period of 2 to 5 years for the repayment of the principal. Some instalments are paid off at the floating interest rate based on EURIBOR increased by fixed margin ranging from 0.24 percent to 0.4 percent, while other instalments were contracted at fixed interest rates ranging from 2.13 percent to 4.37 percent.

In 2012, the funds of the loans approved for the Croatian Bank for Reconstruction and Development were disbursed for the project of Partial financing of productive investment projects in micro, small and medium-sized enterprises throughout Croatia (EUR 25.32 million were disbursed at the fixed interest rate of 3.09 percent) and newly-contracted Partial financing of investment projects undertaken by micro, small and medium-sized enterprises (SMEs) and local and regional state authorities and/or other related public sector entities throughout Croatia (for SMEs, the instalment of EUR 20.9 million was disbursed at the fixed interest rate of only 2.13 percent, while for other end beneficiaries of this loan EUR 4.1 million were also disbursed at the fixed interest rate of 2.62 percent).

**Table 6.11. Overview of CEB Loans Concluded in the Period 1994 to 2012 with a Review of Outstanding Debt and Funds Disbursement Overview, as of 31 December 2012 and Disbursed Funds During 2012**

<b>DIRECT LOANS</b>							
<b>Signing date</b>	<b>The Act published in Official Gazette No.:</b>	<b>Framework Loan amount in 000 HRK</b>	<b>Disbursed in 000 HRK</b>	<b>Undisbursed in 000 HRK</b>	<b>Outstanding in currency (000 EUR)</b>	<b>Outstanding in currency (000 USD)</b>	<b>Disbursed in 2012, in 000 HRK</b>
<b>Reconstruction of Health Facilities in Eastern Slavonia - Loan No. F/P 1278 (1998)</b>							
16.07.1998	13/1998 and 15/1998	172,744.13	172,744.13	0.00	480.00	0.00	0.00
<b>Rehabilitation of School Facilities in Eastern Slavonia - Loan No. F/P 1279 (1998) (1)</b>							
16.07.1998	13/1998 and 15/1998	66,380.80	66,380.80	0.00	98.00	0.00	0.00
<b>Reconstruction / Repair of 41 School Facilities in Croatia - Loan No. F/P 1352 (1999) (2)</b>							
19.01.2001 26.01.2001	7/2001	96,935.64	96,935.64	0.00	1,288.20	0.00	0.00
<b>Reconstruction and Housing Project for the Return of Displaced Persons and Refugees in the Republic of Croatia - Loan No. F/P 1378 (2000)</b>							
02.02.2001 07.02.2001	7/2001	232,000.00	232,000.00	0.00	2,060.00	0.00	0.00
<b>Cultural Heritage Restoration Project of the Franciscan Monastery "Male braće" in Dubrovnik - Loan No. F/P 1379 (2000) (3)</b>							
19.06.2001	14/2001 and 2/2002	10,324.79	10,324.79	0.00	310.68	0.00	0.00
<b>Project for the Renovation and Modernization 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)</b>							
29.03.2002	10/2002 and 12/2002	21,395.00	21,395.00	0.00	978.55	0.00	0.00
<b>Investments in Health Facilities throughout Croatia - Loan No. F/P 1351 (1999) (4)</b>							
23.10.2001 30.10.2001	9/2002 and 12/2002	186,054.94	186,054.94	0.00	13,115.60	0.00	0.00
<b>Sustainable Return of Displaced Persons and Refugees - Loan No. F/P 1435 (2002) (5)</b>							
03.01.2004 30.01.2004	6/2004	292,304.13	292,304.13	0.00	20,383.60	0.00	0.00
<b>Construction and Reconstruction of School Facilities in the Republic of Croatia - Loan No. F/P 1456 (2003) ADD 1 (6)</b>							
15.12.2004	5/2005 and 8/2005	399,786.37	399,786.37	0.00	42,612.20	0.00	0.00
<b>Construction of Municipal and Social Infrastructure Facilities on Croatian Islands - Loan No. F/P 1498 (2004)</b>							
15.12.2004	5/2005, 8/2005, 5/2010 and 8/2011	193,364.37	173,485.64	19,878.73	21,609.20	0.00	10,157.85
<b>Project "Research, Reconstruction and Revitalization of Cultural Heritage Ilok-Vukovar-Vučedol" - Loan No. F/P 1511 (2005)</b>							
23.05.2005	8/2005, 9/2005, 3/2010 and 7/2011	169,716.27	151,856.37	17,859.90	19,876.00	0.00	57,269.80
<b>Financing of Health Facilities throughout the Republic of Croatia - Loan No. F/P 1576 (2006) W (7)</b>							
01.06.2007	9/2007 and 1/2008	327,679.34	219,718.93	107,960.41	30,100.00	0.00	0.00
<b>TOTAL DIRECT LOANS</b>		<b>2,168,685.78</b>	<b>2,022,986.74</b>	<b>145,699.04</b>	<b>152,912.03</b>	<b>0.00</b>	<b>67,427.65</b>
		100.00%	93.28%	6.72%			
<b>DIRECT LOANS SIGNED IN EUR</b>							
<b>Signing date</b>	<b>The Act published in Official Gazette No.:</b>	<b>Framework Loan amount in 000 EUR</b>	<b>Disbursed in 000 EUR</b>	<b>Undisbursed in 000 EUR</b>	<b>Outstanding in currency 000 EUR</b>	<b>Disbursed in 2012, in 000 EUR</b>	
<b>Extension and rehabilitation of the Zagreb Prison - Loan No. F/P 1725 (2010) (8)</b>							
26.10.2011 04.11.2011	8/2012	6,480.00	0.00	6,480.00	0.00	0.00	
<b>Municipal Water Financing Facility - Loan No. F/P 1751 (2011) (9)</b>							
27.06.2012 29.06.2012	7/2012	75,000.00	0.00	75,000.00	0.00	0.00	
<b>TOTAL DIRECT LOANS SIGNED IN EUR</b>		<b>81,480.00</b>	<b>0.00</b>	<b>81,480.00</b>	<b>0.00</b>	<b>0.00</b>	
		100.00%	0.00%	100.00%			

SOVEREIGN GUARANTEE LOANS						
Signing date	The Act 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 2012, in 000 EUR
<b>Small and Medium-sized Enterprises Credit Programme Financing - Loan No. F/P 1392 (2000) ADD 1 (Croatian Bank for Reconstruction and Development)</b>						
13., 20. and 27.04.2006	9/2006 and 1/2007	8,000.00	8,000.00	0.00	2,500.00	0.00
<b>Financing of Productive Investment Projects in Small and Medium-sized Enterprises (SMEs) throughout Croatia - Loan No. F/P 1646 (2008) (Croatian Bank for Reconstruction and Development) (10)</b>						
17.12.2008	-	50,000.00	50,000.00	0.00	40,625.00	0.00
<b>Partial financing of productive investment projects in micro, small and medium-sized enterprises (SMEs) throughout Croatia - Loan No. F/P 1690 (2009) (Croatian Bank for Reconstruction and Development) (11)</b>						
08.02.2010	-	50,000.00	50,000.00	0.00	50,000.00	25,318.73
<b>Partial financing of investment projects undertaken by micro, small and medium-sized enterprises (SMEs) and local and regional authorities and/or other related public sector entities throughout Croatia - Loan No. F/P 1775 (2012) (12)</b>						
31.07.2012	-	50,000.00	25,000.00	25,000.00	25,000.00	25,000.00
<b>TOTAL SOVEREIGN GUARANTEE LOANS</b>		<b>158,000.00</b>	<b>133,000.00</b>	<b>25,000.00</b>	<b>118,125.00</b>	<b>50,318.73</b>
		100.00%	84.18%	15.82%		

<b>TOTAL DIRECT LOANS + SOVEREIGN GUARANTEE LOANS</b>	<b>000 EUR</b>	<b>271,037.03</b>
	<b>000 USD</b>	<b>0.00</b>

Notes:

- 1 - loan contracted in the amount of HRK 67.4 million; cancelled: in the amount of HRK 987.2 thousand
- 2 - loan contracted in the amount of HRK 98.7 million; cancelled: in the amount of HRK 1.7 million
- 3 - loan contracted in the amount of HRK 10.3 million; cancelled: in the amount of HRK 0.7 thousand
- 4 - loan contracted in the amount of HRK 186.8 million; cancelled: in the amount of HRK 782.1 thousand
- 5 - loan contracted in the amount of HRK 292.3 million; cancelled: in the amount of HRK 46.9 thousand
- 6 - loan contracted in the amount of HRK 402.5 million; cancelled: in the amount of HRK 2.7 million
- 7 - loan closing date has been contracted: 31 December 2013
- 8 - loan closing date has been contracted: 30 June 2014
- 9 - loan closing date has been contracted: 30 June 2015
- 10 - loan closing date has been contracted: 30 June 2013
- 11 - loan closing date has been contracted: 30 June 2013
- 12 - loan closing date has been contracted: 30 December 2014

Source: Ministry of Finance

#### 6.2.1.4 European Investment Bank (EIB<sup>42</sup>)

The EIB has been financing projects in the Republic of Croatia with long-term loans since 2001. By the end of 2012, the EIB approved loans in the total amount of EUR 2.9 billion for financing of 42 projects in the Republic of Croatia. In 2012, the EIB approved a total of EUR 300 million for financing of three new projects in the Republic of Croatia, of which the total of EUR 250 million were approved for two public

<sup>42</sup> Activities of the European Investment Bank (EIB) in the Republic of Croatia have been regulated by the Framework Agreement between the Republic of Croatia and the European Investment Bank, since December 13, 2000. On the basis of the Framework Agreement, the EIB Board of Governors approved, on February 6, 2001, the provision of loans for investment projects in the Republic of Croatia, which enabled the signing of the first loan contracts. By joining the EU, the Republic of Croatia will become a member of the EIB.



sector project. The remaining EUR 50 million were approved by EIB for one private sector project<sup>43</sup>, bringing the amount of EIB investments in the private sector since 2001 to EUR 475.2 million.

### New Loans Contracted in 2012

During 2012, the following loan agreements were signed with the EIB for the financing of public sector projects:

- loan no. FINo. 81.304 (EUR 150 million) with state guarantee, for the Project of small and medium entrepreneurship (SME) and medium capitalized enterprises III/A; beneficiary: Croatian Bank for Reconstruction and Development (HBOR);
- loan no. FINo. 81.830 (EUR 100 million) with state guarantee, for the Project of small and medium entrepreneurship (SME) and medium capitalized enterprises III/B; beneficiary: Croatian Bank for Reconstruction and Development (HBOR).

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

In the period from 2001 until 2012, EIB granted 28 loans for the financing of public projects in the total amount of EUR 2.5 billion. Of the aforementioned, 7 were direct loans in the total amount of EUR 563.1 million, and 21 were sovereign guarantee loans, in the total amount of EUR 1.9 billion (table 6.12).

**Table 6.12. Overview of EIB Loans Concluded in the Period 2001 to 2012, with a Review of Outstanding Debt and Funds Disbursement Overview, as of 31 December 2012 and Disbursed Funds During 2012**

DIRECT LOANS							
Signing Date	The Act published in Official Gazette No.:	Loan Amount in 000 EUR	Disbursed in 000 EUR	Undisbursed in 000 EUR	Outstanding in 000 EUR	Closing Date	Disbursed in 2012, in 000 EUR
<b>Project "Croatian Railway, Corridor Vc" - loan FINo. 21.051 (CR - Infrastructure) (1)</b>							
24. and 31.05.2001	2/2002	39,000.00	39,000.00	0.00	25,848.37	31.12.2007 CLOSED	0.00
<b>Project "Municipal Infrastructure Framework Loan" - loan FINo. 22.165 (ex MRDFWM/ MMATI) (2)</b>							
30.07.2003	16/2003	49,082.01	49,082.01	0.00	44,047.53	30.09.2008 CLOSED	0.00
<b>Project "Municipal Infrastructure Multi-Sector Framework Loan" - loan FINo. 22.881 (MRDEUF)</b>							
20 and 24.12.2004	7/2005	150,000.00	106,800.00	43,200.00	106,300.00	31.12.2012	0.00
<b>Co-financing EU IPA ISPA 2007-2011 - loan FINo. 25.749 (MoF)</b>							
30.09.2010	10/2010	200,000.00	114,400.00	85,600.00	114,400.00	30.09.2015	54,400.00
<b>Island &amp; Costal Infrastructure Facility - loan FINo. 31.146 (MRDEUF)</b>							
15.09.2011	16/2011	25,000.00	0.00	25,000.00	0.00	30.07.2015	0.00
<b>Project "Municipal Water Financing Facility" - loan FINo. 31.176 (Croatian Waters )</b>							
18.10.2011	15/2011	75,000.00	0.00	75,000.00	0.00	15.10.2015	0.00
<b>Project "Mainland Infrastructure Facility (Integral Development of Local Community)" - loan FINo. 31.806 (MRDEUF)</b>							
18.10.2011	15/2011	25,000.00	0.00	25,000.00	0.00	30.07.2015	0.00
<b>TOTAL DIRECT LOANS</b>		<b>563,082.01</b>	<b>309,282.01</b>	<b>253,800.00</b>	<b>290,595.90</b>		<b>54,400.00</b>

<sup>43</sup>Global loans to commercial banks without state guarantees for the financing of small and medium entrepreneurship.

SOVEREIGN GUARANTEE LOANS							
Signing Date	The Act published in Official Gazette No.:	Loan Amount in 000 EUR	Disbursed in 000 EUR	Undisbursed in 000 EUR	Outstanding in 000 EUR	Closing Date	Disbursed in 2012, in 000 EUR
<b>Project Rehabilitation of National roads (Croatian Roads) - loan FI.No. 21.262</b>							
29.10.2001	4/2002	60,000.00	60,000.00	0.00	53,157.38	30.06.2007 CLOSED	0.00
<b>HBOR Global Loan (Croatian Bank for Reconstruction and Development) - loan FI.No. 21.316</b>							
26.11.2001	4/2002	10,000.00	10,000.00	0.00	1,176.47	26.11.2004 CLOSED	0.00
<b>"Rijeka - Zagreb Motorway Project" (Rijeka - Zagreb Motorway) - loan FI.No. 21.609</b>							
24.6.2002	10/2002	60,000.00	60,000.00	0.00	44,551.67	30.12.2007 CLOSED	0.00
<b>"Zagreb Air Traffic Control Project" (Croatia Control) - loan FI.No. 21.677</b>							
11. and 12.09.2002	14/2002	20,000.00	20,000.00	0.00	9,027.78	30.06.2007 CLOSED	0.00
<b>Project "Rehabilitation of Motorways" (Croatian Motorways) - loan FI.No. 21.850</b>							
13.12.2002	10/2003	50,000.00	50,000.00	0.00	37,181.17	13.12.2006 CLOSED	0.00
<b>"Plinacro Gas Pipelines Project" (Plinacro) - loan FI.No. 22.374</b>							
16.12.2003	3/2004	90,000.00	90,000.00	0.00	79,333.33	01.12.2007 CLOSED	0.00
<b>Project "Zupanja - Lipovac Motorway Section" (Croatian Motorways) - loan FI.No. 22.639</b>							
22. and 29.07.2004	1/2005	45,000.00	45,000.00	0.00	40,671.43	01.04.2007 CLOSED	0.00
<b>Project "Croatian Roads - Split By-pass" (Croatian Roads) - loan FI.No. 23.135 (3)</b>							
20.07.2005	2/2006	42,900.00	18,000.00	24,900.00	18,000.00	31.12.2013	8,000.00
<b>Project "Rijeka-Zagreb Motorway Completion" (Rijeka - Zagreb Motorway) - loan FI.No. 23.419</b>							
09.03.2006	8/2006	210,000.00	210,000.00	0.00	204,509.62	08.03.2009 CLOSED	0.00
<b>Project "Croatian Rodas Rehabilitation II" (Croatian Roads) - loan FI.No. 23.780</b>							
12.12.2006	5/2007	60,000.00	60,000.00	0.00	60,000.00	11.12.2010 CLOSED	0.00
<b>Project "Plinacro Gas Pipelines II" (Plinacro) - loan FI.No. 24.067</b>							
31.07.2007	11/2007	190,000.00	190,000.00	0.00	190,000.00	31.07.2012	0.00
<b>Project "Zadar New Port" (Port of Zadar Authority) - loan FI.No. 24.093</b>							
07.09.2007	10/2007	100,000.00	50,200.00	49,800.00	50,200.00	31.12.2012	29,200.00
<b>HBOR Global Loan IIA (Croatian Bank for Reconstruction and Development) - loan FI.No. 24.125</b>							
16.10.2007	-	40,000.00	40,000.00	0.00	25,882.35	16.04.2009 CLOSED	0.00
<b>HBOR Global Loan IIB (Croatian Bank for Reconstruction and Development) - loan FI.No. 24.500</b>							
20.06.2008	-	60,000.00	60,000.00	0.00	56,470.59	20.12.2009 CLOSED	0.00
<b>"HBOR Loan for SME's and Mid-Cap" (Croatian Bank for Reconstruction and Development) - loan FI.No. 24.891</b>							
24.03.2009	-	250,000.00	250,000.00	0.00	250,000.00	31.03.2011 CLOSED	0.00
<b>Project "Croatian roads rehabilitation II/B" (Croatian Roads) - loan FI.No. 25.417</b>							
28. and 30.12.2009	4/2010	60,000.00	20,000.00	40,000.00	20,000.00	30.11.2012	0.00
<b>Project "DINA VCM-PVC Plant Construction" (Croatian Bank for Reconstruction and Development) - loan FI.No. 25.533 (4)</b>							
15.04.2010	-	0.00	0.00	0.00	0.00	15.04.2012	0.00
<b>"HBOR Loan for SME's and Mid-Cap II" (Croatian Bank for Reconstruction and Development) - loan no. FI.No. 25.534</b>							
15.04.2010	-	250,000.00	250,000.00	0.00	250,000.00	15.04.2012	128,593.90
<b>Corridor VC (Croatian Motorways) - loan FI.No. 31.205</b>							
15.09.2011	15/2011	60,000.00	5,023.89	54,976.11	5,023.89	31.12.2014	5,023.89
<b>HBOR Loan for SME's and Mid-Cap III/A (Croatian Bank for Reconstruction and Development) - loan no. FI.No. 81.304</b>							
10.02.2012	-	150,000.00	126,200.00	23,800.00	126,200.00	10.02.2014	126,200.00
<b>HBOR Loan for SME's and Mid-Cap III/B (Croatian Bank for Reconstruction and Development) - loan no. FI.No. 81.830</b>							
18.09.2012	-	100,000.00	0.00	100,000.00	0.00	18.09.2014	0.00
<b>TOTAL LOANS WITH THE GUARANTEE OF THE REPUBLIC OF CROATIA</b>		<b>1,907,900.00</b>	<b>1,614,423.89</b>	<b>293,476.11</b>	<b>1,521,385.68</b>		<b>297,017.79</b>
<b>GRAND TOTAL DIRECT + GUARANTEED</b>		<b>2,470,982.01</b>	<b>1,923,705.90</b>	<b>547,276.11</b>	<b>1,811,981.58</b>		<b>351,417.79</b>

Notes:

- 1 - The contracted amount was EUR 40 million; cancelled: EUR 1 million
- 2 - The contracted amount was EUR 50 million; cancelled: EUR 918 thousand
- 3 - The contracted amount was EUR 60 million; cancelled: EUR 17.1 million
- 4 - The contracted amount was EUR 34 million; cancelled: EUR 34 million

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 Project “Rijeka – Zagreb Motorway Completion”, were disbursed at fixed interest rates (semi-annual payment of interests), which ranged from 2.493 percent to 5.26 percent in the period from 2001 until the end of 2012. During 2012, 14 instalments were disbursed in the total amount of EUR 351.4 million. In 2012, fixed interest rates ranged from 2.854 percent to 4.091 percent, and no instalments were disbursed at floating interest rates.

