

REPUBLIC OF CROATIA
MINISTRY OF FINANCE

ECONOMIC AND FISCAL POLICY GUIDELINES
FOR THE PERIOD 2007 - 2009

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1 GOALS OF MEDIUM-TERM ECONOMIC AND FISCAL POLICY

The aim of economic policy of the Republic of Croatia is to attain two key strategic goals: to maintain macroeconomic stability and to foster high growth rates that will be sustainable in the long run. In order to achieve these goals, it is necessary for monetary and fiscal policy to operate together. However, taking into account specific conditions of the Croatian monetary policy, especially the exchange rate policy, high euroization of the country and the relatively unsatisfactory external balance, fiscal policy has a major role to play in reaching these goals. This is the framework in which the Economic and Fiscal Policy Guidelines 2007-2009 have been drafted, laying down the objectives, priorities and the direction of fiscal policy that will contribute to the creation of stable macroeconomic environment and acceleration of GDP growth.

Medium-term fiscal policy will be characterized by further strengthening of budget management and strong fiscal adjustment that will ultimately result in a reduction of fiscal deficit. On the revenue side it is necessary to further modernize and strengthen the process of tax collection by means of activities aimed at building institutional capacities of tax administration; on the expense side it is necessary to further improve control and efficient spending of budgetary funds. That is why fiscal adjustment is the key priority of the medium-term fiscal policy, and it should contribute to a reduction of general government expense from 48.0% of GDP in 2006 to 45.1% of GDP in 2009. Taking into account growth of general government revenue under the influence of accelerated economic growth and efficient tax collection, the fiscal adjustment shall contribute to a further reduction of fiscal deficit from 3.0% of GDP in 2006 to 2.4% of GDP in 2009.

In the context of macroeconomic stability, fiscal policy implying a reduction of fiscal deficit by 0.6 percentage points in the medium term will have a direct impact on the reduction of public debt from 46.9% of GDP in 2006 to 43.8% of GDP in 2009. It is important to point out here that concrete measures will also be applied in the future in order to strengthen public debt management. On the other hand, the government will continue to finance its requirements primarily on the domestic financial market thus fostering its future development. Taking into account the reduction of fiscal deficit and the orientation to finance it on the domestic market, the fiscal policy as laid down in these Guidelines will contribute to reducing external debt of the country from 84.2% of GDP in 2006 to 82.5% of GDP in 2009.

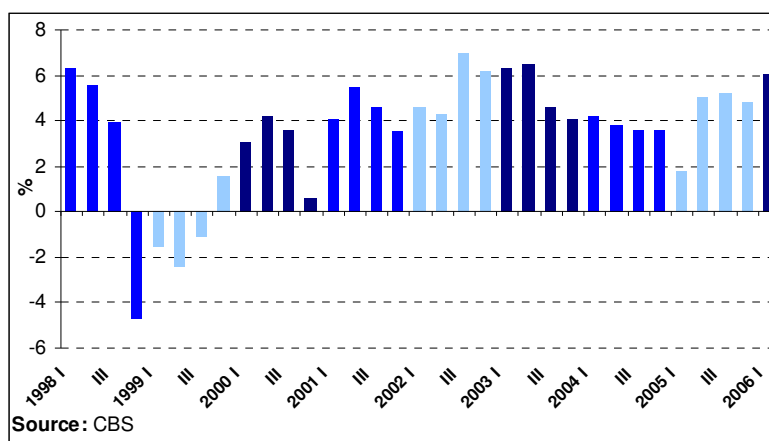
As regards the promotion of economic growth, the contribution of fiscal policy is reflected both in a more efficient allocation of budgetary funds in areas essential for development and in the reduction of fiscal deficit and the presence of the state in economy. Namely, implementation of fiscal adjustment opens up free space for the private sector enabling it to become the key generator of economic growth in the next medium-term period. The reduction of fiscal deficit reduces the pressure on the growth of interest rates, which will create favourable conditions for private investments that must become key factors for opening new jobs, permanent jobs and for long-term sustainable economic growth.

2 MEDIUM-TERM MACROECONOMIC TRENDS

2.1 Macroeconomic trends in 2005 and 2006

The real growth rate of the GDP in the last quarter of 2005 amounted to 4.8%. The annual growth reached 4.3%, an acceleration of 0.5% percentage points compared to 2004. The growth of GDP deflator amounted to 3.2% in 2005, so that the total nominal GDP in 2005 reached 229.031 billion kuna. The Central Bureau of Statistics published also the final data on the GDP for 2003, and the nominal GDP was raised by 5.4 billion kuna compared to the preliminary data. If the GDP per capita is considered, it is evident that it grew from 6.4 thousand euro in 2004 to almost 7 thousand euro in 2005.

Chart 1: Real GDP growth



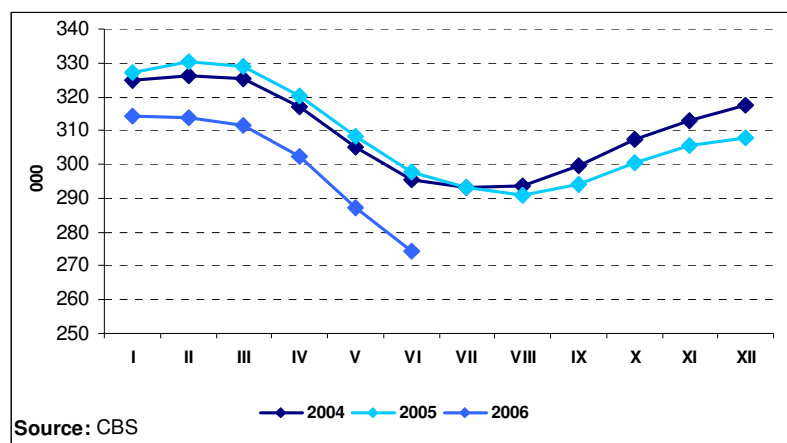
If we take a look at individual components on the expenditure side of the GDP, it may be noticed that the highest real growth rate of 4.8% in 2005 was recorded in capital investments. This is particularly important if we take into account the fact that it is in the nature of investment goods to serve for further production, rather than consumption, so that therefore they are the most significant factor in generating future growth. Real growth of private consumption is still decelerating, so that in 2005 it was at the level of 3.4%, whereas public spending grew by 0.8%. Exports of goods and services grew by 4.6% in 2005, which is faster than the growth of imports of goods and services that grew by 3.5%. Regarding the contribution to growth, the exports of goods and services accounted for the largest positive contribution to GDP growth with 2.2 percentage points. Private consumption contributed to growth with 2.1 percentage points, Public spending with 0.2 percentage points, and the contribution to growth of gross investments was 1.4 percentage points. The negative contribution of the import of goods and services amounted to -2.2 percentage points, but due to a high growth of export of goods and services the contribution to growth of net export amounted to 0.1 percentage points.

Real year-on-year growth of GDP in the first quarter of 2006 amounted to 6.0%, which is the highest GDP growth since the second quarter of 2003. Looking at individual components of the expenditure side of GDP, it may be noticed that the highest real growth in the first quarter at the level of 18.1% was recorded in investments into capital. After slowing down in two

consecutive quarters, real growth of private consumption accelerated, recording a growth of 4.0%. Export of goods and services grew in real terms by 14.0% in the first quarter, whereas the import of goods and services experienced real growth of 16.1%.

In 2005 positive developments were recorded on the labour market, as indicated by the labour force survey data, but also by the data on administrative unemployment. The labour force survey is carried out two times a year in compliance with methodological rules and principles of the International Labour Organisation. According to the data from the labour force survey the total employment figure in 2005 was 1,573,000, which is an increase of 10,050 compared to 2004. The number of unemployed was at the level of 229,000 and it went down by 20,500 compared to 2004. Unemployment rate in 2005 was 12.7% representing a decrease compared to 2004 when it was at the level of 13.8%. The data of the Croatian Employment Service indicate that the number of unemployed was continuously lower in all the months of the second half of 2005 compared to the previous year. Year-on-year decrease of unemployment reached its climax in December 2005 when there were 9,726 unemployed persons less than in the same month 2004. At the end of 2005 the rate of registered unemployment was at the level of 18.0% or 0.5 percentage points lower than at the end 2004. The decreasing unemployment trend continued in 2006, so that in June the number of unemployed persons was by 23,131 or 7.8% lower, compared to the previous year.

Chart 2: Trend in the Number of Unemployed Persons



If we consider the average growth of the consumer price index over the whole year, the inflation rate was at the level of 3.3% in 2005. Prices of goods rose by 3.4% and the prices of services by 2.9%. The development of the CPI in 2005 determined the development of prices for food, fuels and lubricants for personal cars, electricity and medical services. Food prices were at a higher level in 2005, by 4.7% on the average, and this growth was caused by unfavourable weather conditions during summertime. Prices for fuels and lubricants for cars recorded an average year-on-year growth rate of 10.6% in 2005, which was determined by the oil price hike on the global markets. The rise in prices of medical services of 5.4% in the observed period of time resulted from the introduction of the payment of administrative fees in the healthcare system as of 1st October. The rise in the price of electricity of 1.6% corresponded to the price increase that HEP (Croatian Electricity Utility) introduced on 1st September. Year-on-year growth of the price level measured by means of the CPI amounted to 3.6% in the first five months of 2006. Such growth in the first half of 2006 was determined primarily by the increase of prices for fuels and lubricants for cars and the increase in prices

of non-alcoholic beverages and of water supply and other utility services. The increase of prices in these categories may be attributed to the oil price hike on the world markets, introduction of the payment of ecological fees for package waste disposal and the decision to increase utility charges of individual units of local self-government.

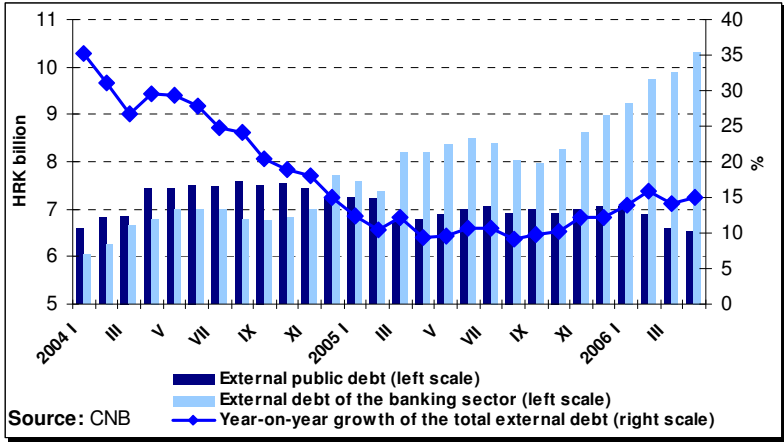
At the level of the whole of 2005 the export of goods grew by 8.5%, whereas the import of goods recorded a growth of 10.4%. Foreign trade deficit rose by 12.2% in 2005. The coverage of the import of goods through the export of goods in 2005 was at the level of 47.5%, which is a decrease of 0.9 percentage points compared to 2004. As regards trade by activities, the largest contributor to the growth of export in 2005 was the production of food products and beverages (growth of 37.6%), production of machinery and equipment (22.6%), production of coke and petroleum products (17%) and production of chemicals and chemical products (14.3%). The largest negative contributor to the growth of export was the production of other transport equipment that recorded a year-on-year decrease of 9.4% in 2005. Should the category of other transport equipment be excluded from the export and import, export grew by 11.4% in 2005, and import grew by 10.9% in the same period of time. The most significant growth on the import side was recorded in the categories of extraction of crude petroleum and natural gas (32.8%) and the production of coke, petroleum products and nuclear fuel (62.1%). In the first five months of 2006 the total export of goods, expressed in kuna, experienced a year-on-year growth of 19.3%, whereas the total import of goods rose by 17.4%. In the first five months of 2006 the import of goods was covered by the export of goods at the level of 47.7%, which is an increase of 0.8 percentage points compared to the same period of the previous year.

Current account deficit amounted to 1.960 billion euro in 2005, which is an increase of 556 million euro or 39.6% compared to 2004. Current account deficit, expressed as a share in the GDP, grew from 4.9% of GDP in 2004 to 6.3% of GDP in 2005. The largest contribution to the increase of the deficit resulted from an increase in the negative balance on the goods account that rose by 11.2% compared to 2004. There were some positive trends on the services account in 2005, which is supported by a high surplus of 5.318 billion euro. The increase of the surplus on the services account was for the most part due to the increase of tourism revenue that reached a level of 6 billion euro in 2005, thus growing by 9% compared to 2004. The increase of the negative balance on the income account by 334 million euro in 2005 contributed significantly to the increase of the current account deficit in 2005. The current transfers account had a positive balance in 2005 as well, and it amounted to 1.176 billion euro. The current account deficit in 2005 was financed mostly by foreign direct investments, with a net sum of 1.198 billion euro, so that FDI rose by 70.2% compared to 2004. The current account deficit amounted to 1.993 billion euro in the first quarter of 2006. The increase of the negative balance on the goods account that rose by 18.7% compared to the first 2005 quarter accounted for the largest contribution to the increase of deficit. Such developments on the trade account were determined primarily by faster growth of import compared to the first quarter of 2005, which was predominantly affected by the growth of oil prices on world markets.

The total external debt was at the level of 25.5 billion euro at the end of 2005 or 82.5% of the estimated GDP for 2005. If expressed as a GDP share, external debt grew much more slowly in 2005 (2.3 percentage points) than in 2004 when it grew by 4.7 percentage points. Year-on-year external debt growth rate also slowed down falling from 15.0% in 2004 to 12.1% in 2005. The largest contribution to the growth of external debt was made by the banking sector whose external debt rose by 1.3 billion euro and other sectors whose external debt also rose by 1.3 billion euro. The public external debt was reduced by 204 million euro, which is in harmony with the government's commitment to finance its requirements on the domestic

financial market. It should be noted that the structure of external debt also experienced significant changes, the most significant one being the change in the public external debt that was reduced from 31.8% in December 2004 to 27.6% of the total external debt in December 2005. The reduction of public external debt replaced the increase of the share of external debt of the banking sector (from 33.8% to 35.2%) and other sectors (from 25.5 to 28%). In the first four months of 2006 the total external debt increased by 1.3 billion euro, so that at the end of April it reached the level of 26.8 billion euro. The largest contribution to the growth of debt was made by banks whose external debt grew by 1.3 billion euro, whereas the external debt of the government fell by 524 million euro in the same period of time.

