

REPUBLIC OF CROATIA
MINISTRY OF FINANCE



ANNUAL REPORT OF THE MINISTRY OF FINANCE FOR 2010

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FOREWORD

The global economic crisis which occurred at the end of 2008 swept over Croatian real sector in 2009. In 2010, although to a lesser extent than in 2009, Croatia encountered certain unfavourable effects of domestic and global economic developments. The crisis had significant repercussions for Croatian economy in 2010, when it caused certain economic developments, both in Croatia and around the world, which generated negative effects on public finance of the Republic of Croatia. In such unfavourable conditions, the Budgetary Central Government revenue was under significant pressure, and Croatian fiscal policy was faced with the challenge of making the Budgetary Central Government expense compatible with the real possibilities.

Regarding determinants of the fiscal policy trends, we should mention the importance of the Government's Economic Recovery Programme. The mentioned Programme contains a number of measures, the implementation of which is aimed at creating conditions for economic recovery and foundations for future economic growth. Certain measures from the Programme regarding the field of fiscal policy are aimed at the Budgetary Central Government revenue, primarily at reduction of burden placed on the citizens and increase of their disposable income. This was achieved primarily by changing the income tax system and repealing the special tax on salaries, pensions and other receivables before the end of the year, although the initial plan was to keep the tax by the end of 2010. The set of all measures, both regarding the fiscal policy and all the areas covered by the Programme measures, represents the basis for achieving the goals defined in the Programme.

In such circumstances, the focus of attention was placed on the fiscal policy and it was especially important to strengthen its transparency, as well as the responsibility in its implementation. Therefore, in 2010, the fiscal policy transparency and the already relatively high level of fiscal responsibility were additionally reinforced by the adoption of the Fiscal Responsibility Act. This Act introduced new aspects of fiscal responsibility in the form of fiscal rules and other new instruments, which will most certainly help in implementation of a responsible fiscal policy and sustainability of the public finance.

In 2010, Consolidated General Government deficit increased in respect to 2009, but it was still below the average of many countries with which Croatia is usually compared in the context of international comparisons. Furthermore, Croatia successfully issued its bonds on the international financial market, which proved that the international financial market positively assessed the management of Croatian economic and monetary policies in complex global conditions.

A more detailed and extensive analysis of all the aforementioned topics follows in the chapters of the Annual Report of the Ministry of Finance for 2010. The Report was prepared for the purpose of familiarisation of general public with the work and activities of the Ministry of Finance in 2010, and with intention to contribute to the transparency and information of general public and all those interested in the public finance of the Republic of Croatia.

1. MACROECONOMIC DEVELOPMENTS IN 2010



1.1. INTERNATIONAL ENVIRONMENT

After a severe recession in 2009, global economic activity recovered in 2010. However, the speed of recovery differed between groups of countries. Developed economies showed moderate growth, whereas developing countries achieved faster economic growth. Due to higher demand for and increase of prices of primary commodities on the world market, the annual inflation rate accelerated in 2010.

According to the International Monetary Fund¹, global economy recorded real growth of 5.1 percent in 2010, which followed after a drop in economic activity of 0.5 percent in 2009. After a drop of 10.8 percent in 2009, the volume of world trade increased by 12.4 percent in 2010. Among major developed world economies, the most pronounced growth of real gross domestic product in 2010 – 4.0 percent – was recorded in Japan, whereas the USA's GDP growth amounted to 2.9 percent.

The euro area economy recorded a real GDP growth of 1.8 percent in 2010, while in 2009 it had dropped by 4.1 percent. GDP growth in the European Union also amounted to 1.8 percent, as compared to the economic activity contraction of 4.2 percent in 2009. The largest contribution to the growth of economic activity in the European Union came from the changes in inventories, with more or less the same contribution from domestic and foreign demand, whereas foreign demand contributed the most to the economic growth of the euro area. The real annual growth of private consumption amounted to 0.8 percent, and of public consumption 0.7 percent in the European Union and the euro area in 2010. Investments in 2010 brought a real drop of 0.7 percent in the European Union and 0.8 percent in the euro area. A real growth of export of goods and services amounted to 10.6 percent in the European Union and 11.2 percent in the euro area, while the import showed a real growth of 9.5 percent in the European Union and 9.3 percent in the euro area.

Table 1.1. International Environment - Macroeconomic Indicators

	2007	2008	2009	2010
Real GDP growth, %				
World	5.4	2.9	-0.5	5.1
European Union	3.0	0.5	-4.2	1.8
Germany	2.7	1.0	-4.7	3.6
Italy	1.5	-1.3	-5.2	1.3
Slovenia	6.9	3.7	-8.1	1.2
Austria	3.7	2.2	-3.9	2.0
Euro area	2.9	0.4	-4.1	1.8
Inflation rate, %				
European Union	2.4	3.7	1.0	2.1
Euro area	2.1	3.3	0.3	1.6
Oil prices growth, %	10.7	36.4	-36.3	27.8

Source: European Commission, International Monetary Fund

The index of primary commodity prices² on the world market had a steady annual growth of 26.1 percent in 2010. The price growth of raw materials was affected the most by a year-on-year oil price increase³ by 27.8 percent, that is, from the average of USD 61.8 per barrel in 2009 to USD 79.0 per barrel in 2010. The price increase of primary commodities in 2010 was also significantly affected by the annual growth of the price of metals of 48.2 percent, as well as the price growth of agricultural raw materials of 33.3 percent.

¹ International Monetary Fund, World Economic Outlook Update, June 2011

² Source: International Monetary Fund

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

Inflation in the euro area, measured by the harmonised index of consumer prices, amounted to 1.6 percent in 2010, which is an acceleration of 1.3 percentage points in comparison to 2009. The acceleration of the inflation rate was the result of the increase of prices of primary commodities, increase of administrative prices and indirect taxes, higher import prices and effects of the base period on food and energy components. In the European Union, the inflation rate was 2.1 percent, which was 1.1 percentage points higher than in 2009.

With regard to a moderate inflation growth and favourable trends in economic activity, the European Central Bank did not need to change the referent interest rate during 2010, maintaining it at 1.0 percent. The US Federal Reserve (FED) also decided not to change its referent interest rate during 2010, which moved between 0.0 percent and 0.25 percent.

Croatia's most important trading partners saw recovery of economic activity in 2010. German GDP achieved a growth of 3.6 percent in 2010, whereas in 2009 economic activity had been reduced by 4.7 percent. The largest contribution to the growth of economic activity came from domestic demand, especially from investments and net exports. Gross domestic product of Italy showed a real growth of 1.3 percent in 2010, as opposed to contraction of economic activity of 5.2 percent in 2009. The main contribution to the GDP growth came from domestic demand and change in inventories, while the contribution of net exports was negative. After a drop of economic activity of 8.1 percent in 2009, Slovenia achieved economic growth of 1.2 percent in 2010. The recovery of economic activity was based on the change in inventories and net exports, whereas the contribution of domestic demand was negative. Austrian economy recorded a real GDP growth of 2.0 percent in 2010, which followed after a decrease of 3.9 percent in 2009. The largest contribution to the GDP growth came from net exports and change in inventories, and the contribution of domestic demand was negative.

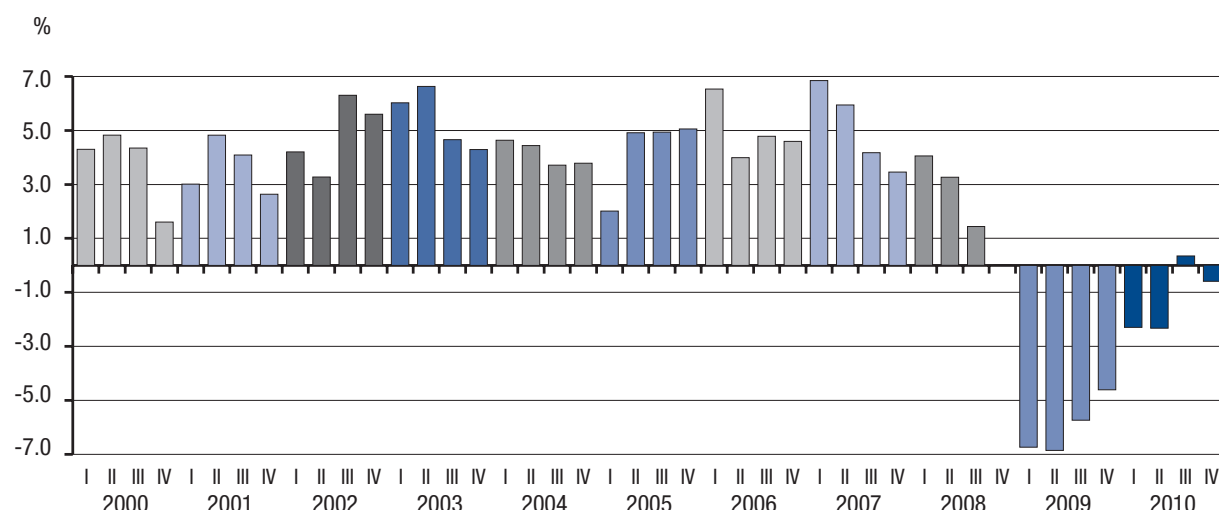
1.2. REAL SECTOR

After the effects of the global financial and economic crisis which affected Croatian economy the most in 2009, negative trends in 2010 considerably subsided and the drop of real GDP slowed down from 6.0 percent in 2009 to 1.2 percent in 2010. Mitigation of negative trends was also noticed in many other macroeconomic indicators. In 2010, industrial production was reduced on a year-on-year level by 1.4 percent (decrease of 9.2 percent in 2009), the real retail trade turnover dropped by 1.8 percent (decrease of 15.3 percent in 2009), whereas the construction works index dropped by 15.9 percent (decrease of 6.5 percent in 2009). Physical indicators in tourism recorded increase, with the total number of tourist arrivals in 2010 increased by 3.2 percent and overnight stays by 2.6 percent. As for the labour market trends, the average number of registered unemployed persons grew by 39.3 thousand, or 14.9 percent. Administrative unemployment rate increased from the average 14.9 percent in 2009 to 17.4 percent in 2010, while labour force survey unemployment rate in the same period grew from 9.1 percent to 11.8 percent.

1.2.1. Gross Domestic Product

Gross domestic product recorded a real drop of 1.2 percent in 2010, which represented a slowdown of its decrease with respect to 2009, when the real drop had been 6.0 percent. Quarterly dynamics in 2010 pointed to the real year-on-year drop of GDP of 2.3 percent in the first and the second quarters, a mild increase of 0.3 percent in the third, and a drop of 0.6 percent in the last quarter.

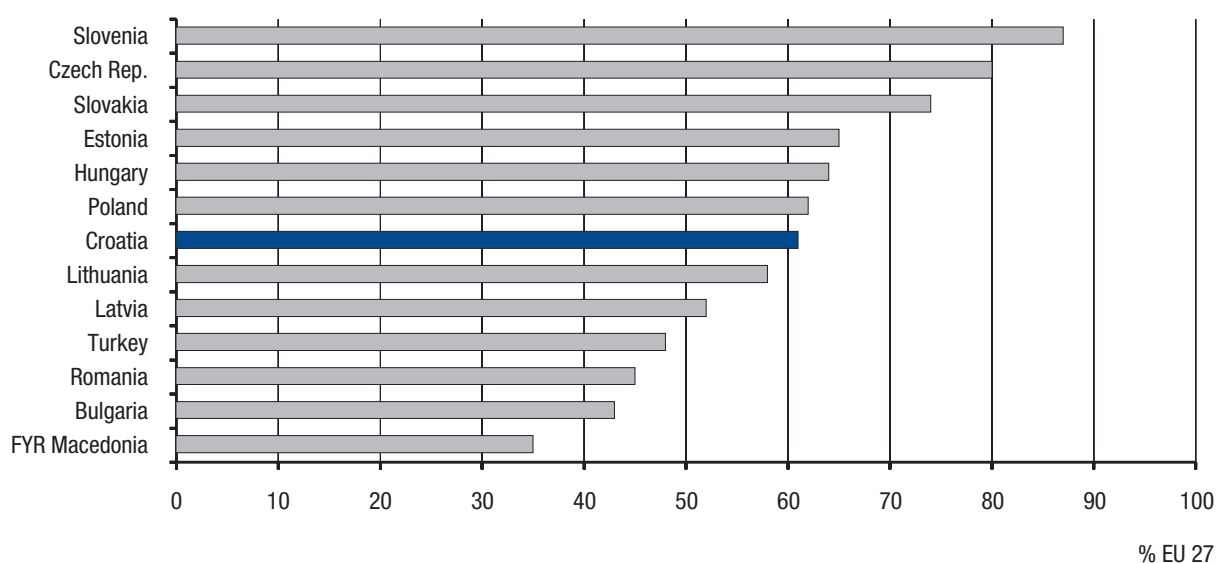
Chart 1.1. Real Quarterly Gross Domestic Product Growth



Source: Croatian Bureau of Statistics

Nominal drop of gross domestic product amounted to 0.2 percent in 2010, which meant that the nominal gross domestic product was reduced to HRK 334.6 billion. Growth of gross domestic product deflator amounted to 1.0 percent in 2010, which was 2.3 percentage points less as compared to 2009. In terms of purchasing power parity, in 2010 Croatian GDP was 61.0 percent of the average GDP per capita in EU 27 countries, which was a drop of three percentage points as compared to 2009.

Chart 1.2. Gross Domestic Product per Capita in 2010



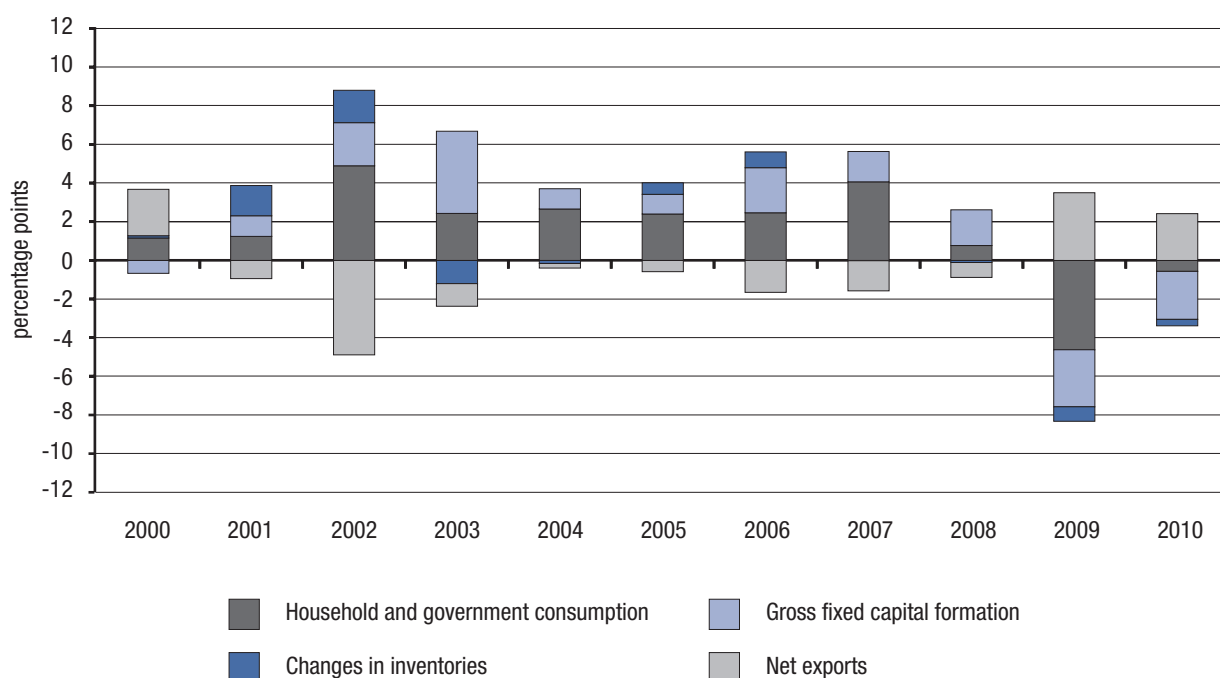
Source: Eurostat

1.2.2. Expenditure Side of Gross Domestic Product

Except for exports of goods and services, which increased by 6.0 percent, all GDP components recorded a real drop on a year-on-year level in 2010. The largest real year-on-year drop occurred in gross fixed capital formation, which, as compared to 2009, dropped by 11.3 percent, followed by imports of goods and services which dropped by 1.3 percent, household consumption by 0.9 percent, and government consumption by 0.8 percent. As for the contributions to the year-on-year change of GDP in 2010, negative contributions occurred in gross fixed capital formation, -3.1 percentage points; household consumption with -0.5 percentage

points, changes in inventories (which included statistical discrepancy) with -0.4 percentage points, and government consumption with -0.2 percentage points. Positive contributions were recorded in exports of goods and services, 2.3 percentage points; and imports of goods and services, 0.7 percentage points; thus the contribution of net exports was also positive and amounted to 3.0 percentage points.

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



Source: Croatian Bureau of Statistics

1.2.3. Production Side of Gross Domestic Product

The real year-on-year reduction in total gross value added amounted to 1.7 percent in 2010, which was a drop smaller by 2.4 percentage points than the drop in 2009. Calculation of gross domestic product on the production side shows that the largest real year-on-year reduction of gross value added in 2010 was registered in construction (-16.4 percent). This was followed by transport, storage and communication (real drop of gross value added of 2.4 percent), industry⁴ (-1.6 percent), trade⁵ (-1.2 percent), agriculture⁶ (-0.2 percent), hotels and restaurants (-0.1 percent) and public administration⁷ (-0.1 percent). Increase of gross value added on a year-on-year level was achieved in financial intermediation⁸ (0.8 percent). The largest contribution to the reduction of gross value added came from construction activity which had a share of 6.1 percent in the total gross value added expressed in constant prices, followed by industry with the share of 20.8 percent in the gross value added, trade with the share of 13.3 percent and transport, storage and communication with the share of 7.0 percent. A very small negative contribution came from agriculture, with the share of 5.8 percent, and public administration with the share of 9.9 percent in the total gross value added. A positive contribution to the gross value added was recorded in financial intermediation, with the share of 20.7 percent in the total gross value added.

⁴ Includes mining and quarrying, manufacturing, electricity, gas and water supply.

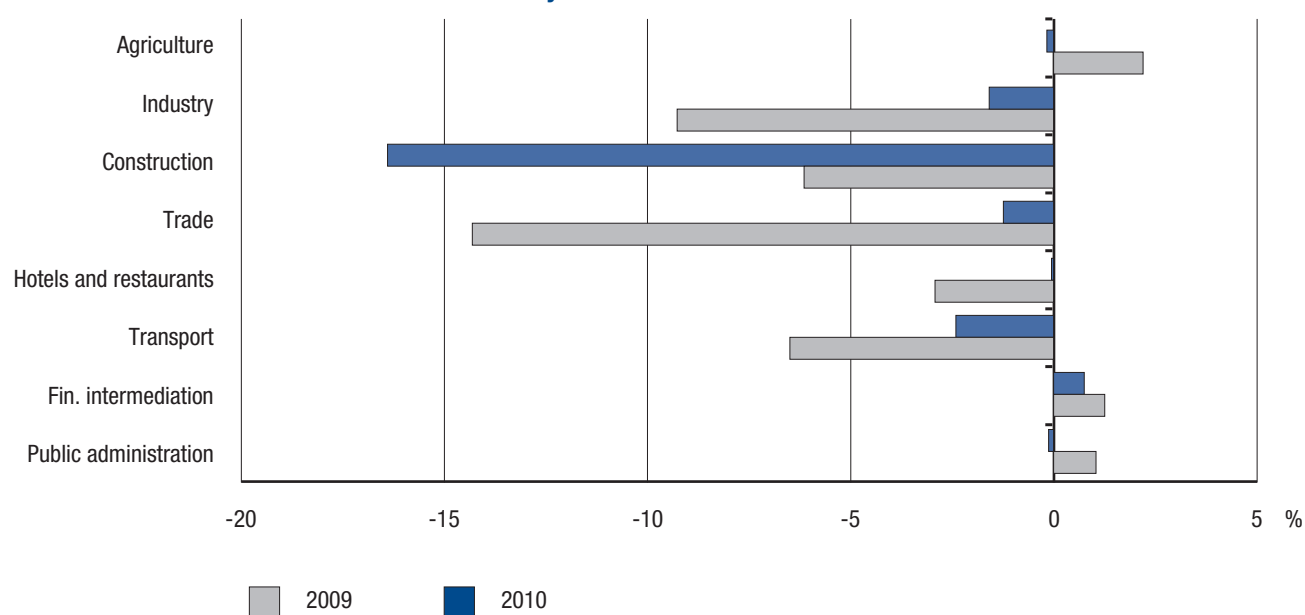
⁵ Includes wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods.

⁶ Includes agriculture, hunting and forestry and fishing.

⁷ The category includes public administration and defence, compulsory social security, education, health and social work, other community, social and personal services and activities of households.

⁸ The category includes financial intermediation, real estate, renting and business activities.

Chart 1.4. Real Growth of Gross Value Added by Activities



Source: Croatian Bureau of Statistics

Industrial Production

Industrial production recorded a year-on-year drop of 1.4 percent in 2010, which was a slowdown of 7.8 percentage points when compared to 2009. Observed by main industrial groups, a year-on-year increase of industrial production in 2010 was recorded in energy production (2.5 percent) and production of non-durable consumer goods (1.9 percent). Production of intermediate goods was reduced in 2010 by 6.4 percent, production of capital goods by 2.1 percent, and production of durable consumer goods by 1.1 percent. Observing by activities, mining and quarrying was reduced by 9.2 percent at a year-on-year level in 2010, whereas electricity, gas, steam and air-conditioning supply recorded an increase of 6.4 percent. Manufacturing, the activity with the largest share in the total industrial production (82.82 percent), dropped by 2.1 percent at a year-on-year level in 2010. The largest contribution to the drop in manufacturing in 2010 came from manufacture of other non-metallic mineral products, which recorded a year-on-year drop of 20.2 percent, manufacture of fabricated metal products, except machinery and equipment (-13.1 percent), production of other transport equipment (-21.8 percent) and production of beverages (-8.8 percent), whereas the increase in manufacturing mostly came from repairs and installation of machinery and equipment (increase of 12.6 percent), production of paper and paper products (15.5 percent), production of basic pharmaceuticals and pharmaceutical preparations (31.1 percent) and tobacco products (16.1 percent).

Construction

In 2010, a year-on-year reduction of construction works index of 15.9 percent was recorded, with the largest drop of 18.6 percent occurring in the first quarter of 2010. As regards the types of construction, in 2010 the buildings' construction works index dropped by 17.1 percent as compared to 2009, whereas the civil engineering works construction index dropped by 14.9 percent. In comparison to 2009, a total number of building permits issued in 2010 dropped by 14.1 percent.

Retail Trade

Turnover of retail trade in 2010 recorded a nominal year-on-year drop by 1.1 percent, whereas in real terms it dropped by 1.8 percent. With regards to some important indicators which can influence retail trade, the number of persons employed in 2010 was reduced by about 66 thousand on the year-on-year level, loans to households (excluding housing loans) dropped by 0.6 percent, whereas the number of tourist overnight stays recorded a year-on-year increase of 2.6 percent. By observing the nominal turnover of retail trade by branches,

the most significant contribution to the year-on-year trade reduction in 2010 came from textile, clothing, footwear and leather products (year-on-year drop of 8.2 percent) and motor vehicles (-18.7 percent).

Tourism

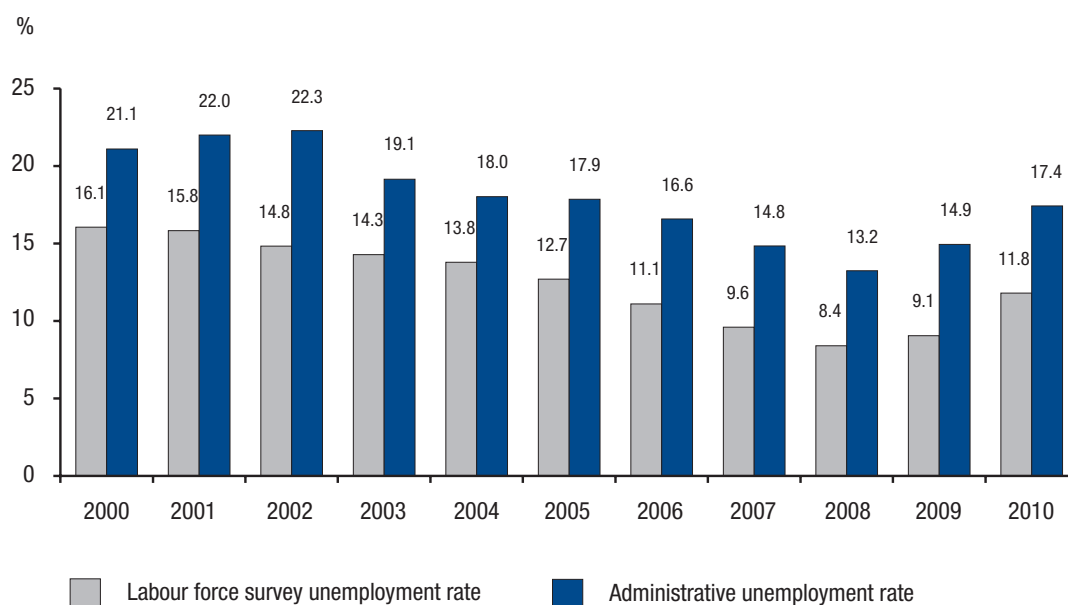
The total number of tourist arrivals in 2010 amounted to 10.6 million, which was an increase of 3.2 percent on a year-on-year level, whereas the total number of overnight stays amounted to 56.4 million, as an increase of 2.6 percent. Foreign tourist arrivals in 2010 increased at a year-on-year level by 4.8 percent, and arrivals of domestic tourists dropped by 5.3 percent, whereas the number of foreign tourist overnight stays increased by 3.6 percent, and domestic tourist overnight stays dropped by 5.8 percent. In 2010, there was an average of 5.3 overnight stays per tourist arrival, which was 0.1 overnight stays less than in 2009. According to types of overnight stays in 2010, 90.4 percent of total overnight stays were realised by foreign guests, mostly from Germany (22.5 percent of the total foreign overnight stays), Slovenia (11.5 percent), Italy (9.3 percent), Austria (8.7 percent) and Czech Republic (8.2 percent). Total revenues from tourism in 2010 amounted to 6.2 billion euros, which was a drop of 2.3 percent when compared to 2009.

1.2.4. Labour Market

Unfavourable trends on the labour market continued in 2010, but with weaker intensity. There was a slowdown of the year-on-year growth of registered unemployed persons. The average number of the unemployed in 2010 was 302.4 thousand and on the year-on-year level it increased by 39.3 thousand, i.e. 14.9 percent. At the same time, the average number of employed persons dropped by 66.3 thousand, i.e. 4.4 percent. The average administrative unemployment rate in 2010 was 17.4 percent, which was 2.5 percentage points more than in 2009.

By observing the average figures for 2010, according to the labour force survey, the working age population amounted to 3,751,750 persons, 46.6 percent of which were working or actively looking for a job, i.e. they could be classified as labour force. As compared to the 2009 survey results, the working age population increased by 44,000, while the category of labour force recorded a drop of 17,750. In 2010, the average total number of the employed was 1,541,250, which was a drop of 64,000 as compared to 2009, whereas the average number of the unemployed increased by 46,250 and amounted to 206,000. The average survey unemployment rate in 2010 was 11.8 percent, which was 2.8 percentage points more in comparison to 2009.

Chart 1.5. Labour Force Survey and Administrative Unemployment Rates



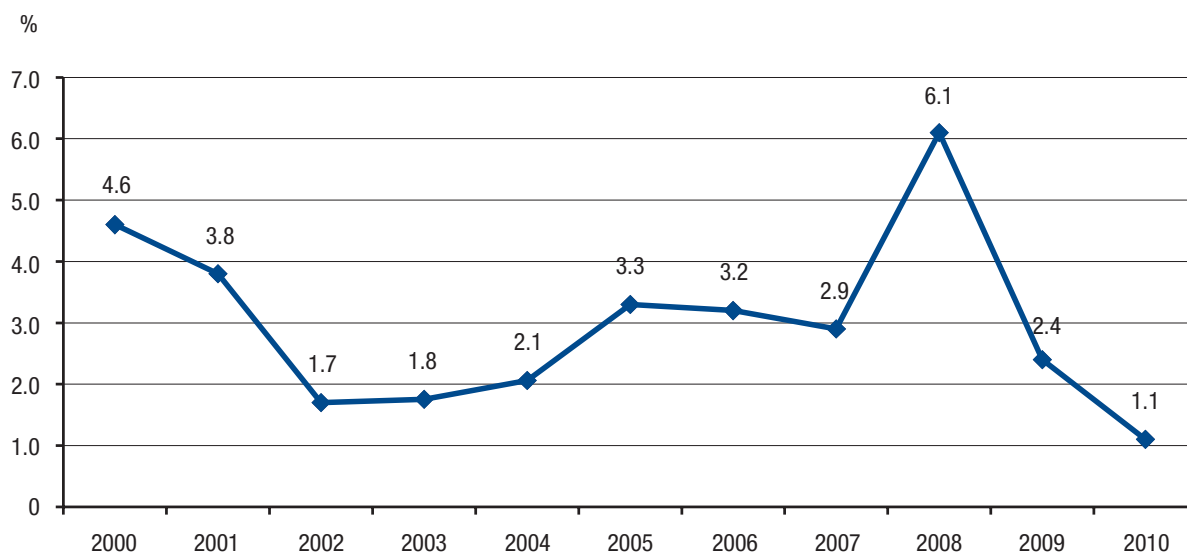
Source: Croatian Bureau of Statistics

Nominal and real gross wage growth in 2010 slowed down as compared to 2009. The average gross wage in 2010 amounted to HRK 7,679 and was reduced by 0.4 percent as compared to 2009, whereas the average net wage amounted to HRK 5,343 and was increased by 0.6 percent on a year-on-year level. Gross wages in 2010, on a year-on-year level, were reduced in real terms by 1.5 percent, whereas net wages dropped in real terms by 0.5 percent. Observed by activities, the highest gross wages in 2010 were recorded in financial and insurance activities, while the lowest gross wages were recorded in administrative and support service activities.

1.2.5. Prices

In December 2010, a year-on-year growth of consumer price index amounted to 1.8 percent, while throughout 2010 it was 1.1 percent. When observing 2010 on the whole, the largest contribution to the average price increase came from prices of fuels and lubricants for personal vehicles, which, as compared to 2009, increased by 13.9 percent, followed by prices of gas which increased by 18.1 percent and the prices of liquid fuels which increased by 23.6 percent. The largest influence on mitigation of the year-on-year growth of prices in 2010 is attributed to prices of food, which dropped by 1.7 percent, with the emphasis on the prices of meat, which dropped by 5.7 percent; milk, cheese and eggs by 3.2 percent, and the prices of clothes and footwear, which dropped by 4.2 percent. Core inflation, which does not include the prices of agricultural products and administered prices, slowed down from 2.8 percent in 2009 to -0.8 percent in 2010. Producers' price index of industrial products recorded a year-on-year growth of 4.3 percent in 2010, whereas in 2009 it had dropped by 0.4 percent.

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



Source: Croatian Bureau of Statistics

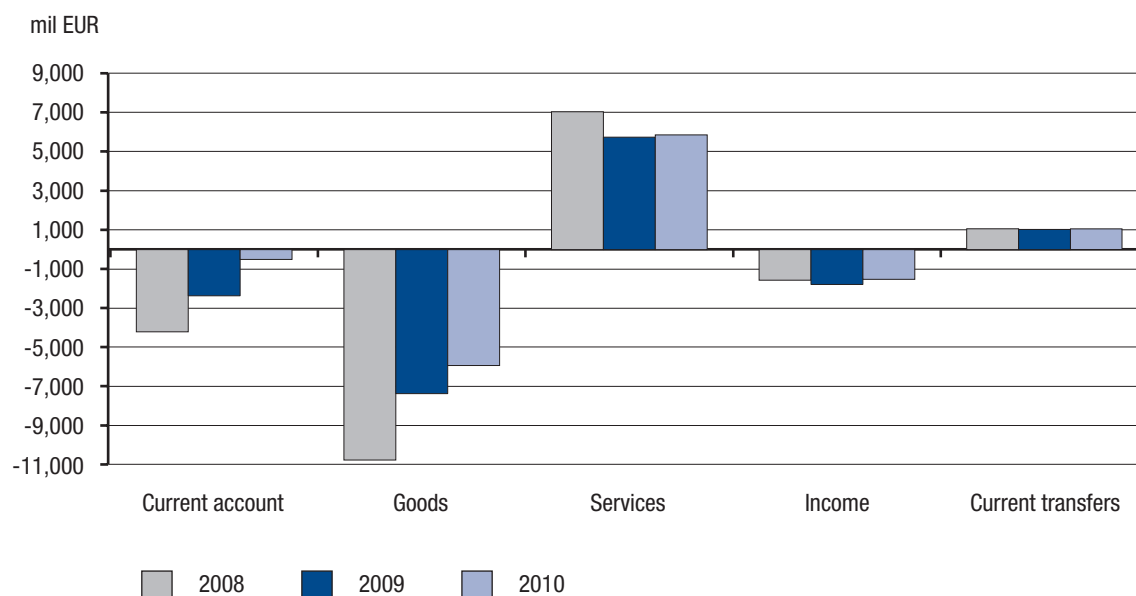
1.3. INTERNATIONAL SECTOR

Continuation of unfavourable trends in economic activity in 2010 affected correction of foreign-trade imbalance. Current account deficit on the balance of payments was reduced in 2010, primarily due to reduction of a negative balance on the goods account. The balance of services recorded a mild recovery as compared to 2009, in spite of falling revenues from tourism. Current account deficit on the balance of payments in 2010 was mostly financed from other investments, and there was a large reduction of foreign direct investments in Croatia. The year-on-year increase of foreign debt was slowed down. Kuna exchange rate remained stable against euro and recorded only a mild appreciation as compared to 2009.

1.3.1. Balance of Payments

Current account deficit on the balance of payments in 2010 amounted to EUR 503 million, which was a drop of EUR 1.9 billion, or 78.8 percent as compared to 2009. The largest contribution to the reduction of current account deficit came from reduction of a negative balance on the goods account, which was reduced by EUR 1.4 billion, or 19.5 percent as compared to 2009, and amounted to EUR 5.9 billion. The balance of services in 2010 recorded a surplus of EUR 5.9 billion, which was an increase of EUR 117 million, or 2.0 percent on a year-on-year level. The revenues from tourism, as the most important item on the balance of services, amounted to EUR 6.2 billion and thus recorded a year-on-year drop of 2.3 percent. A deficit on the income account amounted to EUR 1.5 billion in 2010 and was decreased by EUR 264 million, or 14.8 percent on a year-on-year level. A positive balance of current transfers amounted to EUR 1.1 billion in 2010 and recorded an increase of EUR 43 million, or 4.2 percent on a year-on-year level. Current account deficit expressed in percentage of gross domestic product dropped from 5.2 percent in 2009 to 1.1 percent in 2010. Coverage of imports of goods and services by exports of goods and services amounted to 99.5 percent in 2010, which was an increase of 8.7 percentage points as compared to 2009.

Chart 1.7. Balance of Payments Current Account



Source: Croatian National Bank

Current account deficit on the balance of payments in 2010 was mostly financed from other investments which recorded a net inflow of EUR 782 million, which was 71.7 percent less than in 2009. The largest net inflow from other investments was recorded in other sectors in the amount of EUR 499 million, followed by banks in the amount of EUR 147 million, and the government sector in the amount of EUR 134 million. The portfolio investment balance recorded a net inflow in the amount of EUR 403 million, which was 1.1 percent more than in 2009. Net direct investments in 2010 amounted to EUR 341 million, which was 71.3 percent less than in 2009. Net errors and omissions amounted to EUR 84 million in 2010, whereas international reserves increased by EUR 721 million.

1.3.2. Foreign Trade in Goods

Total merchandise exports expressed in HRK recorded a year-on-year increase of 17.4 percent in 2010, whereas merchandise imports dropped by 1.3 percent. The total value of merchandise exports was HRK 64.9 billion, and of merchandise imports HRK 110.3 billion. Foreign trade deficit amounted to HRK 45.4 billion in 2010, which was a year-on-year reduction of 19.6 percent. If we exclude the category of other transport equipment from merchandise exports and imports, which distorts the trend in overall trade because of the accounting methodology for ship finishing works on a gross basis, in 2010 merchandise exports were increased by 11.6 percent, and imports decreased by 1.3 percent. Coverage of merchandise imports by exports amounted to 58.8 percent in 2010, which was 9.3 percentage points more than in 2009. If we observe foreign trade in goods expressed in US dollars, merchandise exports recorded a year-on-year growth of 12.6 percent, whereas merchandise imports were reduced by 5.4 percent in 2010. Considering that Croatia performs the majority of its foreign trade in goods with the European Union countries, the exchange rate of USD against EUR also affects exports and imports expressed in USD.

When considering the trade by activities, the largest contribution to the increase of export in 2010 came from manufacture of other transport equipment, with a year-on-year increase of 78.0 percent. This was followed by the manufacture of coke and refined petroleum products (34.8 percent), manufacture of chemicals and chemical products (43.7 percent), waste collection, treatment and disposal activities; materials recovery (81.4 percent) and production of basic pharmaceutical products and pharmaceutical preparations (33.4 percent). The categories which in 2010 contributed the most to the reduction of merchandise imports were the production of machinery and equipment (year-on-year drop of 24.0 percent), production of motor vehicles,

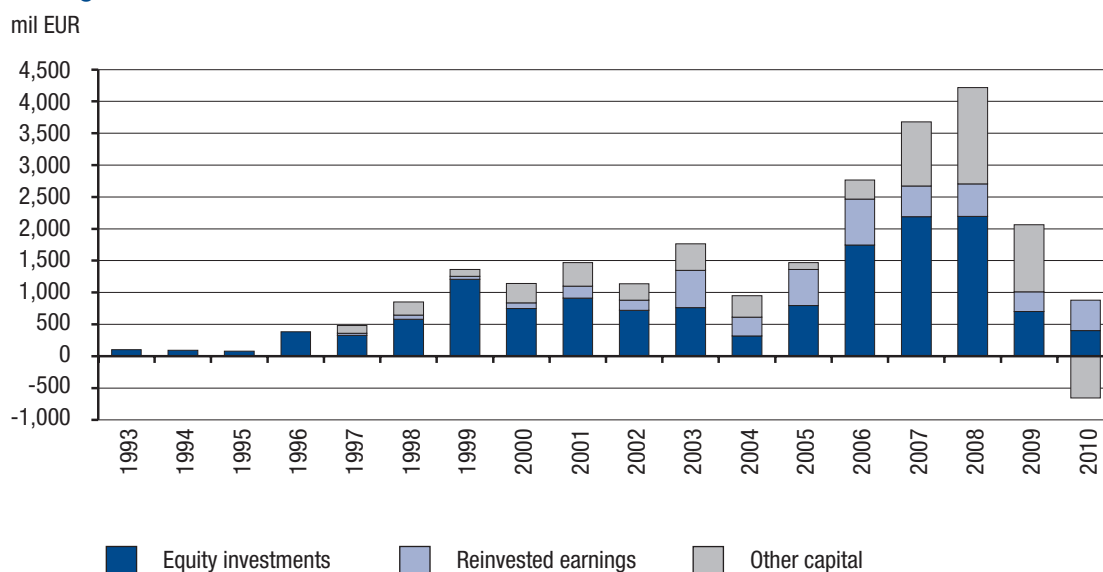
trailers and semitrailers (-18.5 percent), electricity, gas, steam and air-conditioning supply (-31.0 percent) and the manufacture of fabricated metal products, except machinery and equipment (-9.7 percent).

When considering the structure of exports by countries, the following countries had the largest share in the total Croatian merchandise exports in 2010: Italy (18.6 percent), Bosnia and Herzegovina (11.6 percent), Germany (10.4 percent), Slovenia (7.8 percent) and Austria (5.3 percent). By observing the exports in the mentioned countries, as compared to 2009, there was an increase in merchandise exports to all of them, namely: Slovenia (24.2 percent), Austria (15.4 percent), Italy (15.0 percent), Germany (10.6 percent) and Bosnia and Herzegovina (6.3 percent). Exports to EU countries accounted for 61.1 percent of the total Croatian merchandise exports in 2010 and as compared to 2009 it was an increase of 18.3 percent, whereas the imports from EU countries accounted for 60.2 percent of the total imports, which was a drop of 5.3 percent as compared to 2009.

1.3.3. Foreign Direct Investments

Total stock of foreign direct investments in Croatia at the end of 2010 was at the level of EUR 24.2 billion. During 2010, EUR 227 million were invested in Croatia, which was 89.0 percent less when compared to 2009. Reinvested earnings accounted for EUR 479 million of total investments in 2010. Equity investments amounted to EUR 403 million in 2010, whereas other investments recorded an outflow of EUR 655 million. When considering the structure of foreign direct investments in Croatia by countries of origin, majority of investments in 2010 came from Italy (EUR 127 million), Belgium (EUR 113 million) and Luxembourg (EUR 112 million). Observed by activities, the largest amount in 2010 was invested in other business activities (EUR 249 million), real estate investments (EUR 174 million) and real estate activities (EUR 169 million).

Chart 1.8. Foreign Direct Investments in Croatia



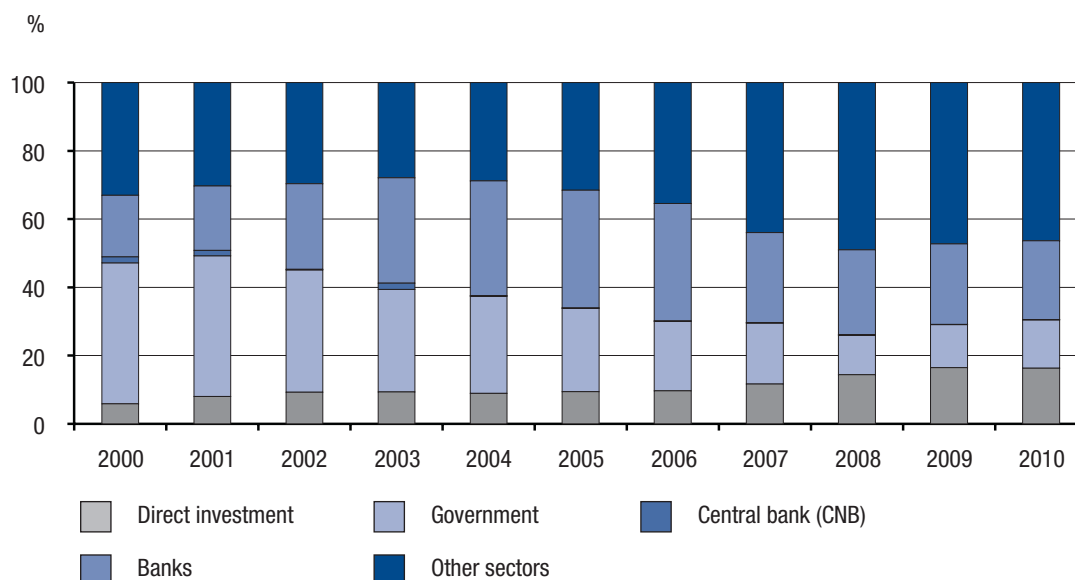
Source: Croatian National Bank

1.3.4. Foreign Debt

By the end of 2010, total external debt amounted to EUR 46.5 billion, and during the year it increased by EUR 1.2 billion, i.e. by 2.7 percent. The share of the external debt in gross domestic product increased from 99.1 percent in 2009 to 101.2 percent in 2010. Increase of the external debt in 2010 was recorded in all domestic sectors. Government's external debt was increased by EUR 862 million, the external debt of others sectors by EUR 162 million, the external debt of ownership-related companies through foreign direct investments by EUR 144 million and the external debt of banks by EUR 54 million. When considering the structure of the external

debt, the share of the government's external debt in the total external debt increased from 12.7 percent in December 2009 to 14.2 percent in December 2010, the external debt based on foreign direct investments dropped in the same period from 16.4 percent to 16.3 percent, the external debt of banks dropped from 23.6 percent to 23.1 percent, and the external debt of other sectors dropped from 47.2 percent to 46.4 percent of the total external debt.

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



Source: Croatian National Bank

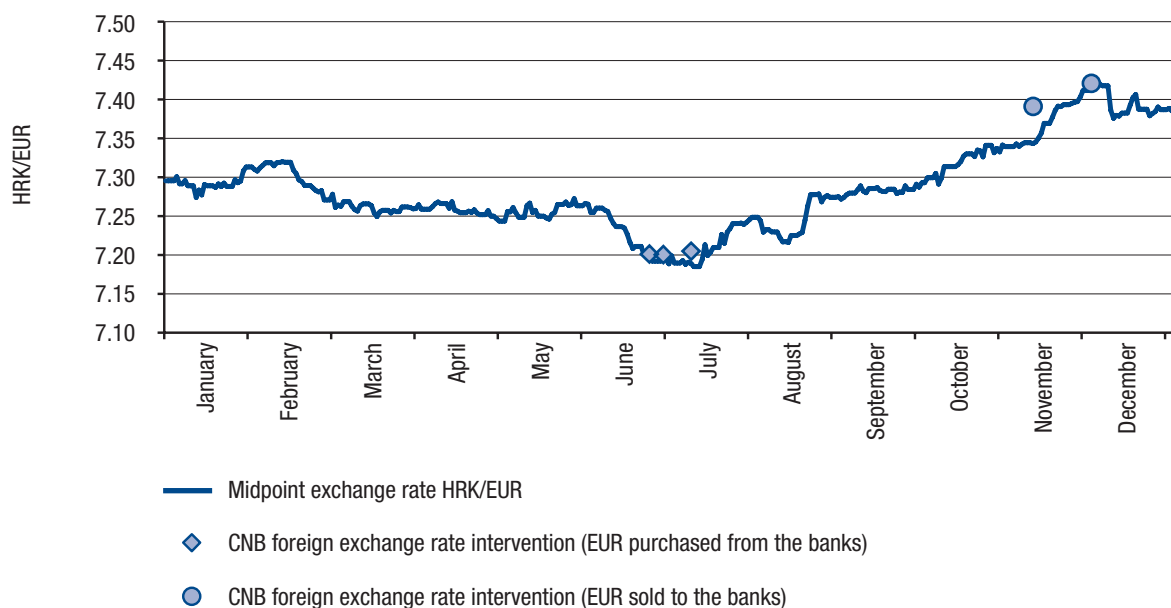
1.3.5. Exchange Rate

In 2010, kuna exchange rate against euro was predominantly stable. In June and early July there were appreciation pressures on kuna, primarily as a consequence of an expected new issue of government bonds with currency clause and the indebtedness of the government sector abroad, as well as the start of a new tourist season. On the other hand, as the year continued, especially in the last quarter, due to an increased demand from banks and enterprises for foreign currencies, depreciation pressures on kuna prevailed.

The average annual exchange rate of kuna against euro dropped from 7.34 kunas for one euro in 2009 to 7.29 kunas for one euro in 2010, which represented an appreciation of kuna against euro of 0.7 percent. The end period exchange rate of kuna against euro depreciated by 1.1 percent, that is, it grew from 7.31 kunas for one euro at the end of 2009 to 7.39 kunas for one euro at the end of 2010. In order to relieve the mentioned pressures on the kuna exchange rate against euro, the Croatian National Bank intervened five times in 2010 on the foreign exchange market. The first three midyear interventions concerned purchasing euro from banks in the total amount of EUR 363.7 million, whereas the other two interventions at the end of the year concerned selling the total of EUR 350.1 million.

The exchange rate of the US dollar against kuna followed fluctuations of dollar against euro on the global foreign exchange markets. So by the end of December 2010 it amounted to 5.57 kunas for one dollar, which was a depreciation of 9.4 percent as compared to the end of 2009, whereas the average exchange rate during the whole of 2010 was 5.50 kunas for one dollar so that, if compared to 2009, kuna depreciated against the dollar by 4.2 percent.

Chart 1.10. Midpoint Exchange Rate of Kuna against Euro and Croatian National Bank Foreign Exchange Interventions in 2010



Source: Croatian National Bank

1.4. FINANCIAL SECTOR

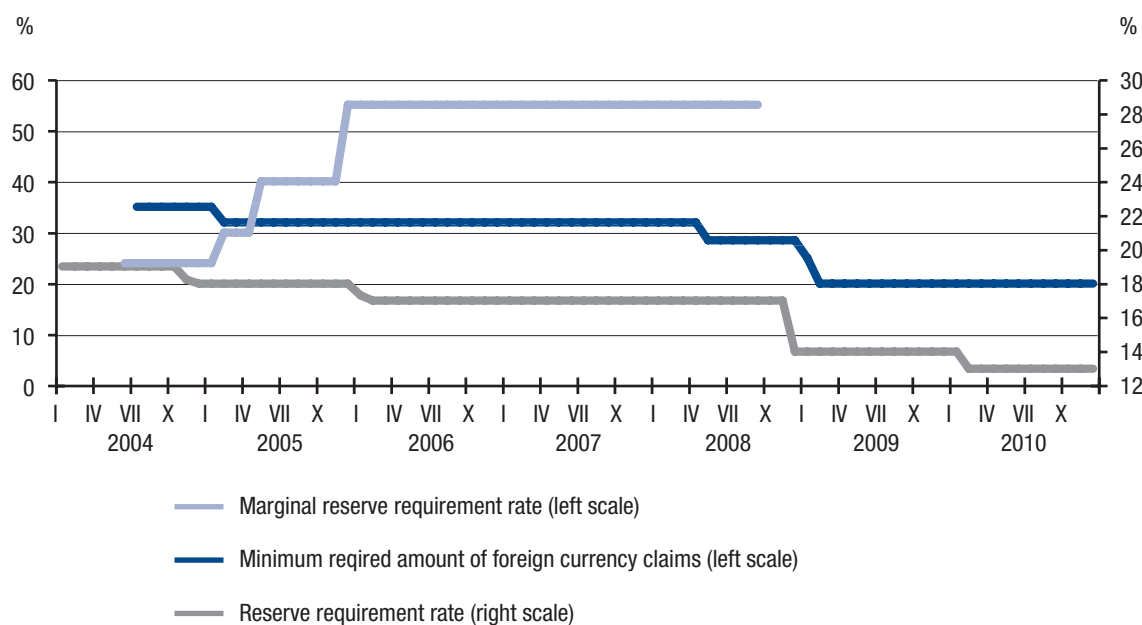
As opposed to 2009, when the monetary policy was mostly restrictive because of pronounced pressures on the weakening of kuna against euro, in 2010, under conditions of further drop of economic activity, a stable exchange rate of the national currency and a low inflation rate, the monetary policy was primarily aimed at maintenance of a high level of liquidity of domestic financial system for the purpose of intensification of credit activity of the banks and reduction of a funding cost. Monetary and credit aggregates, although under a strong influence of further negative trends in the real sphere of economy, in 2010 showed much more favourable trends than the year before, especially with the revival of bank credits to the non-banking sector. Money market in 2010 was affected by a decrease in turnover and low interest rates, whereas more favourable trends were recorded on the capital market than the year before.

1.4.1. Monetary Policy and Developments of Credit Aggregates

With a stable exchange rate and favourable liquidity of the banking system, after several changes in the Central Bank instruments in the previous year, there was only one change in 2010 regarding reduction of the reserve requirement rate from 14 to 13 percent in February, in order to release banking sector funds for loan to the HBOR (Croatian Bank for Reconstruction and Development), for the purpose of supplying loans to enterprises as part of the Economic Recovery Programme. In 2010, the Central Bank intervened five times on the foreign exchange market. The first three interventions, in which the CNB purchased from banks a total of EUR 363.7 million, were performed in June and July for the purpose of lowering appreciation pressures on the exchange rate, which occurred because of the expected incurrence of debt on the government and public companies, and the start of the tourist season. The remaining two interventions, which referred to the sales of euro to the banks, in the total amount of EUR 350.1 million, were performed in November when the banking sector and enterprises showed an increased demand for foreign

currency, which created pressures on the weakening of kuna. Thus, as opposed to the previous year, net effect of foreign exchange rate interventions of the Central Bank, as well as the net volume of foreign-currency transactions of the CNB with the Government, was relatively low, and the increase of total international reserves in 2010 referred primarily to positive inter-currency changes and revenues from investments in reserves. With regard to a high level of kuna liquidity, created primarily by foreign-currency transactions at the end of 2009, in 2010 there was no need for the use of repo operations, and the reserve requirement remained the main instrument of kuna liquidity sterilization.

Chart 1.11. Changes in Monetary Policy Instruments

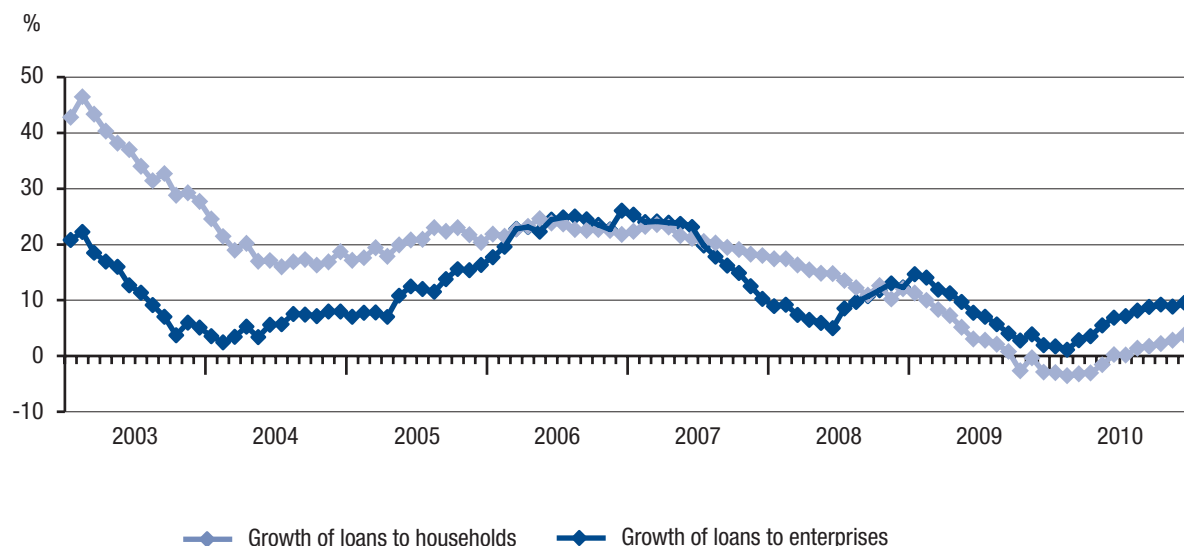


Source: Croatian National Bank

After contraction in 2009, in 2010 the total domestic credit of commercial banks regained a positive growth rate which, however, was not sufficient to create a stronger influence on the recovery of economic activity. Specifically, despite good profitability and capitalisation indicators of the banking system, a pronounced aversion to risk limited the offer of loans. This was also affected by further increase of bad loans in the banking system, primarily loans to the business sector; however, especially because of the rise of the exchange rate of Swiss franc against kuna, there came to an increase of bad loans to the sector of households. On the other hand, as a consequence of the continued recession and pessimistic expectations, there was a weak demand for loans, especially from households. To this, we should also add the fact that an exceptionally favourable financial system liquidity, which manifested in low short-term interest rates on the interbanking money market, was not significantly reflected in the reduction of active interest rates of commercial banks, except in short-term loans to enterprises, largely because of the stimulating Government programmes. After the last year's drop, the broadest money recorded an increase in 2010, primarily because of an increase of foreign currency deposits of households. It should also be pointed out that the process of substitution of domestic currency deposits with foreign currency deposits continued, but with weaker intensity than in 2009. Besides, as a result of a simultaneous reduction in foreign assets and growth of liabilities, further deterioration of the banking sector's foreign position continued, but with considerably weaker intensity than in 2009.