### Projects in Preparation during 2012

During 2012, the activities for the preparation of a new credit line were carried out, in total amount of EUR 500 million, approved by EIB to the HBOR at the end of 2012. The funds are intended for financing of small and medium entrepreneurship and medium capitalized companies. The HBOR will use this amount through two separate loans with the EIB, which will be contracted during 2013.

#### 6.2.1.5 Inter–American Development Bank (IDB<sup>44</sup>)

Pursuant to the Decision of the Government of the Republic of Croatia, of January 27, 2011 (Official Gazette, no. 16/2011), in 2011, the Government of Croatia participated in the general capital increase in IDB and in the replenishment of the Fund for Special Operation (FSO) of the Inter-American Development Bank. In that context, in 2012, the payment of annual instalments of the capital for the benefit of the IDB and of contributions for the benefit of the FSO were executed.

#### 6.2.1.6 Overview of Grants

In the period from 1995 until the end of 2012, 62 grant agreements were signed for the implementation of projects in the Republic of Croatia, in the area of infrastructure, environmental protection and private sector development, and structural adjustments in health care, social protection, agriculture, education, public finances and judicial system sectors (table 6.13.). In 2012, the grant for the Project of Modernization of the State Treasury System in the Republic of Croatia was contracted in the amount of EUR 165.1 thousand.

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<sup>44</sup> IDB is the oldest regional development bank in the world, founded in 1959 with the purpose of contributing to the process of economic and social development in the region of Latin America and the Caribbean. The Republic of Croatia has been a full member of the IDB since December 16, 1993. Based on the total of USD 48.5 million in the IDB capital (USD 2.1 million of paid-in capital and USD 46.4 million of callable capital), the Republic of Croatia owns 4.018 shares of IDB, that is, 0.05 percent of voting power. In the IDB Board of Executive Directors, the Republic of Croatia, together with five other states, is represented by the Executive Director from Japan. Based on the membership in IDB, the Republic of Croatia has the right to participate in projects financed by the IDB, and it has co-decision-making rights, granted on the basis of the shares in IDB capital. The Republic of Croatia belongs to the group of countries that are not beneficiaries of the IDB loans.

**Table 6.13. Overview of Grants Contracted with the IBRD, Grants given by the Kingdom of the Netherlands and Federal Republic of Germany, and EBRD Grants on 31st December 2012**

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)
<b>A. Grants Contracted with the IBRD</b>							
1.	1995	28851 (closed)	Preparation of Procurement Legislation	USD	148.00	101.47	0.00
2.	1995	29116 (closed)	Private Farmer Support Services Project	JPY	56,600.00	13,888.31	0.00
3.	1995	29117 (closed)	Costal 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 Slavonija 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)	Informaton 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 Tehnical 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
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	5,018.13	0.51	0.00
34.	2003	52141 (closed)	Energy Efficiency Project	USD	7,000.00	116.66	0.00
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 (closed)	Renewable Energy Resources Project	USD	5,500.00	1,463.86	0.00
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	101.31
48.	2007	90642 (closed)	Enhancing Corporate Financial Reporting in Croatia	USD	260.00	60.00	0.00
49.	2008	90845	Agricultural Pollution Control Project	USD	5,000.00	0.00	7.33
50.	2008	91967	Neretva and Trebišnjica Management Project	USD	2,000.00	0.00	978.88
51.	2009	92704	Coastal Cities Pollution Control Project 2	USD	6,400.00	0.00	5,773.53
52.	2012	12382	Modernization of the Treasury Systems in Croatia	EUR	165.11	0.00	165.11
<b>TOTAL (1. - 52.):</b>				USD	48,836.93	3,216.42	6,861.05
				JPY	270,500.00	70,655.27	0.00
				GBP	352.80	2.83	0.00
				EUR	11,553.24	0.51	165.11
				SEK	23,250.00	90.69	0.00
<b>TOTAL (1. - 52.) expressed in:</b>				EUR	54,139.90		
<b>B. Grants given by the Kingdom of the Netherlands</b>							
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 Rationalization (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	104.70
5.	2008	NOK07/HR/3/2 (closed)	Ministry of Finance - Business Intelligence System	EUR	300.00	0.00	5.96
<b>TOTAL (1. - 5.):</b>				EUR	928.32	0.00	110.66
<b>C. Grants given by the Federal Republic of Germany</b>							
1.	2005	—	Financing Consultants' services for the refinancing of sub-loans extended for the purpose of extending water supply and wastewater facilities in the territory of the Republic of Croatia	EUR	802.29	0.00	491.80
2.	2009	—	Financial Contribution for the Promotion of Energy Efficiency and Renewable Energies in Croatia	EUR	1,500.00	0.00	373.21
3.	2010	—	Financial Contribution to the Project Loan Funding Facility for Water Supply and Waste Water Projects in the Republic of Croatia, Phase II	EUR	1,000.00	0.00	763.15
4.	2011	—	Grant for financing Consultant Services for the phase III of the project "Water Supply and wastewater disposal in the Republic of Croatia"	EUR	980.00	0.00	980.00
<b>TOTAL (1. - 4.):</b>				EUR	4,282.29	0.00	2,608.16

**D. Grants given by the European Bank for Reconstruction and Development**

1	2010	—	A Refurbishment of Heating and Hot water System of the Home for Children and Young People Tuškanac Project	EUR	120.00	0.00	0.00
<b>TOTAL</b>				EUR	120.00	0.00	0.00
<b>TOTAL (A. + B. + C. + D.):</b>				USD	48,836.93	3,216.42	6,861.05
				JPY	270,500.00	70,655.27	0.00
				GBP	352.80	2.83	0.00
				EUR	16,883.85	0.51	2,883.93
				SEK	23,250.00	90.69	0.00
<b>TOTAL (A. + B. + C. + D.) expressed in:</b>				EUR	59,470.51		

Source: Ministry of Finance

## **7. RELATIONSHIPS WITH THE EUROPEAN UNION IN 2012**

## 7.1 FINANCIAL MANAGEMENT OF FUNDS FROM IPA PRE-ACCESSION PROGRAMME

In 2012, the Ministry of Finance was efficiently managing the IPA pre-accession programme funds in decentralized implementation system, that is, in the system with *ex-ante* controls by the Delegation of the European Union through Component I – Transition Assistance and Institution Building, Component II – Cross-border Cooperation, Component III – Regional Development and Component IV – Human Resources Development, and in the administrative system without *ex-ante* controls by the Delegation of the European Union through Component V – Rural Development (IPARD).

During 2012, the Ministry of Finance requested funds from the European Commission in the amount of EUR 116.48 million, of which EUR 80.71 million were received. In the same period, the implementing bodies were paid the amount of EUR 111.22 million.

**Table 7.1. Allocated, contracted, requested, received and paid funds up to 31 December 2012**

PROGRAMME	ALLOCATED FUNDS	CONTRACTED FUNDS	CONTRACTED / ALLOCATED	REQUESTED FUNDS	RECEIVED FUNDS	PAID FUNDS	PAID / CONTRACTED
CARDS 2003	29.366.415	28.685.886	97,7%	28.537.956	26.687.313	27.224.233	94,9%
CARDS 2004	46.573.630	44.065.285	94,6%	43.730.289	43.610.008	41.480.710	94,1%
PHARE 2005	73.141.000	63.910.862	87,4%	64.457.531	62.810.495	58.478.285	91,5%
PHARE 2006	64.148.500	54.669.487	85,2%	56.689.700	53.991.645	51.433.945	94,1%
ISPA	59.000.000	57.359.136	97,2%	50.465.833	41.727.804	50.359.581	87,8%
SAPARD	25.000.000	15.425.682	61,7%	13.960.234	13.512.864	11.635.802	75,4%
IPA Component I 2007	44.554.000	41.444.797	93,0%	41.402.400	39.354.663	37.662.224	90,9%
IPA Component I 2008	41.374.000	39.464.588	95,4%	37.567.769	37.458.730	27.897.033	70,7%
IPA Component I 2009	42.101.430	32.223.955	76,5%	29.024.211	29.024.211	19.160.871	59,5%
IPA Component I 2010	38.623.458	13.357.649	34,6%	16.756.666	16.756.666	11.463.988	85,8%
IPA Component I 2011	33.829.128	7.062.867	20,9%	9.739.493	9.739.493	7.062.867	100,0%
IPA 2008 Nuclear Safety	952.000	676.847	71,1%	95.200	95.200	293.349	43,3%
IPA 2011 Nuclear Safety	808.750	0	0,0%	0	0	0	0
IPA Component II 2007	2.653.020	2.586.715	97,5%	2.495.584	2.457.379	2.099.773	81,2%
IPA Component II 2008	2.706.080	2.700.483	99,8%	2.594.932	2.570.101	2.180.971	80,8%
IPA Component II 2009	2.760.202	2.219.647	80,4%	1.304.131	1.304.131	1.355.535	61,1%
IPA Component II 2010	2.200.000	482.694	21,9%	420.000	420.000	144.000	29,8%
IPA Component IIIa - Transport	96.700.500	64.575.783	66,8%	37.632.461	30.307.740	31.504.410	48,8%
IPA Component IIIb - Environmental Protection	96.699.750	56.990.605	58,9%	34.226.476	34.226.476	20.896.150	36,7%
IPA Component IIIc - Regional Competitiveness	63.949.750	46.674.312	73,0%	32.645.954	24.100.973	27.979.718	59,9%
IPA Component IV - Human Resources Development	69.977.000	43.176.677	61,7%	36.268.107	33.123.243	34.009.971	78,8%
IPARD	129.400.000	56.468.903	43,6%	30.083.640	30.083.640	14.772.886	26,2%
<b>TOTAL</b>	<b>966.518.613</b>	<b>674.222.861</b>	<b>69,8%</b>	<b>570.098.566</b>	<b>533.362.775</b>	<b>479.096.301</b>	<b>71,1%</b>

Source: Ministry of Finance

In 2012, the Ministry of Finance was subject to six audit missions by the European Commission auditors. The purpose of these audits was to verify the compliance of the established financial management system with accreditation criteria and of the work with the prescribed procedures, as well as the readiness of the institutions to implement a completely decentralized management system without *ex-ante* controls by the Delegation of the European Union.

## **7.2 PREPARATORY ACTIVITIES FOR OBTAINING CONFERRAL OF MANAGEMENT IN THE SYSTEM WITHOUT EX-ANTE CONTROLS BY DELEGATION OF THE EUROPEAN UNION**

The Republic of Croatia and the European Commission agreed, for every IPA Component, on the course of the process and on criteria for obtaining conferral of management without *ex-ante* control by the Delegation of the European Union. The criteria included administrative strengthening of institutions (by additional employment and continuous education), a satisfactory implementation of IPA Programme, timely contracting in line with the set procurement plans and tender documentation prepared in a quality manner.

The criteria were fulfilled in the first half of 2012, and, in June and July, the Ministry of Finance sent a request to EC for obtaining conferral of management in the system without *ex-ante* controls by the Delegation of the European Union. During 2012, the additional employees were hired in competent institutions by employment and redistribution, and they were trained on the preparation of tender documentation for EU projects, implementation of tenders, contracting and monitoring of EU projects implementation. The appropriate quality of documentation was provided, and it was being submitted to the Delegation of the European Union for previous approval. The respect of deadlines from procurement plans was intensely monitored, and the internal control and internal audit system were continuously being strengthened. Additional educations on irregularities were carried out, and the irregularity reporting system was improved.

## **7.3 SYSTEM OF MONITORING THE IMPLEMENTATION OF IPA PRE-ACCESSION PROGRAMME AND FUTURE EUROPEAN UNION FUNDS**

During 2012, all competent institutions involved in the implementation of IPA Programme used the Management Information System (MIS). This system enables an efficient monitoring of all projects financed through 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 the indicators of performance of certain projects and, to a great extent, facilitates the overview and control of all important information.

The Ministry of Finance, in cooperation with the Ministry of Regional Development and EU funds, participated in the project of the establishment of the Cohesion Policy Fund Management Information System, financed from the EU funds.



## **7.4 PREPARATORY ACTIVITIES FOR THE USE OF FUTURE EUROPEAN UNION FUNDS (STRUCTURAL FUNDS AND THE COHESION FUND)**

Preparations for the use of EU funds included the preparations of Croatian institutions for obtaining conferral of management without *ex-ante* control by the Delegation of the European Union, consultations with the European Commission on the contents of the operational programmes for the second half of 2013, preparation of projects and strengthening of administrative capacities.

In 2012, the Ministry of Finance actively participated in the consultations with the European Commission regarding the implementation of structural instruments following the accession of the Republic of Croatia to the European Union, and it worked together with the Ministry of Regional Development and EU Funds on the preparation of national rules for the implementation thereof. The Ministry of Finance was responsible for the preparation of the rules on the verification of costs, on the payment process that is integrated in the unique payment system from the state treasury and on authorization of costs, and on irregularities and recovery of irregularly spent funds.

## **7.5 ACCESSION NEGOTIATIONS AND PROJECTS FROM EU ASSISTANCE PROGRAMMES**

During 2012, intense activities were being carried out regarding the fulfilment of obligations assumed during the negotiation process as well as the activities for the continuation of the process of transposing the EU *acquis communautaire* into the national legislation. The fundamental characteristic of pre-accession activities in 2012 refers to the continuation of the monitoring process, production of regular monitoring reports and reports on the self-assessment of the progress of the Republic of Croatia. Formal framework for these activities was set up through the Programme of the Government of the Republic of Croatia for assuming and implementing the EU *acquis communautaire* in 2012, accompanied with the Revised Action Plan of the Government of the Republic of Croatia in the second half of 2012, for fulfilling the remaining obligations from the negotiation on the accession of the Republic of Croatia to the European Union.

In the previous period, during the course of the accession negotiations, the Ministry of Finance participated in seventeen chapters as an implementing and/or co-implementing authority, while it was an implementing authority in the following chapters: 9. Financial Services, 16. Taxation, 29. Customs Union, 32. Financial Control and 33. Financial and Budgetary Provisions. In addition in 2012, the Ministry of Finance continued with all activities on the fulfilment of the assumed obligations and measures from under its competence.

Within the frameworks of Chapter 9 - Financial Services, during 2012, the Act on the Amendments to the Financial Collateral Act<sup>45</sup>, the Act on the Settlement Finality in Payment and Financial Instruments

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<sup>45</sup> Official Gazette, number 59/2012

Settlement Systems<sup>46</sup>, the Act Amending Audit Act<sup>47</sup>, Act on Open-Ended Investment Funds with a Public Offering<sup>48</sup> and Alternative Investment Funds Act<sup>49</sup> were adopted.

Regarding Chapter 16 - Taxation, during 2012, the harmonisation of legislation continued and the Act on the Amendments to the Act on Value-Added Tax Act<sup>50</sup>, Act on the Amendments to the Act on Corporate Income Tax<sup>51</sup>, Act on the Amendments to the Act on Excise Duties<sup>52</sup>, Ordinance amending the Ordinance on the Implementation of the Law on Excise Duties relating to gas oil colored blue for use in agriculture, fisheries and aquaculture<sup>53</sup>, Ordinance on the movement of excise goods under suspension of excise duty to the implementation of electronic excise document<sup>54</sup>, Regulation of the amount of excise duty on motor gasoline, gas oil and kerosene to drive<sup>55</sup> and Regulation of the amount of excise duty on cigarettes and fine-cut smoking tobacco<sup>56</sup> were adopted.

Regarding Chapter 29 - Customs Union, in the context of further adjustment of national legislation, during 2012, Act on Ratification of the Convention on a Common Transit Procedure<sup>57</sup>, Act on Ratification of the Convention on the Simplification of Formalities in Trading Goods<sup>58</sup> and Ordinance on the EORI number<sup>59</sup> were adopted.

Regarding Chapter 32 – Financial Supervision, during 2012, the activities directed towards the fulfilment of the remaining obligations and towards the strengthening of administrative capacities continued and the Action Plan for further development of public internal financial control system in the Republic of Croatia was adopted.

Regarding Chapter 33 – Financial and Budgetary Provisions, during 2012, there was a continuation of the activities linked with additional strengthening of technical and administrative prerequisites for proper functioning of the system of own resources from the day of accessing to the European Union. In this context, further efforts were invested in the human resources development – education and professional training, with an aim to make the system of administering own resources more qualitative and efficient.

In October 2012, following the assessment of the European Commission from the Comprehensive Monitoring Report, the Government of the Republic of Croatia adopted the Revised Action Plan of the Government of the Republic of Croatia for the fulfilment of the remaining obligations from the negotiations on the accession of the Republic of Croatia to the European Union. This Action Plan identified the priority measures and set the deadlines for the fulfilment of the remaining obligations, which are to be met by the day of the formal accession to the European Union.