Chart 3: External Debt of Government, Banks and Year-on-year Growth of Total External Debt



2.2 International Environment

According to the preliminary data real GDP growth in the European Union and the Eurozone in 2005 amounted to 1.6% and 1.3% respectively, which represents a slight deceleration of growth compared to 2004. The results of the last quarter had a major role in growth deceleration, which was slightly surprising in view of relatively favourable growth conditions in that period of time. These favourable conditions imply primarily slight weakening of the exchange rate of the euro against the dollar, which led to improved competitiveness of European companies but also to a deceleration in the rise of oil prices on the global markets. In the light of favourable prospects for growth of economic activity and trade in the rest of the world, in 2006 economic growth is expected to accelerate to 2.3% in the European Union and to 2.1% in the Eurozone. The acceleration of GDP growth is expected as a result of an increase in domestic demand, but also of the increased contribution of the external sector. Faster investments growth is expected, which will be affected by favourable business climate, favourable prospects for profit growth, but also by the need to replace outdated capital goods. Growth in private consumption is expected to become stronger in line with the improvement of the situation on the labour market and a surge in consumer optimism. In 2006 the import will grow faster than the export, which will change in 2007 as a result of the depreciation of the real effective exchange rate in 2005 and 2006 and of the enhanced foreign demand.

Table 1: International Environment – Macroeconomic Indicators

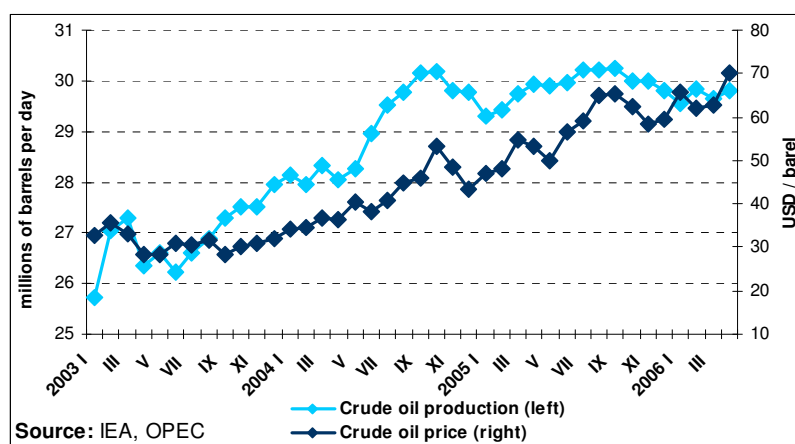
	2004	2005	2006 p	2007 p
Real GDP growth				
World	5,3	4,8	4,9	4,7
European Union	2,4	1,6	2,3	2,2
Italy	1,1	0,0	1,3	1,2
Germany	1,6	0,9	1,7	1,0
Slovenia	4,2	3,9	4,3	4,1
Eurozone	2,0	1,3	2,1	1,8
CPI, annual change				
European Union	2,1	2,2	2,1	2,2
Eurozone	2,1	2,2	2,2	2,2
Oil price increase, in USD	30,7	41,3	27,4	3,1

* p – projection

Source: European Commission, International Monetary Fund

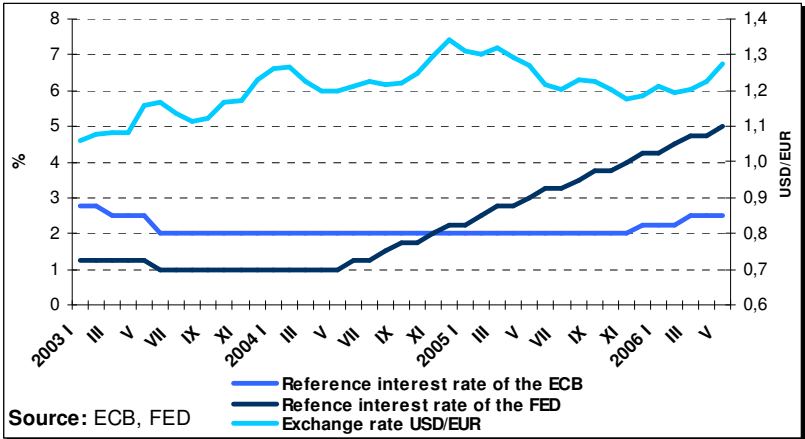
In the light of strong links Croatia has with the countries of the European Union, economic trends in these countries significantly influence the developments in Croatia. The influence of countries such as Italy, Germany and Slovenia is particularly worth noting, as their economic interaction with Croatia is reflected in their high share in the trade with Croatia, but also in the tourist arrival of their citizens to Croatia. As far as Italy is concerned, 2005 saw stagnation of economic activity. However, surveys of business optimism indicate a brighter outlook so that an acceleration of GDP growth is expected in 2006. During the last 2005 quarter economic growth in Germany did not meet expectations, but that was a consequence of the high growth in the third quarter, rather than of a change in the trend. The trends in individual former indicators show that acceleration of growth should take place in Germany in 2006, which might be supported predominantly by the growth in private consumption. Expectations concerning growth of private consumption are based on the increase of the VAT rate by 3 percentage points in Germany in 2007, which will probably result in a shift of the private consumption planned for 2007 to the preceding year. In 2006 further acceleration of economic growth is also expected in Slovenia. It will partially result from the growth in domestic demand, but also from the continued growth of export.

Chart 4: Oil production and oil price



Despite the abovementioned positive prospects for growth in the European Union in 2006 and 2007, there are some risks that need to be considered. There are certain imbalances at the global level, primarily the high current account deficit of the USA. Gradual depreciation of the dollar, improving the competitiveness of U.S. exporters, is the most frequently mentioned method of reducing the current account deficit. Such a scenario would have a negative impact on European exporters, calling into question the export growth forecast, as well as GDP growth. Oil price hike on global markets is also one of the risks. A huge rise in oil prices would involve an increase in production costs, which might result in a deceleration of investment growth, but it is also necessary to take into account inflation growth. One of the major indicators serving as a basis for positive expectations in 2006 refers to the surveys of optimism. Although the latest results indicate that economic expectations for 2006 have improved, the risk in terms of achieving the expected growth lies in the fact that optimism has not been confirmed by trends in individual statistic indicators yet.

Chart 5: Interest Rates and Exchange Rate of the Dollar against the Euro



2.3 Macroeconomic projections till 2009

The basic features of real sector projections are real GDP growth of 4.5% in the current year and its acceleration to 4.6% in the next year, and then to 4.8% in 2008 and 5.0% in 2009. The international sector will be characterized by a slight increase in the share of the current account deficit in GDP in 2006 and 2007 and its decrease in 2008 and 2009. In 2007 it is expected that the share of external debt in GDP will fall slightly and that it will continue to go down until the end of the projection period. As far as the fiscal sector is concerned, further fiscal consolidation and a reduction of the share of general government deficit in GDP are expected in the current year and the years to follow.

Table 2: Projections of Key Macroeconomic Indicators of the Republic of Croatia

	2004	2005	2006 p	2007 p	2008 p	2009 p
GDP, in millions of HRK	212.826	229.032	247.237	266.627	287.894	311.451
GDP per capita, in HRK	47.945	51.595	55.697	60.065	64.856	70.162
GDP per capita, in EUR	6.396	6.972	7.609	8.206	8.860	9.585
GDP, % of annual change	3,8	4,3	4,5	4,6	4,8	5,0
Real growth of individual GDP components:						
Private consumption	3,9	3,4	4,3	4,9	3,9	3,5
Public consumption	-0,3	0,8	3,9	2,5	2,2	2,3
Investments	4,4	4,8	5,5	6,6	7,3	7,9
Export	5,4	4,6	5,9	6,6	7,2	7,7
Import	3,5	3,5	4,8	6,1	5,5	5,4
CPI, % of annual change	2,1	3,3	3,4	3,0	2,9	2,9
Number of employees, annual average	1.409.634	1.420.574	1.438.486	1.463.698	1.482.136	1.500.806
Current account balance, as a % of GDP	-4,9	-6,3	-6,6	-6,7	-6,3	-5,4
External debt, millions of euro, end of period	22.781	25.541	28.430	30.637	32.968	35.102
External debt, as a % of GDP, end of period	80,2	82,5	84,2	84,1	83,8	82,5
General government deficit, as a % of GDP	-4,9	-4,1	-3,0	-2,8	-2,6	-2,4

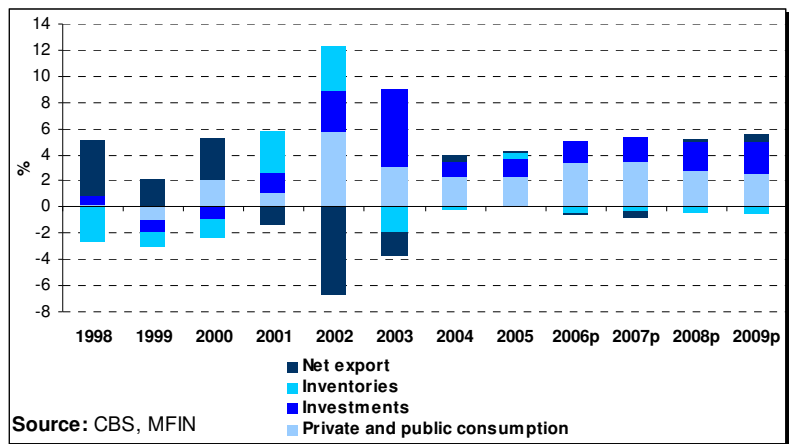
* p - projection

Source: Central Bureau of Statistics, Ministry of Finance

After the acceleration in real GDP growth to 4.3% in 2005, a further acceleration of GDP growth is expected reaching 4.5% and 4.6% in 2006 and 2007 respectively. In 2008 and 2009 a further acceleration of GDP growth is expected reaching 4.8% and 5.0% respectively. As regards individual components of GDP, it is expected that real growth of private consumption will accelerate to 4.3% and 4.9% in 2006 and in 2007 respectively, and that it will slow to below 4% in 2008 and 2009. The major factors influencing the growth of private consumption relate to a further growth in loans, repayment of debt to pensioners and further increase in wages and salaries and employment. Despite the introduction of additional restrictive measures of the central bank on external borrowing of the banks, the growth of total loans has even accelerated, instead of slowing, in the first four months of 2006 compared to the end of 2005. It is expected that the measures of the central bank will start producing an effect before the end of 2006 after all, so that the growth in loans might slow slightly compared to 2005. As far as the repayment of debt to pensioners is concerned, the first tranche will be paid out mid-2006, the second tranche late 2006 and the third and the fourth one in the middle and before the end of 2007 respectively. That is why it is expected that the repayment of debt will have a weaker effect on the growth of private consumption in 2006 and 2008 and that it will be most prominent in 2007, so that the highest real growth of private consumption in the projection period is expected in 2007. The application of a new indexation formula on pensions might have a decelerating effect on private consumption in 2006.

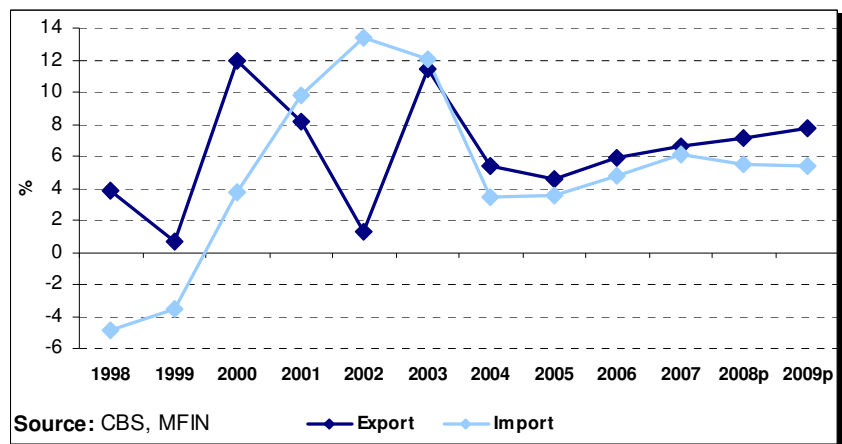
As far as other components on the expenditure side of GDP are concerned, it is worth noting that it is expected that growth of public spending will accelerate from 0.8% in 2005 to 3.9% in 2006 and that it will again decelerate to the average 2.4% in the coming three-year period. A higher growth of public spending in 2006 will result from employment growth in the public sector of 1%, but also from the growth in expenditure for goods and services. The reason for the increase in expenditure for goods and services lies in the fact that in 2006 significant withdrawals of money from pre-accession funds of the European Union are planned for the purpose of financing specific projects. A major share of the funds will be spent on the use of goods and services.

Chart 6: Contributions to GDP Growth



Projections of real investment growth indicate an acceleration of growth from 4.8% in 2005 to 5.5% in 2006 and a further acceleration up to 7.9% in 2009. In the former period of time the major generator of investment growth were public investments into traffic infrastructure. Public investments will continue to support the growth of overall investments. Nevertheless, it is expected that private sector will make the most significant contribution to the growth of total investments. Growth of private investments will be bolstered by the growth in lending to enterprises, as these are expected to reach a higher level than in the preceding year. These expectations are supported by an accelerated growth in lending to enterprises from 9% in 2004 to 14.4% in 2005. It is expected that foreign direct investments, expected to grow in the coming period, will additionally fuel growth in investments.

Chart 7: Real Growth of Export and Import of Goods and Services

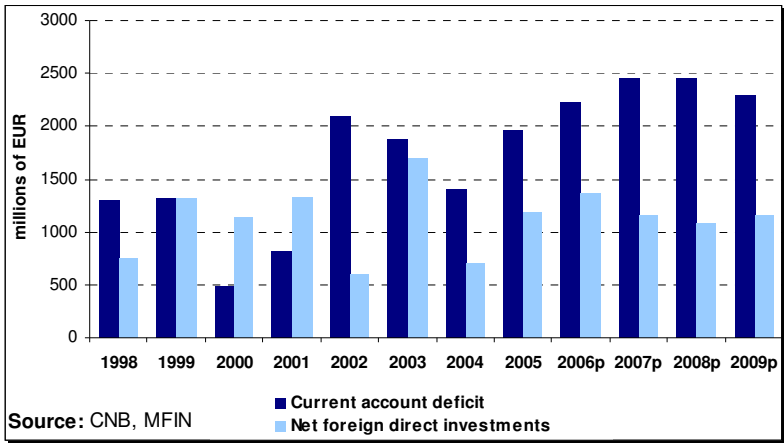


Real growth of export of goods and services in the projection horizon is expected to exceed real growth of import of goods and services. The projected acceleration of export growth is consistent with the projections of the European Commission on growth acceleration in the Eurozone (from 1.3% in 2005 to 2.1% in 2006). Namely, the major markets for the Croatian exported goods are in the countries that are member states of the European Union, so that the growth in these countries should be reflected in the growth in Croatia as well. On the other hand, favourable economic situation in the European Union should have a positive effect on

tourism indicators, as the member states of the European Union are the major source of inbound tourism for Croatia. Growth of import will be influenced by the rising oil prices and the increase in private consumption as a result of the payment of debt to pensioners. After 2006 the increase in oil prices is expected to slow resulting in a decreased pressure on the growth of import, while the payment of debt to pensioners will have a major impact on the growth of import in 2007. As the import of oil and oil products into Croatia significantly exceeds their export in absolute terms, it is to be expected that the deceleration in the increase of oil prices on the global markets will contribute to reducing foreign trade deficit. After the export of ships in 2005 gave a negative contribution to the growth of the total export of goods, a reversal is expected in 2006 and 2007 going back to a long-time trend and to a growth in the export of ships. The likelihood of a faster growth in the export of ships in the coming period may also be inferred from the data from the World Order Book where one can see that the number of shipbuilding orders was 45 in 2004 and it went up to 69 in 2005. In accordance with the above, real growth of import of goods of 4.8% is expected in 2006 and its acceleration to 6.1% in 2007, followed by deceleration in 2008 and 2009. Real growth of export of goods and services is expected to gradually accelerate from 5.9% in 2006 to 7.7% in 2009.