Total commercial bank loans at the end of 2010 amounted to HRK 272.8 billion. Their year-on-year growth in 2010 was 8.1 percent, which was an acceleration of 5.8 percentage points as compared to 2009. Loans to households recorded a year-on-year increase of 3.8 percent by the end of 2010, which was an acceleration of 6.7 percentage points as compared to 2009. Year-on-year growth of housing loans, which had a share of 45.5 percent in total loans to households at the end of the year, was accelerated by 8.3 percentage points to 9.5 percent, whereas loans to households, excluding housing loans, slowed down their year-on-year drop to 0.6 percent. Year-to-year growth of loans to enterprises amounted to 9.5 percent in 2010, which was an acceleration of 7.6 percentage points as compared to 2009. Commercial bank loans to central and local government increased by 16.9 percent on a year-on-year level by the end of 2010.

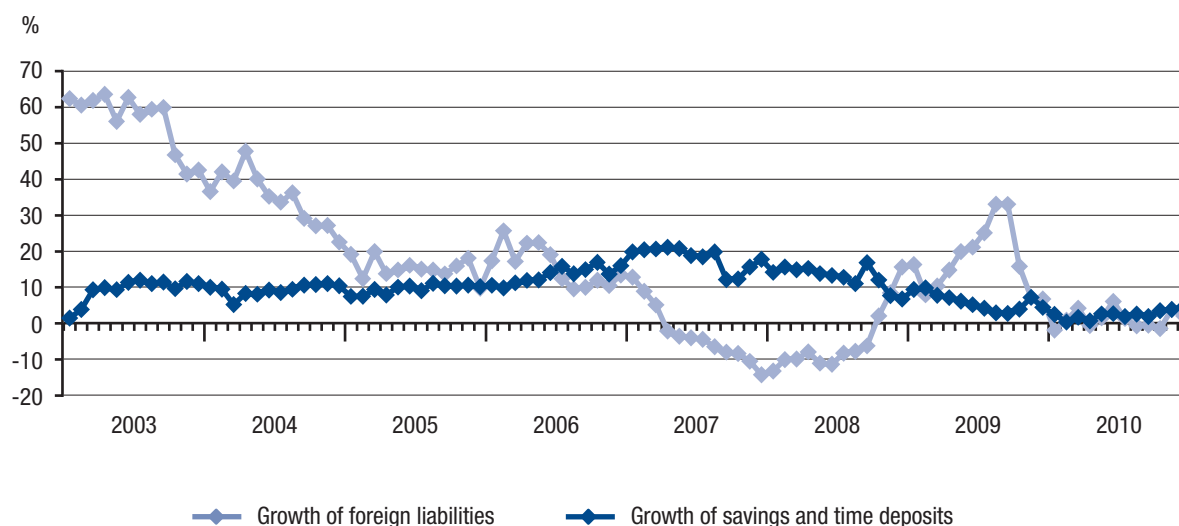
Chart 1.12. Year-on-Year Growth of Loans to Enterprises and Households



Source: Croatian National Bank

Total domestic currency and foreign currency savings and time deposits with commercial banks amounted to HRK 182.4 billion at the end of 2010, so that, when compared to 2009, they grew by HRK 7.8 billion. When considering the year-on-year growth rate, total domestic currency and foreign currency savings and time deposits in 2010 grew by 4.5 percent, which was an acceleration of 0.1 percentage points as compared to the previous year. In 2010, total domestic currency savings and time deposits with commercial banks dropped by HRK 4.3 billion, or 11.0 percent. The largest contribution to this reduction came from deposits of enterprises, which dropped by HRK 2.5 billion, and deposits from non-banking financial institutions, which dropped by HRK 1.2 billion. Foreign currency savings and time deposits grew in 2010 by HRK 12.1 billion, or 9.0 percent. The largest contribution to the increase of foreign currency deposits came from the sector of households whose deposits increased by HRK 10.2 billion, and enterprises whose deposits increased by HRK 2.3 billion.

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



Source: Croatian National Bank

Total foreign assets of commercial banks amounted to HRK 47.2 billion by the end of 2010, and as compared to 2009 they decreased by HRK 2.3 billion, or 4.7 percent. Total foreign liabilities of banks grew in 2010 by HRK 1.6 billion, or 2.0 percent, and by the end of the year they amounted to HRK 81.9 billion. These trends determined the net foreign assets which amounted to HRK -34.7 billion by the end of 2010, and which decreased by HRK 3.9 billion during the year.

1.4.2. Money Market

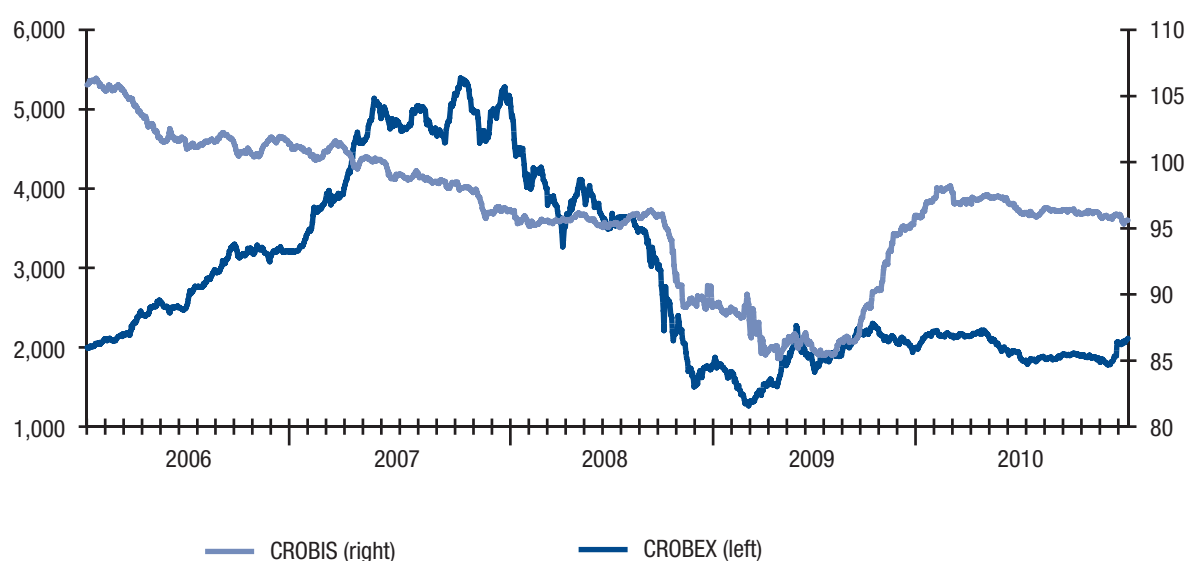
With regard to an exceptionally favourable liquidity of the banking system during the year, in 2010, the Zagreb Money Market recorded its minimum levels of interest rates, which mostly remained under 1.0 percent, and a low volume of total turnover. In addition, contrary to the previous period, interest rates on the money market were very stable and mild fluctuations were recorded only during the usual seasonal growth of demand for kunas in summer months and in December. So the highest average monthly interest rate of 1.15 percent on the Zagreb Money Market was recorded in July and December, whereas the lowest rate of 0.67 percent was recorded in November 2010. Throughout 2010, the average interest rate was 0.93 percent, and as compared to 2009, it dropped by as much as 6.7 percentage points. Monthly turnover on the Zagreb Money Market fluctuated during 2010 below HRK 2.0 billion, except in March when it was somewhat higher. The average monthly turnover in 2010 amounted to HRK 1.5 billion, which was a drop by 34.6 percent as compared to 2009.

1.4.3. Capital Market

After positive trends on the domestic capital market in early 2010, the second quarter was marked by negative trends conditioned primarily by pessimism on foreign capital markets, due to concerns regarding the expansion of Greek debt crisis and, in general, the growth dynamics of the global economy. This was followed by a stagnation of stock-exchange indicators until December 2010, when there came to a shift on the domestic stock exchange caused by MOL's takeover bid for the remaining shares of INA d.d. from small and institutional investors, which increased the liquidity and prices of shares. Zagreb Stock Exchange recorded an increase of total turnover from HRK 10.9 billion in 2009 to HRK 12.9 billion in 2010, which was an increase of 18.2 percent. In 2010, the stock market recorded a year-on-year decrease of regular turnover from HRK 7.4 billion in 2009 to HRK 5.8 billion in 2010, which was a drop by 22.3 percent. Owing to the mentioned December shift in trade statistics, the Zagreb Stock Exchange stock index - CROBEX grew from

2,004 points at the end of 2009 to 2,111 points at the end of 2010, i.e. it grew by 5.3 percent. The new stock index, CROBEX 10, which includes shares with the highest market capitalisation and turnover, recorded an even higher increase of 9.5 percent. Market capitalisation of shares in 2010 recorded a year-on-year increase of 4.0 percent. More favourable trends were recorded on the debt securities market. The total bond turnover in 2010 amounted to HRK 7.1 billion, which was a growth of 78.8 percent as compared to 2009. The bond index CROBIS slightly dropped during 2010, by 0.2 percent, from 95.84 points at the end of 2009 to 95.61 points at the end of 2010. In 2010, three new government bonds were issued on the domestic capital market, and a corporate bond of *Hrvatska pošta d.d.* (Croatian Post), which was issued in 2009, was placed on the market. In March, the Republic of Croatia issued two ten-year bonds, one for the amount of HRK 3.5 billion with the annual percentage rate of 6.75 percent, and the other in kuna equivalent of EUR 350 million, with the annual percentage rate of 6.50 percent. Those issues were supplemented in July 2010, the first in the amount of HRK 1.5 billion with the fixed interest rate of 6.75 percent, and the second in kuna equivalent of EUR 650 million, with the interest rate of 6.50 percent. In November 2010, a new government bond was issued in the amount of HRK 4 billion, with the annual percentage rate of 6.25 percent and 7 year maturity.

Chart 1.14. Movement of Zagreb Stock Exchange Indices



Source: Zagreb Stock Exchange

An increase of pension funds' net assets slowed down in 2010 as compared to 2009. By the end of 2010 the pension funds' net assets amounted to HRK 38.1 billion, which was an increase of 24.4 percent as compared to 2009. By the end of 2010, net assets of open investment funds amounted to HRK 13.7 billion, and their increase slowed down to 13.6 percent as compared to 2009.

2. FISCAL POLICY AND BUDGETARY CENTRAL GOVERNMENT IN 2010



2.1. FISCAL POLICY IN 2010

In December 2009, budget for 2010 was adopted, as well as budget projections for 2011 and 2012. Budget revenues were planned in the amount of HRK 112.6 billion, which was an increase of 2.1 percent on an annual basis. Budgetary Central Government expense was planned in the amount of HRK 119.1 billion, which was 1.0 percent more as compared to 2009.

After 2009, when the global financial and economic crisis affected Croatian economy the most, negative trends were considerably mitigated in 2010, and a drop of the real GDP slowed down from 6.0 percent in 2009 to 1.2 percent in 2010. Although the negative trends were reduced in the majority of macroeconomic indicators and the liquidity of the entire system substantially increased, economic activity continued to decrease in 2010 and in the first half of the year the GDP recorded the real year-on-year drop of 2.5 percent.

In such environment of continued negative economic developments, the Croatian Government undertook important measures for the purpose of economic recovery. In cooperation with the Croatian National Bank, the Government developed and launched three financing models – “A”, “B” and “C”. According to model “A”, the Government, in cooperation with the Croatian Bank for Reconstruction and Development (HBOR), co-financed bank credits in a proportion of 40 percent by HBOR and 60 percent by commercial banks, for the purpose of ensuring liquidity of enterprises in overcoming difficulties in the economy and eliminating negative effects of the global economic and financial crisis. According to model “B”, the Government formed a guarantee fund to take over a part of the risk coverage for new bank credits. Model “C” supplemented the existing models of aid to the economy and was used by the Government to help firms in difficulty which had sufficient capacity and quality to survive on the market after restructuring. During 2010, model “A” was used to provide considerable funds to business entities under financing conditions more favourable than those which prevailed on the market.

In addition to the financing models, and for the purpose of creating preconditions for coming out of the crisis and building foundations for stronger future economic growth and development, in April 2010, the Government prepared the Economic Recovery Programme. The Programme contained about a hundred most important reform measures, mostly short-term and medium-term, and mainly referring to public administration, fiscal policy, revival of domestic economy, labour market, social insurance, education and science etc. In May 2010, based on the Programme measures, the Implementation Activities Plan for the Economic Recovery Programme was adopted, which analysed in detail the Programme measures regarding the implementation activities, with precisely established deadlines.

As part of the Economic Recovery Programme, in relation to the public finance, the Government made changes to the system of personal income tax, which was simplified by decreasing the number of tax rates and abolition of tax reliefs. Changes were also made to taxable base thresholds to which new income tax rates were applied. Specifically, the previous tax rate of 15 percent was dropped to 12 percent, the rates of 35 and 45 percent were abolished and a new rate of 40 percent was introduced. The reduction of the first tax rate to 12 percent influenced particularly the growth of income for persons with lower income. These changes to the personal income tax system increased the net receipts for about 1.5 million citizens, which served as an additional incentive to consumption. By abolishing tax reliefs which the taxpayers could use in the amount of up to HRK 12 thousand per year, and which were available to a lesser extent to vulnerable population groups, a higher level of social sensitivity was achieved, along with administrative simplification of the personal income tax system and productivity gain. Changes were also made to the special tax on salaries, pensions and other receivables by reducing its validity period. Thus the period of taxation, in terms of the lower rate of this tax form, was reduced by six months and in terms of the higher rate, by two months with respect to the legally established period.

In the circumstances of the economic crisis in the Republic of Croatia, in the field of pension insurance, the Act on the Special Tax on Salaries, Pensions and Other Receivables¹ suspended pension alignment in 2010. Also, amendments were made to the Pension Insurance Act, by increasing the age limit for realisation of the right on old-age pension and early retirement pension for women (from 60 to 65 years for old-age pension, and from 55 to 60 years for early retirement pension), for the purpose of equalisation of conditions for acquiring pension rights with the conditions prescribed for men. This Act also amended the starting factor for calculation of early retirement pension in order to introduce a more adequate reduction of early retirement pension, which should stimulate longer participation in the labour force. In addition, in 2010 the Act on Reduction of Pensions Determined, i.e. Earned Under the Special Regulations Governing Pension Insurance², pensions of individual categories of the insured persons were reduced by ten percent. Also, the basis for calculation of salaries of civil servants and employees remained unchanged in 2010, that is, it remained on the level from 2008.

With regard to economic developments, which were worse than those on which the Budgetary Central Government plan and financial plans of Extrabudgetary Users for 2010 were based, and with regard to the need of implementation of the measures from the Economic Recovery Programme, the revised budget was adopted in August 2010. In accordance with the revision, the total revenue of the Budgetary Central Government for 2010 was reduced by HRK 4.6 billion with respect to the original plan to HRK 108.0 billion, primarily because of unfavourable economic developments. The total Budgetary Central Government expense for 2010 was planned in the amount of HRK 120.3 billion. By additional savings in the budget expense, the consumption was reduced by HRK 1.5 billion, but because of the need for additional funds in certain categories of expense (pensions – HRK 356.7 million, unemployment benefits – HRK 386.4 million, agricultural incentives – HRK 600.6 million, compensation for damage caused by natural disasters – HRK 300.0 million, etc.), the final effect of the budget revision was an increase of the expense by HRK 1.2 billion. By taking into consideration the planned income and expense, the budgetary central government deficit increased from the planned 2.6 percent of GDP to 4.2 percent of GDP in 2010. With the changes to the 2010 budget, the Croatian Parliament adopted the Conclusion by which the level of expense established within the 2010 budget revision was also the floor limit for the expense for the next two years, that is, for 2011 and 2012. Therefore the budget for 2011, with projections for 2012 and 2013, was made with consideration of the maximum level of expense according to the mentioned Conclusion of the Croatian Parliament.

In November 2010, according to the objectives of the Economic Recovery Programme and under the influence of the macroeconomic situation, the Croatian Parliament adopted the Fiscal Responsibility Act. The Act contained fiscal rules regarding implementation of fiscal consolidation in the upcoming period and described and/or reinforced and introduced specific guidelines for achieving larger fiscal responsibility. According to the mentioned fiscal rules, total expense of the general budget, expressed in proportions in the estimated gross domestic product, would reduce annually by at least 1 percentage point, and this reduction would be performed until the moment when the primary fiscal balance of the general budget in nominal amount is zero or positive. Subsequently, the intention would be to achieve a cyclically adjusted primary fiscal balance of the general budget to be zero or positive during the cycle, so as to achieve stabilisation and reduction of the share of the public debt in gross domestic product.

The mentioned Act also successfully connected provisions of the Budget Act and the Public Internal Financial Control Act and stressed the importance of financial management and control system, as well as of internal audit in the context of fiscal responsibility of budget users. Further development of this system was determined in the Development Strategy of the Public Internal Financial Controls of the Republic of Croatia for the period 2009 - 2011, adopted in September 2009. The main goal of further development is to fully integrate the system of internal financial controls into the existing management processes and use it as an aid for development of the budgeting system. Therefore the year 2010, as the first year of implementation of the goals and measures from the mentioned strategic document, was marked by a detailed analysis of the

1 Official Gazette, number 94/2009 and 56/2010

2 Official Gazette, number 71/2010

existing systems of financial management and controls of budget users, and reinforcement of connections between the internal financial control system and the budgeting system. The contribution of internal audit should also be mentioned, because its recommendations encouraged the preparation of internal procedures, strengthening of control mechanisms and further improvement of recordkeeping and reporting systems.

By the end of the year, the State budget execution was in conformity with the new plan adopted in August, that is, revenues and expenses were realised in the amount lower than planned. Total deficit of the Consolidated General Government, according to the National Chart of Accounting, amounted to HRK 14.1 billion in 2010, on the level of 4.2 percent of gross domestic product, which was in conformity with the deficit planned in the budget revision.

With regard to financing, in March 2010 the Republic of Croatia issued two series of ten-year bonds on the domestic market. The first series was issued in the amount of HRK 3.5 billion with the annual interest rate of 6.75 percent, and the second in the amount of EUR 350 million (in kuna equivalent) with the annual percentage rate of 6.50 percent. In July 2010, the second bond instalment from the first March series was issued for HRK 1.5 billion and from the second series for EUR 650 million (in kuna equivalent), whereas on the international market a Eurobond was issued for USD 1.25 billion, with the interest rate of 6.625 percent, with 10 year maturity. In November 2010, bonds from a new series were issued on the domestic market for HRK 4 billion with the annual interest rate of 6.25 percent and 7 year maturity. Also, in February 2010 Croatia paid off a Eurobond for EUR 500 million and in March a domestic bond for HRK 3 billion. In addition to the bonds, three syndicated loans were paid in the total amount of EUR 2.01 billion and the London Club in the total amount of USD 60 million. At the end of 2010, the public debt amounted to 41.2 percent of GDP.

Regarding the functioning of the Anti Fraud Coordinating Structures System (AFCOS system) for the purpose of protecting financial interests of the EU, it is important to mention that the AFCOS system in Croatia is showing a steady progress. In accordance with the above, the Government of the Republic of Croatia, at its session held on 14 January 2010, adopted the National Strategy for Combating Fraud and Protection of Financial Interests of the European Union in the Republic of Croatia 2010 – 2012 and the Action Plan for its implementation, and the competent authorities started with implementation of goals and measures from the Strategy and the Action Plan.

2.2. BUDGETARY CENTRAL GOVERNMENT REVENUE

Collection of the Budgetary Central Government revenue in 2010 was affected by prolonged global and domestic unfavourable economic trends, which resulted in weaker macroeconomic indicators than anticipated. Because of this, the Budgetary Central Government plan was amended in August 2010.

Also, 2010 brought certain changes to the tax system, such as the change of the Income Tax Act, the changes to the Regulation on Excise Duties and the early repeal of the Act on the Special Tax on Salaries, Pensions and Other Receivables. All these changes to tax regulations affected the collection of the Budgetary Central Government revenues.

Originally, it was planned to collect HRK 112.6 billion of the Budgetary Central Government revenue in 2010. Due to the mentioned changes to tax regulations, and based on realisations in the first half of 2010 and

projected macroeconomic indicators, the budget was revised in August 2010, setting the Budgetary Central Government revenue to HRK 108.0 billion, which was 4.6 billion less than originally planned.

According to the final data on the Budgetary Central Government outturn for 2010, the total Budgetary Central Government revenue was realised in the amount of HRK 107.5 billion, which was 99.5 percent of the amount planned in the revision. As compared to 2009, the Budgetary Central Government revenue was reduced by 2.5 percent, and its share in GDP decreased by 0.8 percentage points, which amounted to 32.1 percent of GDP.

Figure 2.1. The Structure of the Budgetary Central Government Revenue in the 2008 - 2010 Period

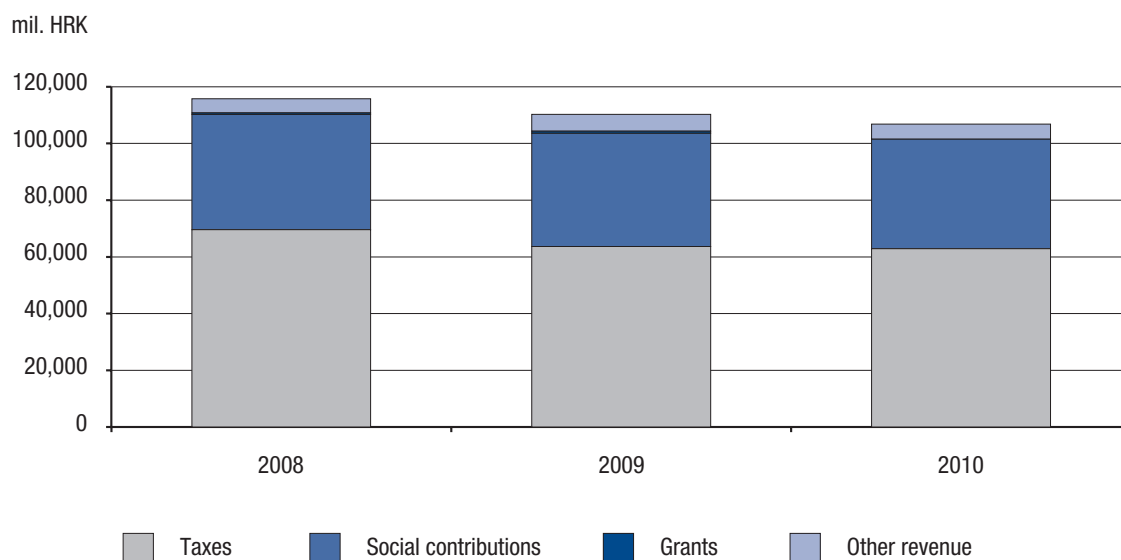
	(000 HRK)	2008	2009	Plan 2010	2010	Index 2009/2008	Index 2010/2009	Index 2010 /Plan 2010
1	REVENUE	115,772,655	110,257,947	108,015,215	107,466,351	95.2	97.5	99.5
11	Taxes	69,572,699	63,678,926	63,053,916	62,856,582	91.5	98.7	99.7
111	Taxes on income, profits, and capital gains	12,252,205	10,839,269	7,515,642	7,608,630	88.5	70.2	101.2
1111	Payable by individuals	1,687,502	1,399,411	1,200,840	1,201,546	82.9	85.9	100.1
1112	Payable by corporations and other enterprises	10,564,703	9,439,858	6,314,802	6,407,084	89.4	67.9	101.5
113	Taxes on property	635,930	532,297	491,289	443,983	83.7	83.4	90.4
114	Taxes on goods and services	54,482,172	49,238,277	51,190,515	50,980,460	90.4	103.5	99.6
1141	General taxes on goods and services	41,474,566	37,173,833	38,007,012	37,812,425	89.6	101.7	99.5
11411	Value-added taxes	41,308,036	37,050,354	37,884,897	37,688,520	89.7	101.7	99.5
11412	Sales taxes	166,531	123,479	122,115	123,905	74.1	100.3	101.5
1142	Excises	11,875,126	10,998,910	12,016,215	11,972,326	92.6	108.9	99.6
1144	Taxes on specific services	27,000	14,964	17,115	10,486	55.4	70.1	61.3
1145	Taxes on use of goods, permission to use goods	561,612	517,870	592,324	661,146	92.2	127.7	111.6
11452	Other	561,612	517,870	592,324	661,146	92.2	127.7	111.6
1146	Other taxes on goods and services	543,868	532,700	557,849	524,078	97.9	98.4	93.9
115	Taxes on international trade and transactions	1,900,865	1,721,164	1,658,154	1,644,448	90.5	95.5	99.2
116	Other taxes	301,527	1,347,920	2,198,317	2,179,061	-	161.7	99.1
12	Social contributions	40,703,484	39,994,739	38,774,090	38,712,382	98.3	96.8	99.8
121	Social security contributions	40,703,484	39,994,739	38,774,090	38,712,382	98.3	96.8	99.8
1211	Employee contributions	18,100,364	17,925,299	17,064,493	17,290,552	99.0	96.5	101.3
1212	Employer contributions	21,758,077	21,373,979	20,963,941	20,783,571	98.2	97.2	99.1
1213	Self-employed or nonemployed contributions	845,043	695,462	745,655	638,260	82.3	91.8	85.6
13	Grants	468,634	616,307	965,153	637,087	131.5	103.4	66.0
131	From foreign governments	8,583	5,450	29,958	13,236	63.5	242.9	44.2
1311	Current	6,452	3,992	20,271	12,811	61.9	320.9	63.2
1312	Capital	2,132	1,457	9,688	424	68.4	29.1	4.4
132	From international organizations	453,912	604,122	934,694	615,102	133.1	101.8	65.8
1321	Current	283,673	446,523	544,522	382,815	157.4	85.7	70.3
1322	Capital	170,240	157,599	390,172	232,287	92.6	147.4	59.5

	(000 HRK)	2008	2009	Plan 2010	2010	Index 2009/2008	Index 2010/2009	Index 2010 /Plan 2010
133	From other general government units	6,138	6,735	500	8,749	109.7	129.9	-
14	Other revenue	5,027,838	5,967,975	5,222,056	5,260,300	118.7	88.1	100.7
141	Property income	1,612,229	2,367,214	1,289,112	1,298,345	146.8	54.8	100.7
1411	Interest	147,911	123,488	111,159	125,088	83.5	101.3	112.5
1412	Dividends	212,387	106,625	97,756	111,303	50.2	104.4	113.9
1413	Withdrawals from income of quasi-corporations	504,074	1,342,502	319,423	318,939	266.3	23.8	99.8
1415	Rent	747,856	794,600	760,774	743,015	106.3	93.5	97.7
142	Sales of goods and services	1,450,683	1,682,037	1,747,621	1,856,422	115.9	110.4	106.2
1422	Administrative fees	1,274,882	981,712	881,350	1,190,921	77.0	121.3	135.1
1423	Incidental sales by nonmarket establishments	175,800	700,325	866,271	665,501	398.4	95.0	76.8
143	Fines, penalties, and forfeits	490,600	515,461	524,550	524,795	105.1	101.8	100.0
144	Voluntary transfers other than grants	9,384	15,865	16,642	15,940	169.1	100.5	95.8
1441	Current	3,957	11,551	15,122	12,656	291.9	109.6	83.7
1442	Capital	5,427	4,314	1,520	3,284	79.5	76.1	216.0
145	Miscellaneous and unidentified revenue	1,464,942	1,387,397	1,644,131	1,564,799	94.7	112.8	95.2

Source: Ministry of Finance

The largest amount of the total Budgetary Central Government revenue in 2010 was collected from tax revenues, which made 58.9 percent of the total revenue. There followed the Budgetary Central Government revenue from social contributions with the share of 36.0 percent, whereas the rest of the revenue came from grants, property income, revenue from sales of goods and services, fines, penalties and forfeits, voluntary transfers other than grants, and miscellaneous and unidentified revenue. In 2009, in the structure of the total revenue the share of the revenue from social contributions and property income was reduced, whereas the other income categories showed a slight increase as compared to the previous year.

As already mentioned, certain changes were introduced in the tax system during 2010. Specifically, in July 2010 amendments were made to the Income Tax Act. These amendments affected the personal income tax rates and thresholds for the application of the rates, in order to simplify the system of personal income tax and relieve the tax burden for the majority of Croatian citizens. Changes were also made to the Regulations on Excise Duties on Tobacco Products and Petroleum Products. The Government Regulation changed the rate of proportional excise duty on cigarettes, with application as of 1 October 2010, and the amount of excise duty for unleaded gasoline used as fuel, with application as of 1 September 2010. These changes will be discussed in more detail in the subchapter on excise duties. Also, during 2010, the Special Tax on Salaries, Pensions and Other Receivables was abolished, with the lower tax rate abolished as of July 2010 and the higher one as of November 2010.

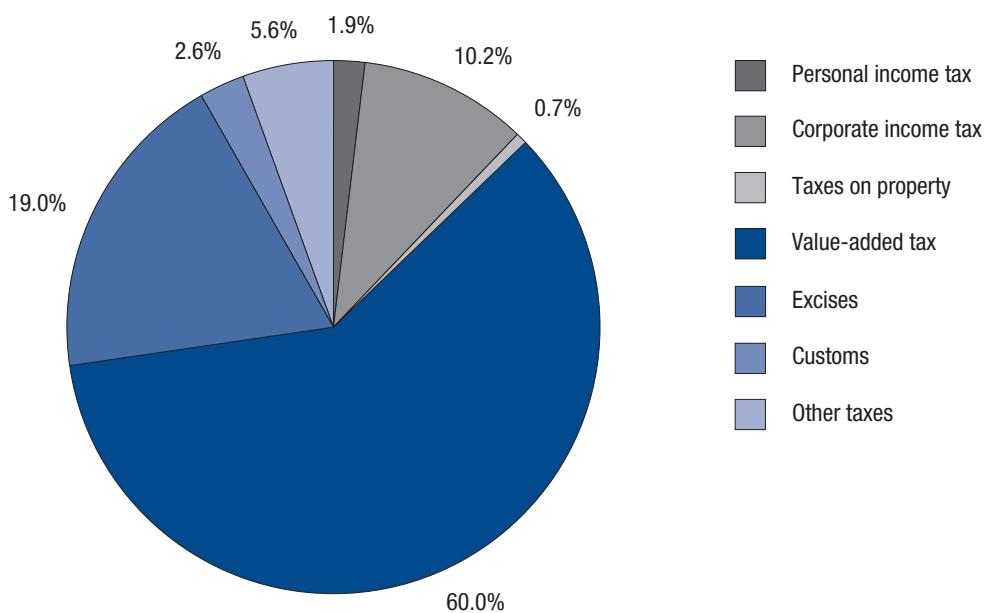
Figure 2.1. The Structure of the Budgetary Central Government Revenue in the 2008 - 2010 Period

Source: Ministry of Finance

2.2.1. Tax Revenue

In 2010, 58.5 percent of the total Budgetary Central Government revenue came from tax revenue, which was realised in the amount of HRK 62.9 billion. A year-on-year decrease in tax revenue during 2010 was 1.3 percent, and it was realised in the planned amount, or more precisely, 99.7 percent of the revenue planned by the budget revision.

In the structure of tax revenue, the most important is VAT revenue, which participated in the total tax revenue with 60.0 percent in 2010. This was followed by revenue from excises with the share of 19.0 percent in the total tax revenue, and corporate income tax revenue with the share of 10.2 percent. Other tax revenues of the Budgetary Central Government only have a smaller proportion in total taxes.

Figure 2.2. Tax Revenue Structure in 2010

Source: Ministry of Finance

Personal Income Tax

Personal income tax revenue is distributed between the Budgetary Central Government and Local and Regional Self-Government Units. On the Budgetary Central Government level, in 2010 HRK 1.2 billion was collected, which was a decrease of 14.1 percent as compared to 2009. This was partially a result of a generally unfavourable economic situation, which resulted in unfavourable trends on the labour market. However, a year-on-year drop on the basis of personal income tax revenue was primarily a result of the amendments to the Income Tax Act implemented in July 2010. These amendments affected the income tax rates and brackets for the application of those rates, in order to simplify the system of income tax and relieve the tax burden from the majority of Croatian citizens. Changes in the system of income tax are explained in more detail in subchapter 8.1.3. Income Tax. Personal income tax revenue was realised according to the planned amount.

Most of the income tax was collected by taxation of income from non-self employment and taxation of self-employment activities, while the rest was collected by taxation of property, property rights and capital.

Before July 2010, personal income tax was calculated as follows:

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

In the second half of 2010, after the amendments of the Act, personal income tax was calculated as follows:

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

Throughout 2010, the basic personal allowance was HRK 1,800.

Corporate Income Tax

In 2010, corporate income tax revenue amounted to HRK 6.4 billion, which was a year-on-year decrease of 32.1 percent. Since the corporate income tax revenue reflects business operations throughout the previous year, reduction in this category of income is the result of poor business results and reduced profits in 2009, caused by unfavourable economic developments. In relation to the planned amount, the corporate income tax revenue was 1.5 percent higher.

The Corporate Income Tax Act was amended in 2010 in order to implement the activities from the Economic Recovery Programme. As a short-term measure of fiscal policy, the Programme introduced the obligation of submission of tax statements in electronic form for large entrepreneurs, and recognition of payments from employers in the third pillar as expenditure admitted by the tax administration, as a short-term measure in the pension insurance system. More details about the changes in the corporate income tax system can be found in subchapter 8.1.4. Corporate Income Tax.

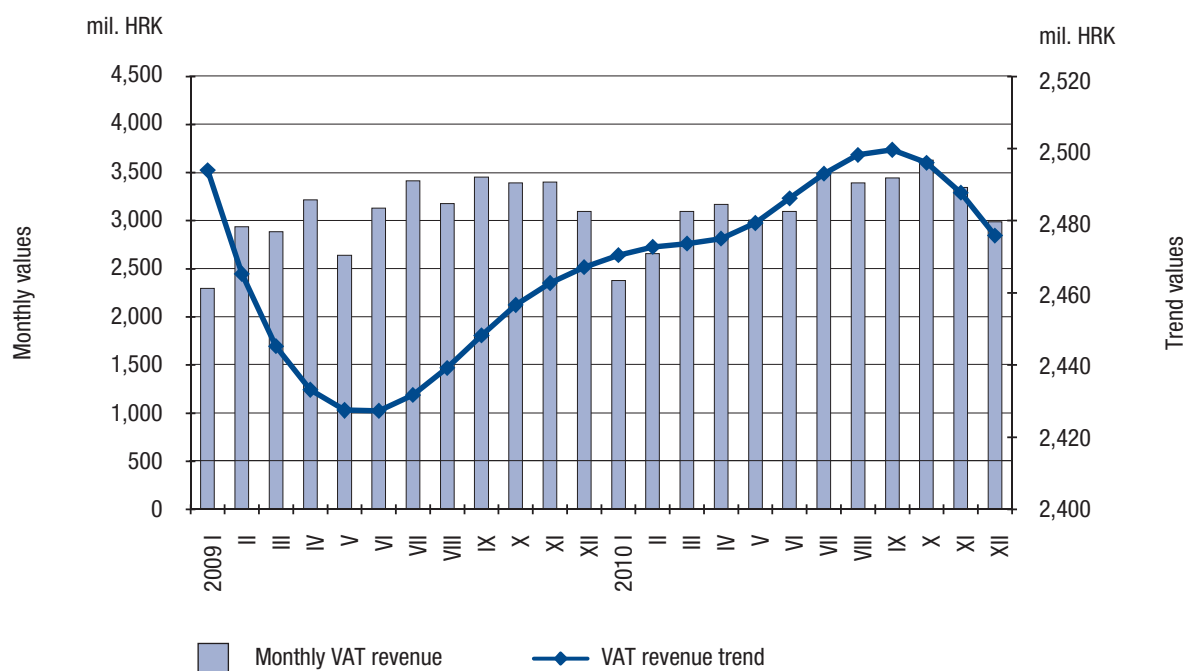
Property Tax

In 2010, property tax revenue was realised in the amount of HRK 444.0 million, which was 9.6 percent less than planned and 16.6 percent less than the previous years. Reduction in property tax revenue was primarily a result of decreased turnover on the real estate market.

Value-Added Tax

In 2010, VAT revenue amounted to HRK 37.7 billion, which was 99.5 percent of the planned amount. On a year-on-year level, VAT revenue increased by 1.7 percent. In July 2010, general value-added tax rate was increased from 22 to 23 percent. A year-round effect of this measure was visible throughout 2010, and it partially caused the increase of budget revenues based of this tax. The largest VAT revenue was realised during summer months, as well as during September and October. Such monthly dynamics was a result of tax revenue collected from those taxpayers who settle their VAT liability quarterly (whose supplies of goods and services do not exceed HRK 300,000 per year) and of the tourist season and increased consumption during summer months. In the value-added tax revenue structure, the most important is the value-added tax paid on import.

Figure 2.3. Value-Added Tax Revenue Monthly Trends



Source: Ministry of Finance

Excises

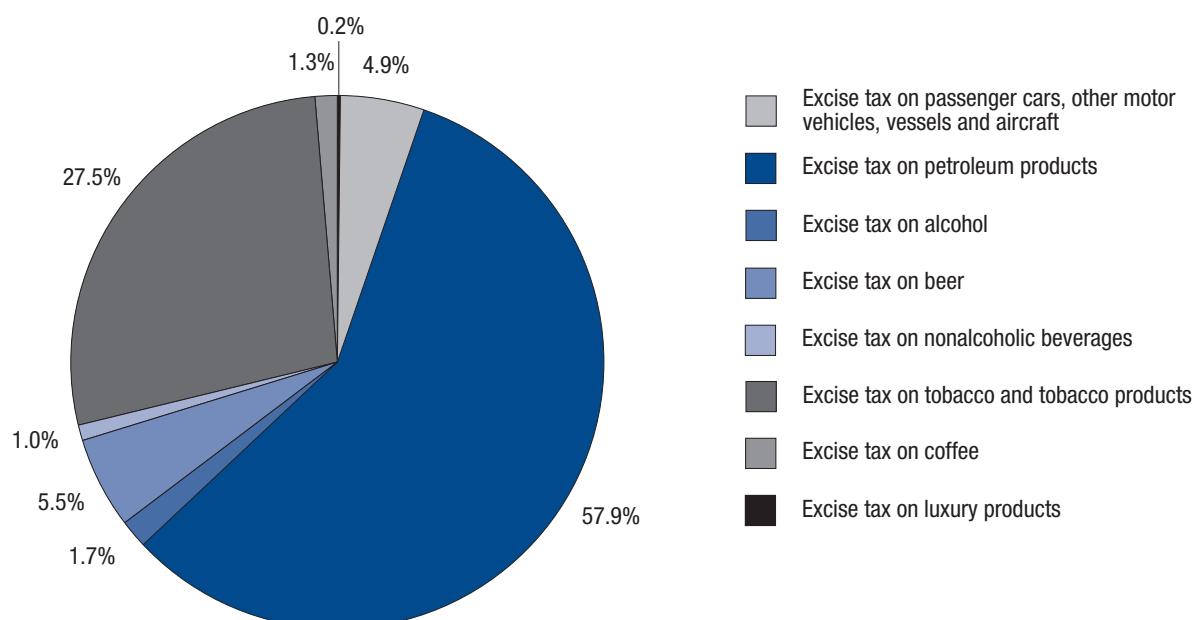
Revenue from excises in 2010 amounted to HRK 12.0 billion of the Budgetary Central Government revenue, which was 6.1 percent more than planned. On a year-on-year level, revenue from excises increased by 8.9 percent. A relatively high increase of revenue from excises in 2010 came from instruments paid on the basis of excise tax on petroleum products in respect of the tax debt from previous periods, which increased the total amount of revenue for 2010. In 2010, most of the revenue from excises was reduced, whereas revenue from excise tax on petroleum products was increased, as well as excise tax on alcohol and tobacco products.

Table 2.2. Excise Tax Revenue Trends

(000 HRK)	2008	2009	Plan 2010	2010	Index 2009/2008	Index 2010/2009	Index 2010/Plan 2010
Excises	11,875,126	10,998,910	11,283,747	11,972,326	92.6	108.9	106.1
Excise tax on passenger cars, other motor vehicles, vessels and aircraft	1,452,827	696,791	662,379	589,983	48.0	84.7	89.1
Excise tax on petroleum products	6,065,140	6,045,624	6,229,693	6,932,709	99.7	114.7	111.3
Excise tax on alcohol	218,786	189,895	193,104	207,445	86.8	109.2	107.4
Excise tax on beer	717,401	680,567	660,609	655,266	94.9	96.3	99.2
Excise tax on nonalcoholic beverages	139,160	125,817	123,808	121,615	90.4	96.7	98.2
Excise tax on tobacco and tobacco products	3,084,293	3,073,671	3,237,223	3,292,993	99.7	107.1	101.7
Excise tax on coffee	166,979	156,910	151,510	149,682	94.0	95.4	98.8
Excise tax on luxury products	30,540	29,635	25,420	22,633	97.0	76.4	89.0

Source: Ministry of Finance

Most excise tax revenue came from petroleum products (57.9 percent), followed by tobacco products (27.5 percent).

Figure 2.4. Excise Tax Revenue Structure in 2010

Source: Ministry of Finance

Excise tax on petroleum products amounted to HRK 6.9 billion and on a year-on-year level it increased by 14.7 percent. Such increase was the result of payment of instruments in respect of the tax debt from previous periods, at the beginning of 2010. The largest amount of the excise tax revenue on the basis of excise tax on petroleum products was collected during summer months and was related to the tourist season.

In 2010, the excise tax revenue from petroleum products was affected by amendments to the Government Regulation. Specifically, the excise tax for unleaded petrol used as fuel was increased from HRK 2,850/1,000 l to HRK 3,100/1,000 l, applied as of 1 September 2010. This was an increase of HRK 0.25 per litre, for which amount the excise was reduced by the introduction of the so-called floating excise tax in periods of strong pressures on petroleum prices in 2007.

Excise tax revenue on tobacco products in 2010 was realised in the amount of HRK 3.3 billion, which was an increase of 7.1 percent on a year-on-year level. With respect to the planned amount, the revenue was increased by 1.7 percent. The largest amount of excise tax on tobacco products was collected in October. Because of

the change in the rate of proportional excise duty on cigarettes, the sellers bought off considerable stocks of cigarettes for the old price during September, so that in October 2010 the Budgetary Central Government collected considerable revenue from this excise tax. In the following several months, the payment of revenue on the basis of excise tax on tobacco was considerably reduced because of the mentioned stocks, and regular monthly payments didn't stabilise until March 2011. The Government Regulation increased the rate of proportional excise duty on cigarettes from 30 to 33 percent of the retail price, applied as of 1 October 2010, in order to gradually fulfil minimum conditions and amounts of excise on cigarettes prescribed by EU directives.

In 2010, the greatest reduction in excise tax revenue was recorded in terms of tax on passenger cars, other motor vehicles, vessels and aircraft, as a result of lower purchasing power and demand for cars. In 2010, excise tax revenue from passenger cars, other motor vehicles, vessels and aircraft amounted to HRK 590 million, which was a year-on-year drop of 15.3 percent.

In 2010, excise tax revenue from beer was realised in the amount of HRK 655.3 million, which was 0.8 percent less than the planned amount, with a year-on-year drop of 3.7 percent.

Revenue from other excisable products (excise tax on coffee, alcohol and alcoholic beverages, nonalcoholic beverages and luxury products) amounted to HRK 501.4 million, which was approximately the same as the amount realised in 2009. Excise tax revenue from coffee was realised in the amount of HRK 149.7 million and was reduced by 4.6 percent as compared to 2009. Excise tax on alcohol and alcoholic beverages was realised in the amount of HRK 207.4 million, which was a year-on-year increase of 9.2 percent. In 2010, excise tax on nonalcoholic beverages amounted to HRK 121.6 million of the Budgetary Central Government revenue, which was a year-on-year drop of 3.3 percent. At the same time, the shipped quantities of nonalcoholic beverages fell by 9.3 percent as compared to the previous year. Excise tax on luxury products decreased by 23.6 percent as compared to the previous year, i.e. it amounted to HRK 22.6 million.

Revenue from Customs Duties

In 2010, revenue from customs duties was realised in the amount of HRK 1.6 billion, which was 4.5 percent less than in 2009, and 99.2 percent of the planned amount. A year-on-year drop of the Budgetary Central Government revenue based on customs duties was caused by a reduction in imports.

Other Tax Revenue

In addition to the abovementioned, in 2010 the Budgetary Central Government also collected tax revenue from taxes and fees on games of chance and entertainment games, revenue from other taxes on goods and services, and other taxes. Other tax revenue includes state administrative and court fees and special tax on salaries, pensions and other receivables.

The special tax on salaries, pensions and other receivables was introduced in July 2009, during a strong influence of unfavourable economic developments on the Budgetary Central Government revenue, as a form of tax with a limited validity period until the end of 2010. This tax applied to income exceeding HRK 3,000 at the rate of 2 percent, while the 4 percent rate applied to income exceeding HRK 6,000. In order to relieve this burden from taxpayers, this tax form was abolished before the end of 2010: the lower tax rate was abolished in July 2010 and the higher in November 2010. In 2010, the special tax on salaries, pensions and other receivables realised HRK 1.9 billion of the Budgetary Central Government revenue.

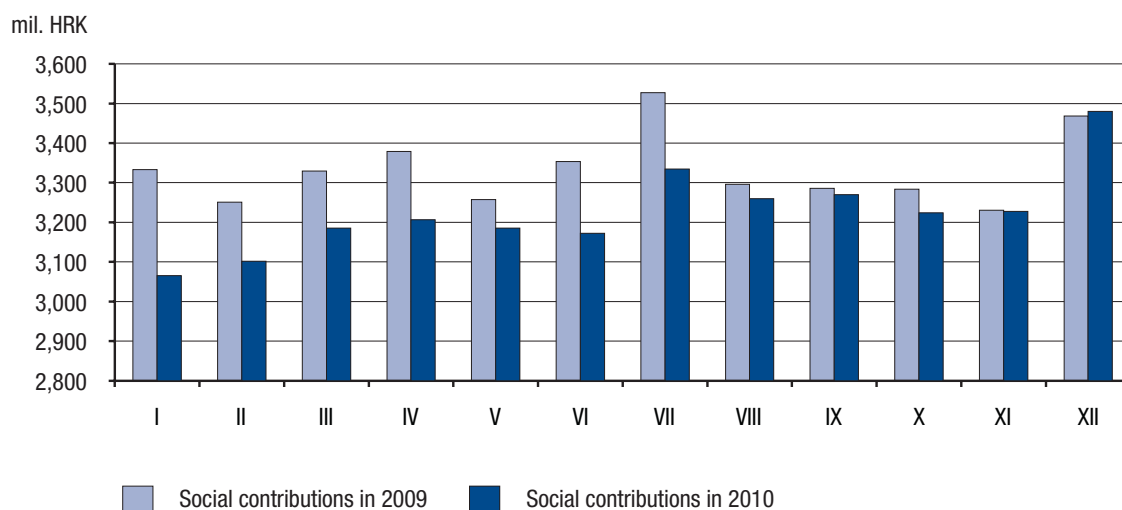
In 2010, revenue from taxes and fees on games of chance and entertainment games amounted to HRK 671.6 million, which was a year-on-year increase of 26.0 percent. Revenue from other taxes on goods and services amounted to HRK 524.1 million, which was 1.6 percent less than in 2009. Revenue collected from state, administrative and court fees amounted to HRK 319.8 million.

2.2.2. Social Security Contributions

Social security contributions are the second most significant category of the Budgetary Central Government revenue, and in 2010 they amounted to 36 percent of the total Budgetary Central Government revenue. In 2010, the revenue from social contributions was realised in the amount of HRK 38.7 billion, which was a year-on-year drop of 3.2 percent. The realised revenue was only 0.2 percent less than planned. As the social contributions revenue trends depend on the labour market trends, this reduction was the result of negative trends on the labour market caused by the economic crisis.

The largest share in total contributions comes from employer contributions, which amounted to 53.7 percent in 2010. Employer contribution revenue in 2010 amounted to HRK 20.9 billion, which was a year-on-year drop of 2.8 percent. The largest part of employer contributions refers to health insurance contributions, while the rest refers to employment contributions. Employee contributions make 44.7 percent of the total social contributions, and they almost completely come from pension insurance contributions. In 2010, the employee contribution revenue amounted to HRK 17.3 billion, which was a year-on-year drop of 3.5 percent. Self-employed and nonemployed contributions constitute the smallest portion of the total social contributions, only 1.6 percent. This category of social contributions recorded the largest year-on-year drop of 8.2 percent, and amounted to HRK 638.3 million. Self-employed or nonemployed contributions comprise, in roughly equal proportion, health and pension insurance contributions of persons performing independent business activities.

Figure 2.5. Social Contributions Revenue Trends in 2009 and 2010, by Months



Source: Ministry of Finance

2.2.3. Grants

During 2010, the Budgetary Central Government collected HRK 637.1 million of grants. They were collected as grants from foreign governments, grants from other general government units and grants from international organisations. The grants from international organisations have the largest share in total grants, as much as 96.5 percent, and refer primarily to withdrawals from pre-accession EU funds for financing of specific projects.

2.2.4. Property Income

Total property income in 2010 amounted to HRK 1.3 billion, which was 0.7 percent above the planned amount. On a year-on-year level, property income decreased by 45.2 percent.

Property income is divided into revenue from financial assets and revenue from nonfinancial assets. In 2010, revenue from financial assets was realised from interest revenue, dividend revenue, revenue from profits of government-owned trading companies and banks, and other revenue from financial assets. The revenue from financial assets in 2010 amounted to HRK 555.3 million, which was 5.1 percent more than planned. With respect to 2009, this revenue was reduced by 65.7 percent, which was primarily the result of annual decrease of Croatian National Bank (CNB) revenue, which amounted to HRK 1.3 billion in 2009. The largest amount of revenue from financial assets in 2010 came from the revenue from the profit of the Croatian National Bank in the amount of HRK 318.4 million. Interest revenue amounted to HRK 125.1 million, and referred to interest on given loans, securities interest, time deposit interest and sight deposit interest, as well as overdue interest. Dividend revenue in 2010 amounted to HRK 111.3 million, and was collected primarily through the HT dividend payment.

In 2010, revenue from nonfinancial assets, i.e. revenue from rents amounted to HRK 743.0 million, which was a year-on-year drop of 6.5 percent. Structurally, revenue from rent comprises concession revenue, revenue from property lease and rent and other revenue from nonfinancial assets. The most important revenue from nonfinancial assets was concession revenue, which in 2010 amounted to HRK 504.9 million. Revenue from concessions was realised from fees for frequency concessions, concessions for waters and public water resources, road concessions, monthly concession fees for casinos, fees for concessions on maritime domain, fees for concessions on public roads, fees for customs zone concessions, and other concession fees. As compared to 2009, revenue from concessions was reduced by 19.4 percent. The decrease in revenues from concession fees was mostly the result of the reduction of fees for telecommunication concessions and concessions for radio frequency use in the mentioned period, paid by the Croatian Post and Electronic Communications Agency. The new Electronic Communications Act prescribed licences (permits) instead of telecommunications concessions. Upon request from the telecommunication companies, fees for provision of telecommunication services were considerably reduced. These were also the activities and measures for economic recovery performed by the competent sector.

The largest amount of revenue from property lease and rent came from revenues from agricultural land leases, followed by other revenues: revenues from real estate lease, state-owned agricultural land easement fees, state-owned agricultural land usage fee, and state-owned forest easement fee. Monument annuities and oil ports and pipeline usage fees were the biggest item in other revenues from nonfinancial assets.

2.2.5. Revenue from Sales of Goods and Services

Revenue from sales of goods and services comprise revenue from administrative fees and revenue from incidental sale on the market. In 2010, these revenues were realised in the amount of HRK 1.9 billion, which was 10.4 percent more than in 2009. As in previous years, revenue from administrative fees was generated by various public notary fees, fees from the sale of 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 2010, revenue from fines, penalties and forfeits amounted to HRK 524.8 million, and thus recorded a year-on-year growth of 1.8 percent. The largest share in total penalties refers to traffic fines, followed by customs fines and tax penalties. Other penalties comprise criminal penalties, penalties for violations of foreign exchange regulations, penalties for economic offences, penalties for fire protection offences, etc.

In 2010, voluntary transfers other than grants amounted to HRK 15.9 million, the same as the year before, and consisted of current and capital donations from legal and natural persons outside the general government.

Miscellaneous and unidentified revenues amounted to HRK 1.6 billion, which represented a year-on-year growth of 12.8 percent. The most significant revenue in this category included revenue from additional health insurance, revenue from fire-insurance premiums, revenue based on reimbursement of expenses from previous years, revenue from exchange gains, revenue from insurance-based damages, and other unspecified revenues.

2.3. BUDGETARY CENTRAL GOVERNMENT EXPENSE

Budgetary Central Government expense in 2010 amounted to HRK 120.3 billion, which was in accordance with the amount planned in the budget revision, and it was an increase of 2.0 percent as compared to 2009.