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<sup>46</sup> Official Gazette, number 59/2012

<sup>47</sup> Official Gazette, number 144/2012

<sup>48</sup> Official Gazette, number 16/2013

<sup>49</sup> Official Gazette, number 16/2013

<sup>50</sup> Official Gazette, number 22/2012

<sup>51</sup> Official Gazette, number 22/2012

<sup>52</sup> Official Gazette, number 111/2012

<sup>53</sup> Official Gazette, number 134/2012

<sup>54</sup> Official Gazette, number 138/2012

<sup>55</sup> Official Gazette, number 137/2012

<sup>56</sup> Official Gazette, number 131/2012

<sup>57</sup> Official Gazette, International Agreements, number 4/2012

<sup>58</sup> Official Gazette, International Agreements, number 4/2012

<sup>59</sup> Official Gazette, number 81/2012

According to the Action Plan, as a first priority measure under the competence of the Ministry of Finance, the necessity of intensifying the activities on the finalization of border inspection posts was pointed out, followed by the improvement of the fiscal statistics in cooperation with the State Bureau of Statistics, and combating the delays in payment in commercial transactions through the adoption of the Act on Financial Mediation and Pre-Bankruptcy Settlement.

After the Agreement on the Accession to the European Union<sup>60</sup> was signed on December 9, 2011, Croatia got a status of active observer, which enabled the participation of Croatian representatives in the work of the EU institutions and thus the acquisition of useful experiences for taking action under the conditions of full membership. Therefore, representatives of the Ministry of Finance were appointed as members with the observer status in certain working groups, including the Economic and Financial Committee, Economic Policy Committee and Financial Services Committee (within the EU Council configuration), and were regularly participating at the meetings of high-level working groups and committees.

During 2012, Minister of Finance of the Republic of Croatia has regularly participated to the meetings of the Council of Ministers of the European Union for Economic and Financial Affairs (ECOFIN), and the sectors and other organizational units of the Ministry of Finance continuously has been following the European policies under their competences and participated in the preparatory activities for the participations of heads of the Ministry of Finance at the ECOFIN meetings. The Ministry of Finance, as a co-implementing agency, participated in the preparations for the participation of the representatives of the Republic of Croatia at the meetings of the European Council and it regularly, at a weekly basis, gave inputs from under its competence for the meetings of Permanent Representatives of the EU member states, within the formation of COREPER II.

There is an overview of the Legislation from the Jurisdiction of the Ministry of Finance of the Republic of Croatia that harmonised Croatian legislation with EU Regulations in 2012.

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<sup>60</sup> Official Gazette – International Agreement, number 2/2012

**Table 7.2. Overview of the Legislation from the Jurisdiction of the MFRC that Harmonised Croatian Legislation with European Union Regulations in 2012**

<b>LEGISLATIVE OVERVIEW OF CROATIA'S PROGRAMME FOR TRANSPOSITION AND IMPLEMENTATION OF ACQUIS COMMUNAUTAIRE FOR 2012 - JURISDICTION OF MINISTRY OF FINANCE</b>		
<b>No.</b>	<b>Measure</b>	<b>Status</b>
<b>LEGISLATIVE MEASURE</b>		
1.	Act on Amendments to the Financial Collateral Act	OG 59/12
2.	Act on Amendments to the VAT Act	OG 22/12
3.	Act on Amendments to the Profit Tax Act	OG 22/12
4.	Act on Amendments to the Consumer Credit Act	OG 112/12
5.	Act on Ratification of the Convention on a common transit procedure	OG IA 4/12
6.	Act on Ratification of the Convention on the simplification of formalities in goods trade	OG IA 4/12
7.	Act on Settlement Finality in Payment and Financial Instruments Settlement Systems	OG 59/12
8.	Act on Amendments to the Act on Excise Duties	OG 111/12
9.	Act on Financial Operations and Pre-Bankruptcy Settlement	OG 108/12
10.	Concessions Act	OG 143/12
11.	Act Amending the Audit Act	OG 144/12
12.	Act on Amendments to the VAT Act	OG 136/12
13.	Act on Open – Ended Investment Funds with a Public Offering	OG 16/13
14.	Alternative Investment Funds Act	OG 16/13
15.	Act on Amendments to the Act on excise duty on cars, other motor vehicles, vessels and aircraft	OG 78/12
16.	Act on Termination of the Excise Duty on luxury goods	OG 143/12
<b>SECONDARY LEGISLATION</b>		
1.	Decision on amendments of the Decision on publishing state aid rules for employment	OG 31/12
2.	Ordinance on the EORI number	OG 81/12
3.	The decision on publishing list of state aid rules	OG 83/12
4.	Ordinance amending the Ordinance on the Implementation of the Law on Excise Duties relating to gas oil colored blue for use in agriculture, fisheries and aquaculture	OG 134/12
5.	Ordinance on the movement of excise goods under suspension of excise duty to the implementation of electronic excise document	OG 138/12
6.	Regulation of the amount of excise duty on gasoline, gas oil and kerosene to drive	OG 137/12
7.	Decision on amendments of the Decision on publishing state aid rules to short-term export credit insurance	OG 130/12
8.	Decision on amendments of the Decision on publishing state aid rules to promote risk capital investments in small and medium-sized enterprises	OG 117/12
9.	Decision on amendments of the Decision on publishing rules on regional aid	OG 117/12
10.	Regulation of the amount of excise duty on cigarettes and fine-cut tobacco	OG 131/12
11.	Regulation of the amount of excise duty on motor fuel and gas oil	OG 75/12 OG 83/12
12.	Regulation on Amendments to the Regulation on the amount of excise duty on motor fuel and gas oil	OG 76/12
13.	Corrigendum to the Regulation on excise duty on motor fuel and gas oil	OG 92/12
14.	Regulation on Amendments to the Regulation on the amount of excise duty on gasoline, gas oil and kerosene to drive	OG 144/12

Source: Ministry of Finance

In 2012, the Ministry of Finance also continued to use the funds from Component I (Transition Assistance and Institution Building) of the IPA pre-accession programme by successful application and implementation of projects with the aim of strengthening the operational and administrative capacities of the Ministry. In addition, during 2012, the Ministry of Finance started the procedure of project programming for the use of funds from the Transition Facility, which, pursuant to Article 30 of the Accession Agreement, was made available for the Republic of Croatia in the first year after accessing the EU, and with the purpose of strengthening institutional and administrative capacities for the implementation of the EU *acquis communautaire* in the areas that are not eligible for financing from EU structural funds.

In the follow-up, there is a detailed overview of the projects of the Ministry of Finance within the framework of the IPA Component I programme during 2012.

**Table 7.3. Ministry of Finance EU Funded Projects in 2012**

Project title	Project purpose	Type of contract and Budget in 000 EUR	Project status in 2012
<b>Ministry of Finance - Headquarters</b>			
<b>IPA 2007 TAF Strengthening the administrative capacity of Ministry of Finance of the Republic of Croatia regarding the implementation of the new concession and public-private partnership legislation</b>	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 and EU practice.	Twinning Light 250	Final report approved
<b>IPA 2008 Support to the management, monitoring and evaluation of the structural instruments in Croatia - Component 3 - Enhancement of the capacity for effective management of EU Cohesion policy funds</b>	Increasing the capacity for overall coordination of structural funds and the Cohesion fund implementation in Croatia; technically correct and efficient management of EU funding as well as systematical monitoring of EU structural instruments.	Twinning 2.000	The project was transferred to Ministry of Regional Development and EU Funds
<b>IPA 2008 Support to the management, monitoring and evaluation of the structural instruments in Croatia - Component 1 - Establishment of an integrated management information system (MIS)</b>	Establishing the Management Information System (MIS) in line with EU cohesion policy requirements and supporting all the actors involved in management of structural funds and Cohesion fund data collection and maintenance for the purposes of monitoring and management.	Service contract 948,9	The project was transferred to Ministry of Regional Development and EU Funds
<b>IPA 2009 FPPRAC Enhancing the functioning of Croatian AFCOS system with the aim of efficient protection of EU financial interests</b>	To develop further Croatian AFCOS system and assure the efficient and appropriate protection of EU financial interests in the Republic of Croatia by widening of competences and roles of the AFCOS system bodies within the EU Structural Instruments environment.	Twinning Light 230	Twinning Light Contract Awarded
<b>IPA 2008 FPP RAC Raising public awareness on the importance of the Public Internal Financial Control system in the Republic of Croatia</b>	Strengthening the importance of financial management, control and internal audit with the aim of standardization and raising awareness of importance of PIFC as an integral part of the public administration reform.	Framework contract 200	Contracting and end of project activities implementation
<b>IPA 2010 FF RAC Strengthening of the Financial Police in the fight against corruption in regular financial supervisions</b>	Strengthen institutional capacities of the Financial Police concerning the implementation of relevant methods and procedures on preventing and combating corruption in line with the EU standards.	Twinning Light 222,2	Financial Police has been abolished and project funds were reallocated to a Tax Administration project

Project title	Project purpose	Type of contract and Budget in 000 EUR	Project status in 2012
<b>Tax Administration</b>			
<b>IPA 2008 FPP RAC Strengthening of the Tax Administration in the fight against corruption</b>	Enhancing the transparency of the Tax Administration in the detection and prosecution of corruption offences.	Twinning Light 230	End of project activities implementation
<b>IPA 2008 FPP RAC Development of IT solution for exchange of information related to the Savings Directive</b>	Designing and development of IT solution for efficient exchange of information related to the Savings Directive with the aim of suppressing tax evasion.	Framework contract 200	Contracting and start of project activities implementation
<b>IPA 2008 FPP RAC Strengthening the capacity of Croatian Tax Administration in the field of exchange of information related to Savings Directive</b>	Exchange of information and development of information systems related to income from savings to combat tax fraud.	Twinning Light 230	Final report approved
<b>IPA 2009 Enhancement of the administrative capacity of Tax Administration in the field of audit</b>	Strengthening the Tax Administration in the field of audit and fight against tax fraud in accordance the EU best practice.	Twinning 1.000	Contracting and start of project activities implementation
<b>IPA 2010 Enhancement of the CTA administrative and institutional capacity in the field of application of VAT EU common system</b>	Strengthening the administrative and institutional capacity of the Tax Administration for the purpose of successfully implementing EU common market VAT regulations.	Twinning 800	Contracting and start of project activities implementation
<b>IPA 2010 FF RAC Strengthening the administrative capacity of Croatian Tax Administration on mutual cooperation in the field of taxation</b>	Strengthening the administrative capacity of Tax Administration by training the Central Liaison Office Staff for the implementation of administrative cooperation and mutual assistance tasks.	Twinning Light 244,4	Contracting and start of project activities implementation
<b>IPA 2010 FF RAC Supporting the capacity of CTA for further development of EU information exchange systems</b>	Further strengthening of the EU information exchange system by improving procedures, establishing a monitoring and management system and education of Tax Administration employees.	Twinning Light 222,2	Tender documentation drafting (funds reallocated from the Financial Police project)
<b>IPA 2011 FFRAC Strengthening the Administrative Capacity of Croatian Tax Administration Concerning Investigation of Criminal Tax Acts</b>	Tax Administration capacity building in the field of suppressing money laundering, financial investigations and fight against tax evasion after EU accession.	Twinning Light 189	Tender documentation drafting
<b>IPA 2013 Strengthening of the Croatian Tax Administration's Government to Business (G2B) capacities through consolidation of IT systems</b>	Overall consolidation of IT systems into single system providing access in one-stop-shop manner, creation of new functionalities, automation and ease of access to users, which will lead to increased usage of e-services, in order to achieve higher efficiency in taxpayer data management, increased tax compliance, improved tax collection and more efficient fight against tax fraud.	Technical assistance 1.550	Tender documentation drafting
<b>Prijelazni instrument - New Croatian Tax Administration Information System Applications</b>	To develop and implement new CTA Information System applications for creation of new functionalities and upgrading of e-services for taxpayers.	Technical assistance, Twinning Light and procurement 3.300	Programming
<b>Prijelazni instrument - Croatian Tax Administration Human Resources Management System</b>	Further enforcement of EU legislation in the field of taxation by further strengthening of CTA HRM and IT functions.	Technical assistance, Twinning Light and procurement 1.000	Programming

Project title	Project purpose	Type of contract and Budget in 000 EUR	Project status in 2012
<b>Customs Administration</b>			
<b>IPA 2007 Development of the customs laboratories in Croatia</b>	Further development of the Customs Laboratory to achieve operational capacity in line with EU requirements.	<i>Twinning and Supply</i> 2.900	End of project activities implementation (Twinning) and implementation of project activities (Supply)
<b>IPA 2007 Supply of equipment for the Croatian Customs Administration Anti-smuggling Mobile Units</b>	Strengthening of customs control and supervision in the customs territory of Croatia.	Supply 5.600	Implementation of project activities
<b>IPA 2008 FPP RAC Strengthening anti-corruption activities of the Customs Administration</b>	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	Final report approved
<b>IPA 2009 FPP RAC Harmonisation of the Customs Administration risk management system with the EU standards and best practice</b>	Assistance to the Customs Administration in setting up a full-scale risk management system that will ensure improved compliance with laws and regulations, better human resource allocation, improved revenue collection and improved collaboration between traders and customs, through the application of the most effective methods and solutions proven as best EU practice for risk management in customs.	Twinning Light 250	End of project activities implementation and final report approval
<b>IPA 2010 Integrated border management</b>	Further development of operational border management and control effectiveness at the border crossing points that would ensure the public security.	Twinning and Supply 7.645	Tendering procedure ended (Twinning) and procurement notice published (Supply)
<b>IPA 2010 FFRAC Introducing Quality Assurance in CAP and Excise Goods Controls of the Croatian Customs Laboratory</b>	Supporting the compliance of the customs laboratory control with the best EU practice.	Twinning Light 250	Tender documentation drafting
<b>IPA 2011 Harmonization of the Croatian Customs Administration with the Standards, Organization and Operational Methodology of EU Post-clearance Control and Audit</b>	To set up an effective system of post-clearance control and audit and audit service that allows the Customs Administration to improve implementation of its tasks (customs clearance and control of goods, revenue collection) and to facilitate balancing of increasingly free trade with an efficient customs control system in line with all relevant EU regulations.	Twinning Light 189	Tender documentation drafting
<b>IPA 2012 Supply of IT equipment for Croatian Customs Administration</b>	Efficient and effective implementation of customs systems required to connect with the EU IT systems aiming to enable the exchange of information between European Commission and EU Member States with special focus on implementing and managing all the elements of safety and security of ICT.	Supply 2.000	Tender documentation drafting

Source: Ministry of Finance

In 2012, total of nine projects from Component I of IPA 2007, IPA 2008, IPA 2009 and IPA 2010 programmes were being carried out, with the total value of EUR 11.4 million.

During 2012, implementation of contracted activities for four projects of the Ministry of Finance was successfully completed, with the total value of EUR 1.2 million. These four projects are the following ones:

- IPA 2007 Customs laboratory Development in the Republic of Croatia – *Twinning* (total value EUR 500 thousand):
  - The purpose of the project is to align the operational capacity in the area of regulations, management and methodology of the Customs laboratory with the EU requirements, through the activities of introducing the quality management system, education for employees, development of laboratory methods, production of guidelines for operations, development of the plan for cooperation with customs laboratories of EU member states.
- IPA 2008 FPPRAC Promoting the importance of PIFC (public internal financial control system) as an integral part of the reforms in the public sector of the Republic of Croatia:

- Along with the purpose of raising awareness on the importance of internal financial controls in everyday business operations of public services, the following activities were carried out: analysis of the existing regulations on internal audit and financial management and control, production of the strategy of PIFC promotion, production of promotional materials, updating the website of the Central Harmonization Unit of the Ministry of Finance, organizing the conference on PIFC.
- IPA 2008 FPPRAC Strengthening of Tax Administration in the fight against corruption:
  - Purpose of the project is strengthening the transparency and efficiency related to the detection and investigation of corruptive acts in Tax Administration. Implemented activities are the following: analysis of the existing system, production of anti-corruption strategy and action plan, production of guidelines for acting upon the citizens' complaints, education of employees.
- IPA 2009 FPPRAC Harmonisation of the Customs Administration risk management system with the EU standards and best practice:
  - Purpose of the projects is the establishment of a modern risk management system in line with the requests from Chapter 29 (Customs Union), parts of Chapter 16 (Taxation), and 24 (Justice, Freedom and Security) and Chapter 33 (Financial and Budgetary Provisions) from accession negotiations. Some of the implemented activities are: analysis of the existing system, production of the implementation plan of reforms, production of guidelines for risk management, trainings for risk management.

During 2012 five projects of the total value of EUR 2.4 million were contracted within IPA Component I, with Ministry of Finance as the beneficiary:

- IPA 2008 FPPRAC Promoting the importance of PIFC-a (public internal financial control system) as an integral part of the reforms in the public sector of the Republic of Croatia (contracted activities for this project were completed during the same year),
- IPA 2008 FPPRAC Development of IT solutions for exchange of information related to the Savings Directive,
- IPA 2009 Enhancement of the administrative capacity of Tax Administration in the field of audit,
- IPA 2010 Enhancement of the Croatian Tax Administration administrative and institutional capacity in the field of application of VAT EU common system,
- IPA 2010 FFRAC (*Flexible Facility for Reinforcement of Administrative Capacities*) Strengthening the administrative capacity of the Tax Administration on mutual cooperation in the field of taxation.

For the purpose of further strengthening of operational and administrative capacities, during 2012 the activities continued regarding programming, tender documentation preparation and tender procedure implementation for project proposals within the IPA Programme Component I, as follows:

- Programming and final preparation of tender documentation based on comments made by the Central Finance and Contracting Agency (CFCA) and the EU Delegation for the following projects of the total value of EUR 4.4 million:
  - IPA 2010 FFRAC Supporting the capacity of the Tax Administration for further development of EU information exchange systems,
  - IPA 2010 FFRAC Introducing quality assurance in Common Agricultural Policy (CAP) and excise goods controls of the Croatian Customs Laboratory,
  - IPA 2011 FFRAC Strengthening the administrative capacity of the Tax Administration concerning investigation of criminal tax acts,
  - IPA 2011 FFRAC Harmonization of the Croatian Customs Administration with the standards, organization and operational methodology of EU post-clearance control and audit,



- IPA 2012 Supply of IT equipment for the Customs Administration – technical specifications and market analysis,
- IPA 2013 Strengthening of the Tax Administration's Government to Business (G2B) capacities through consolidation of IT systems.
- Preparation and start of tender procedure (publication of tender):
  - IPA 2010 Supply of equipment for the Integrated Border Management (Lot 1 –Customs control equipment, total value of EUR 1.7 million);
- Completion of tender procedure (the most favourable bidder has been selected, but the contract has not been signed yet):
  - IPA 2009 FPPRAC Enhancing the functioning of Croatian AFCOS system with the aim of efficient protection of EU financial interests (as a consequence of the postponements related to the revision of the internal organization of the Ministry of Finance as well as to the amendments to the internal organization of other bodies within the AFCOS system this project was transferred from IPA I 2008 Programme due to impossibility to conclude the contract within the deadline foreseen for project contracting under this programme),
- IPA 2010 Integrated Border Management - Twinning (of the total value of EUR 500 thousand).