After the current account deficit of -6.3% was reached in 2005, it is expected that in 2006 and in 2007 it will slightly rise to -6.6% and -6.7% of GDP respectively. In the two years to follow it is supposed to decline. The current account trend will mostly be determined by the above trends on the goods account. It is also expected that in the projection horizon revenue from tourism shall rise, which should also be bolstered by the economic recovery in the European Union. As far as the income account is concerned, it should be noted that slight increase in deficit is expected on the income account, which will be consistent with payments of interests on external public government debt and private sector external debt, but also with the increase of income as a result of foreign direct investments or reinvested income. The current transfer account should not experience any major changes, so that positive balance is expected in the coming period as well.

Chart 8: Current Account Deficit and Foreign Direct Investments



The largest part of the current account deficit in the coming period will be financed from foreign direct investments, which is consistent with the assumption concerning higher government revenue from privatisation but also with the improvement of business and investment climate. A major share of foreign direct investments means that the requirement

for foreign debt inflow will decrease. This will also bring about a slight decrease of the share of external debt in GDP to 84.1% in 2007 and its further decline to 82.5% of GDP in 2009. It is expected that the portfolio investment account will experience a further outflow of funds, which is consistent with the government policy of intense borrowing on the domestic market and replacing foreign with domestic debt. As regards other assumptions in the financial sector, it seems realistic to expect that external borrowing by banks, made more difficult as a result of restrictions of the Croatian National Bank, will slow and partially be substituted by faster borrowing of other sectors having direct access to foreign financial markets.

Projections indicate that year-on-year growth of consumer prices in 2006 will amount to 3.4%, which is for the most part a result of inflation transfer from 2005. In 2005 oil price hike had a major influence on the price increase. However, in accordance with the forecasts of the International Monetary Fund and the European Commission indicating that the rise of oil prices will slow, it is expected that such influence will start to weaken in 2007. Although in the first half of 2006 the price rise will be at somewhat higher levels, which can be explained by the above mentioned inflation transfer, but also by an increase in prices of drinks and utility services, in the second half of the year price growth is expected to decelerate, as the cancellation of the effects of the increase of electricity prices and of the introduction of administrative fees in the healthcare system will set in at that time. It is also worth noting that the deceleration of price growth in the second half of the year might be affected by stronger competition resulting from the opening of new supermarket chains in the country. Expected further deceleration of growth of oil prices after 2006 will result in a reduction of the projected inflation in the period until 2009.

2.4 Risks of Realization of Projections

Because of strong links of the Croatian economy with the countries of the European Union as the major markets for the Croatian export of goods and the countries that are a major source of tourists coming to Croatia, any deceleration in growth in these countries would have an impact on the Croatian economy, which is the most serious risk for projections.

The second major risk is to be found in the continued oil price hike on the world markets that, along with inflationary pressures, might also have a negative impact on expected GDP growth rates. Namely, any further growth of oil prices might affect adversely the country's major trade partners who might reduce their import and thus exercise a negative influence on the Croatian export as well as on projected growth rates. On the other hand, negative influence on the domestic production would also be reflected in the increase of cost inflation. In this framework, it is particularly important to pay attention to the fact that such risk might become even stronger should the increase in oil prices be used to justify a price increase in such activities, or to such an extent, that actually does not warrant it.

Success of fiscal consolidation and the manner in which deficit is financed will have a significant impact on economic trends. Should planned deficits be substantially exceeded or should the revenue from privatisation fail to reach its target, this might exert pressure on an increase of public and external debt.

One of the risks in connection with the realization of projections is also to be found in the payment of debt to pensioners. Namely, the payment of debt will of course fuel domestic demand to a certain extent. Depending on the extent to which such demand is satisfied through imports or else to what extent demand might promote domestic production, it will influence the projection of current account deficit, but also GDP growth rate.

3 MEDIUM-TERM FISCAL POLICY

3.1 Fiscal Policy in 2005

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

Table 3: General Government Deficit

<i>millions of HRK</i>	2003	2004	2005
1. Deficit of consolidated general government without capital income - on cash basis*	-9.904	-9.941	-8.846
2. Change in arrears and non-recorded expenditures**	-2.439	-384	-456
3. Deficit of consolidated general government - on modified accrual basis	-12.343	-10.325	-9.301
4. Deficit as a % of GDP	-6,2	-4,9	-4,1

* HAC (Croatian Motorways) and HC (Croatian Roads) are expressed on an accrual basis

** in 2004 and 2005 the amount refers only to arrears (negative change indicates increase)

If we take a look at the deficit of consolidated general government, significant decrease of deficit at all levels of government should be underlined. Government budget deficit was reduced from 2.8% of GDP in 2004 to 2.5% of GDP in 2005. Deficit of extrabudgetary funds and agencies was reduced from 1.7% of GDP in 2004 to 1.3 % of GDP in 2005. Deficit of local and regional self-government units remained at the level of 0.3% of GDP as it was in the preceding fiscal year.

An important feature of the last year's budget were high social transfers, directed at pensions, healthcare system, demographic and family policy measures, unemployment benefits, social welfare and care for Croatian war veterans and members of their families. Such transfers recorded the level of 18.1% of GDP.

The 2005 budget was characterized not only by high social transfers, but also by large investments in investment projects. Allocations from the state budget into capital expenditures were by 12.1% higher than in 2004 and from the budget of local and regional self-government units by 9.9%. On the other hand, investments of extrabudgetary funds and agencies underwent a slight decrease compared to the preceding years, particularly because of the decline in the intensity of investments into road infrastructure, notably of the Croatian Motorways and Croatian Roads. The total scope of investments reached the level of 6.6% of GDP at the level of general government.

Fiscal deficit was largely financed through new borrowing on the domestic market and to a minor extent through capital revenues that reached 1.4 billion kuna in 2005. As a result of such developments, general government public debt went up by 8.6 billion kuna, i.e. it amounted to 113.6 billion kuna. The total general government debt accounted for 89.1% or 101.2 billion kuna. Government guarantees that were issued reached the amount of 12.4 billion kuna or 10.9%. Compared to the previous fiscal year, we can see a significant year-on-year deceleration of growth of general government debt, from 14% as recorded in 2004 to 9% in 2005. The overall increase of the total debt of general government, from the above 9% in 2005, is a result of the increase of domestic debt that amounted to 55,821.6 million kuna at the end of December. Thus the state continued its orientation to increasingly rely on domestic sources to cover its financing requirements. At the same time, external debt of general government reached the level of 45,358.6 million kuna, so that it decreased by 9.8% compared to the end of 2004.

In the field of tax system, the new Income Tax Act and the new Act on Value Added Tax are applicable as of 1 January 2005. In July 2005 the Croatian Parliament adopted amendments to the Profit Tax Act abolishing tax credits and exemptions for tax payers in the areas of special state concern, exemptions for taxpayers on the territory of the City of Vukovar, tax allowances for taxpayers in hill and mountain regions and tax allowances and exemptions for taxpayers in free zones. In May 2006 new amendments to the Profit Tax Act were passed, according to which from 1 January 2007 tax allowances are abolished relating to costs incurred for research and development, education and professional continuing education of employees. These amendments also abolish exemptions for taxpayers who are registered and pursue only research and development activity, incentives for investments and incentives to taxpayers established for the purpose of professional rehabilitation and employment of persons with disabilities. In 2005 the Act on Amendments to the Act on Value Added Tax was adopted. It provides for the abolition of the zero rate of VAT on the services of organised tourist stays paid for by foreign bank transfers as of 1 January 2006. It also provides for the introduction of a reduced tax rate of 10% on services of accommodation, or bed and breakfast, half board or full board in all commercial hotel facilities and on services of agency commission for such services.

3.2 Croatia and International Environment

It is essential to analyse fiscal policy of the Republic of Croatia in its environment and to make a comparison with the member states of the European Union in order to gain an insight in the position of Croatia and the status of its public finance in the light of its rapprochement to the European Union.

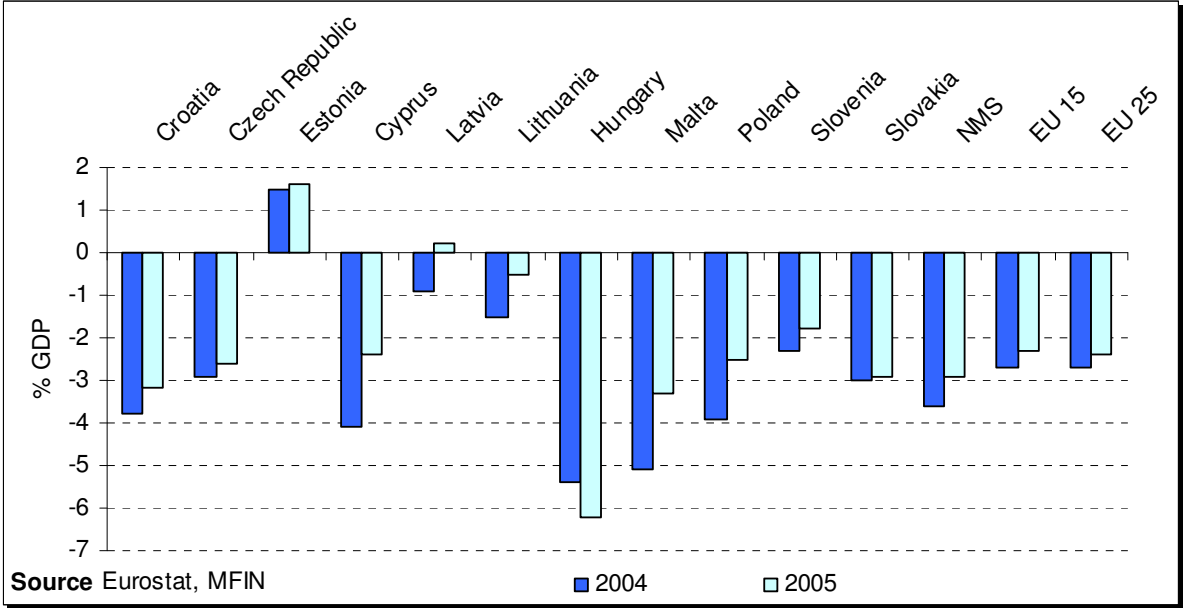
A comparison of key fiscal variables of the Republic of Croatia with each of the new member states of the European Union and with the average of the old member states as well as with all

25 EU countries is presented below. It should be noted that the data relating to the EU countries are expressed according to the ESA 95 methodology, whereas the indicators relating to Croatia are expressed using the GFS 2001 public finance methodology. It is also worth mentioning that the two methodologies have similar coverage and are almost fully comparable.

In the preceding years fiscal policy of the Republic of Croatia was characterised by strong fiscal adjustment resulting in a decrease of budget deficit. According to the GFS 2001 methodology Croatia reduced its net lending/borrowing as a deficit measure from 4.9% of GDP in 2003 to 3.8% of GDP in 2004 and then to 3.2% of GDP in 2005. In comparison with other countries, Croatia was still one of the countries having higher levels of deficit in 2005, but considerably lower than Hungary, the only country that raised its deficit to as much as 6.2% of GDP in 2005.

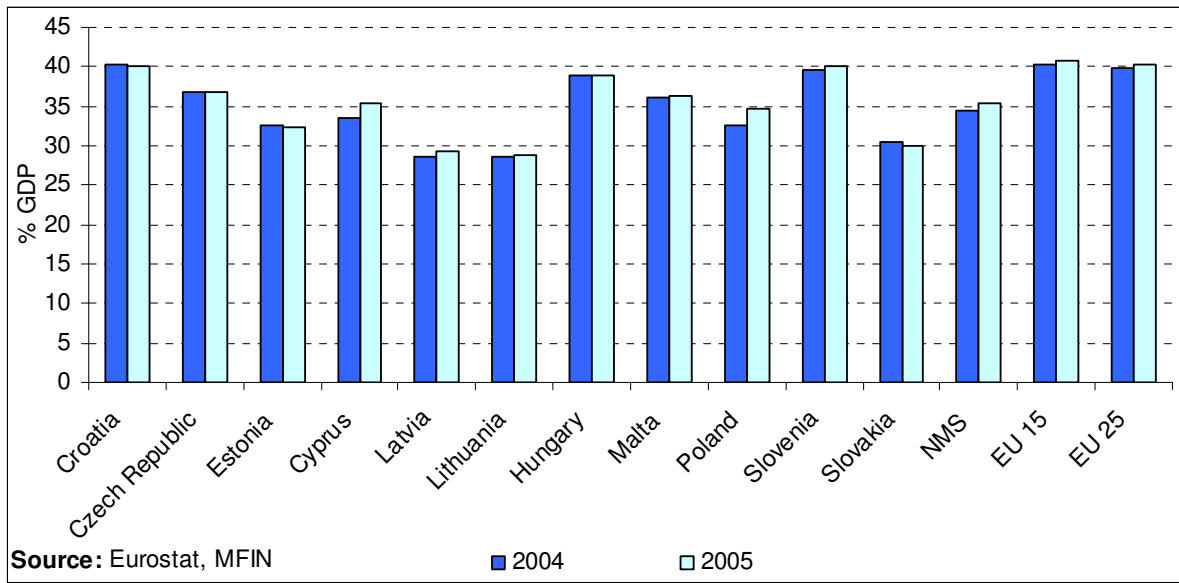
Taking into account the trend to reduce the deficit and Croatia's commitment to implement further fiscal adjustments and necessary structural measures to be described in the following chapter, in the period to come Croatia will continue reaching lower levels of deficit in order to come closer to the EU average and to meet the Maastricht criterion of budgetary deficit.