Table 2.3. Budgetary Central Government Expense in the 2008 - 2010 Period

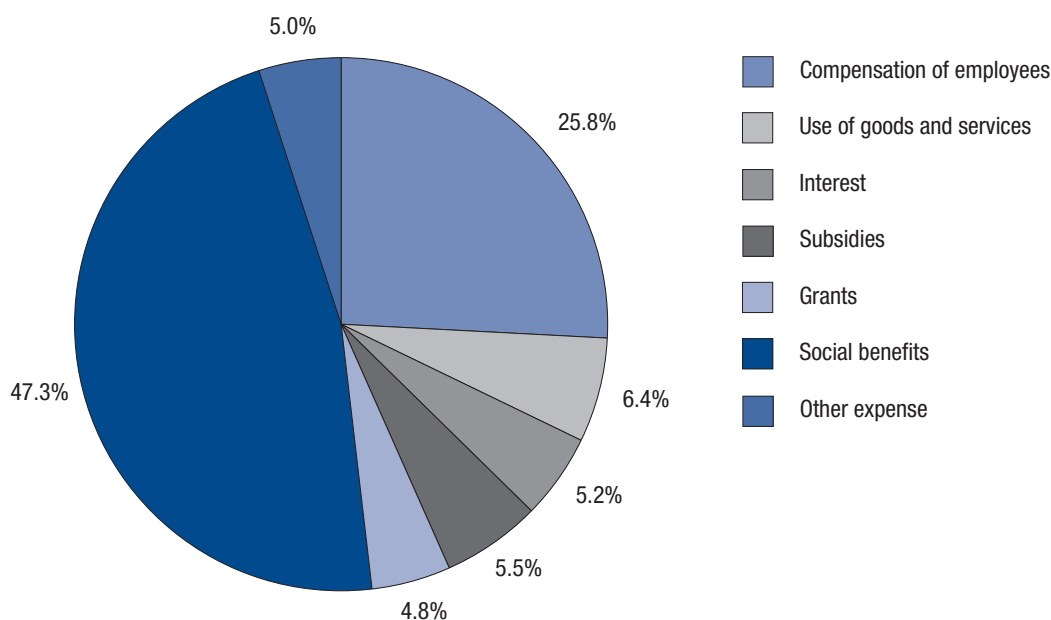
	(000 HRK)	2008	2009	Plan 2010	2010	Index 2009 /2008	Index 2010 /2009	Index 2010 /Plan 2010
2	EXPENSE	115,292,426	117,923,992	120,292,449	120,323,332	102.3	102.0	100.0
21	Compensation of employees	29,948,535	31,289,325	31,529,192	31,096,464	104.5	99.4	98.6
211	Wages and salaries	25,453,436	26,555,399	26,757,637	26,391,104	104.3	99.4	98.6
212	Social contributions	4,495,099	4,733,926	4,771,555	4,705,360	105.3	99.4	98.6
2121	Actual social contributions	4,495,099	4,733,926	4,771,555	4,705,360	105.3	99.4	98.6
22	Use of goods and services	8,113,694	7,363,814	7,955,615	7,655,745	90.8	104.0	96.2
24	Interest	4,683,219	5,225,174	5,762,284	6,236,482	111.6	119.4	108.2
241	To nonresidents	1,542,146	1,391,408	1,710,265	1,723,831	90.2	123.9	100.8
242	To residents other than general government	3,141,074	3,833,767	4,052,020	4,512,651	122.1	117.7	111.4
25	Subsidies	6,859,512	6,710,033	6,452,241	6,582,192	97.8	98.1	102.0
251	To public corporations	3,199,114	3,134,258	3,072,070	3,186,622	98.0	101.7	103.7
252	To private enterprises	3,660,398	3,575,775	3,380,171	3,395,569	97.7	95.0	100.5
26	Grants	5,783,063	5,559,586	5,483,833	5,778,575	96.1	103.9	105.4
261	To foreign governments	89,446	78,184	56,890	58,594	87.4	74.9	103.0
2611	Current	60,246	68,150	48,100	49,412	113.1	72.5	102.7
2612	Capital	29,200	10,034	8,790	9,181	34.4	91.5	104.5
262	To international organizations	96,503	134,031	169,506	175,808	138.9	131.2	103.7
2621	Current	96,503	133,061	169,506	175,808	137.9	132.1	103.7
2622	Capital	0	970	0	0	-	-	-
263	To other general government units	5,597,115	5,347,372	5,257,436	5,544,174	95.5	103.7	105.5
2631	Current	2,291,490	2,598,678	2,826,801	2,663,291	113.4	102.5	94.2
2632	Capital	3,305,625	2,748,694	2,430,635	2,880,883	83.2	104.8	118.5
27	Social benefits	52,593,214	56,148,498	57,218,742	56,906,555	106.8	101.4	99.5
271	Social security benefits	37,600,722	40,605,352	43,086,753	43,008,291	108.0	105.9	99.8
272	Social assistance benefits	14,745,264	15,258,436	13,975,325	13,728,987	103.5	90.0	98.2
273	Employer social benefits	247,228	284,709	156,665	169,277	115.2	59.5	108.1

	(000 HRK)	2008	2009	Plan 2010	2010	Index 2009 /2008	Index 2010 /2009	Index 2010 /Plan 2010
28	Other expense	7,311,189	5,627,561	5,890,542	6,067,319	77.0	107.8	103.0
281	Property expense other than interest	16,015	7,730	7,924	88	48.3	1.1	1.1
282	Miscellaneous other expense	7,295,174	5,619,832	5,882,618	6,067,231	77.0	108.0	103.1
2821	Current	2,626,644	2,174,864	2,336,059	2,280,627	82.8	104.9	97.6
2822	Capital	4,668,530	3,444,968	3,546,559	3,786,604	73.8	109.9	106.8

Source: Ministry of Finance

In the structure of the realised Budgetary Central Government expense for the observed period, social benefits represented the share of 47.3 percent. They were followed by compensation of employees with the share of 25.8 percent, the use of goods and services with 6.4 percent, subsidies with 5.5 percent, interest with 5.2 percent, other expense with 5.0 percent and grants with 4.8 percent.

Figure 2.6. Structure of the Budgetary Central Government Expense in 2010



Source: Ministry of Finance

2.3.1. Compensation of Employees

In 2010, the realised amount of HRK 31.1 billion of expense for compensation of employees covered 99.4 percent of the resources planned for this purpose. Expense for compensation of employees was by 0.6 percent lower than in 2009. This decrease was the result of changes in the previous year. First, there was an increase of the basis for calculation of salaries in the first four months of 2009, but because of the necessary savings, in April 2009 it was restored to the level from 2008. Apart from the reduction of the basis for calculation of salaries of public and civil servants, the salaries of government officials were decreased in 2009 by ten percent, and after the second revision in July 2009, the basis for calculation of salaries of government officials was decreased by further 5 percent in relation to the basis from April 2009.

Of the total expense for compensation of employees, 84.9 percent refers to wages and salaries expense, and the remaining 15.1 percent refers to social contribution expense.

It should be mentioned that wages, as well as the corresponding employers' contributions of the workers employed in health facilities owned by the Republic of Croatia and by units of local and regional self-government, according to the GFS 2001 methodology, were reclassified to the category of compensation of employees. That is, the Budgetary Central Government provides for those items within the category of compensation of citizens and households (as part of total payments to those institutions for the provision of contract-based healthcare services), but they were reclassified to the category of compensations of employees because that is where they belong by their type.

2.3.2. Use of Goods and Services

Expense for the use of goods and services amounted to HRK 7.7 billion, which was an increase of 4.0 percent as compared to 2009, but also a decrease of 3.8 percent in terms of the amount planned by the revision for 2010. The main reason for this increase was the effect of harmonisation of legislation with the EU *Acquis Communautaire*. Although an increase was accomplished on a year-on-year level, primarily for EU-related items, rationalisation of consumption was performed in numerous other items, such as intellectual and personal services, business travels, professional training, regular and investment maintenance, marketing and information, representation and other unspecified expense.

2.3.3. Interest

Interest expense in 2010 was HRK 6.2 billion, or 8.2 percent above the plan for the observed year. Compared to 2009, this was an increase of 19.4 percent. This was a result of deterioration of conditions in the financial market caused by global financial and economic crisis.

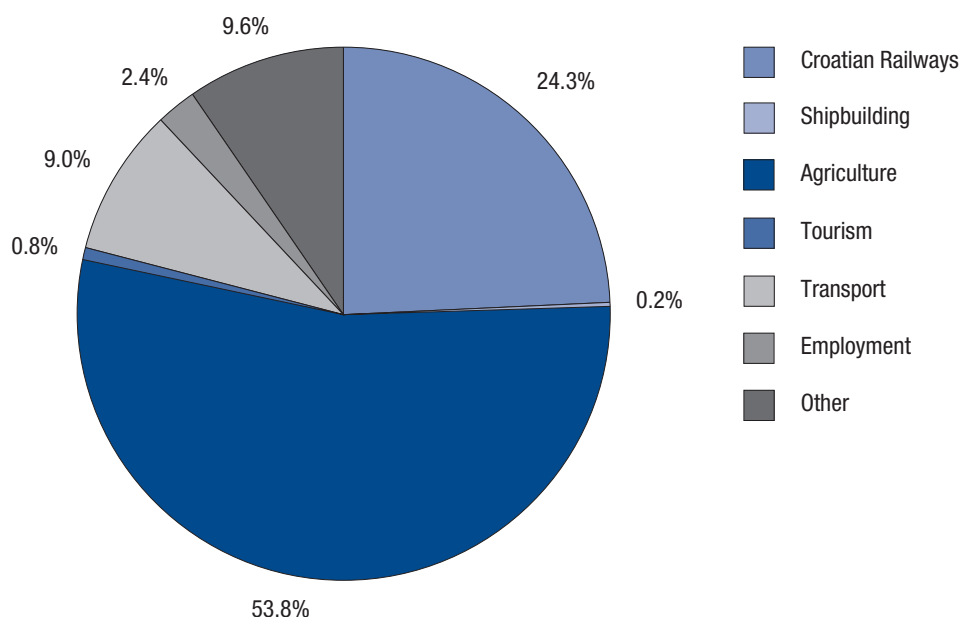
In the structure of the realised interest expense, interest expense for issued bonds prevails. In respect of interest on bonds, a total of HRK 3.6 billion was secured, which was 57.1 percent of the total amount of interest expense. The remaining part refers to interest on domestic and foreign loans and domestic treasury bills.

2.3.4. Subsidies

Expense for subsidies amounted to HRK 6.6 billion, which was 2.0 percent above the amount planned for 2010. This also represented a year-on-year drop of the subsidies expense of 1.9 percent.

Subsidies to private enterprises amounted to 51.6 percent of the total subsidies expense, while 48.4 percent went to public corporations. The largest part of the total subsidies expense refers to agricultural subsidies and subsidies to Croatian Railways. Other subsidies refer mainly to shipbuilding, tourism, transport, employment etc.

Figure 2.7. Subsidies Expense Structure in 2010



Source: Ministry of Finance

2.3.5. Grants

In 2010, expense for grants amounted to HRK 5.8 billion, which was 5.4 percent above the plan for the observed year, or 3.9 percent more in relation to 2009.

Total grants consisted of grants to foreign governments and international organisations, as well as grants to other general government units. Around 96.0 percent included grants to other general government units, of which 52.0 percent were capital grants, the largest part of which were road charges for Croatian Roads (Hrvatske ceste). The remaining 48.0 percent of grants to other general government units included mainly additional funding for equalisation of decentralised functions, integral development of local community, improvement of quality and availability of health services, etc.

2.3.6. Social Benefits

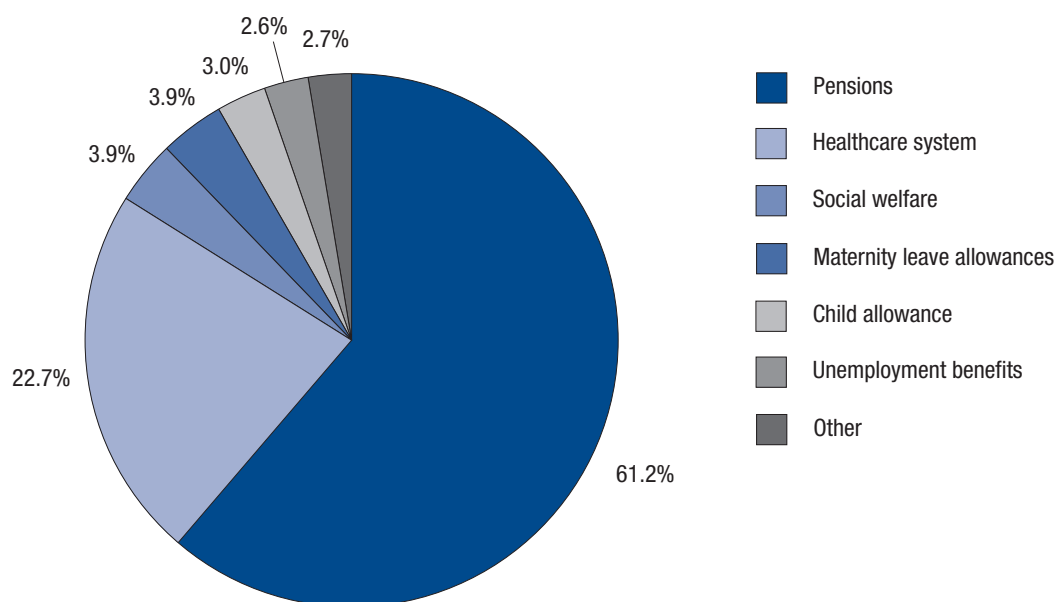
Social benefits expense amounted to HRK 56.9 billion, which was 0.5 percent less than the amount planned for 2010. In relation to 2009, this was a year-on-year increase of 1.4 percent.

In the structure of total expense for social benefits in 2010, 75.6 percent referred to social security benefits, 24.1 percent to social assistance benefits, and the remaining 0.3 percent to employer social benefits.

The largest part of the social benefits expense referred to pensions in the amount of HRK 34.8 billion and compensations in the healthcare system in the amount of HRK 12.9 billion. It should be mentioned that salaries in the healthcare system were except from the social benefits expense, because, as already mentioned, according to the GFS 2001 methodology, they have been classified as compensations of employees. In 2010, allocations for pensions increased by HRK 421.7 million as compared to 2009, primarily due to increase in number of new pensioners in the system and suspension of pension alignment. Maternity leave allowance amounted to HRK 2.2 billion, which was a year-on-year increase of 4.5 percent, and unemployment benefits were paid in the amount of HRK 1.5 billion, which was an increase of 20.6 percent. Important parts of the total social benefits expense are social welfare, which amounted to HRK 2.2 billion, and child allowance, which amounted to HRK 1.7 billion.

The structure of social benefits shows that, based on the amount, the most important categories are pension and healthcare expense, which made 83.9 percent of the total social benefits.

Figure 2.8. Social Benefits Structure in 2010



Source: Ministry of Finance

2.3.7. Other Expense

Other expense is classified into property expense other than interest, and miscellaneous other expense which includes other current and capital expense. It amounted to HRK 6.1 billion, which was an increase of 3 percent as compared to the amount planned for other expense. At the same time, this was an increase of 7.8 percent with respect to the previous year.

Other expense mostly included transfers to Croatian Motorways (HAC) and expense for housing accommodation, natural disasters, investments in modernisation of Croatian Railways (HŽ), student standard and student accommodation, investments in culture, etc. Increase in other expense in 2010 was primarily a result of payment of reparations following natural disasters. In 2010, the Budgetary Central Government paid disaster relief to Local Self-Government Units in the total amount of HRK 320.0 million, where HRK 295.82 million was paid for damage caused to crops and civil engineering structures (residential/business premises) in the first eight months of 2010, and the amount of HRK 24.18 million as a pre-loan for damage incurred by floods in September of that year, and also for damage caused to crops and civil engineering structures (residential/business premises). Thereby the total available funds for aid to natural and legal persons in 2010 were spent in the amount of HRK 320.0 million.

It should also be mentioned that in 2010 the Budgetary Central Government collected a part of the revenue on the basis of debt from previous years. A considerable part of that debt referred to road charges (60 lipas designated for Croatian Roads and Croatian Motorways), the collection of which influenced the increase in income in 2010, which was transferred to relevant institutions immediately upon receipt. This transfer resulted in increase of expense for grants to other general government units of Croatian Roads and other expense outside of the general budget of Croatian Motorways. Thus the total fees in the fuel price of Croatian Motorways amounted to HRK 1.7 billion and made 45.8 percent of other capital expense. Other current expense amounted to HRK 2.3 billion, which was 37.6 percent of total other expense.

2.3.8. Budgetary Central Government Expenditure by Function

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

The total Budgetary Central Government expenditure in 2010, in terms of function, amounted to HRK 121.9 billion, which was an annual increase of 1.4 percent.

The largest allocations, according to this classification, were those for social protection and health, that is, 56.0 percent of total expenditure in 2010. The share of social protection expenditure in total expenditure was reduced as compared to 2009 by 0.4 percent, whereas the share of health remained the same. These categories of expenditure increased their share in GDP by 0.1 percent as compared to the previous year.

Other larger allocations were to economic affairs and general public services. These two categories recorded the largest increase of their share in total expenditure and GDP. General public services expenditure, which mostly result from transactions related to public debt and executive and legislative affairs, increased their share in total expenditure by 1.0 percent, and in GDP by 0.4 percent. Economic affairs expenditure increased their share in total expenditure by 0.3 percent, and in GDP by 0.2 percent. The main items of expenditure within this category are transport (especially road and railway), agriculture, forestry, fishing and hunting, and general economic, commercial and labor affairs

At the same time, there was a mild decrease of defense expenditure as a share in GDP, as well as a share of total expenditure of 0.1 and 0.3 percentage points, as a result of implementing measures of rationalisation of organisation and modernisation in the armed forces. It was similar with the housing and community amenity affairs which reduced their share in GDP and in total expenditure by 0.1 and 0.2 percentage points.

Stabilisation of share in GDP was visible in all other categories of expenditure. In the observed period, the share of expenditure for public order and safety, which traditionally refers to police forces and judicial system, was reduced in total expenditure by 0.2 percent, as well as expenditure for education.

Table 2.4. Budgetary Central Government Expenditure by Function in the 2008 - 2010 Period

	(000 HRK)	2008	2009	2010	Index 2009/2008	Index 2010/2009
7	Total expenditure	118,583,975	120,191,398	121,874,004	101.4	101.4
701	General public services	12,136,850	12,176,736	13,507,060	100.3	110.9
702	Defense	5,217,233	4,997,410	4,678,530	95.8	93.6
703	Public order and safety	7,433,652	7,626,856	7,535,152	102.6	98.8
704	Economic affairs	14,756,380	13,675,761	14,180,173	92.7	103.7
705	Environment protection	305,950	288,526	450,058	94.3	156.0
706	Housing and community amenity affairs	2,867,353	1,896,281	1,677,274	66.1	88.5
707	Health	18,459,942	19,883,412	20,152,144	107.7	101.4
708	Recreation, culture and religion	2,070,967	1,714,807	1,741,378	82.8	101.5
709	Education	10,247,052	10,395,997	10,277,096	101.5	98.9
710	Social protection	45,088,595	47,535,611	47,675,139	105.4	100.3

Source: Ministry of Finance

2.4. TRANSACTIONS IN NONFINANCIAL ASSETS OF THE BUDGETARY CENTRAL GOVERNMENT

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

In 2010, total net acquisition of nonfinancial assets amounted to HRK 1.2 billion, which was a year-on-year decline of 37.2 percent. Total net acquisition of nonfinancial assets was the result of acquisition of nonfinancial assets in the amount of HRK 1.6 billion, and disposals in the amount of HRK 318.3 million.

The acquisition of nonfinancial assets mostly referred to acquisition of fixed assets, which was dominated by acquisition of buildings and structures in the amount of HRK 872.7 million, and machinery and equipment in the amount of HRK 529.5 million. On the other hand, disposals mostly referred to disposals of buildings and structures in the amount of HRK 263.9 million.

Net acquisition of inventories amounted to HRK 11.0 million, which was the result of acquisitions in the amount of HRK 16.9 million, and disposals in the amount of HRK 6.0 million.

Total net acquisition of valuables amounted to HRK 6.1 million, accounted for entirely by the acquisition of valuables, as there were no disposals.

Acquisition of nonproduced assets amounted to HRK 60.8 million, and it mostly arose from the acquisition of licences and other rights, while disposals in the amount of HRK 45.9 million were almost entirely accounted for by sales of land.

Table 2.5. Transactions in Nonfinancial Assets of the Budgetary Central Government in the 2008 - 2010 Period

	(000 HRK)	2008	2009	2010	Index 2009/2008	Index 2010/2009
31	NET ACQUISITION OF NONFINANCIAL ASSETS	2,988,129	1,963,401	1,232,366	65.7	62.8
311	Fixed assets	2,719,479	1,839,720	1,200,398	67.6	65.2
311,1	Acquisitions: fixed assets	2,973,830	2,097,601	1,466,817	70.5	69.9
311,2	Disposals: fixed assets	254,352	257,881	266,419	101.4	103.3
3111	Buildings and structures	1,109,578	824,283	608,822	74.3	73.9
3111,1	Acquisitions: buildings and structures	1,357,524	1,076,215	872,737	79.3	81.1
3111,2	Disposals: buildings and structures	247,947	251,932	263,915	101.6	104.8
3112	Machinery and equipment	1,505,694	931,108	529,521	61.8	56.9
3112,1	Acquisitions: machinery and equipment	1,512,098	937,057	532,022	62.0	56.8
3112,2	Disposals: machinery and equipment	6,404	5,949	2,502	92.9	42.0
3113	Other fixed assets	104,208	84,330	62,056	80.9	73.6
3113,1	Acquisitions: other fixed assets	104,209	84,330	62,058	80.9	73.6
3113,2	Disposals: other fixed assets	1	0	2	-	-
312	Inventories	79,444	35,412	10,955	44.6	30.9
312,1	Acquisitions: inventories	86,829	43,144	16,910	49.7	39.2
312,2	Disposals: inventories	7,385	7,732	5,954	104.7	77.0
313	Valuables	10,126	8,929	6,136	88.2	68.7
313,1	Acquisitions: valuables	10,126	8,929	6,136	88.2	68.7
313,2	Disposals: valuables	0	0	0	-	-
314	Nonproduced assets	179,081	79,340	14,877	44.3	18.8
314,1	Acquisitions: nonproduced assets	220,764	117,733	60,809	53.3	51.7

	(000 HRK)	2008	2009	2010	Index 2009/2008	Index 2010/2009
314,2	Disposals: nonproduced assets	41,683	38,392	45,933	92.1	119.6
3141	Land	-41,626	-38,175	-45,536	91.7	119.3
3141,1	Acquisitions: land	56	125	396	222.0	316.9
3141,2	Disposals: land	41,683	38,300	45,933	91.9	119.9
3142	Subsoil assets	0	-93	0	-	-
3142,2	Disposals: subsoil assets	0	93	0	-	-
3144	Intangible nonproduced assets	220,707	117,608	60,413	53.3	51.4

Source: Ministry of Finance

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

The total net acquisition of financial assets of the Budgetary Central Government is the difference between domestic and foreign acquisitions and disposals of financial assets and the change in currency and deposits. In 2010, net acquisition of domestic financial assets in the amount of HRK 2.0 billion was the result of HRK 569.5 million change in currency and deposits, the net acquisition of loans in the amount of HRK 657.1 million, and the net acquisition of shares and other equity in the amount of HRK 795.7 million. The positive amount of currency and deposits represented an increase in the amount of funds in the state account in the observed period. The net acquisition of domestic loans was the result of acquisition of loans in the amount of HRK 1.4 billion, and disposals of loans in the amount of HRK 709.4 million. Acquisition of loans mostly referred to loans to companies in the public sector, i.e. payments for protested guarantees in the amount of HRK 1.1 billion. These were followed by loans to domestic private companies, small business, small and medium-size enterprises outside of the public sector (HRK 111.5 million), loans to other government levels (HRK 81.0 million) and loans to non-profit organisations, citizens and households (HRK 74.3 million). Disposals of domestic loans referred to loan repayments by domestic private companies, small businesses and small and medium-sized enterprises outside of the public sector.

The net acquisition of domestic shares and other equity in the amount of HRK 795.7 million was the result of acquisitions of shares and other equity in the amount of HRK 803.0 million, and their disposals in the amount of HRK 7.3 million. Acquisition of domestic shares and other equity mostly referred to shares and equity in banks and other financial institutions in the public sector.

Foreign net acquisition of financial assets amounted to HRK 388.0 thousand, and was the result of acquisition of loans in the amount of HRK 2.4 million, and their disposals in the amount of HRK 2.0 million.

Table 2.6. Transactions in Financial Assets of the Budgetary Central Government in the 2008 - 2010 Period

	(000 HRK)	2008	2009	2010
32	NET ACQUISITION OF FINANCIAL ASSETS	1,702,947	6,825,544	2,022,682
321	Domestic	1,690,502	6,823,196	2,022,294
3212	Currency and deposits	1,440,588	4,127,800	569,502
3214	Loans	384,361	2,316,757	657,093
3214,1	Acquisition	852,673	2,458,939	1,366,444
3214,2	Disposal	468,312	142,181	709,351
3215	Shares and other equity	-134,447	378,639	795,699
3215,1	Acquisition	552,156	387,017	803,044
3215,2	Disposal	686,603	8,378	7,345
322	Foreign	12,445	2,348	388
3224	Loans	0	1,447	388
3224,1	Acquisition	0	1,447	2,365
3224,2	Disposal	0	0	1,977
3225	Shares and other equity	12,445	901	0
3225,1	Acquisition	12,445	901	0
3225,2	Disposal	0	0	0

Source: Ministry of Finance

In 2010, total net incurrence of liabilities of the Budgetary Central Government amounted to HRK 16.1 billion, resulting from the net incurrence of domestic liabilities in the amount of HRK 11.8 billion and the net incurrence of foreign liabilities in the amount of HRK 4.3 billion.

The net incurrence of domestic liabilities was the result of incurrence and repayments on the domestic financial market. Total incurrence on the domestic market amounted to HRK 24.7 billion, while domestic repayments amounted to HRK 12.8 billion. As regards the incurrence on the domestic financial market, HRK 15.5 billion referred to incurrence through securities other than shares. During 2010, three bond issues were realised on the domestic market. The first issue was realised in March 2010 in the amount of HRK 3.5 billion and EUR 350 million, with maturity in 2020. The second issue of bonds on the domestic market was realised in July 2010, when new instalments of the March bonds were issued, in the amount of HRK 1.5 billion and EUR 650 million, with maturity in 2020. The third issue of domestic bonds was realised in November 2010 in the amount of HRK 4.0 billion, with maturity in 2017. Incurrence through loans on the domestic market amounted to HRK 9.1 billion, and it mainly referred to syndicated loans. Domestic repayment on the basis of loans amounted to HRK 9.5 billion, and mostly referred to repayment of syndicated loans to domestic banks. Domestic repayment on the basis of securities, other than shares, amounted to HRK 3.3 billion, of which HRK 3.0 billion referred to repayment of the bond issued in 2005.

The net acquisition of foreign liabilities comprised total foreign incurrence in the amount of HRK 9.5 billion and total foreign repayments in the amount of HRK 5.2 billion. Foreign incurrence in 2010 was mostly realised through securities, other than shares, i.e. issuing an Eurobond on the American market in the value of USD 1.25 billion, or HRK 7.2 billion. Incurrence of loans on the foreign financial market amounted to HRK 2.3 billion, and completely referred to loans from international financial institutions. Foreign repayments comprised repayments of securities, other than shares, in the amount of HRK 3.7 billion. i.e. the repayment of EUR 500 million for a bond issued in 2003, whereas repayment of foreign loans in 2010 amounted to HRK 1.5 billion.

Observing the total (domestic and foreign) incurrence, and total (domestic and foreign) repayments of the Budgetary Central Government in 2010, we can say that the net incurrence of liabilities of the Budgetary Central Government was the difference between the incurrence in the amount of HRK 34.1 billion, and repayments in the amount of HRK 18.0 billion.

Table 2.7. Transactions in Liabilities of the Budgetary Central Government in the 2008 - 2010 Period

	(000 HRK)	2008	2009	2010
33	NET INCURRENCE OF LIABILITIES	4,210,848	16,454,990	16,112,029
33,1	Total repayments	6,922,174	9,700,319	17,999,196
33,2	Total incurrence	11,133,022	26,155,309	34,111,225
331	Domestic	5,656,636	9,576,610	11,835,071
331,1	Repayment	3,871,657	2,704,283	12,815,011
331,2	Incurrence	9,528,293	12,280,893	24,650,082
3313	Securities other than shares	1,089,917	4,855,440	12,222,784
3313,1	Repayment	2,897,430	273,892	3,289,266
3313,2	Incurrence	3,987,347	5,129,332	15,512,050
3314	Loans	4,566,719	4,721,170	-387,713
3314,1	Repayment	974,227	2,430,391	9,525,745
3314,2	Incurrence	5,540,946	7,151,562	9,138,032
332	Foreign	-1,445,788	6,878,380	4,276,958
332,1	Repayment	3,050,517	6,996,036	5,184,185
332,2	Incurrence	1,604,729	13,874,416	9,461,143
3323	Securities other than shares	-1,112,673	7,801,073	3,517,533
3323,1	Repayment	1,112,673	5,054,565	3,655,005
3323,2	Incurrence	0	12,855,638	7,172,538
3324	Loans	-333,116	-922,693	759,425
3324,1	Repayment	1,937,845	1,941,471	1,529,180
3324,2	Incurrence	1,604,729	1,018,778	2,288,606

Source: Ministry of Finance

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

Net operating balance, defined as the difference between the revenue and the expense of the Budgetary Central Government, amounted to HRK -12.9 billion in 2010 and, in relation to 2009, influenced by continued global and domestic unfavourable economic trends, was decreased by HRK 5.2 billion.

The primary operating balance is also considered as a measure of budgetary deficit/surplus and is an indicator of current fiscal policy as it excludes interest payments from the previous calculation of deficit/surplus, and thereby the impact of previous deficits and the accumulated public debt. In 2010, primary operating balance amounted to HRK -6.6 billion, which was a reduction of HRK 4.2 billion compared to 2009.

The category of net lending/borrowing is defined as the difference between the net operating balance and net acquisitions of nonfinancial assets. In 2010, net lending/borrowing was recorded at the level of HRK -14.1 billion, or -4.2 percent of GDP. Total financing of this amount was the result of previously described net incurrence of liabilities in the amount of HRK 16.1 billion and net acquisitions of financial assets in the amount of HRK 2.0 billion. In other words, repayments were below incurrence on the liability side of the Budgetary Central Government, whilst on the financial assets side, disposals were below the acquisitions of financial assets.

Table 2.8. Budgetary Central Government Deficit/Surplus and Financing in the 2008 - 2010 Period

	(000 HRK)	2008	2009	2010
	TRANSACTIONS AFFECTING NET WORTH			
1	Revenue	115,772,655	110,257,947	107,466,351
2	Expense	115,292,426	117,923,992	120,323,332
24	Interest	4,683,219	5,225,174	6,236,482
	Net - gross operating balance (1 - 2)	480,229	-7,666,045	-12,856,981
	Primary operating balance (1 - 2 + 24)	5,163,448	-2,440,871	-6,620,499
	TRANSACTIONS IN NONFINANCIAL ASSETS			
31	Net acquisition of nonfinancial assets	2,988,129	1,963,401	1,232,366
	Net lending - borrowing (1 - 2 - 31)	-2,507,901	-9,629,446	-14,089,347
	Financing (33 - 32)	2,507,901	9,629,446	14,089,347
	TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES			
32	Net acquisition of financial assets	1,702,947	6,825,544	2,022,682
33	Net incurrence of liabilities	4,210,848	16,454,990	16,112,029

Source: Ministry of Finance



3. EXTRABUDGETARY USERS IN 2010



3.1. EXTRABUDGETARY USERS

During 2010, five Extrabudgetary Users were covered by the general government budget: Croatian Waters (*Hrvatske vode – HV*), the Fund for Environmental Protection and Energy Efficiency (*Fond za zaštitu okoliša i energetske učinkovitost – FZOEU*), Croatian Roads (*Hrvatske ceste – HC*), the State Agency for Deposit Insurance and Bank Rehabilitation (*Državna agencija za osiguranje štednih uloga i sanaciju banaka – DAB*) and the Croatian Privatization Fund (*Hrvatski fond za privatizaciju – HFP*).

3.2. REVENUE OF EXTRABUDGETARY USERS

The total revenue of Extrabudgetary Users in 2010 amounted to HRK 5.4 billion. Viewing its structure, HV accounted for the largest portion or 37.1 percent; HC for 33.2 percent; FZOEU for 19.3 percent; DAB for 9.8 percent and HFP for 0.5 percent.

Within the structure of the total revenue of Extrabudgetary Users, the largest contribution comes from the revenue of sales of goods and services, which in 2010 amounted to HRK 2.7 billion. The largest part of these revenues refers to revenues from water resources management within HV (HRK 1.6 billion) and environmental protection fees within the FZOEU (HRK 1 billion).

The total revenue from grants amounted to HRK 2 billion, 99.9 percent of which are grants from other general government units. Of these, the largest part refers to capital grants from the Budgetary Central Government within HC, while the rest refers to capital grants from the Budgetary Central Government to HV.

The collected property income amounted to HRK 629 million, of which the DAB contributed the most (81.9 percent), followed by HV (7.2 percent) and HC (5.6 percent). The largest property income revenue refers to the withdrawal of income of quasi-corporations that are part of the DAB.

Aside from this, Extrabudgetary Users also realised HRK 53 million in miscellaneous and unidentified revenue, the most of which was realised by HV (44.8 percent), and HRK 7.2 million in revenues from voluntary transfers other than grants.

3.3. EXPENSE OF EXTRABUDGETARY USERS

In 2010, the total expense of Extrabudgetary Users amounted to HRK 4.3 billion. Within its structure, the biggest contribution came from HV (41.6 percent), followed by HC (32.8 percent), FZOEU (23.5 percent), HFP (1.7 percent) and DAB (0.4 percent).

Within the structure of the total expense of Extrabudgetary Users, the most significant is the expense for the use of goods and services, which, in the observed period, amounted to HRK 2.7 billion. The largest part of this expense refers to HV (HRK 1.1 billion), FZOEU (HRK 784.7 million) and HC (739.2 million), while the rest refers to HFP and DAB. The largest part of the expense refers to the expense for services, specifically services for regular and investment maintenance at HV and HC, as well as other unmentioned operating expenses in FZOEU.

With regard to the amount of realised expenses, the abovementioned is followed by other expenses, which in 2010 amounted to HRK 815.5 million. The largest part of these expenses refers to HV (57.9 percent), HC (38.0 percent) and FZOEU (3.6 percent).

At the level of Extrabudgetary Users, HRK 275.1 million was spent on compensations of employees, of which HRK 237.2 million referred to wages and salaries, and HRK 38.0 million to social contributions.

Grants to other general government units amounted to HRK 178.7 million, and these refer to FZOEU and HV.

During 2010, Extrabudgetary Users also spent HRK 315.3 million for interest expenses, of which the largest amount refers to HC (HRK 268.2 million).

The expense for subsidies amounted to HRK 44.9 million, the largest part of which (HRK 89.7 million) referred to subsidies to private enterprises, while the rest were subsidies to public corporations. The expense for subsidies was realised by the FZOEU as part of the environmental protection programme and project.

Social benefits were realised in the amount of HRK 112.0 thousand for DAB items.

3.4. TRANSACTIONS IN NONFINANCIAL ASSETS OF EXTRABUDGETARY USERS

The net acquisition of nonfinancial assets of Extrabudgetary Users in 2010 amounted to HRK 1.4 billion. This amount is the result of the total acquisition of nonfinancial assets in the amount of HRK 1.5 billion and the disposal of nonfinancial assets in the amount of HRK 8.2 million. Considering the types of nonfinancial assets, 88.9 percent refers to fixed assets, and the remaining 11.1 percent to transactions in nonproduced assets. In the largest part, transactions in fixed assets refer to acquisitions of buildings and structures of HC (HRK 912.7 million) and HV (HRK 345.2 million).

Nonproduced assets refer to land acquisition in the amount of HRK 165.0 million, which was mainly realised by HC. Land disposal was realised by HFP in the amount of HRK 6.6 million.

3.5. TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES OF EXTRABUDGETARY USERS

In the structure of net acquisitions of financial assets of Extrabudgetary Users in 2010, currency and deposits record positive amounts (HRK 843.2 million), of which the largest part refers to the DAB and HV. The net acquisition of loans was also recorded in the positive amount of HRK 52.6 million. It is the result of total acquisitions in the amount of HRK 180.6 million and total disposals, or repayments of given loans in the amount of HRK 127.9 million. FZOEU accounts for the largest part of the domestic loan transactions. The net acquisition of shares and equity amounted to HRK -22.3 million, primarily as a result of disposals of shares and equity in the capital. HFP accounts for most of such transactions.

In the same period, the net incurrence of liabilities of Extrabudgetary Users amounted to HRK 1.2 billion. This amount is the result of the total incurrence of debt on the domestic and foreign market in the amount of HRK 1.7 billion and domestic and foreign repayments in the amount of HRK 479 million. At the same time, domestic liabilities of Extrabudgetary Users amounted to HRK 1.1 billion, and foreign liabilities to HRK 79 million. All incurrences and all repayments in the observed period referred to the category of loans, and, in terms of amount, the most significant transactions in liabilities of Extrabudgetary Users during 2010 were realised at items for HC.

Table 3.1. Transactions in Financial Assets and Liabilities of the Extrabudgetary Users in 2010

	(000 HRK)	Croatian Waters	Fund for Environmental Protection and Energy Efficiency	Croatian Roads Ltd.	State Agency for Deposit Insurance and Bank Rehabilitation	Croatian Privatization Fund	TOTAL
32	Net acquisition of financial assets	-72,616	34,905	356,936	510,018	44,243	873,486
321	Domestic	-72,616	34,905	356,936	510,018	44,243	873,486
	Currency and deposits	-82,515	3,666	356,936	510,439	54,673	843,199
	Loans	9,899	31,239	0	0	11,497	52,635
	Acquisitions	9,899	51,490	0	0	119,172	180,561
	Disposals	0	20,251	0	0	107,675	127,926
	Shares and other equity	0	0	0	-421	-21,927	-22,348
	Acquisitions	0	0	0	0	104,039	104,039
	Disposals	0	0	0	421	125,966	126,387
322	Foreign	0	0	0	0	0	0
33	Net incurrence of liabilities	87,616	0	1,042,687	0	85,610	1,215,913
331	Domestic	105,053	0	926,845	0	105,059	1,136,957
	Loans	105,053	0	926,845	0	105,059	1,136,957
	Repayments	104,522	0	135,205	0	133,741	373,468
	Incurrences	209,575	0	1,062,050	0	238,800	1,510,425
	Securities other than shares	0	0	0	0	0	0
	Repayments	0	0	0	0	0	0
	Incurrences	0	0	0	0	0	0
332	Foreign	-17,437	0	115,842	0	-19,449	78,956
	Loans	-17,437	0	115,842	0	-19,449	78,956
	Repayments	17,437	0	68,641	0	19,449	105,527
	Incurrences	0	0	184,483	0	0	184,483

Source: Ministry of Finance

3.6. DEFICIT/SURPLUS MEASURES AND FINANCING OF EXTRABUDGETARY USERS

The net operating balance of Extrabudgetary Users in 2010 amounted to HRK 1.1 billion. At the same time, the primary operating balance amounted to HRK 1.4 billion.

Net lending/borrowing was HRK -342,4 million, which represents 0.1 percent of the GDP. Total financing is the difference between the net incurrence of liabilities in the amount of HRK 1.2 billion and the net acquisition of financial assets in the amount of HRK 873.5 million.

Table 3.2. Measures of Deficit/Surplus and Financing of the Extrabudgetary Users in 2010

(000 HRK)	Croatian Waters	Fund for Environmental Protection and Energy Efficiency	Croatian Roads Ltd.	State Agency for Deposit Insurance and Bank Rehabilitation	Croatian Privatization Fund	TOTAL
TRANSACTIONS AFFECTING NET WORTH						
1 Revenue	1,998,161	1,040,675	1,789,839	529,642	26,702	5,385,019
2 Expense	1,779,441	1,004,188	1,405,891	16,967	74,004	4,280,491
24 Interest	17,828	501	268,159	272	28,531	315,291
Net/Gross operating balance (1 - 2)	218,720	36,487	383,948	512,675	-47,302	1,104,528
Primary operating balance (1 - 2 + 24)	236,548	36,988	652,107	512,947	-18,771	1,419,819
TRANSACTIONS IN NONFINANCIAL ASSETS						
31 Net acquisition of nonfinancial assets	378,952	1,582	1,069,699	2,657	-5,935	1,446,955
Net lending/borrowing (1 - 2 - 31)	-160,232	34,905	-685,751	510,018	-41,367	-342,427
Financing (33 - 32)	160,232	-34,905	685,751	-510,018	41,367	342,427
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES						
32 Net acquisition of financial assets	-72,616	34,905	356,936	510,018	44,243	873,486
33 Net incurrence of liabilities	87,616	0	1,042,687	0	85,610	1,215,913

Source: Ministry of Finance

4. FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS IN 2010



4.1. LEGAL FRAMEWORK

The Act on the Areas of Counties, Cities, and Municipalities in the Republic of Croatia¹ establishes the regional organisational structure of the Republic of Croatia and determines the territories of all counties, cities and municipalities in the Republic of Croatia, their titles and centres, methods of defining and changing borders of municipalities and cities, procedure preceding the changes of the regional organisational structure and other issues of importance for regional organisational structure of local or regional self-government units.

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

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

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

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

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

Financing of local units is regulated by the Constitution², Act on Local and Regional Self-Government³, Budget Act⁴, Act on the Financing of Local and Regional Self-Government Units⁵, Act on Areas of Special State Concern⁶, Act on Hilly and Mountainous Areas⁷, Act on the City of Zagreb⁸, Islands Act⁹, Act on the Execution of the State Budget for 2010¹⁰, acts that prescribe decentralisation of the services of primary and secondary

1 Official Gazette, numbers 86/2006, 125/2006, 16/2007, 46/2010 and 145/2010

2 Official Gazette, numbers 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

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

4 Official Gazette, number 87/2008

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

6 Official Gazette, number 86/2008

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

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

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

10 Official Gazette, numbers 151/2009 and 103/2010

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

The Budget Act¹¹ which came into force on 1 January 2009 regulates the three main areas:

1. the area of planning, preparing and passing the budget for the next year and budget forecasts for the following two years, as well as executing the central state and local unit budgets;
2. the area of managing budget funds, managing the property and public debt of central state and local unit;
3. the area of budget relations in the public sector, as well as relations between the budget and budget users, on the one part, and entities outside the budget system, or the public sector, on the other.

4.2. FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

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

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

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

Municipalities, cities and counties use their budget revenues to finance their self-government activities. The Act on the Financing of Local and Regional Self-Government Units defines types of revenues, their distribution and rates, and the limits of the rates within which units can prescribe them. In addition to the abovementioned regulations, local and regional self-government units must also comply with other acts and regulations governing various areas of public spending, through which units independently, but within the legal framework, collect and determine revenues by special regulation as well as capital revenues.

According to data on budget execution for 53 local units, total revenue in 2010 amounted to HRK 15 billion, which is a 6.4 percent reduction compared to the previous year.

¹¹ Official Gazette, number 87/2008

Table 4.1. Budget Revenue in the 2008 - 2010 Period for 53 Local Units

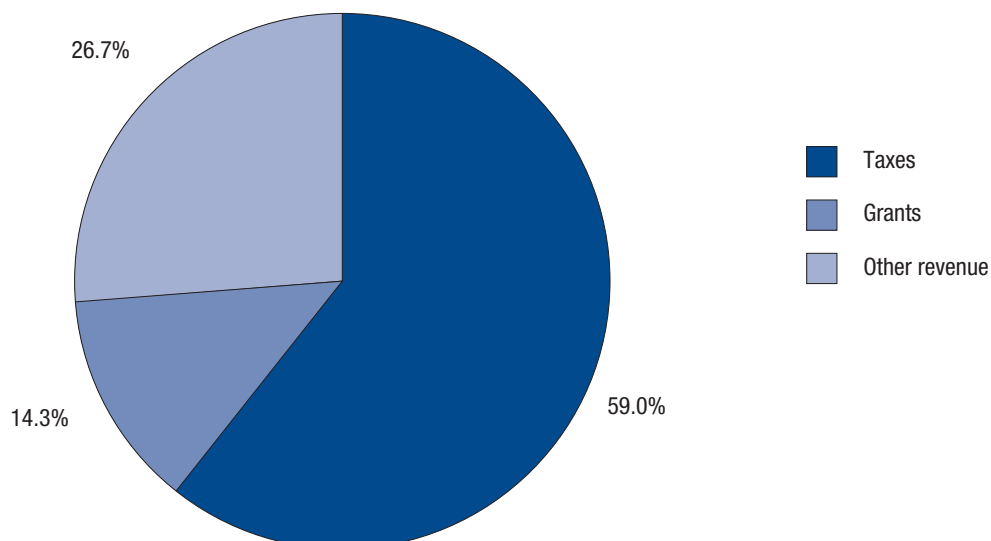
	(000 HRK)	2008	2009	2010	Index 2009/2008	Index 2010/2009
1	REVENUE	16,825,641	16,062,945	15,041,812	95.5	93.6
11	Taxes	10,097,177	9,891,927	8,872,440	98.0	89.7
111	Taxes on income, profits, and capital gains	9,074,234	8,961,506	8,021,829	98.8	89.5
1111	Payable by individuals	9,074,234	8,961,506	8,021,829	98.8	89.5
113	Taxes on property	595,032	512,708	439,983	86.2	85.8
114	Taxes on goods and services	413,202	406,662	398,714	98.4	98.0
1141	General taxes on goods and services	58,225	52,947	49,883	90.9	94.2
11412	Sales taxes	58,225	52,947	49,883	90.9	94.2
1144	Taxes on specific services	17,509	16,702	15,153	95.4	90.7
1145	Taxes on use of goods, permission to use goods	332,093	331,726	328,302	99.9	99.0
11451	Motor vehicles taxes	258,023	263,123	256,786	102.0	97.6
11452	Other	74,070	68,603	71,516	92.6	104.2
1146	Other taxes on goods and services	5,375	5,287	5,376	98.4	101.7
116	Other taxes	14,709	11,052	11,913	75.1	107.8
13	Grants	2,085,584	2,034,478	2,147,948	97.5	105.6
131	From foreign governments	6,079	1,248	3,776	20.5	302.6
132	From international organizations	1,342	1,946	2,367	145.0	121.6
133	From other general government units	2,078,163	2,031,284	2,141,806	97.7	105.4
14	Other revenue	4,642,880	4,136,540	4,021,424	89.1	97.2
141	Property income	965,963	983,916	945,050	101.9	96.0
142	Sales of goods and services	3,001,558	2,842,416	2,747,197	94.7	96.7
1422	Administrative fees	2,972,624	2,622,462	2,497,536	88.2	95.2
1423	Incidental sales by nonmarket establishments	28,933	219,954	249,662	760.2	113.5
143	Fines, penalties, and forfeits	8,677	7,570	13,734	87.2	181.4
144	Voluntary transfers other than grants	40,717	35,992	32,054	88.4	89.1
145	Miscellaneous and unidentified revenue	625,966	266,646	283,389	42.6	106.3

Source: Ministry of Finance

Tax revenue is the most abundant local unit revenue. In 2010 it amounted to HRK 8.9 billion, which makes 59.0 percent of total revenue. In relation to 2009, tax revenue was reduced for 10.3 percent.

Grants amounted to HRK 2.1 billion, which is 5.6 percent more than in 2009. Their share in total revenues was 14.3 percent.

In 2010 there was a reduction of other revenues, which made the second group of the most abundant local unit revenues (26.7 percent of total revenue). Compared to the previous year, this revenue reduced by 2.8 percent and amounted to HRK 4.0 billion.

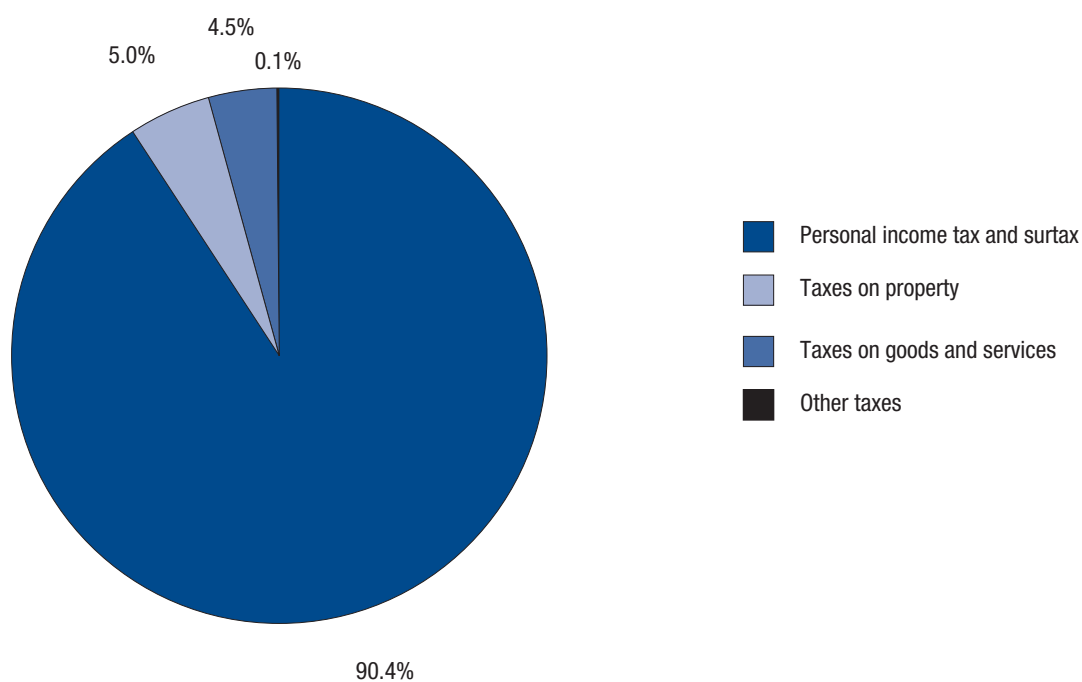
Figure 4.1. Structure of Total Revenue of 53 Local Units in 2010

Source: Ministry of Finance

4.2.1.1. Taxes

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

Within the structure of tax revenue, the major part came from personal income tax and surtax revenue (90.4 percent), followed by tax on property and taxes on goods and services with their share in total tax revenue of 5.0 and 4.5 percent, respectively. Other taxes make 0.1 percent of local units' tax revenue.

Figure 4.2. Structure of Tax Revenue for 53 Local Units in 2010

Source: Ministry of Finance

Compared to the previous year, in 2010 personal income tax and surtax revenue reduced by 10.5 percent or HRK 939.7 million. This reduction is partly a result of the application of the new Act on Amendments to the Income Tax Act¹² which entered into force on 1 July 2010.

These Amendments reduced the tax burden on income. The reduction of the number and level of income tax rates has particularly removed the tax burden from taxpayers with the lowest income, considering that the minimum rate was reduced from the previous 15 percent to 12 percent. Simultaneously, the 35 percent and the 45 percent tax rates were repealed, and the new 40 percent rate was introduced. The Amendments of the Act repealed tax reliefs which taxpayers could use in the total annual amount of up to HRK 12,000.00 on the basis of their annual tax statement, and which was, on average, used more by the taxpayers with higher income. Considering that a part of the personal income tax revenue was allocated for the financing of decentralized functions, the reduction of its realisation in 2010 also affected financing of these functions.

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

A part of the functions/expenses for educational system, health care and social welfare were devolved to 54 largest units, i.e., 20 counties, 34 cities and the City of Zagreb, and the regular activities of public fire brigades are financed by 130 municipalities/cities. Local units have received an additional share of the personal income tax for each individual delegated function. These additional shares of personal income tax cover the minimum financial standards determined by objective criteria regulated by annual decisions of the Government of the Republic of Croatia for the respective areas. In addition, in accordance with the mentioned Act, units which collect insufficient resources to cover the minimum financial standards, despite the additional share of the personal income tax, have the right to use the grants for the decentralised functions from the State Budget.

In February 2010, the Government adopted individual decisions for 2010 on the criteria and standards for determining balance rights for financing the minimum financial standards for the public needs of secondary schools and student homes, primary education, and minimum financial standards applicable to material and financial expenses for social welfare centres and for assistance in covering housing costs of users who use wood for heating, as well as for decentralised functions related to health care services, and decentralised funding for homes for the elderly and disabled, and for regular activities of public fire brigades. Pursuant to the Regulation of January 2010, total funding for decentralised functions in the amount of HRK 2.8 billion was established, assigned by units and purpose.

Table 4.2. Local Units Financing the Decentralized Functions

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

Source: Ministry of Finance

In 2010, total liabilities for the transferred decentralised functions amounted to HRK 2.8 billion, which represents an increase of 2.4 percent in relation to the previous year.

¹² Official Gazette, number 80/2010

Table 4.3. Financing of Decentralised Functions in 2010

(000 HRK)	Counties and the City of Zagreb	Cities	Municipalities	TOTAL
Health care	504,426			504,426
Social welfare	369,618			369,618
Secondary education	513,621			513,621
Primary education	799,843	277,991		1,077,834
Public fire brigades	42,641	260,771	31,261	334,673
TOTAL	2,230,148	538,762	31,261	2,800,172

Source: Ministry of Finance

4.2.1.2. Grants

Grants are current or capital transfers to local unit budgets from foreign governments, international organisations and other general government units. The total amount of grants also includes a part of the personal income tax obtained as an equalisation grant from the State Budget for decentralised functions. In the fiscal year 2010, total grants paid in the budgets of local units amounted to HRK 2.1 billion, which represents an increase of 5.6 percent compared to the previous year.

Table 4.4. Grants Revenue Achieved in 2008 - 2010 for 53 Local Units

	(000 HRK)	2008	2009	2010	Index 2009/2008	Index 2010/2009
13	Grants	2,085,584	2,034,478	2,147,948	97.5	105.6
131	From foreign governments	6,079	1,248	3,776	20.5	302.6
1311	Current	6,079	1,245	3,660	20.5	293.9
1312	Capital	0	3	116	-	-
132	From international organizations	1,342	1,946	2,367	145.0	121.6
1321	Current	301	856	1,487	284.5	173.7
1322	Capital	1,041	1,090	880	104.7	80.7
133	From other general government units	2,078,163	2,031,284	2,141,806	97.7	105.4
1331	Current	1,833,872	1,845,638	1,972,006	100.6	106.8
1332	Capital	244,291	185,646	169,800	76.0	91.5

Source: Ministry of Finance

Grants from other general government units also include grants to local and regional self-government units from the State Budget. Therefore, counties, municipalities and cities of the first and 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 grants' identification, allocation and use is defined by the Act on the Execution of the State Budget for the respective years. In the Act on the Execution of the State Budget of the Republic of Croatia for 2010 this is regulated by Article 39.

In 2010, these grants amounted to HRK 89.0 million, which represents a decrease of 1.1 percent compared to the previous year. The grants were allocated to 13 counties and 9 cities and 40 municipalities of the first and second category of areas of special state concern. Amounts of grants paid to counties range between HRK 1.8 and 9.9 million, depending on the fulfilment of the criteria for the calculation of grants; for cities between HRK 9 thousand to 2.3 million, and for municipalities between HRK 53 thousand and 3.1 million.