Within the process of programming for the Transition Facility, the Ministry of Finance made an analysis of financing needs and priorities with the aim to further strengthen the institutional capacities of the Tax Administration, from which two projects were identified based on the comments of the European Commission: New applications of IT system of the Tax Administration and Integrated human resources management system of the Tax Administration, of total joint value of EUR 4.3 million.

During 2012, the Ministry of Finance, together with other state administration bodies, started the programming process for the use of structural instruments of the European Union within the framework of the financial perspective 2014-2020. The Ministry of Finance produced the socio-economic and SWOT analysis for the area of national strategic planning system, state budget planning and management system, within the framework of the thematic goal Strengthening the institutional capacity and efficient public administration, the leading institution of which is the Ministry of State Administration.

The Republic of Croatia also participates in the European Union Programmes the aim of which is to promote the cooperation between the Member States in different areas of EU policies. Based on the special item in the General Budget of the European Union, the Union Programmes were intended only for Member States. Considering the fact that the Republic of Croatia participates in these Programmes as a candidate country and does not contribute to the European Union budget yet, it is obliged to pay a participation fee. The Ministry of Finance is competent for Customs 2013 and Fiscalis 2013 programmes. The Customs 2013 programme includes the coordination of operation of customs services in Member States, while the Fiscalis 2013 programme is intended for the improvement of the tax system on the internal market by stimulating the cooperation in the field of taxation policy.

**INTERNAL ORGANIZATION OF THE MINISTRY OF  
FINANCE IN 2012**

## INTERNAL ORGANIZATION OF THE MINISTRY OF FINANCE IN 2012

Internal organization of the Ministry of Finance is regulated by the Regulation on the Internal Organization of the Ministry of Finance<sup>61</sup>.

The Regulation on the Internal Organization of the Ministry of Finance establishes the new organization of the Ministry of Finance due to the harmonisation with the provisions of the Act on the State Administration System<sup>62</sup> and of the Regulation on the principles for internal organization of state administration bodies<sup>63</sup> and due to rationalization and better arrangement of the performance of tasks and execution of obligations from within the scope of the Ministry.

The Regulation on the Internal Organization of the Ministry of Finance amends the organization of the central part of the Ministry, and the internal organization of administrative units, founded pursuant to special acts, is adjusted accordingly.

In relation to the former organization, the directorates of the central part of the Ministry of Finance were reorganized into sectors, that is, to lower-level organizational units, and the names and the internal organization of organizational units were harmonised with the Regulation on the principles for internal organization of state administration bodies. Since according to the Regulation on the principles for internal organization of state administration bodies it is not possible to establish departments nor is it possible to increase the general number of necessary civil servants by changing the internal organization, the general number of necessary civil servants and other employees in the Ministry of Finance was reduced by the Regulation on Internal Organization of the Ministry of Finance<sup>64</sup> from 10,032 to 9,889.

For the performance of tasks from within the scope of the Ministry, the Regulation on the Internal Organization of the Ministry of Finance<sup>65</sup> (hereinafter referred to as: the Regulation), establishes the following organizational units in the Ministry of Finance:

1. Office of the Minister;
2. General Secretariat;
3. Directorate for Macroeconomic Analysis, Economy, Financial System, European Union and International Financial Relations;
4. State Treasury;
5. Directorate for Financial Management, Internal Audit and Supervision;
6. Independent Sector for Second-Instance Administrative Procedure;
7. Independent Service for Combating Irregularities and Fraud.

Administrative units within the Ministry, founded by special acts, are:

1. Tax Administration;
2. Customs Administration.

In line with the applied organization and task description, the status of the following organizational units was amended, starting from the directorate level:

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<sup>61</sup> Official Gazette, number 32/2012, 67/2012 and 124/2012

<sup>62</sup> Official Gazette, number 150/2011

<sup>63</sup> Official Gazette, number 154/2011 and 17/2012

<sup>64</sup> Official Gazette, number 32/2012

<sup>65</sup> Official Gazette, number 32/2012, 67/2012, 124/2012

Financial System Directorate, Economy Directorate, Directorate for European Integration and International Financial Relations were reorganized in the Sector for Financial System, Sector for Economy, and Sector for European Union and International Financial Relations within the Directorate for Macroeconomic Analysis, Economy, Financial System, European Union and International Financial Relations.

Bureau for Macroeconomic Analysis and Planning was reorganized in the organizational unit of the level of the sector within the Directorate for Macroeconomic Analysis, Economy, Financial System, European Union and International Financial Relations.

Directorate for Harmonization of Internal Audit and Financial Control was reorganized in the Sector for Harmonization of Internal Audit and Financial Control within the Directorate for Financial Management, Internal Audit and Supervision.

Within the State Treasury, the Directorate for Budget Preparation and Financing of Local and Regional Self-Government Units, Directorate for State Budget Execution and Directorate for Public Debt Management were reorganized in the Sector for Budget Preparation and Financing of Local and Regional Self-Government Units, Sector for State Budget Execution and Sector for Public Debt Management. For the performance of the tasks from within the scope of former Sector for Development and Support to the State Treasury System and Sector for Normative-Legal Affairs, the new Sector for the Support to the State Treasury was established. Sector for the Tasks of the National Fund, within the State Treasury, remained established at the level of the sector.

Independent Service for Construction and Maintenance of Border Crossings and Independent Service for Internal Audit were reorganized into the Service for Construction and Maintenance of Border Crossings and the Internal Audit Service, respectively, within the Directorate for Financial Management, Internal Audit and Supervision.

For the performance of the budget supervision, the Service for Budget Supervision from the State Treasury is reorganized into the Sector for Budget Supervision and Supervision of Concessions within the Directorate for Financial Management, Internal Audit and Supervision, and its scope is extended.

The tasks from within the scope of the Independent Department for Public Relations are transferred into the Communications Service within the General Secretariat and into the Office of the Minister.

Independent Department for Combating Irregularities and Fraud is reorganized into the Independent Service for Combating Irregularities and Fraud.

Independent Service for Second-Instance Administrative Procedure is reorganized in the Independent Sector for Second-Instance Administrative Procedure.

Pursuant to the Act on the Termination of the Validity of the Financial Police Act<sup>66</sup>, the Financial Police ceased to operate, and the tasks the Financial Police had been carrying out by the day of entry into force of this Act as an administrative unit within the Ministry of Finance, were continued to be performed by the Ministry of Finance.

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<sup>66</sup> Official Gazette, number 25/2012

Organization of administrative units and other organizational units founded by special acts was harmonised with the provisions of the Regulation on the principles for internal organization of state administration bodies, and by internal organizational needs deriving from special acts pursuant to which they had been founded.

According to that, in certain organizational units, lower-level organizational units were organized.

For the performance of the tasks from within the scope of the Directorate for Macroeconomic Analysis, Economy, Financial System and European Union, the following units are established:

- Bureau for Macroeconomic Analysis and Planning
- Sector for Economy
- Sector for Financial System
- Sector for European Union and International Financial Relations.

In the Directorate for Financial Management, Internal Audit and Supervision, the following units are established:

- Financial Inspectorate
- Anti-Money Laundering Office
- Sector for Harmonization of Internal Audit and Financial Control
- Sector for Budget Supervision and Supervision of Concessions
- Service for Construction and Maintenance of Border Crossings
- Service for Internal Supervision.

In the State Treasury, the following units are established:

- Sector for Budget Preparation and Financing of Local and Regional Self-Government Units
- Sector for Budget Execution
- Sector for Public Debt Management
- Sector for the Support to the State Treasury
- Sector for the Tasks of the National Fund.

In the General Secretariat, the following units are established:

- Sector for Human Resources and Legal Affairs
- Service for Financial-Planning and Accounting Tasks
- Service for General Affairs
- Communications Service
- Information System Sector.

For the performance of tasks from within the scope of the Tax Administration and Customs Administration, as administrative units founded by special acts, the central office and regional offices were established in the Tax Administration and customs-houses in the Customs Administration.

Within the framework of the Tax Administration, the Central Office and 21 regional offices were established.

In the Central Office the following units are established: Sector for Tax System; Sector for Applicable Solutions, Tax Records, Statistics and Registries; Sector for IT system; Sector for Supervision; Sector for Seizure Procedure; Sector for Games of Chance and Local Taxes; Sector for Planning, Management Development and Professional Training of Human Resources; Sector for General, Legal, Accounting Tasks;

Sector for Financial Management and Control; Sector for European Affairs and International Exchange of Information; Sector for Strategy and Development; Sector for Taxpayer Servicing.

Regional offices were classified into three categories. Regional offices of the first category are Zagreb Regional Office and Office for Large Taxpayers. Regional offices of the second category are Split Regional Office; Rijeka Regional Office; Osijek Regional Office and Pazin Regional office. Regional offices of the third category are Krapina Regional Office, Sisak Regional Office; Karlovac Regional Office; Varaždin Regional Office; Koprivnica Regional Office; Bjelovar Regional Office; Gospić Regional Office; Virovitica Regional Office; Požega Regional Office; Slavonski Brod Regional Office; Zadar Regional Office; Šibenik Regional Office; Vukovar Regional Office; Dubrovnik Regional Office and Čakovec Regional Office.

According to the Regulation on the principles for the internal organization of state administration bodies, there are lower-level organizational units established in the Tax Administration - in the Central offices these are sectors and services, and in regional offices, these are sectors, local offices (124 offices), services and departments.

Within the Customs Administration, there are the Central Office and customs houses being established. In the Central Office the following units are established: Sector for Joint Affairs of the Central Office – Director's Office; Sector for European Affairs and International Cooperation; Sector for Internal Supervision and Control; Sector for Human Resources Management, Legal and Organizational Affairs; Sector for Finance; Sector for Customs System and Procedures; Sector for Excise Duties and Special Taxes; Sector for Customs Tariff and Sector for IT System.

There are 7 customs houses established in the Customs Administration and these are the following: Zagreb Customs House; Rijeka Customs House; Osijek Customs House, Split Customs House, Ploče Customs House, Zadar Customs House and Varaždin Customs House.

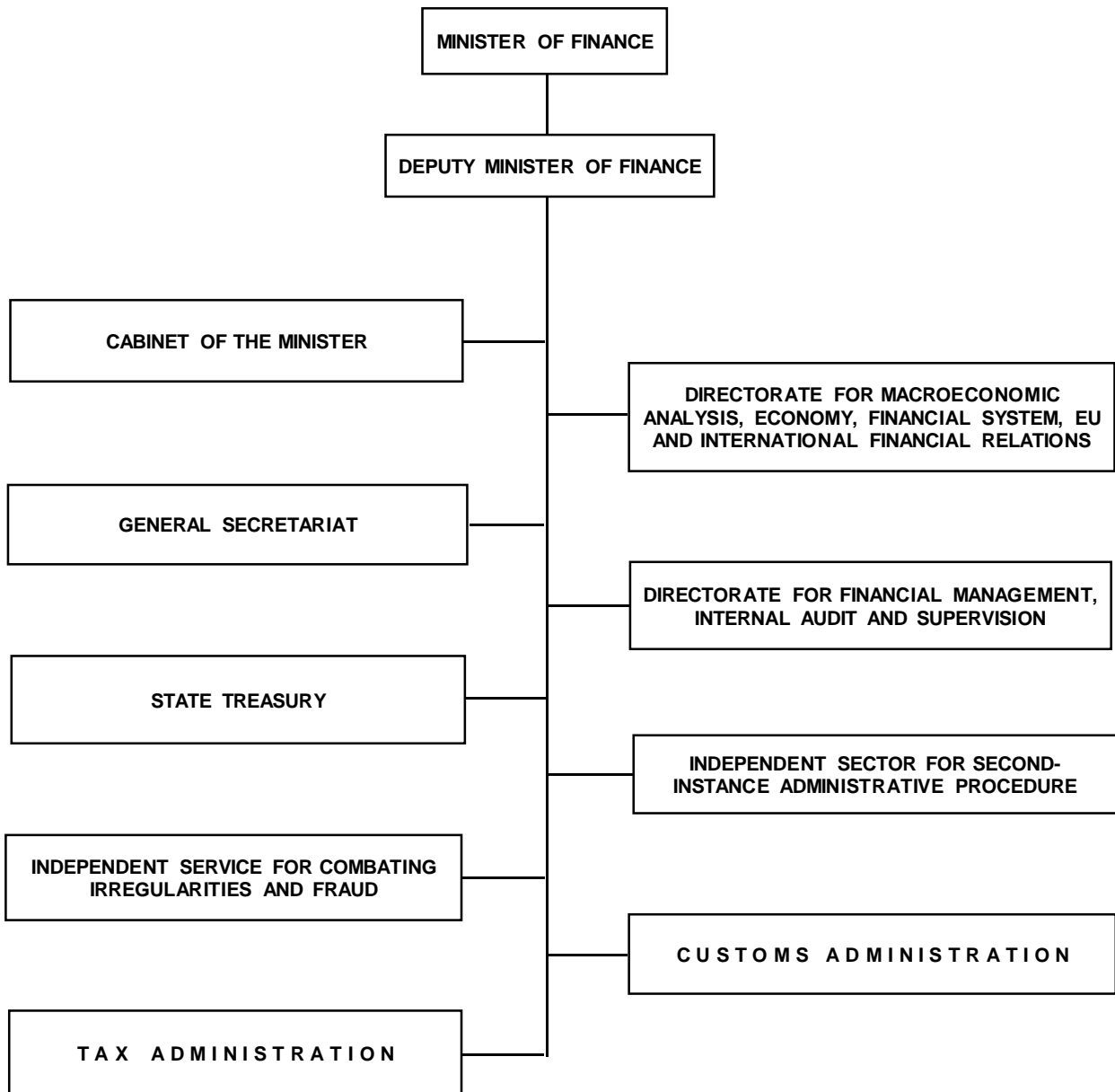
According to the Regulation on the principles for internal organization of state administration bodies, there are lower-level organizational units being established in the Customs Administration – in the Central Office, these are sectors, services and departments, and in the customs houses, these are services and departments, and customs stations and customs sections.

In Regulation on the Amendments to the Regulation on the Internal organization of the Ministry of Finance<sup>67</sup>, for the performance of tasks from within the scope of the Ministry of Finance, the general number of necessary civil servants and other employees was reduced from 9,889 to the total 9,629, of which 719 employees performing the tasks from within the scope of the Ministry of Finance (Central Office), 3,928 of employees performing the tasks from within the scope of the Customs Administration and 4,982 employees performing the tasks from within the scope of the Tax Administration.

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<sup>67</sup> Official Gazette, number 124/2012

## ORGANIZATIONAL STRUCTURE – ORGANIGRAM OF THE MINISTRY OF FINANCE<sup>68</sup>



<sup>68</sup> Regulation on the Internal Organization of the Ministry of Finance (OG 32/12, 67/12 and 124/12)

## **APPENDICES**



## Appendix 1. Basic Macroeconomic Indicators of Croatian Economy

	2008	2009	2010	2011	2012
GDP, current prices (HRK million)	343,412	328,672	323,807	330,171	330,232
GDP, real growth (%)	2.1	-6.9	-2.3	0.0	-2.0
GDP, current prices (EUR million)	47,543	44,781	44,441	44,412	43,929
GDP per capita (EUR)	10,721	10,111	10,060	10,375	10,294
Consumer price index, average (%)	6.1	2.4	1.1	2.3	3.4
Industrial producer price index, average, (%)	8.3	-0.4	4.3	6.3	7.0
Number of registered unemployed persons, average	236,741	263,174	302,425	305,333	324,323
Registered unemployment rate, average (%)	13.2	14.9	17.4	17.8	18.9
Labour force survey unemployment rate, average (%)	8.4	9.1	11.8	13.5	15.8
Average monthly gross wage, HRK	7,544	7,711	7,679	7,796	7,875
Average monthly net wage, HRK	5,178	5,311	5,343	5,441	5,478
Industrial production volume index (working-day adjusted indices), growth rate (%)	-	-	-1.5	-1.2	-5.5
Retail trade turnover (working-day adjusted indices), real growth rate (%)	-0.9	-11.3	-2.6	1.0	-4.3
Number of tourist nights, growth rate (%)	2.0	-1.4	2.6	7.0	4.0
Construction work index (working-day adjusted indices), growth rate (%)	11.9	-6.8	-15.8	-8.7	-9.7
Exchange rate HRK/EUR, average	7.22	7.34	7.29	7.43	7.52
Exchange rate HRK/USD, average	4.93	5.28	5.50	5.34	5.85
Foreign trade balance (HRK million)	-81,149	-56,479	-45,405	-49,802	-49,519
Exports (HRK million)	69,205	55,272	64,892	71,234	72,381
Imports (HRK million)	150,354	111,751	110,297	121,036	121,899
Current account balance (EUR million)	-4,255	-2,283	-462	-387	-26
Current account balance (% of GDP)	-8.9	-5.1	-1.0	-0.9	-0.1
External debt, end of period (EUR million)	40,590	45,244	46,502	45,876	44,836
External debt, end of period (% of GDP)	85.4	101.0	104.6	103.3	102.1
International reserves of CNB, end of period (EUR million)	9,121	10,376	10,660	11,195	11,236
Interest rate on treasury bills of 91 days maturity, end of period (%)	6.00	4.70	2.30	4.55	1.25
ZIBOR (3 m), average (%)	7.20	8.96	2.43	3.15	3.43