Chart 9: Net lending/borrowing of Croatia and the EU member states in 2004 and 2005



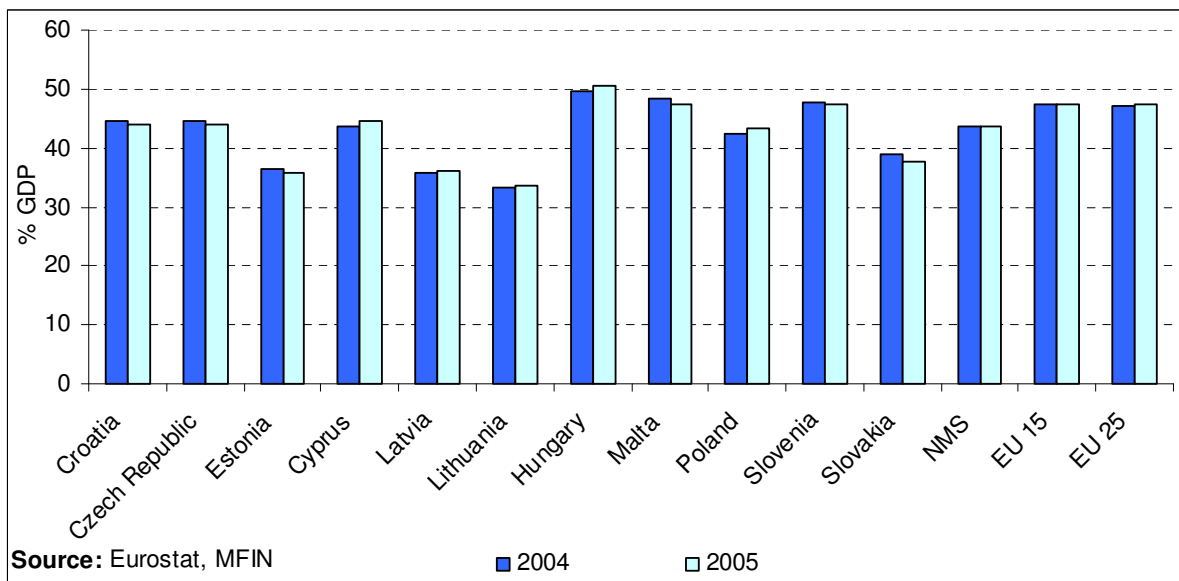
With regard to the revenue side of the budget of consolidated general government, Croatia is characterized by a high tax burden of citizens and companies representing a sum of collected tax revenues and social contributions. Namely, in 2005 Croatia recorded a level of 40.1% of GDP of collected tax revenues and social contributions and moved closer to highly developed EU countries, i.e. to the old member states (EU 15), whose tax burden lies at the average level of 40.8% of GDP. In comparison with the new member states of the European Union, Croatia, along with Slovenia and Hungary, has the highest tax burden and exceeds the average of the new member states by some 5 percentage points. Nevertheless, there is a slightly decreasing trend in terms of the share of tax revenues and social contributions in GDP in Croatia.

Chart 10: Tax Burden in Croatia and EU member states in 2004 and 2005



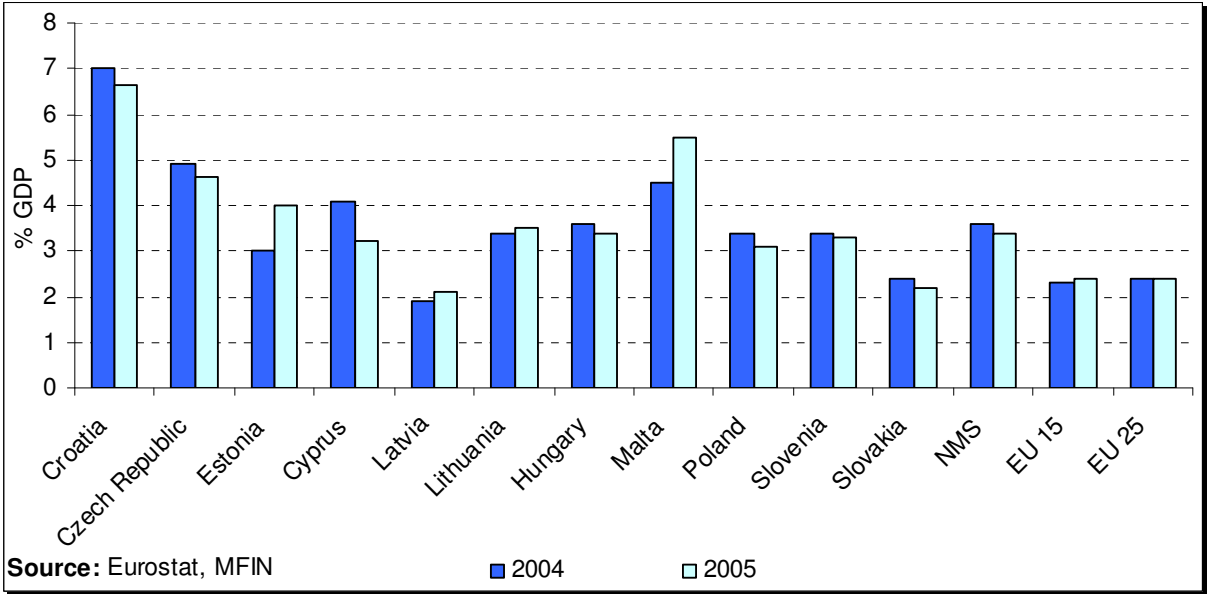
With regard to the share of expense of consolidated general government in GDP, it is evident that Croatia, with a share of expense in GDP reaching 44.1% in 2005, does not depart from the average of the new member states of the European Union. On the other hand, Croatia is below the average of all the 25 member states of the European Union. Hungary has recorded the highest level of public spending with almost 51% of GDP, followed by Malta and Slovenia with approx. 47% of GDP. The Baltic states have the lowest share of expense in GDP, 35% on the average. It should be noted that in Croatia, by contrast to individual countries of the European Union, there is a decreasing trend in terms of the share of expense of consolidated general government in GDP, fuelled by the implementation of fiscal adjustment, thus gradually achieving the fiscal policy goal of the Republic of Croatia.

Chart 11: Expense of Consolidated General Government of Croatia and EU MS in 2004 and 2005



An important feature of public spending of the Republic of Croatia, compared to the countries of the European Union, is a high share of public investments into numerous capital projects, particularly for the purpose of developing transport infrastructure to link regions within Croatia, but also with neighbouring countries. In 2004 Croatia allocated 7% of GDP for investment projects, and in 2005 this share was 6.6% of GDP, as the most important project, building a motorway Zagreb-Split, was completed, so that investment requirements declined to a certain extent. In 2005 the level of public investments in the new member states ranges from 2.1% of GDP, as recorded in Latvia, to 5.5% of GDP in Malta. All countries of the European Union allocate 2.4% of GDP from general government budget on the average for investment projects.

Chart 12: Public Investments in Croatia and EU member states in 2004 and 2005



In conclusion, it is possible to infer from the above comparison of key fiscal variables of Croatia with the member states of the European Union that Croatia follows fiscal trends in its surroundings. However, further adjustment of public finance is needed in order to reduce budget deficit and tax burden as well as involvement of the state in economy. Namely, since high tax burden does not promote consumption or investments, and taking into account the lower level of tax burden in the new member states that are also Croatia's competitors when it comes to attracting foreign direct investments, Croatia must continue reducing its share of tax revenues and social contributions in GDP. However, achievement of this goal must be accompanied by parallel decrease of public spending, implying further implementation of fiscal consolidation and key structural measures stated herein and in other strategic documents.

3.3 Basic Fiscal Policy Guidelines Until 2009

The basic medium-term 2007-2009 fiscal policy guidelines are as follows:

- To reduce budget deficit to the level below 3% of GDP,
- To stabilize and further reduce the level of public debt to less than 60% of GDP,
- To reduce external debt to the level below 80% of GDP,
- To continue the implementation of key structural reforms,
- To continue cooperation with international financial institutions.

3.3.1 Structural Measures for the Purpose of Fiscal Policy

Transparency of Public Finance. The Ministry of Finance regularly publishes statistical data on the state budget, extrabudgetary funds, units of local and regional self-government and general government on a monthly, quarterly and annual basis. The data are processed and published in accordance with the GFS 2001, the internationally recognized methodology of the International Monetary Fund. In view of the EU accession process of the Republic of Croatia and the importance of international comparison of fiscal data with European countries, in 2006 the Ministry of Finance started to use the ESA 95 methodology as a part of its obligation to provide fiscal reports to Eurostat on the level of budget deficit and public debt. In order to reach a high level of quality of statistical data in the field of public finance according to the ESA 95 methodology, in the next two years a comprehensive CARDS 2003 project will be carried out, with Finland as a twinning partner, aimed at developing and implementing common methodology for public finance statistics, building institutional capacity to develop statistical indicators in the field of public finance, establishing an efficient and sustainable statistical system and developing a reliable connected interagency data base on public finance.

Strengthening Budget Management. In the period to come measures will continue to be applied aiming at strengthening budget management. Namely, in accordance with the plan and with a view to achieving successful management and fulfilling the tasks of budget beneficiaries, a system of internal financial control will be established for the purpose of controlling, auditing and reporting on the use of budget funds and funds of the European Union. With regard to the system of the State Treasury, steps are taken to ensure its full operability. Namely, since 1 January 2006 road charges of the Croatian Motorways and the Croatian Roads have been included in the single account of the State Treasury. In the next period, once the necessary preconditions are met in terms of resolving pending court cases involving the Croatian Privatisation Fund (HFP) and adopting amendments to the legal framework for the State Agency for Deposit Insurance and Bank Rehabilitation (DAB), it is planned to expand the coverage of the single account of the State Treasury by means of including the accounts of DAB and HFP.

Tax Policy and Strengthening Tax Administration. Tax policy in the coming period of time and later on will be focused on adjusting to the standards of the European Union and on easing the burden on economy. Additionally, measures will be taken to simplify the tax system and to streamline tax procedures, while at the same time continuing to strengthen tax administration. For this purpose a two-year project was initiated with a focus on building administrative capacity of the Tax Administration in the field of VAT and establishing a more adequate tax collection model. In the next medium-term period preparatory measures will also be taken to introduce an IT system in the exchange of data on VAT and to create key pre-requisites necessary in order for Croatia to become a part of the single tax system of the European Union. With regard to the introduction of IT in the Tax Administration and streamlining the procedures in connection with tax obligations of citizens and entrepreneurs developed within the projects *e-tax*, in 2006 the *e-VAT* service was set up enabling all citizens to file a VAT tax return electronically. In the following years services will be introduced making it possible for citizens to file income tax and profit tax returns electronically (*e-Profit* and *e-Income*), and additionally *e-tax* accounting report will be introduced.

Education and Science. Further reform of education system and science remains a priority of the Government of the Republic of Croatia. Investments into knowledge are directly linked with economic growth. In the world of constant changes, where new knowledge is constantly being acquired and new technologies developed, Croatia must continuously pay special attention to promoting research and development, innovations and strengthening the education system, with a particular focus on lifelong learning. This is why the overall reform of education system and science implies increase in investments in these areas of importance for development that will contribute to building high-level and competitive human resources, with the ultimate objective of opening permanent quality jobs and promoting sustainable economic growth.

Public Investments. The plan of investment in roads is being implemented in accordance with the Government Construction Plan 2005-2008. Investment in traffic infrastructure will continue, and it is aimed at enabling the interconnection of all regions within Croatia and the connection of Croatia with other European countries. In addition, the Plan includes an investment plan concerning regular and extraordinary maintenance of public roads. Simultaneously, the government will invest in the construction and reconstruction of railway infrastructure. Investment in the energy sector and investment in environmental projects will be some the most significant segments of government investment activities in the coming period.

Improvement of Investment Climate. Improvement of investment climate remains one of the main priorities of the Government of the Republic of Croatia aimed at attracting a higher volume of FDI flows and achieving higher growth rates as well as reducing unemployment by creating new and permanent jobs. The government will systematically reduce subsidies to companies, which will encourage free market competition, whereas the shift to horizontal subsidies will contribute to the strengthening of the competitiveness of the economy.

Restructuring and Privatisation. Restructuring of inefficient public corporations is a precondition for the creation of competitive and productive environment in the Croatian economy. In the coming period, the government will undertake significant measures aimed at

restructuring the Croatian Railways in accordance with the PAL Programme, which will include further unbundling of railway infrastructure from the railway transport, downsizing of the number of employees, reduction in the operating ratio and privatisation of the subsidiaries of the Croatian Railways. In the second quarter of 2006, the Government of the Republic of Croatia will adopt a comprehensive plan of the restructuring of the shipbuilding sector with the objective of harmonising the situation and the operations of shipyards with market conditions and the European standards. The government will also privatise the Uljanik shipyard. After the adoption of the National Plan for the Restructuring of the Ferrous Metallurgy Sector, tenders for the privatisation of the state-owned stake in Split and Sisak ironworks and in TLM (an aluminium plant) will be organised. The privatisation of the remaining state portfolio will be carried out at an accelerated pace. It is planned that the process of privatising companies majority-owned by the state in the portfolio of the Croatian Privatisation Fund will be completed by the end of 2007, the shipbuilding sector excluded, and that the minority shares of the state will also be privatised. With regard to the privatisation of large companies that are partially owned by the state, the second phase of the privatisation of the oil company INA and the third phase of the privatisation of HT will be carried out in 2006. It has also been planned to privatise the insurance company “Croatia osiguranje” and the Croatian Postal Bank (Hrvatska poštanska banka) preceded by their merger.

Reform of Public Administration. The primary goal of the overall public administration reform is to establish efficient and fiscally acceptable public administration based on expertise and political impartiality in accordance with the EU practices. To this end, the new Act on Civil Servants was passed in 2005, and it is planned that amendments to the Act will be adopted in order to contribute to depolitization of administration and to regulate the issue of conflict of interests. In 2006, the Act on Salaries in Civil Service will be passed in order to introduce an incentive component into the public administration system. Introduction of information technology into the public service sector will continue through the programme “e-Croatia” with a view to simplify and speed up provision of public services to all citizens and entrepreneurs.

Reform of Healthcare System. In 2006, the National Strategy of Healthcare System Development 2006-2011 was adopted together with a package of acts relating to the reform of the healthcare system, including the Act on the Amendments to the Healthcare Act, the Act on Obligatory Health Insurance, the Act on Voluntary Health Insurance and the Act on Health Insurance at Work. The main features of the reform include the introduction of the payment of administrative fees on medications not included into the Main List of Medications, the exemption of additional insurance on medications lying within the scope of the activities of the Croatian Institute for Health Insurance (HZZO), and the enabling of private sector entities to participate in additional insurance of other healthcare services. The government has introduced numerous other measures aiming to strengthen financial discipline such as: system of categorisation and accreditation for hospitals in order to streamline spending, especially relating to diagnostic and therapeutic procedures; system of reference prices to be used when drafting the main and supplemental lists of medications; streamlining of transportation costs; financial responsibility of owners of healthcare institutions in case of negative financial operating results; limitation of supplier costs by means of public tenders for medications and other medical aids, limitation of costs for external service providers, and similar measures. The above measures of the healthcare reform will increase efficiency and financial

sustainability of the healthcare system and will lead to a gradual reduction in the burden of outstanding liabilities of the healthcare system, while retaining a high quality level of healthcare services.