Table 4.5. Grants to Regional and Local Units in the Areas of Special State Concern from the State Budget in 2010

(000 HRK)	2008	2009	2010	Index 2009/2008	Index 2010/2009
Grants to Local Units	87,513	90,009	89,049	102.9	98.9
Grants to Counties	46,334	49,063	47,935	105.9	97.7
Grants to Cities	15,501	13,833	7,700	89.2	55.7
Grants to Municipalities	25,678	27,113	33,414	105.6	123.2

Source: Ministry of Finance

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

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

From the State Budget, local self-government units in the areas of special state concern and hilly and mountainous areas also receive grants in the amount of corporate income tax realised in the area of special state concern and the hilly and mountainous area. Payments of the said grants in 2010 are defined in Article 40 of the Act on the Execution of the State Budget of the Republic of Croatia for 2010. All 230 local units located in the areas of special state concern and the hilly and mountainous areas received grants in the amount of corporate income tax from their territory in the total amount of HRK 231.8 million.

Table 4.6. Grants for Regional and Local Units from the State Budget in the Amount of Corporate Income Tax from their Territory in 2008 - 2010

(000 HRK)	Total number of Units	out of which		2008			2009			2010		
		Cities	Municipalities	Cities	Municipalities	Total	Cities	Municipalities	Total	Cities	Municipalities	Total
Areas of special State concern	185	30	155	127,294	80,618	207,913	102,507	75,081	177,587	86,122	57,874	143,996
Group I	50	8	42	32,579	9,119	41,698	29,177	9,209	38,385	24,643	12,007	36,650
Group II	61	21	40	94,368	38,731	133,098	73,023	34,967	107,990	61,012	23,012	84,024
Group III	74	1	73	347	32,769	33,116	307	30,905	31,212	467	22,855	23,322
Hilly and mountainous areas	45	12	33	90,587	49,612	140,200	81,222	42,879	124,100	50,778	37,029	87,807
Total	230	42	188	217,882	130,230	348,112	183,728	117,959	301,687	136,900	94,903	231,803

Source: Ministry of Finance

Pursuant to the provisions of the Act on the Execution of the State Budget of the Republic of Croatia for 2010, personal income tax return was paid, based on annual statement, to taxpayers from the areas of special state concern (first, second and third category) and hilly and mountainous areas, from the revenue which belongs to the State Budget, in the total amount of HRK 593.4 million. Considering that the personal income tax return is paid directly to taxpayers, citizens, local and regional self-government units on behalf of which the Republic of Croatia returns the overpaid amount do not register these funds as the received grant.

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

(000 HRK)	2008	2009	2010	Index 2009/2008	Index 2010/2009
Personal Income Tax Return	585,014	611,828	593,436	104.6	97.0
on behalf of regional units	60,867	63,718	61,854	104.7	97.1
on behalf of local units	524,148	548,110	531,582	104.6	97.0

Source: Ministry of Finance

4.2.1.3. Other Revenue

Other revenue, as the second most significant revenue of local units, amounted to HRK 4.0 billion in 2010, which represents a reduction of 2.8 percent compared to 2009. It can be classified in five main categories: property income, revenue from sales of goods and services, fines, penalties and forfeits, voluntary transfers other than grants, and miscellaneous and unidentified revenue.

The share of revenue from sales of goods and services in other revenue is 68.3 percent, in the amount of HRK 2.7 billion, which is a reduction of 3.3 percent in relation to the previous year. Revenue from sales of goods and services is the revenue from the sales of fee stamps, residence charges, utility-service fees, utility-service payments and other fees.

The second biggest revenue within other revenue is property income (23.5 percent) which consists of revenue from movables and immovables, concessions, fees for the use of space in power plants, mineral ore fees, fees for the use of public areas etc. In 2010 this revenue amounted to HRK 945.1 million, which represents a decrease of 4.0 percent compared to 2009.

Miscellaneous and unidentified revenue amounted to HRK 283.4 million, which represents a year-on-year increase of 6.3 percent. Fines, penalties and forfeits amounted to HRK 13.7 million, which represents an increase of 81.4 percent compared to 2009, and voluntary transfers other than grants amounted to HRK 32.1 million, which represents a reduction of 10.9 percent compared to the previous year.

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

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

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

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

Total expense in 2010 amounted to HRK 13.1 billion which is, compared to 2009, a decrease of 6.4 percent. The major part refers to the use of goods and services (HRK 5.0 billion), because of financing of operating expenses as part of decentralised functions and material expenses from the area of activity of local units. Expense for the use of goods and services include expenses necessary for the regular functioning of all users. Resources were spent on materials, energy, public lighting, cleaning of public areas, utilities and other services for regular needs and expenses for the regular maintenance of buildings and equipment. Expense for the use of goods and services recorded a decrease of 3.3 percent in comparison to 2009.

Table 4.8. Budget Expense in the 2008 - 2010 Period for 53 Local Units

(000 HRK)		2008	2009	2010	Index 2009/2008	Index 2010/2009
2	EXPENSE	13,697,135	13,958,975	13,066,277	101.9	93.6
21	Compensation of employees	3,390,267	3,665,254	3,622,102	108.1	98.8
211	Wages and salaries	2,946,424	3,175,226	3,133,718	107.8	98.7
212	Social contributions	443,843	490,028	488,383	110.4	99.7
22	Use of goods and services	5,079,050	5,167,299	4,995,571	101.7	96.7
24	Interest	133,675	115,495	102,517	86.4	88.8
25	Subsidies	1,231,477	1,275,536	1,253,408	103.6	98.3
251	To public corporations	1,004,965	1,078,024	1,066,185	107.3	98.9
252	To private enterprises	226,513	197,512	187,223	87.2	94.8
26	Grants	362,220	328,602	299,226	90.7	91.1
263	To other general government units	362,220	328,602	299,226	90.7	91.1
2631	Current	145,359	182,045	167,229	125.2	91.9
2632	Capital	216,861	146,557	131,997	67.6	90.1
27	Social benefits	688,166	779,170	647,916	113.2	83.2
272	Social assistance benefits	664,798	755,214	616,744	113.6	81.7
273	Employer social benefits	23,368	23,956	31,172	102.5	130.1
28	Other expense	2,812,280	2,627,619	2,145,538	93.4	81.7
282	Miscellaneous other expense	2,812,280	2,627,619	2,145,538	93.4	81.7
2821	Current	1,726,978	1,609,480	1,483,437	93.2	92.2
2822	Capital	1,085,302	1,018,139	662,101	93.8	65.0

Source: Ministry of Finance

Compensation of employees (salaries and contributions), in the amount of HRK 3.6 billion, decreased by 1.2 percent in comparison to the previous year. Apart from the salaries of employees in local units, compensation of employees also includes salaries of their budgetary users (theatres, museums, libraries, kindergartens, etc.).

Interests amounted to HRK 102.5 million, which is a year-on-year decrease of 11.2 percent. Most interests were for the settlement of credit liabilities of local units from previous years.

Subsidies are current funds transfers that are given once or on a regular basis, for example interest subsidies, subsidies for employee training programmes, etc. In total they amounted to HRK 1.3 billion, which is a decrease of 1.7 percent in comparison with 2009. For the most part they were intended for public corporations, while a smaller part was intended for those outside the public sector, mostly farmers, trades and crafts businesses and small and medium-sized enterprises.

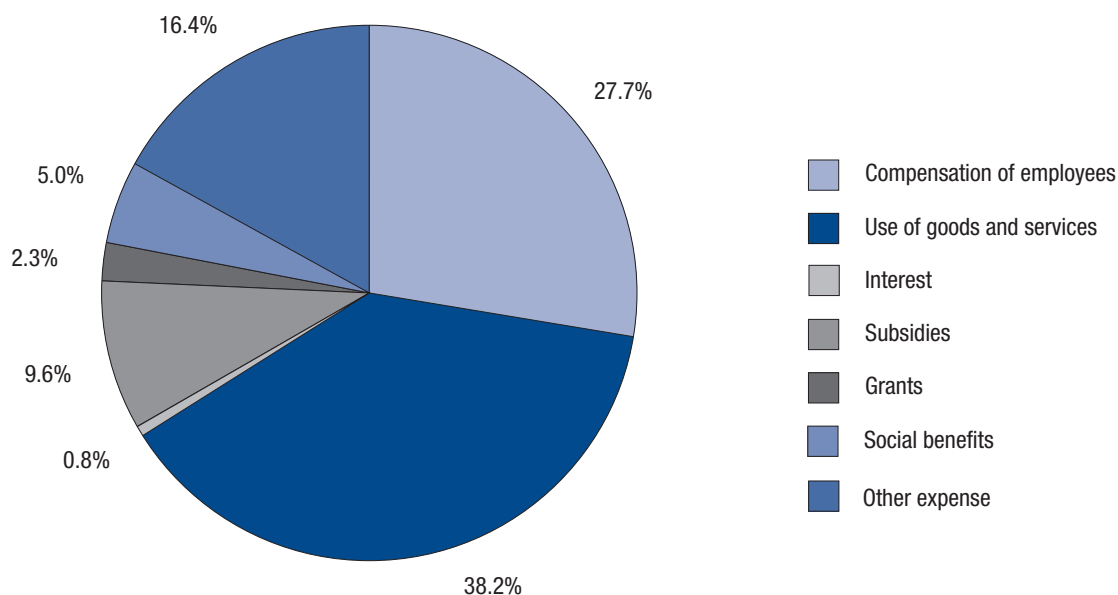
Expense for social benefits amounted to HRK 647.9 million, which is a decrease of 16.8 percent compared to the previous year.

Grants are non-compulsory current and/or capital transfers which are allocated to budget users for the co-financing of their current and capital expense. In 2010, this expense amounted to HRK 299.2 million, which is 8.9 percent less when compared to 2009. Capital grants make 44.1 percent of total allocations for grants.

Other expense (donations) includes current and capital expense which amounted to HRK 2.1 billion in 2010. In other words, this was a year-on-year reduction of 18.3 percent. Looking at the structure of other expense, 69.1 percent refers to current expense, and the rest to capital expense. Donations are mostly intended for non-profit organisations and non-economic investments, reparations following natural disasters, and acquisition of equipment, and for the acquisition of nonfinancial assets for companies and non-profit institutions owned by local units.

Within the structure of total expense, expense for the use of goods and services accounted for 38.2 percent, compensation of employees for 27.7 percent, other expense for 16.4 percent, subsidies for 9.6 percent, social benefits for 5 percent, grants for 2.3 percent and interest for 0.8 percent.

Figure 4.3. Structure of Total Expense of 53 Local Units in 2010



Source: Ministry of Finance

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

In 2010, net transactions in nonfinancial assets amounted to HRK 2.2 billion, a decrease of 21.3 percent. Nonfinancial assets include fixed assets, valuables and nonproduced assets. Fixed assets include buildings and structures, machinery and equipment and other fixed assets.

Expense for the acquisition of fixed assets amounted to HRK 2.4 billion, which is a reduction of 18.6 percent compared to 2009. Of that, the major part referred to schools and health facilities, cultural facilities, preschool institutions, entrepreneurial zones, business buildings, road reconstruction and construction, sports and recreational centres, furniture, equipment and other. Revenue from the disposal of long-term nonfinancial assets amounted to HRK 142.3 million.

Nonproduced nonfinancial assets comprise land, ore assets, other naturally occurring assets and other rights (concessions, licences, patents, etc.). Disposal of nonproduced nonfinancial assets in 2010 refers almost completely to land disposal (98.8 percent). The majority of the acquisition of nonproduced nonfinancial assets is also in the land.

Table 4.9. Transactions in Nonfinancial Assets in the 2008 – 2010 Period for 53 Local Units

(000 HRK)	2008	2009	2010	Index 2009/2008	Index 2010/2009
NET ACQUISITION OF NONFINANCIAL ASSETS	3,115,950	2,756,124	2,168,528	88.5	78.7
Fixed assets	3,231,840	2,773,332	2,223,776	85.8	80.2
Acquisitions: fixed assets	3,829,898	2,907,375	2,366,044	75.9	81.4
Disposals: fixed assets	598,059	134,042	142,268	22.4	106.1
Buildings and structures	2,667,444	2,354,629	1,844,836	88.3	78.3
Acquisition: buildings and structures	3,264,107	2,487,885	1,986,047	76.2	79.8
Disposal: buildings and structures	596,663	133,256	141,210	22.3	106.0
Machinery and equipment	407,674	307,583	304,061	75.4	98.9
Acquisition: machinery and equipment	408,992	308,167	305,067	75.3	99.0
Disposal: machinery and equipment	1,318	584	1,006	44.3	172.2
Other fixed assets	156,722	111,121	74,879	70.9	67.4
Acquisition: other fixed assets	156,800	111,323	74,930	71.0	67.3
Disposal: other fixed assets	78	203	51	259.7	25.2
Valuables	183	203	69	110.7	34.3
Acquisition: valuables	183	203	69	110.7	34.3
Disposal: valuables	0	0	0	-	-
Nonproduced assets	-116,073	-17,411	-55,318	15.0	317.7
Acquisition: nonproduced assets	333,337	297,960	254,896	89.4	85.5
Disposal: nonproduced assets	449,410	315,371	310,214	70.2	98.4
Land	-203,283	-86,030	-122,696	42.3	142.6
Acquisition: land	242,174	225,338	183,672	93.0	81.5
Disposal: land	445,457	311,368	306,367	69.9	98.4
Other naturally occurring assets	6,293	1,883	14	29.9	0.7
Acquisition: other naturally occurring assets	6,293	1,883	14	29.9	0.7
Disposal: other naturally occurring assets	0	0	0	-	-
Intangible nonproduced assets	80,917	66,737	67,364	82.5	100.9
Acquisition: intangible nonproduced assets	84,870	70,739	71,211	83.4	100.7
Disposal: intangible nonproduced assets	3,953	4,003	3,847	101.3	96.1

Source: Ministry of Finance

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

In 2010, net transactions in financial assets amounted to HRK -226.3 million, whereas net liabilities decreased by HRK 33.3 million.

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

- Reduction in the status of currency and deposits by HRK 172.2 million;
- Acquisition of domestic loans in the amount of HRK 53 million, as well as acquisitions of shares and equities in companies' capital in the amount of HRK 33 million;
- Disposals of loans in the amount of HRK 128 million, and disposals of shares and equities in companies in the amount of HRK 12 million.

Transactions in liabilities include incurrences and repayments of received loans on the basis of issued securities. Incurrences in 2010 were domestic incurrences, in the total amount of HRK 341.2 million, mostly by taking loans from domestic commercial banks. Repayments are mostly related to domestic loans, and less to domestic issued securities and foreign loans. Total repayments in 2010 amounted to HRK 376.9 million.

Table 4.10. Transactions in Financial Assets and Liabilities in the 2008 – 2010 Period for 53 Local Units

(000 HRK)	2008	2009	2010
NET ACQUISITION OF FINANCIAL ASSETS	141,447	-634,558	-226,342
Domestic	141,447	-634,558	-226,342
Currency and deposits	94,452	-613,723	-172,226
Securities other than shares	0	0	0
Loans	6,640	-53,268	-75,065
Acquisitions	121,525	73,194	52,960
Disposals	114,885	126,462	128,024
Shares and other equity	40,355	32,433	20,949
Acquisitions	63,683	55,832	32,969
Disposals	23,329	23,399	12,020
Other accounts receivable	0	0	0
Foreign	0	0	0
NET INCURRENCE OF LIABILITIES	128,891	17,596	-33,349
Domestic	153,766	39,441	20,901
Securities other than shares	298,636	-11,633	-23,991
Repayments	8,571	13,571	26,386
Incurrences	307,207	1,938	2,395
Loans	-144,869	51,074	3,090
Repayments	336,595	285,276	338,103
Incurrences	191,726	336,350	341,193
Foreign	-24,876	-21,844	-12,448
Loans	-24,876	-21,844	12,448
Repayments	24,876	21,844	12,448
Incurrences	0	0	0

Source: Ministry of Finance

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

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

The units are also allowed to refinance former loan liabilities due to more favourable loan conditions, primarily due to a drop in interest rates on the capital market. A loan that was taken with the approval of the Government as well as the rest of the debt based on issued securities, for the issuance of which the Government gave its consent, can be refinanced under the condition that the refinancing does not increase the existing liabilities of the respective unit.

The Act on the Execution of the State Budget prescribes the measures of limitation by means of which the Government can annually grant its consent on borrowing to local units. In accordance with this Act, municipalities, cities and counties could apply for borrowing if their reported financial revenue exceeded

operating expense for 2009, and the Government could give its consent on borrowing up to 2.3 percent of total realised revenue of all local units stated in the financial report for 2009. 2.3 percent of total realised revenue in 2009 amounted to HRK 485.7 million, which means that, in 2010, local units could borrow up to that amount. The Act on the Execution of the State Budget also prescribes derogation from the application of this limitation. The provision on the limits of the amount to which the Government may approve borrowing does not apply to units in the areas of special state concern and to the units which borrow for projects which are co-financed from the European Union pre-accession programmes. The Amendments to the Act on the Execution of the State Budget for 2010 prescribe that the concerned provision also does not apply to local units in case of energy efficiency improvement projects (ESCO projects).

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

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

As a result of local unit revenue and expense trends, the net operating balance in 2010 amounted to HRK 2 billion. At the same time, the primary operating balance was HRK 2.1 billion.

If the net operating balance is reduced by the value of the net acquisition of nonfinancial assets, we arrive at the category of net lending/borrowing, and in 2010 this amounted to HRK -193 million. Financing of this measure of deficit is the result of the difference between the net acquisition of financial assets in the amount of HRK -226.3 million and the net incurrence of liabilities in the amount of HRK -33.3 million.

Table 4.11. Deficit/Surplus Measures and Financing in the 2008 – 2010 Period for 53 Local Units

(000 HRK)	2008	2009	2010
TRANSACTIONS AFFECTING NET WORTH			
1 Revenue	16,825,641	16,062,945	15,041,811
2 Expense	13,697,135	13,958,975	13,066,277
24 Interest	133,675	115,495	102,517
Net/Gross operating balance (1 - 2)	3,128,506	2,103,970	1,975,535
Primary operating balance (1 - 2 + 24)	3,262,181	2,219,464	2,078,051
TRANSACTIONS IN NONFINANCIAL ASSETS			
31 Net acquisition of nonfinancial assets	3,115,949	2,756,123	2,168,528
Net lending/borrowing (1 - 2 - 31)	12,557	-652,154	-192,993
Financing (33 - 32)	-12,556	652,155	192,993
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES			
32 Net acquisition of financial assets	141,447	-634,558	-226,342
33 Net incurrence of liabilities	128,891	17,596	-33,349

Source: Ministry of Finance



5. TOTAL DEFICIT/
SURPLUS OF THE
CONSOLIDATED GENERAL
GOVERNMENT IN 2010



5.1. TOTAL DEFICIT/SURPLUS OF THE CONSOLIDATED GENERAL GOVERNMENT

The total deficit of the Consolidated General Government in 2010, expressed in accordance with the accounting principles of the GFS 2001 methodology, amounted to HRK 14.5 billion or 4.3 percent of GDP, which is 0.3 percentage points less than the planned amount. The majority of the deficit of 4.2 percent of GDP was recorded at the level of the Budgetary Central Government, while at the level of Extrabudgetary Users a deficit of 0.1 percent of GDP was realised, and the budget of the Local and Regional Self-Government Units was balanced.

The calculation of the General Government's total deficit starts with the category of net lending/borrowing, which presents the difference between revenue, expense and net acquisitions of nonfinancial assets. The starting point for the deficit calculation is not a purely cash principle as it also includes a review of the transaction calculation principle of the Croatian Motorways (*Hrvatske autoceste*) and Croatian Roads (*Hrvatske ceste*) in the 2006 to 2007 period, and only the Croatian Roads for the 2008 to 2010 period. Consequently, the trends in revenue and expense and net acquisition of nonfinancial assets of the Consolidated General Government in 2010 resulted in net lending/borrowing in the amount of HRK -14.7 billion. If we add changes in arrears of the Central and Local Government, the total deficit of the Consolidated General Government reaches the level of HRK 14.5 billion, which represents 4.3 percent of GDP.

Table 5.1. Total Deficit/Surplus of the Consolidated General Government in the 2006 – 2010 Period

CONSOLIDATED GENERAL GOVERNMENT							
	(000 HRK)	2006	2007	2008	2009	Plan 2010	2010
1	Revenue	112,237,278	126,621,570	134,735,549	128,089,920	124,223,066	123,715,244
2	Expense	107,644,348	118,818,568	130,381,146	132,447,149	133,710,771	133,658,424
31	Nonfinancial assets	9,080,989	11,666,135	7,353,658	6,134,006	5,956,169	4,796,378
I	Net lending/borrowing (1-2-31)	-4,488,059	-3,863,132	-2,999,255	-10,491,235	-15,443,875	-14,739,559
II	Arrears	482,182	-155,463	237,876	302,269		-256,463
	Total deficit/surplus of Consolidated General Government (I - II)	-4,970,242	-3,707,669	-3,237,131	-10,793,504	-15,443,875	-14,483,096
	GDP, %	-1.7	-1.2	-0.9	-3.2	-4.6	-4.3

Source: Ministry of Finance

The tables below show a review of deficit for all levels of the General Government in the 2006 to 2010 period.

Table 5.2. Total Deficit/Surplus of the Consolidated General Government according to Government Level in the 2006 – 2010 Period

BUDGETARY CENTRAL GOVERNMENT							
	(000 HRK)	2006	2007	2008	2009	Plan 2010	2010
1	Revenue	95,235,557	108,320,595	115,772,655	110,257,947	108,015,215	107,466,351
2	Expense	95,949,951	108,007,605	115,292,426	117,923,992	120,292,449	120,323,332
31	Nonfinancial assets	1,555,792	2,545,220	2,988,129	1,963,401	1,780,470	1,232,366
I	Net lending/borrowing (1-2-31)	-2,270,186	-2,232,230	-2,507,901	-9,629,446	-14,057,704	-14,089,347
II	Arrears	454,600	-437,749	351,713	-133,559		-95,771
	Total deficit/surplus of Budgetary Central Government (I - II)	-2,724,786	-1,794,482	-2,859,613	-9,495,887	-14,057,704	-13,993,576
	GDP, %	-0.9	-0.6	-0.8	-2.8	-4.2	-4.2
EXTRABUDGETARY USERS							
	(000 HRK)	2006	2007	2008	2009	Plan 2010	2010
1	Revenue	9,414,767	10,465,139	6,324,346	5,659,418	5,184,484	5,060,498
2	Expense	7,038,342	6,609,484	5,578,677	4,454,571	4,281,601	4,122,233
31	Nonfinancial assets	4,550,883	5,916,914	1,249,579	1,414,481	1,687,824	1,395,484
I	Net lending/borrowing (1-2-31)	-2,174,458	-2,061,259	-503,910	-209,634	-784,941	-457,219
	GDP, %	-0.7	-0.6	-0.1	-0.1	-0.2	-0.1
LOCAL GOVERNMENT							
	(000 HRK)	2006	2007	2008	2009	Plan 2010	2010
1	Revenue	13,560,211	15,502,588	16,825,641	16,062,945	14,434,227	15,041,812
2	Expense	10,629,313	11,868,231	13,697,135	13,958,975	12,547,581	13,066,277
31	Nonfinancial assets	2,974,314	3,204,000	3,115,950	2,756,124	2,487,876	2,168,528
I	Net lending/borrowing (1-2-31)	-43,416	430,357	12,556	-652,155	-601,230	-192,993
II	Arrears	27,582	282,286	-113,837	435,828		-160,692
	Total deficit/surplus of Local Government (I - II)	-70,998	148,071	126,393	-1,087,983	-601,230	-32,301
	GDP, %	0.0	0.0	0.0	-0.3	-0.2	0.0

Source: Ministry of Finance

Considering that the Republic of Croatia is in the final stages of EU accession and that it has for years participated in the fiscal surveillance by the European Union via fiscal notifications of the Excessive Deficit Procedure (EDP) and via the regular annual preparation of the Pre-Accession Economic Programme, the total deficit of the Consolidated General Government needs to be viewed in accordance with EU public finance statistics, that is, in accordance with the ESA 95 methodology. The ESA 95 methodology indicates a wide range of rules regarding the classification of institutional units of the entire economy into sectors, one of which is the general government sector. When it comes to the fiscal aggregates, in accordance with this methodology, the rules define the scope of the revenue side and expenditure side of the Consolidated General Government, which consequently leads to certain differences in the calculation of the deficit. In this sense, the most important differences of this methodology with respect to others (GFS 2001 methodology, National Chart of Accounting methodology) should be pointed out. The expenditure side of the budget, according to the ESA 95 methodology, contains net transactions in nonfinancial assets as its integral part. Furthermore, payments under guarantees, according to the ESA 95 methodology, are an integral part of the expenditure side and, finally, payments for the redemption of the debt to the pensioners – according to the assessment of Eurostat – are to be classified as an integral part of the expenditure side, on a cash basis. In accordance with the above, in 2010 the total deficit of the Consolidated General Government, according to the ESA 95 methodology, amounted to HRK 16.4 billion, or 4.9 percent of GDP, which is 0.8 percentage points higher in relation to 2009, and 0.3 percentage points less in relation to the planned amount.

Table 5.3. Total Deficit/Surplus of the Consolidated General Government in the 2007 – 2010 Period, ESA 95 Methodology

CONSOLIDATED GENERAL GOVERNMENT					
GDP, %	2007	2008	2009	Plan 2010	2010
Revenue	39.8	39.0	38.2	37.2	37.0
Expense	42.2	40.4	42.3	42.3	41.9
Total net lending/borrowing of Consolidated General Government	-2.4	-1.4	-4.1	-5.2	-4.9

Source: Ministry of Finance



6. PUBLIC DEBT
AND INTERNATIONAL
FINANCIAL RELATIONS
OF THE REPUBLIC OF
CROATIA IN 2010



6.1. PUBLIC DEBT OF THE REPUBLIC OF CROATIA

The Budget Act¹ prescribes the main objectives of borrowing and debt management, aimed at securing the financial needs of the state budget by achieving the lowest medium and long-term cost of financing, while taking a prudent degree of risk.

The Budget Act defines the state debt as the debt of the central budget, and the public debt as the debt of general budget. The central budget consists of the Budgetary Central Government and the financial plans of the Extrabudgetary Users. The general budget is defined as the central budget plus the budgets of the Local and Regional Self-Governments and of the Extrabudgetary Users of Local and Regional Self-Government Units.

Table 6.1. presents the trends of the public debt of the Republic of Croatia in the 2005 to 2010 period. At the end of 2010, the total public debt amounted to HRK 138 billion, which is 41.2 percent of the nominal GDP for 2010. The total domestic and foreign guarantees issued by the Republic of Croatia at the end of 2010 amounted to HRK 44.8 billion, while the debt of Croatian Bank for Reconstruction and Development - HBOR was HRK 14.5 billion for the same period.

Table 6.1. Public Debt in the 2005 - 2010 Period

PUBLIC DEBT at the end of the period, in million HRK	2005	2006	2007	2008	2009	2010
1. Domestic Public Debt	54,757.2	58,326.3	60,135.6	65,743.3	75,799.7	89,249.1
1.1 Domestic Debt of the Republic of Croatia	49,274.2	51,474.8	51,913.7	60,994.0	70,447.0	82,952.1
Treasury Bills	12,211.3	11,503.1	11,420.6	14,260.3	17,558.3	16,886.5
Money Market Instruments	0.9	-	-	10.7	19.3	20.5
Bonds	29,651.9	33,143.8	34,624.1	35,519.3	36,586.8	48,862.5
Credits from the CNB	1.4	0.9	1.0	2.2	2.9	0.3
Bank Loans	7,408.6	6,827.0	5,867.9	11,201.5	16,279.8	17,182.3
1.2 Domestic Debt of Extrabudgetary Users	3,953.5	5,198.0	6,357.8	3,035.0	3,794.4	4,604.7
Money Market Instruments	-	-	-	-	-	-
Bonds	-	-	-	-	-	-
Bank Loans	3,953.5	5,198.0	6,357.8	3,035.0	3,794.4	4,604.7
1.3 Local Government's Domestic Debt	1,529.6	1,653.5	1,864.1	1,714.3	1,558.3	1,692.3
Money Market Instruments	40.7	29.3	36.8	12.0	6.8	1.6
Bonds	150.3	246.9	365.5	414.0	406.4	387.0
Bank Loans	1,338.6	1,377.4	1,461.8	1,288.3	1,145.1	1,303.6
2. Foreign Public Debt	46,981.2	44,710.4	44,524.2	34,878.8	41,933.3	48,754.1
2.1 Foreign Debt of the Republic of Croatia	37,980.7	35,572.4	34,190.6	32,619.4	39,812.5	46,443.9
Money Market Instruments	66.7	909.8	320.0	180.3	1,244.3	3,458.6
Bonds	28,519.4	24,942.2	25,046.1	22,991.6	28,884.2	31,684.5
Loans	9,394.6	9,720.4	8,824.5	9,447.4	9,684.1	11,300.8
2.2 Foreign Debt of Extrabudgetary Users	8,749.8	8,938.2	10,000.7	1,826.1	1,715.3	1,984.2
Money Market Instruments	-	-	-	-	-	-
Bonds	-	-	-	-	-	-
Loans	8,749.8	8,938.2	10,000.7	1,826.1	1,715.3	1,984.2
2.3 Local Government's Foreign Debt	250.8	199.9	333.0	433.4	405.5	325.9
Money Market Instruments	-	-	-	-	-	-
Bonds	34.8	47.4	106.8	168.7	168.2	168.7
Loans	216.0	152.5	226.1	264.7	237.2	157.2
Total Public Debt (1+2)	101,738.5	103,036.7	104,659.9	100,622.2	117,733.0	138,003.2

¹ Official Gazette, number 87/2008

PUBLIC DEBT at the end of the period, in million HRK	2005	2006	2007	2008	2009	2010
PUBLIC DEBT (% GDP)	38.2%	35.4%	32.9%	29.2%	35.1%	41.2%
1. Guarantees Issued by the Republic of Croatia	12,455.1	14,188.2	17,399.0	33,835.5	38,575.5	44,828.1
1.1. Domestic	5,268.5	7,252.3	7,867.8	12,447.2	15,611.4	17,440.5
1.2. Foreign	7,186.7	6,935.9	9,531.2	21,388.3	22,964.1	27,387.5
2. Total Debt of HBOR	7,139.4	7,686.3	9,563.2	10,778.3	12,347.1	14,522.3

Source: CNB, 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 a rating from the Japanese R&I credit rating agency, specialised in rating those who 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 in 1998.

Each year, these agencies have performed verifications of the ratings granted, which in 2010 resulted in the confirmation of the investment credit rating given to the Republic of Croatia, as indicated in Table 6.2.

Table 6.2. Overview of Credit Ratings of the Republic of Croatia at the End of 2010

	Long Term Rating Foreign Currency	Long Term Rating Domestic Currency	Short Term Rating Foreign Currency
Mood's Investors Service	Baa3/ stable "outlook"	Baa3	P-1
Standard & Poors	BBB-/negative "outlook"	BBB-	A-3
Fitch Ratings	BBB-/negative "outlook"	BBB	
R & I	BBB+/stable "outlook"		

Source: Ministry of Finance

Table 6.3. Comparison of Credit Ratings at the End of 2010

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

Source: Ministry of Finance

6.1.2. State Budget's Domestic Debt in 2010

6.1.2.1. Domestic Debt Categories

During 2010, the domestic debt of the Republic of Croatia increased from HRK 72.3 billion at the end of 2009 to HRK 84.4 billion at the end of 2010. The increase of the domestic debt during 2010 was caused by the issue of guarantees on the domestic capital market.

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

Debt Item	Original currency	2009		2010		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	2,140,826	2,140,826	2,209,572	2,209,572	2011	5.000%
Big Bonds Series II	EUR	22,283	162,803	11,537	85,202	2011	7.200%
Big Bonds Series III	EUR	25,979	189,809	16,144	119,226	2012	7.200%
Bonds – Series 03 D-12	EUR	500,000	3,653,100	500,000	3,692,587	2012	6.875%
Bonds – Series 05 D-14	EUR	650,000	4,749,029	650,000	4,800,362	2014	5.500%
Bonds – Series 07 D-19	EUR	500,000	3,653,100	500,000	3,692,587	2019	5.375%
Bonds – Series 08 D-10	HRK	3,000,000	3,000,000			2010	6.750%
Bonds – Series 09 D-15	EUR	350,000	2,557,170	350,000	2,584,811	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	2020	6.750%
Bonds – Series 14 D-20	EUR			1,000,000	7,385,173	2020	6.500%
Bonds – Series 15 D-17	HRK			4,000,000	4,000,000	2017	6.250%
Bank Rehabilitation - Series II	EUR	9,809	71,665	6,028	44,520	2012	5.000%
Bank Rehabilitation - Series III	EUR	26,938	196,817	16,740	123,627	2012	7.200%
Bank Rehabilitation - Series IV	EUR	13,427	98,099	8,252	60,942	2012	5.000%
Syndicated Foreign Currency Loan I	EUR	500,000	3,653,100	500,000	3,692,587	2014	5.150%
Syndicated Foreign Currency Loan II	EUR	760,000	5,552,711	760,000	5,612,731	2013	4.710%
Syndicated Foreign Currency Loan III	EUR	750,000	5,479,649	750,000	5,538,880	2014	5.450%
Midium and long term debt			50,157,877		63,642,806		
Treasury Bills	HRK	12,135,000	12,135,000	11,545,000	11,545,000		
Treasury Bills FX	EUR	1,364,359	9,968,278	1,242,163	9,173,589		
Other Short term debt	HRK						
Short term debt			22,103,278		20,718,589		
Total debt			72,261,156		84,361,395		

Source: Ministry of Finance

In March 2010, the Republic of Croatia issued ten-year domestic market bonds of the 13 D-20² Series in the amount of HRK 3.5 billion at the annual interest rate of 6.75 percent and bonds of the 14 D-20³ Series in the amount of EUR 350 million in the HRK equivalent at the annual interest rate of 6.50 percent. These issues were supplemented in July 2010, the first in the amount of HRK 1.5 billion at a fixed interest rate of 6.75 percent, and the second in the HRK equivalent of EUR 650 million at an interest rate of 6.50 percent. In November of 2010, bonds of the 15 D-17 Series⁴ in the amount of HRK 4 billion at an annual interest rate of 6.25 percent and 7-year maturity were issued.

² Official Gazette, numbers 30/2010 and 87/2010

³ Official Gazette, numbers 30/2010 and 87/2010

⁴ Official Gazette, number 130/2010

Table 6.5. Amortisation of Domestic Debt

HRK million	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Amortisation	2,523.05	6,618.99	11,422.10	9,416.10	8,084.81	0.00	9,500.00	0.00	3,692.59	12,385.17
Big Bonds I	2,209.57	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big Bonds II (RB,SB)	85.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big Bonds III (PBZ)	77.96	41.27	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank Rehabilitation-Series II (PBZdm)	29.33	15.19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank Rehabilitation-Series III (PBZk)	80.84	42.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank Rehabilitation-Series IV (PBZk5)	40.15	20.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds – Series 03 D-12	0.00	3,692.59	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds – Series 05 D-14	0.00	0.00	0.00	4,800.36	0.00	0.00	0.00	0.00	0.00	0.00
Bonds – Series 07 D-19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3,692.59	0.00
Bonds – Series 09 D-15	0.00	0.00	0.00	0.00	2,584.81	0.00	0.00	0.00	0.00	0.00
Bonds – Series 10 D-15 (HRK)	0.00	0.00	0.00	0.00	5,500.00	0.00	0.00	0.00	0.00	0.00
Bonds – Series 11 D-13 (HRK)	0.00	0.00	4,000.00	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	0.00	0.00	5,500.00	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	0.00	0.00	5,000.00
Bonds – Series 14 D-20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7,385.17
Bonds – Series 15 D-17 (HRK)	0.00	0.00	0.00	0.00	0.00	0.00	4,000.00	0.00	0.00	0.00
Syndicated Foreign Currency Loan I	0.00	0.00	1,846.29	1,846.29	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated Foreign Currency Loan II	0.00	2,806.37	2,806.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated Foreign Currency Loan III	0.00	0.00	2,769.44	2,769.44	0.00	0.00	0.00	0.00	0.00	0.00
Payment of Interest	3,558.69	3,227.35	2,900.30	2,259.98	1,925.87	1,527.26	1,396.64	1,016.01	1,016.01	408.77
Big Bonds I	110.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big Bonds II (RB,SB)	4.62	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big Bonds III (PBZ)	7.21	1.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank Rehabilitation-Series II (PBZdm)	1.86	0.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank Rehabilitation-Series III (PBZk)	7.48	1.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank Rehabilitation-Series IV (PBZk5)	2.55	0.52	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds – Series 03 D-12	253.87	126.93	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds – Series 05 D-14	264.02	264.02	264.02	132.01	0.00	0.00	0.00	0.00	0.00	0.00
Bonds – Series 07 D-19	198.48	198.48	198.48	198.48	198.48	198.48	198.48	198.48	198.48	0.00
Bonds – Series 09 D-15	109.85	109.85	109.85	109.85	109.85	0.00	0.00	0.00	0.00	0.00
Bonds – Series 10 D-15 (HRK)	288.75	288.75	288.75	288.75	288.75	0.00	0.00	0.00	0.00	0.00
Bonds – Series 11 D-13 (HRK)	180.00	180.00	180.00	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	261.25	261.25	130.63	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	337.50	337.50	168.75
Bonds – Series 14 D-20	480.04	480.04	480.04	480.04	480.04	480.04	480.04	480.04	480.04	240.02
Bonds – Series 15 D-17 (HRK)	250.00	250.00	250.00	250.00	250.00	250.00	250.00	0.00	0.00	0.00
Syndicated Foreign Currency Loan I	205.05	205.61	153.65	51.12	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated Foreign Currency Loan II	293.41	219.86	73.15	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Syndicated Foreign Currency Loan III	301.96	301.13	303.62	150.98	0.00	0.00	0.00	0.00	0.00	0.00
Total	6,081.74	9,846.34	14,322.40	11,676.08	10,010.68	1,527.26	10,896.64	1,016.01	4,708.60	12,793.94

Exchange rate: CNB midpoint exchange rate on 31 December 2010

Source: Ministry of Finance

In March 2010 a total HRK 3 billion of bonds of the 08 D-10 Series, issued in 2005, matured and were redeemed.

All bonds of the Republic of Croatia are listed in the first quotation of the Zagreb Stock Exchange. At the end of 2010, a total of ten emissions of bonds of the Republic of Croatia were listed on the Zagreb Stock Exchange (the list of these, with the conditions, is presented in Table 6.6.).

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

DAB Bonds for Insured Savings I DAB-O-03CA	DAB Bonds for Insured Savings II DAB-O-05CA
Issuer: State Agency for Deposit Insurance and Bank Rehabilitation	Issuer: State Agency for Deposit Insurance and Bank Rehabilitation
EUR 105,000,000	EUR 225,000,000
3 years	5 years
8% coupon	8.375% coupon
Lead managers: Privredna banka Zagreb and Zagrebačka banka Zagreb	Lead managers: Privredna banka Zagreb and Zagrebačka banka Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 19 December 2000	Date of Issue: 19 December 2000
Date of Maturity: 19 December 2003	Date of Maturity: 19 December 2005
The bond was fully repaid at maturity.	The bond was fully repaid at maturity.
HZZO Bonds HZZO-O-047A	Bonds – Series 01 D-04 RHMF-O-049A
Issuer: Croatian Institute for Health Insurance	Issuer: Republic of Croatia
EUR 222,000,000	EUR 200,000,000
4 years	3 years
8.5% coupon	6.5% coupon
Lead manager: Zagrebačka banka Zagreb	Lead managers: Privredna banka Zagreb and Zagrebačka banka Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 19 July 2000	Date of Issue: 20 September 2001
Date of Maturity: 19 July 2004	Date of Maturity: 20 September 2004
The bond was fully repaid at maturity.	The bond was fully repaid at maturity.
Bonds – Series 02 D-08 RHMF-O-08CA	Bonds – Series 03 D-12 RHMF-O-125A
Issuer: Republic of Croatia	Issuer: Republic of Croatia
EUR 200,000,000	EUR 500,000,000
7 years	10 years
6.875% coupon	6.875% coupon
Lead managers: Privredna banka Zagreb and Zagrebačka banka Zagreb	Lead managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisenbank Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 14 December 2001	Date of Issue: 23 May 2002
Date of Maturity: 14 December 2008	Date of Maturity: 23 May 2012
The bond was fully repaid at maturity.	
Bonds – Series 04 D-08 RHMF-O-085A	Bonds – Series 05 D-14 RHMF-O-142A
Issuer: Republic of Croatia	Issuer: Republic of Croatia
HRK 1,000,000,000	EUR 650,000,000
5 years	10 years
6.125% coupon	5.5% coupon
Lead managers: Riječka banka Rijeka and Splitska banka Split	Lead managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisenbank Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 28 May 2003	Date of Issue: 10 February 2004
Date of Maturity: 28 May 2008	Date of Maturity: 10 February 2014
The bond was fully repaid at maturity.	
Bonds – Series 06 D-07 RHMF-O-077A	Bonds – Series 07 D-19 RHMF-O-19BA
Issuer: Republic of Croatia	Issuer: Republic of Croatia
EUR 400,000,000	EUR 500,000,000
3 years	15 years
3.875% coupon	5.375% coupon
Lead managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisenbank Zagreb	Lead managers: Erste&Steiermarkische Bank, Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisenbank Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 7 July 2004	Date of Issue: 29 November 2004
Date of Maturity: 7 July 2007	Date of Maturity: 29 November 2019
The bond was fully repaid at maturity.	

Bonds – Series 08 D-10 RHMF-0-103A	Bonds – Series 09 D-15 RHMF-0-157A
Issuer: Republic of Croatia	Issuer: Republic of Croatia
HRK 3,000,000,000	EUR 350,000,000
5 years	10 years
6.750% coupon	4.25% coupon
Lead managers: Privredna banka Zagreb, Zagrebačka banka Zagreb and Raiffeisen bank Zagreb	Lead manager: Erste&Steiermarkische Bank
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 8 March 2005	Date of Issue: 14 July 2005
Date of Maturity: 8 March 2010	Date of Maturity: 14 July 2015
The bond was fully repaid at maturity.	
Bonds – Series 10 D-15 RHMF-0-15CA	Bonds – Series 11 D-13 RHMF-0-137A
Issuer: Republic of Croatia	Issuer: Republic of Croatia
HRK 5,500,000,000	HRK 4,000,000,000
10 years	7 years
5.25% coupon	4.50% coupon
Lead managers: Erste&Steiermärkische Bank, HVB Splitska banka, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb	Lead managers: Erste&Steiermärkische Bank, HVB Splitska banka, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 15 December 2005	Date of Issue: 11 July 2006
Date of Maturity: 15 December 2015	Date of Maturity: 11 July 2013
Bonds – Series 12 D-17 RHMF-0-172A	Bonds – Series 13 D-20 RHMF-0-203A
Issuer: Republic of Croatia	Issuer: Republic of Croatia
HRK 5,500,000,000	HRK 5,000,000,000
10 years	10 years
4.75% coupon	6.75% coupon
Lead managers: Erste&Steiermärkische Bank, SG Splitska banka, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb	Lead managers: Erste&Steiermärkische Bank, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 8 February 2007	Date of Issue: 5 March 2010
Date of Maturity: 8 February 2017	Date of Maturity: 5 March 2020
Bonds – Series 14 D-20 RHMF-0-203E	Bonds – Series 15 D-17 RHMF-0-17BA
Issuer: Republic of Croatia	Issuer: Republic of Croatia
EUR 1,000,000,000	HRK 4,000,000,000
10 years	7 years
6.5% coupon	6.25% coupon
Lead managers: Erste&Steiermärkische Bank, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb	Lead managers: Erste&Steiermärkische Bank, Privredna banka Zagreb, Raiffeisenbank Austria and Zagrebačka banka Zagreb
Listing: Zagreb Stock Exchange	Listing: Zagreb Stock Exchange
Date of Issue: 5 March 2010	Date of Issue: 25 November 2010
Date of Maturity: 5 March 2020	Date of Maturity: 25 November 2017

Source: Ministry of Finance

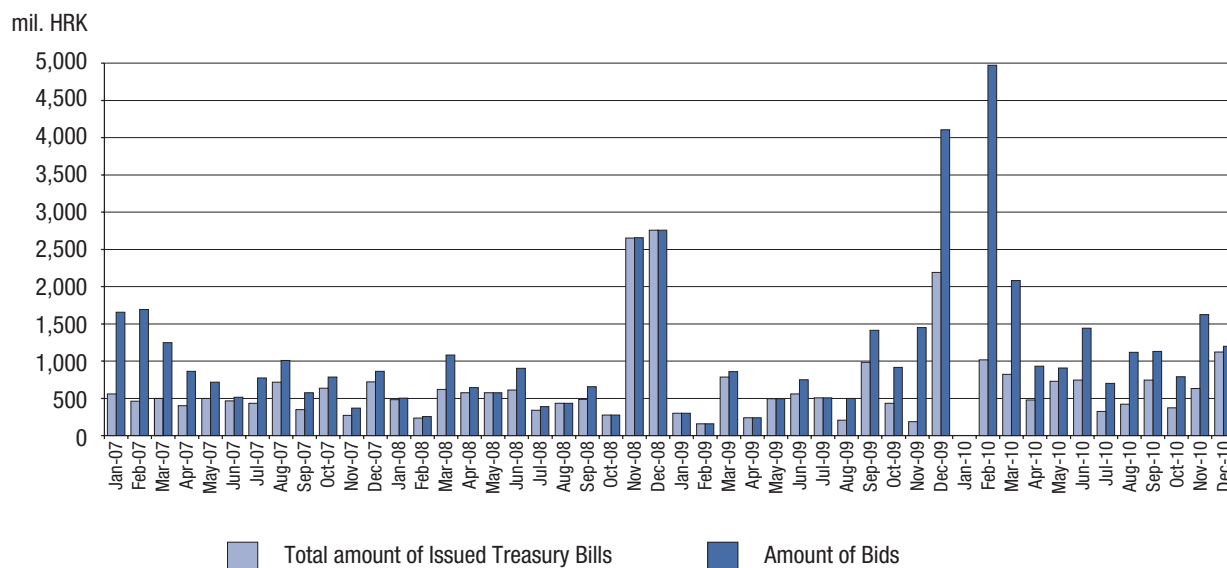
6.1.2.2. Treasury Bills

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

During 2010, 31 auctions of treasury bills were held, with a total of 116 issues, 27 of which were 91-day issues, 27 were 182-days issues, 31 were 364-days issues and 31 were 364-days issues, expressed in EUR and payable in HRK.

In 2010, at the treasury bill auctions, a total of HRK 15.2 billion and EUR 1.2 billion of treasury bills were issued, while HRK 15.8 billion and EUR 1.4 billion of treasury bills was redeemed. The balance of registered treasury bills of the Ministry of Finance in 2010 decreased from HRK 22.1 billion at the end of 2009 to HRK 20.7 billion at the end of 2010.

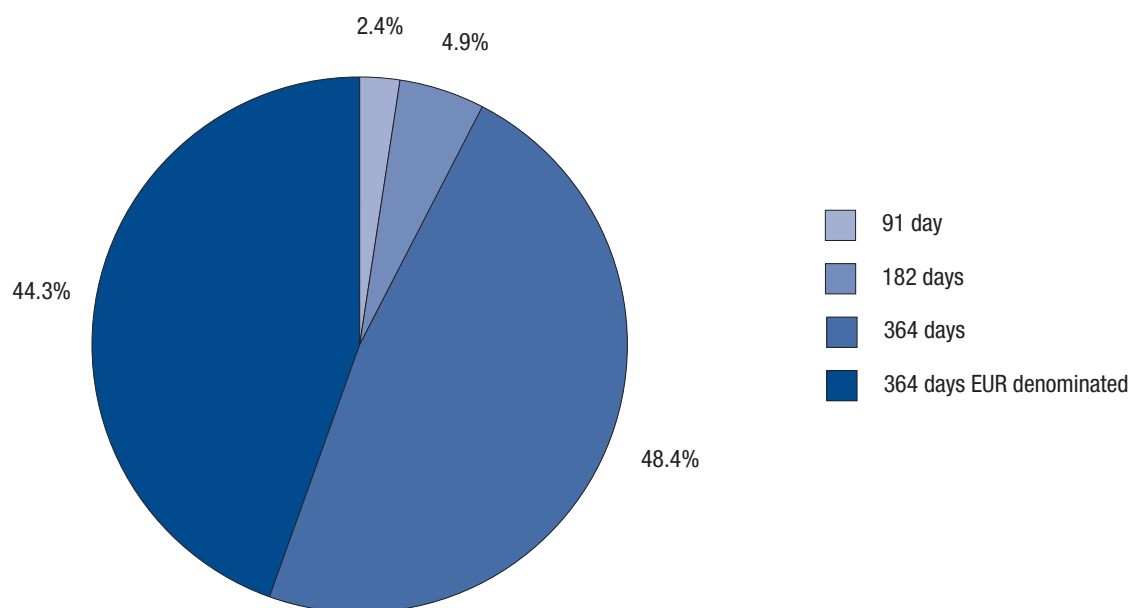
Figure 6.1. Results of Treasury Bill Auctions



Source: Ministry of Finance

At the end of 2010, out of the total amount of registered treasury bills of the Ministry of Finance, the share of treasury bills with a maturity term of 364 days expressed in HRK amounted to 48.4 percent, and treasury bills with a maturity term of 364 days expressed in EUR comprised 44.3 percent. The share of 182-days treasury bills amounted to 4.9 percent, and 91-day treasury bills to 2.4 percent.

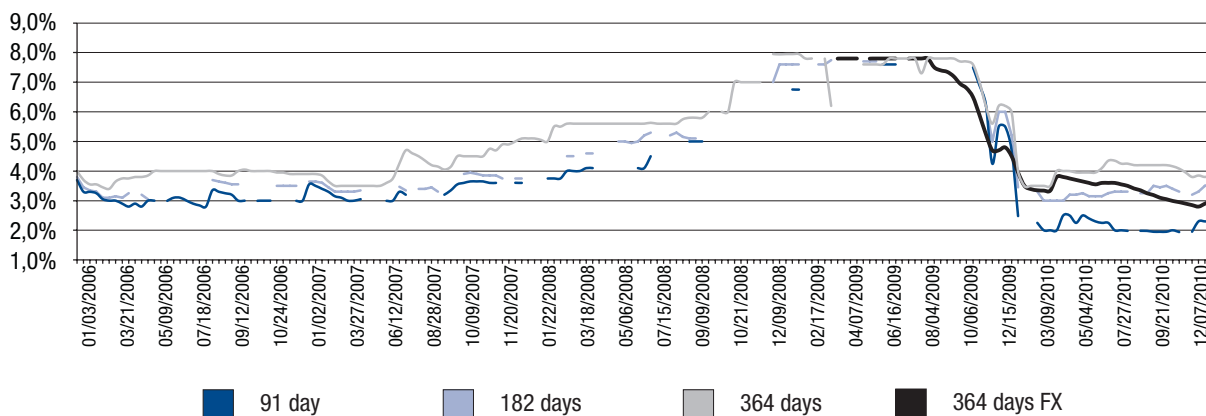
Figure 6.2. Maturity Structure of Treasury Bills as of 31 December 2010



Source: Ministry of Finance

During 2010, interest rates for treasury bills decreased compared to 2009 and at the end of 2010 they amounted to 2.3 percent for 91-day treasury bills, 3.55 percent for 182-days treasury bills, 3.85 percent for 364-days treasury bills and 3 percent for 364-days treasury bills with a currency clause.

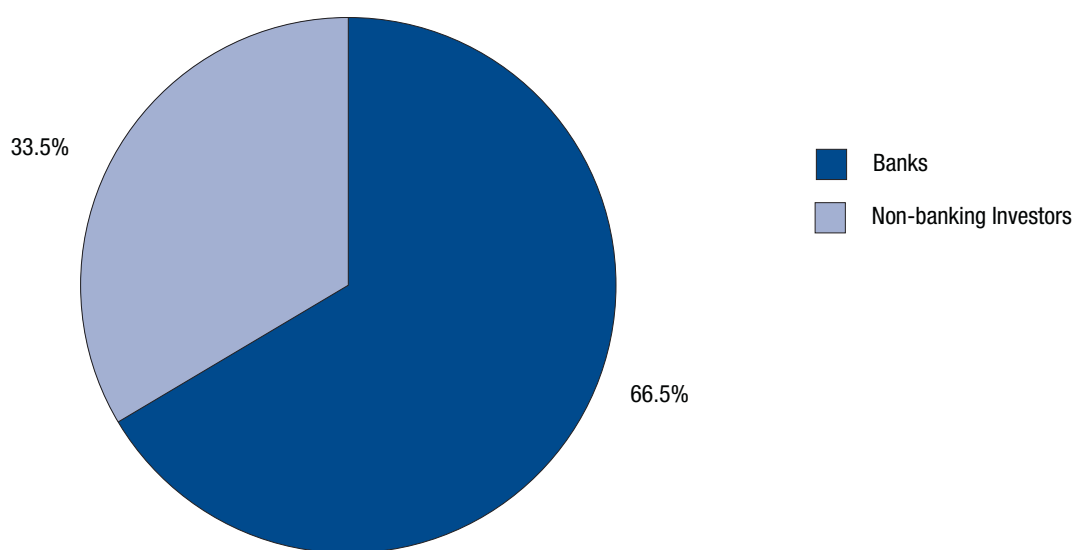
Figure 6.3. Interest Rates of Treasury Bills



Source: Ministry of Finance

During 2010, the share of the banking sector in the structure of buyers of treasury bills increased compared to 2009. The share for the banking sector in the total registered bills at the end of 2010 amounted to 66.5 percent, while at the end of 2009 it amounted to 52.8 percent.

Figure 6.4. Structure of Treasury Bills by Investors as of 31 December 2010



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 2010, a total of 5 emissions of Croatian Government bonds were listed on foreign capital markets. In February of 2010, EUR 500 million of bonds issued in 2003 matured and were redeemed, and all liabilities towards the London Club were redeemed as well.

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

London Club Series A:	London Club Series B:
US\$ 857,796,000	US\$ 604,426,000
3 years grace period, 11 years repayment	10 years repayment
US\$ 6 Month LIBOR+81.25 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
The Bond was fully repaid at maturity.	The Bond was fully repaid at maturity.
Euro-dollar bonds:	Euro-DEM bonds:
US\$ 300 million	DEM 300 million
5 years, bullet	7 years, bullet
7% coupon	6.125% coupon
(80 bps over 5-year Treasuries)	(95 bps over Relevant Bund)
Lead managers: Merrill Lynch and UBS	Lead managers: Credit Suisse and Deutsche Morgan Grenfell
Listing: Luxembourg	Listing: Frankfurt
Date of Issue: 6 February 1997	Date of Issue: 1 July 1997
Date of Maturity: 27 February 2002	Date of Maturity: 16 July 2004
The Bond was fully repaid at maturity.	The Bond was fully repaid at maturity.
Matador Bonds:	Euro-EUR bonds / I:
ESP 15 billion	EUR 300 million
3 years, bullet	7 years, bullet
6.5% coupon	7.375% coupon
(225 bps over Relevant Spanish Bonds)	(375 bps over 7-years German Bund)
Lead managers: Santander Investment	Lead managers: Credit Suisse and Dresdner Kleinwort Benson
Listing: Madrid	Listing: Luxembourg
Date of Issue: 4 March 1998	Date of Issue: 23 February 1999
Date of Maturity: 26 March 2001	Date of Maturity: 10 March 2006
The Bond was fully repaid at maturity.	The Bond was fully repaid at maturity.
Samurai bond / I:	Euro-EUR bonds / II:
JPY 25 billion	EUR 500 million
5 years, bullet	5 years, bullet
4% coupon	7% coupon
(310 bps over 5-year Yen LIBOR)	(210 bps over 5-year German Bund)
Lead manager: Daiwa Securities SB	Lead manager: Dresdner Kleinwort Benson
Listing: Tokyo	Listing: Luxembourg
Date of Issue: 14 December 1999	Date of Issue: 28 March 2000
Date of Maturity: 14 December 2004	Date of Maturity: 28 March 2005
The Bond was fully repaid at maturity.	The Bond was fully repaid at maturity.