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

Appendix 2. Budgetary Central Government Revenue in the 2008-2012 Period

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>115.772.655</b>	<b>110.257.947</b>	<b>107.466.351</b>	<b>107.069.670</b>	<b>99,6</b>	<b>109.558.928</b>	<b>102,3</b>
<b>11</b>	<b>Taxes</b>	<b>69.572.699</b>	<b>63.678.926</b>	<b>62.856.582</b>	<b>61.422.186</b>	<b>97,7</b>	<b>64.693.898</b>	<b>105,3</b>
<b>111</b>	<b>Taxes on income, profits, and capital gains</b>	<b>12.252.205</b>	<b>10.839.269</b>	<b>7.608.630</b>	<b>8.595.516</b>	<b>113,0</b>	<b>8.966.867</b>	<b>104,3</b>
1111	Payable by individuals	1.687.502	1.399.411	1.201.546	1.307.486	108,8	1.269.525	97,1
1112	Payable by corporations and other enterprises	10.564.703	9.439.858	6.407.084	7.288.030	113,7	7.697.342	105,6
<b>113</b>	<b>Taxes on property</b>	<b>635.930</b>	<b>532.297</b>	<b>443.983</b>	<b>448.489</b>	<b>101,0</b>	<b>397.736</b>	<b>88,7</b>
1134	Taxes on financial and capital transactions	635.930	532.297	443.983	448.489	101,0	397.736	88,7
<b>114</b>	<b>Taxes on goods and services</b>	<b>54.482.172</b>	<b>49.238.277</b>	<b>50.980.460</b>	<b>50.244.065</b>	<b>98,6</b>	<b>53.205.019</b>	<b>105,9</b>
1141	General taxes on goods and services	41.474.566	37.173.833	37.812.425	37.847.826	100,1	40.778.865	107,7
11411	Value-added taxes	41.308.036	37.050.354	37.688.520	37.718.154	100,1	40.652.023	107,8
11412	Sales taxes	166.531	123.479	123.905	129.672	104,7	126.841	97,8
1142	Excises	11.875.126	10.998.910	11.972.326	11.215.054	93,7	11.206.489	99,9
1144	Taxes on specific services	27.000	14.964	10.486	30.995	295,6	30.444	98,2
1145	Taxes on use of goods and on permission to use goods or perform activities	561.612	517.870	661.146	635.373	96,1	675.389	106,3
11452	Other	561.612	517.870	661.146	635.373	96,1	675.389	106,3
1146	Other taxes on goods and services	543.868	532.700	524.078	514.817	98,2	513.833	99,8
<b>115</b>	<b>Taxes on international trade and transactions</b>	<b>1.900.865</b>	<b>1.721.164</b>	<b>1.644.448</b>	<b>1.766.356</b>	<b>107,4</b>	<b>1.754.364</b>	<b>99,3</b>
1151	Customs and other import duties	1.900.865	1.721.164	1.644.448	1.766.356	107,4	1.754.364	99,3
<b>116</b>	<b>Other taxes</b>	<b>301.527</b>	<b>1.347.920</b>	<b>2.179.061</b>	<b>367.761</b>	<b>16,9</b>	<b>369.912</b>	<b>100,6</b>
<b>12</b>	<b>Social contributions</b>	<b>40.703.484</b>	<b>39.994.739</b>	<b>38.712.382</b>	<b>38.605.067</b>	<b>99,7</b>	<b>37.845.871</b>	<b>98,0</b>
<b>121</b>	<b>Social security contributions</b>	<b>40.703.484</b>	<b>39.994.739</b>	<b>38.712.382</b>	<b>38.605.067</b>	<b>99,7</b>	<b>37.845.871</b>	<b>98,0</b>
1211	Employee contributions	18.100.364	17.925.299	17.290.552	17.302.315	100,1	17.493.535	101,1
1212	Employer contributions	21.758.077	21.373.979	20.783.571	20.686.181	99,5	19.771.608	95,6
1213	Self-employed or nonemployed contributions	845.043	695.462	638.260	616.570	96,6	580.727	94,2
<b>13</b>	<b>Grants</b>	<b>468.634</b>	<b>616.307</b>	<b>637.087</b>	<b>868.988</b>	<b>136,4</b>	<b>968.378</b>	<b>111,4</b>
<b>131</b>	<b>From foreign governments</b>	<b>8.583</b>	<b>5.450</b>	<b>13.236</b>	<b>39.130</b>	<b>295,6</b>	<b>20.024</b>	<b>51,2</b>
1311	Current	6.452	3.992	12.811	3.756	29,3	6.883	183,3
1312	Capital	2.132	1.457	424	35.375	-	13.141	37,1
<b>132</b>	<b>From international organizations</b>	<b>453.912</b>	<b>604.122</b>	<b>615.102</b>	<b>827.432</b>	<b>134,5</b>	<b>947.857</b>	<b>114,6</b>
1321	Current	283.673	446.523	382.815	503.585	131,5	481.160	95,5
1322	Capital	170.240	157.599	232.287	323.847	139,4	466.698	144,1
<b>133</b>	<b>From other general government units</b>	<b>6.138</b>	<b>6.735</b>	<b>8.749</b>	<b>2.426</b>	<b>27,7</b>	<b>497</b>	<b>20,5</b>
1331	Current	4.238	4.800	6.100	0	-	0	-
1332	Capital	1.900	1.935	2.649	2.426	91,5	497	20,5
<b>14</b>	<b>Other revenue</b>	<b>5.027.838</b>	<b>5.967.975</b>	<b>5.260.300</b>	<b>6.173.430</b>	<b>117,4</b>	<b>6.050.782</b>	<b>98,0</b>
<b>141</b>	<b>Property income</b>	<b>1.612.229</b>	<b>2.367.214</b>	<b>1.298.345</b>	<b>1.869.510</b>	<b>144,0</b>	<b>1.963.801</b>	<b>105,0</b>
1411	Interest	147.911	123.488	125.088	115.034	92,0	59.214	51,5
1412	Dividends	212.387	106.625	111.303	286.579	257,5	681.776	237,9
1413	Withdrawals from income of quasi-corporations	504.074	1.342.502	318.939	637.969	200,0	0	-
1415	Rent	747.856	794.600	743.015	829.928	111,7	1.222.812	147,3
<b>142</b>	<b>Sales of goods and services</b>	<b>1.450.683</b>	<b>1.682.037</b>	<b>1.856.422</b>	<b>1.381.724</b>	<b>74,4</b>	<b>1.662.470</b>	<b>120,3</b>
1422	Administrative fees	1.274.882	981.712	1.190.921	1.152.971	96,8	990.828	85,9
1423	Incidental sales by nonmarket establishments	175.800	700.325	665.501	228.752	34,4	671.643	293,6
<b>143</b>	<b>Fines, penalties, and forfeits</b>	<b>490.600</b>	<b>515.461</b>	<b>524.795</b>	<b>534.434</b>	<b>101,8</b>	<b>525.955</b>	<b>98,4</b>
<b>144</b>	<b>Voluntary transfers other than grants</b>	<b>9.384</b>	<b>15.865</b>	<b>15.940</b>	<b>29.068</b>	<b>182,4</b>	<b>46.341</b>	<b>159,4</b>
1441	Current	3.957	11.551	12.656	25.337	200,2	43.494	171,7
1442	Capital	5.427	4.314	3.284	3.730	113,6	2.846	76,3
<b>145</b>	<b>Miscellaneous and unidentified revenue</b>	<b>1.464.942</b>	<b>1.387.397</b>	<b>1.564.799</b>	<b>2.358.694</b>	<b>150,7</b>	<b>1.852.214</b>	<b>78,5</b>

Source: Ministry of Finance

Appendix 3. Budgetary Central Government Expense in the 2008-2012 Period

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>2</b>	<b>EXPENSE</b>	<b>115,292,426</b>	<b>117,923,992</b>	<b>120,323,332</b>	<b>119,939,511</b>	<b>99.7</b>	<b>118,729,992</b>	<b>99.0</b>
<b>21</b>	<b>Compensation of employees</b>	<b>29,948,535</b>	<b>31,289,325</b>	<b>31,096,464</b>	<b>31,737,350</b>	<b>102.1</b>	<b>31,383,210</b>	<b>98.9</b>
211	Wages and salaries	25,453,436	26,555,399	26,391,104	26,932,391	102.1	26,910,038	99.9
212	Social contributions	4,495,099	4,733,926	4,705,360	4,804,959	102.1	4,473,172	93.1
2121	Actual social contributions	4,495,099	4,733,926	4,705,360	4,804,959	102.1	4,473,172	93.1
<b>22</b>	<b>Use of goods and services</b>	<b>8,113,694</b>	<b>7,363,814</b>	<b>7,655,745</b>	<b>7,943,604</b>	<b>103.8</b>	<b>7,406,320</b>	<b>93.2</b>
<b>23</b>	<b>Consumption of fixed capital</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>
<b>24</b>	<b>Interest</b>	<b>4,683,219</b>	<b>5,225,174</b>	<b>6,236,482</b>	<b>7,097,592</b>	<b>113.8</b>	<b>8,335,656</b>	<b>117.4</b>
241	To nonresidents	1,542,146	1,391,408	1,723,831	2,491,668	144.5	3,123,476	125.4
242	To residents other than general government	3,141,074	3,833,767	4,512,651	4,605,924	102.1	5,212,180	113.2
243	To other general government units	0	0	0	0	-	0	-
<b>25</b>	<b>Subsidies</b>	<b>6,859,512</b>	<b>6,710,033</b>	<b>6,582,192</b>	<b>6,555,277</b>	<b>99.6</b>	<b>5,762,321</b>	<b>87.9</b>
251	To public corporations	3,199,114	3,134,258	3,186,622	3,063,739	96.1	2,216,271	72.3
252	To private enterprises	3,660,398	3,575,775	3,395,569	3,491,538	102.8	3,546,050	101.6
<b>26</b>	<b>Grants</b>	<b>5,783,063</b>	<b>5,559,586</b>	<b>5,778,575</b>	<b>5,083,665</b>	<b>88.0</b>	<b>4,843,769</b>	<b>95.3</b>
261	To foreign governments	89,446	78,184	58,594	39,806	67.9	25,615	64.4
2611	Current	60,246	68,150	49,412	34,346	69.5	21,078	61.4
2612	Capital	29,200	10,034	9,181	5,459	59.5	4,537	83.1
262	To international organizations	96,503	134,031	175,808	212,234	120.7	247,448	116.6
2621	Current	96,503	133,061	175,808	212,234	120.7	247,448	116.6
2622	Capital	0	970	0	0	-	0	-
263	To other general government units	5,597,115	5,347,372	5,544,174	4,831,625	87.1	4,570,706	94.6
2631	Current	2,291,490	2,598,678	2,663,291	2,468,917	92.7	2,440,511	98.8
2632	Capital	3,305,625	2,748,694	2,880,883	2,362,708	82.0	2,130,195	90.2
<b>27</b>	<b>Social benefits</b>	<b>52,593,214</b>	<b>56,148,498</b>	<b>56,906,555</b>	<b>56,482,968</b>	<b>99.3</b>	<b>56,169,850</b>	<b>99.4</b>
271	Social security benefits	37,600,722	40,605,352	43,008,291	42,752,824	99.4	42,797,897	100.1
272	Social assistance benefits	14,745,264	15,258,436	13,728,987	13,602,326	99.1	13,240,668	97.3
273	Employer social benefits	247,228	284,709	169,277	127,817	75.5	131,285	102.7
<b>28</b>	<b>Other expense</b>	<b>7,311,189</b>	<b>5,627,561</b>	<b>6,067,319</b>	<b>5,039,054</b>	<b>83.1</b>	<b>4,828,865</b>	<b>95.8</b>
281	Property expenditures other than interest	16,015	7,730	88	12	13.9	66	-
282	Miscellaneous Other Expenditures	7,295,174	5,619,832	6,067,231	5,039,042	83.1	4,828,799	95.8
2821	Current	2,626,644	2,174,864	2,280,627	2,018,297	88.5	2,068,407	102.5
2822	Capital	4,668,530	3,444,968	3,786,604	3,020,745	79.8	2,760,392	91.4

Source: Ministry of Finance

**Appendix 4. Transactions in Nonfinancial Assets of the Budgetary Central Government in the 2008-2012 Period**

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>2,988,129</b>	<b>1,963,401</b>	<b>1,232,366</b>	<b>1,138,970</b>	<b>92.4</b>	<b>829,626</b>	<b>72.8</b>
<b>311</b>	<b>Fixed assets</b>	<b>2,719,479</b>	<b>1,839,720</b>	<b>1,200,398</b>	<b>1,118,710</b>	<b>93.2</b>	<b>772,151</b>	<b>69.0</b>
<b>311,1</b>	<b>Acquisitions: fixed assets</b>	<b>2,973,830</b>	<b>2,097,601</b>	<b>1,466,817</b>	<b>1,420,148</b>	<b>96.8</b>	<b>1,028,403</b>	<b>72.4</b>
<b>311,2</b>	<b>Disposals: fixed assets</b>	<b>254,352</b>	<b>257,881</b>	<b>266,419</b>	<b>301,438</b>	<b>113.1</b>	<b>256,251</b>	<b>85.0</b>
3111	Buildings and structures	1,109,578	824,283	608,822	484,370	79.6	265,596	54.8
3111,1	Acquisitions: buildings and structures	1,357,524	1,076,215	872,737	783,289	89.8	514,471	65.7
3111,2	Disposals: buildings and structures	247,947	251,932	263,915	298,919	113.3	248,875	83.3
3112	Machinery and equipment	1,505,694	931,108	529,521	594,015	112.2	433,550	73.0
3112,1	Acquisitions: machinery and equipment	1,512,098	937,057	532,022	596,534	112.1	440,927	73.9
3112,2	Disposals: machinery and equipment	6,404	5,949	2,502	2,519	100.7	7,376	292.8
3113	Other fixed assets	104,208	84,330	62,056	40,325	65.0	73,005	181.0
3113,1	Acquisitions: other fixed assets	104,209	84,330	62,058	40,325	65.0	73,005	181.0
3113,2	Disposals: other fixed assets	1	0	2	0	-	0	-
<b>312</b>	<b>Inventories</b>	<b>79,444</b>	<b>35,412</b>	<b>10,955</b>	<b>2,473</b>	<b>22.6</b>	<b>29,280</b>	<b>-</b>
<b>312,1</b>	<b>Acquisitions: inventories</b>	<b>86,829</b>	<b>43,144</b>	<b>16,910</b>	<b>3,237</b>	<b>19.1</b>	<b>33,475</b>	<b>-</b>
<b>312,2</b>	<b>Disposals: inventories</b>	<b>7,385</b>	<b>7,732</b>	<b>5,954</b>	<b>764</b>	<b>12.8</b>	<b>4,195</b>	<b>-</b>
<b>313</b>	<b>Valuables</b>	<b>10,126</b>	<b>8,929</b>	<b>6,136</b>	<b>3,741</b>	<b>61.0</b>	<b>3,494</b>	<b>93.4</b>
<b>313,1</b>	<b>Acquisitions: valuables</b>	<b>10,126</b>	<b>8,929</b>	<b>6,136</b>	<b>3,741</b>	<b>61.0</b>	<b>3,494</b>	<b>93.4</b>
<b>314</b>	<b>Nonproduced assets</b>	<b>179,081</b>	<b>79,340</b>	<b>14,877</b>	<b>14,046</b>	<b>94.4</b>	<b>24,700</b>	<b>175.8</b>
<b>314,1</b>	<b>Acquisitions: nonproduced assets</b>	<b>220,764</b>	<b>117,733</b>	<b>60,809</b>	<b>58,852</b>	<b>96.8</b>	<b>42,610</b>	<b>72.4</b>
<b>314,2</b>	<b>Disposals: nonproduced assets</b>	<b>41,683</b>	<b>38,392</b>	<b>45,933</b>	<b>44,806</b>	<b>97.5</b>	<b>17,910</b>	<b>40.0</b>
3141	Land	-41,626	-38,175	-45,536	-42,728	-	-17,166	-
3141,1	Acquisitions: land	56	125	396	1,988	-	744	37.4
3141,2	Disposals: land	41,683	38,300	45,933	44,716	97.4	17,910	40.1
3142	Subsoil assets	0	-93	0	-90	-	0	-
3142,2	Disposals: subsoil assets	0	93	0	90	-	0	-
3143	Other naturally occurring assets	0	0	0	0	-	0	-
3144	Intangible nonproduced assets	220,707	117,608	60,413	56,864	94.1	41,866	73.6
3144,1	Acquisitions: intangible nonproduced assets	220,707	117,608	60,413	56,864	94.1	41,866	73.6
3144,2	Disposals: intangible nonproduced assets	0	0	0	0	-	0	-

Source: Ministry of Finance

**Appendix 5. Transactions in Financial Assets of the Budgetary Central Government in the 2008-2012 Period**

	(HRK 000)	2008	2009	2010	2011	2012
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>1,702,947</b>	<b>6,825,544</b>	<b>2,022,682</b>	<b>-618,448</b>	<b>-461,514</b>
<b>321</b>	<b>Domestic</b>	<b>1,690,502</b>	<b>6,823,196</b>	<b>2,022,294</b>	<b>-623,788</b>	<b>-468,017</b>
3212	Currency and deposits	1,440,588	4,127,800	569,502	-2,198,870	-1,208,562
3213	Securities other than shares	0	0	0	0	0
3214	Loans	384,361	2,316,757	657,093	1,024,421	92,382
3214,1	Acquisitions: Loans	852,673	2,458,939	1,366,444	1,841,105	857,099
3214,2	Disposals: Loans	468,312	142,181	709,351	816,684	764,717
3215	Shares and other equity	-134,447	378,639	795,699	550,660	648,163
3215,1	Acquisitions: Shares and other equity	552,156	387,017	803,044	550,660	650,353
3215,2	Disposals: Shares and other equity	686,603	8,378	7,345	0	2,190
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
<b>322</b>	<b>Foreign</b>	<b>12,445</b>	<b>2,348</b>	<b>388</b>	<b>5,341</b>	<b>6,503</b>
3222	Currency and deposits	0	0	0	0	0
3223	Securities other than shares	0	0	0	0	0
3224	Loans	0	1,447	388	0	0
3224,1	Acquisitions: Loans	0	1,447	2,365	1,793	1,826
3224,2	Disposals: Loans	0	0	1,977	1,793	1,826
3225	Shares and other equity	12,445	901	0	5,341	6,503
3225,1	Acquisitions: Shares and other equity	12,445	901	0	5,341	6,503
3225,2	Disposals: Shares and other equity	0	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
<b>323</b>	<b>Monetary gold and SDRs</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Source: Ministry of Finance