Reform of Social Benefit System. The government has started to develop the Strategy for the Reform of the Social Benefit System aiming to improve the focus on socially most endangered persons by establishing additional criteria for a fairer distribution. The introduction of a single record of all people receiving social benefits, their systematic monitoring and simplified administrative procedures will result in a faster and better access to social benefits. Therefore, the main guidelines of the reform include the streamlining of the number of rights and their harmonisation with regard to beneficiaries and their goals as well as the shortening of the administrative procedure. Within the framework of the above, the possibilities for reducing total spending on social benefits in GDP will be determined, and the amounts of individual benefits for the most endangered groups of citizens will simultaneously be increased.

Reform of the Judiciary. In the coming period, the government intends to continue the judiciary reform. The primary goal of the reform is to modernise the courts and increase their efficiency, improve case management, complete full digitalisation of land registers and combat corruption with the ultimate goal of creating a more efficient legal system, resulting in better conditions for investments.

3.4 Medium-Term Revenue Trends

3.4.1 Determinants of State Budget Revenue 2007 – 2009

Revenue

On the basis of the real growth in economic activities (4.6%) and the nominal growth (7.8%), the total state budget revenues for 2007 have been projected to amount to 100.8 billion kuna, an increase of 6.2% in comparison with the revenue target for 2006. This represents a growth of 5.9 billion kuna in nominal terms.

The revenues for 2008 have been projected on the basis of the same determinants. With the planned real growth of the economy of 4.8% and the nominal growth of 8.0%, total revenues are expected to amount to 107.5 billion kuna, which represents an increase of 6.6% compared to the previous year, i.e. 6.7 billion kuna. The total revenue for 2009 has been projected to amount to 114.2 billion kuna, an increase of 6.2% (6.7 billion kuna) in comparison with the previous year. Such a growth in revenue is based on stable real GDP growth, which is envisaged at a real rate of 5.0% for 2009, and the nominal growth is envisaged at a rate of 8.2%.

Revenue from Taxes

On the basis of the projections of macroeconomic variables and the developments in individual revenues in the previous years, revenues from taxes have been projected to amount to 61.6 billion kuna in 2007, which represents an increase of 6.4% in comparison with 2006.

In 2008 revenues from taxes have been projected to amount to 65.4 billion kuna, an increase of 6.3%, whereas tax revenues in 2009 are expected to amount to 69.4 billion kuna, representing a year-on-year growth of 6.1%.

Table 4: Trends in state budget revenue 2005 – 2009

000 HRK	2005	2006 plan	2006 / 2005 indeks	Projections					
				2007	2007 / 2006 indeks	2008	2008 / 2007 indeks	2009	2009 / 2008 indeks
1 Revenue	88.414.517	94.894.623	107,3	100.796.402	106,2	107.457.276	106,6	114.151.308	106,2
11 Taxes	53.449.071	57.860.444	108,3	61.591.442	106,4	65.443.704	106,3	69.417.988	106,1
111 Taxes on income, profits, and capital gains	7.057.112	7.916.839	112,2	8.523.136	107,7	9.178.293	107,7	9.869.307	107,5
1111 Payable by individuals	3.106.476	3.323.992	107,0	3.565.176	107,3	3.831.500	107,5	4.096.031	106,9
1112 Payable by corporations and other enterprises	3.950.636	4.592.847	116,3	4.957.960	107,9	5.346.793	107,8	5.773.275	108,0
113 Taxes on property	375.501	431.835	115,0	465.702	107,8	502.849	108,0	543.994	108,2
114 Taxes on goods and services	44.084.510	47.359.427	107,4	50.454.393	106,5	53.615.353	106,3	56.855.153	106,0
1141 General taxes on goods and services	32.399.952	35.002.420	108,0	37.513.454	107,2	40.055.527	106,8	42.638.155	106,4
11411 Value-added taxes	32.243.372	34.830.264	108,0	37.324.647	107,2	39.848.460	106,8	42.411.062	106,4
11412 Sales taxes	156.580	172.156	109,9	188.806	109,7	207.067	109,7	227.093	109,7
1142 Excises	10.939.166	11.539.801	105,5	12.059.644	104,5	12.608.235	104,5	13.187.543	104,6
1145 Taxes on use of goods and on permission to use goods or perform activities	319.563	363.741	113,8	392.268	107,8	423.557	108,0	458.214	108,2
1146 Other taxes on goods and services	425.829	453.464	106,5	489.027	107,8	528.034	108,0	571.240	108,2
115 Taxes on international trade and transactions	1.562.930	1.562.367	100,0	1.531.120	98,0	1.500.498	98,0	1.470.488	98,0
116 Other taxes	369.019	589.976	159,9	617.091	104,6	646.711	104,8	679.047	105,0
12 Social contributions	31.301.340	33.496.961	107,0	35.927.454	107,3	38.611.292	107,5	41.277.062	106,9
13 Grants	27.505	530.005	1.926,9	700.895	132,2	676.513	96,5	566.543	83,7
14 Other revenue	3.636.601	3.007.212	82,7	2.576.611	85,7	2.725.767	105,8	2.889.715	106,0

Source: Ministry of Finance

Income Tax

According to the revision for 2006, the revenue from income tax has been planned in an amount of 3.3 billion kuna, representing a year-on-year growth of 7.0%.

In the coming years, it is expected that the revenue from income tax will grow in accordance with the growth in gross wages and salaries as well as the growth in employment, provided no further tax allowances are introduced. The estimate of the growth in nominal gross salary for 2007 is 5.6%, and the employment growth is expected to reach 1.8%. In 2008 a year-on-year nominal growth in gross salaries of 6.2% and an employment growth of 1.3% are expected, and in 2009 it is expected that nominal growth in salaries will be 5.6% and an annual growth in employment 1.3%. Based on the above data, the amount of the revenue from income tax in 2007 is projected to amount to 3.6 billion kuna (a year-on-year growth of 7.3%), in 2008 to 3.8 billion kuna (an annual growth of 7.5%), and in 2009 to 4.1 billion kuna (an increase of 6.9% compared to 2008).

Profit Tax

Based on the growth of economic activity and banking activity in the period 2007-2009, it is predicted that revenues from profit tax will grow. Since the profit tax for 2007 is paid on the basis of operations of companies in 2006, the growth in revenues from profit tax for 2007 is projected in accordance with the nominal growth in economic activity in 2006. The resulting amount of revenues in 2007 amounts to 5.0 billion kuna, representing a year-on-year growth of 7.9%. In 2008 revenues from profit tax are projected to amount to 5.3 billion kuna (year-on-year growth of 7.8%), and in 2009 to 5.8 billion kuna (an increase of 8.0%).

Taxes on Property

Revenues from property taxes are projected in line with the expected developments in the real-estate market, where both prices and trading volumes are rising, and with the developments in the overall economic activity. In 2007 it is expected that revenues from property taxes will amount to 465.7 million kuna (an increase of 7.8%), to 502.8 million kuna in 2008 (an increase of 8.0%) and to 544.0 million kuna in 2009 (an increase of 8.2% compared to the previous year).

Value-Added Tax

Increased revenues from value-added tax are a result of the expected growth in consumption and inflation. Taking into account the results of the developments in the valued-added tax revenues in the previous years and the efforts of the Tax Administration to introduce stricter control in the field of VAT collection and refund, we find that the achieved growth in the revenues from value-added tax is realistic and feasible.

For 2007, the revenue from value-added tax is planned to amount to 37.5 billion kuna (an increase of 7.2% compared to 2006), for 2008 to 40.1 billion kuna (a year-on-year growth of 6.8%) and for 2009 to 42.6 billion kuna (an increase of 6.4%).

Excise Tax

The revenues from excise taxes in 2006 are projected to amount to 11.5 billion kuna, which represents an increase of 5.5% in comparison with the figures from 2005.

On the basis of GDP growth in the coming years and the trends in the revenues from excise taxes in the previous years, the revenue from excise taxes in 2007 is projected to amount to 12.1 billion kuna, representing an increase of 4.5% compared to the previous year. For 2008 revenue is projected to amount to 12.6 billion kuna (an increase of 4.5% compared to the previous year), and in 2009 to 13.2 billion kuna (year-on-year growth of 4.6%).

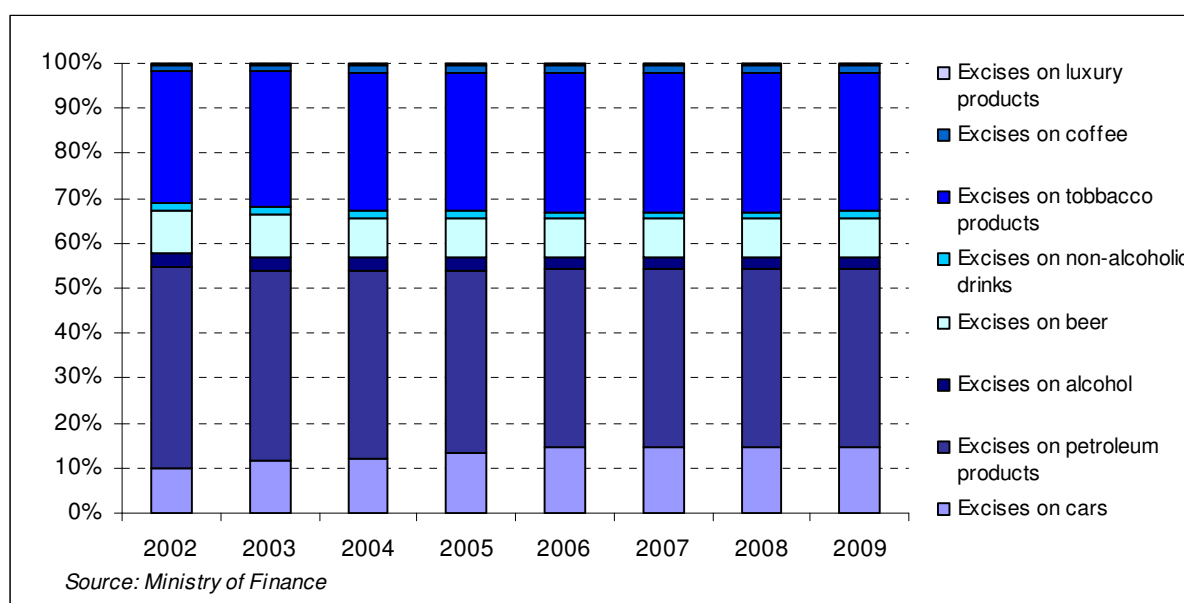
Table 5: Trend in revenue from excises in the period 2005 – 2009

000 HRK	2005	Plan 2006	Index 2006 / 2005	Projections					
				2007	Index 2007 / 2006	2008	Index 2008 / 2007	2009	Index 2009 / 2008
Excises	10.939.166	11.539.801	105,5	12.059.644	104,5	12.608.235	104,5	13.187.543	104,6
- on cars	1.080.926	1.240.644	114,8	1.297.713	104,6	1.360.003	104,8	1.428.004	105,0
- on petroleum products	6.099.008	6.372.375	104,5	6.659.132	104,5	6.958.793	104,5	7.271.939	104,5
- on alcohol	228.386	221.425	97,0	231.611	104,6	242.728	104,8	254.865	105,0
- on beer	702.386	728.518	103,7	762.030	104,6	798.607	104,8	838.537	105,0
- on non-alcoholic drinks	141.905	139.464	98,3	145.879	104,6	152.882	104,8	160.526	105,0
- on tobacco products	2.518.801	2.658.036	105,5	2.769.783	104,2	2.886.228	104,2	3.007.569	104,2
- on coffee	145.334	154.676	106,4	166.807	107,8	180.112	108,0	194.849	108,2
- on luxury products	22.420	24.663	110,0	26.689	108,2	28.882	108,2	31.255	108,2

Source: Ministry of Finance

The planned increase in revenue from excise taxes on cars from 2007 to 2009 is consistent with the expected real growth of the economy. Thus, the projected revenue from excise taxes on cars in 2007 will grow by 4.6%, in 2008 by 4.8% and in 2009 by 5.0%. The revenue from excise taxes on oil products is projected to grow at a rate of 4.5% in 2007, 2008 and 2009. Such an increase is based on the expected real growth of the economy and the reduction in grey economy. For the period 2007 – 2009, it is planned that the revenue from excise taxes on tobacco will grow in line with economic growth and expectations relating to the consumption of tobacco products, i.e. by 4.2% per annum.

Chart 13: Structure of revenue from excise taxes in the period from 2002 – 2009



Taxes on International Trade

Revenue from taxes on international trade has stagnated or has been slightly decreasing over the last few years. Due to the process of EU integrations and foreign trade liberalisation, for the purpose of making projections of these revenues it is assumed that the revenue from this type of taxes will decline by around 2% each year in the observed period. Under such assumptions, the revenue from taxes on international trade is projected to amount to 1.53 billion kuna in 2007, to 1.50 billion kuna in 2008, and to 1.47 billion kuna in 2009.

Social Contributions

The projections of revenue from contributions for 2007-2009 are based on growth projections for nominal gross salaries and projections for growth in employment. Social contributions have demonstrated a significant correlation with these two factors in the previous years.

In 2007, the revenue from contributions is expected to amount to 35.9 billion kuna, which represents an increase of 7.3% in comparison with 2006. Projections for 2008 amount to 38.6 billion kuna in revenues from contributions (an increase of 7.5%) and for 2009 41.3 billion kuna, which represents a year-on-year growth of 6.9%.

Grants

The revenues from grants are mostly based on the funds expected to be granted for the projects nominated within the framework of the EU pre-accession programmes. Namely, after the adoption of the pre-accession strategy, the Republic of Croatia has been offered pre-accession programmes (PHARE, ISPA, SAPARD), and the amount to be allocated to Croatia each year will depend on the projects approved by the European Commission. In 2007, the revenues from grants are planned to amount to 700 million kuna, of which amount approximately 684 million kuna are expected to be granted for projects under the pre-accession programmes. Other grants will account for only about 15 million kuna. In 2008, it is expected that the grants, mostly on the basis of the above EU programmes, will amount to approximately 677 million kuna, and in 2009 to 567 million kuna.

Property Income

The revenues from property consist of income from interest, dividends, withdrawals from income of quasi-corporations and rent. The projections of revenues from dividends for the period 2007–2009 are based on the average revenues from dividends in the period from 2003 to 2006, after the income from the withdrawals of extraordinary dividends has been excluded from the total amount and after the amount from the previous year has been increased in accordance with economic growth and expectations from operations of public corporations. The income from dividends in 2007 is projected to amount to 133.8 million kuna, to 144.5 million kuna in 2008, and to 156.3 million kuna in 2009.

The amount of withdrawals from income of quasi-corporations in the period 2007 – 2009 is projected to amount to 50 million kuna per annum.