Samurai bond / II:	Samurai bond / III:
JPY 40 billion	JPY 25 billion
7 years, bullet	5 years, bullet
3% coupon	2.5% coupon
(135 bps over 7-year Yen LIBOR)	(152 bps over 5-year Yen LIBOR)
Lead manager: Daiwa Securities SB	Lead manager: Daiwa Securities SB
Listing: Tokyo	Listing: Tokyo
Date of Issue: 11 July 2000	Date of Issue: 6 February 2001
Date of Maturity: 11 July 2007	Date of Maturity: 23 February 2006
The Bond was fully repaid at maturity.	The Bond was fully repaid at maturity.
Euro-EUR bonds / III:	Euro-EUR bonds / IV:
EUR 750 million	EUR 500 million
10 years, bullet	7 years, bullet
6.75% coupon	6.25% coupon
(215 bps over 10-year German Bund)	(158 bps over 7-year German Bund)
Lead managers: JP Morgan and Deutsche Bank	Lead managers: Deutsche Bank and CSFB
Listing: Luxembourg	Listing: Luxembourg
Date of Issue: 6 March 2001	Date of Issue: 28 January 2002
Date of Maturity: 14 March 2011	Date of Maturity: 11 February 2009
	The Bond was fully repaid at maturity.
Samurai bond / IV:	Euro-EUR bonds / V:
JPY 25 billion	EUR 500 million
6 years, bullet	7 years, bullet
2.15% coupon	4.625% coupon
(144 bps over 6-year Yen LIBOR)	(95 bps over 7-year Euribor)
Lead managers: Daiwa Securities SMBC and Nomura Securities	Lead managers: Deutsche Bank and Citigroup
Date of Issue: 26 June 2002	Listing: Luxembourg
Date of Maturity: 26 June 2008	Date of Issue: 24 February 2003
The Bond was fully repaid at maturity.	Date of Maturity: 24 February 2010
	The Bond was fully repaid at maturity.
Samurai bond / V:	Euro-EUR bonds / VI:
JPY 25 billion	EUR 500 million
6 years, bullet	10 years, bullet
1.23% coupon	5% coupon
(99 bps over 6-year Yen LIBOR)	(100 bps over 10-year Euribor)
Lead managers: Daiwa Securities SMBC and Nomura Securities	Lead managers: JP Morgan and UBS Investment Bank
Date of Issue: 26 June 2003	Listing: Luxembourg
Date of Maturity: 26 June 2009	Date of Issue: 15 April 2004
The Bond was fully repaid at maturity.	Date of Maturity: 15 April 2014
Euro-EUR bonds / VII:	Euro-USD bonds / I:
EUR 750 million	USD 1.5 billion
6 years, bullet	10 years, bullet
6.5% coupon	6.75% coupon
(369.2 bps over 10-year German Bund)	(350 bps over 10-years US Treasury)
Lead managers: BNP Paribas, Deutsche Bank and Unicredit	Lead managers: Barclays Capital, Citigroup and JP Morgan
Listing: Luxembourg	Listing: Luxembourg
Date of Issue: 5 June 2009	Date of Issue: 5 November 2009
Date of Maturity: 5 January 2015	Date of Maturity: 5 November 2019
Euro-USD bonds / II:	
USD 1.25 billion	
10 years, bullet	
6.625% coupon	
(381.3 bps 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	

Source: Ministry of Finance

In July 2010, the Republic of Croatia issued euro-bonds in the amount of USD 1.25 billion⁵ with a maturity of ten years and at an annual interest rate of 6.625 percent.

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

Of the total of five international bonds of the Republic of Croatia, whose projection of repayments is presented in Table 6.8., three are denominated in EUR, and two in USD. The total nominal value of all five emissions of Croatian bonds on foreign markets amounted to EUR 4 billion at the end of 2010.

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

	Amount in (EUR*)	2011 (EUR*)	2012 (EUR*)	2013 (EUR*)	2014 (EUR*)	2015 (EUR*)	2016 (EUR*)	2017 (EUR*)	2018 (EUR*)	2019 (EUR*)	2020 (EUR*)
EUR 750,000,000 6.75% Maturity: 2011	Principal	750,000,000									
	Interest	50,625,000									
EUR 500,000,000 5.0% Maturity: 2014	Principal	0	0	0	500,000,000						
	Interest	25,000,000	25,000,000	25,000,000	25,000,000						
EUR 750,000,000 6.5% Maturity: 2015	Principal	0	0	0	0	750,000,000					
	Interest	48,750,000	48,750,000	48,750,000	48,750,000	48,750,000					
USD 1,500,000,000 6.75% Maturity: 2019	Principal	0	0	0	0	0	0	0	0	1,130,965,788	
	Interest	76,340,191	76,340,191	76,340,191	76,340,191	76,340,191	76,340,191	76,340,191	76,340,191	76,340,191	
USD 1,250,000,000 6.625% Maturity: 2020	Principal	0	0	0	0	0	0	0	0	0	942,471,490
	Interest	62,438,736	62,438,736	62,438,736	62,438,736	62,438,736	62,438,736	62,438,736	62,438,736	62,438,736	62,438,736
Principal Repayment (EUR*)		750,000,000	0	0	500,000,000	750,000,000	0	0	0	1,130,965,788	942,471,490
Interest Payment (EUR*)		263,153,927	212,528,927	212,528,927	212,528,927	187,528,927	138,778,927	138,778,927	138,778,927	138,778,927	62,438,736
Total Servicing Costs (EUR*)		1,013,153,927	212,528,927	212,528,927	712,528,927	937,528,927	138,778,927	138,778,927	138,778,927	1,269,744,715	1,004,910,226
Total Principal Outstanding (at year end) (EUR*)		3,323,437,278	3,323,437,278	3,323,437,278	2,823,437,278	2,073,437,278	2,073,437,278	2,073,437,278	2,073,437,278	942,471,490	0

* CNB midpoint exchange rate on 31 December 2010
Source: Ministry of Finance

6.2. INTERNATIONAL FINANCIAL RELATIONS IN 2010

6.2.1. Relations with International Financial Institutions

6.2.1.1. International Bank for Reconstruction and Development (IBRD⁶)

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

New Loans Contracted with IBRD in 2010

During 2010, two loan agreements and one advance payment agreement were signed with the IBRD:

- a) loan no. 78460-HR (EUR 200 million), for the Development Policy in the Fiscal, Social and Financial Sector (strengthening public finance management and resilience of the social sector and increasing the efficiency and stability of the financial sector for the advancement of economic reform programmes; beneficiary: Ministry of Finance) and
- b) loan no. 78880-HR (EUR 26 million), for the Justice Sector Support Project (improving the efficiency of the court system, improving the efficiency of the State Attorney's Office of the Republic of Croatia, strengthening management functions of the Ministry of Justice; beneficiary: Ministry of Justice);
- c) advance no. P4590-HR (USD 1.45 million), for the preparation of the Integrated Land Administration System Project (automatisation of land registration, modernisation of spatial information and cadastre system and improving digital services; beneficiary: Ministry of Justice and the State Geodetic Administration).

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

In the 1994 - 2010 period, the IBRD granted, for financing of projects and programmes in the Republic of Croatia, EUR 1.7 billion⁷ and USD 649 million through a total of 47 long-term loans (Table 6.9.), 32 of which are direct loans and 15 sovereign guarantee loans⁸. In accordance with decisions of the IBRD Board of Directors and

⁶ The International Bank for Reconstruction and Development – IBRD – is a special development institution within the World Bank group. The Republic of Croatia is a full member of IBRD since 25 February 1993 and owns 0.15 percent of its shares and has 0.16 percent of voting power. In IBRD's Board of Directors the Republic of Croatia, along with twelve other countries, is represented by the executive director from the Netherlands.

⁷ This amount in EUR is a sum of the amounts of loans originally contracted in EUR and the amounts of loans originally contracted in DEM and converted into EUR.

⁸ Loan No. 30690-HR, granted in the amount of USD 28 million, was taken over on the basis of the Act on the Ratification of the Guarantee Agreement between the Republic of Croatia and the IBRD and the Loan Agreement between the Republic of Croatia and the IBRD, concluded on 25 February 1993 (Official Gazette - International agreements, number 7/1994). In January of 2001 undisbursed amounts of approximately USD 1.98 million were called off and the loan was closed for disbursement. The loan was paid off in 2004.

current practice towards borrowers who settle their debts for contracted loans in a timely manner, savings of EUR 1.6 million and USD 502.4 thousand were achieved for direct loans and sovereign guarantee loans. During 2010, accrued interests were paid semi-annually at the following floating rates, depending on the type of loan: a) for Currency Pooled Loans (CPL) – from 1.62 percent to 1.85 percent; b) for Variable Spread Loans (VSL): 1. contracted in EUR or converted into EUR – from 0.95 percent to 1.44 percent; 2. contracted in USD – from 0.69 percent to 1.23 percent and c) for Fixed Spread Loans (FSL), contracted in EUR or converted into EUR – from 0.96 percent to 2.21 percent. Front-end fees were calculated and paid at rate of 0.25 percent of the loan amount, and the commitment charges at a rate of 0.25 percent and 0.35 percent.

Table 6.9. Overview of IBRD Loans Concluded in the 1994 - 2010 Period, with a Review of Outstanding Debt and Funds Withdrawal Overview, as of 31 December 2010 and Disbursed Funds During 2010

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 2010
Emergency Reconstruction Project - loan no. 37600 - HR CPL									
27.06.1994	7/1994	19.08.1994 31.12.1999	000 USD	128.000,00	128.000,00	0,00	7.430,00	15.12.1998 15.06.2011	0,00
Health Project - loan no. 38430 - HR CPL (1)									
08.03.1995	7/1995	17.08.1995 31.12.1999	000 USD	38.925,50	38.925,50	0,00	3.271,50	15.06.2000 15.12.2011	0,00
Highway Sector Project - loan no. 38690 - HR CPL (2)									
27.04.1995	8/1995	26.07.1995 30.06.2001	000 USD	79.878,49	79.878,49	0,00	13.296,86	15.12.1999 15.06.2012	0,00
Capital Market Development Project - loan no. 39990 - HR VSL									
23.04.1996	1/1996 and 9/1996	22.07.1996 30.06.1999	000 EUR	7.260,35	7.260,35	0,00	1.528,76	15.10.2001 15.04.2013	0,00
Farmer Support Services Project - loan no. 39880 - HR CPL (3)									
23.04.1996	1/1996 and 9/1996	22.07.1996 31.12.2002	000 USD	14.258,75	14.258,75	0,00	2.905,95	01.09.2001 01.03.2013	0,00
Technical Assistance Project - loan no. 39890 - HR VSL									
23.04.1996	1/1996 and 8/1996	22.07.1996 30.04.2000	000 USD	5.000,00	5.000,00	0,00	1.010,00	15.10.2001 15.04.2013	0,00
Emergency Reconstruction Transport and Mine Clearing Project - loan no. 41040 - HR VSL (4)									
04.12.1996	3/1997	04.03.1997 31.12.2001	000 EUR	74.797,17	74.797,17	0,00	11.181,32	15.07.2002 15.01.2012	0,00
Coastal Forest Reconstruction Project - loan no. 41190 - HR CPL (5)									
31.01.1997	8/1997	31.07.1997 30.06.2003	000 USD	38.589,31	38.589,31	0,00	9.424,11	15.06.2002 15.12.2013	0,00
Enterprise and Financial Sector Adjustments Loan - loan no. 41590 - HR VSL EFSAL									
04.06.1997	17/1997	05.11.1997 31.12.2001	000 EUR	81.806,70	81.806,70	0,00	12.271,01	15.12.2002 15.06.2012	0,00
Reconstruction Project for Eastern Slavonia, Baranja and Western Srijem - loan no. 43510 - HR VSL (6)									
08.09.1998	15/1998	06.01.1999 31.12.2004	000 EUR	36.600,50	36.600,50	0,00	10.887,58	15.01.2004 15.07.2013	0,00
Railway Modernization and Restructuring Project - loan no. 44330 - HR VSL (7)									
20.01.1999	4/1999	09.06.1999 30.06.2005	000 EUR	85.398,55	85.398,55	0,00	29.889,45	15.09.2004 15.03.2014	0,00
Technical Assistance Project for Institutional and Legislative Changes for Private Sector Development - loan no. 44600 - HR VSL (8)									
05.05.1999	8/1999	03.08.1999 30.06.2006	000 USD	7.253,43	7.253,43	0,00	2.533,31	15.10.2004 15.04.2014	0,00
Health System Project - loan no. 45130 - HR VSL (9)									
07.10.1999	14/1999	28.03.2000 30.12.2005	000 USD	26.155,16	26.155,16	0,00	10.376,66	15.06.2005 15.12.2014	0,00

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 2010
Trade and Transport Facilitation in Southeast Europe Project - loan no. 45820 - HR VSL (10)									
27.10.2000	5/2001	02.05.2001 31.03.2005	000 EUR	13.813,21	13.813,21	0,00	6.907,21	15.05.2006 15.11.2015	0,00
Court and Bankruptcy Administration Project - loan no. 46130 - HR VSL (11)									
03.07.2001	14/2001 and 5/2002	29.01.2002 31.01.2007	000 USD	4.636,27	4.636,27	0,00	2.514,67	15.12.2006 15.06.2016	0,00
Structural Adjustment Loan - loan no. 46410 - HR VSL SAL									
05.12.2001	2/2002 and 5/2002	08.02.2002 31.10.2003	000 USD	202.000,00	202.000,00	0,00	121.200,00	15.04.2007 15.10.2016	0,00
Pension System Investment Project - loan no. 46720 - HR VSL (12)									
17.09.2002	2/2003 and 6/2003	20.02.2003 31.12.2008	000 USD	21.221,14	21.221,14	0,00	12.805,92	15.11.2007 15.05.2017	0,00
Real Property Registration and Cadastre Project - loan no. 46740 - HR VSL									
18.09.2002	2/2003 and 6/2003	20.02.2003 30.06.2010	000 EUR	25.973,29	25.973,29	0,00	18.173,29	15.05.2008 15.11.2017	1.204,39
Coastal Cities Pollution Control Project - loan no. 72260 - HR FSL									
02.07.2004	11/2004 and 2/2005	17.12.2004 30.11.2009	000 EUR	39.179,11	39.179,11	0,00	33.577,49	15.10.2009 15.04.2019	1.358,69
Social and Economic Recovery Project - loan no. 72830 - HR FSL									
02.05.2005	9/2005 and 1/1/2005	30.09.2005 31.12.2010	000 EUR	35.000,00	35.000,00	0,00	31.575,28	15.05.2010 15.11.2019	2.418,07
Social Welfare Development Project - loan no. 73070 - HR FSL									
07.06.2005	11/2005	30.01.2006 31.12.2010	000 EUR	31.000,00	30.999,99	0,01	29.449,99	15.11.2010 15.05.2020	2.157,86
Science and Technology Project - loan no. 73200 - HR FSL									
16.09.2005	12/2005 and 5/2006	11.05.2006 31.05.2011	000 EUR	29.995,62	23.928,56	6.067,06	22.850,84	15.11.2010 15.05.2020	9.379,78
Programmatic Adjustment Loan (PAL) - loan no. 73300 - HR FSL PAL									
20.09.2005	12/2005 and 3/2006	19.12.2005 30.06.2006	000 EUR	150.000,00	150.000,00	0,00	150.000,00	15.09.2015	0,00
Education Sector Development Project - loan no. 73320 - HR FSL									
17.10.2005	12/2005 and 1/2007	15.03.2006 31.03.2011	000 EUR	67.800,00	59.500,00	8.300,00	57.325,00	15.11.2010 15.05.2020	24.000,00
Agricultural Acquis Cohesion Project - loan no. 73600 - HR FSL (13)									
08.05.2006	10/2006 and 1/2007	21.11.2006 28.02.2012	000 EUR	25.500,00	11.811,68	13.688,32	11.811,68	15.04.2011 15.10.2020	3.367,97
Second Programmatic Adjustment Loan - loan no. 74500 - HR FSL PAL 2 (14)									
11.06.2007	7/2007 and 3/2008	28.04.2008 31.10.2008	000 EUR	100.000,00	100.000,00	0,00	100.000,00	15.10.2012 15.04.2022	0,00
Inland Waters Project - loan no. 74530 - HR FSL									
12.06.2007	8/2007	29.01.2008 31.12.2012	000 EUR	100.000,00	25.771,11	74.228,89	25.771,11	15.04.2012 15.10.2022	11.690,45
Revenue Administration Modernization Project - loan no. 74710 - HR FSL									
03.07.2007	8/2007	21.12.2007 30.06.2013	000 EUR	25.000,00	5.806,85	19.193,15	5.806,85	01.11.2012 10.05.2022	613,90
Development of Emergency Medical Services and Investment Planning Project - loan no. 75980 - HR IFL FS									
21.10.2008	12/2008	15.01.2009 30.06.2013	000 EUR	18.100,00	545,25	17.554,75	545,25	15.10.2013 15.04.2038	0,00
Coastal Cities Pollution Control Project 2 - loan no. 76400 - HR IFL FS									
06.02.2009	4/2009	04.06.2009 30.09.2014	000 EUR	60.000,00	2.000,00	58.000,00	2.000,00	15.04.2014 15.10.2023	2.000,00

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 2010
Nature Protection Investment Project (Advance for the preparation of the Project) - PPA P4500 - HR									(15)
05.03.2009	not for publishing	05.03.2009 15.04.2011	000 USD	500,00	482,33	17,67	482,33		328,29
Fiscal, Social and Financial Sector Development Policy Loan - loan no. 78460 - HR IFL FS DPL									
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	200.000,00
Justice Sector Support Project - loan no. 78880 - HR IFL FS									
13.04.2010	4/2010	12.07.2010 30.06.2015	000 EUR	26.000,00	528,55	25.471,45	528,55	15.05.2027	528,55
Integrated Land Administration System Project (Advance for the preparation of the Project) - PPA P4590 - HR									(16)
03.08.2010	not for publishing	03.08.2010 31.10.2011	000 USD	1.450,00	150,00	1.300,00	150,00		150,00
TOTAL DIRECT LOANS				000 USD	567.868,05	566.550,38	1.317,67	187.401,31	478,29
					100,00%	99,77%	0,23%		
				000 EUR	1.233.224,50	1.010.720,87	222.503,63	762.080,66	258.719,66
					100,00%	81,96%	18,04%		

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 2010
Istria Water Supply and Sewerage Project - loan no. 30690 - HR CPL (17)									
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
Investment Rehabilitation 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) (18)									
04.12.1997	3/1998	17.03.1998 31.12.2002	000 EUR	21.589,50	21.589,50	0,00	4.303,97	15.03.2003 15.09.2012	0,00
Municipal Environmental Infrastructure Project - loan no. 43520 - HR VSL (HBOR)									
25.09.1998	2/1999	28.06.1999 31.12.2007	000 EUR	33.233,97	33.233,97	0,00	8.308,49	15.11.2003 15.05.2013	0,00
Rijeka Gateway Project - loan no. 47140 - HR VSL (Hrvatske autoceste) (19)									
12.07.2003	16/2003 and 18/2003	10.10.2003 31.12.2010	000 EUR	8.200,00	6.949,12	1.250,88	4.833,42	15.12.2008 15.06.2018	1.295,33
Rijeka Gateway Project - loan no. 47150 - HR VSL (Lučka uprava Rijeka) (20)									
12.07.2003	16/2003 and 18/2003	10.10.2003 31.08.2011	000 USD	55.100,00	44.100,29	10.999,71	30.325,29	15.12.2008 15.06.2018	9.866,36
Rijeka Gateway Project - loan no. 47160 - HR VSL (Hrvatske ceste d.o.o.)									
12.07.2003	16/2003 and 18/2003	10.10.2003 30.09.2009	000 EUR	76.200,00	76.200,00	0,00	57.150,00	15.12.2008 15.06.2018	0,00
Energy Efficiency Project - loan no. 71980 - HR FSL (Hrvatska elektroprivreda)									
10.11.2003	3/2004	08.04.2004 30.06.2010	000 EUR	4.400,00	4.400,00	0,00	4.347,17	15.04.2009 15.04.2019	240,42
District Heating Project - loan no. 48280 - HR VSL (HEP - Toplinarstvo)									
11.09.2006	1/2007	09.03.2007 30.06.2010	000 EUR	24.000,00	24.000,00	0,00	24.000,00	15.03.2012 15.09.2021	5.303,41
Trade and Transport Integration Project - loan no. 74100 - HR FSL (Lučka uprava Ploče) (21)									
20.11.2006	3/2007 and 1/2008	20.03.2007 31.12.2011	000 EUR	58.800,00	31.669,87	27.130,13	31.669,87	01.04.2012 01.10.2021	10.978,53

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 2010
Additional Loan for the Rijeka Getaway Project - loan no. 47151 - HR VSL (Lučka uprava Rijeka)									
11.06.2007	9/2007 and 1/2008	21.11.2007 30.09.2012	000 EUR	35.300,00	2.143,99	33.156,01	2.143,99	15.10.2011 15.04.2020	1.138,94
Rijeka Gateway II Project - loan no. 76380 - HR IFL VS (Lučka uprava Rijeka)									
17.04.2009	6/2009 and 8/2009	14.07.2009 15.12.2014	000 EUR	84.000,00	212,66	83.787,34	212,66	15.03.2019 15.09.2031	2,09
Export Finance Intermediation Loan Project - loan no. 77740 - HR IFL FS (HBOR)									
02.09.2009	11/2009	25.11.2009 31.08.2013	000 EUR	100.000,00	67.672,36	32.327,64	67.672,36	15.10.2016 15.10.2037	52.672,36
TOTAL SOVEREIGN GUARANTEE LOANS			000 USD	81.116,29	70.116,58	10.999,71	30.325,29		9.866,36
				100,00%	86,44%	13,56%			
			000 EUR	445.723,47	268.071,47	177.652,00	204.641,93		71.631,08
				100,00%	60,14%	39,86%			
TOTAL DIRECT + SOVEREIGN GUARANTEE LOANS			000 USD	648.984,34	636.666,96	12.317,38	217.726,60		10.344,65
				100,00%	98,10%	1,90%			
			000 EUR	1.678.947,97	1.278.792,34	400.155,63	966.722,59		330.350,74
				100,00%	76,17%	23,83%			

Source: Ministry of Finance

Notes:

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

- 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 1.7 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.
- 13 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.
- 14 a loan of EUR 150 million contracted; cancelled: EUR 50 million.
- 15 disbursed amount of the pre-loan will be refinanced entirely from the account of the Nature Protection Investment Project on the date of the loan effectiveness
- 16 disbursed amount of the pre-loan will be refinanced entirely from the account of the Integrated Land Administration System Project on the date of the loan effectiveness
- 17 loan undertaken on 25.2.1993, contracted in the amount of USD 28 million; cancelled: USD 19 million.
- 18 For the implementation of the Project, four loans were contracted (users are the banks cited in the table).
- 19 a loan of EUR 15.7 million contracted; cancelled: EUR 7.5 million
- 20 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.
- 21 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.

Overview of Grants

In the period between 1995 and the end of 2010, 60 grant contracts were signed for project implementation in the Republic of Croatia in the field of infrastructure, environmental protection and private sector development as well as structural adjustment in healthcare and welfare, agriculture, education, public finances and the judiciary (Table 6.10.). In 2010, the following grants were contracted: a) a grant between the Republic of Croatia, the Croatian Bank for Reconstruction and Development (HBOR) and KfW (Kreditanstalt für Wiederaufbau) in the amount of EUR 1 million, for the financing of the necessary accompanying measures in connection with the loan

for the phase II of the Water Supply and Wastewater Management in the Republic of Croatia Project and b) a grant between the Republic of Croatia and the EBRD, in the amount of EUR 120 thousand, for the refurbishment of Heating and Hot water System of the Home for Children and Young People Tuškanac Project.

Table 6.10. Overview of IBRD Grants, the Netherlands Constituency Grants within IBRD and EBRD Grant on 31 December 2010

No.	Year of Granting	Grant Reference	Grant Name	Curr	Contracted Amount of Grant in the Payment Currency (000)	Cancelled Amount in the Payment Currencies (000)	Undisbursed Amount in the Payment Currency (000)
A. Darovnice ugovorene s IBRD-om							
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)	Information Development Program	USD	80.00	0.00	0.00
17.	1999	27259 (closed)	Environmental Policy Development and Regulatory Capacity Building	USD	276.49	7.67	0.00
18.	1999	22644 (closed)	Kopački rit Wetlands	USD	750.00	0.44	0.00
19.	1999	25799 (closed)	Municipal Environmental Infrastructure Project	USD	216.84	0.05	0.00

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)
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	4,900.00	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

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)
43.	2006	54882 (closed)	Technical Assistance to Support the Implementation of the Coastal Cities Pollution Control Project	USD	2,461.67	0.03	0.00
44.	2006	56237 (closed)	Co-financing the Social Welfare Development Project	SEK	14,700.00	90.69	0.00
45.	2006	56572 (closed)	Preparation of the Inland Waters Project	USD	500.00	15.61	0.00
46.	2006	56514 (closed)	Public Administration Reform Support	SEK	8,550.00	0.00	0.00
47.	2006	56498	Technical Assistance to Support the Implementation of the Agricultural Acquis Cohesion Project	USD	4,750.06	0.00	2,094.26
48.	2007	90642	Enhancing Corporate Financial Reporting in Croatia	USD	260.00	0.00	150.00
49.	2008	90845	Agricultural Pollution Control Project	USD	5,000.00	0.00	4,197.49
50.	2008	91967	Neretva and Trebišnjica Management Project	USD	2,000.00	0.00	1,489.11
51.	2009	92704	Coastal Cities Pollution Control Project 2	USD	6,400.00	0.00	6,135.40
TOTAL (1. - 51.):				USD	48,836.93	3,156.42	14,066.26
				JPY	270,500.00	70,655.27	0.00
				GBP	352.80	2.83	0.00
				EUR	11,270.00	0.51	0.00
				SEK	23,250.00	90.69	0.00
TOTAL (1. - 51.) in:				EUR	92,919.37		

B. Grants given by the Kingdom of the Netherlands

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
TOTAL (1. - 5.):				EUR	928.32	0.00	110.66

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)
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C. Grants given by the Federal Republic of Germany

1.	2005	–	Grant for financing of Consultants' Services for the refinancing of Sub-Loans granted for the rehabilitat. and extension of Water Supply and Waste Water Disposal Facilities in RoC Project	EUR	1,782.30	0.00	1,597.69
2.	2009	–	Grant for financing of Consultants' Services for the Promotion of Energy Efficiency and Renewable Energies in Republic of Croatia Project	EUR	1,500.00	0.00	842.32
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	1,000.00
TOTAL (1. - 3.):				EUR	4,282.30	0.00	3,440.01

D. Grant 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	120.00
TOTAL				EUR	120.00	0.00	120.00

TOTAL (A. + B. + C. + D.):	USD	48,836.93	3,156.42	14,066.26
	JPY	270,500.00	70,655.27	0.00
	GBP	352.80	2.83	0.00
	EUR	16,600.62	0.51	3,670.67
	SEK	23,250.00	90.69	0.00
TOTAL (A. + B. + C. + D.) in:	EUR	98,249.99		

Source: Ministry of Finance

Projects in Preparation during 2010

In 2010, preparations for the EU Natura 2000 Integration Project (with the potential amount of EUR 20.8 million) continued and preparations for the Economic Recovery Development Policy Loan (with the potential amount of EUR 150 million) began.

6.2.1.2. International Development Association (IDA⁹)

From 1993 to the end of 2010, the Republic of Croatia participated in all regular IDA replenishments. During 2010, four meetings were held on the topic of the 16th IDA replenishment (IDA16), covering the period from the beginning of July 2011 to the end of June 2014 (IDA 2012-2014 fiscal year). The Croatian delegation participated in one meeting as an observer. The total agreed amount for IDA16 is SDR (special drawing rights) 32.8 billion, that is USD 49.3 billion. IDA16 funds will be used as a source for interest-free loans (80 percent of total funds) and grants (20 percent) for the 79 poorest countries of the world, with an emphasis on countries of sub-Saharan Africa.

6.2.1.3. European Bank for Reconstruction and Development (EBRD¹⁰)

The value of the granted loans/investments in the Republic of Croatia from 1994 until today amounts to around EUR 2.5 billion for more than 130 projects whose total value reaches EUR 5.8 billion. The Bank has also financed 143 technical assistance projects with a total value of EUR 16.1 million. The average annual value of investments of EBRD funds in the Republic of Croatia amounts to around EUR 150 million, while investments in the private sector make up around 70 percent of all investments of the EBRD in the Republic of Croatia, and public sector projects are supported by around 30 percent. In the sector funding structure, infrastructure and energetics (35 percent), financial institutions (32 percent) and entrepreneurship (33 percent) dominate. In accordance with the EBRD Strategy for Croatia for the 2010 - 2013 period, priority sectors for EBRD investments in the Croatian economy are: 1. entrepreneurship; 2. infrastructure, environment and energetics and 3. financial services.

EBRD Investments in the Republic of Croatia in 2010

During 2010, the EBRD approved a total of EUR 447.4 million for the financing of fourteen new projects in the Republic of Croatia, EUR 374.8 million of which was approved for twelve projects in the private sector, and EUR 72.6 million for the financing of two projects in the public sector (loan no. 39749 to the Šibenik Port Authority, for the amount of EUR 12 million, with a sovereign guarantee, for the modernisation of the infrastructure of the Port of Šibenik; and loan no. 41325 to the Croatian Motorways (HAC d.o.o.), for the amount of EUR 60.63 million, with a sovereign guarantee, for the finalisation of corridor VC). Also, for the funding of the development of the coastal infrastructure of the Port of Dubrovnik, in 2010 the Dubrovnik Port Authority and the Republic of Croatia signed with the EBRD a contract on amending the existing contract from 2005, with which the loan amount intended for this project was increased by EUR 8 million.

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

In the period from 1994 to the end of 2010, the EBRD granted a total of 20 loans for the funding of public projects in the Republic of Croatia (in the total amount of USD 66.2 million and EUR 580.3 million), 3 of which are direct loans and 17 sovereign guarantee loans (Table 6.11.). Interests for loans contracted in EUR or converted into EUR are paid in semi-annual rates ranging between 1.53 percent to 7.44 percent, and interest for loans obtained in US dollars are paid in semi-annual rates ranging between 1.44 percent and 1.50 percent. Front-end fees were calculated and charged at the contract rate of 1 percent of the loan amount, and commitment charges were calculated and charged at a rate of 0.5 percent annually.

⁹ The International Development Association (IDA) is a special development institution within the World Bank group founded in 1960 to fund economic and social development of the poorest countries through grants and interest-free loans. The Republic of Croatia became a member of IDA on 25 February 1993.

¹⁰ The Republic of Croatia is a full member of the European Bank for Reconstruction and Development (EBRD) from 15 April 1993 and owns 0.37 percent of its shares and has 0.37 percent voting power. In the EBRD Board of Directors, the Republic of Croatia, together with three other states, in the period from 1 January 2009 to 1 May 2009 was represented by the executive director from Hungary, and from 1 May 2009, will be represented by the executive director from the Czech Republic.

Table 6.11. Overview of EBRD Loans Concluded in the 1994 to 2010 Period, with a Review of Outstanding Debt and Funds Withdrawal Overview, as of 31 December 2010 and Disbursed Funds During 2010

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 2010, in 000 USD/000 EUR
Air Navigation System Project - Loan No. 231 (1)									
21.09.1994	13/1994	31.12.2001	USD	19,735.52	19,735.52	0.00	0.00	21.09.1996 21.03.2004	0.00
Croatian Highway Reconstruction Project (HC) - Loan No. 286 (2)									
17.01.1995	6/1995	28.02.1999	EUR	36,195.88	36,195.88	0.00	0.00	10.04.1998 10.10.2009	0.00
Croatia Wholesale Markets Project - Loan No. 627 (3)									
08.12.1997	7/1998	25.03.2002	EUR	3,203.56	3,203.56	0.00	320.36	24.05.2002 24.11.2011	0.00
TOTAL DIRECT LOANS			USD	19,735.52	19,735.52	0.00	0.00		0.00
			EUR	39,399.44	39,399.44	0.00	320.36		0.00
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 2010, in 000 USD/000 EUR
Croatia Electricity Network Reconstruction Project (HEP) - Loan No. 283									
02.02.1995	6/1995	30.06.2000	EUR	32,211.39	32,211.39	0.00	0.00	10.03.1998 10.03.2005	0.00
Croatian Tourism Credit Line (HBOR) - Loan No. 443									
26.06.1996	1/1996 and 10/1996	01.05.1998	EUR	25,564.59	25,564.59	0.00	0.00	23.12.1998 23.12.2002	0.00
Municipal Environmental Infrastructure Investment Programme (HBOR) - Loan No. 494 (4)									
09.12.1996	4/1997	31.01.2004	EUR	31,575.22	31,575.22	0.00	3,407.52	10.04.2001 10.10.2011	0.00
Croatian Railways Locomotive Rehabilitation Project (HŽ) - Loan No. 733									
08.12.1998	4/1999	05.02.2004	USD	35,000.00	35,000.00	0.00	8,749.99	20.05.2002 20.11.2013	0.00
The Small and Medium Entrepreneurship Project (HBOR) - Loan No. 923 (5)									
20.03.2001	9/2001 and 5/2002	19.09.2004	EUR	4,685.36	4,685.36	0.00	0.00	Principal prepayment as of 05.08.2005	0.00
Zagreb-Rijeka Motorway Project (ARZ) - Loan No. 975 (6)									
22.10.2001	8/2002	08.01.2008	EUR	60,000.00	60,000.00	0.00	36,000.00	12.05.2005 12.11.2019	0.00
EBRD-Refund Guarantee Facility (Uljanik brodogradilište d.d. Pula-construction of the tanker No. 450) - Loan No. 18149									
26.02.2002	7/2002 and 11/2002	4 guarantees issued until 07.12.2004	USD	11,490.00	11,490.00	0.00	0.00	Guarantees returned on 03.03.2005	0.00
Zagreb Area Control Centre Project - Loan No. 25800 (7)									
05.09.2002	14/2002	31.12.2006	EUR	24,944.05	24,944.05	0.00	7,790.98	20.11.2005 20.05.2013	0.00
Croatia-Motorway Rehabilitation Project (Corridor X: Zabok-Zagreb-Brodski Stupnik) (HAC) - Loan No. 27171 (8)									
13.12.2002	10/2003	01.09.2006	EUR	45,254.45	45,254.45	0.00	26,366.84	20.05.2006 20.11.2017	0.00

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 2010, in 000 USD/000 EUR
Croatia Corridor X Motorway Completion Project (Županja-Lipovac) (HAC) - Loan No. 31848 (9)									
12.11.2003	6/2004	09.12.2007	EUR	44,983.88	44,983.88	0.00	33,051.88	20.05.2007 20.11.2021	0.00
Port of Dubrovnik Infrastructure Modernization Project - Loan No. 13451									
01.02.2005	7/2005, 11/2005 and 9/2010	01.07.2011	EUR	34,500.00	25,066.06	9,433.94	19,051.88	10.04.2008 10.10.2017	2,408.05
Autocesta Rijeka-Zagreb Phase IIB (Kikovica-Susica) (ARZ) - Loan No. 35790									
26.07.2006	11/2006	01.10.2010	EUR	50,000.00	50,000.00	0.00	48,809.52	17.12.2010 17.06.2031	0.00
Rijeka Bypass Project (Hrvatske ceste d.o.o.) - Loan No. 31849 (10)									
12.12.2006	4/2007 and 1/2008	31.12.2012	EUR	33,347.05	30,930.86	2,416.19	30,386.00	23.09.2010 23.09.2031	7,501.72
Port of Ploče Bulk Terminal/Trade and Transport Integration Project (Lučka uprava Ploče) - Loan No. 36127									
09.11.2007	2/2008	01.09.2011	EUR	11,200.00	276.89	10,923.11	276.89	20.03.2012 20.09.2022	60.12
Plinacro Gas Storage Project (Plinacro d.o.o.) - Loan No. 40223									
13.05.2009	6/2009	30.04.2010	EUR	70,000.00	70,000.00	0.00	56,000.00	15.05.2010 15.11.2014	0.00
Port of Šibenik Infrastructure Modernization Project (Lučka uprava Šibenik) - Loan No. 39749									
15.05.2010	8/2010	15.05.2014	EUR	12,000.00	120.00	11,880.00	120.00	20.05.2014 20.05.2025	120.00
Corridor Vc completion Project (HAC) - Loan No. 41325									
24.11.2010	In procedure	24.11.2013	EUR	60,630.00	0.00	60,630.00	0.00	15.03.2014 15.03.2026	0.00
TOTAL SOVEREIGN GUARANTEE LOANS				USD	46,490.00	46,490.00	0.00	8,749.99	0.00
				EUR	540,895.99	445,612.75	95,283.24	261,261.51	10,089.89
TOTAL DIRECT + SOVEREIGN GUARANTEE LOANS				USD	66,225.52	66,225.52	0.00	8,749.99	0.00
				EUR	580,295.43	485,012.19	95,283.24	261,581.87	10,089.89

Source: Ministry of Finance

Notes:

- loan contracted in the amount of USD 22 million; cancelled: USD 2.3 million
- loan contracted in the amount of DEM 70.9 million; cancelled: DEM 107 thousand. Loan converted into EUR
- 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
- loan contracted in the amount of DEM 105 million; cancelled: total DEM 24.6 million and EUR 9.6 million. Loan converted into EUR
- loan contracted in the amount of EUR 12 million; cancelled: EUR 7.3 million
- loan contracted in the amount of EUR 90 million; EBRD reduced the loan by EUR 30 million in 2002
- loan contracted in the amount of EUR 25 million; cancelled: EUR 55.9 thousand
- loan contracted in the amount of EUR 46.5 million; cancelled: EUR 1.2 million
- loan contracted in the amount of EUR 45 million; cancelled: EUR 16.1 thousand
- loan contracted in the amount of EUR 40 million; EUR 6.7 million were cancelled in 2010

6.2.1.4. Council of Europe Development Bank (CEB¹¹)

During 2010, the cooperation of the Republic of Croatia and CEB concerned project implementation in the sector of education, health care and culture, project for the modernisation of rural areas through the construction of municipal and social infrastructure on Croatian islands and the HBOR funding programme for production investment projects of micro, small and medium enterprises in the Republic of Croatia, for which the loan agreement (EUR 50 million; with sovereign guarantee) was signed in 2010.

¹¹ The Republic of Croatia became a full member of the Council of Europe Development Bank (CEB) on 24 June 1997 and owns 0.39 of its stock (on the basis of which it has 0.39 percent voting power).

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

In the period between 1998 and the end of 2010, the Republic of Croatia directly contracted 12 framework loans with CEB for the co-financing of projects, and provided guarantees for three CEB framework loans to HBOR (Table 6.12.). All direct framework loans and sovereign guarantee loans were disbursed on the basis of supplemental/disbursement agreements, in instalments, each of which is considered a separate loan. The instalments of direct loans were contracted in EUR and USD, with a repayment period between 5 and 15 years, with a maximum 5-year grace period. They are paid off at a fixed interest rate, which, in the period between 1998 and the end of 2010, ranged from 2.89 percent to 5.56 percent for instalments disbursed in EUR, while the instalments disbursed in USD were contracted at a 5.71 percent interest rate. In 2010, three instalments of the direct framework loans were disbursed in the total amount of EUR 16.4 million (in 2010, the fixed interest rate ranged from 3.64 percent to 3.85 percent). The instalments of CEB framework loans to HBOR were contracted in EUR, with a repayment period of 8 to 10 years, and a 2 to 3 year grace period for the repayment of the principal amount. They are repaid at a floating interest rate based on EURIBOR increased by 0.24 to 0.4 percent annually, while three instalments¹² were contracted at a fixed interest rate between 3.1 and 4.37 percent. In 2010, only one HBOR's framework loan was active, and from it one instalment was disbursed in the amount of EUR 14.7 million (3.1 percent fixed interest rate).

Table 6.12. Overview of CEB Loans Concluded in the 1998 to 2010 Period, with a Review of Outstanding Debt and Funds Withdrawal Overview, as of 31 December 2010 and Disbursed Funds During 2010

DIRECT LOANS							
Signing date	The Act published in Official Gazette No.:	Framework Loan amount in 000 HRK	Disbursed in 000 HRK	Undisbursed in 000 HRK	Outstanding in currency (000 EUR)	Outstanding in currency (000 USD)	Disbursed in 2010, in 000 HRK
Reconstruction of Health Facilities in Eastern Slavonia - Loan No. F/P 1278/1998							
16.07.1998	13/1998 and 15/1998	172,744.13	172,744.13	0.00	2,240.00	0.00	0.00
Rehabilitation of School Facilities in Eastern Slavonia - Loan No. F/P 1279/1998 (1)							
16.07.1998	13/1998 and 15/1998	66,380.80	66,380.80	0.00 Cancelled: 987.21	514.00	0.00	0.00
Reconstruction / Repair of 41 School Facilities in Croatia - Loan No. F/P 1352/1999 (2)							
19.01.2001 26.01.2001	7/2001	96,935.64	96,935.64	0.00 Cancelled: 1,746.36	5,867.00	0.00	0.00
Reconstruction and Housing Project for the Return of Displaced Persons and Refugees in the Republic of Croatia - Loan No. F/P 1378/2000							
02.02.2001 07.02.2001	7/2001	232,000.00	232,000.00	0.00	13,000.00	0.00	0.00
Cultural Heritage Restoration Project of the Franciscan Monastery "Male braće" in Dubrovnik - Loan No. F/P 1379/2000 (3)							
19.06.2001	14/2001 and 2/2002	10,324.79	10,324.79	0.00 Cancelled: 0.67	844.16	0.00	0.00
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							
29.03.2002	10/2002 and 12/2002	21,395.00	21,395.00	0.00	1,955.84	0.00	0.00
Investments in Health Facilities throughout Croatia - Loan No. F/P 1351/1999 (4)							
23.10.2001 30.10.2001	9/2002 and 12/2002	186,054.94	186,054.94	0.00 Cancelled: 782.09	18,946.80	0.00	0.00
Sustainable Return of Displaced Persons and Refugees - Loan No. F/P 1435/2002 (5)							
03.01.2004 30.01.2004	6/2004	292,304.13	292,304.13	0.00 Cancelled: 46.87	35,536.00	0.00	0.00

¹² Funding of production investment projects of small and medium enterprises (SMEs) throughout Croatia - loan no. F/P 1646/2008 and Partial funding of production investment projects of micro, small and medium enterprises in the Republic of Croatia Đ loan no. F/P 1690/2009.

DIRECT LOANS							
Signing date	The Act published in Official Gazette No.:	Framework Loan amount in 000 HRK	Disbursed in 000 HRK	Undisbursed in 000 HRK	Outstanding in currency (000 EUR)	Outstanding in currency (000 USD)	Disbursed in 2010, in 000 HRK
Construction and Reconstruction of School Facilities in the Republic of Croatia - Loan No. F/P 1456/2003 ADD 1 (6)							
15.12.2004	5/2005 and 8/2005	399,786.37	399,786.37	0.00 Cancelled: 2,669.63	54,166.60	0.00	37,353.07
Construction of Municipal and Social Infrastructure Facilities on Croatian Islands - Loan No. F/P 1498/2004							
15.12.2004	5/2005, 8/2005 and 5/2010	193,364.37	163,327.78	30,036.59	22,105.00	0.00	56,993.46
Project "Research, Reconstruction and Revitalization of Cultural Heritage Ilok-Vukovar-Vučedol" - Loan No. F/P 1511/2005							
23.05.2005	8/2005, 9/2005 and 3/2010	169,716.27	94,586.57	75,129.70	12,850.00	0.00	26,738.77
Financing of Health Facilities throughout the Republic of Croatia - Loan No. F/P 1576/2006 W (7)							
01.06.2007	9/2007 and 1/2008	327,679.34	219,718.93	107,960.41	30,100.00	0.00	0.00
TOTAL DIRECT LOANS		2,168,685.78	1,955,559.08	213,126.70	198,125.40	0.00	121,085.30
		100.00%	90.17%	9.83%			

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 2010, in 000 EUR
HBOR - Small and Medium-sized Enterprises Credit Programme Financing - Loan No. F/P 1392/2000 ADD 1						
13., 20. and 27.04.2006	9/2006 and 1/2007	8,000.00	8,000.00	0.00	3,833.33	0.00
Financing of Productive Investment Projects in Small and Medium-sized Enterprises (SMEs) throughout Croatia - Loan No. F/P 1646/2008						
17.12.2008	has not been published	50,000.00	50,000.00	0.00	50,000.00	0.00
Partial financing of productive investment projects in micro, small and medium - sized enterprises (SMEs) throughout Croatia - Loan No. F/P 1690/2009						
08.02.2010	has not been published	50,000.00	14,681.27	35,318.73	14,681.27	14,681.27
TOTAL SOVEREIGN GUARANTEE LOANS		108,000.00	72,681.27	35,318.73	68,514.60	14,681.27
		100.00%	67.30%	32.70%		

TOTAL DIRECT + SOVEREIGN GUARANTEE LOANS	000 EUR	266,640.00
	000 USD	0.00

Source: Ministry of Finance

Notes:

- 1 loan contracted in the amount of HRK 67.4 million, but has been cancelled in the amount of HRK 987.2 thousand
- 2 loan contracted in the amount of HRK 98.6 million, but has been cancelled in the amount of HRK 1.8 million
- 3 loan contracted in the amount of HRK 10.3 million, but has been cancelled in the amount of HRK 0.7 thousand
- 4 loan contracted in the amount of HRK 186.8 million, but has been cancelled in the amount of HRK 782.1 thousand
- 5 loan contracted in the amount of HRK 292.4 million, but has been cancelled in the amount of HRK 46.9 thousand
- 6 loan contracted in the amount of HRK 402.5 million, but has been cancelled in the amount of HRK 2.7 million
- 7 loan closing date was contracted: 30.06.2011

Projects in Preparation during 2010

In 2010, activities were carried out in connection with the preparation and definition of projects from the field of the prison system: the Zagreb Prison Building Upgrade Project (the amount of the loan approved in November 2010 is EUR 6.5 million) and the Šibenik Penitentiary and Prison Construction Project (the amount of the potential loan: EUR 36.1 million). Also carried out were activities regarding the preparation of funding

for projects of water management that would be jointly financed by CEB and the European Investment Bank (each of these institutions with a loan in the amount of EUR 75 million).

6.2.1.5. European Investment Bank (EIB¹³)

During 2010, EIB approved a total of EUR 544 million for the financing of four new projects in the Republic of Croatia, EUR 484 million of which was approved for three public sector projects and EUR 60 for one private sector project¹⁴.

New Loans Contracted in 2010

During 2010, the following loan agreements were signed for the funding of public sector projects:

- loan no. FINo. 25.749 (EUR 200 million), for the co-financing of the EU IPA ISPA 2007 – 2011 project (beneficiary: Ministry of Finance) and two loans whose preparation began in 2010;
- loan no. FINo. 25.533 (EUR 34 million) with sovereign guarantee, for the Project “DINA VCM-PVC Plant Construction” (beneficiary: HBOR) and
- loan no. FINo. 25.534 (EUR 250 million) with sovereign guarantee, for the “SME’s and Mid-Cap II” project (beneficiary: HBOR).

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

Since 2001, EIB has financed projects with long-term loans in the Republic of Croatia. In the period from 2001 to the end of 2010, it approved 31 loans in the total amount of EUR 2.4 billion. It approved 4 direct loans and 18 sovereign guarantee loans, in the total amount of EUR 2.1 billion, and 9 loans to the private sector, without sovereign guarantees, in the total amount of EUR 336 million (Table 6.13.).

Table 6.13. Overview of EIB Loans Concluded in the 2001 to 2010 Period, with a Review of Outstanding Debt and Funds Withdrawal Overview, as of 31 December 2010 and Disbursed Funds During 2010

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 2010, in 000 EUR
Project “Croatian Railway, Corridor Vc” - loan no. FINo. 21.051 (HŽ - Infrastruktura d.o.o.)							
24. and 31.05.2001	2/2002	39,000.00	39,000.00	0.00	30,682.42	31.12.2007 CLOSED	0.00
Project “Municipal Infrastructure Framework Loan” - loan no. FINo. 22.165 (MRDFWM/MSTI)							
30.07.2003	16/2003	49,082.01	49,082.01	0.00	48,548.68	30.09.2008 CLOSED	0.00
Project “Municipal Infrastructure Multi-Sector Framework Loan” - loan no. FINo. 22.881 (MRDFWM/MSTI)							
20. and 24.12.2004	7/2005	150,000.00	97,800.00	52,200.00	97,800.00	31.12.2010	38,800.00
Co-financing EU IPA ISPA 2007-2011 - loan no. FINo. 25.749 (MoF)							
30.09.2010	10/2010	200,000.00	0.00	200,000.00	0.00	30.09.2015	0.00
TOTAL DIRECT LOANS		438,082.01	185,882.01	252,200.00	177,031.10		38,800.00

* For the “Croatian Railway, Corridor Vc” project, the contracted loan amount was EUR 40 million. In April 2008, EUR 1 million was cancelled.

* For the “Municipal Infrastructure Framework Loan” project, the contracted loan amount was EUR 50 million. In October 2008, the unused portion in the amount of EUR 917,988.00 was cancelled.

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

¹⁴ Loan provided by the Kaufmann-Hofmann Group Austria to City Center One in Split (without sovereign guarantee).

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 2010, in 000 EUR
Project Rehabilitation of national roads (HC) - loan no. FINo. 21.262							
29.10.2001	4/2002	60,000.00	60,000.00	0.00	58,283.27	30.06.2007 CLOSED	0.00
HBOR Global Loan (HBOR) - loan no. FINo. 21.316							
26.11.2001	4/2002	10,000.00	10,000.00	0.00	3,529.41	26.11.2004 CLOSED	0.00
"Rijeka - Zagreb Motorway Project" (ARZ) - loan no. FINo. 21.609							
24.06.2002	10/2002	60,000.00	60,000.00	0.00	52,087.92	31.12.2007 CLOSED	0.00
"Zagreb Air Traffic Control Project" (HKZP) - loan no. FINo. 21.677							
11. and 12.09.2002	14/2002	20,000.00	20,000.00	0.00	12,222.22	30.06.2007 CLOSED	0.00
Project "Rehabilitation of Motorways" (HAC) - loan no. FINo. 21.850							
13.12.2002	10/2003	50,000.00	50,000.00	0.00	46,169.98	13.12.2006 CLOSED	0.00
"Plinacro Gas Pipelines Project" (Plinacro) - loan no. FINo. 22.374							
16.12.2003	3/2004	90,000.00	90,000.00	0.00	89,166.67	01.12.2007 CLOSED	0.00
Project "Zupanja - Lipovac Motorway Section" (HAC) - loan no. FINo. 22.639							
22. and 29.07.2004	1/2005	45,000.00	45,000.00	0.00	44,273.81	01.04.2007 CLOSED	0.00
Project "Croatian Roads - Split By-pass" (HC) - loan no. FINo. 23.135 (*)							
20.07.2005	2/2006	42,900.00	10,000.00	32,900.00	10,000.00	31.12.2013	0.00
Project "Rijeka-Zagreb Motorway Completion" (ARZ) - loan no. FINo. 23.419							
09.03.2006	8/2006	210,000.00	210,000.00	0.00	210,000.00	08.03.2009 CLOSED	0.00
Project "Croatian Roads Rehabilitation II" (HC) - loan no. FINo. 23.780							
12.12.2006	5/2007	60,000.00	60,000.00	0.00	60,000.00	11.12.2010 CLOSED	5,300.00
Project "Plinacro Gas Pipelines II" (Plinacro) - loan no. FINo. 24.067							
31.07.2007	11/2007	190,000.00	171,000.00	19,000.00	171,000.00	31.07.2012	111,000.00
Project "Zadar New Port" (Lučka uprava Zadar) - loan no. FINo. 24.093							
07.09.2007	10/2007	100,000.00	13,000.00	87,000.00	13,000.00	31.12.2012	12,400.00
HBOR Global Loan IIA (HBOR) - loan no. FINo. 24.125							
16.10.2007	-	40,000.00	40,000.00	0.00	35,294.12	16.04.2009 CLOSED	0.00
HBOR Global Loan IIB (HBOR) - loan no. FINo. 24.500							
20.06.2008	-	60,000.00	60,000.00	0.00	60,000.00	20.12.2009 CLOSED	0.00
"HBOR Loan for SME's and Mid-Cap" (HBOR) - loan no. FINo. 24.891							
24.03.2009	-	250,000.00	250,000.00	0.00	250,000.00	31.03.2011 CLOSED	180,976.08
Project "Croatian roads rehabilitation II/B" (HC) - loan no. FINo. 25.417							
28. and 30.12.2009	4/2010	60,000.00	10,000.00	50,000.00	10,000.00	30.11.2012	10,000.00
Project "DINA VCM-PVC Plant Construction" (HBOR) - loan no. FINo. 25.533							
15.04.2010	-	34,000.00	0.00	34,000.00	0.00	15.04.2012	0.00
"HBOR Loan for SME's and Mid-Cap II" (HBOR) - loan no. FINo. 25.534							
15.04.2010	-	250,000.00	0.00	250,000.00	0.00	15.04.2012	0.00
TOTAL SOVEREIGN GUARANTEE LOANS		1,631,900.00	1,159,000.00	472,900.00	1,125,027.40		319,676.08
TOTAL DIRECT + SOVEREIGN GUARANTEE LOANS		2,069,982.01	1,344,882.01	725,100.00	1,302,058.50		358,476.08

Source: Ministry of Finance

* For the "Croatian Roads – Split Bypass" project the contracted loan amount was EUR 60 million. With the amendment no. 1 signed on 10 and 24 December 2010, EUR 17.1 million was cancelled.

EIB loans are disbursed in instalments. All instalments, except those disbursed for the implementation of the “Rijeka - Zagreb Motorway Project” project and the “Rijeka - Zagreb Motorway Completion” project were disbursed at a fixed interest rate, which from 2001 to the end of 2010 ranged from 2.724 to 5.26 percent. During 2010, 20 instalments were disbursed in the total amount of EUR 358.5 million. In 2010, fixed interest rates ranged from 2.724 to 4.057 percent, and no instalments were disbursed at floating interest rates.