**Appendix 6. Transactions in Liabilities of the Budgetary Central Government in the 2008-2012 Period**

	(HRK 000)	2008	2009	2010	2011	2012
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>4,210,848</b>	<b>16,454,990</b>	<b>16,112,029</b>	<b>13,390,363</b>	<b>9,539,175</b>
33.1	Total repayments	6,922,174	9,700,319	17,999,196	11,320,894	11,059,657
33.2	Total incurrence	11,133,022	26,155,309	34,111,225	24,711,257	20,598,833
331	Domestic	5,656,636	9,576,610	11,835,071	4,793,136	1,413,994
331.1	Repayments	3,871,657	2,704,283	12,815,011	3,124,139	9,759,469
331.2	Incurrence	9,528,293	12,280,893	24,650,082	7,917,275	11,173,464
3312	Currency and deposits	0	0	0	0	0
3313	Securities other than shares	1,089,917	4,855,440	12,222,784	3,023,835	6,035,183
3313,1	Repayments: Securities other than shares	2,897,430	273,892	3,289,266	2,689,441	3,902,510
3313,2	Incurrences: Securities other than shares	3,987,347	5,129,332	15,512,050	5,713,276	9,937,693
3314	Loans	4,566,719	4,721,170	-387,713	1,769,302	-4,621,189
3314,1	Repayments: Loans	974,227	2,430,391	9,525,745	434,698	5,856,959
3314,2	Incurrences: Loans	5,540,946	7,151,562	9,138,032	2,203,999	1,235,770
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	-1,445,788	6,878,380	4,276,958	8,597,227	8,125,181
332.1	Repayments	3,050,517	6,996,036	5,184,185	8,196,755	1,300,188
332.2	Incurrence	1,604,729	13,874,416	9,461,143	16,793,982	9,425,369
3322	Currency and deposits	0	0	0	0	0
3323	Securities other than shares	-1,112,673	7,801,073	3,517,533	7,786,583	8,548,785
3323,1	Repayments: Securities other than shares	1,112,673	5,054,565	3,655,005	5,541,105	0
3323,2	Incurrences: Securities other than shares	0	12,855,638	7,172,538	13,327,688	8,548,785
3324	Loans	-333,116	-922,693	759,425	810,644	-423,604
3324,1	Repayments: Loans	1,937,845	1,941,471	1,529,180	2,655,650	1,300,188
3324,2	Incurrences: Loans	1,604,729	1,018,778	2,288,606	3,466,295	876,584
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 2008-2012 Period

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>6,253,096</b>	<b>5,504,483</b>	<b>5,385,019</b>	<b>5,054,264</b>	<b>93.9</b>	<b>5,004,055</b>	<b>99.0</b>
11	Taxes	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	2,057,887	1,711,086	2,037,959	1,751,716	86.0	1,695,170	96.8
131	From foreign governments	19,044	0	0	0	-	0	-
132	From international organizations	0	3,397	1,772	2,740	154.6	1,557	56.8
133	From other general government units	2,038,843	1,707,689	2,036,187	1,748,976	85.9	1,693,613	96.8
1331	Current	34,848	15,364	4,381	1,138	26.0	8,402	-
1332	Capital	2,003,995	1,692,325	2,031,806	1,747,838	86.0	1,685,211	96.4
14	Other revenue	4,195,209	3,793,397	3,347,060	3,302,548	98.7	3,308,885	100.2
<b>2</b>	<b>EXPENSE</b>	<b>5,382,651</b>	<b>4,305,463</b>	<b>4,280,491</b>	<b>4,206,006</b>	<b>98.3</b>	<b>3,879,986</b>	<b>92.2</b>
21	Compensation of employees	281,788	285,596	275,140	266,748	96.9	280,393	105.1
211	Wages and salaries	242,569	245,800	237,166	229,371	96.7	244,015	106.4
212	Social contributions	39,219	39,796	37,974	37,377	98.4	36,378	97.3
22	Use of goods and services	3,354,711	2,480,509	2,650,887	2,420,195	91.3	2,361,121	97.6
24	Interest	217,619	284,640	315,291	347,031	110.1	378,323	109.0
241	To nonresidents	37,064	57,659	32,158	50,455	156.9	47,690	94.5
242	To residents other than general government	180,555	226,981	283,133	296,576	104.7	330,633	111.5
25	Subsidies	39,318	89,673	44,923	7,154	15.9	983	13.7
251	To public corporations	0	26,770	4,642	0	-	145	-
252	To private enterprises	39,318	62,903	40,281	7,154	17.8	838	11.7
26	Grants	273,622	233,938	178,673	126,493	70.8	141,598	111.9
263	To other general government units	273,622	233,938	178,673	126,493	70.8	141,598	111.9
2631	Current	4,238	4,800	6,100	0	-	787	-
2632	Capital	269,384	229,138	172,573	126,493	73.3	140,811	111.3
27	Social benefits	704	218	112	0	-	0	-
271	Social security benefits	704	218	112	0	-	0	-
28	Other expense	1,214,889	930,889	815,465	1,038,385	127.3	717,568	69.1
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>1,240,070</b>	<b>1,637,738</b>	<b>1,446,955</b>	<b>2,233,531</b>	<b>154.4</b>	<b>2,303,439</b>	<b>103.1</b>
31.1	Acquisition of nonfinancial assets	1,421,680	1,659,443	1,455,114	2,265,942	155.7	2,334,270	103.0
31.2	Disposal of nonfinancial assets	181,610	21,705	8,159	32,411	-	30,831	95.1
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>1,073,617</b>	<b>538,324</b>	<b>873,486</b>	<b>458,803</b>		<b>479,212</b>	
321	Domestic	1,073,617	538,324	873,486	458,803		479,212	
322	Foreign	0	0	0	0		0	
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>1,443,242</b>	<b>977,042</b>	<b>1,215,913</b>	<b>1,844,076</b>		<b>1,658,582</b>	
331	Domestic	1,139,111	553,629	1,136,957	1,849,477		1,727,739	
332	Foreign	304,131	423,413	78,956	-5,401		-69,157	

Source: Ministry of Finance

### Appendix 8. Transactions of the Croatian Waters in the 2008-2012 Period

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>2,618,977</b>	<b>2,253,976</b>	<b>1,998,161</b>	<b>1,919,586</b>	<b>96.1</b>	<b>1,860,067</b>	<b>96.9</b>
11	Taxes	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	588,928	342,007	334,354	339,390	101.5	288,672	85.1
131	From foreign governments	19,044	0	0	0	-	0	-
132	From international organizations	0	3,397	1,772	2,740	154.6	1,557	56.8
133	From other general government units	569,884	338,610	332,582	336,650	101.2	287,115	85.3
1331	Current	34,848	15,364	4,381	700	16.0	3,130	-
1332	Capital	535,036	323,246	328,201	335,950	102.4	283,985	84.5
14	Other revenue	2,030,049	1,911,969	1,663,807	1,580,196	95.0	1,571,395	99.4
<b>2</b>	<b>EXPENSE</b>	<b>2,339,024</b>	<b>1,748,448</b>	<b>1,779,441</b>	<b>1,459,634</b>	<b>82.0</b>	<b>1,455,994</b>	<b>99.8</b>
21	Compensation of employees	135,222	129,458	125,800	118,327	94.1	117,691	99.5
211	Wages and salaries	116,482	111,542	108,907	101,870	93.5	102,460	100.6
212	Social contributions	18,740	17,916	16,893	16,457	97.4	15,231	92.6
22	Use of goods and services	1,331,786	1,060,458	1,109,460	930,804	83.9	875,886	94.1
24	Interest	35,525	29,863	17,828	30,438	170.7	46,035	151.2
241	To nonresidents	4,803	2,793	1,764	1,282	72.7	813	63.4
242	To residents other than general government	30,722	27,070	16,064	29,156	181.5	45,222	155.1
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	120,094	76,101	53,797	28,447	52.9	30,257	106.4
263	To other general government units	120,094	76,101	53,797	28,447	52.9	30,257	106.4
2631	Current	3,600	4,800	6,100	0	-	740	-
2632	Capital	116,494	71,301	47,697	28,447	59.6	29,517	103.8
27	Social benefits	0	0	0	0	-	0	-
271	Social security benefits	0	0	0	0	-	0	-
28	Other expense	716,397	452,568	472,556	351,618	74.4	386,125	109.8
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>245,968</b>	<b>274,314</b>	<b>378,952</b>	<b>1,185,008</b>	<b>-</b>	<b>1,319,375</b>	<b>111.3</b>
31.1	Acquisition of nonfinancial assets	246,965	275,598	379,044	1,185,123	-	1,319,451	111.3
31.2	Disposal of nonfinancial assets	997	1,284	92	115	125.0	76	66.1
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>32,151</b>	<b>222,116</b>	<b>-72,616</b>	<b>38,016</b>	<b>-</b>	<b>-161,607</b>	<b>-</b>
321	Domestic	32,151	222,116	-72,616	38,016	-	-161,607	-
322	Foreign	0	0	0	0	-	0	-
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>-1,834</b>	<b>-9,098</b>	<b>87,616</b>	<b>763,072</b>	<b>-</b>	<b>753,695</b>	<b>-</b>
331	Domestic	-49,781	-115,831	105,053	777,014	-	767,823	-
332	Foreign	47,947	106,733	-17,437	-13,942	-	-14,128	-

Source: Ministry of Finance



**Appendix 9. Transactions of the Fund for Environmental Protection and Energy Efficiency in the 2007-2011 Period**

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>1,221,187</b>	<b>1,168,578</b>	<b>1,040,675</b>	<b>1,091,289</b>	<b>104.9</b>	<b>1,056,742</b>	<b>96.8</b>
11	Taxes	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	0	0	0	22,246	-	7,457	33.5
131	From foreign governments	0	0	0	0	-	0	-
132	From international organizations	0	0	0	0	-	0	-
133	From other general government units	0	0	0	22,246	-	7,457	33.5
1331	Current	0	0	0	438	-	1,631	-
1332	Capital	0	0	0	21,808	-	5,826	26.7
14	Other revenue	1,221,187	1,168,578	1,040,675	1,069,043	102.7	1,049,285	98.2
<b>2</b>	<b>EXPENSE</b>	<b>1,109,258</b>	<b>1,159,521</b>	<b>1,004,188</b>	<b>915,778</b>	<b>91.2</b>	<b>959,728</b>	<b>104.8</b>
21	Compensation of employees	18,600	21,331	20,240	23,411	115.7	28,432	121.4
211	Wages and salaries	15,942	18,310	17,327	20,077	115.9	24,854	123.8
212	Social contributions	2,658	3,021	2,913	3,334	114.5	3,578	107.3
22	Use of goods and services	883,628	874,856	784,653	763,362	97.3	797,901	104.5
24	Interest	0	32	501	139	27.7	4,517	-
241	To nonresidents	0	0	0	0	-	0	-
242	To residents other than general government	0	32	501	139	27.7	4,517	-
25	Subsidies	39,318	89,673	44,923	7,154	15.9	983	13.7
251	To public corporations	0	26,770	4,642	0	-	145	-
252	To private enterprises	39,318	62,903	40,281	7,154	17.8	838	11.7
26	Grants	149,644	157,329	124,876	98,046	78.5	111,341	113.6
263	To other general government units	149,644	157,329	124,876	98,046	78.5	111,341	113.6
2631	Current	638	0	0	0	-	47	-
2632	Capital	149,006	157,329	124,876	98,046	78.5	111,294	113.5
27	Social benefits	0	0	0	0	-	0	-
271	Social security benefits	0	0	0	0	-	0	-
28	Other expense	18,068	16,300	28,995	23,666	81.6	16,554	69.9
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>3,926</b>	<b>6,656</b>	<b>1,582</b>	<b>62,344</b>	<b>-</b>	<b>20,141</b>	<b>32.3</b>
31.1	Acquisition of nonfinancial assets	3,926	6,656	1,608	62,344	-	20,365	32.7
31.2	Disposal of nonfinancial assets	0	0	26	0	-	224	-
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>108,003</b>	<b>2,401</b>	<b>34,905</b>	<b>113,167</b>	<b>-</b>	<b>76,873</b>	<b>-</b>
321	Domestic	108,003	2,401	34,905	113,167	-	76,873	-
322	Foreign	0	0	0	0	-	0	-
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>
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 2008-2012 Period

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>1,549,929</b>	<b>1,481,919</b>	<b>1,789,839</b>	<b>1,447,462</b>	<b>80.9</b>	<b>1,454,458</b>	<b>100.5</b>
11	Taxes	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	1,468,959	1,369,079	1,703,605	1,390,000	81.6	1,399,041	100.7
131	From foreign governments	0	0	0	0	-	0	-
132	From international organizations	0	0	0	0	-	0	-
133	From other general government units	1,468,959	1,369,079	1,703,605	1,390,000	81.6	1,399,041	100.7
1331	Current	0	0	0	0	-	3,641	-
1332	Capital	1,468,959	1,369,079	1,703,605	1,390,000	81.6	1,395,400	100.4
14	Other revenue	80,970	112,840	86,234	57,462	66.6	55,417	96.4
<b>2</b>	<b>EXPENSE</b>	<b>1,592,627</b>	<b>1,048,486</b>	<b>1,405,891</b>	<b>1,320,918</b>	<b>94.0</b>	<b>1,276,972</b>	<b>96.7</b>
21	Compensation of employees	86,547	93,383	88,674	86,815	97.9	87,801	101.1
211	Wages and salaries	74,359	80,372	76,234	74,613	97.9	76,132	102.0
212	Social contributions	12,188	13,011	12,440	12,202	98.1	11,669	95.6
22	Use of goods and services	1,107,252	524,661	739,205	686,539	92.9	655,091	95.4
24	Interest	142,396	221,474	268,159	283,868	105.9	295,772	104.2
241	To nonresidents	22,804	47,942	24,988	44,021	176.2	43,466	98.7
242	To residents other than general government	119,592	173,532	243,171	239,847	98.6	252,306	105.2
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	3,884	508	0	0	-	0	-
263	To other general government units	3,884	508	0	0	-	0	-
2631	Current	0	0	0	0	-	0	-
2632	Capital	3,884	508	0	0	-	0	-
27	Social benefits	0	0	0	0	-	0	-
271	Social security benefits	0	0	0	0	-	0	-
28	Other expense	252,548	208,460	309,853	263,696	85.1	238,308	90.4
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>1,142,207</b>	<b>1,371,041</b>	<b>1,069,699</b>	<b>1,013,340</b>	<b>94.7</b>	<b>983,156</b>	<b>97.0</b>
31.1	Acquisition of nonfinancial assets	1,143,098	1,376,092	1,070,880	1,017,552	95.0	985,528	96.9
31.2	Disposal of nonfinancial assets	891	5,051	1,181	4,212	-	2,372	56.3
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>217,802</b>	<b>41,652</b>	<b>356,936</b>	<b>48,973</b>		<b>113,328</b>	
321	Domestic	217,802	41,652	356,936	48,973		113,328	
322	Foreign	0	0	0	0		0	
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>1,402,707</b>	<b>979,260</b>	<b>1,042,687</b>	<b>935,769</b>		<b>918,998</b>	
331	Domestic	1,128,764	696,394	926,845	895,422		946,007	
332	Foreign	273,943	282,866	115,842	40,347		-27,009	

Source: Ministry of Finance

**Appendix 11. Transactions of the State Agency for Deposit Insurance and Bank Rehabilitation in the 2008-2012 Period**

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>808,342</b>	<b>566,470</b>	<b>529,642</b>	<b>552,819</b>	<b>104.4</b>	<b>576,101</b>	<b>104.2</b>
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 organizations	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	808,342	566,470	529,642	552,819	104.4	576,101	104.2
<b>2</b>	<b>EXPENSE</b>	<b>254,706</b>	<b>267,167</b>	<b>16,967</b>	<b>408,867</b>	<b>-</b>	<b>89,460</b>	<b>21.9</b>
21	Compensation of employees	6,966	7,159	7,215	7,454	103.3	7,482	100.4
211	Wages and salaries	5,972	6,134	6,184	6,389	103.3	6,486	101.5
212	Social contributions	994	1,025	1,031	1,065	103.3	996	93.5
22	Use of goods and services	10,274	5,493	5,307	10,917	205.7	5,687	52.1
24	Interest	8,886	736	272	191	70.2	117	61.3
241	To nonresidents	0	0	0	0	-	0	-
242	To residents other than general government	8,886	736	272	191	70.2	117	61.3
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	-
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	704	218	112	0	-	0	-
271	Social security benefits	704	218	112	0	-	0	-
28	Other expense	227,876	253,561	4,061	390,305	-	76,174	19.5
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>-10,262</b>	<b>258</b>	<b>2,657</b>	<b>312</b>	<b>11.7</b>	<b>145</b>	<b>46.5</b>
31.1	Acquisition of nonfinancial assets	25,070	258	2,657	312	11.7	145	46.5
31.2	Disposal of nonfinancial assets	35,332	0	0	0	-	0	-
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>563,898</b>	<b>299,045</b>	<b>510,018</b>	<b>143,640</b>		<b>486,496</b>	
321	Domestic	563,898	299,045	510,018	143,640		486,496	
322	Foreign	0	0	0	0		0	
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	
331	Domestic	0	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 2008-2011 Period\***

	(HRK 000)	2008	2009	2010	Index 2010/2009	2011	Index 2011/2010
<b>1</b>	<b>REVENUE</b>	<b>54.661</b>	<b>33.540</b>	<b>26.702</b>	<b>79,6</b>	<b>1.892</b>	<b>7,1</b>
11	Taxes	0	0	0	-	0	-
12	Social contributions	0	0	0	-	0	-
13	Grants	0	0	0	-	0	-
131	From foreign governments	0	0	0	-	0	-
132	From international organizations	0	0	0	-	0	-
133	From other general government units	0	0	0	-	0	-
1331	Current	0	0	0	-	0	-
1332	Capital	0	0	0	-	0	-
14	Other revenue	54.661	33.540	26.702	79,6	1.892	7,1
<b>2</b>	<b>EXPENSE</b>	<b>87.036</b>	<b>81.841</b>	<b>74.004</b>	<b>90,4</b>	<b>16.161</b>	<b>21,8</b>
21	Compensation of employees	34.453	34.265	33.211	96,9	5.700	17,2
211	Wages and salaries	29.814	29.442	28.514	96,8	4.885	17,1
212	Social contributions	4.639	4.823	4.697	97,4	815	17,4
22	Use of goods and services	21.771	15.041	12.262	81,5	4.199	34,2
24	Interest	30.812	32.535	28.531	87,7	6.262	21,9
241	To nonresidents	9.457	6.924	5.406	78,1	1.305	24,1
242	To residents other than general government	21.355	25.611	23.125	90,3	4.957	21,4
25	Subsidies	0	0	0	-	0	-
251	To public corporations	0	0	0	-	0	-
252	To private enterprises	0	0	0	-	0	-
26	Grants	0	0	0	-	0	-
263	To other general government units	0	0	0	-	0	-
2631	Current	0	0	0	-	0	-
2632	Capital	0	0	0	-	0	-
27	Social benefits	0	0	0	-	0	-
271	Social security benefits	0	0	0	-	0	-
28	Other expense	0	0	0	-	0	-
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>-141.769</b>	<b>-14.531</b>	<b>-5.935</b>	<b>-</b>	<b>-929</b>	<b>-</b>
31,1	Acquisition of nonfinancial assets	2.621	839	925	110,3	0	-
31,2	Disposal of nonfinancial assets	144.390	15.370	6.860	44,6	929	13,5
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>151.763</b>	<b>-26.890</b>	<b>44.243</b>		<b>62.991</b>	
321	Domestic	151.763	-26.890	44.243		62.991	
322	Foreign	0	0	0		0	
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>42.369</b>	<b>6.880</b>	<b>85.610</b>		<b>76.331</b>	
331	Domestic	60.128	-26.934	105.059		88.461	
332	Foreign	-17.759	33.814	-19.449		-12.130	

\*Note: Croatian Privatization Fund (HFP) operated until 31st of March 2011. Since 1st April 2011, Government Asset Management Agency (AUDIO) operates, which has included HFP and a former Budgetary Central Government user - Central State Administrative Office for State Property Management.