The revenue from rent in the period 2007-2009 is projected on the basis of expected economic trends and an analysis of former trends. These revenues are projected to amount to 458.1 million kuna in 2007, 494.7 million kuna in 2008, which represents a year-on-year growth of 8.0%, and to 535.1 million kuna in 2009, an increase of 8.2% compared to the previous year.

Administrative Fees

The projections of revenues from administrative fees are based on the expected economic activity. For 2007, it is necessary to mention the effect of introducing the accounts of budget beneficiaries into the state budget, which used to be kept off the budget. This means that a part of the revenues of budget beneficiaries will continue to be recorded under the item of incidental sales in the market, whereas the rest will be reallocated.

For 2007, revenue from administrative fees is projected to amount to 493.3 million kuna (growth of 12.4%). For 2008 and 2009 revenue from administrative fees is projected on the basis of real economic growth, and it will amount to 517.0 million kuna in 2008 (annual growth of 4.8%) and 542.8 million kuna in 2009, an increase of 5.0% compared to the preceding year.

Revenue from Incidental Sales

Due to the abovementioned reallocation of revenues from incidental sales in the market, the amount of the collected revenues from this category is projected to amount to 150 million kuna in 2007. For 2008 and 2009, this revenue is projected on the basis of nominal economic growth, i.e. 162.0 million kuna for 2008 (growth of 8.0%) and 175.2 million kuna for 2009, which represents an increase of 8.2% compared to the amount in the preceding year.

Fines, Penalties, and Forfeits

On the basis of trends in the revenues from fines, penalties and forfeits in the previous periods, it is expected that these revenues will grow in accordance with the real economic growth in the medium term. For 2007, the revenues from this position are projected to amount to 410.4 million kuna, for 2008 to 430.1 million kuna, and for 2009 to 451.6 million kuna.

Miscellaneous and Unidentified Revenue

For 2007, miscellaneous and unidentified revenue is projected with a year-on-year growth of 97.3%. This growth is a result of the economic growth and of the effect of the abovementioned reallocation of revenues for the purpose of closing the accounts of budget beneficiaries and transferring their overall income into the state treasury account.

For the purpose of projections for the period 2008 – 2009, it is assumed that the amount of the transaction volume resulting in miscellaneous and unidentified revenue for 2007 will not be subject to any significant changes, and therefore miscellaneous and unidentified revenue for 2008 and 2009 will grow in accordance with the projection of the real economic growth, which means by 4.8% in 2008 and by 5.0% in 2009.

Consequently, the revenues from this position are projected to amount to 745.2 million kuna in 2007, to 781.0 million kuna in 2008, and to 820.0 million kuna in 2009.

Table 6: Trends in other revenue of the state budget in 2005-2009

000 HRK	2005	Plan 2006	Index 2006 / 2005	Projections					
				2007	Index 2007 / 2006	2008	Index 2008 / 2007	2009	Index 2009 / 2008
Other revenue	3.636.601	3.007.212	82,7	2.576.611	85,7	2.725.767	105,8	2.889.715	106,0
Property income	2.226.647	1.466.431	65,9	752.642	51,3	808.688	107,4	870.767	107,7
Interest	62.784	102.677	163,5	110.730	107,8	119.562	108,0	129.345	108,2
Dividends	1.123.346	421.880	37,6	133.793	31,7	144.465	108,0	156.285	108,2
Withdrawals from income of quasi-corporations	192.516	485.726	252,3	50.000	10,3	50.000	100,0	50.000	100,0
Rent	848.001	456.147	53,8	458.120	100,4	494.661	108,0	535.137	108,2
Sales of goods and services	782.428	747.461	95,5	643.298	86,1	678.941	105,5	718.042	105,8
Administrative fees	397.066	438.825	110,5	493.298	112,4	516.976	104,8	542.825	105,0
Incidental sales by nonmarket establishments	385.362	308.636	80,1	150.000	48,6	161.965	108,0	175.217	108,2
Fines, penalties and forfeits	360.707	392.381	108,8	410.431	104,6	430.131	104,8	451.638	105,0
Voluntary transfers other than grants	5.653	23.220	410,7	25.041	107,8	27.038	108,0	29.250	108,2
Miscellaneous and unidentified revenue	261.166	377.720	144,6	745.199	197,3	780.969	104,8	820.017	105,0

Source: Ministry of Finance

3.4.2 Determinants of Revenue of Extrabudgetary Funds and Agencies for the Period 2007-2009

Total revenues of extrabudgetary funds and agencies for the period 2007-2009 are projected in accordance with the aforementioned macroeconomic projections. The total revenues will gradually decrease from 3.7% of GDP in 2007 to 3.3% of GDP in 2009. The most significant revenues of extrabudgetary funds consist of road charges that are projected to reach the level of approximately 1.1% of GDP in the observed period. These revenues are collected by the Croatian Motorways and the Croatian Roads in the form of charges included in the price of fuel, which are paid into the state budget and transferred to the above agencies in the form of capital transfers. The Croatian Motorways generate significant revenue from motorways, mostly from motorway tolls. Furthermore, extrabudgetary funds and agencies generate significant revenue from grants from the state budget reaching the level of approximately 0.5% of GDP. The Croatian Waters and the Fund for Environmental Protection and Energy Efficiency generate significant revenue from administrative fees, and the Croatian Institute for Health Insurance (HZZO) generates significant revenue from additional health insurance.

Table 7: Key items of revenue from extrabudgetary funds and agencies

% of GDP	2005	2006 plan	2007 proj.	2008 proj.	2009 proj.
Total revenue	3,5	4,0	3,7	3,5	3,3
road fee as a part of petrol price	1,2	1,2	1,2	1,1	1,1
grants from other general government units	0,5	0,6	0,5	0,5	0,4
administrative fees for water	0,5	0,6	0,6	0,5	0,5
administrative taxes for environment protection	0,1	0,4	0,4	0,3	0,3
revenue from the use of motorways	0,5	0,4	0,4	0,4	0,4
supplementary health insurance	0,2	0,2	0,2	0,2	0,2
other	0,6	0,5	0,4	0,4	0,3

3.4.3 Determinants of Revenue of Local and Regional Government Units for the Period 2007-2009

In the observed medium-term period, projections of total revenues of local and regional government units indicate the share of approximately 5.1% in the GDP estimate. In accordance with the growth in gross wages and salaries and in employment, revenues from income tax will reach the level of approximately 2% of GDP. The share of profit tax revenue will be at the level of approximately 0.7% of GDP, and the revenue from taxes on property will account for about 0.2% of GDP. Among other revenues, the most significant are the revenues from administrative fees that will be at the level of about 0.9% of GDP in the observed period of time.

Table 8: Key items of revenue of local and regional self-government units

% of GDP	2005	2006 plan	2007 proj.	2008 proj.	2009 proj.
Total revenue	5,3	5,2	5,1	5,0	5,0
income tax	2,1	2,0	2,0	2,0	2,0
profit tax	0,7	0,7	0,7	0,7	0,7
property tax	0,2	0,2	0,2	0,2	0,2
taxes on goods and services	0,1	0,1	0,1	0,1	0,1
grants from other general government units	0,7	0,7	0,7	0,6	0,6
concessions	0,3	0,3	0,3	0,3	0,3
administrative fees	1,0	0,9	0,9	0,9	0,8
other	0,2	0,2	0,2	0,2	0,2

Note: coverage of 53 largest units (32 cities, 20 counties and the City of Zagreb)

3.5 Medium-Term Expense Trends

3.5.1 *Determinants of State Budget Expense 2007-2009*

In the coming medium-term period successful implementation of fiscal consolidation, which implies a reduction in the overall level of public spending not only on the part of the state budget but also on the part of other levels of general government, will ensure fiscal sustainability and enable further promotion of economic activities in the private sector. Within this context, it is necessary to continue implementing measures aimed at improving financial discipline and transparency in a broader public sector, at upgrading public expense and public debt management. It is worth noting that further fiscal adjustment will contribute to removing external imbalances. In this respect the government will maintain its orientation towards relying on domestic sources of financing, which will not only reduce the deficit but also significantly contribute to a slowdown in external debt growth and subsequently to its reduction.

In this context implementation of the following policies and reforms is of utmost importance for the budget:

- Implementation of an overall reform in the healthcare sector with the objective of improving fiscal discipline and maintaining a high level of healthcare service quality, which will result in a decreased share of expense for healthcare in GDP and a decreased stock of arrears in the healthcare sector;
- Implementation of the plan of shipyard restructuring, which will create preconditions for negotiating new deals without generating new losses;
- Implementation of the plan of restructuring of ferrous metal industry and its modernization aimed at the gradual abolishing of state aid and preparation of the privatisation processes;
- Continuation of the plan of restructuring the Croatian Railways with the objective of reducing overall budgetary support for this company and simultaneously achieving interaction between investments and restructuring processes;
- Continuation of the process of housing reconstruction in 2007, to be followed by its slowdown;
- Further allocation of expense into the promotion of regional development;
- Keeping pension expense within limits that will ensure a sustainable pension system in the long run;
- Implementation of the reform of the social benefit system aiming to better distribute support for most endangered citizens;
- Promotion of population and family policies;
- Medium-term expense projections by taking into account the effects of the EU pre-accession programmes mostly relating to material expense and investment in nonfinancial assets.

State budget expense projections for the observed medium-term period are based on the three key groups of determinants: (i) projections of total revenue of the state budget are adjusted to projected economic activity; (ii) projected amounts of total expense of the state budget must ensure the continuation of the fiscal consolidation process; (iii) projected expense amounts must ensure smooth implementation of expenses, such as various rights laid down in the law.

Expense

The total expense of the state budget for 2007 is projected to amount to 105.4 billion kuna, which represents a nominal increase of 6.2 billion kuna, compared to the plan for 2006, and a year-on-year increase of 6.2%. For 2008, the state budget total expense is projected at 112.2 billion kuna, a year-on-year increase of 6.4%, i.e. 6.8 billion kuna. The total expense of the state budget in 2009 is projected to amount to 119.2 billion kuna, representing a nominal increase in expense of 7 billion kuna and a year-on-year increase of 6.2%. Expressed as a percentage of GDP, the total expense in the state budget in the observed medium-term period will gradually decrease from 0.5 to 0.7 percentage points, falling from 39.5% of GDP in 2007 to 38.3% in GDP in 2009.

Table 9: Expense of the state budget in 2005-2009

	2005		2006 plan		2007 projection			2008 projection			2009 projection		
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	07/06	000 HRK	% of GDP	08/07	000 HRK	% of GDP	09/08
EXPENSE, GFS 1986 (A+B+C)	90.771.638	39,6	99.215.563	40,1	105.393.486	39,5	106,2	112.157.493	39,0	106,4	119.166.551	38,3	106,2
2 EXPENSE, GFS 2001 (A)	87.857.465	38,4	96.067.349	38,9	101.850.596	38,2	106,0	107.822.731	37,5	105,9	114.222.395	36,7	105,9
21 Compensation of employees	23.182.586	10,1	24.320.073	9,8	26.022.478	9,8	107,0	27.844.051	9,7	107,0	29.793.135	9,6	107,0
22 Use of goods and services	4.951.917	2,2	6.181.883	2,5	6.425.609	2,4	103,9	6.683.801	2,3	104,0	7.113.819	2,3	106,4
24 Interest	4.387.010	1,9	4.568.221	1,8	5.068.375	1,9	110,9	5.470.542	1,9	107,9	5.871.542	1,9	107,3
25 Subsidies	5.248.744	2,3	5.417.206	2,2	5.391.774	2,0	99,5	5.417.679	1,9	100,5	5.391.999	1,7	99,5
26 Grants	3.796.847	1,7	6.640.941	2,7	7.052.373	2,6	106,2	7.576.281	2,6	107,4	8.083.298	2,6	106,7
27 Social benefits	41.358.455	18,1	43.687.515	17,7	46.423.141	17,4	106,3	48.786.623	16,9	105,1	51.295.620	16,5	105,1
28 Other expense	4.931.907	2,2	5.251.511	2,1	5.466.846	2,1	104,1	6.043.753	2,1	110,6	6.672.982	2,1	110,4
31.1 Acquisition of nonfinancial assets (B)	1.828.818	0,8	2.274.090	0,9	2.603.538	1,0	114,5	3.043.075	1,1	116,9	3.450.979	1,1	113,4
Lending minus repayments (C)	1.085.355	0,5	874.124	0,4	939.352	0,4	107,5	1.291.688	0,4	137,5	1.493.178	0,5	115,6

Social benefits

In the structure of the total expense of the state budget, social benefits have the most significant share. The projections of social benefits in the observed medium-term period take into account trends in the most important categories of this position: pensions, healthcare expense, child allowances, maternity benefits, unemployment benefits, war veteran benefits and others.

Pensions

Pension expense will develop in accordance with the trends in the number of pension beneficiaries and the expected growth in gross salaries and the consumer price index. In 2007, total pension expense will rise by 6.3%, in 2008 by 5.3%, and by 5.5% in 2009. In other words, pension expense in 2007 is expected to rise by 1.8 billion kuna compared to the plan for 2006, by 1.6 billion kuna in 2008, and by 1.7 billion kuna in 2009. Of the total amount of pension expense in the observed years, pensions allocated to the division of the Ministry of the Economy, Labour and Entrepreneurship account for 26.5 billion kuna in 2007, 28.1 billion kuna in 2008, and 29.6 billion kuna in 2009. The remaining part of the total amount of pension expense is comprised of the expense for war veteran pensions, including the "translation of war veteran pensions", within the division of the Ministry of Family, Veterans' Affairs and Intergenerational Solidarity. War veteran

pensions will amount to 3.6 billion kuna in 2007, to 3.6 billion kuna in 2008, and to 3.8 billion kuna in 2009.

Healthcare

The implementation of the reform of the healthcare system, which includes higher control of spending of budgetary funds, introduction of main and supplemental lists of medications, introduction of the system of reference prices for medications in accordance with the practice in other European countries, introduction of the system of property census for the purpose of exemption from the co-payment obligation and other measures aimed at upgrading the quality of healthcare services and better targeting, will enable a gradual decrease in the share of expense for healthcare in GDP. Projections indicate that healthcare expense from the state budget will grow from 780 million kuna in 2007 to 970 million kuna in 2009, which will result in a gradual decrease in the total healthcare expense by approximately 0.1 percentage point of GDP, i.e. from 5.7% of GDP in 2007 to 5.5% of GDP in 2009.

Child allowances and maternity benefits

Child allowance, as a measure of pronatalist population policy, will rise by 200 million kuna in 2007 and will amount to 1.7 billion kuna in 2007, 2008 and 2009.

Maternity benefits will be determined by a high level of social sensitivity and the creation of preconditions for future essential labour and social sustainability of the population of the state as a whole. It is planned that maternity benefits will grow by almost 240 million kuna in 2007, by 183 million kuna in 2008, and by 132 million kuna in 2009. In absolute terms, total maternity benefits for 2007 are projected at 1.61 billion kuna, for 2008 at 1.80 billion kuna, and for 2009 at 1.93 billion kuna. Of this total amount, regular maternity leave accounts for 713 million kuna in 2007, 784 million kuna in 2008, and 862 million kuna in 2009. The remaining part relates to additional maternity leave and outfit for newborn babies in an amount of 900 million kuna in 2007, 1.01 billion kuna in 2008, and 1.07 billion kuna in 2009.