6.2.2. Bilateral and Multilateral Financial Relations

6.2.2.1. Bilateral Financial Relations

The Republic of Croatia is provided considerable technical and financial aid in the implementation of economic reforms and the development of a market economy by the Federal Republic of Germany (FR Germany). The economic cooperation between the Republic of Croatia and FR Germany in 2010 entailed activities concerning financial cooperation framework agreements signed between them in previous years.

Through the financial cooperation agreement for the financing of phase II of the Water supply and wastewater disposal project on the southern Adriatic coast, signed on 6 July 2004¹⁵, the Republic of Croatia was granted a loan of up to EUR 12 million at a reduced interest rate, a so-called soft loan of up to EUR 3 million and a grant (indicated in section 6.2.1.) of up to EUR 1 million for the financing of accompanying measures. Pursuant to this Agreement, HBOR signed on 16 December 2008 a loan contract with the Kreditanstalt für Wiederaufbau in the amount of EUR 12 million, with a usage period until 30 June 2013. On the same date, HBOR and KfW signed a loan agreement in the amount of up to EUR 3 million, with a usage period until 30 June 2013. On 19 July 2010, the Financial Cooperation Agreement of 6 July 2004¹⁶ was amended, with the funding purpose widened to the entire of Croatia and the project renamed to “Water supply and wastewater management in the Republic of Croatia, phase II”. A EUR 1 million grant agreement for the financing of the accompanying measures of the project was concluded by KfW, the Ministry of Finance and HBOR on 16 December 2010.

The financial cooperation agreement for the financing of phase III of the same project was signed with the Government of FR Germany on 17 February 2010¹⁷. With this agreement, the Republic of Croatia was approved EUR 18 million at a reduced interest rate which, as the other loan terms, will be specified in an individual contract between HBOR and KfW.

Furthermore, through a financial cooperation agreement with the Federal Republic of Germany, signed on 20 March 2007¹⁸ the Republic of Croatia was granted a loan for the financing of an Energy efficiency and renewable energy sources project in the amount of up to EUR 20 million at a reduced interest rate and a grant of up to EUR 1.5 million for accompanying measures. Based on this framework agreement, HBOR signed, with the Kreditanstalt für Wiederaufbau, on 8 November 2007, a loan contract in the amount of up to EUR 19.5 million, with a usage period until 31 December 2012. On 5 March 2009, a grant contract was signed between the Kreditanstalt für Wiederaufbau, the Ministry of Finance and HBOR in the amount of up to EUR 1.5 million for the financing of accompanying measures during the project implementation of this project.

6.2.2.2. Other Bilateral and Multilateral Relations

In 2010, the Ministry of Finance continued its cooperation with the Committee for the distribution of financial assets and liabilities of former SFRY from Annex C of the Agreement on Succession Issues signed on 29 June 2001, which came into force on 2 June 2004¹⁹, and its cooperation with the Croatian National Bank, commercial banks and other authorities nationally and abroad in the resolution of all issues in the field of succession within its authority.

¹⁵ Official Gazette – International Agreements, numbers 2/2005 and 4/2005

¹⁶ Official Gazette – International Agreements, number 9/2010

¹⁷ Official Gazette – International Agreements, numbers 3/2010 and 5/2010

¹⁸ Official Gazette – International Agreements, numbers 7/2007 and 9/2007

¹⁹ Official Gazette – International Agreements, numbers 2/2004 and 5/2004

7. RELATIONS WITH THE EUROPEAN UNION IN 2010



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

During 2010, the Ministry of Finance effectively managed funds from the pre-accession programmes CARDS, PHARE, ISPA and SAPARD and funds from the five components of the pre-accession programme IPA: Component I - Transition Assistance and Institution Building, Component II - Cross-Border Cooperation, Component III - Regional Development, Component IV - Human Resources Development, in a system with ex-ante controls by the Delegation of the European Union; and funds from the Component V - Rural Development (IPARD) in a system without ex-ante controls by the Delegation of the European Union.

During 2010, the Ministry of Finance requested funds from the European Commission in the amount of EUR 87.67 million, EUR 70.28 million of which was received. In the same period EUR 75 million were paid to implementing bodies.

In November 2010, the payment deadline for the PHARE 2005 programme – National Programme, the PHARE 2006 programme – Cross-Border Cooperation of the Republic of Croatia with the Republic of Hungary and the Republic of Slovenia, PHARE 2006 programme – Cross-Border Cooperation of the Republic of Croatia and Italy and PHARE 2006 programme – Nuclear Safety, expired, whereas the payment deadline for the measures from ISPA “Technical Assistance to the Central Finance and Contracting Agency and the National ISPA Coordinator” and “IPA – Preparation of the List of Projects in the Environmental Protection Sector” expired in December 2010. Payments based on all contracts within these programmes and measures have been carried out and the refund of funds is expected in case of irregularities or on account of incompletely used advance payments.

Table 7.1. Allocated, contracted, requested, received and paid funds up to 31 December 2010

PROGRAMME	ALLOCATED FUNDS	CONTRACTED FUNDS	CONTRACTED / ALLOCATED	REQUESTED FUNDS	RECEIVED FUNDS	PAID FUNDS	PAID / CONTRACTED
CARDS 2003	29,366,415	28,685,856	97.7%	28,537,956	28,537,956	27,254,670	95.0% 1
CARDS 2004	46,573,630	44,065,285	94.6%	43,730,289	43,610,008	41,440,838	94.0% 2
PHARE 2005	73,141,000	63,910,862	87.4%	64,457,531	63,536,450	58,538,157	91.6% 1
PHARE 2006	64,148,500	54,669,487	85.2%	56,689,700	53,991,645	46,997,278	86.0% 2
ISPA	59,000,000	56,052,059	95.0%	37,546,495	33,840,673	31,032,543	55.4% 3
SAPARD	25,000,000	15,425,682	61.7%	13,960,234	13,960,233	11,635,802	75.4% 1
IPA Component I 2007	44,554,000	41,119,283	92.3%	30,410,744	28,389,762	22,105,421	53.8% 2
IPA Component I 2008	41,374,000	9,930,114	24.0%	16,112,270	16,003,321	7,335,434	73.9% 3
IPA Component I 2009	42,101,430	5,068,437	12.0%	8,786,135	8,786,135	4,962,468	97.9% 3
IPA Component II 2007	2,653,020	1,641,339	61.9%	954,463	916,258	429,553	26.2% 3
IPA Component II 2008	2,706,080	1,080,493	39.9%	1,060,776	1,060,776	530,704	49.1% 3
IPA Component IIIa - Transport	53,500,500	9,341,249	17.5%	20,487,272	18,027,347	2,061,509	22.1% 4
IPA Component IIIb - Environmental Protection	53,499,750	8,644,845	16.2%	19,630,084	17,169,934	1,150,746	13.3% 5
IPA Component IIIc - Regional Competitiveness	35,349,750	15,794,701	44.7%	12,295,812	11,910,554	6,096,388	38.6% 3
IPA Component IV - Human Resources Development	38,277,000	25,389,162	66.3%	15,009,663	14,024,043	10,711,437	42.2% 3
IPARD	102,900,000	6,075,113	5.9%	23,070,000	11,535,000	41,843	0.7% 3
TOTAL	714,145,075	386,893,968	54.2%	392,739,425	365,300,095	272,324,791	70.4%

1 Contracting and payment of the projects is finalised.

2 Contracting is finalised, and payment of the projects is ongoing.

3 Contracting and payment of the projects is ongoing.

4 Tendering for the large infrastructure project “Line Rehabilitation Okučani to Novska section” is in preparation. By contracting of this project, contracted amount will be 81.17 percent. Contracting and payment of projects is ongoing.

5 By contracting projects “County Waste Management Centre Marišćina” and “County Waste Management Centre Kaštijan”, contracted amount will be 93.01 percent. Contracting and payment of projects is ongoing.

Source: Ministry of Finance

In May and June 2010 a request for the accreditation of measures 301 “Investment in Rural Infrastructure”, 302 “Diversification” and 501 “Technical Assistance” was submitted to the European Commission. The European Commission auditors performed the accreditation audit during September 2010, but the accreditation process was not completed by the end of the year and will continue in the following year.

During 2010, the Ministry of Finance was subject to a total of five audit missions by the auditors of the European Commission (two accreditation and three control audits of awarded accreditations) and one audit by the European Court of 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.

During 2010, the Ministry of Finance hosted the delegation of Albania and Montenegro for the purpose of presenting the Croatian model of financial management, its institutional framework and its information system for the monitoring of the IPA programme implementation.

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

On the basis of the provisions of Financing Agreements concluded between the Government of the Republic of Croatia and the European Commission, during 2010, the Ministry of Finance, in cooperation with other accredited institutions, quarterly reported to the European Commission on the performance of activities according to the defined Roadmap to waive ex-ante controls by the Delegation of the European Union.

On 19 February 2010, the Government of the Republic of Croatia, at the proposal of the Minister of Finance, adopted the Decision on the activities that the ministries and other institutions involved in the implementation of the IPA programme need to undertake during 2010 in order to prepare for the beginning of accreditation (conferral of management) of the EU pre-accession programme management system without ex-ante controls by the Delegation of the European Union. The ministries and other institutions involved in the implementation of the IPA programme have engaged additional employees (by new employment or reassignment) and provided additional education, especially with regard to the preparation of tender documents, implementation of the tender, contracting and implementation monitoring. The appropriate quality of documents to be delivered to the Delegation of the European Union has been ensured, the observation of deadlines from the procurement plans has been monitored more closely, and the internal control and internal audits system has been continuously strengthened. Additional education on irregularities was conducted and the irregularities reporting system has been improved.

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

Since the beginning of 2010, all competent institutions involved in the implementation of the IPA programme have actively used the IPA programme Management Information System (MIS). This system enables the effective monitoring of all projects financed through the IPA components I-IV, from contracting to payment, as well as the monitoring of requests for funds addressed to the European Commission. The system also includes performance indicators of individual projects and greatly facilitates the overview and control of all significant information. During 2010, the system was added additional reports on the financial execution of programmes and projects. This system will be the basis for the establishment of the Cohesion Policy Funds Management Information System (known as SF MIS) once Croatia becomes an EU member state. During 2010, tender documents were prepared for the project of establishment of the Cohesion Policy Funds Management Information System, which will be financed from the IPA I 2008 pre-accession programme.

7.4. IRREGULARITIES MANAGEMENT SYSTEM

In 2010, the Ministry of Finance performed a series of activities in the field of irregularities and frauds management for the purpose of protecting the financial interests of the European Union in the Republic of Croatia. In January 2010 the Government of the Republic of Croatia issued the “National Anti-Fraud Strategy for the Protection of the Financial Interests of the European Union in the Republic of Croatia for the 2010 - 2012 Period” and the Action Plan for its implementation, which have been prepared in accordance with the recommendations and opinions of the European Anti-Fraud Office (OLAF). All competent authorities have started with the implementation of goals and measures specified in the Strategy and focused on the accomplishment of an effective functioning of the AFCOS system. The implementation is coordinated by the Ministry of Finance.

Regarding the capacity building of the Ministry of Finance and all bodies involved in the functioning of the AFCOS system, in October 2010 started the implementation of the Twinning Light Project called “Strengthening Croatian AFCOS System with the Aim of Protection of EU Financial Interests” financed from the IPA I 2007 pre-accession programme. The Project is implemented by a team of experts from the Romanian Anti-Fraud Department, and project activities are directed towards: improvement of procedures to be used by bodies in the AFCOS system in cases of irregularities and frauds, strengthening their mutual communication, cooperation and information exchange, strengthening the public awareness on the fight against irregularities and frauds and strengthening the communication with the public and the media as well as holding workshops and seminars in the field of irregularities and frauds management.

There was also continuous training in the field of protection of EU financial interests on the following subjects: “Protection of EU Financial Interests in the Republic of Croatia”, “AFCOS System – Irregularities and Frauds Management” and Module 11 “Irregularities and Frauds” within the implementation of the training programme “Capacity Building in the EU Programme Management and Implementation System – EU Funds FMC”. In

cooperation with OLAF, seminars were held on the following subjects: “OLAF Investigations” and “Financial Investigations and EU Funds”, and in cooperation with the Ministry of Administration, a seminar on integrity and ethics was organised. All seminars were organised for the representatives of bodies from the AFCOS network and for the representatives of bodies in the Irregularities Monitoring System.

For the purpose of improving cooperation with the Agency for the Audit of European Union Programmes Implementation (ARPA) with regard to the exchange of information on irregularities within the management of EU pre-accession programmes, the Mutual Cooperation Agreement between the Ministry of Finance and ARPA has been amended.

Pursuant to OLAF’s recommendations, and for the purpose of improving the operation of the Irregularities Monitoring System, the Ministry of Finance, in cooperation with OLAF, started setting up preconditions for the introduction of the electronic Irregularities Monitoring System – IMS, whose introduction into use is planned in the second half of 2011.

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

The Ministry of Finance has prepared the Decision on Strategic Documents and Institutional Framework for the Use of Structural Instruments of the European Union in the Republic of Croatia, which the Government of the Republic of Croatia adopted in October 2010. This Decision defines structural instruments of the European Union which the Republic of Croatia will use, strategic documents for the use of structural instruments, bodies competent for coordination, payment authorisation and external audit, as well as bodies competent for the preparation, management and implementation of the individual strategic documents.

In cooperation with the Central State Office for Development Strategy and Coordination of EU Funds, the Ministry of Finance prepared the Strategy of Institutional Development and Capacity Building which contains organisational development strategies for every institution planned to work with structural instruments. At its session held on 3 December 2010 the Government of the Republic of Croatia issued a conclusion to adopt this Strategy.

The Strategy defines measures for increasing the efficiency of the European funds management system and ensuring its sustainability by setting up the policy of keeping employees, further developing the promotion system and introducing a salary system which would attract and keep highly qualified employees. Appropriate remuneration for employees who work on sensitive tasks of managing European money was one of the requirements of the European Commission. On account of this requirement, one of the measures defined in the Strategy is the amendment of the Decree on Job Classifications and Job Complexity Coefficients in Public Services, which increases work complexity coefficients for employees who are part of the European funds managing structure, and undergo the procedure of obtaining a work permit for this purpose. The Ministry of Finance has, in cooperation with the Ministry of Administration and other ministries involved in European funds management, prepared detailed job descriptions and conditions for the performance of such tasks for employees who are part of the European funds managing structure.

7.6. TRAINING OF EMPLOYEES IN THE FIELD OF EU FUNDS MANAGEMENT

In 2010, the Central Finance and Contracting Agency (CFCA) significantly contributed to the process of strengthening the administrative capacity for management of programmes financed through pre-accession programmes in terms of transfer and dissemination of acquired knowledge. In 2010, CFCA implemented a total of 96 educational activities, thus educating a total of 1,538 attendants.

Training programmes held by the CFCA:

- “Open Day” workshops;
- workshops for CFCA employees;
- 5-day training programme for Project Implementation Units;
- the “EU Funds Financial Management and Control” training programme, consisting of 13 modules.

The purpose of the specified training programmes is the transfer of acquired knowledge and skills to the employees in bodies of state and public administration who deal with projects financed from European Union programmes.

Topics handled within the specified training activities cover the areas of project preparation, contracting and implementation. Training programmes for IPA implementing bodies and future implementing bodies for structural instruments were specially designed. In this connection, the CFCA performs regular monthly consultations and practical training, which include direct involvement of employees from other implementing bodies in CFCA’s activities.

7.7. ACCESSION NEGOTIATIONS AND PROJECTS FROM EU ASSISTANCE PROGRAMMES

During 2010, work within the Croatian EU accession negotiation process was continued intensively. The Ministry of Finance participated in the negotiations as the implementing agency or as the co-implementing agency of seventeen chapters¹. The Ministry of Finance was the implementing agency in the following chapters: 9 Financial services, 16 Taxation, 29 Customs union, 32 Financial control and 33 Financial and budgetary provisions. Negotiations have been temporarily closed in these chapters, except in Chapter 33 Financial and budgetary provisions. Also, activities concerning the implementation monitoring and the undertaking of actions and activities concerning the accession negotiations for chapters in which the Ministry of Finance was the co-implementing agency were successfully performed.

Within Chapter 9 Financial services, which was temporarily closed in November 2009, the Ministry of Finance continued to monitor changes in the *acquis* and to harmonise the regulations from its scope of work with the EU *acquis*. For the purpose of harmonisation of Chapter 9 Financial services by transposition of provisions of Directive 2009/110/EC the Electronic Money Act² was adopted.

¹ Decision on the Amendments to the Decision on the Establishment of a Negotiating Structure for the Accession of the Republic of Croatia to the European Union (Official Gazette, numbers 49/2005, 46/2006, 41/2008)

² Official Gazette, number 139/2010

After the fulfilment of three closing benchmarks from the EU Common Position for Chapter 16 Taxation, this chapter was temporarily closed at the Intergovernmental Conference on the Accession of the Republic of Croatia to the European Union held on 30 June 2010. In May 2010 an Addendum to Negotiating Position was prepared concerning the changes of transitional periods with regard to VAT, and in the second half of 2010 the implementation of activities with the aim to fulfil obligations taken on as a part of the Intergovernmental Conference on the Accession of the Republic of Croatia to the European Union with regard to harmonisation of legislation and further strengthening of administrative capacities was continued. With regard to excise duties, the Ordinance on Excise Duties³ and the Ordinance on the Application of the Excise Duties Act Concerning Blue-Dyed Gas Oil Intended for Use in Agriculture, Fishery and Aquaculture⁴ have been adopted. Also, cooperation with the European Commission through technical consultations, and cooperation with other European Union member states through the Fiscalis programme, has been continued.

Although Chapter 29 Customs union was temporarily closed as early as in October 2009, the Ministry of Finance continued fulfilling the obligations from this Chapter and reporting to the European Commission during 2010. The Act on Amendments to the Customs Act⁵ has been adopted, establishing the institutions of European customs law which regulate what we know as safety and security measures (entry and exit summary declarations for safety and security purposes). There has been intensive work on the Regulation on the Amendment of the Regulation Implementing the Customs Act⁶ adopted at the session of the Government of the Republic of Croatia held on 23 December 2010, which establishes the basic provisions concerning the safety and security summary declarations, the transit and export procedure implementation through the use of an electronic data exchange system as well as basic provisions concerning the system of uniform economic operator registration and identification through the EORI number. Furthermore, for the purpose of integrating the Croatian customs IT systems with the EU customs IT systems, and in order to strengthen the customs interconnectivity system, the Common Communication Network (CCN) and Common System Interface (CSI) have been fully operational since December 2010. The Regulation on Customs Tariff for 2011⁷ has also been adopted.

After the fulfilment of all benchmarks, Chapter 32 Financial control was temporarily closed at the Intergovernmental Conference on the Accession of the Republic of Croatia to the European Union held on 27 July 2010. The implementation of activities for the purpose of fulfilment of obligations specified in this Chapter continued throughout the year and after the temporary closing of this Chapter. We can especially single out the Action Plan for Further Improvement of Financial Management and Control System adopted in December 2010, which provides improved management responsibility and defines the role of financial units. Also, the State Audit Office continued the implementation of the Strategic Plan for the 2008 – 2012 period.

Chapter 33 Financial and budgetary provisions was opened during 2007 and one closing benchmark was set. During 2010, intense activities were put into meeting that benchmark. For the purpose of fulfilling the obligations from the negotiations in Chapter 33 Financial and budgetary provisions, as well as full harmonisation of the legislative and institutional framework with the EU acquis, the Republic of Croatia has continued to strengthen administrative capacities and undertake measures with the aim of establishing an effective system of own resources. Other activities from the Action Plan for Establishment of a System of European Union Own Resources Administration in the Republic of Croatia and Amendments to that Action Plan were implemented. Also, there was intensive work on the Draft Report on Fulfilment of Obligations from this Chapter, which will be sent to the European Commission in January 2011 for the purpose of obtaining their informal opinion. The existing IT accounting system of the Customs Administration, which supports the traditional own resources system, has been upgraded by building the A and B account application modules. This enables the record keeping and the system of reporting on the status of collected (A account) and uncollected (B account) receivables based on customs duty in a particular time period or on a particular date. Traditional own resources of the European Union have to be calculated and recorded on A and B accounts for the purpose of ensuring the correct procedures for the establishment, calculation and collection of revenue based on customs duties,

3 Official Gazette, number 1/2010

4 Official Gazette, number 1/2010

5 Official Gazette, number 56/2010

6 Official Gazette, number 29/2011

7 Official Gazette, number 138/2010

its correct entry into accounts, procedures for placing the collected revenue based on customs duty at the disposal of the Community budget, as well as for the purpose of effective control and monitoring of all relevant procedures regarding the establishment, calculation and collection of revenue based on customs duty.

Furthermore, all acts, regulations and ordinances within the competence of the Ministry of Finance which were planned within the Plan of Activities for Transposition and Implementation of the EU *acquis* for 2010 have been adopted and below is an overview of all primary and secondary acts through which the Croatian legislation was harmonised with EU regulations from the scope of work of the Ministry of Finance in 2010.

Table 7.2. Overview of the Legislation from the Jurisdiction of the MFRC that Harmonised Croatian Legislation with European Union Regulations in 2010

ACTS WITHIN THE JURISDICTION OF THE MFRC ALIGNING CROATIAN LEGISLATION WITH EUROPEAN UNION REGULATIONS IN 2010 (31.12.2010.)					
No.	LEGISLATIVE MEASURES	COMPETENT AUTHORITY	GOVERNMENT OF THE REPUBLIC OF CROATIA	CROATIAN PARLIAMENT	OFFICIAL GAZZETE
1	Act on Amendments to the Act on Housing Savings and State Incentives to Housing Savings	MFRC	07.01.2010	05.02.2010	21/2010
2	Act on Amendments to the Customs Act	MFRC-CA	24.03.2010	23.04.2010	56/2010
3	Electronic Money Act	MFRC	11.11.2010	26.11.2010	139/2010
SECONDARY LEGISLATION WITHIN THE JURISDICTION OF THE MFRC ALIGNING CROATIAN LEGISLATION WITH EUROPEAN UNION LEGISLATION IN 2010 (31.12.2010.)					
No.	SECONDARY LEGISLATION MJERE	COMPETENT AUTHORITY	GOVERNMENT OF THE REPUBLIC OF CROATIA	OFFICIAL GAZZETE	
1	Regulation on Amendments to the Regulation on Implementation of the Customs Act	MFRC-CA	23.12.2010	29/2010	
2	Regulation on customs tariff for 2010	MFRC-CA	25.12.2010	138/2010	
3	Ordinance on Consumer Credit Information and additional assumptions for the calculation of the annual percentage rate of charge	MFRC	//	14/2010	
4	Ordinance on Authorisation for Consumer Crediting	MFRC	//	14/2010	
5	Ordinance on Excise Duties	MFRC-CA	//	01/2010	
6	Ordinance on the implementation of the Act on Excise Duties relating to gas oil painted blue for use in agriculture, fisheries and aquaculture	MFRC-CA	//	1/2010, 44/2010, 65/2010, 78/2010, 131/2010, 144/2010	
7	Regulation on the amount of excise duty for LPG-Liquefied Petroleum Gas	MFRC-CA	07.01.2010	4/2010	
8	Regulation on the amount of excise duty for unleaded gasoline	MFRC-CA	24.08.2010	102/2010 (not in force)	
9	Regulation on the amount of excise duty on cigarettes	MFRC-CA	24.08.2010	102/2010	

Source: Ministry of Finance

Considering that the Republic of Croatia, as a candidate country for membership in the European Union, is a beneficiary of the PHARE and IPA pre-accession programmes, which are intended for the public sector and non-governmental organisations, during 2010 the Ministry of Finance continued drawing funds from the mentioned programmes through successful preparation and implementation of projects which strengthened operational and administrative capacities of the Ministry.

During 2010, 4 projects from the IPA 2007 and the IPA 2008 programmes, with the value amounting to EUR 835.4 thousand, were implemented at the Ministry of Finance. Tender documents for 6 projects from the IPA 2007, IPA 2008 and IPA 2009 programmes in the value of EUR 10.21 million and for 2 projects from the IPA 2010 programme in the value of EUR 3.7 million were also prepared.

A detailed overview of the Ministry of Finance projects financed from the European Union assistance programmes which were in preparation and implementation phase in 2010 is shown below.

Table 7.3. EU assistance projects of the Ministry of Finance in the preparation and implementation phases in 2010

Project	Project Aim	Budget and type of contract in 000 EUR	"Project status in 2010"
Ministry of Finance - Headquarters			
IPA 2007 TAF Strengthening Croatian AFCOS System with the Aim of Protection of EU Financial Interests	AFCOS development system in Croatia which would allow the coordination of all legislative, administrative and operational activities conducted to protect the financial interests of the EU and cooperation with OLAF.	Twinning Light 250.00	Implementation
IPA 2007 TAF Strengthening the Administrative Capacity of the Ministry of Finance of the Republic of Croatia Regarding the Implementation of the New Concession and Public-Private Partnership Legislation	The implementation of a coherent and transparent system for concessions and public-private partnership in the Republic of Croatia, which will be based on the new law for concessions and public-private partnership, a new institutional framework	Twinning Light 250.00	Implementation
IPA 2007 Support to NAO/NF in Implementation of SAPARD and IPA Component V - RURAL DEVELOPMENT	Support to the National Fund to establish an effective system of management and supervision IPARD to guarantee the legality and regularity of transactions.	Framework contract 105.40	Implementation
Tax Administration			
IPA 2008 FPP RAC Strengthening of the Tax Administration in the fight against corruption	Enhancing the transparency of the Tax Administration in the detection and prosecution of corruption offences.	Twinning Light 230.00	Completion of the tender procedure
IPA 2008 FPP RAC Strengthening the capacity of Croatian Tax Administration in the field of exchange of information related to Savings Directive	Exchange of information and development of information systems related to income from savings to combat tax fraud.	Twinning Light 230.00	Implementation
IPA 2009 Enhancement of the administrative capacity of CTA in the field of audit	Strengthening Tax Administration in the area of tax control and the fight against tax fraud in accordance with best practice in the European Union.	Twinning 1,000.00	Start of tender procedure
IPA 2010 Strengthening administrative and institutional capacity of the Tax Administration in the scope of VAT application on the Common European Union Market	Strengthening the administrative and institutional capacity of the Tax Administration for the purpose of successfully implementing EU common market VAT regulations.	Twinning 800.00	Start of tender procedure
Customs Administration			
IPA 2007 Development of the customs laboratories in Croatia	Further development of the Customs Laboratory to achieve operational capacity in line with EU requirements.	Twinning and Supply 2,900.00	Completion of the tender procedure
IPA 2007 Supply of equipment for the Croatian Customs Administration Anti-smuggling Mobile Units	Strengthening of customs control and supervision in the customs territory of Croatia.	Supply 5,600.00	Completion of the tender procedure
IPA 2008 FPP RAC Strengthening anti-corruption activities of the Customs Administration	Assistance to the Customs Administration in the implementation of anti-corruption programs through adjustments of the corruption prevention and enforcement of EU standards, using the most effective methods of combating corruption	Twinning Light 230.00	Start of tender procedure
IPA 2009 FPP RAC Harmonisation of the customs risk management system with the EU standards and best practice	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 250.00	Preparation of the project
IPA 2010 Integrated Border Management	Further development of operational border management and control effectiveness at the border crossing points that would ensure the public security	Twinning and Supply 2,900.00	Start of the implementation phase

Source: Ministry of Finance

During 2010, 6 projects of the Ministry of Finance in the total value of EUR 14.25 million have been successfully completed. The following projects are in question:

- PHARE 2006 “Integration of the Croatian customs IT systems with the EU customs IT systems”
 - o The goal of this project is to ensure full compatibility and interconnectivity of the IT system with the EU customs systems with regard to customs tariff, customs control of transit and export, and the control of movement of goods subject to the payment of excise duties. The project consisted of 7 components, of which three were twinning agreements, three referred to IT applications software development, and one component included the establishment of the CCN/CSI system through the procurement of equipment and provision of technical assistance. In September 2010, the activities of the last of the seven components have ended and thus this major project was successfully completed. For the implementation of the mentioned components a total of EUR 6.45 million were contracted.
- PHARE 2006 “Improving budget processes for effective financial management”
 - o The project lasted from January 2009 to October 2010. The goal of this project is the establishment of an effective and sustainable financial management system based on modern instruments and mechanisms tailored to the standards of the European Union. The project was implemented through the procurement of equipment and the provision of technical assistance.
- PHARE 2006 “Strengthening and improvement of the Croatian Tax Administration IT system to meet EU standards concerning VAT”
 - o The project lasted from February 2009 to November 2010, and consisted of the twinning component and of technical assistance. Project goal was the establishment of the VIES (VAT Information Exchange System) and VES (VAT on e-Services) information systems, which was also a precondition for the proper functioning of the internal market and transactions within the European Union.
- IPA 2007 TAF “Support to NAO/NF in further development of decentralised management leading to the EDIS”
 - o The project lasted from June 2009 to December 2010. It provided support to the National Authorising Officer and the National Fund for further development of a decentralised management system with the aim of establishing a management system without ex-ante controls by the Delegation of the European Union. Structures, systems, procedures and controls for the future management of structural funds have been defined.
- IPA 2007 TAF “Strengthening administrative capacity for the purpose of implementing the EU own resources rules”
 - o The project lasted from September 2009 to June 2010. End goal of the project has ensured the establishment of an effective own resources system in the Republic of Croatia, which will enable accurate calculation, forecasting, charging, collection, payment, control and reporting on EU own resources in conformity with the EU *acquis*.
- IPA 2007 TAF “Further strengthening and enhancement of Croatian public internal financial control”
 - o The project lasted from January 2010 to August 2010. Its goal was to improve the existing public internal financial control system of the Republic of Croatia, which consists of financial management and control and internal audit.

During 2010, the Ministry of Finance implemented the following projects:

- From the IPA 2007 TAF programme
 - o “Strengthening Croatian AFCOS System with the Aim of Protection of EU Financial Interests”
 - o “Strengthening the Administrative Capacity of the Ministry of Finance of the Republic of Croatia Regarding the Implementation of the New Concession and Public-Private Partnership Legislation”
 - o “Support to NAO/NF in Implementation of SAPARD and IPA Component V - RURAL DEVELOPMENT”
- From the IPA 2008 FPP RAC programme
 - o “Strengthening the capacity of Croatian Tax Administration in the field of exchange of information related to Savings Directive”

With the purpose of further strengthening the operational and administrative capacity, activities were continued in connection with programming, preparing the tender documentation and the implementation of the tender procedure for project proposals to be financed from IPA.

- As a part of the IPA 2007 programme, tendering procedures for the following projects were completed:
 - o “Development of the customs laboratories in Croatia”
 - o “Supply of equipment for the Croatian Customs Administration Anti-smuggling Mobile Units”
- The tendering procedure has been successfully prepared for two projects from the IPA 2008 FPP RAC programme:
 - o “Strengthening of the Tax Administration in the fight against corruption”
 - o “Strengthening anti-corruption activities of the Customs Administration”
- Tender documents were prepared for the following projects from the IPA 2009 FPP RAC and the IPA 2009 programmes:
 - o “Harmonisation of the customs risk management system with international standards and best practice of the European Union”
 - o “Enhancement of the administrative capacity of CTA in the field of audit”
- From the IPA 2010 programme:
 - o “Integrated border management”
 - o “Strengthening the administrative and institutional capacity of the Croatian Tax Administration with regard to application of the common EU VAT system”. During 2010 the project documents were updated and in October 2010 the European Commission approved the project.

The Republic of Croatia also participates in Community Programmes which aim at promoting cooperation between member states in different fields related to Community policies. Based on a special item in the EU General Budget, Community Programmes are intended exclusively for member states. Since the Republic of Croatia participates in these programmes as a candidate country, which does not contribute to the Community budget, it is obliged to pay a fee for participation. The Ministry of Finance is competent for the Customs and Fiscalis programmes. The Customs programme includes the coordination of member state customs authorities operation. The Fiscalis programme is intended for the improvement of the tax system in the internal market by stimulating cooperation in the field of taxation policies.

8. TAX AND CUSTOMS POLICY GUIDELINES IN 2010



8.1. LEGAL FRAMEWORK

8.1.1. Tax Administration Act

In 2010, the Act on Amendments to the Tax Administration Act was passed¹, regulating basic activities of the Tax Administration as the administrative organisation that is part of the Ministry of Finance. These amendments are a result of numerous changes in the economic, social and legal environment, as well as changes that are a result of the harmonisation of the Croatian legislation with the EU acquis, which have greatly changed the role of the Tax Administration and its scope of activities.

These amendments extend the scope of activities of the Tax Administration to activities related to the personal identification number (OIB) as a unique identifier of every person in official records of public law bodies, whose introduction created the preconditions for electronic data interchange.

The amendments to the Tax Administration Act also extended the activities of the Tax Administration to activities related to the establishment of the taxpayer information and service system, which should, eventually open the Tax Administration to communication with taxpayers.

8.1.2. Value-Added Tax

In order to further harmonise the Croatian Value-Added Tax Act with the EU acquis, project activities of the PHARE 2006 Programme – Twinning project were continued in 2010 and preparatory activities were carried out for passing amendments to the Value-Added Tax Act, with which the Act will be completely harmonised with EU directives in the field of value-added taxation.

The Value-Added Tax Draft Act was prepared, harmonising the Act completely with EU directives, and was sent to the European Commission for an informal opinion on 7 October 2010. In this respect, legislation in the field of value-added tax as well as amendments to Directive 2006/112/EC were systematically monitored. Furthermore, legislation in the field of value-added taxes of other EU countries was also systematically monitored as well as rulings of the European Court of Justice in connection with value-added taxes.

With the Act on Amendments to the Value-Added Tax Act², which entered into force on 1 January 2010, a partial harmonisation with the EU acquis and the Directive 2006/112/EC was achieved.

8.1.3. Personal Income Tax

The Act on Amendments to the Personal Income Tax Act³, amending the Personal Income Tax Act⁴, was passed, among other things for the purpose of implementing activities of the Economic Recovery Programme, and it entered into force on 1 July 2010. This Act prescribes new tax rates (instead of 15-percent, 25-percent, 35-percent and 45-percent rates, it introduces 12-percent, 25-percent and 40-percent rates) and new tax brackets, abolishes certain tax reliefs (for residential and health-care needs and cash-value life insurance premiums, voluntary pension insurance, supplementary and additional health insurance), introduces provisions on the non-taxation of premiums of voluntary pension insurance that employers pay for their employees, prescribes new provisions regarding the submission of annual tax returns and the preparation of

1 Official Gazette, number 128/2010

2 Official Gazette, number 87/2009

3 Official Gazette, number 80/2010

4 Official Gazette, numbers 177/2004 and 73/2008

annual accounts of income taxes from dependent work and prescribes new provisions regarding individual receivables that are not considered income and that are not subject to paying income tax.

For the purpose of harmonising the provisions of the Personal Income Tax Ordinance⁵ with the provisions of the Act on Amendments to the Personal Income Tax Act, the Ordinance on Amendments to the Personal Income Tax Ordinance⁶ was passed and entered into force on 4 November 2010.

8.1.4. Corporate Income Tax

The Corporate Income Tax Act⁷ was harmonised with the EU acquis under Chapter 16 Taxation and Council Directives concerning corporate income tax by passing the Act on Amendments to the Corporate Income Tax⁸, which will enter into force on the day of Croatia's EU accession.

During 2010, the Draft Ordinance on Amendments to the Corporate Income Tax Ordinance was sent to the European Commission for its opinion. With these amendments, the Corporate Income Tax Ordinance⁹ will be harmonised with the amended Corporate Income Tax Act, i.e. with the EU acquis in the field of corporate income taxes.

The incentive for the adoption of the Act on Amendments to the Corporate Income Tax Act¹⁰, amending the Corporate Income Tax Act¹¹, which entered into force on 1 July 2010, was the implementation of the Economic Recovery Programme since the Government of the Republic of Croatia, at its 55th session held on 6 May 2010, adopted the Plan of implementation activities of the Economic Recovery Programme. As a short-term fiscal policy measure, the plan obliges big businesses to submit tax statements in electronic form and, as a short-term measure in the pension insurance system, it acknowledges employers' voluntary pension insurance payments as expenditures admitted by the Tax Administration. This Act regulates more precisely certain provisions in normative terms in order to prevent tax avoidance, it prescribes that provisions for unused annual leaves are considered tax deductible expenditures and it increases the amount of individual purchasing costs above which certain assets are considered fixed assets. Furthermore, it extends the obligation to pay corporate income tax at a rate of 20 percent to all types of services paid to persons whose head office or place of real management or business control is located in countries, other than EU member states, in which the corporate income tax rate (general or average nominal) is less than 12.5 percent, and it increases the amounts of minimum fines for misdemeanours of taxpayers.

The Ordinance on Amendments to the Corporate Income Tax Ordinance¹², which entered into force on 4 November 2010 and which applies to the procedure for submitting corporate income tax registrations for 2010, harmonises the provisions of the Corporate Income Tax Ordinance¹³ with the Act on Amendments to the Corporate Income Tax Act.

During 2010, the Ordinance on Amendments to the Ordinance on Tax Relief for Corporate Income Tax Payers in Areas of Special State Concern¹⁴, the Ordinance on Amendments to the Ordinance on Tax Relief for Corporate Income Tax Payers in Hilly and Mountainous Areas¹⁵ and the Ordinance on Amendments to the Ordinance on Tax Relief for Corporate Income Tax Payers in the Area of the Town of Vukovar¹⁶ were passed, amending these respective ordinances¹⁷ and prescribing that corporate income tax payers need to submit their

5 Official Gazette, numbers 95/2005, 96/2006, 68/2007, 146/2008, 2/2009, 90/2009 – correction, and 146/2009

6 Official Gazette, number 123/2010

7 Official Gazette, numbers 177/2004, 90/2005 and 57/2006

8 Official Gazette, number 146/2008

9 Official Gazette, numbers 95/2005, 133/2007, 156/2008, 146/2009 and 123/2010

10 Official Gazette, number 80/2010

11 Official Gazette, numbers 177/2004, 90/2005, 57/2006 and 146/2008

12 Official Gazette, number 123/2010

13 Official Gazette, numbers 95/2005, 133/2007, 156/2008 and 146/2009

14 Official Gazette, number 122/2010

15 Official Gazette, number 122/2010

16 Official Gazette, number 122/2010

17 Official Gazette, number 53/2009 (Ordinance on Tax Relief for Corporate Income Tax Payers in Areas of Special State Concern, Ordinance on Tax Relief for Corporate Income Tax Payers in Hilly and Mountainous Areas, Ordinance on Tax Relief for Corporate Income Tax Payers in the Area of the Town of Vukovar)

tax relief applications for 2009 to the Ministry of Regional Development, Forestry and Water Management at the latest by 31 October 2010, and a copy of the application to the Ministry of Finance, the Tax Administration office competent according to the head office, permanent residence or habitual residence of the corporate tax payer at the latest by 31 October 2010. These amendments to the ordinances were carried out on the basis of the Act on Areas of Special State Concern¹⁸, the Act on Hilly and Mountainous Areas¹⁹ and the Act on the Reconstruction and Development of the Town of Vukovar²⁰.

Based on the Free Zones Act²¹, in 2010 the Ordinance on Amendments to the Ordinance on the Method for Calculating Investments and Disbursed Grants for Investments and the Method for Realising Tax Benefits for Users of Free Zones²² was passed, amending this Ordinance²³, and prescribing that users who intend to use the right to exemption from payment of corporate income tax can submit their application for the use of the right to the exemption from payment of the corporate income taxes, i.e. the application for the realisation of a tax benefit for users of free zones, to the competent Ministry of Economy, Labour and Entrepreneurship until 31 March of the current year.

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

On account of the implementation of activities of the Economic Recovery Programme of the Government of the Republic of Croatia, the Act on Amendments to the Act on the Special Tax on Salaries, Pensions and other Receivables²⁴ was passed, amending the Act on the Special Tax on Salaries, Pensions and other Receivables²⁵, and abolishing the payment of the special tax on salaries, pensions and other receivables at a rate of 2 percent for receivables from HRK 3,000 to 6,000 from 1 July 2010 and at the rate of 4 percent for receivables greater than HRK 6,000 from 1 November 2010.

The Ordinance on Amendments to the Ordinance on the Special Tax on Salaries, Pensions and other Receivables²⁶, which entered into force on 23 July 2010, harmonised the provisions of the Ordinance on the Special Tax on Salaries, Pensions and other Receivables²⁷ with the Act on Amendments to the Act on the Special Tax on Salaries, Pensions and other Receivables.

The Act on Special Tax on Receipts from Independent Activity and Other Receivables²⁸ was also amended by the Act on Amendments to the Act on Special Tax on Receipts from Independent Activity and Other Receivables²⁹, implementing activities of the Economic Recovery Programme, that is abolishing the special tax on receipts from independent activity and other receivables at the rate of 2 percent for the entire amount of the monthly income (or the entire amount of the average monthly income for independent activity incomes) from HRK 3,000 to 6,000 from 1 September 2010 and at the rate of 4 percent for amounts greater than HRK 6,000 from 1 January 2011.

The Ordinance on Amendments to the Ordinance on Special Tax on Receipts from Independent Activity and Other Receivables³⁰, which entered into force on 23 July 2010, harmonised the provisions of the Ordinance on Special Tax on Receipts from Independent Activity and Other Receivables³¹ with the Act on Amendments to the Act on Special Tax on Receipts from Independent Activity and Other Receivables.

18 Official Gazette, number 86/2008

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

20 Official Gazette, numbers 44/2001, 90/2005, 80/2008 and 38/2009

21 Official Gazette, numbers 44/1996, 92/2005 and 85/2008

22 Official Gazette, number 33/2010

23 Official Gazette, number 122/2008

24 Official Gazette, number 56/2010

25 Official Gazette, number 94/2009

26 Official Gazette, number 91/2010

27 Official Gazette, number 96/2009

28 Official Gazette, number 119/2009

29 Official Gazette, number 56/2010

30 Official Gazette, number 91/2010

31 Official Gazette, number 131/2009

8.1.6. Games of Chance and Prize Games

On the basis of the Act on Games of Chance³², in 2010, the Service for games of chance and prize games passed eight ordinances:

- Ordinance on the Organisation of Prize Games³³,
- Ordinance on the Organisation of Distance Betting Games³⁴,
- Ordinance on Obligatory Records for the Calculation of Fees for the Organisation of Games of Chance³⁵,
- Ordinance on the Operational Acceptance of Machines and Tables for Games of Chance³⁶,
- Ordinance on Spatial and Technical Requirements for the Organisation of Games of Chance in Casinos, on Machines and in Pay-In Venues of Betting Shops³⁷,
- Ordinance on the Organisation of Lottery Games³⁸,
- Ordinance on Permits (Licences) for Work in Casinos³⁹ and
- Ordinance on the Organisation of Games of Chance in Casinos via Interactive Sales Channels of Online Games⁴⁰.

8.1.7. Customs Regulations

Since its establishment, the Croatian customs law system, whose basic regulations are the Customs Act, the Regulation Implementing the Customs Act, the Regulation on Conditions and Procedures for Obtaining Customs Duty Exemptions, the Regulation Concerning Customs Action against Goods Suspected of Infringing certain Intellectual Property Rights and the Ordinance on the Use of Forms in the Implementation of the Customs Act, has reached a high level of harmonisation with the European customs system, with only a few smaller discrepancies for which the obligation of harmonisation was taken over in the Negotiating Position for the relevant chapter, i.e. which cannot be harmonised until the moment of accession.

Further harmonisation of legislation in 2010 included the adoption of the Act on Amendments to the Customs Act⁴¹.

Namely, in accordance with the obligation to further harmonise provisions of the Croatian customs legislation with the EU acquis in Chapter 29 Customs Union, through the transposition of so-called security provisions of European customs regulations into the Croatian customs legislation and through amendments to the Customs Act, general legal provisions on the use of security measures for goods that are brought into or out of the customs territory were introduced into the Croatian customs law system.

Also, with the indicated amendments to the Customs Act, in accordance with the obligation of harmonisation taken over in negotiations on Chapter 33 Financial and Budgetary Provisions, the normative wording of the provision of Article 225 Paragraph 4 of the Customs Act, which regulates the circumstances under which there is no three-year deadline to inform the debtor of his debt, was completely harmonised.

During 2010, the Ordinance on the Takeover, Collection and Custody of Temporarily Imported or Seized Foreign Vehicles under Customs Control and their Sale⁴² was passed, as a national customs regulation that is not subject to direct harmonisation with the EU acquis, and which regulates the conditions and procedures, carried out by the Croatian Automobile Association under customs control, in case of the takeover, collection, custody and organisation of demolition and sale of temporarily imported foreign vehicles or vehicles seized in misdemeanour or criminal proceedings.

32 Official Gazette, number 87/2009

33 Official Gazette, number 8/2010

34 Official Gazette, numbers 8/2010 and 63/2010

35 Official Gazette, number 8/2010

36 Official Gazette, numbers 38/2010 and 130/2010

37 Official Gazette, numbers 38/2010 and 130/2010

38 Official Gazette, number 78/2010

39 Official Gazette, number 78/2010

40 Official Gazette, number 78/2010

41 Official Gazette, number 56/2010

42 Official Gazette, number 77/2010

8.1.8. Excise Duties

During 2010, excise legislation and legislation related to the taxation of passenger cars, other motor vehicles, vessels and aircraft with special taxes was changed by passing the following regulations:

- the Excise Duties Act⁴³, which entered into force on 1 January 2010, regulates the new excise duty system of taxation of alcohol and alcoholic beverages, tobacco products, energy products and electricity that are released for consumption in the area of the Republic of Croatia, in accordance with EU regulations regarding harmonized excise taxes;
- the Act on Amendments to the Act on Special Taxes on Passenger Cars, other Motor Vehicles, Vessels and Aircraft⁴⁴ reduced excise taxes on vessels and aircraft;
- the Ordinance on the Method of Reporting on the Calculated Special Tax on Vessels or Aircraft Produced and Delivered in the Republic of Croatia⁴⁵ introduced the obligation of submitting tax statements for vessel and aircraft manufacturers.

For the implementation of the Excise Duty Tax, the following implementing regulations were passed:

- the Ordinance on Excise Duties⁴⁶ which elaborates proceedings for the implementation of guidelines of the Excise Duty Act that entered into force on 1 January 2010, as opposed to provisions of the Act that are suspended until the day of the accession of the Republic of Croatia to the EU, and whose implementation is included in this Ordinance;
- the Ordinance on the Application of the Excise Duty Act Concerning Blue-Dyed Gas Oil Intended for Use in Agriculture, Fishing and Aquaculture⁴⁷ and which elaborates the content, form and method of using forms for the control of blue-dyed gas oil consumption and prescribes indicators of the right to the consumption of blue-dyed gas oil by users in agriculture for agricultural activities and users with the special right for commercial fishing, cultivation or aquaculture and marking and dyeing of gas oil until the establishment of a comprehensive supervision of the consumption of gas oil based on card transactions;
- further amendments to the Ordinance on the Application of the Excise Duty Act Concerning Blue-Dyed Gas Oil Intended for Use in Agriculture, Fishing and Aquaculture⁴⁸ introduce additional rights and extends fundamental rights to the consumption of blue-dyed gas oil for some fields in agriculture. From 1 July 2010, a fuel card was introduced as well as technical requirements for the keeping of electronic records on the consumption of blue-dyed gas oil intended for use in agriculture, fishing and aquaculture, by selected and contracted providers of program support services for the keeping of electronic records, and extends the deadline for the marking and dyeing of gas oil intended for use in agriculture, fishing and aquaculture until the complete establishment of card transactions, at the latest until 31 December 2011;
- Regulation on the Amount of Excise Duty for LPG – liquefied petroleum gas⁴⁹ – which determines the amount of excise duty for LPG – liquefied petroleum gas – under the tariff codes HRK 2711 12 11 to 2711 19 00, as a motor fuel and for heating, at the amount of HRK 100.00 for 1,000 kilograms of net mass of the derivative product;
- Regulation on the Amount of Excise Duty for Unleaded Petrol⁵⁰, which raises the amount of excise duty for unleaded petrol (ULP) under the tariff codes HRK 2710 11 31, 2710 11 41, 2710 11 45 and 2710 11 49 from HRK 2,850.00/1,000 l to HRK 3,100.00/1,000 l;
- Decision on determining reimbursement amounts for the issue of fuel cards for agriculture and fishery⁵¹, which regulates the method of determining reimbursement amounts for the issue of additional and replacement fuel cards and fuel cards for new users for use in agriculture and fishery;
- Regulation on the Amount of Excise Duty On Cigarettes⁵², which from 1 October 2010 raises proportional excise duty for cigarettes from 30 percent to 33 percent of the cigarette retail price.

43 Official Gazette, number 83/2009

44 Official Gazette, number 21/2010

45 Official Gazette, number 26/2010

46 Official Gazette, number 1/2010

47 Official Gazette, number 1/2010

48 Official Gazette, numbers 44/2010, 65/2010 – correction, 78/2010, 131/2010 and 144/2010

49 Official Gazette, number 4/2010

50 Official Gazette, number 102/2010

51 Official Gazette, number 98/2010

52 Official Gazette, number 102/2010

8.2. PERSONAL IDENTIFICATION NUMBER (OIB)

The Act on Amendments to the Tax Administration Act⁵³, passed on 5 November 2010, extended the scope of activities of the Tax Administration to activities related to the Personal Identification Number (OIB), whose introduction as a unique identifier in official records of public law bodies created the preconditions for electronic data interchange. The Act prescribes the cooperation of the Tax Administration with public law bodies as authorities responsible for property records, in order to ensure the timely accessibility of data on property for the purpose of determining the regularity of tax base reports and payments of due tax liabilities.

The Tax Administration signed two documents with competent public law bodies, a Cooperation Agreement and a Protocol on Data Exchange, with an aim to strictly prescribe the conditions and methods of data exchange and the use of data. After the signing of the Cooperation Agreement and the Protocol on Data Exchange, the Tax Administration became the coordination body for other public law bodies and the site for the unique electronic access to information of OIB records and data on the property, accessible via computer-based connections with competent public law bodies that keep official property records.

The amendments to the Ordinance⁵⁴ explicitly prescribe that, for the purposes of assigning the Personal Identification Number (OIB), state administration bodies (ministries) are considered legal entities, it prescribes the documentation necessary for individual assignments of the OIB to foreign natural and legal persons and the method of issuing certificates from official records for natural persons who died before 1 January 2009 and for legal entities erased from the relevant register before 1 January 2009.

During 2010, 115,623 Personal Identification Numbers were issued to natural persons, and 15,989 Personal Identification Numbers were issued to legal entities, which in total is 131,612 Personal Identification Numbers. 173,095 OIB certificates and 42,339 copies of OIB certificates were issued. The Tax Administration enabled the supplementing of records and data with the personal identification number for 177 institutions.

Computer connections were created between institutions responsible for property records (Central Depository and Clearing Company, Croatian Civil Aviation Agency, Finance Agency, commercial courts) and a Cooperation Agreement and Protocol on Data Exchange were signed.

For the collection of data significant for taxation, the Tax Administration designed the Records of Data Significant for Taxation (PBZO), into which data about tax significant events from other sources (free signals), such as media, portals, print publications and others can be put in. Data on property ownership from the Tax Administration Information System was transferred, and it is now possible to send inquiries about property ownership to institutions with which the Tax Administration is connected, and the reply is received in real-time.

The application *Povezana društva* (Affiliated Companies) was designed, which generates data on the basis of data registered in court registers, and it enables searches and overviews.

⁵³ Official Gazette, number 128/2010

⁵⁴ Official Gazette, number 117/2010

8.3. INTERNATIONAL AGREEMENTS

During 2010, negotiations for an Agreement on the avoidance of double taxation were carried out with the United Arab Emirates in Zagreb (first cycle in March) and with the United Kingdom (negotiations were completed in May 2010).

An agreement was signed between the Republic of Croatia and Iceland on the avoidance of double taxation and prevention of evasion of income tax payment on 6 July 2010 in Zagreb and draft acts for the ratification of the Agreement on the avoidance of double taxation signed with the Sultanate of Oman and Iceland were prepared.

Activities related to carrying out and finalising negotiations on the conclusion of the Agreement between the Government of the Republic of Croatia and the Government of the State of Israel on mutual assistance in customs matters which was signed in Jerusalem on 17 May 2010 were successfully carried out. The legal procedures for the adoption of the Regulation on the Publication of the Agreement between the Government of the Republic of Croatia and the Government of the State of Israel on Mutual Assistance in Customs Matters⁵⁵ were carried out.

Based on the Convention of the Southeast European Law Enforcement Center (SELEC), whose member the Republic of Croatia is, after successful negotiations and a successfully carried out legal procedure, on 24 November 2010 in Bucharest, the Protocol on special rights and immunities of the Southeast European Law Enforcement Center was signed.

⁵⁵ Official Gazette – International Agreements, number 9/2010



9. INSPECTION/SUPERVISION OF THE FISCAL POLICY IMPLEMENTATION IN 2010



9.1. TAX ADMINISTRATION INSPECTION IMPLEMENTATION

9.1.1. Tax Inspection and Tax Crimes Detection

7,680 tax inspection notifications were delivered to taxpayers in 2010, of which 60.2 percent concerned legal, and 39.8 percent concerned natural persons.

Irregularities were established in 72.2 percent of the mentioned inspections. The most frequent unlawful activities and irregularities included failure to keep books, failure to keep books up-to-date and inaccurate bookkeeping, failure to issue invoices, failure to report turnover through payment devices, failure to charge and pay value-added tax, profit tax and income tax, pension and health insurance and employment contributions, failure to submit monthly reports on the charged and paid value-added tax etc. 5,679 motions to indict and 168 reports of criminal offences were filed. The inspections performed in the mentioned period established that there were HRK 1.8 billion of new, undeclared tax obligations and contributions, the largest part of which referred to value-added tax in the amount of HRK 1.1 billion, or 63.0 percent.

Based on the Plan of Measures for Fighting Grey Economy, and in conformity with the conclusions of the Government Committee, the Tax Administration also directed its inspections to taxpayers performing cash transactions. Therefore, as part of the total number of the inspections, control of invoicing related to control of value-added tax was carried out at 2,544 taxpayers', 117 decisions on Temporary Business Activity Prohibition were issued, new value-added tax liabilities in the amount of HRK 35.7 million were estimated, due tax debt of HRK 88.7 million was collected and 1,711 motions to indict filed. Tax inspection was intensified in the tourist season.

As a result of inspection of businesses organising games of chance and entertainment games, 445 slot machines for games of chance and 217 entertaining games machines were temporarily seized.

In 2010, joint activities were performed with the State Inspectorate, with the priority given to the inspection of income tax from non-self employment and contributions on the basis of employment and work equal to employment. Joint inspections were performed at 75 taxpayers', and the newly determined tax obligation amounted to HRK 16.3 million.