Source: Ministry of Finance

**Appendix 13. Transactions of the Government Asset Management Agency in 2011 and 2012\***

	(HRK 000)	2011	2012	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>41,216</b>	<b>56,687</b>	<b>137.5</b>
11	Taxes	0	0	-
12	Social contributions	0	0	-
13	Grants	80	0	-
131	From foreign governments	0	0	-
132	From international organizations	0	0	-
133	From other general government units	80	0	-
1331	Current	0	0	-
1332	Capital	80	0	-
14	Other revenue	41,136	56,687	137.8
<b>2</b>	<b>EXPENSE</b>	<b>84,648</b>	<b>97,832</b>	<b>115.6</b>
21	Compensation of employees	25,041	38,987	155.7
211	Wages and salaries	21,537	34,083	158.3
212	Social contributions	3,504	4,904	140.0
22	Use of goods and services	24,374	26,556	109.0
24	Interest	26,133	31,882	122.0
241	To nonresidents	3,847	3,411	88.7
242	To residents other than general government	22,286	28,471	127.8
25	Subsidies	0	0	-
251	To public corporations	0	0	-
252	To private enterprises	0	0	-
26	Grants	0	0	-
263	To other general government units	0	0	-
2631	Current	0	0	-
2632	Capital	0	0	-
27	Social benefits	0	0	-
271	Social security benefits	0	0	-
28	Other expense	9,100	407	4.5
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>-26,544</b>	<b>-19,378</b>	<b>-</b>
31.1	Acquisition of nonfinancial assets	611	8,781	-
31.2	Disposal of nonfinancial assets	27,155	28,159	103.7
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>52,016</b>	<b>-35,878</b>	
321	Domestic	52,016	-35,878	
322	Foreign	0	0	
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>68,904</b>	<b>-14,111</b>	
331	Domestic	88,580	13,909	
332	Foreign	-19,676	-28,020	

\*Note: Government Asset Management Agency (AUDIO) operates since 1st April 2011. It has included HFP and a former Budgetary Central Government user - Central State Administrative Office for State Property Management.

Source: Ministry of Finance

### Appendix 14. Consolidated Central Government in the 2008-2012 Period

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>120,036,688</b>	<b>114,086,889</b>	<b>110,831,567</b>	<b>110,406,122</b>	<b>99.6</b>	<b>112,883,471</b>	<b>102.2</b>
<b>11</b>	<b>Taxes</b>	<b>69,572,699</b>	<b>63,678,926</b>	<b>62,856,582</b>	<b>61,422,186</b>	<b>97.7</b>	<b>64,693,898</b>	<b>105.3</b>
111	Taxes on income, profits, and capital gains	12,252,205	10,839,269	7,608,630	8,595,516	113.0	8,966,867	104.3
1111	Payable by individuals	1,687,502	1,399,411	1,201,546	1,307,486	108.8	1,269,525	97.1
1112	Payable by corporations and other enterprises	10,564,703	9,439,858	6,407,084	7,288,030	113.7	7,697,342	105.6
113	Taxes on property	635,930	532,297	443,983	448,489	101.0	397,736	88.7
114	Taxes on goods and services	54,482,172	49,238,277	50,980,460	50,244,065	98.6	53,205,019	105.9
1141	General taxes on goods and services	41,474,566	37,173,833	37,812,425	37,847,826	100.1	40,778,865	107.7
11411	Value-added taxes	41,308,036	37,050,354	37,688,520	37,718,154	100.1	40,652,023	107.8
11412	Sales taxes	166,531	123,479	123,905	129,672	104.7	126,841	97.8
1142	Excises	11,875,126	10,998,910	11,972,326	11,215,054	93.7	11,206,489	99.9
115	Taxes on international trade and transactions	1,900,865	1,721,164	1,644,448	1,766,356	107.4	1,754,364	99.3
116	Other taxes	301,527	1,347,920	2,179,061	367,761	16.9	369,912	100.6
<b>12</b>	<b>Social contributions</b>	<b>40,703,484</b>	<b>39,994,739</b>	<b>38,712,382</b>	<b>38,605,067</b>	<b>99.7</b>	<b>37,845,971</b>	<b>98.0</b>
<b>13</b>	<b>Grants</b>	<b>537,458</b>	<b>651,853</b>	<b>655,243</b>	<b>902,892</b>	<b>137.8</b>	<b>984,036</b>	<b>109.0</b>
<b>14</b>	<b>Other revenue</b>	<b>9,223,047</b>	<b>9,761,372</b>	<b>8,607,360</b>	<b>9,475,978</b>	<b>110.1</b>	<b>9,359,667</b>	<b>98.8</b>
<b>2</b>	<b>EXPENSE</b>	<b>118,686,014</b>	<b>120,553,914</b>	<b>122,584,020</b>	<b>122,427,705</b>	<b>99.9</b>	<b>120,930,466</b>	<b>98.8</b>
<b>21</b>	<b>Compensation of employees</b>	<b>30,230,323</b>	<b>31,574,921</b>	<b>31,371,604</b>	<b>32,004,098</b>	<b>102.0</b>	<b>31,663,603</b>	<b>98.9</b>
211	Wages and salaries	25,696,005	26,801,199	26,628,270	27,161,762	102.0	27,154,053	100.0
212	Social contributions	4,534,318	4,773,722	4,743,334	4,842,336	102.1	4,509,550	93.1
<b>22</b>	<b>Use of goods and services</b>	<b>11,468,405</b>	<b>9,844,323</b>	<b>10,306,632</b>	<b>10,363,799</b>	<b>100.6</b>	<b>9,767,441</b>	<b>94.2</b>
<b>24</b>	<b>Interest</b>	<b>4,900,838</b>	<b>5,509,814</b>	<b>6,551,773</b>	<b>7,444,623</b>	<b>113.6</b>	<b>8,713,979</b>	<b>117.1</b>
241	To nonresidents	1,579,210	1,449,067	1,755,989	2,542,123	144.8	3,171,166	124.7
242	To residents other than general government	3,321,629	4,060,748	4,795,784	4,902,500	102.2	5,542,813	113.1
<b>25</b>	<b>Subsidies</b>	<b>6,898,830</b>	<b>6,799,706</b>	<b>6,627,115</b>	<b>6,562,431</b>	<b>99.0</b>	<b>5,763,304</b>	<b>87.8</b>
251	To public corporations	3,199,114	3,161,028	3,191,264	3,063,739	96.0	2,216,416	72.3
252	To private enterprises	3,699,716	3,638,678	3,435,850	3,498,692	101.8	3,546,888	101.4
<b>26</b>	<b>Grants</b>	<b>4,067,622</b>	<b>4,117,984</b>	<b>3,937,445</b>	<b>3,492,346</b>	<b>88.7</b>	<b>3,305,855</b>	<b>94.7</b>
261	To foreign governments	89,446	78,184	58,594	39,806	67.9	25,615	64.4
262	To international organizations	96,503	134,031	175,808	212,234	120.7	247,448	116.6
263	To other general government units	3,881,673	3,905,769	3,703,043	3,240,307	87.5	3,032,792	93.6
<b>27</b>	<b>Social benefits</b>	<b>52,593,918</b>	<b>56,148,716</b>	<b>56,906,667</b>	<b>56,482,968</b>	<b>99.3</b>	<b>56,169,850</b>	<b>99.4</b>
271	Social security benefits	37,601,426	40,605,570	43,008,403	42,752,824	99.4	42,797,897	100.1
272	Social assistance benefits	14,745,264	15,258,436	13,728,987	13,602,326	99.1	13,240,668	97.3
273	Employer social benefits	247,228	284,709	169,277	127,817	75.5	131,285	102.7
<b>28</b>	<b>Other expense</b>	<b>8,526,078</b>	<b>6,558,450</b>	<b>6,882,784</b>	<b>6,077,439</b>	<b>88.3</b>	<b>5,546,433</b>	<b>91.3</b>
281	Property expense other than interest	16,015	7,730	88	12	13.9	66	-
282	Miscellaneous other expense	8,510,063	6,550,721	6,882,696	6,077,427	88.3	5,546,367	91.3
2821	Current	2,919,089	2,462,124	2,325,290	2,475,222	106.4	2,172,666	87.8
2822	Capital	5,590,974	4,088,597	4,557,406	3,602,205	79.0	3,373,701	93.7
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>4,228,199</b>	<b>3,601,139</b>	<b>2,679,321</b>	<b>3,372,501</b>	<b>125.9</b>	<b>3,133,065</b>	<b>92.9</b>
311	Fixed assets	3,883,625	3,230,665	2,487,200	3,213,053	129.2	2,949,185	91.8
312	Inventories	79,444	35,412	10,955	2,473	22.6	29,280	-
313	Valuables	10,126	8,929	6,136	3,741	61.0	3,494	93.4
314	Nonproduced assets	255,005	326,133	175,030	153,234	87.5	151,105	98.6
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>2,776,564</b>	<b>7,363,868</b>	<b>2,816,593</b>	<b>-353,868</b>		<b>-165,706</b>	
321	Domestic	2,764,119	7,361,520	2,816,205	-359,208		-172,209	
322	Foreign	12,445	2,348	388	5,341		6,503	
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>5,654,090</b>	<b>17,432,032</b>	<b>17,248,367</b>	<b>15,040,216</b>		<b>11,014,353</b>	
331	Domestic	6,795,747	10,130,239	12,892,453	6,448,390		2,958,329	
332	Foreign	-1,141,657	7,301,793	4,355,914	8,591,826		8,056,024	

Source: Ministry of Finance

Appendix 15. Consolidated Central Government by Government Level in the 2008-2012 Period

	(HRK000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>120.036.688</b>	<b>114.086.889</b>	<b>110.831.567</b>	<b>110.406.122</b>	<b>99,6</b>	<b>112.883.471</b>	<b>102,2</b>
	Budgetary Central Government	115.766.517	110.251.211	107.457.602	107.067.244	99,6	109.558.431	102,3
	Extrabudgetary Users	4.270.171	3.835.678	3.373.965	3.338.878	99,0	3.325.040	99,6
	Croatian Waters	2.105.011	1.954.250	1.690.712	1.594.280	94,3	1.580.154	99,1
	Fund for Environmental Protection and Energy Efficiency	1.221.187	1.168.578	1.040.675	1.091.289	104,9	1.056.681	96,8
	Croatian Roads Ltd.	80.970	112.840	86.234	57.462	66,6	55.417	96,4
	State Agency for Deposit Insurance and Bank Rehabilitation	808.342	566.470	529.642	552.819	104,4	576.101	104,2
	Croatian Privatization Fund	54.661	33.540	26.702	1.892	7,1	0	-
	Government Asset Management Agency	-	-	-	41.136	-	56.687	137,8
<b>2</b>	<b>EXPENSE</b>	<b>118.686.014</b>	<b>120.553.914</b>	<b>122.584.020</b>	<b>122.427.705</b>	<b>99,9</b>	<b>120.930.466</b>	<b>98,8</b>
	Budgetary Central Government	113.309.501	116.255.187	118.312.278	118.224.125	99,9	117.050.976	99,0
	Extrabudgetary Users	5.376.513	4.298.728	4.271.742	4.203.581	98,4	3.879.490	92,3
	Croatian Waters	2.335.424	1.742.098	1.771.232	1.458.210	82,3	1.455.498	99,8
	Fund for Environmental Protection and Energy Efficiency	1.106.720	1.159.136	1.003.648	914.777	91,1	959.728	104,9
	Croatian Roads Ltd.	1.592.627	1.048.486	1.405.891	1.320.918	94,0	1.276.972	96,7
	State Agency for Deposit Insurance and Bank Rehabilitation	254.706	267.167	16.967	408.867	-	89.460	21,9
	Croatian Privatization Fund	87.036	81.841	74.004	16.161	21,8	0	-
	Government Asset Management Agency	-	-	-	84.648	-	97.832	115,6
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>4.228.199</b>	<b>3.601.139</b>	<b>2.679.321</b>	<b>3.372.501</b>	<b>125,9</b>	<b>3.133.065</b>	<b>92,9</b>
	Acquisition	4.713.229	3.926.849	3.005.786	3.751.920	124,8	3.442.252	91,7
	Budgetary Central Government	3.291.549	2.267.406	1.550.672	1.485.978	95,8	1.107.982	74,6
	Extrabudgetary Users	1.421.680	1.659.443	1.455.114	2.265.942	155,7	2.334.270	103,0
	Disposals	485.029	325.710	326.465	379.419	116,2	309.187	81,5
	Budgetary Central Government	303.419	304.005	318.306	347.008	109,0	278.356	80,2
	Extrabudgetary Users	181.610	21.705	8.159	32.411	-	30.831	95,1
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>2.776.564</b>	<b>7.363.868</b>	<b>2.816.593</b>	<b>-353.868</b>		<b>-165.706</b>	
<b>321</b>	<b>Domestic</b>	<b>2.764.119</b>	<b>7.361.520</b>	<b>2.816.205</b>	<b>-359.208</b>		<b>-172.209</b>	
	Budgetary Central Government	1.690.502	6.823.196	1.942.719	-818.011		-651.421	
	Extrabudgetary Users	1.073.617	538.324	873.486	458.803		479.212	
<b>322</b>	<b>Foreign</b>	<b>12.445</b>	<b>2.348</b>	<b>388</b>	<b>5.341</b>		<b>6.503</b>	
	Budgetary Central Government	12.445	2.348	388	5.341		6.503	
	Extrabudgetary Users	-	-	0	0		0	
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>5.654.090</b>	<b>17.432.032</b>	<b>17.248.367</b>	<b>15.040.216</b>		<b>11.014.353</b>	
<b>331</b>	<b>Domestic</b>	<b>6.795.747</b>	<b>10.130.239</b>	<b>12.892.453</b>	<b>6.448.390</b>		<b>2.958.329</b>	
	Budgetary Central Government	5.656.636	9.576.610	11.835.071	4.793.136		1.413.994	
	Extrabudgetary Users	1.139.111	553.629	1.057.382	1.655.254		1.544.335	
<b>332</b>	<b>Foreign</b>	<b>-1.141.657</b>	<b>7.301.793</b>	<b>4.355.914</b>	<b>8.591.826</b>		<b>8.056.024</b>	
	Budgetary Central Government	-1.445.788	6.878.380	4.276.958	8.597.227		8.125.181	
	Extrabudgetary Users	304.131	423.413	78.956	-5.401		-69.157	

Source: Ministry of Finance

Appendix 16. Local Government (53 Units, 32 Cities, Counties and the City of Zagreb) in the 2008-2012 Period