According to projections, year-on-year growth in social benefits will move from 6.3% in 2007 to 5.1% in 2009. The total amount of social benefits for 2007 is projected at 46.4 billion kuna, for 2008 at 48.8 billion kuna, and for 2009 at 51.3 billion kuna, representing a decrease in their share in the GDP estimate from 17.4% in 2007 to 16.5% in 2009.

Compensation of employees

Compensation of employees, with a share of approximately 25% in total expense, is the second largest item of the total expense of the state budget. For 2007, this position is projected at 26 billion kuna, for 2008 at 27.8 billion kuna, and for 2009 at 29.8 billion kuna. Projections are based on an annual growth in salaries of 5% taking into account projections of annual growth in consumer price index. In terms of the nominal increase, it is evident that compensation of employees will grow by 1.7 billion kuna in 2007, by 1.8 billion kuna in 2008, and by 1.9 billion kuna in 2009. By the end of 2009 compensation of employees will be reduced to 9.6% of GDP.

Material expense

The state budget material expense, which includes remuneration of expenses for employees, expenses for material and energy, expenses for services and other operating expenses not mentioned elsewhere, is projected on the basis of three main factors. Namely, increase in material expense is due partly to the overall increase in economic activity in the observed period, partly to the effects of the use of the EU pre-accession funds, and partly to the effects of the inclusion of a part of own revenues of budget beneficiaries into the budget. Consequently, annual growth in material expense is projected at a rate of 3.9% (244 million kuna) in 2007, 4% (258 million kuna) in 2008, and 6.4% (430 million kuna) in 2009. In absolute terms, material expense for 2007 is projected at 6.4 billion kuna, for 2008 at 6.7 billion kuna, and for 2009 at 7.1 billion kuna.

Interest

Interest is projected on the basis of future payment obligations falling due and will remain at the level of approximately 1.9% of GDP in the observed medium-term period. If compared to the trend of this position at the annual level, there is a growth of 10.9% in 2007, of 7.9% in 2008, and of 7.3% in 2009. Consequently, interest expense will reach the level of 5.1 billion kuna in 2007, 5.5 billion kuna in 2008, and 5.9 billion kuna in 2009.

Subsidies

The intention is to continue reducing the share of subsidies in GDP in the medium term and to simultaneously increase the share of horizontal subsidies in total subsidies. The projections of state budget subsidies indicate that the share of subsidies in GDP will decrease from 2.0% in 2007 to 1.7% in 2009. Namely, pursuant to the new State Aid Act, the procedure of granting state aid has been harmonised with the EU requirements. In this context, it is planned that subsidies to the Croatian Railways and to the shipbuilding industry will be reduced, whereas subsidies to the agricultural sector will grow by approximately 2% annually. As a result of such trends, total expense for subsidies will remain at the level of about 5.4 billion kuna.

Grants

Developments in total grants are, for the most part, determined by developments in current and capital transfers to general government units, especially to the Croatian Motorways and the Croatian Roads (road charges). Projections for this position indicate annual growth from 6.2% to 6.7% in the reporting medium term. Grants will stand at the level of 7.05 billion kuna in 2007, at 7.58 billion kuna in 2008, and at 8.08 billion kuna in 2009. Due to such developments in state budget total grants, their share in GDP will remain at the level of approximately 2.6% in the medium term.

Other expense

Other expense is projected on the basis of expected trends in the most important categories of current and capital expenses, such as various current grants and capital grants for companies in the public sector. Other expense will maintain the share of 2.1% in GDP in the observed three-year period. In other words, other expense in 2007 will be at the level of 5.5 billion kuna, in 2008 at 6 billion kuna, and in 2009 at 6.7 billion kuna.

Expense for the acquisition of nonfinancial assets

In the medium-term period expense for the acquisition of nonfinancial assets will generate year-on-year growth, due to which it will be possible to maintain the level of this expense position at approximately 1.1% of GDP, which will ensure further public investment activities. In absolute terms, expense for the acquisition of nonfinancial assets will increase from 2.6 billion kuna in 2007 to 3 billion kuna in 2008 and to 3.4 billion kuna in 2009.

Table 10: Distribution of total expense in the state budget in 2007

000 HRK	2006 plan	2007 projection	Share in total expense	Difference 2007 - 2006
Pensions (total)	28.353.070	30.151.110	28,5	1.798.040
of which: pensions to war veterans	3.254.570	3.597.000	3,4	342.430
Compensation of employees	24.320.073	26.022.478	24,6	1.702.405
Material expense	6.181.883	6.425.609	6,1	243.727
Health	14.444.900	15.224.900	14,4	780.000
Agricultural subsidies	2.207.608	2.253.352	2,1	45.743
Interest	4.568.221	5.068.375	4,8	500.154
Croatian Railways - subsidies	1.603.373	1.462.017	1,4	-141.356
Croatian Railways - modernisation	1.248.715	1.540.536	1,5	291.821
Child allowance	1.500.000	1.700.000	1,6	200.000
Maternity benefits	1.373.064	1.612.800	1,5	239.736
Unemployment	877.800	877.800	0,8	0
Homeland war veterans - permanent rights	835.000	868.000	0,8	33.000
Reconstruction	1.344.000	1.131.250	1,1	-212.750
Expense for acquisition of nonfinancial assets	2.274.090	2.603.538	2,5	329.448
Other	8.407.022	8.791.722	8,3	384.699
Total	99.538.819	105.733.486	100,0	6.194.667

3.5.2 *Expense of State Budget by Divisions*

Table 11 gives an estimate of the cap of the financial target for the period 2007-2009 broken down by state budget divisions. The above estimate includes expenses and outlays that are, in accordance with the economic classification, categorised into the classes:

- 3 - operating expenses
- 4 - expenses for acquisition of nonfinancial assets
- groups of the account 51 - expenses for loans granted and
- groups of the account 53 - expenses for shares and other equity

The above groups of expenses and expenditures are financed from the source: general revenue and income, from the source: contributions (only for the Ministry of Health and Social Welfare and for the Ministry of the Economy, Labour and Entrepreneurship) and from the source: special purpose income from borrowings.

Sources of finance: general revenue and income are comprised of revenues from taxes (for the most part), revenues from financial assets, revenues from administrative fees, state administration revenues, revenues from fines, income from financial assets and borrowings and other.

Utilisation purpose for revenues categorised into the source of finance: general revenue and income is not determined, and beneficiaries generate them by administering their business activities.

Expenses planned in the budget of a budget beneficiary from the source of financing: general revenue and income are settled up to the amount of the planned expenses irrespective of revenues collected.

Table 11 does not include an estimate of expenses and expenditures to be financed from other sources, such as own revenues, special purpose revenues, grants, donations and revenues from the sale of nonfinancial assets and insurance claims. The spending rule for these sources of finance depends on the nature of the source of finance itself.

For the purpose of developing fiscally and socially sustainable budget in the coming period with evident further fiscal adjustment on the expense side, the Ministry of Finance proposes that the ministries, central government offices and agencies should follow the proposal of the Ministry of Finance in the field of the established limits by state budget divisions for all sources of finance that affect the level of deficit, which is also a significant precondition for a good preparation of the budget for the period from 2007 to 2009.

Table 11: Total expense limits by divisions of the state budget for these sources of financing: general revenue and income, contributions and special purpose income from borrowing in 2007-2009

000 HRK	2006 plan	2007 projection	2007 / 2006 indeks	2008 projection	2008 / 2007 indeks	2009 projection	2009 / 2008 indeks
TOTAL	95.175.440	100.902.786	106,0	107.377.493	106,4	114.237.787	106,4
010 CROATIAN PARLIAMENT	143.223	250.849	175,1	157.831	62,9	166.218	105,3
015 PRESIDENT OF THE REPUBLIC OF CROATIA	51.798	53.287	102,9	55.719	104,6	58.716	105,4
016 INTELLIGENCE AGENCY	56.525	58.695	103,8	61.524	104,8	64.771	105,3
017 CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	22.454	23.551	104,9	24.879	105,6	26.370	106,0
018 AGENCY FOR THE PROTECTION OF MARKET COMPETITION	9.723	10.136	104,2	10.687	105,4	11.328	106,0
019 COUNTERINTELLIGENCE AGENCY	204.809	213.151	104,1	223.640	104,9	235.545	105,3
020 GOVERNMENT OF THE REPUBLIC OF CROATIA	172.782	178.485	103,3	187.216	104,9	197.738	105,6
021 CENTRAL STATE OFFICE FOR PUBLIC ADMINISTRATION	488.252	506.913	103,8	531.187	104,8	559.066	105,2
022 CENTRAL STATE OFFICE FOR E-CROATIA	29.267	29.779	101,7	31.128	104,5	32.961	105,9
CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND							
COORDINATION OF EU FUNDS	10.367	10.740	103,6	11.334	105,5	12.064	106,4
024 CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT	24.409	25.865	106,0	26.982	104,3	28.541	105,8
025 MINISTRY OF FINANCE	9.812.671	10.619.997	108,2	11.393.837	107,3	12.205.715	107,1
030 MINISTRY OF DEFENCE	4.022.321	4.111.944	102,2	4.329.554	105,3	4.531.112	104,7
040 MINISTRY OF THE INTERIOR	3.464.600	3.665.669	105,8	3.928.855	107,2	4.194.635	106,8
MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND							
INTERGENERATIONAL SOLIDARITY	6.634.546	7.399.427	111,5	7.649.229	103,4	8.028.590	105,0
048 MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	615.089	641.438	104,3	698.853	109,0	741.186	106,1
050 MINISTRY OF ECONOMY, LABOUR AND ENTREPRENEURSHIP	27.731.572	29.209.658	105,3	31.267.636	107,0	33.347.527	106,7
055 MINISTRY OF CULTURE	859.344	881.671	102,6	908.182	103,0	936.952	103,2
060 MINISTRY OF AGRICULTURE, FORESTRY AND WATER MANAGEMENT	2.801.031	2.871.464	102,5	2.953.858	102,9	3.042.384	103,0
065 MINISTRY OF THE SEA, TOURISM, TRANSPORT AND DEVELOPMENT	6.056.404	6.389.492	105,5	6.971.940	109,1	7.562.706	108,5
MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING							
AND CONSTRUCTION	653.444	662.128	101,3	699.333	105,6	740.438	105,9
080 MINISTRY OF SCIENCE, EDUCATION AND SPORTS	9.346.784	9.973.071	106,7	10.659.563	106,9	11.401.559	107,0
081 INSTITUTE FOR EDUCATION OF THE REPUBLIC OF CROATIA	24.742	25.837	104,4	27.360	105,9	29.161	106,6
100 MINISTRY OF HEALTH AND SOCIAL WELFARE	18.301.529	19.354.163	105,8	20.581.076	106,3	21.826.653	106,1
106 CROATIAN ACADEMY OF SCIENCE AND ARTS	59.442	62.124	104,5	65.257	105,0	68.712	105,3
110 MINISTRY OF JUSTICE	2.126.830	2.240.571	105,3	2.397.345	107,0	2.575.819	107,4
115 DEVELOPMENT AND EMPLOYMENT FUND	547.000	488.583	89,3	528.503	108,2	554.728	105,0
116 REGIONAL DEVELOPMENT FUND	110.837	112.317	101,3	118.948	105,9	126.007	105,9
120 OFFICE OF THE OMBUDSMAN	4.691	5.007	106,7	5.375	107,4	5.786	107,6
121 OMBUDSMAN FOR CHILDREN	2.848	3.009	105,6	3.214	106,8	3.451	107,4
122 OMBUDSMAN FOR GENDER EQUALITY	2.526	2.612	103,4	2.735	104,7	2.881	105,3
140 METEOROLOGICAL AND HYDROLOGICAL SERVICE	45.707	47.515	104,0	49.793	104,8	52.379	105,2
150 STATE BUREAU OF METROLOGY	19.352	24.629	127,3	26.094	105,9	27.804	106,6
151 CROATIAN STANDARDS INSTITUTE	9.802	10.859	110,8	11.521	106,1	12.323	107,0
152 CROATIAN ACCREDITATION AGENCY	5.498	6.033	109,7	6.388	105,9	6.822	106,8
156 STATE INTELLECTUAL PROPERTY OFFICE	15.562	20.782	133,5	21.784	104,8	22.945	105,3
160 CENTRAL BUREAU OF STATISTICS	64.354	68.037	105,7	72.067	105,9	76.802	106,6
175 CROATIAN HYDROGRAPHIC INSTITUTE	8.200	8.595	104,8	9.022	105,0	9.476	105,0
180 STATE GEODETIC ADMINISTRATION	216.332	222.077	102,7	232.301	104,6	245.180	105,5
185 STATE AUDIT OFFICE	45.772	48.423	105,8	51.569	106,5	55.084	106,8
STATE COMMISSION FOR CONTROL OF PUBLIC PROCUREMENT							
PROCEDURES	5.297	5.476	103,4	5.736	104,7	6.046	105,4
220 CROATIAN DEMINING CENTRE	199.887	201.920	101,0	210.902	104,4	223.855	106,1
225 CROATIAN STATE INSPECTORATE	120.031	127.954	106,6	137.162	107,2	147.575	107,6
230 COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	627	648	103,3	678	104,7	714	105,4
235 CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	4.950	5.144	103,9	5.393	104,8	5.677	105,3
240 OFFICE OF THE NATIONAL SECURITY COUNCILS	6.668	6.928	103,9	7.266	104,9	7.653	105,3
250 CROATIAN PERSONAL DATA PROTECTION AGENCY	6.626	6.945	104,8	7.360	106,0	7.839	106,5
255 CROATIAN INSTITUTE FOR RADIATION PROTECTION	2.719	2.815	103,5	2.972	105,5	3.165	106,5
260 STATE INSTITUTE FOR NUCLEAR SAFETY	6.196	6.374	102,9	6.705	105,2	7.128	106,3

Table 12: Limits on expense for employees by divisions of state budget for sources of financing: general revenue and income, contributions and special purpose income from borrowing for the period 2007 - 2009