In the field of tax crimes detection, 522 unopened cases from previous years were carried forward to 2010, and there were 530 newly received cases in 2010.

Of the total number of cases carried forward from previous years, 182 were opened, and of the cases received in the current year, 320 cases were opened. Of the total number of opened cases, 512 have been closed, and 161 are still open.

Pursuant to Article 63 of the Income Tax Act, 157 natural persons were subjected to supervision. 55 supervisions are still ongoing, whereas 102 have been completed.

Based on the records, 133 tax assessment notices were issued and 117 misdemeanour charges filed. There were also 99 criminal complaints filed in which 139 persons were reported for 171 criminal offences.

According to criminal complaints filed in the period from January to December 2010, competent state attorney's offices filed 34 indictments.

9.1.2. Distraint Procedures

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

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

Table 9.1. shows that in 2010 a total of HRK 3.2 billion was collected in distraint procedures, the largest part of which referred to the revenue collected by seizure of monetary assets (63.3 percent).

Table 9.1. Debt Collected in Distraint Procedures upon Performance of Distraint Measures, in HRK 000

DISTRAINT MEASURES	YEAR 2010	SHARE %
Distraint order for the seizure of monetary assets	2,023,829	63.3
Distraint order for the seizure of debtors' claims	164,233	5.1
Distraint order for the seizure of claims based on shares in capital	36,114	1.1
Distraint order for the seizure of movable property	748,964	23.4
Distraint on real-estate	152,916	4.8
Collected at the requests of other bodies *	73,055	2.3
TOTAL COLLECTED	3,199,111	100.0

* The amounts represent total payments following request to the Tax Administration, i.e. payments before initiation of distraint procedures (e.g. upon warning or court fee order, or stamp duty order by the Tax Administration) and payments upon issued distraint orders.

Source: Ministry of Finance – Tax Administration

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

To ensure payment of a tax debt, the Tax Administration uses measures to ensure debt collection by enforcement of a lien upon the property of a tax debtor. The number of claims submitted by the Tax Administration to the State Attorney's Office regarding proposals to impose the enforcement of a lien over the property of a tax debtor is presented in Table 9.2. It can be seen that in both cases the increase in the number of submitted claims refers to natural persons.

Table 9.2. Number of Claims Filed to the State Attorney's Office Requesting Submission to Courts for Securing the Monetary Claim by Lien on Real-Estate and Submission to Courts for Real-Estate Distraint

	for securing the monetary claim by lien on real-estate	for real-estate distraint
Legal entities	751	121
Natural persons	3,649	402
TOTAL	4,400	523

Source: Ministry of Finance – Tax Administration

In 2010, the Department for Adjustment and Harmonisation of Distraint Procedures was established. The task of the Department is to perform expert activities related to determination of the status of distraint measures performed by tax officials at the level of regional offices and corresponding branch offices, for the purpose of more effective collection of budgetary revenue and timely performance of all activities and duties from the jurisdiction of the Tax Administration.

1 Official Gazette, number 147/2008

2 Official Gazette, number 47/2009

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

During 2010, distraint procedures were analysed in 7 out of 20 Tax Administration regional offices, which covered 35 percent of the analysed administrative area. Based on received complaints, a detailed analysis was performed of the implementation of distraint procedure measures at individual taxpayers'.

Another activity from this domain is control of the records of the largest debtors in the Republic of Croatia, which also includes preparation of monthly reports. Information about debtors of regional importance are collected and processed on a monthly basis, and accompanied with reports.

9.2. CUSTOMS ADMINISTRATION INSPECTION/SUPERVISION IMPLEMENTATION

9.2.1. Customs Inspection/Supervision and Crime Detection

In order to ensure a more effective collection of excise duty and to contribute to reduction of tax evasion, the Information System of the Croatian Customs Administration published on 1 January 2010 the Excise Taxpayers' Registry and the national SEED registry (the System for Exchange of the Excise Data), containing excise duty payers authorised for operation under excise duty suspension agreement.

In 2010, the Customs services temporarily seized a total of 5,827,470 pieces of various classes of cigarettes and 722.04 kg of tobacco intended for black markets of the Republic of Croatia and Europe. In the same period, 199 kg of various classes of drugs were seized. Furthermore, during 2010 cash in the equivalent of EUR 1.2 million, which was illegally carried over the border, was also temporarily seized. In that period, 26 misdemeanours were discovered which violated the provisions of the CITES Convention, or provisions of the Nature Protection Act and the Ordinance on Transboundary Movement and Trade in Protected Species.

2,207 subsequent verifications were performed in 2010 under Article 90 of the Customs Act, with misdemeanour proceedings initiated in 537 cases. The majority of those verifications, even 1,095, concerns excisable goods. Subsequent calculation of customs debt in the amount of HRK 42.5 million was performed.

Special activities were focused on the control of grey market charter and the temporary admission of vessels, as well as the trade in alcohol and alcoholic beverages. Inspection of vessels, in addition to charging special tax on vessels, also includes inspection of special use of vessels (charter), as well as temporary admission according to Annex C of the Convention on Temporary Admission. In 2010, the Croatian Customs Administration performed 1,152 inspections of vessels.

Of the total number of inspections, 685 concerned control pursuant to Annex C of the Convention on Temporary Admission, and 467 concerned control of special use of vessels (charter). Irregularities were established in 81 cases, of which 39 regarding control pursuant to Annex C, and 42 regarding control of charters; additional calculation of customs debt was performed in the total amount of HRK 36.1 million.

As part of control of temporary admission of vehicles, according to Annex C of the Convention on Temporary Admission, the Customs Administration performed 956 controls in 2010. Irregularities were established in 302 cases and additional calculation of customs debt reached the total amount of HRK 5.7 million.

197 controls of trade in alcohol and alcoholic beverages were performed during 2010, of which 137 concerned tax control, and the other activities were performed on points of sale on the customs territory of the Republic of Croatia. Irregularities were established in 107 cases and misdemeanour proceedings were initiated. Additional calculation of excise duty reached the total amount of HRK 364.0 thousand.

258 inspections of trade in energy products were performed, of which 14 tax inspections at taxpayers' premises, and 106 inspections on petrol stations. Irregularities were established in 20 cases and misdemeanour or criminal charges filed against the perpetrators. 109 inspections of dedicated use of fuel were performed at the premises of major users and 29 inspections of excise warehouses. Additional calculation of debt reached the amount of HRK 2.1 million.

Through regular and intensified measures, a total of 53,059 customs controls of dedicated use of fuel in vehicles, utility devices and machines were performed on the customs territory of the Republic of Croatia, which resulted in detection of 1,490 cases of irregularities, and on this basis a total of HRK 17.0 million was calculated of the subsequently determined amount of excise debt in respect of excise duties on energy products.

In accordance with the Provisional Instruction for conduct of state attorneys and authorized customs officers in criminal and misdemeanour cases in which there is a possibility of violation of *ne bis in idem* principle, and pursuant to regular line of activity of the Customs Administration organisational units for the purpose of detecting and reporting criminal offences, in 2010 a total of 59 criminal complaints were filed to the competent state attorney's offices. The majority of the criminal complaints involved suspicion in perpetration of the criminal offence from Article 298 of the Criminal Code - Avoiding Customs Control, specifically, 43 criminal complaints were filed on account of suspicion in perpetration of this criminal offence.

In the context of all criminal complaints submitted in 2010, it is estimated that perpetration of criminal offences caused damage to the Budgetary Central Government in the amount of HRK 15.7 million.

Also, in accordance with their authorities within the scope of work of the Customs Control Service, and the so-called mobile units, and as part of the implementation of measures of customs control on the entire customs territory of the Republic of Croatia, 54 joint target activities were performed in 2010, in coordination with the Mobile Units for State Border Control, the Border Police Directorate, the General Police Directorate and the Ministry of the Interior.

9.2.2. International Cooperation

In the framework of international cooperation (the SECI Center, OLAF, WCO, EUROPOL and cooperation with customs administrations of other countries), in 2010 the Customs Administration participated in the implementation and coordination of the following international customs operations:

- SHADOW IV – monitoring legal routes of shipments of cigarettes and raw tobacco in road, air, railway and maritime transport, and anti-smuggling;
- SIROCCO – fight against smuggling of counterfeit cigarettes in containerized shipments in maritime transport, and other counterfeit products;
- PANGEA III – discovering counterfeit and forbidden medications and medical products ordered primarily via Internet, and received by regular or courier mail;
- DICE 2 – monitoring legal transport and suspicious shipments of precursors used for production of heroin;
- AUNT – monitoring confiscation of cigarettes, original and counterfeit, in the amounts from 2,000 pieces to 100,000 pieces;
- MOUSETRAP – monitoring and analysing confiscation of goods arriving in shipments by regular mail and courier mail, and all irregularities; discovering customs offences concerning those shipments;

- SKY HOLE PATCHING 2 – monitoring trade in substances which damage the ozone layer and discovering illegal shipments;
- SYNTRACK – monitoring confiscation of synthetic drugs, especially MDMA (ecstasy), LSD, amphetamines and methamphetamines from Europe towards South America;
- GLOBAL SHIELD – intensification of control of chemical precursors, especially those which are used in production of explosive devices, and raising the awareness of illegal import, export and transit of chemical precursors;
- PAUK I – bilateral operation of the Croatian Customs Administrations and the Republic of Slovenia aimed at prevention of cross-border crime.

9.3. FINANCIAL CONTROL BY THE FINANCIAL POLICE

9.3.1. Implementation of Basic Activities

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

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

In 2010, controls were performed by 111 inspectors, 907 orders for financial control were issued and budget revenue established in the amount of HRK 578.1 million, of which HRK 111.2 million was paid.

Based on the submitted motions to indict, the competent misdemeanour bodies imposed fines in the total amount of HRK 5.4 million.

In the said period, the Financial Police submitted 33 reports of criminal offences (28 reports against trading companies and their responsible persons and 5 reports against natural persons - entrepreneurs) which damaged the State Budget of the Republic of Croatia for the amount of HRK 174.2 million.

Control of budget contributors who trade in oil derivatives established that invoices on supply of oil derivatives were being issued by trading companies which were not economically active, and companies which did not have valid documents on procurement of derivatives (forged documents), and that the issued invoices expressed supply of those types of derivatives which had not been acquired, which pointed to the fact that there was trade in oil derivatives of unknown origin.

The mentioned control included 19 contributors with established obligation for payment of budget revenue in the amount of HRK 165.2 million.

Financial control performed at the premises of three trading companies which produce alcohol and are the

largest payers of special tax on alcohol, established obligations for payment of budget revenue in the total amount of HRK 13.4 million.

According to the Decision of the Government of the Republic of Croatia, the Financial Police continued controls in the field of concessions and issued a total of 152 orders for financial control, and during 2010 it performed 113 controls and established the payment obligation in the amount of HRK 46.2 million.

Examination of business documentation of five shipyards provided data on all significant shipyards' business partners. Based on this, 15 orders were issued for financial control of business operation of legal and natural persons – shipyards' cooperators and their related contributors.

In the reporting period, 14 controls were completed in which obligations for payment of budget revenue in the amount of HRK 70.0 million were established.

Financial controls further established that the owners and responsible persons of 14 trading companies illegally withdrew or otherwise paid out (by using ATMs) HRK 80.5 million in cash, without payment of taxes and contributions. In the mentioned controls, the Financial Police calculated obligations for payment in the total amount of HRK 93.7 million.

The Regulation on Amendments to the Regulation on Internal Organisation of the Ministry of Finance⁴ introduced additional organisational decisions and, among other, established the Department of General Affairs and Internal Audit. The Department continued in-house controls of the Financial Police stations in its efforts to achieve harmonisation in the conduct of financial controls, increase expertise and responsibilities of authorized officials, solve cases within specified deadlines and work on prevention of potential risks of corruption.

9.3.2. Cooperation with other State Administration Bodies and International Cooperation

In certain cases of control, the Financial Police cooperates with the State Attorney's Office, the Office for the Prevention of Corruption and Organised Crime (USKOK), the Ministry of the Interior (MUP), the State Inspectorate and other supervising authorities of the Ministry of Finance (Tax Administration, Customs Administration, Financial Inspectorate, Anti-Money Laundering Office).

The Financial Police also participates in the work of the Committee of the Government of the Republic of Croatia in joint activities concerning the fight against grey economy, in which several supervisory services of other ministries are also included.

The Croatian Institute for Health Insurance submitted a request to the Financial Police for the control of insurance companies which are obliged to make payments for the financing of compulsory health insurance⁵. On this basis, the Financial Police issued one warrant for financial control, which established payment obligations in the amount of HRK 30.8 million.

Pursuant to the Decision of the Government of the Republic of Croatia, the Financial Police, in cooperation with the State Inspectorate, performed control of application of employment and occupational health and safety regulations⁶. In the mentioned period, 54 financial controls were carried out and the amount to be paid was established at HRK 5.4 million.

In the reporting period, upon request of the State Attorney's Office and USKOK, and in cooperation with MUP and the Tax Administration, the Financial Police continued to control trading companies which, among

4 Official Gazette, numbers 75/1993 to 29/2009

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

6 Income Tax Act (Official Gazette, numbers 177/2004, 73/2008, 80/2010), Contributions Act (Official Gazette, numbers 84/2008, 152/2008, 94/2009)

other, do business with non-residents. The controls, which started in 2009, included several legal and natural persons that participated in real-estate transactions, as well as taxpayers that paid for market research, development services etc. to foreign entrepreneurs.

It is important to note that the founders of majority of trading companies of the residents, covered by these controls, were foreign entrepreneurs with headquarters on the same addresses, while responsible persons of those companies – domestic entrepreneurs, were mostly the same persons, and that more than 20 companies were registered on the same address in the Republic of Croatia.

In the reporting period, the Financial Police issued 7 orders for financial control which established the obligation for payment of budget revenue in the amount of HRK 7.9 million.

In cooperation with MUP, controls were performed of five trading companies and one natural person that approve cash loans based on bank cards and advertise them in daily press, on lighting posts, leaflets etc.

The total payment obligations were established in the amount of HRK 11.1 million.

The Financial Police, based on its authorities and with other supervisory services, performs control of budget contributors that are commercially related to a trading company which is in majority state ownership.

Pursuant to an order issued by the County State Attorney's Office in Zagreb, the Financial Police performed control of three trading companies which had business relationships with the mentioned company and established obligations for payment of budget revenue in the amount of HRK 1.7 million.

The Financial Police also cooperated with the Austrian Federal Ministry of Finance, for the purpose of familiarisation of the Financial Police with procedures of the officers of the Austrian Federal Ministry of Finance in conduct of investigations related to tax frauds, with accent on the so-called circular frauds.



10. FINANCIAL SYSTEM
AND FINANCIAL DISCIPLINE
IN 2010



10.1. FINANCIAL SYSTEM

During 2010, important legislative activities were carried out in the field of the financial system.

For the purpose of harmonisation with the EU acquis, the Act on Amendments to the Foreign Exchange Transactions Act was passed¹. This Act confirms the provisions of the Regulation on Amendments to the Foreign Exchange Act from 2009, which from 1 January 2011 established the liberalisation of deposit transactions of residents and of the use of foreign loans through accounts in foreign countries, which is the obligation of the Republic of Croatia taken over during the negotiation process with the European Commission.

The Act on the Guarantee Fund for the Economic Recovery and Development² was passed for the purpose of overcoming difficulties in the economy, eliminating negative effects of the global crisis on the Croatian economy and creating conditions for a long-term sustainable economic growth. The primary objective is to stimulate investment projects that will have positive effects on the Croatian economy.

For the harmonisation of the legislation of the Republic of Croatia with applicable legal standards of the European Union, the Electronic Money Act³ was adopted. By adopting this Act, electronic money and issuers of electronic money will be regulated in the same way as in member states of the European Economic Area.

By adopting the Act on the Distraint of Monetary Assets⁴, a uniform procedure, methodology and order in the execution of the grounds for payment (distraint order, promissory notes etc.) was introduced in order to increase the legal security and functioning of the legal system of the Republic of Croatia. This Act ensures a series of advantages for the participants of the system of distraint of monetary assets, such as a unified application of regulations, the delivery of grounds for payment to one location, flat price of the procedure, uniform calculation of overdue interests, uniform informing of participants about the distraint and united database on accounts and other monetary assets of business entities and citizens.

In order to avoid any discrimination based on disability, the Act on Amendments to the Bill of Exchange Act⁵ was passed, allowing blind persons to sign bills of exchange, just like any other person, and enabling the protection of blind people from damaging consequences that can occur through the abuse of their disability. This Act enables disabled persons equal treatment with persons without disabilities, that is it allows disabled persons to decide for themselves on the method of protection from the misuse of their signature on the bill of exchange.

In the field of accounting and audits, the strengthening of administrative capacities in the field of audits was continued. Harmonisation of legislation with the EU acquis is carried out continuously in order to change accounting standards. The Audit Public Oversight Committee carried out public oversight of the audit profession. The quality of work of audit companies, independent auditors and authorised auditors is controlled with the aim of raising the quality of the audit profession in Croatia. As a result of the implementation of the IDF Grant for enhancing corporate financial reporting in the Republic of Croatia, financed by the World Bank, the following manuals were prepared in 2010: (i) "Methodology for Public Audit Oversight", (ii) "Methodology for the Implementation of Quality Control of Audit Companies, Independent Auditors and Authorised Auditors".

In the field of the housing saving system, with the aim of harmonising legislation with the EU acquis, the Act on Amendments to the Act on Housing Savings and State Incentives to Housing Savings⁶ was passed. These

1 Official Gazette, numbers 96/2003, 140/2005, 132/2006, 150/2008, 92/2009, 153/2009 and 145/2010

2 Official Gazette, number 20/2010

3 Official Gazette, number 139/2010

4 Official Gazette, number 91/2010

5 Official Gazette, numbers 74/1994 and 92/2010

6 Official Gazette, numbers 109/1997, 117/1997 – correction, 76/1999, 10/2001, 92/2005, 21/2010

amendments prescribe that every natural person who resides in the Republic of Croatia can be a housing savings depositor, not only citizens of the Republic of Croatia. Housing savings banks are allowed to grant loans to contractors, who, based on the act that regulates construction, can carry out construction activities for housing construction projects in the Republic of Croatia to meet the housing needs of housing savings depositors, up to the total amount of the liable capital of the housing savings bank.

In the field of supervision of financial institutions, the implementation of the supervision of housing savings banks and voluntary pension funds in their use of state incentives was continued. The authorisations of consumer credit service providers and the supervision of their business operations, the supervision of savings and loan cooperatives in liquidation and the supervision of financial agencies in carrying out distrains of monetary assets are carried out. Also, consumer protection in the financial system is coordinated and the level of financial literacy is raised.

10.2. FINANCIAL INSPECTORATE INSPECTION/ SUPERVISION IMPLEMENTATION

10.2.1. Implementation of Basic Activities

The Financial Inspectorate Act⁷ determines the scope of work and legal competences of the Financial Inspectorate in the fields of prevention of money laundering and terrorism financing, foreign exchange transactions and provision of payment services. The Financial Inspectorate contributes to the prevention of and fight against different forms of misuse of the financial system, including money laundering and corruption.

Activities of the Financial Inspectorate in 2010 were marked by the strengthening of control procedures and the improvement of the supervisory framework for an effective prevention of money laundering and terrorism financing, through the adoption of a supervisory approach based on risk assessments of obliged entities.

Within the technical assistance of the International Monetary Fund, the Financial Inspectorate prepared General Guidelines for entities obliged by measures from the Act on the Prevention of Money Laundering and Financing of Terrorism (hereinafter ZSPNFT), sector risk matrices for effective planning and the implementation of supervisory activities and the standardisation of procedures in supervision by adopting the “Methodological Guide for Supervision”.

Also, the Financial Inspectorate started a training program for obliged entities on the implementation of measures and activities from the ZSPNFT.

10.2.2. Inspection and Misdemeanour Proceedings Management

The Financial Inspectorate plans, organises and conducts inspection in the fields of application of the prescribed foreign-exchange system, provision of payment system and money transfer services, and money

⁷ Official Gazette, number 85/2008

laundering and terrorism financing, according to a schedule of activities and targeted requests from other control bodies and institutions.

The majority of supervisory activities in 2010 was directed towards the implementation of measures resulting from the ZSPNFT, because the new Payment System Act⁸ will enter into force on 1 January 2011, while in the field of foreign exchange transactions supervision obligations have been reduced as a result of the liberalisation of foreign-exchange system.

In accordance with the ZSPNFT, the Financial Inspectorate has powers to carry out supervision of designated sectoral obliged entities. Supervision implies checking obliged entities' compliance with the measures, activities and procedures prescribed by this Act. The Financial Inspectorate, as the primary supervisor, is entrusted with carrying out supervisions of the following obliged entities:

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

During 2010, the Financial Inspectorate, within its overall legislative competences, performed 359 inspections, 70 percent of which concerns regular inspections, and 30 percent targeted inspection at the request of supervising authorities or institutions.

In 2010, a total of 250 regular (preventative) inspections were carried out, 230 of which concerned the supervision of conformity of obliged entities in the sense of the implementation of measures and activities prescribed by the ZSPNFT.

In 2010, 109 targeted financial inspections were carried out, independently and in cooperation with other bodies, 80 percent of which referred to the field of money laundering prevention, and 20 percent to the verification of the foreign-exchange system.

While carrying out inspections under its legal competence, the Financial Inspectorate also submitted initiatives to other supervising authorities and institutions to carry out controls if the observed irregularities were a basis for them to act as competent authorities as well. It submitted such initiatives to 70 other bodies to carry out controls or take steps within their legal competence (19 to the Tax Administration, 1 to the Customs administration, 8 to the Anti-Money Laundering Office, 27 to the State Attorney's Office, 7 to the Ministry of the Interior, 6 to the Office for the Prevention of Corruption and Organised Crime, 2 to the Croatian National Bank).

The Financial Inspectorate conducts legal proceedings in the first degree for misdemeanours prescribed by the Foreign Exchange Act, Financial Inspectorate Act, Act on the Prevention of Money Laundering and Financing of Terrorism and the National Payment System Act. The High Misdemeanour Court of the Republic of Croatia decides in the second instance on the appeals against the decision of the Council for Misdemeanour Proceedings of the Financial Inspectorate.

In order to penalise unlawful activities established in the course of inspection, during 2010 the Financial Inspectorate submitted 116 motions to indict, 2 reports of criminal offences to competent authorities and issued 3 warnings in writing.

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

8 Official Gazette, number 133/2009

During 2010, the departments for misdemeanour procedure received 389 motions to indict submitted by the following authorised bodies: the Financial Inspectorate (116 motions to indict), the Tax Administration (172 motions to indict), the Customs Administration (29 motions to indict), the Ministry of the Interior (4 motions to indict), the Croatian National Bank (58 motions to indict), the Anti-Money Laundering Office (2 motions to indict), the Financial Police (4 motions to indict), and the Agency for Supervision of Financial Services (3 motions to indict) as well as one natural person (1 motion to indict).

During 2010, the Financial Inspectorate solved a total of 464 cases, and required fines and costs of proceedings to be paid. The total stated fines amounted to HRK 27.6 million, while through the safeguard measure of seizing the objects of the misdemeanours, a total of EUR 1.03 million were seized in favour of the budget.

10.2.3. Inter-Institutional Cooperation

During 2010, the Financial Inspectorate continued cooperation with other supervising institutions in accordance with Article 56 of the Foreign Exchange Act and through signed agreements and protocols on mutual cooperation:

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

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

- participation in the work of the Inter-institutional Working Group for the Prevention of Money Laundering/ Terrorism Financing (MIRS), which includes 12 state institutions involved in the fight against money laundering/terrorism financing in the Republic of Croatia. The MIRS coordinates the implementation of measures and the reporting on the implementation of the Action Plan for the Prevention of Money Laundering and Terrorism Financing, coordinates the preparation of the report presentation to MONEYVAL, improves the cooperation among institutions in this field and proposes improvements of legal regulations, implementation rules, guidelines and other. Two MIRS meetings were held during 2010;
- participation at regular meetings of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and Financing of Terrorism (MONEYVAL, Strasbourg, France) and presentation of the Report on the improvements in the fields for which recommendations were issued in the past evaluation cycle (32nd, 33rd and 34th plenary meetings);
- organisation of a series of meetings, in cooperation with the Anti-Money Laundering Office, with the persons obliged to apply and implement the Act on the Prevention of Money Laundering and Financing of Terrorism (attorneys-at-law, public notaries, auditors, Croatian Post and other) for the purpose of a more effective sharing of experience and information important for strengthening the prevention of money laundering and the financing of terrorism, including fraudulent and corrupt activities in the public sector;
- The Financial Inspectorate is the designated competent authority for the implementation of one part of the measures of the Action Plan of the Government of the Republic of Croatia for the prevention of money laundering/financing of terrorism and it periodically informs the Anti-Money Laundering Office (designated competent authority for the implementation of the Action Plan) on the completed activities. During 2010, the implementation of long-term measures from the Action plan was continued, while other measures from the Action plan were implemented;
- the Financial Inspectorate is the designated competent authority for the implementation of measures of the Action Plan of the Government of Croatia for the prevention of corruption and it periodically informs the Ministry of Justice (designated competent authority for the implementation of the Action Plan) on the completed activities. During 2010, the implementation of measures from the Action plan necessary for the closing of Chapter 23 Judiciary and Fundamental Rights was continued.

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

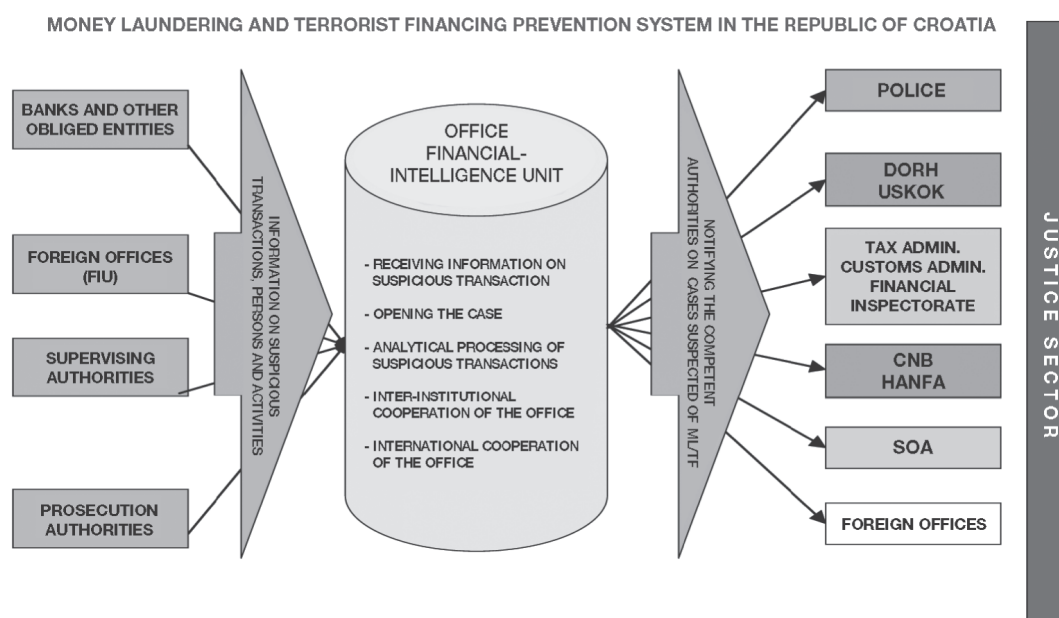
10.3.1. Anti-Money Laundering and Terrorism Financing System in the Republic of Croatia

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

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

Competent authorities from the money laundering and terrorism financing system are as follows: prevention bodies (banks and other obliged entities), the Anti-Money Laundering Office, supervision bodies (Croatian National Bank - CNB, Croatian Financial Services Supervisory Agency - HANFA, Tax Administration, Customs Administration, Financial Inspectorate), criminal enforcement bodies (the police, Public Prosecutor's Office of the Republic of Croatia - DORH and the Office for the Suppression of Corruption and Organised Crime - USKOK), and the justice sector (courts).

Figure 10.1.



The key element of the preventive system is the obligation of banks and other legally defined reporting entities to inform the Office of suspicious (cash and non-cash) transactions when banks and other reporting entities determine that there is a suspicion of money laundering and terrorism financing regardless of the amount of the transaction (suspicious transactions system)⁹.

9 Article 42 of the Law

The Office, as the central national body for the collection, analysis and submitting of cases suspected of money laundering or terrorism financing to the competent authorities, is part of the preventive system, that is the intermediary body between the financial and non-financial sector (banks and others), which inform the Office of suspicious transactions, and enforcement authorities (police and State Attorney's Office) on one hand and courts on the other, as shown in Figure 10.1.

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

10.3.2. Implementation of the Basic Activities of the Office

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

According to international standards, the Croatian Office is the analytical service and the central body for prevention, whose primary task – as a financial intelligence unit – is the analytical and intelligence processing of suspicious transactions received by the Office from banks and other entities. If the Office determines that in relation to a transaction or a certain person there are reasons for suspicion of money laundering or terrorism financing in the country or abroad, it will notify the competent State bodies about the case, especially the State Attorney's Office of the Republic of Croatia, and/or the Ministry of the Interior, as well as the Ministry of Finance's supervisory agencies and foreign offices¹⁰.

The Office is authorised to initiate analytical transaction processing after:

- banks or other entities, with regard to a certain transaction or person, submit justified reasons for suspicion of money laundering or terrorism financing;
- foreign financial intelligence units (foreign offices) submit a written request or notification of suspicious transactions or suspicion of money laundering or terrorism financing.

In exceptional cases, the Office is authorised to initiate analytical transaction processing of suspicious transactions after state authorities, courts, legal entities with public authorities and other subjects submit a written motion indicating activities which were or could have been related to money laundering or terrorism financing, and which were established during activities within the scope of work of those authorities.

Table 10.1. Suspicious Transactions Reports received in 2010

	Money laundering	Terrorism financing
1. CREDIT INSTITUTIONS		
Banks	301	6
CREDIT INSTITUTIONS TOTAL	301	6
2. FINANCIAL INSTITUTIONS		
The Croatian Post	63	
Broker companies	3	
Investment funds management companies	2	
Leasing companies	2	
Pension companies	1	
FINANCIAL INSTITUTIONS TOTAL	71	0
3. NON-FINANCIAL SECTOR: PROFESSIONS		

¹⁰ Art. 59 and Art. 65 of the Law

	Money laundering	Terrorism financing
Notaries public	23	
Lawyers	5	
NON-FINANCIAL SECTOR TOTAL	28	0
REPORTING ENTITIES (from Article 4 of the Law) TOTAL	400	6
4. GOVERNMENTAL INSTITUTIONS		
Police	58	2
Customs Administration	37	
Office for Supression of Corruption and Organized Crime	21	
Competent State Attorney's Offices	9	
Tax Administration	9	
Security and Intelligence Agency	4	3
Financial Inspectorate	3	
Financial Police	1	
Croatian National Bank	1	
GOVERNMENTAL INSTITUTIONS TOTAL	143	5
5. FOREIGN FIUs	59	2
TOTAL (1+2+3+4+5)	602	13
GRAND TOTAL	615	

Source: Ministry of Finance, Anti-Money Laundering Office

Since the Office obtains classified bank, personal and intelligence information in the country and abroad, according to international standards and the Law, all information on suspicious transactions and persons which the Office, as the Croatian financial intelligence unit, collects and processes, represent classified information, and the proceedings performed by the Office are confidential. Therefore the Office is not authorised to inform the persons to whom that information refers, or third parties, on the information collected, or about the proceedings.¹¹

10.3.3. Key Business Performance Indicators of the Office

The business performance of the Office is verified by key business performance indicators: the number of open cases, the number of blocked suspicious transactions and the number of cases submitted to competent authorities for further processing (as shown in Table 10.2), these are compared with equivalent key performance indicators of foreign financial intelligence units and the Office's performance is evaluated by the relevant international bodies and organisations (MONEYVAL and others).

Table 10.2. Key Performance Indicators of the Office in 2010

Number of opened cases due to the suspicion of money laundering and terrorist financing	334
Number of cases submitted to competent authorities and foreign FIUs for further processing	164
Number of cases suspected of money laundering	157
Number of cases suspected of terrorism financing	7
Number of analytically processed transactions in cases submitted to competent authorities	2.024
Number of participants - natural and legal persons - in analysed transactions in cases submitted to competent authorities	837
Number of orders issued to banks for postponement of execution of suspicious transactions for 72 hours	2
Total value of suspicious transactions which were temporarily postponed	2.707.018,00
Number of orders issued to banks for constant monitoring of financial operations	18

In order to prevent terrorism financing in financial system of the Republic of Croatia in 2010, 109 natural and legal persons were checked, as well as 10 entities and 37 amendments of UN consolidated list.

Source: Ministry of Finance, Anti-Money Laundering Office

¹¹ Art. 75 of the Law and Art. 28 of Third Directive 2005/60/EC

10.3.3.1. Cases Submitted by the Office to the Competent Authorities

Following the analytical processing of suspicious transactions, as part of open cases, the Office assessed that in 164 cases there was suspicion of money laundering (157 cases) and terrorism financing (7 cases) and informed the competent national authorities and foreign offices about it, as shown in Table 10.3. Within open cases, the Office analysed a total of 2,024 transactions related to 833 natural and legal persons as participants in transactions and, in connection with these cases, submitted to competent authorities additional 75 case updates.

Table 10.3. Cases Submitted by the Office to the Competent Authorities

COMPETENT AUTHORITY	NUMBER OF CASES
Ministry of the Interior	74
Office for Suppression of Corruption and Organized Crime (USKOK)	28
Financial Inspectorate	22
State Attorney's Office	16
Tax Administration	8
Security and Intelligence Agency	6
Foreign FIUs	6
Customs Administration	1
Financial Police	1
Croatian National Bank	1
Croatian Financial Services Supervisory Agency (CFSSA)	1
TOTAL	164

Source: Ministry of Finance, Anti-Money Laundering Office

The cases that the Office forwarded to the competent State bodies and foreign offices with a suspicion of money laundering and terrorism financing are the subject of further procedures by the supervisory bodies and law enforcement agencies (conducting financial investigations, criminal investigations and criminal proceedings) aimed at establishing the legal nature of the funds analyzed in the suspicious transactions. Only when a final court judgement is passed for the criminal offence of money laundering, is the illegality of assets proved and they are permanently confiscated.

10.3.3.2. Office Activities in Anti-Corruption Measures Implementation

Starting from key business performance indicators of the Office, through the activities aimed primarily at the prevention and detection of money laundering and terrorism financing, and indirectly at the prevention and detection of corruption, in accordance with its legal competences, the Office cooperates with all competent state administration bodies and can confirm its activities concerning the majority of cases of organised crime and corruption related to the abuse of public authority aimed at gaining personal benefits, of which other competent state administration bodies have already informed the media and the public.

Concerning activities related to the implementation of anticorruption measures during 2010, the Office interactively cooperated with enforcement authorities (Ministry of the Interior, DORH, USKOK) to which it submitted 25 cases for the suspicion of money laundering related to corrupt activities of particular persons. The total value of analysed transactions suspicious for corrupt activities amounted to more than HRK 30 million. As part of these cases, the Office:

- acquired and analytically processed data from the bank system of the Republic of Croatia and obtained data about accounts and transactions from abroad, and it also performed controls and analyses regarding 200 natural and 15 legal persons, potential perpetrators of criminal offences of corruption and related parties;
- issued an order to a brokerage house to block a suspicious sale of shares in a money investment fund, which was confirmed by a court decision;
- issued 5 orders to banks to monitor financial operations of clients.

The National Council for Monitoring Anti-corruption Strategy Implementation unanimously accepted the Anti-corruption measures implementation report of the Ministry of Finance for 2009, including the field of responsibility of the Office (23rd session, held on 13 April 2010).

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

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

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

The Council of Europe: the Second MONEYVAL Progress Report on Anti-Money Laundering Measures and Terrorism Financing in the Republic of Croatia

The Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) adopted the Second Progress Report on Anti-Money Laundering Measures and Terrorism Financing in the Republic of Croatia after the 3rd evaluation round in the Republic of Croatia (Second written Progress Report submitted to MONEYVAL by Croatia), which is published on the MONEYVAL website.

The main conclusions of this report are the following:

Most importantly, the Anti-Money Laundering and Financing of Terrorism Law (2008) introduced new provisions that strengthen requirements regarding the customer due diligence, which was effectively complemented with several implementation ordinances and guidelines, issued by relevant regulatory and supervising authorities. Also, measures were undertaken for the improvement of the conformity with the Recommendation 13 and Special recommendation IV, although technical deficiencies and problems in the implementation still remain and will be difficult to solve.

As a result of the discussions held in the context of the examination of this second progress report, the Plenary was satisfied with the information provided and the progress being undertaken and thus approved the progress report and the analysis of the progress on the core Recommendations. Pursuant to Rule 41 of the Rules of procedure, the progress report will be subject of an update in every two years between evaluation visit (i.e. April 2013), though the Plenary may decide to fix an earlier date at which an update should be presented.

10.3.5. Chapter 4 Free Movement of Capital: Prevention of Money Laundering and Terrorism Financing

The European Commission has confirmed that, with the adoption the Anti-Money Laundering and Terrorism Financing Law and the amendments to several relevant Acts (Criminal Procedure Code, Act on Games of Chance, Act on Police Duties and Powers and the Rules of Procedure for Courts), the Croatian legislation is harmonised with the EU *acquis* in the field of the fight against money laundering.

In conclusion, the EU considers that the Republic of Croatia, with the harmonised legislation in the field of prevention of money laundering and with the demonstrated administrative capacity for the correct implementation of such legislation, meets the closing benchmarks of Chapter 4. Free movement of capital. Chapter 4. was closed at the Intergovernmental Conference held on 5 November 2010.

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

When during the performance of their activities, competent authorities (Public Prosecutor's Office of the Republic of Croatia, USKOK, Ministry of the Interior, Security and Intelligence Agency and courts), as well as supervisory authorities (CNB, HANFA, Financial Inspectorate, Tax Administration, Customs Administration and Financial Police) and other state bodies determine a suspicion of activities that are or could be related to money laundering or terrorism financing, they are required to notify the Office in writing and without delay, in accordance with Articles 58 and 64 of the Law.

Consequently, the Office performed, on its own initiative or on the initiative of other bodies, activities related to the analysis of the financial aspects of the most severe criminal offences, and as a result of the cooperation in 2010, the Office opened a total of 117 cases at the initiative of other competent bodies (supervisory bodies, enforcement bodies and others).

In connection with already opened cases, in the framework of inter-institutional cooperation, the Office carried out analytical processing of suspicious transactions in cases involving suspicious transactions of persons detected as members of criminal groups in the Republic of Croatia and abroad, cases of suspicious transactions on accounts of foreign nationals who buy real-estate on the territory of the Republic of Croatia through Croatian companies, cases concerning suspicious transactions related to corrupt activities, organised drug trafficking and illegal migration as well as cases of suspicious transactions involving the business activities of Croatian companies with off shore companies.

Therefore, in the observed period, out of a total of 334 open cases of suspicions of money laundering and terrorism financing, the Office opened 117 cases at the initiative of other competent bodies (supervisory bodies, enforcement bodies and others), which confirms a very good interactive inter-institutional cooperation between the Office and other competent bodies from the system of the fight against money laundering and terrorism financing, which indirectly is a sign of a good cooperation in the fight against corruption.

10.3.7. International Cooperation

International cooperation of the Office involves cooperation between the Office and foreign financial intelligence units in relation with the exchange of relevant data, information and documentation requested by the Office for a foreign FIU, requested by a foreign FIU for the Office, and on initiative (spontaneously) of the Office for a foreign FIU, for the purpose of prevention of money laundering and terrorism financing.¹²

¹² Art. 67 of the Law

In 2010, the Office sent 420 inquiries to 113 countries for the purpose of obtaining information from abroad required for discovering money laundering and terrorism financing, and received 101 inquiries from 31 countries, also for the purpose of data exchange related to discovering money laundering and terrorism financing.

In accordance with Art. 67 para. 3 of the Act, for the advancement of the international cooperation related to data exchange, during 2010 the Office signed a Memorandum of Understanding with the Office of San Marino and a technical agreement was signed between the Anti-Money Laundering Office of the Ministry of Finance of the Republic of Croatia and EULEX, the EU Rule of Law Mission in Kosovo, represented by the Financial informative centre, on cooperation in the exchange of financial intelligence data related to money laundering and terrorism financing.

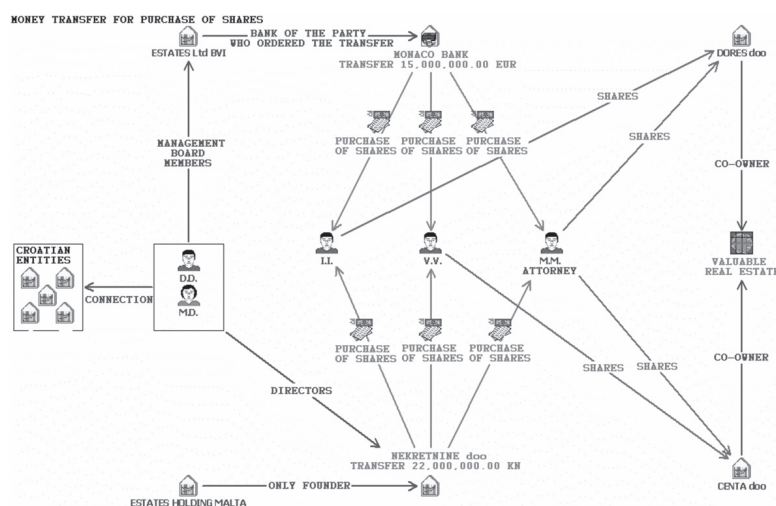
10.3.8. Cases Suspected of Money Laundering Delivered by the Office to the Competent Authorities

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

CASE: Suspicious International Transactions for the Purchase of Shares

Suspicious transactions in the amount of EUR 15 million transferred via an off shore bank on behalf of Croatian citizens, for the purchase of shares in Croatian companies that own real-estate in the Republic of Croatia, as shown in Figure 10.2. The Office submitted the case for further processing to the State Attorney's Office and the Ministry of the Interior.

Figure 10.2.



Considering the cases opened by the Office with suspicion of money laundering and the typologies in the opened cases, it is our estimate that these are the following current and future threats of money laundering in the Republic of Croatia:

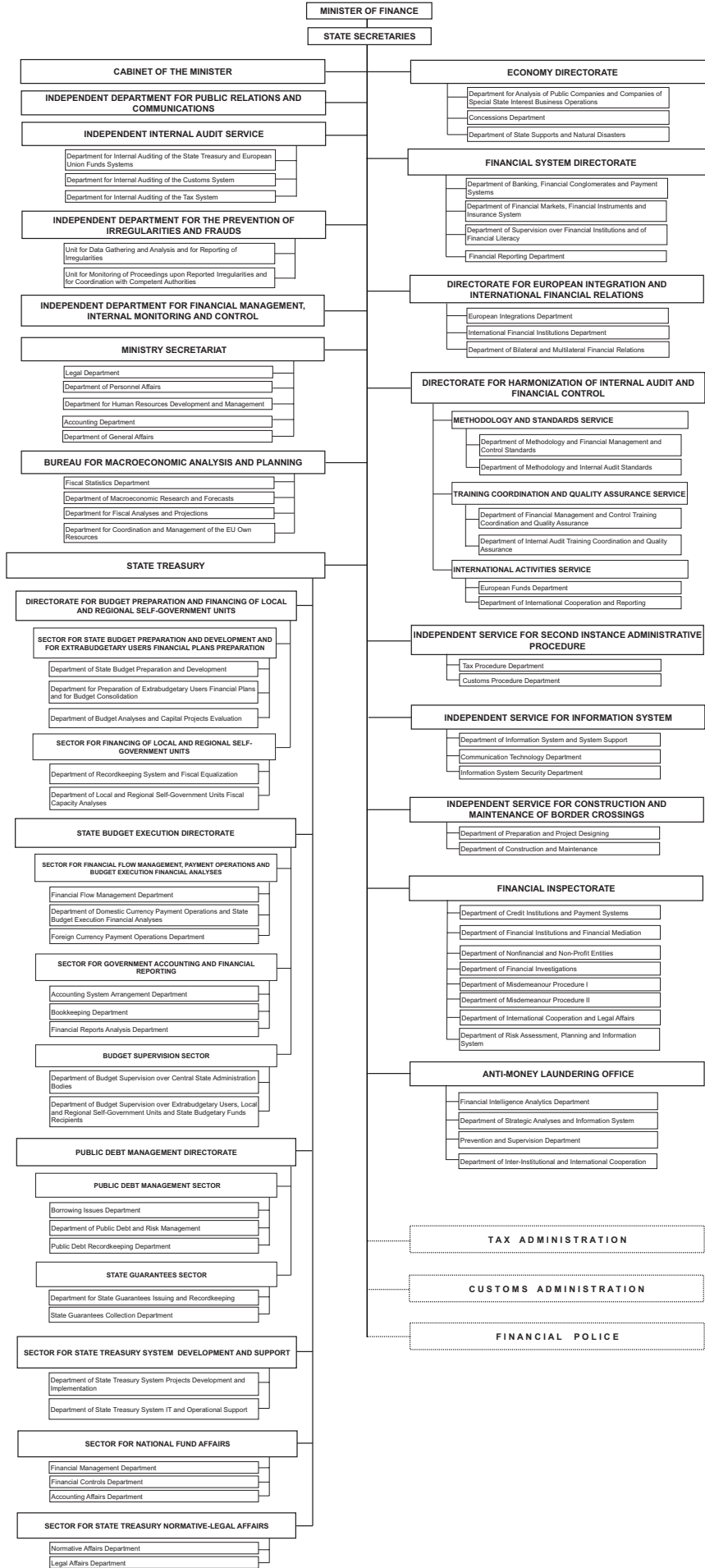
- business with off shore zones and non-cooperative jurisdictions,
- new payment technologies (e-banking) and
- international investments in the Republic of Croatia (real-estate).



ORGANISATIONAL
STRUCTURE - ORGANIGRAM
OF THE MINISTRY OF
FINANCE



ORGANISATIONAL STRUCTURE - ORGANIGRAM OF THE MINISTRY OF FINANCE





APPENDICES



Appendix 1: Basic Macroeconomic Indicators of Croatian Economy

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP, current prices (HRK million)	178,118	192,289	208,796	228,932	247,428	266,652	291,044	318,308	345,015	335,189	334,564
GDP, real growth (%)	3.8	3.7	4.9	5.4	4.1	4.3	4.9	5.1	2.2	-6.0	-1.2
GDP, current prices (EUR million)	23,333	25,738	28,189	30,265	33,009	36,034	39,745	43,390	47,765	45,669	45,917
GDP per capita (EUR)	5,272	5,797	6,349	6,816	7,436	8,112	8,951	9,781	10,771	10,311	10,367
Consumer prices, average (%)	4.6	3.8	1.7	1.8	2.1	3.3	3.2	2.9	6.1	2.4	1.1
Producers prices, average (%)	9.7	3.6	-0.4	1.9	3.5	3.0	2.7	3.4	8.3	-0.4	4.3
Number of registered unemployed persons, average	357,872	380,195	389,740	329,799	309,875	308,739	291,616	264,446	236,741	263,174	302,425
Registered unemployment rate, average (%)	21.1	22.0	22.3	19.1	18.0	17.9	16.6	14.8	13.2	14.9	17.4
Labour force survey unemployment rate, average (%)	16.1	15.8	14.8	14.3	13.8	12.7	11.1	9.6	8.4	9.1	11.8
Average monthly gross wage, growth rate (%)	7.0	3.9	6.0	4.8	6.4	4.4	6.2	6.2	7.1	2.2	-0.4
Average monthly gross wage, HRK	4,869	5,061	5,366	5,623	5,985	6,248	6,634	7,047	7,544	7,711	7,679
Average monthly net wage, growth rate (%)	8.9	6.5	5.0	5.9	5.9	4.9	5.2	5.2	7.0	2.6	0.6
Average monthly net wage, HRK	3,326	3,541	3,720	3,940	4,173	4,376	4,603	4,841	5,178	5,311	5,343
Industrial production volume index, growth rate (%)	1.5	5.9	5.0	3.3	3.2	4.6	4.1	4.9	1.2	-9.2	-1.4
Retail trade turnover, real growth rate (%)	14.4	10.0	12.5	3.7	2.6	2.8	2.1	5.3	-0.5	-15.3	-1.8
Number of tourist nights, growth rate (%)	47.5	10.8	3.0	4.3	2.5	7.6	3.1	5.7	2.0	-1.4	2.6
Construction work index, growth rate (%)	-9.1	3.6	12.8	22.8	2.0	-0.8	9.3	2.4	11.8	-6.5	-15.9
Exchange rate HRK/USD, average	8.29	8.34	7.87	6.70	6.03	5.95	5.84	5.37	4.93	5.28	5.50
Exchange rate HRK/USD, end of period	8.16	8.36	7.15	6.12	5.64	6.23	5.58	4.99	5.16	5.09	5.57
Exchange rate HRK/EUR, average	7.63	7.47	7.41	7.56	7.50	7.40	7.32	7.34	7.22	7.34	7.29
Exchange rate HRK/EUR, end of period	7.60	7.37	7.44	7.65	7.67	7.38	7.35	7.33	7.32	7.31	7.39
Foreign trade balance (HRK million)	-27,788	-37,509	-45,459	-53,538	-51,654	-58,237	-64,812	-72,116	-81,149	-56,479	-45,405
Exports (HRK million)	37,785	38,917	38,421	41,355	48,354	52,283	60,437	66,043	69,205	55,272	64,892
Imports (HRK million)	65,573	76,426	83,880	94,893	100,008	110,520	125,249	138,159	150,354	111,751	110,297
Current account balance (EUR million)	-531	-776	-2,030	-1,818	-1,357	-1,895	-2,636	-3,119	-4,217	-2,369	-512
Current account balance (% of GDP)	-2.3	-3.0	-7.2	-6.0	-4.1	-5.3	-6.6	-7.2	-8.8	-5.2	-1.1
External debt, end of period (EUR million)	12,264	13,609	15,144	19,884	22,933	25,990	29,725	33,721	40,590	45,244	46,512
External debt, end of period (% of GDP)	52.6	52.9	53.7	65.7	69.5	72.1	74.8	77.7	85.0	99.1	101.3
International reserves of CNB, end of period (EUR million)	3,783	5,334	5,651	6,554	6,436	7,438	8,725	9,307	9,121	10,376	10,660
Interest rate on treasury bills of 91 days maturity, end of period (%)	7.50	4.00	2.00	4.00	3.80	3.70	3.00	3.60	6.00	4.70	2.30
ZIBOR (3 m), average (%)	11.10	7.90	4.60	5.50	7.35	6.19	4.46	5.63	7.20	8.96	2.43

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

Appendix 2: Budgetary Central Government Revenue in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUE	95,235,557	108,320,595	115,772,655	110,257,947	95.2	107,466,351	97.5
11	Taxes	58,469,091	64,234,530	69,572,699	63,678,926	91.5	62,856,582	98.7
111	Taxes on income, profits, and capital gains	8,515,615	10,589,083	12,252,205	10,839,269	88.5	7,608,630	70.2
1111	Payable by individuals	3,459,649	1,772,708	1,687,502	1,399,411	82.9	1,201,546	85.9
1112	Payable by corporations and other enterprises	5,055,966	8,816,375	10,564,703	9,439,858	89.4	6,407,084	67.9
113	Taxes on property	482,331	578,621	635,930	532,297	83.7	443,983	83.4
1134	Taxes on financial and capital transactions	482,331	578,621	635,930	532,297	83.7	443,983	83.4
114	Taxes on goods and services	47,546,223	51,099,930	54,482,172	49,238,277	90.4	50,980,460	103.5
1141	General taxes on goods and services	35,091,381	37,916,509	41,474,566	37,173,833	89.6	37,812,425	101.7
11411	Value-added taxes	34,931,750	37,747,987	41,308,036	37,050,354	89.7	37,688,520	101.7
11412	Sales taxes	159,631	168,522	166,531	123,479	74.1	123,905	100.3
1142	Excises	11,564,709	12,168,666	11,875,126	10,998,910	92.6	11,972,326	108.9
1144	Taxes on specific services	22,000	24,500	27,000	14,964	55.4	10,486	70.1
1145	Taxes on use of goods and on permission to use goods or perform activities	409,511	480,619	561,612	517,870	92.2	661,146	127.7
11452	Other	409,511	480,619	561,612	517,870	92.2	661,146	127.7
1146	Other taxes on goods and services	458,622	509,636	543,868	532,700	97.9	524,078	98.4
115	Taxes on international trade and transactions	1,588,456	1,641,478	1,900,865	1,721,164	90.5	1,644,448	95.5
1151	Customs and other import duties	1,588,456	1,641,478	1,900,865	1,721,164	90.5	1,644,448	95.5
116	Other taxes	336,466	325,418	301,527	1,347,920	-	2,179,061	161.7
12	Social contributions	33,877,148	37,203,486	40,703,484	39,994,739	98.3	38,712,382	96.8
121	Social security contributions	33,877,148	37,203,486	40,703,484	39,994,739	98.3	38,712,382	96.8
1211	Employee contributions	15,084,349	16,531,305	18,100,364	17,925,299	99.0	17,290,552	96.5
1212	Employer contributions	18,051,382	19,845,488	21,758,077	21,373,979	98.2	20,783,571	97.2
1213	Self-employed or nonemployed contributions	741,418	826,692	845,043	695,462	82.3	638,260	91.8
1214	Unallocable contributions	0	0	0	0	-	0	-
13	Grants	195,984	428,038	468,634	616,307	131.5	637,087	103.4
131	From foreign governments	2,099	8,580	8,583	5,450	63.5	13,236	242.9
1311	Current	1,712	5,044	6,452	3,992	61.9	12,811	-
1312	Capital	387	3,536	2,132	1,457	68.4	424	29.1
132	From international organizations	192,385	395,827	453,912	604,122	133.1	615,102	101.8
1321	Current	115,908	262,101	283,673	446,523	157.4	382,815	85.7
1322	Capital	76,478	133,726	170,240	157,599	92.6	232,287	147.4
133	From other general government units	1,500	23,632	6,138	6,735	109.7	8,749	129.9
14	Other revenue	2,693,335	6,454,541	5,027,838	5,967,975	118.7	5,260,300	88.1
141	Property income	832,400	3,526,540	1,612,229	2,367,214	146.8	1,298,345	54.8
1411	Interest	108,232	164,558	147,911	123,488	83.5	125,088	101.3
1412	Dividends	17,835	1,194,582	212,387	106,625	50.2	111,303	104.4
1413	Withdrawals from income of quasi-corporations	288,113	117,730	504,074	1,342,502	266.3	318,939	23.8
1414	Property income attrib. to insurance policyholders	0	0	0	0	-	0	-