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>16,825,641</b>	<b>16,062,945</b>	<b>15,041,812</b>	<b>14,763,088</b>	<b>98.1</b>	<b>15,035,185</b>	<b>101.8</b>
<b>11</b>	<b>Taxes</b>	<b>10,097,177</b>	<b>9,891,927</b>	<b>8,872,440</b>	<b>8,805,856</b>	<b>99.2</b>	<b>9,423,857</b>	<b>107.0</b>
111	Taxes on income, profits, and capital gains	9,074,234	8,961,506	8,021,829	7,965,284	99.3	8,606,644	108.1
1111	Payable by individuals	9,074,234	8,961,506	8,021,829	7,965,284	99.3	8,606,644	108.1
1112	Payable by corporations and other enterprises	0	0	0	0	-	0	-
113	Taxes on property	595,032	512,708	439,983	437,557	99.4	404,927	92.5
114	Taxes on goods and services	413,202	406,662	398,714	392,941	98.6	402,483	102.4
1141	General taxes on goods and services	58,225	52,947	49,883	51,405	103.1	55,378	107.7
11411	Value-added taxes	0	0	0	0	-	0	-
11412	Sales taxes	58,225	52,947	49,883	51,405	103.1	55,378	107.7
1142	Excises	0	0	0	0	-	0	-
115	Taxes on international trade and transactions	0	0	0	0	-	0	-
116	Other taxes	14,709	11,052	11,913	10,075	84.6	9,804	97.3
<b>12</b>	<b>Social contributions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>
<b>13</b>	<b>Grants</b>	<b>2,085,584</b>	<b>2,034,478</b>	<b>2,147,948</b>	<b>2,122,230</b>	<b>98.8</b>	<b>1,798,058</b>	<b>84.7</b>
131	From foreign governments	6,079	1,248	3,776	549	14.5	11	2.0
132	From international organizations	1,342	1,946	2,367	8,814	-	23,687	268.7
133	From other general government units	2,078,163	2,031,284	2,141,806	2,112,867	98.6	1,774,361	84.0
<b>14</b>	<b>Other revenue</b>	<b>4,642,880</b>	<b>4,136,540</b>	<b>4,021,424</b>	<b>3,835,003</b>	<b>95.4</b>	<b>3,813,270</b>	<b>99.4</b>
<b>2</b>	<b>EXPENSE</b>	<b>13,697,135</b>	<b>13,958,975</b>	<b>13,066,277</b>	<b>12,661,547</b>	<b>96.9</b>	<b>13,269,948</b>	<b>104.8</b>
<b>21</b>	<b>Compensation of employees</b>	<b>3,390,267</b>	<b>3,665,254</b>	<b>3,622,102</b>	<b>3,604,127</b>	<b>99.5</b>	<b>3,717,421</b>	<b>103.1</b>
211	Wages and salaries	2,946,424	3,175,226	3,133,718	3,088,997	98.6	3,210,747	103.9
212	Social contributions	443,843	490,028	488,383	515,130	105.5	506,675	98.4
<b>22</b>	<b>Use of goods and services</b>	<b>5,079,050</b>	<b>5,167,299</b>	<b>4,995,571</b>	<b>4,998,530</b>	<b>100.1</b>	<b>5,228,358</b>	<b>104.6</b>
<b>24</b>	<b>Interest</b>	<b>133,675</b>	<b>115,495</b>	<b>102,517</b>	<b>126,181</b>	<b>123.1</b>	<b>134,863</b>	<b>106.9</b>
241	To nonresidents	3,597	1,511	352	583	165.4	179	30.7
242	To residents other than general government	130,032	113,976	102,147	125,597	123.0	134,589	107.2
<b>25</b>	<b>Subsidies</b>	<b>1,231,477</b>	<b>1,275,536</b>	<b>1,253,408</b>	<b>1,043,625</b>	<b>83.3</b>	<b>1,037,691</b>	<b>99.4</b>
251	To public corporations	1,004,965	1,078,024	1,066,185	882,406	82.8	891,619	101.0
252	To private enterprises	226,513	197,512	187,223	161,219	86.1	146,072	90.6
<b>26</b>	<b>Grants</b>	<b>362,220</b>	<b>328,602</b>	<b>299,226</b>	<b>291,279</b>	<b>97.3</b>	<b>313,289</b>	<b>107.6</b>
261	To foreign governments	0	0	0	510	-	707	138.5
262	To international organizations	0	0	0	605	-	4,817	-
263	To other general government units	362,220	328,602	299,226	290,163	97.0	307,765	106.1
2631	Current	145,359	182,045	167,229	153,746	91.9	160,947	104.7
2632	Capital	216,861	146,557	131,997	136,417	103.3	146,818	107.6
<b>27</b>	<b>Social benefits</b>	<b>688,166</b>	<b>779,170</b>	<b>647,916</b>	<b>652,601</b>	<b>100.7</b>	<b>710,944</b>	<b>108.9</b>
271	Social security benefits	0	0	0	0	-	0	-
272	Social assistance benefits	664,798	755,214	616,744	623,596	101.1	689,990	110.6
273	Employer social benefits	23,368	23,956	31,172	29,005	93.0	20,954	72.2
<b>28</b>	<b>Other expense</b>	<b>2,812,280</b>	<b>2,627,619</b>	<b>2,145,538</b>	<b>1,945,205</b>	<b>90.7</b>	<b>2,127,383</b>	<b>109.4</b>
281	Property expense other than interest	0	0	0	0	-	0	-
282	Miscellaneous other expense	2,812,280	2,627,619	2,145,538	1,945,205	90.7	2,127,383	109.4
2821	Current	1,726,978	1,609,480	1,483,437	1,372,127	92.5	1,423,299	103.7
2822	Capital	1,085,302	1,018,139	662,101	573,078	86.6	704,084	122.9
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>3,115,950</b>	<b>2,756,124</b>	<b>2,168,528</b>	<b>1,671,392</b>	<b>77.1</b>	<b>1,440,588</b>	<b>86.2</b>
311	Fixed assets	3,231,840	2,773,332	2,223,776	1,642,846	73.9	1,427,353	86.9
312	Inventories	0	0	0	0	-	0	-
313	Valuables	183	203	69	146	211.0	93	63.7
314	Nonproduced assets	-116,073	-17,411	-55,318	28,400	-	13,142	46.3
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>141,447</b>	<b>-634,558</b>	<b>-226,342</b>	<b>440,757</b>		<b>247,184</b>	
321	Domestic	141,447	-634,558	-226,342	440,757		247,184	
322	Foreign	0	0	0	0		0	
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>128,891</b>	<b>17,596</b>	<b>-33,349</b>	<b>10,608</b>		<b>-77,465</b>	
331	Domestic	153,766	39,441	-20,901	17,113		-71,266	
332	Foreign	-24,876	-21,844	-12,448	-6,505		-6,199	

Source: Ministry of Finance



Appendix 17. Consolidated General Government in the 2008-2012 Period

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>1</b>	<b>REVENUE</b>	<b>134,737,775</b>	<b>128,087,106</b>	<b>123,709,173</b>	<b>123,024,529</b>	<b>99.4</b>	<b>126,131,604</b>	<b>102.5</b>
<b>11</b>	<b>Taxes</b>	<b>79,669,875</b>	<b>73,570,853</b>	<b>71,729,021</b>	<b>70,228,042</b>	<b>97.9</b>	<b>74,117,755</b>	<b>105.5</b>
111	Taxes on income, profits, and capital gains	21,326,439	19,800,774	15,630,459	16,560,799	106.0	17,573,511	106.1
1111	Payable by individuals	10,761,736	10,360,916	9,223,376	9,272,770	100.5	9,876,169	106.5
1112	Payable by corporations and other enterprises	10,564,703	9,439,858	6,407,084	7,288,030	113.7	7,697,342	105.6
113	Taxes on property	1,230,962	1,045,005	883,966	886,046	100.2	802,663	90.6
114	Taxes on goods and services	54,895,374	49,644,939	51,379,174	50,637,006	98.6	53,607,502	105.9
1141	General taxes on goods and services	41,532,791	37,226,780	37,862,308	37,899,231	100.1	40,834,243	107.7
11411	Value-added taxes	41,308,036	37,050,354	37,688,520	37,718,154	100.1	40,652,023	107.8
11412	Sales taxes	224,756	176,427	173,788	181,077	104.2	182,220	100.6
1142	Excises	11,875,126	10,998,910	11,972,326	11,215,054	93.7	11,206,489	99.9
115	Taxes on international trade and transactions	1,900,865	1,721,164	1,644,448	1,766,356	107.4	1,754,364	99.3
116	Other taxes	316,235	1,358,971	2,190,974	377,836	17.2	379,715	100.5
<b>12</b>	<b>Social contributions</b>	<b>40,703,484</b>	<b>39,994,739</b>	<b>38,712,382</b>	<b>38,605,067</b>	<b>99.7</b>	<b>37,845,871</b>	<b>98.0</b>
121	Social security contributions	40,703,484	39,994,739	38,712,382	38,605,067	99.7	37,845,871	98.0
<b>13</b>	<b>Grants</b>	<b>498,489</b>	<b>623,603</b>	<b>638,985</b>	<b>880,441</b>	<b>137.8</b>	<b>995,042</b>	<b>113.0</b>
<b>14</b>	<b>Other revenue</b>	<b>13,865,927</b>	<b>13,897,911</b>	<b>12,628,784</b>	<b>13,310,980</b>	<b>105.4</b>	<b>13,172,936</b>	<b>99.0</b>
<b>2</b>	<b>EXPENSE</b>	<b>130,258,596</b>	<b>132,450,162</b>	<b>133,486,090</b>	<b>132,944,571</b>	<b>99.6</b>	<b>132,413,362</b>	<b>99.6</b>
<b>21</b>	<b>Compensation of employees</b>	<b>33,620,589</b>	<b>35,240,175</b>	<b>34,993,705</b>	<b>35,608,225</b>	<b>101.8</b>	<b>35,381,024</b>	<b>99.4</b>
211	Wages and salaries	28,642,429	29,976,425	29,761,988	30,250,759	101.6	30,364,799	100.4
212	Social contributions	4,978,161	5,263,750	5,231,717	5,357,466	102.4	5,016,225	93.6
<b>22</b>	<b>Use of goods and services</b>	<b>16,547,455</b>	<b>15,011,623</b>	<b>15,302,203</b>	<b>15,362,330</b>	<b>100.4</b>	<b>14,995,799</b>	<b>97.6</b>
<b>24</b>	<b>Interest</b>	<b>5,034,513</b>	<b>5,625,309</b>	<b>6,654,290</b>	<b>7,570,804</b>	<b>113.8</b>	<b>8,848,842</b>	<b>116.9</b>
241	To nonresidents	1,582,807	1,450,578	1,756,342	2,542,706	144.8	3,171,345	124.7
242	To residents other than general government	3,451,661	4,174,724	4,897,931	5,028,097	102.7	5,677,402	112.9
<b>25</b>	<b>Subsidies</b>	<b>8,130,307</b>	<b>8,075,242</b>	<b>7,880,522</b>	<b>7,606,056</b>	<b>96.5</b>	<b>6,800,995</b>	<b>89.4</b>
251	To public corporations	4,204,078	4,239,052	4,257,449	3,946,146	92.7	3,108,035	78.8
252	To private enterprises	3,926,229	3,836,190	3,623,073	3,659,911	101.0	3,692,959	100.9
<b>26</b>	<b>Grants</b>	<b>2,305,289</b>	<b>2,383,858</b>	<b>2,072,465</b>	<b>1,638,943</b>	<b>79.1</b>	<b>1,832,092</b>	<b>111.8</b>
261	To foreign governments	89,446	78,184	58,594	40,316	68.8	26,322	65.3
262	To international organizations	96,503	134,031	175,808	212,840	121.1	252,265	118.5
263	To other general government units	2,119,341	2,171,643	1,838,063	1,385,788	75.4	1,553,505	112.1
<b>27</b>	<b>Social benefits</b>	<b>53,282,084</b>	<b>56,927,886</b>	<b>57,554,583</b>	<b>57,135,569</b>	<b>99.3</b>	<b>56,880,795</b>	<b>99.6</b>
271	Social security benefits	37,601,426	40,605,570	43,008,403	42,752,824	99.4	42,797,897	100.1
272	Social assistance benefits	15,410,062	16,013,650	14,345,732	14,225,922	99.2	13,930,658	97.9
273	Employer social benefits	270,596	308,665	200,449	156,822	78.2	152,240	97.1
<b>28</b>	<b>Other expense</b>	<b>11,338,358</b>	<b>9,186,070</b>	<b>9,028,322</b>	<b>8,022,645</b>	<b>88.9</b>	<b>7,673,816</b>	<b>95.7</b>
281	Property expense other than interest	16,015	7,730	88	12	13.9	66	-
282	Miscellaneous other expense	11,322,343	9,178,340	9,028,234	8,022,632	88.9	7,673,750	95.7
2821	Current	4,646,067	4,071,604	3,808,726	3,847,349	101.0	3,595,965	93.5
2822	Capital	6,676,276	5,106,736	5,219,508	4,175,283	80.0	4,077,785	97.7
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>7,344,149</b>	<b>6,357,263</b>	<b>4,847,849</b>	<b>5,043,893</b>	<b>104.0</b>	<b>4,573,653</b>	<b>90.7</b>
311	Fixed assets	7,115,465	6,003,997	4,710,976	4,855,899	103.1	4,376,538	90.1
312	Inventories	79,444	35,412	10,955	2,473	22.6	29,280	-
313	Valuables	10,309	9,132	6,206	3,888	62.6	3,587	92.3
314	Nonproduced assets	138,932	308,723	119,712	181,634	151.7	164,247	90.4
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>2,918,011</b>	<b>6,729,333</b>	<b>2,590,507</b>	<b>87,221</b>		<b>58,456</b>	
321	Domestic	2,905,566	6,726,985	2,590,119	81,880		51,953	
322	Foreign	12,445	2,348	388	5,341		6,503	
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>5,782,980</b>	<b>17,449,652</b>	<b>17,215,273</b>	<b>15,051,156</b>		<b>10,913,866</b>	
331	Domestic	6,949,513	10,169,704	12,871,808	6,465,835		2,864,041	
332	Foreign	-1,166,533	7,279,948	4,343,466	8,585,321		8,049,825	

Source: Ministry of Finance

Appendix 18. Consolidated General Government by Government Level in the 2008-2012 Period

	(HRK 000)	2008	2009	2010	2011	Index 2011/2010	2012	Index 2012/2011
<b>1</b>	<b>REVENUES</b>	<b>134,737,775</b>	<b>128,087,106</b>	<b>123,709,173</b>	<b>123,024,529</b>	<b>99.4</b>	<b>126,131,604</b>	<b>102.5</b>
	Budgetary Central Government	115,766,517	110,251,211	107,457,602	107,067,244	99.6	109,558,431	102.3
	Extrabudgetary Users	4,223,781	3,804,235	3,351,565	3,307,063	98.7	3,312,348	100.2
	Croatian Waters	2,058,621	1,922,807	1,668,312	1,584,711	95.0	1,574,858	99.4
	Fund for Environmental Protection and Energy Efficiency	1,221,187	1,168,578	1,040,675	1,069,043	102.7	1,049,285	98.2
	Croatian Roads Ltd.	80,970	112,840	86,234	57,462	66.6	55,417	96.4
	State Agency for Deposit Insurance and Bank Rehabilitation	808,342	566,470	529,642	552,819	104.4	576,101	104.2
	Croatian Privatization Fund	54,661	33,540	26,702	1,892	7.1	-	-
	Government Asset Management Agency	-	-	-	41,136	-	56,687	137.8
	Local Government	14,747,477	14,031,661	12,900,006	12,650,221	98.1	13,260,825	104.8
<b>2</b>	<b>EXPENSE</b>	<b>130,258,596</b>	<b>132,450,162</b>	<b>133,486,090</b>	<b>132,944,571</b>	<b>99.6</b>	<b>132,413,362</b>	<b>99.6</b>
	Budgetary Central Government	111,299,734	114,305,037	116,237,015	116,163,322	99.9	115,318,008	99.3
	Extrabudgetary Users	5,308,117	4,217,593	4,205,199	4,151,516	98.7	3,838,098	92.5
	Croatian Waters	2,313,713	1,709,514	1,754,034	1,436,668	81.9	1,439,851	100.2
	Fund for Environmental Protection and Energy Efficiency	1,063,919	1,111,094	954,303	884,255	92.7	933,983	105.6
	Croatian Roads Ltd.	1,588,743	1,047,978	1,405,891	1,320,918	94.0	1,276,972	96.7
	State Agency for Deposit Insurance and Bank Rehabilitation	254,706	267,167	16,967	408,867	-	89,460	21.9
	Croatian Privatization Fund	87,036	81,841	74,004	16,161	21.8	-	-
	Government Asset Management Agency	-	-	-	84,648	-	97,832	115.6
	Local Government	13,650,745	13,927,532	13,043,877	12,629,732	96.8	13,257,257	105.0
<b>31</b>	<b>NET ACQUISITION OF NONFINANCIAL ASSETS</b>	<b>7,344,149</b>	<b>6,357,263</b>	<b>4,847,849</b>	<b>5,043,893</b>	<b>104.0</b>	<b>4,573,653</b>	<b>90.7</b>
	Acquisition	8,876,647	7,132,386	5,626,796	5,876,148	104.4	5,175,902	88.1
	Budgetary Central Government	3,291,549	2,267,406	1,550,672	1,485,978	95.8	1,107,982	74.6
	Extrabudgetary Users	1,421,680	1,659,443	1,455,114	2,265,942	155.7	2,334,270	103.0
	Local Government	4,163,418	3,205,537	2,621,009	2,124,228	81.0	1,733,651	81.6
	Disposals	1,532,498	775,123	778,947	832,255	106.8	602,250	72.4
	Budgetary Central Government	303,419	304,005	318,306	347,008	109.0	278,356	80.2
	Extrabudgetary Users	181,610	21,705	8,159	32,411	-	30,831	95.1
	Local Government	1,047,469	449,413	452,482	452,836	100.1	293,063	64.7
<b>32</b>	<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>2,918,011</b>	<b>6,729,333</b>	<b>2,590,507</b>	<b>87,221</b>		<b>58,456</b>	
<b>321</b>	<b>Domestic</b>	<b>2,905,566</b>	<b>6,726,985</b>	<b>2,590,119</b>	<b>81,880</b>		<b>51,953</b>	
	Budgetary Central Government	1,690,502	6,823,220	1,942,756	-817,680		-674,443	
	Extrabudgetary Users	1,073,617	538,324	873,486	458,803		479,212	
	Local Government	141,447	-634,558	-226,123	440,757		247,184	
<b>322</b>	<b>Foreign</b>	<b>12,445</b>	<b>2,348</b>	<b>388</b>	<b>5,341</b>		<b>6,503</b>	
	Budgetary Central Government	12,445	2,348	388	5,341		6,503	
	Extrabudgetary Users	0	0	0	0		0	
	Local Government	0	0	0	0		0	
<b>33</b>	<b>NET INCURRENCE OF LIABILITIES</b>	<b>5,782,980</b>	<b>17,449,652</b>	<b>17,215,273</b>	<b>15,051,156</b>		<b>10,913,866</b>	
<b>331</b>	<b>Domestic</b>	<b>6,949,513</b>	<b>10,169,704</b>	<b>12,871,808</b>	<b>6,465,835</b>		<b>2,864,041</b>	
	Budgetary Central Government	5,656,636	9,576,610	11,835,071	4,793,136		1,413,994	
	Extrabudgetary Users	1,139,111	553,629	1,057,382	1,655,254		1,544,335	
	Local Government	153,766	39,465	-20,645	17,444		-94,288	
<b>332</b>	<b>Foreign</b>	<b>-1,166,533</b>	<b>7,279,948</b>	<b>4,343,466</b>	<b>8,585,321</b>		<b>8,049,825</b>	
	Budgetary Central Government	-1,445,788	6,878,380	4,276,958	8,597,227		8,125,181	
	Extrabudgetary Users	304,131	423,413	78,956	-5,401		-69,157	
	Local Government	-24,876	-21,844	-12,448	-6,505		-6,199	

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