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1415	Rent	418,220	2,049,670	747,856	794,600	106.3	743,015	93.5
142	Sales of goods and services	1,209,296	1,526,646	1,450,683	1,682,037	115.9	1,856,422	110.4
1421	Sales of market establishments	0	0	0	0	-	0	-
1422	Administrative fees	821,741	1,318,050	1,274,882	981,712	77.0	1,190,921	121.3
1423	Incidental sales by nonmarket establishments	387,555	208,596	175,800	700,325	-	665,501	95.0
1424	Imputed sales of goods and services	0	0	0	0	-	0	-
143	Fines, penalties, and forfeits	391,616	429,034	490,600	515,461	105.1	524,795	101.8
144	Voluntary transfers other than grants	6,737	11,241	9,384	15,865	169.1	15,940	100.5
1441	Current	5,727	8,620	3,957	11,551	291.9	12,656	109.6
1442	Capital	1,010	2,622	5,427	4,314	79.5	3,284	76.1
145	Miscellaneous and unidentified revenue	253,286	961,080	1,464,942	1,387,397	94.7	1,564,799	112.8

Source: Ministry of Finance

Appendix 3: Budgetary Central Government Expense in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
2	EXPENSE	95,949,951	108,007,605	115,292,426	117,923,992	102.3	120,323,332	102.0
21	Compensation of employees	24,313,867	27,545,141	29,948,535	31,289,325	104.5	31,096,464	99.4
211	Wages and salaries	20,663,890	23,237,088	25,453,436	26,555,399	104.3	26,391,104	99.4
212	Social contributions	3,649,977	4,308,053	4,495,099	4,733,926	105.3	4,705,360	99.4
2121	Actual social contributions	3,649,977	4,308,053	4,495,099	4,733,926	105.3	4,705,360	99.4
2122	Imputed social contributions	0	0	0	0	-	0	-
22	Use of goods and services	6,069,116	7,162,402	8,113,694	7,363,814	90.8	7,655,745	104.0
23	Consumption of fixed capital	0	0	0	0	-	0	-
24	Interest	4,713,615	4,535,008	4,683,219	5,225,174	111.6	6,236,482	119.4
241	To nonresidents	1,863,999	1,672,563	1,542,146	1,391,408	90.2	1,723,831	123.9
242	To residents other than general government	2,849,616	2,862,444	3,141,074	3,833,767	122.1	4,512,651	117.7
243	To other general government units	0	0	0	0	-	0	-
25	Subsidies	5,670,789	6,492,010	6,859,512	6,710,033	97.8	6,582,192	98.1
251	To public corporations	2,692,785	3,007,099	3,199,114	3,134,258	98.0	3,186,622	101.7
252	To private enterprises	2,978,004	3,484,912	3,660,398	3,575,775	97.7	3,395,569	95.0
26	Grants	6,652,994	8,363,202	5,783,063	5,559,586	96.1	5,778,575	103.9
261	To foreign governments	64,795	103,410	89,446	78,184	87.4	58,594	74.9
2611	Current	37,760	75,261	60,246	68,150	113.1	49,412	72.5
2612	Capital	27,035	28,149	29,200	10,034	34.4	9,181	91.5
262	To international organizations	89,619	73,941	96,503	134,031	138.9	175,808	131.2
2621	Current	89,619	73,941	96,503	133,061	137.9	175,808	132.1
2622	Capital	0	0	0	970	-	0	-
263	To other general government units	6,498,581	8,185,852	5,597,115	5,347,372	95.5	5,544,174	103.7
2631	Current	2,663,156	2,305,125	2,291,490	2,598,678	113.4	2,663,291	102.5
2632	Capital	3,835,425	5,880,726	3,305,625	2,748,694	83.2	2,880,883	104.8
27	Social benefits	43,444,589	48,175,989	52,593,214	56,148,498	106.8	56,906,555	101.4
271	Social security benefits	30,535,396	34,167,894	37,600,722	40,605,352	108.0	43,008,291	105.9
272	Social assistance benefits	12,786,632	13,815,777	14,745,264	15,258,436	103.5	13,728,987	90.0
273	Employer social benefits	122,561	192,318	247,228	284,709	115.2	169,277	59.5
28	Other expense	5,084,980	5,733,853	7,311,189	5,627,561	77.0	6,067,319	107.8
281	Property expenditures other than interest	7,600	1,132	16,015	7,730	48.3	88	1.1
282	Miscellaneous Other Expenditures	5,077,381	5,732,721	7,295,174	5,619,832	77.0	6,067,231	108.0
2821	Current	2,304,214	2,837,557	2,626,644	2,174,864	82.8	2,280,627	104.9
2822	Capital	2,773,167	2,895,164	4,668,530	3,444,968	73.8	3,786,604	109.9

Source: Ministry of Finance

Appendix 4: Transactions in Nonfinancial Assets of the Budgetary Central Government in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
31	NET ACQUISITION OF NONFINANCIAL ASSETS	1,555,792	2,545,220	2,988,129	1,963,401	65.7	1,232,366	62.8
311	Fixed assets	1,595,121	2,625,692	2,719,479	1,839,720	67.6	1,200,398	65.2
311,1	Acquisitions: fixed assets	1,844,783	2,906,863	2,973,830	2,097,601	70.5	1,466,817	69.9
311,2	Disposals: fixed assets	249,663	281,171	254,352	257,881	101.4	266,419	103.3
3111	Buildings and structures	831,377	1,154,132	1,109,578	824,283	74.3	608,822	73.9
3111,1	Acquisitions: buildings and structures	1,080,074	1,423,340	1,357,524	1,076,215	79.3	872,737	81.1
3111,2	Disposals: buildings and structures	248,698	269,208	247,947	251,932	101.6	263,915	104.8
3112	Machinery and equipment	656,733	1,338,275	1,505,694	931,108	61.8	529,521	56.9
3112,1	Acquisitions: machinery and equipment	657,696	1,350,238	1,512,098	937,057	62.0	532,022	56.8
3112,2	Disposals: machinery and equipment	964	11,963	6,404	5,949	92.9	2,502	42.0
3113	Other fixed assets	107,011	133,285	104,208	84,330	80.9	62,056	73.6
3113,1	Acquisitions: other fixed assets	107,012	133,285	104,209	84,330	80.9	62,058	73.6
3113,2	Disposals: other fixed assets	1	0	1	0	-	2	-
312	Inventories	-80,226	-161,383	79,444	35,412	44.6	10,955	30.9
312,1	Acquisitions: inventories	1,048	36,574	86,829	43,144	49.7	16,910	39.2
312,2	Disposals: inventories	81,274	197,957	7,385	7,732	104.7	5,954	77.0
313	Valuables	7,826	9,620	10,126	8,929	88.2	6,136	68.7
313,1	Acquisitions: valuables	7,826	9,620	10,126	8,929	88.2	6,136	68.7
314	Nonproduced assets	33,072	71,291	179,081	79,340	44.3	14,877	18.8
314,1	Acquisitions: nonproduced assets	54,826	90,848	220,764	117,733	53.3	60,809	51.7
314,2	Disposals: nonproduced assets	21,754	19,557	41,683	38,392	92.1	45,933	119.6
3141	Land	-21,650	-19,492	-41,626	-38,175	-	-45,536	-
3141,1	Acquisitions: land	81	58	56	125	222.0	396	-
3141,2	Disposals: land	21,732	19,549	41,683	38,300	91.9	45,933	119.9
3142	Subsoil assets	-22	0	0	-93	-	0	-
3142,2	Disposals: subsoil assets	22	0	0	93	-	0	-
3143	Other naturally occurring assets	0	0	0	0	-	0	-
3144	Intangible nonproduced assets	54,744	90,782	220,707	117,608	53.3	60,413	51.4
3144,1	Acquisitions: intangible nonproduced assets	54,744	90,790	220,707	117,608	53.3	60,413	51.4
3144,2	Disposals: intangible nonproduced assets	0	8	0	0	-	0	-

Source: Ministry of Finance

Appendix 5: Transactions in Financial Assets of the Budgetary Central Government in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	2010
32	NET ACQUISITION OF FINANCIAL ASSETS	-3,047,174	-3,734,781	1,702,947	6,825,544	2,022,682
321	Domestic	-3,063,855	-3,752,817	1,690,502	6,823,196	2,022,294
3212	Currency and deposits	-1,449,670	-1,721,591	1,440,588	4,127,800	569,502
3213	Securities other than shares	0	0	0	0	0
3214	Loans	832,321	674,350	384,361	2,316,757	657,093
3214,1	Acquisitions: Loans	1,037,701	837,699	852,673	2,458,939	1,366,444
3214,2	Disposals: Loans	205,380	163,350	468,312	142,181	709,351
3215	Shares and other equity	-2,446,505	-2,705,576	-134,447	378,639	795,699
3215,1	Acquisitions: Shares and other equity	231,357	226,005	552,156	387,017	803,044
3215,2	Disposals: Shares and other equity	2,677,862	2,931,581	686,603	8,378	7,345
3216	Insurance technical reserves	0	0	0	0	0
3217	Financial derivatives	0	0	0	0	0
3218	Other accounts receivable	0	0	0	0	0
322	Foreign	16,681	18,036	12,445	2,348	388
3222	Currency and deposits	0	0	0	0	0
3223	Securities other than shares	0	0	0	0	0
3224	Loans	0	0	0	1,447	388
3224,1	Acquisitions: Loans	0	0	0	1,447	2,365
3224,2	Disposals: Loans	0	0	0	0	1,977
3225	Shares and other equity	16,681	18,036	12,445	901	0
3225,1	Acquisitions: Shares and other equity	16,681	18,036	12,445	901	0
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
323	Monetary gold and SDRs	0	0	0	0	0

Source: Ministry of Finance

Appendix 6: Transactions in Liabilities of the Budgetary Central Government in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	2010
33	NET INCURRENCE OF LIABILITIES	-776,988	-1,502,551	4,210,848	16,454,990	16,112,029
33,1	Total repayments	10,056,697	8,333,537	6,922,174	9,700,319	17,999,196
33,2	Total incurrence	9,279,708	6,830,986	11,133,022	26,155,309	34,111,225
331	Domestic	3,166,260	1,477,615	5,656,636	9,576,610	11,835,071
331,1	Repayments	4,250,184	4,604,573	3,871,657	2,704,283	12,815,011
331,2	Incurrence	7,416,444	6,082,188	9,528,293	12,280,893	24,650,082
3312	Currency and deposits	0	0	0	0	0
3313	Securities other than shares	5,648,934	3,520,136	1,089,917	4,855,440	12,222,784
3313,1	Repayments: Securities other than shares	550,859	3,513,172	2,897,430	273,892	3,289,266
3313,2	Incurrences: Securities other than shares	6,199,793	7,033,308	3,987,347	5,129,332	15,512,050
3314	Loans	-2,482,674	-2,042,521	4,566,719	4,721,170	-387,713
3314,1	Repayments: Loans	3,699,325	1,091,402	974,227	2,430,391	9,525,745
3314,2	Incurrences: Loans	1,216,651	-951,119	5,540,946	7,151,562	9,138,032
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	-3,943,248	-2,980,166	-1,445,788	6,878,380	4,276,958
332,1	Repayments	5,806,513	3,728,963	3,050,517	6,996,036	5,184,185
332,2	Incurrence	1,863,264	748,798	1,604,729	13,874,416	9,461,143
3322	Currency and deposits	0	0	0	0	0
3323	Securities other than shares	-3,480,781	-1,757,723	-1,112,673	7,801,073	3,517,533
3323,1	Repayments: Securities other than shares	3,480,781	1,757,723	1,112,673	5,054,565	3,655,005
3323,2	Incurrences: Securities other than shares	0	0	0	12,855,638	7,172,538
3324	Loans	-462,468	-1,222,442	-333,116	-922,693	759,425
3324,1	Repayments: Loans	2,325,732	1,971,240	1,937,845	1,941,471	1,529,180
3324,2	Incurrences: Loans	1,863,264	748,798	1,604,729	1,018,778	2,288,606
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 2006 – 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUE	9,429,083	10,561,624	6,253,096	5,504,483	88.0	5,385,019	97.8
11	Taxes	0	0	0	0	-	0	-
1142	Excises	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	4,270,535	5,549,188	2,057,887	1,711,086	83.1	2,037,959	119.1
131	From foreign governments	0	0	19,044	0	-	0	-
132	From international organizations	0	18,197	0	3,397	-	1,772	52.2
133	From other general government units	4,270,535	5,530,991	2,038,843	1,707,689	83.8	2,036,187	119.2
1331	Current	690,117	3,643	34,848	15,364	44.1	4,381	28.5
1332	Capital	3,580,418	5,527,348	2,003,995	1,692,325	84.4	2,031,806	120.1
14	Other revenue	5,158,548	5,012,436	4,195,209	3,793,397	90.4	3,347,060	88.2
2	EXPENSE	7,073,492	6,563,438	5,382,651	4,305,463	80.0	4,280,491	99.4
21	Compensation of employees	1,199,095	609,484	281,788	285,596	101.4	275,140	96.3
211	Wages and salaries	1,035,834	524,596	242,569	245,800	101.3	237,166	96.5
212	Social contributions	163,261	84,888	39,219	39,796	101.5	37,974	95.4
22	Use of goods and services	3,124,365	3,354,913	3,354,711	2,480,509	73.9	2,650,887	106.9
24	Interest	683,431	926,232	217,619	284,640	130.8	315,291	110.8
241	To nonresidents	522,924	561,616	37,064	57,659	155.6	32,158	55.8
242	To residents other than general government	160,507	364,616	180,555	226,981	125.7	283,133	124.7
25	Subsidies	13,803	18,553	39,318	89,673	228.1	44,923	50.1
251	To public corporations	0	0	0	26,770	-	4,642	17.3
252	To private enterprises	13,803	18,553	39,318	62,903	160.0	40,281	64.0
26	Grants	457,883	672,734	273,622	233,938	85.5	178,673	76.4
263	To other general government units	457,883	672,734	273,622	233,938	85.5	178,673	76.4
2631	Current	0	1,500	4,238	4,800	113.3	6,100	127.1
2632	Capital	457,883	671,234	269,384	229,138	85.1	172,573	75.3
27	Social benefits	748,262	523	704	218	31.0	112	51.4
271	Social security benefits	741,298	523	704	218	31.0	112	51.4
272	Social assistance benefits	6,964	0	0	0	-	0	-
28	Other expense	846,653	980,999	1,214,889	930,889	76.6	815,465	87.6
31	NET ACQUISITION OF NONFINANCIAL ASSETS	4,552,835	5,265,736	1,240,070	1,637,738	132.1	1,446,955	88.4
31,1	Acquisition of nonfinancial assets	4,927,889	5,334,740	1,421,680	1,659,443	116.7	1,455,114	87.7
31,2	Disposal of nonfinancial assets	375,054	69,004	181,610	21,705	12.0	8,159	37.6
32	NET ACQUISITION OF FINANCIAL ASSETS	470,485	795,625	1,073,617	538,324		873,486	
321	Domestic	470,485	795,625	1,073,617	538,324		873,486	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	2,667,729	2,063,175	1,443,242	977,042		1,215,913	
331	Domestic	2,116,532	539,480	1,139,111	553,629		1,136,957	
332	Foreign	551,197	1,523,695	304,131	423,413		78,956	

Source: Ministry of Finance

Appendix 8: Transactions of the Croatian Waters in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUE	1,971,613	2,507,327	2,618,977	2,253,976	86.1	1,998,161	88.7
11	Taxes	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	444,762	542,884	588,928	342,007	58.1	334,354	97.8
131	From foreign governments	0	0	19,044	0	-	0	-
132	From international organizations	0	18,197	0	3,397	-	1,772	52.2
133	From other general government units	444,762	524,687	569,884	338,610	59.4	332,582	98.2
1331	Current	89,259	3,643	34,848	15,364	44.1	4,381	28.5
1332	Capital	355,503	521,044	535,036	323,246	60.4	328,201	101.5
14	Other revenue	1,526,851	1,964,443	2,030,049	1,911,969	94.2	1,663,807	87.0
2	EXPENSE	1,779,088	2,108,778	2,339,024	1,748,448	74.8	1,779,441	101.8
21	Compensation of employees	111,293	121,767	135,222	129,458	95.7	125,800	97.2
211	Wages and salaries	96,298	104,720	116,482	111,542	95.8	108,907	97.6
212	Social contributions	14,995	17,047	18,740	17,916	95.6	16,893	94.3
22	Use of goods and services	1,072,478	1,208,936	1,331,786	1,060,458	79.6	1,109,460	104.6
24	Interest	31,692	34,639	35,525	29,863	84.1	17,828	59.7
241	To nonresidents	7,073	5,852	4,803	2,793	58.2	1,764	63.2
242	To residents other than general government	24,619	28,787	30,722	27,070	88.1	16,064	59.3
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	53,751	82,301	120,094	76,101	63.4	53,797	70.7
261	To foreign governments	0	0	0	0	-	0	-
262	To international organisations	0	0	0	0	-	0	-
263	To other general government units	53,751	82,301	120,094	76,101	63.4	53,797	70.7
2631	Current	0	1,500	3,600	4,800	133.3	6,100	127.1
2632	Capital	53,751	80,801	116,494	71,301	61.2	47,697	66.9
27	Social benefits	0	0	0	0	-	0	-
271	Social security benefits	0	0	0	0	-	0	-
272	Social assistance benefits	0	0	0	0	-	0	-
28	Other expense	509,874	661,135	716,397	452,568	63.2	472,556	104.4
31	NET ACQUISITION OF NONFINANCIAL ASSETS	223,123	315,004	245,968	274,314	111.5	378,952	138.1
31,1	Acquisition of nonfinancial assets	224,983	318,780	246,965	275,598	111.6	379,044	137.5
31,2	Disposal of nonfinancial assets	1,860	3,776	997	1,284	128.8	92	7.2
32	NET ACQUISITION OF FINANCIAL ASSETS	-32,316	116,100	32,151	222,116		-72,616	
321	Domestic	-32,316	116,100	32,151	222,116		-72,616	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	-1,718	32,555	-1,834	-9,098		87,616	
331	Domestic	12,778	-2,259	-49,781	-115,831		105,053	
332	Foreign	-14,496	34,814	47,947	106,733		-17,437	

Source: Ministry of Finance

Appendix 9: Transactions of the Fund for Environmental Protection and Energy Efficiency in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUE	660,190	1,102,946	1,221,187	1,168,578	95.7	1,040,675	89.1
11	Taxes	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	350	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	350	0	0	0	-	0	-
1331	Current	350	0	0	0	-	0	-
1332	Capital	0	0	0	0	-	0	-
14	Other revenue	659,840	1,102,946	1,221,187	1,168,578	95.7	1,040,675	89.1
2	EXPENSE	734,764	1,092,568	1,109,258	1,159,521	104.5	1,004,188	86.6
21	Compensation of employees	6,843	12,939	18,600	21,331	114.7	20,240	94.9
211	Wages and salaries	5,864	11,071	15,942	18,310	114.9	17,327	94.6
212	Social contributions	979	1,868	2,658	3,021	113.7	2,913	96.4
22	Use of goods and services	608,913	945,697	883,628	874,856	99.0	784,653	89.7
24	Interest	0	0	0	32	-	501	-
241	To nonresidents	0	0	0	0	-	0	-
242	To residents other than general government	0	0	0	32	-	501	-
25	Subsidies	13,803	18,553	39,318	89,673	228.1	44,923	50.1
251	To public corporations	0	0	0	26,770	-	4,642	17.3
252	To private enterprises	13,803	18,553	39,318	62,903	160.0	40,281	64.0
26	Grants	102,355	108,582	149,644	157,329	105.1	124,876	79.4
261	To foreign governments	0	0	0	0	-	0	-
262	To international organisations	0	0	0	0	-	0	-
263	To other general government units	102,355	108,582	149,644	157,329	105.1	124,876	79.4
2631	Current	0	0	638	0	-	0	-
2632	Capital	102,355	108,582	149,006	157,329	105.6	124,876	79.4
27	Social benefits	0	0	0	0	-	0	-
271	Social security benefits	0	0	0	0	-	0	-
272	Social assistance benefits	0	0	0	0	-	0	-
28	Other expense	2,850	6,797	18,068	16,300	90.2	28,995	177.9
31	NET ACQUISITION OF NONFINANCIAL ASSETS	14,151	20,189	3,926	6,656	169.5	1,582	23.8
31,1	Acquisition of nonfinancial assets	14,287	20,256	3,926	6,656	169.5	1,608	24.2
31,2	Disposal of nonfinancial assets	136	67	0	0	-	26	-
32	NET ACQUISITION OF FINANCIAL ASSETS	-88,725	-9,811	108,003	2,401		34,905	
321	Domestic	-88,725	-9,811	108,003	2,401		34,905	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	0	0	0	0		0	
331	Domestic	0	0	0	0		0	
332	Foreign	0	0	0	0		0	

Source: Ministry of Finance

Appendix 10: Transactions of the Croatian Roads in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUE	1,804,019	2,110,381	1,549,929	1,481,919	95.6	1,789,839	120.8
11	Taxes	0	0	0	0	-	0	-
12	Social contributions	0	0	0	0	-	0	-
13	Grants	1,739,270	1,990,435	1,468,959	1,369,079	93.2	1,703,605	124.4
131	From foreign governments	0	0	0	0	-	0	-
132	From international organizations	0	0	0	0	-	0	-
133	From other general government units	1,739,270	1,990,435	1,468,959	1,369,079	93.2	1,703,605	124.4
1331	Current	0	0	0	0	-	0	-
1332	Capital	1,739,270	1,990,435	1,468,959	1,369,079	93.2	1,703,605	124.4
14	Other revenue	64,749	119,946	80,970	112,840	139.4	86,234	76.4
2	EXPENSE	1,226,934	1,243,399	1,592,627	1,048,486	65.8	1,405,891	134.1
21	Compensation of employees	70,786	78,005	86,547	93,383	107.9	88,674	95.0
211	Wages and salaries	60,787	67,035	74,359	80,372	108.1	76,234	94.9
212	Social contributions	9,999	10,970	12,188	13,011	106.8	12,440	95.6
22	Use of goods and services	850,772	819,311	1,107,252	524,661	47.4	739,205	140.9
24	Interest	43,374	85,641	142,396	221,474	155.5	268,159	121.1
241	To nonresidents	11,834	17,185	22,804	47,942	210.2	24,988	52.1
242	To residents other than general government	31,540	68,456	119,592	173,532	145.1	243,171	140.1
25	Subsidies	0	0	0	0	-	0	-
251	To public corporations	0	0	0	0	-	0	-
252	To private enterprises	0	0	0	0	-	0	-
26	Grants	0	7,607	3,884	508	13.1	0	-
261	To foreign governments	0	0	0	0	-	0	-
262	To international organisations	0	0	0	0	-	0	-
263	To other general government units	0	7,607	3,884	508	13.1	0	-
2631	Current	0	0	0	0	-	0	-
2632	Capital	0	7,607	3,884	508	13.1	0	-
27	Social benefits	0	0	0	0	-	0	-
271	Social security benefits	0	0	0	0	-	0	-
272	Social assistance benefits	0	0	0	0	-	0	-
28	Other expense	262,002	252,835	252,548	208,460	82.5	309,853	148.6
31	NET ACQUISITION OF NONFINANCIAL ASSETS	1,350,834	1,603,747	1,142,207	1,371,041	120.0	1,069,699	78.0
31,1	Acquisition of nonfinancial assets	1,351,622	1,604,733	1,143,098	1,376,092	120.4	1,070,880	77.8
31,2	Disposal of nonfinancial assets	788	986	891	5,051	-	1,181	23.4
32	NET ACQUISITION OF FINANCIAL ASSETS	-29,083	-45,061	217,802	41,652		356,936	
321	Domestic	-29,083	-45,061	217,802	41,652		356,936	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	744,666	691,704	1,402,707	979,260		1,042,687	
331	Domestic	471,685	523,681	1,128,764	696,394		926,845	
332	Foreign	272,981	168,023	273,943	282,866		115,842	

Source: Ministry of Finance

Appendix 11: Transactions of the State Agency for Deposit Insurance and Bank Rehabilitation in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUE	409,581	391,441	808,342	566,470	70.1	529,642	93.5
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	409,581	391,441	808,342	566,470	70.1	529,642	93.5
2	EXPENSE	27,354	47,820	254,706	267,167	104.9	16,967	6.4
21	Compensation of employees	5,713	6,076	6,966	7,159	102.8	7,215	100.8
211	Wages and salaries	4,896	5,208	5,972	6,134	102.7	6,184	100.8
212	Social contributions	817	868	994	1,025	103.1	1,031	100.6
22	Use of goods and services	12,472	20,359	10,274	5,493	53.5	5,307	96.6
24	Interest	239	345	8,886	736	8.3	272	37.0
241	To nonresidents	0	0	0	0	-	0	-
242	To residents other than general government	239	345	8,886	736	8.3	272	37.0
25	Subsidies	0	0	0	0	-	0	-
251	To public corporations	0	0	0	0	-	0	-
252	To private enterprises	0	0	0	0	-	0	-
26	Grants	0	0	0	0	-	0	-
261	To foreign governments	0	0	0	0	-	0	-
262	To international organisations	0	0	0	0	-	0	-
263	To other general government units	0	0	0	0	-	0	-
2631	Current	0	0	0	0	-	0	-
2632	Capital	0	0	0	0	-	0	-
27	Social benefits	1,357	523	704	218	31.0	112	51.4
271	Social security benefits	1,357	523	704	218	31.0	112	51.4
272	Social assistance benefits	0	0	0	0	-	0	-
28	Other expense	7,573	20,517	227,876	253,561	111.3	4,061	1.6
31	NET ACQUISITION OF NONFINANCIAL ASSETS	493	-18,959	-10,262	258	-	2,657	-
31,1	Acquisition of nonfinancial assets	565	1,202	25,070	258	1.0	2,657	-
31,2	Disposal of nonfinancial assets	72	20,161	35,332	0	-	0	-
32	NET ACQUISITION OF FINANCIAL ASSETS	381,734	362,580	563,898	299,045		510,018	
321	Domestic	381,734	362,580	563,898	299,045		510,018	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	0	0	0	0		0	
331	Domestic	0	0	0	0		0	
332	Foreign	0	0	0	0		0	

Source: Ministry of Finance

Appendix 12: Transactions of the Croatian Privatization Fund in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUE	65,871	58,324	54,661	33,540	61.4	26,702	79.6
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	65,871	58,324	54,661	33,540	61.4	26,702	79.6
2	EXPENSE	78,375	88,241	87,036	81,841	94.0	74,004	90.4
21	Compensation of employees	31,920	36,285	34,453	34,265	99.5	33,211	96.9
211	Wages and salaries	27,508	31,233	29,814	29,442	98.8	28,514	96.8
212	Social contributions	4,412	5,052	4,639	4,823	104.0	4,697	97.4
22	Use of goods and services	30,039	34,173	21,771	15,041	69.1	12,262	81.5
24	Interest	16,416	17,783	30,812	32,535	105.6	28,531	87.7
241	To nonresidents	7,153	10,116	9,457	6,924	73.2	5,406	78.1
242	To residents other than general government	9,263	7,667	21,355	25,611	119.9	23,125	90.3
25	Subsidies	0	0	0	0	-	0	-
251	To public corporations	0	0	0	0	-	0	-
252	To private enterprises	0	0	0	0	-	0	-
26	Grants	0	0	0	0	-	0	-
261	To foreign governments	0	0	0	0	-	0	-
262	To international organisations	0	0	0	0	-	0	-
263	To other general government units	0	0	0	0	-	0	-
2631	Current	0	0	0	0	-	0	-
2632	Capital	0	0	0	0	-	0	-
27	Social benefits	0	0	0	0	-	0	-
271	Social security benefits	0	0	0	0	-	0	-
272	Social assistance benefits	0	0	0	0	-	0	-
28	Other expense	0	0	0	0	-	0	-
31	NET ACQUISITION OF NONFINANCIAL ASSETS	-51,175	-23,514	-141,769	-14,531	-	-5,935	-
31,1	Acquisition of nonfinancial assets	2,907	3,553	2,621	839	32.0	925	110.3
31,2	Disposal of nonfinancial assets	54,082	27,067	144,390	15,370	10.6	6,860	44.6
32	NET ACQUISITION OF FINANCIAL ASSETS	-87,682	82,691	151,763	-26,890		44,243	
321	Domestic	-87,682	82,691	151,763	-26,890		44,243	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	-126,353	89,094	42,369	6,880		85,610	
331	Domestic	-126,353	106,055	60,128	-26,934		105,059	
332	Foreign	0	-16,961	-17,759	33,814		-19,449	

Source: Ministry of Finance

Appendix 13: Consolidated Central Government in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUE	100,392,605	113,386,165	120,036,688	114,086,889	95.0	110,831,567	97.1
11	Taxes	58,469,091	64,234,530	69,572,699	63,678,926	91.5	62,856,582	98.7
111	Taxes on income, profits, and capital gains	8,515,615	10,589,083	12,252,205	10,839,269	88.5	7,608,630	70.2
1111	Payable by individuals	3,459,649	1,772,708	1,687,502	1,399,411	82.9	1,201,546	85.9
1112	Payable by corporations and other enterprises	5,055,966	8,816,375	10,564,703	9,439,858	89.4	6,407,084	67.9
113	Taxes on property	482,331	578,621	635,930	532,297	83.7	443,983	83.4
114	Taxes on goods and services	47,546,223	51,099,930	54,482,172	49,238,277	90.4	50,980,460	103.5
1141	General taxes on goods and services	35,091,381	37,916,509	41,474,566	37,173,833	89.6	37,812,425	101.7
11411	Value-added taxes	34,931,750	37,747,987	41,308,036	37,050,354	89.7	37,688,520	101.7
11412	Sales taxes	159,631	168,522	166,531	123,479	74.1	123,905	100.3
1142	Excises	11,564,709	12,168,666	11,875,126	10,998,910	92.6	11,972,326	108.9
115	Taxes on international trade and transactions	1,588,456	1,641,478	1,900,865	1,721,164	90.5	1,644,448	95.5
116	Other taxes	336,466	325,418	301,527	1,347,920	-	2,179,061	161.7
12	Social contributions	33,877,148	37,203,486	40,703,484	39,994,739	98.3	38,712,382	96.8
13	Grants	194,484	481,173	537,458	651,853	121.3	655,243	100.5
14	Other revenue	7,851,883	11,466,977	9,223,047	9,761,372	105.8	8,607,360	88.2
2	EXPENSE	98,751,408	109,074,989	118,686,014	120,553,914	101.6	122,584,020	101.7
21	Compensation of employees	25,512,962	28,154,625	30,230,323	31,574,921	104.4	31,371,604	99.4
211	Wages and salaries	21,699,724	23,761,684	25,696,005	26,801,199	104.3	26,628,270	99.4
212	Social contributions	3,813,238	4,392,941	4,534,318	4,773,722	105.3	4,743,334	99.4
22	Use of goods and services	9,193,481	10,517,315	11,468,405	9,844,323	85.8	10,306,632	104.7
24	Interest	5,397,046	5,461,240	4,900,838	5,509,814	112.4	6,551,773	118.9
241	To nonresidents	2,386,923	2,234,179	1,579,210	1,449,067	91.8	1,755,989	121.2
242	To residents other than general government	3,010,123	3,227,060	3,321,629	4,060,748	122.3	4,795,784	118.1
25	Subsidies	5,684,592	6,510,563	6,898,830	6,799,706	98.6	6,627,115	97.5
251	To public corporations	2,692,785	3,007,099	3,199,114	3,161,028	98.8	3,191,264	101.0
252	To private enterprises	2,991,807	3,503,465	3,699,716	3,638,678	98.4	3,435,850	94.4
26	Grants	2,838,842	3,539,882	4,067,622	4,117,984	101.2	3,937,445	95.6
261	To foreign governments	64,795	103,410	89,446	78,184	87.4	58,594	74.9
262	To international organizations	89,619	73,941	96,503	134,031	138.9	175,808	131.2
263	To other general government units	2,684,429	3,362,532	3,881,673	3,905,769	100.6	3,703,043	94.8
27	Social benefits	44,192,851	48,176,512	52,593,918	56,148,716	106.8	56,906,667	101.3
271	Social security benefits	31,276,694	34,168,417	37,601,426	40,605,570	108.0	43,008,403	105.9
272	Social assistance benefits	12,793,596	13,815,777	14,745,264	15,258,436	103.5	13,728,987	90.0
273	Employer social benefits	122,561	192,318	247,228	284,709	115.2	169,277	59.5
28	Other expense	5,931,633	6,714,852	8,526,078	6,558,450	76.9	6,882,784	104.9
281	Property expenditures other than interest	7,600	1,132	16,015	7,730	48.3	88	1.1
282	Miscellaneous other expenditures	5,924,034	6,713,720	8,510,063	6,550,721	77.0	6,882,696	105.1

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
2821	Current	2,337,525	2,890,115	2,919,089	2,462,124	84.3	2,325,290	94.4
2822	Capital	3,586,509	3,823,605	5,590,974	4,088,597	73.1	4,557,406	111.5
31	NET ACQUISITION OF NONFINANCIAL ASSETS	6,108,627	7,810,956	4,228,199	3,601,139	85.2	2,679,321	74.4
311	Fixed assets	5,788,654	7,526,800	3,883,625	3,230,665	83.2	2,487,200	77.0
312	Inventories	-80,226	-161,383	79,444	35,412	44.6	10,955	30.9
313	Valuables	7,826	9,620	10,126	8,929	88.2	6,136	68.7
314	Nonproduced assets	392,374	435,919	255,005	326,133	127.9	175,030	53.7
32	NET ACQUISITION OF FINANCIAL ASSETS	-2,576,689	-2,939,156	2,776,564	7,363,868		2,816,593	
321	Domestic	-2,593,370	-2,957,192	2,764,119	7,361,520		2,816,205	
322	Foreign	16,681	18,036	12,445	2,348		388	
33	NET INCURRENCE OF LIABILITIES	1,890,741	560,624	5,654,090	17,432,032		17,248,367	
331	Domestic	5,282,792	2,017,095	6,795,747	10,130,239		12,892,453	
332	Foreign	-3,392,051	-1,456,471	-1,141,657	7,301,793		4,355,914	

Source: Ministry of Finance

Appendix 14: Consolidated Central Government by Government Level in the 2006 – 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUE	100,392,605	113,386,165	120,036,688	114,086,889	95.0	110,831,567	97.1
	Budgetary Central Government	95,234,057	108,296,963	115,766,517	110,251,211	95.2	107,457,602	97.5
	Extrabudgetary Users	5,158,548	5,089,202	4,270,171	3,835,678	89.8	3,373,965	88.0
	Croatian Pension Insurance Administration	293,485	-	-	-	-	-	-
	Croatian Institute for Health Insurance	848,683	-	-	-	-	-	-
	Croatian Employment Service	18,363	-	-	-	-	-	-
	Croatian Waters	1,526,851	2,041,209	2,105,011	1,954,250	92.8	1,690,712	86.5
	Fund for Environmental Protection and Energy Efficiency	659,840	1,102,946	1,221,187	1,168,578	95.7	1,040,675	89.1
	Croatian Motorways Ltd.	1,271,125	1,375,336	-	-	-	-	-
	Croatian Roads Ltd.	64,749	119,946	80,970	112,840	139.4	86,234	76.4
	State Agency for Deposit Insurance and Bank Rehabilitation	409,581	391,441	808,342	566,470	70.1	529,642	93.5
	Croatian Privatization Fund	65,871	58,324	54,661	33,540	61.4	26,702	79.6
2	EXPENSE	98,751,408	109,074,989	118,686,014	120,553,914	101.6	122,584,020	101.7
	Budgetary Central Government	91,979,693	103,004,916	113,309,501	116,255,187	102.6	118,312,278	101.8
	Extrabudgetary Users	6,771,715	6,070,073	5,376,513	4,298,728	80.0	4,271,742	99.4
	Croatian Pension Insurance Administration	565,857	-	-	-	-	-	-
	Croatian Institute for Health Insurance	931,628	-	-	-	-	-	-
	Croatian Employment Service	155,002	-	-	-	-	-	-
	Croatian Waters	1,779,088	2,099,001	2,335,424	1,742,098	74.6	1,771,232	101.7
	Fund for Environmental Protection and Energy Efficiency	734,764	1,083,268	1,106,720	1,159,136	104.7	1,003,648	86.6
	Croatian Motorways Ltd.	1,272,713	1,509,844	-	-	-	-	-
	Croatian Roads Ltd.	1,226,934	1,241,899	1,592,627	1,048,486	65.8	1,405,891	134.1
	State Agency for Deposit Insurance and Bank Rehabilitation	27,354	47,820	254,706	267,167	104.9	16,967	6.4
	Croatian Privatization Fund	78,375	88,241	87,036	81,841	94.0	74,004	90.4
31	NET ACQUISITION OF NONFINANCIAL ASSETS	6,108,627	7,810,956	4,228,199	3,601,139	85.2	2,679,321	74.4
	Acquisition	6,836,371	8,378,646	4,713,229	3,926,849	83.3	3,005,786	76.5
	Budgetary Central Government	1,908,482	3,043,906	3,291,549	2,267,406	68.9	1,550,672	68.4
	Extrabudgetary Users	4,927,889	5,334,740	1,421,680	1,659,443	116.7	1,455,114	87.7
	Disposals	727,744	567,689	485,029	325,710	67.2	326,465	100.2
	Budgetary Central Government	352,690	498,685	303,419	304,005	100.2	318,306	104.7
	Extrabudgetary Users	375,054	69,004	181,610	21,705	12.0	8,159	37.6
32	NET ACQUISITION OF FINANCIAL ASSETS	-2,576,689	-2,939,156	2,776,564	7,363,868		2,816,593	
321	Domestic	-2,593,370	-2,957,192	2,764,119	7,361,520		2,816,205	
	Budgetary Central Government	-3,063,855	-3,752,817	1,690,502	6,823,196		1,942,719	
	Extrabudgetary Users	470,485	795,625	1,073,617	538,324		873,486	

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
322	Foreign	16,681	18,036	12,445	2,348		388	
	Budgetary Central Government	16,681	18,036	12,445	2,348		388	
	Extrabudgetary Users	-	-	-	-		-	
33	NET INCURRENCE OF LIABILITIES	1,890,741	560,624	5,654,090	17,432,032		17,248,367	
331	Domestic	5,282,792	2,017,095	6,795,747	10,130,239		12,892,453	
	Budgetary Central Government	3,166,260	1,477,615	5,656,636	9,576,610		11,835,071	
	Extrabudgetary Users	2,116,532	539,480	1,139,111	553,629		1,057,382	
332	Foreign	-3,392,051	-1,456,471	-1,141,657	7,301,793		4,355,914	
	Budgetary Central Government	-3,943,248	-2,980,166	-1,445,788	6,878,380		4,276,958	
	Extrabudgetary Users	551,197	1,523,695	304,131	423,413		78,956	

Source: Ministry of Finance

Appendix 15: Local Government (53 Units, 32 Cities, Counties and the City of Zagreb) in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUE	13,560,211	15,502,588	16,825,641	16,062,945	95.5	15,041,812	93.6
11	Taxes	8,299,155	9,157,897	10,097,177	9,891,927	98.0	8,872,440	89.7
111	Taxes on income, profits, and capital gains	7,456,676	8,173,413	9,074,234	8,961,506	98.8	8,021,829	89.5
1111	Payable by individuals	5,353,205	8,165,275	9,074,234	8,961,506	98.8	8,021,829	89.5
1112	Payable by corporations and other enterprises	2,103,470	8,138	0	0	-	0	-
113	Taxes on property	479,492	576,591	595,032	512,708	86.2	439,983	85.8
114	Taxes on goods and services	348,259	391,511	413,202	406,662	98.4	398,714	98.0
1141	General taxes on goods and services	52,059	55,553	58,225	52,947	90.9	49,883	94.2
11411	Value-added taxes	0	0	0	0	-	0	-
11412	Sales taxes	52,059	55,553	58,225	52,947	90.9	49,883	94.2
1142	Excises	0	0	0	0	-	0	-
115	Taxes on international trade and transactions	0	0	0	0	-	0	-
116	Other taxes	14,728	16,382	14,709	11,052	75.1	11,913	107.8
12	Social contributions	0	0	0	0	-	0	-
13	Grants	1,664,688	2,137,646	2,085,584	2,034,478	97.5	2,147,948	105.6
131	From foreign governments	2,356	9,631	6,079	1,248	20.5	3,776	-
132	From international organizations	3,292	4,447	1,342	1,946	145.0	2,367	121.6
133	From other general government units	1,659,039	2,123,569	2,078,163	2,031,284	97.7	2,141,806	105.4
14	Other revenue	3,596,368	4,207,045	4,642,880	4,136,540	89.1	4,021,424	97.2
2	EXPENSE	10,629,313	11,868,231	13,697,135	13,958,975	101.9	13,066,277	93.6
21	Compensation of employees	2,695,250	2,957,745	3,390,267	3,665,254	108.1	3,622,102	98.8
211	Wages and salaries	2,335,943	2,572,575	2,946,424	3,175,226	107.8	3,133,718	98.7
212	Social contributions	359,308	385,169	443,843	490,028	110.4	488,383	99.7
22	Use of goods and services	4,108,888	4,678,873	5,079,050	5,167,299	101.7	4,995,571	96.7
24	Interest	71,548	93,250	133,675	115,495	86.4	102,517	88.8
241	To nonresidents	6,817	4,391	3,597	1,511	42.0	352	23.3
242	To residents other than general government	64,560	88,781	130,032	113,976	87.7	102,147	89.6
25	Subsidies	877,361	993,791	1,231,477	1,275,536	103.6	1,253,408	98.3
251	To public corporations	714,296	777,982	1,004,965	1,078,024	107.3	1,066,185	98.9
252	To private enterprises	163,065	215,809	226,513	197,512	87.2	187,223	94.8
26	Grants	286,226	334,732	362,220	328,602	90.7	299,226	91.1
261	To foreign governments	118	0	0	0	-	0	-
262	To international organizations	102	7,249	0	0	-	0	-
263	To other general government units	286,006	327,484	362,220	328,602	90.7	299,226	91.1
2631	Current	116,216	125,322	145,359	182,045	125.2	167,229	91.9
2632	Capital	169,790	202,162	216,861	146,557	67.6	131,997	90.1
27	Social benefits	635,152	554,175	688,166	779,170	113.2	647,916	83.2
271	Social security benefits	0	0	0	0	-	0	-
272	Social assistance benefits	617,449	534,276	664,798	755,214	113.6	616,744	81.7
273	Employer social benefits	17,703	19,899	23,368	23,956	102.5	31,172	130.1
28	Other expense	1,954,887	2,255,665	2,812,280	2,627,619	93.4	2,145,538	81.7
281	Property expenditures other than interest	0	0	0	0	-	0	-
282	Miscellaneous other expenditures	1,954,887	2,255,665	2,812,280	2,627,619	93.4	2,145,538	81.7

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
2821	Current	1,294,903	1,424,157	1,726,978	1,609,480	93.2	1,483,437	92.2
2822	Capital	659,985	831,509	1,085,302	1,018,139	93.8	662,101	65.0
31	NET ACQUISITION OF NONFINANCIAL ASSETS	2,974,314	3,204,000	3,115,950	2,756,124	88.5	2,168,528	78.7
311	Fixed assets	2,963,175	3,381,738	3,231,840	2,773,332	85.8	2,223,776	80.2
312	Inventories	0	0	0	0	-	0	-
313	Valuables	436	197	183	203	110.5	69	34.3
314	Nonproduced assets	10,704	-177,935	-116,073	-17,411	-	-55,318	-
32	NET ACQUISITION OF FINANCIAL ASSETS	-53,130	536,090	141,447	-634,558		-226,342	
321	Domestic	-53,130	536,090	141,447	-634,558		-226,342	
322	Foreign	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	-9,714	105,732	128,891	17,596		-33,349	
331	Domestic	80,882	130,416	153,766	39,441		-20,901	
332	Foreign	-90,597	-24,684	-24,876	-21,844		-12,448	

Source: Ministry of Finance

Appendix 16: Consolidated General Government in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUE	112,293,777	126,716,000	134,737,775	128,087,106	95.1	123,709,173	96.6
11	Taxes	66,768,246	73,392,426	79,669,875	73,570,853	92.3	71,729,021	97.5
111	Taxes on income, profits, and capital gains	15,972,291	18,762,496	21,326,439	19,800,774	92.8	15,630,459	78.9
1111	Payable by individuals	8,812,855	9,937,983	10,761,736	10,360,916	96.3	9,223,376	89.0
1112	Payable by corporations and other enterprises	7,159,436	8,824,513	10,564,703	9,439,858	89.4	6,407,084	67.9
113	Taxes on property	961,823	1,155,212	1,230,962	1,045,005	84.9	883,966	84.6
114	Taxes on goods and services	47,894,481	51,491,441	54,895,374	49,644,939	90.4	51,379,174	103.5
1141	General taxes on goods and services	35,143,439	37,972,061	41,532,791	37,226,780	89.6	37,862,308	101.7
11411	Value-added taxes	34,931,750	37,747,987	41,308,036	37,050,354	89.7	37,688,520	101.7
11412	Sales taxes	211,690	224,074	224,756	176,427	78.5	173,788	98.5
1142	Excises	11,564,709	12,168,666	11,875,126	10,998,910	92.6	11,972,326	108.9
115	Taxes on international trade and transactions	1,588,456	1,641,478	1,900,865	1,721,164	90.5	1,644,448	95.5
116	Other taxes	351,194	341,800	316,235	1,358,971	-	2,190,974	161.2
12	Social contributions	33,877,148	37,203,486	40,703,484	39,994,739	98.3	38,712,382	96.8
121	Social security contributions	33,877,148	37,203,486	40,703,484	39,994,739	98.3	38,712,382	96.8
13	Grants	200,133	446,066	498,489	623,603	125.1	638,985	102.5
14	Other revenue	11,448,251	15,674,022	13,865,927	13,897,911	100.2	12,628,784	90.9
2	EXPENSE	107,721,681	118,770,467	130,258,596	132,450,162	101.7	133,486,090	100.8
21	Compensation of employees	28,208,213	31,112,370	33,620,589	35,240,175	104.8	34,993,705	99.3
211	Wages and salaries	24,035,667	26,334,260	28,642,429	29,976,425	104.7	29,761,988	99.3
212	Social contributions	4,172,546	4,778,110	4,978,161	5,263,750	105.7	5,231,717	99.4
22	Use of goods and services	13,302,369	15,196,188	16,547,455	15,011,623	90.7	15,302,203	101.9
24	Interest	5,468,595	5,554,489	5,034,513	5,625,309	111.7	6,654,290	118.3
241	To nonresidents	2,393,740	2,238,570	1,582,807	1,450,578	91.6	1,756,342	121.1
242	To residents other than general government	3,074,683	3,315,841	3,451,661	4,174,724	120.9	4,897,931	117.3
25	Subsidies	6,561,952	7,504,354	8,130,307	8,075,242	99.3	7,880,522	97.6
251	To public corporations	3,407,081	3,785,080	4,204,078	4,239,052	100.8	4,257,449	100.4
252	To private enterprises	3,154,872	3,719,274	3,926,229	3,836,190	97.7	3,623,073	94.4
26	Grants	1,466,029	1,701,861	2,305,289	2,383,858	103.4	2,072,465	86.9
261	To foreign governments	64,913	103,410	89,446	78,184	87.4	58,594	74.9
262	To international organizations	89,720	81,189	96,503	134,031	138.9	175,808	131.2
263	To other general government units	1,311,395	1,517,263	2,119,341	2,171,643	102.5	1,838,063	84.6
27	Social benefits	44,828,003	48,730,687	53,282,084	56,927,886	106.8	57,554,583	101.1
271	Social security benefits	31,276,694	34,168,417	37,601,426	40,605,570	108.0	43,008,403	105.9
272	Social assistance benefits	13,411,045	14,350,053	15,410,062	16,013,650	103.9	14,345,732	89.6
273	Employer social benefits	140,264	212,217	270,596	308,665	114.1	200,449	64.9
28	Other expense	7,886,521	8,970,517	11,338,358	9,186,070	81.0	9,028,322	98.3
281	Property expenditures other than interest	7,600	1,132	16,015	7,730	48.3	88	1.1
282	Miscellaneous other expenditures	7,878,921	8,969,385	11,322,343	9,178,340	81.1	9,028,234	98.4
2821	Current	3,632,427	4,314,271	4,646,067	4,071,604	87.6	3,808,726	93.5
2822	Capital	4,246,494	4,655,114	6,676,276	5,106,736	76.5	5,219,508	102.2
31	NET ACQUISITION OF NONFINANCIAL ASSETS	9,082,941	11,014,957	7,344,149	6,357,263	86.6	4,847,849	76.3
311	Fixed assets	8,751,828	10,908,538	7,115,465	6,003,997	84.4	4,710,976	78.5
312	Inventories	-80,226	-161,383	79,444	35,412	44.6	10,955	30.9

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
313	Valuables	8,262	9,817	10,309	9,132	88.6	6,206	68.0
314	Nonproduced assets	403,078	257,984	138,932	308,723	222.2	119,712	38.8
32	NET ACQUISITION OF FINANCIAL ASSETS	-2,629,878	-2,403,067	2,918,011	6,729,333		2,590,507	
321	Domestic	-2,646,559	-2,421,102	2,905,566	6,726,985		2,590,119	
322	Foreign	16,681	18,036	12,445	2,348		388	
33	NET INCURRENCE OF LIABILITIES	1,880,967	666,357	5,782,980	17,449,652		17,215,273	
331	Domestic	5,363,615	2,147,511	6,949,513	10,169,704		12,871,808	
332	Foreign	-3,482,648	-1,481,155	-1,166,533	7,279,948		4,343,466	

Source: Ministry of Finance

Appendix 17: Consolidated General Government by Government Level in the 2006 - 2010 Period

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
1	REVENUES	112,293,777	126,716,000	134,737,775	128,087,106	95.1	123,709,173	96.6
	Budgetary Central Government	95,234,057	108,296,963	115,766,517	110,251,211	95.2	107,457,602	97.5
	Extrabudgetary Users	5,158,548	5,040,018	4,223,781	3,804,235	90.1	3,351,565	88.1
	Croatian Pension Insurance Administration	293,485	-	-	-	-	-	-
	Croatian Institute for Health Insurance	848,683	-	-	-	-	-	-
	Croatian Employment Service	18,363	-	-	-	-	-	-
	Croatian Waters	1,526,851	1,992,025	2,058,621	1,922,807	93.4	1,668,312	86.8
	Fund for Environmental Protection and Energy Efficiency	659,840	1,102,946	1,221,187	1,168,578	95.7	1,040,675	89.1
	Croatian Motorways Ltd.	1,271,125	1,375,336	-	-	-	-	-
	Croatian Roads Ltd.	64,749	119,946	80,970	112,840	139.4	86,234	76.4
	State Agency for Deposit Insurance and Bank Rehabilitation	409,581	391,441	808,342	566,470	70.1	529,642	93.5
	Croatian Privatization Fund	65,871	58,324	54,661	33,540	61.4	26,702	79.6
	Local Government	11,901,172	13,379,019	14,747,477	14,031,661	95.1	12,900,006	91.9
2	EXPENSE	107,721,681	118,770,467	130,258,596	132,450,162	101.7	133,486,090	100.8
	Budgetary Central Government	90,525,330	100,936,318	111,299,734	114,305,037	102.7	116,237,015	101.7
	Extrabudgetary Users	6,726,778	6,015,102	5,308,117	4,217,593	79.5	4,205,199	99.7
	Croatian Pension Insurance Administration	565,857	-	-	-	-	-	-
	Croatian Institute for Health Insurance	931,628	-	-	-	-	-	-
	Croatian Employment Service	155,002	-	-	-	-	-	-
	Croatian Waters	1,773,976	2,086,600	2,313,713	1,709,514	73.9	1,754,034	102.6
	Fund for Environmental Protection and Energy Efficiency	694,939	1,047,292	1,063,919	1,111,094	104.4	954,303	85.9
	Croatian Motorways Ltd.	1,272,713	1,509,357	-	-	-	-	-
	Croatian Roads Ltd.	1,226,934	1,235,792	1,588,743	1,047,978	66.0	1,405,891	134.2
	State Agency for Deposit Insurance and Bank Rehabilitation	27,354	47,820	254,706	267,167	104.9	16,967	6.4
	Croatian Privatization Fund	78,375	88,241	87,036	81,841	94.0	74,004	90.4
	Local Government	10,469,573	11,819,047	13,650,745	13,927,532	102.0	13,043,877	93.7
31	NET ACQUISITION OF NONFINANCIAL ASSETS	9,082,941	11,014,957	7,344,149	6,357,263	86.6	4,847,849	76.3
	Acquisition	10,350,251	12,319,441	8,876,647	7,132,386	80.4	5,626,796	78.9
	Budgetary Central Government	1,908,482	3,043,906	3,291,549	2,267,406	68.9	1,550,672	68.4
	Extrabudgetary Users	4,927,889	5,334,740	1,421,680	1,659,443	116.7	1,455,114	87.7
	Local Government	3,513,880	3,940,795	4,163,418	3,205,537	77.0	2,621,009	81.8
	Disposals	1,267,310	1,304,484	1,532,498	775,123	50.6	778,947	100.5
	Budgetary Central Government	352,690	498,685	303,419	304,005	100.2	318,306	104.7
	Extrabudgetary Users	375,054	69,004	181,610	21,705	12.0	8,159	37.6
	Local Government	539,565	736,795	1,047,469	449,413	42.9	452,482	100.7
32	NET ACQUISITION OF FINANCIAL ASSETS	-2,629,878	-2,403,067	2,918,011	6,729,333		2,590,507	
321	Domestic	-2,646,559	-2,421,102	2,905,566	6,726,985		2,590,119	
	Budgetary Central Government	-3,063,913	-3,752,817	1,690,502	6,823,220		1,942,756	
	Extrabudgetary Users	470,485	795,625	1,073,617	538,324		873,486	
	Local Government	-53,131	536,090	141,447	-634,558		-226,123	
322	Foreign	16,681	18,036	12,445	2,348		388	
	Budgetary Central Government	16,681	18,036	12,445	2,348		388	

	(000 HRK)	2006	2007	2008	2009	Index 2009/ 2008	2010	Index 2010/ 2009
	Extrabudgetary Users	0	0	0	0		0	
	Local Government	0	0	0	0		0	
33	NET INCURRENCE OF LIABILITIES	1,880,967	666,357	5,782,980	17,449,652		17,215,273	
331	Domestic	5,363,615	2,147,511	6,949,513	10,169,704		12,871,808	
	Budgetary Central Government	3,166,260	1,477,615	5,656,636	9,576,610		11,835,071	
	Extrabudgetary Users	2,116,532	539,480	1,139,111	553,629		1,057,382	
	Local Government	80,823	130,416	153,766	39,465		-20,645	
332	Foreign	-3,482,648	-1,481,155	-1,166,533	7,279,948		4,343,466	
	Budgetary Central Government	-3,943,248	-2,980,166	-1,445,788	6,878,380		4,276,958	
	Extrabudgetary Users	551,197	1,523,695	304,131	423,413		78,956	
	Local Government	-90,597	-24,684	-24,876	-21,844		-12,448	

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