000 HRK	2006 plan	2007 projection	2007 / 2006 indeks	2008 projection	2008 / 2007 indeks	2009 projection	2009 / 2008 indeks
TOTAL	17.427.694	18.457.905	105,9	19.683.027	106,6	20.988.855	106,6
010 CROATIAN PARLIAMENT	95.976	100.775	105,0	107.829	107,0	113.220	105,0
015 PRESIDENT OF THE REPUBLIC OF CROATIA	26.750	28.088	105,0	29.492	105,0	30.966	105,0
016 INTELLIGENCE AGENCY	38.777	40.716	105,0	42.752	105,0	44.889	105,0
017 CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	17.793	18.861	106,0	19.992	106,0	21.192	106,0
018 AGENCY FOR THE PROTECTION OF MARKET COMPETITION	6.753	7.158	106,0	7.588	106,0	8.043	106,0
019 COUNTERINTELLIGENCE AGENCY	136.782	143.621	105,0	150.802	105,0	158.342	105,0
020 GOVERNMENT OF THE REPUBLIC OF CROATIA	57.563	60.441	105,0	63.463	105,0	66.636	105,0
021 CENTRAL STATE OFFICE FOR PUBLIC ADMINISTRATION	359.255	377.218	105,0	396.079	105,0	415.883	105,0
022 CENTRAL STATE OFFICE FOR E-CROATIA	3.009	3.159	105,0	3.317	105,0	3.483	105,0
CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND							
023 COORDINATION OF EU FUNDS	4.445	4.756	107,0	5.089	107,0	5.445	107,0
024 CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT	5.177	5.436	105,0	5.708	105,0	5.993	105,0
025 MINISTRY OF FINANCE	774.622	828.846	107,0	886.865	107,0	948.945	107,0
030 MINISTRY OF DEFENCE	2.450.001	2.450.001	100,0	2.572.501	105,0	2.701.126	105,0
040 MINISTRY OF THE INTERIOR	2.668.531	2.855.328	107,0	3.055.201	107,0	3.269.065	107,0
MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND							
046 INTERGENERATIONAL SOLIDARITY	23.752	41.531	174,9	44.438	107,0	47.549	107,0
048 MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	343.207	367.231	107,0	392.938	107,0	420.443	107,0
050 MINISTRY OF ECONOMY, LABOUR AND ENTREPRENEURSHIP	40.936	42.983	105,0	45.132	105,0	47.389	105,0
055 MINISTRY OF CULTURE	198.035	207.937	105,0	218.334	105,0	229.250	105,0
060 MINISTRY OF AGRICULTURE, FORESTRY AND WATER MANAGEMENT	104.268	109.481	105,0	114.955	105,0	120.703	105,0
065 MINISTRY OF THE SEA, TOURISM, TRANSPORT AND DEVELOPMENT	98.646	103.578	105,0	108.757	105,0	114.195	105,0
MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING							
075 AND CONSTRUCTION	75.170	78.929	105,0	82.875	105,0	87.019	105,0
080 MINISTRY OF SCIENCE, EDUCATION AND SPORTS	7.323.270	7.835.899	107,0	8.384.412	107,0	8.971.321	107,0
081 INSTITUTE FOR EDUCATION OF THE REPUBLIC OF CROATIA	14.086	15.072	107,0	16.127	107,0	17.256	107,0
100 MINISTRY OF HEALTH AND SOCIAL WELFARE	615.296	652.214	106,0	691.347	106,0	732.827	106,0
106 CROATIAN ACADEMY OF SCIENCE AND ARTS	41.464	43.537	105,0	45.714	105,0	48.000	105,0
110 MINISTRY OF JUSTICE	1.509.019	1.614.650	107,0	1.743.822	108,0	1.883.328	108,0
115 DEVELOPMENT AND EMPLOYMENT FUND	2.399	2.519	105,0	2.645	105,0	2.777	105,0
116 REGIONAL DEVELOPMENT FUND	1.823	1.914	105,0	2.010	105,0	2.110	105,0
120 OFFICE OF THE OMBUDSMAN	3.779	4.081	108,0	4.408	108,0	4.760	108,0
121 OMBUDSMAN FOR CHILDREN	1.903	2.055	108,0	2.220	108,0	2.397	108,0
122 OMBUDSMAN FOR GENDER EQUALITY	1.600	1.680	105,0	1.764	105,0	1.852	105,0
140 METEOROLOGICAL AND HYDROLOGICAL SERVICE	35.733	37.520	105,0	39.396	105,0	41.365	105,0
150 STATE BUREAU OF METROLOGY	13.078	13.993	107,0	14.973	107,0	16.021	107,0
151 CROATIAN STANDARDS INSTITUTE	4.793	5.176	108,0	5.591	108,0	6.038	108,0
152 CROATIAN ACCREDITATION AGENCY	2.260	2.441	108,0	2.636	108,0	2.847	108,0
156 STATE INTELLECTUAL PROPERTY OFFICE	12.820	13.461	105,0	14.134	105,0	14.841	105,0
160 CENTRAL BUREAU OF STATISTICS	36.814	39.391	107,0	42.148	107,0	45.099	107,0
175 CROATIAN HYDROGRAPHIC INSTITUTE	7.900	8.295	105,0	8.710	105,0	9.145	105,0
180 STATE GEODETIC ADMINISTRATION	95.048	99.800	105,0	104.790	105,0	110.030	105,0
185 STATE AUDIT OFFICE	37.000	39.590	107,0	42.361	107,0	45.327	107,0
STATE COMMISSION FOR CONTROL OF PUBLIC PROCUREMENT							
196 PROCEDURES	3.121	3.277	105,0	3.441	105,0	3.613	105,0
220 CROATIAN DEMINING CENTRE	26.505	28.360	107,0	30.346	107,0	32.470	107,0
225 CROATIAN STATE INSPECTORATE	93.702	101.198	108,0	109.294	108,0	118.038	108,0
230 COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	388	407	105,0	428	105,0	449	105,0
235 CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	3.503	3.678	105,0	3.862	105,0	4.055	105,0
240 OFFICE FOR NATIONAL SECURITY COUNCILS	4.354	4.572	105,0	4.800	105,0	5.040	105,0
250 CROATIAN PERSONAL DANA PROTECTION AGENCY	3.313	3.545	107,0	3.793	107,0	4.059	107,0
255 STATE INSTITUTE FOR RADIATION PROTECTION	1.297	1.388	107,0	1.485	107,0	1.589	107,0
260 STATE INSTITUTE FOR NUCLEAR SAFETY	1.978	2.116	107,0	2.265	107,0	2.423	107,0

Table 13: Limits of material expense by divisions of the state budget for these sources of financing: general revenue and income, contributions and special purpose income from borrowing for the period 2007-2009

000 HRK	2006 plan	2007 projection	2007 / 2006 indeks	2008 projection	2008 / 2007 indeks	2009 projection	2009 / 2008 indeks
TOTAL	5.940.590	6.141.747	103,4	6.311.124	102,8	6.659.791	105,5
010 CROATIAN PARLIAMENT	36.746	138.951	378,1	38.216	27,5	40.509	106,0
015 PRESIDENT OF THE REPUBLIC OF CROATIA	21.652	21.652	100,0	22.518	104,0	23.869	106,0
016 INTELLIGENCE AGENCY	13.407	13.407	100,0	13.943	104,0	14.780	106,0
017 CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	4.148	4.148	100,0	4.314	104,0	4.573	106,0
018 AGENCY FOR THE PROTECTION OF MARKET COMPETITION	2.834	2.834	100,0	2.947	104,0	3.124	106,0
019 COUNTERINTELLIGENCE AGENCY	42.877	42.877	100,0	44.592	104,0	47.268	106,0
020 GOVERNMENT OF THE REPUBLIC OF CROATIA	65.065	65.065	100,0	67.668	104,0	71.728	106,0
021 CENTRAL STATE OFFICE FOR PUBLIC ADMINISTRATION	116.842	116.842	100,0	121.516	104,0	128.807	106,0
022 CENTRAL STATE OFFICE FOR E-CROATIA	20.211	20.211	100,0	21.019	104,0	22.281	106,0
CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND							
023 COORDINATION OF EU FUNDS	4.857	4.857	100,0	5.051	104,0	5.354	106,0
024 CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT	18.876	18.876	100,0	19.631	104,0	20.809	106,0
025 MINISTRY OF FINANCE	769.003	769.003	100,0	799.763	104,0	847.749	106,0
030 MINISTRY OF DEFENCE	1.517.077	1.606.077	105,9	1.700.320	105,9	1.772.339	104,2
040 MINISTRY OF THE INTERIOR	548.422	548.422	100,0	570.359	104,0	604.580	106,0
MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND							
046 INTERGENERATIONAL SOLIDARITY	56.578	66.530	117,6	69.192	104,0	73.343	106,0
048 MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	225.925	225.925	100,0	234.962	104,0	249.060	106,0
050 MINISTRY OF ECONOMY, LABOUR AND ENTREPRENEURSHIP	163.384	163.384	100,0	169.919	104,0	180.115	106,0
055 MINISTRY OF CULTURE	62.366	62.366	100,0	64.861	104,0	68.752	106,0
060 MINISTRY OF AGRICULTURE, FORESTRY AND WATER MANAGEMENT	162.490	162.490	100,0	168.990	104,0	179.129	106,0
065 MINISTRY OF THE SEA, TOURISM, TRANSPORT AND DEVELOPMENT	117.811	117.811	100,0	122.523	104,0	129.875	106,0
MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING							
075 AND CONSTRUCTION	85.323	85.323	100,0	88.736	104,0	94.060	106,0
080 MINISTRY OF SCIENCE, EDUCATION AND SPORTS	738.196	738.196	100,0	767.724	104,0	813.787	106,0
081 INSTITUTE FOR EDUCATION OF THE REPUBLIC OF CROATIA	8.827	8.827	100,0	9.180	104,0	9.731	106,0
100 MINISTRY OF HEALTH AND SOCIAL WELFARE	267.253	267.253	100,0	277.943	104,0	294.620	106,0
106 CROATIAN ACADEMY OF SCIENCE AND ARTS	7.787	7.787	100,0	8.098	104,0	8.584	106,0
110 MINISTRY OF JUSTICE	485.615	485.615	100,0	505.040	104,0	535.342	106,0
115 DEVELOPMENT AND EMPLOYMENT FUND	2.834	2.834	100,0	2.947	104,0	3.124	106,0
116 REGIONAL DEVELOPMENT FUND	1.573	1.573	100,0	1.636	104,0	1.734	106,0
120 OFFICE OF THE OMBUDSMAN	679	679	100,0	706	104,0	749	106,0
121 OMBUDSMAN FOR CHILDREN	802	802	100,0	834	104,0	884	106,0
122 OMBUDSMAN FOR GENDER EQUALITY	820	820	100,0	853	104,0	904	106,0
140 METEOROLOGICAL AND HYDROLOGICAL SERVICE	9.493	9.493	100,0	9.873	104,0	10.465	106,0
150 STATE BUREAU OF METROLOGY	7.381	7.381	100,0	7.676	104,0	8.137	106,0
151 CROATIAN STANDARDS INSTITUTE	4.595	4.595	100,0	4.779	104,0	5.066	106,0
152 CROATIAN ACCREDITATION AGENCY	2.667	2.667	100,0	2.774	104,0	2.940	106,0
156 STATE INTELLECTUAL PROPERTY OFFICE	5.300	5.300	100,0	5.512	104,0	5.843	106,0
160 CENTRAL BUREAU OF STATISTICS	21.867	21.867	100,0	22.742	104,0	24.106	106,0
175 CROATIAN HYDROGRAPHIC INSTITUTE	300	300	100,0	312	104,0	331	106,0
180 STATE GEODETIC ADMINISTRATION	104.564	104.564	100,0	108.747	104,0	115.271	106,0
185 STATE AUDIT OFFICE	7.645	7.645	100,0	7.951	104,0	8.428	106,0
STATE COMMISSION FOR CONTROL OF PUBLIC PROCUREMENT							
196 PROCEDURES	1.780	1.780	100,0	1.851	104,0	1.962	106,0
220 CROATIAN DEMINING CENTRE	170.601	170.601	100,0	177.425	104,0	188.071	106,0
225 CROATIAN STATE INSPECTORATE	24.468	24.468	100,0	25.447	104,0	26.974	106,0
230 COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	216	216	100,0	225	104,0	238	106,0
235 CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	1.126	1.126	100,0	1.171	104,0	1.241	106,0
240 OFFICE FOR NATIONAL SECURITY COUNCILS	1.604	1.604	100,0	1.668	104,0	1.768	106,0
250 CROATIAN PERSONAL DATA PROTECTION AGENCY	1.851	1.851	100,0	1.925	104,0	2.041	106,0
255 STATE INSTITUTE FOR RADIATION PROTECTION	1.324	1.324	100,0	1.377	104,0	1.460	106,0
260 STATE INSTITUTE FOR NUCLEAR SAFETY	3.528	3.528	100,0	3.669	104,0	3.889	106,0

Table 14: Limits of benefits for citizens and households by divisions of the state budget for the following sources of financing: general revenue and income, contributions and special purpose income from borrowing for the period from 2007-2009

000 HRK	2006 plan	2007 projection	2007 / 2006 index	2008 projection	2008 / 2007 indeks	2009 projection	2009 / 2008 indeks
TOTAL	49.584.908	52.696.919	106,3	55.856.290	106,0	59.151.371	105,9
010 CROATIAN PARLIAMENT	120	124	103,0	130	105,0	136	105,0
015 PRESIDENT OF THE REPUBLIC OF CROATIA	20	21	103,0	22	105,0	23	105,0
016 INTELLIGENCE AGENCY	658	678	103,0	712	105,0	747	105,0
017 CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA							
018 AGENCY FOR THE PROTECTION OF MARKET COMPETITION							
019 COUNTERINTELLIGENCE AGENCY		0					
020 GOVERNMENT OF THE REPUBLIC OF CROATIA	5.641	5.810	103,0	6.101	105,0	6.406	105,0
021 CENTRAL STATE OFFICE FOR PUBLIC ADMINISTRATION							
022 CENTRAL STATE OFFICE FOR E-CROATIA	25	26	103,0	27	105,0	28	105,0
CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND							
023 COORDINATION OF EU FUNDS	20	21	103,0	22	105,0	23	105,0
024 CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT							
025 MINISTRY OF FINANCE							
030 MINISTRY OF DEFENCE	10.484	10.799	103,0	11.338	105,0	11.905	105,0
040 MINISTRY OF THE INTERIOR	4.349	4.479	103,0	4.703	105,0	4.939	105,0
MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND							
046 INTERGENERATIONAL SOLIDARITY	6.402.145	7.127.638	111,3	7.362.850	103,3	7.723.629	104,9
048 MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	10.528	10.844	103,0	11.386	105,0	11.955	105,0
050 MINISTRY OF ECONOMY, LABOUR AND ENTREPRENEURSHIP	26.173.264	27.578.874	105,4	29.453.512	106,8	31.285.817	106,2
055 MINISTRY OF CULTURE	45.266	46.624	103,0	48.955	105,0	51.403	105,0
060 MINISTRY OF AGRICULTURE, FORESTRY AND WATER MANAGEMENT	40	41	103,0	43	105,0	45	105,0
065 MINISTRY OF THE SEA, TOURISM, TRANSPORT AND DEVELOPMENT	192.240	198.007	103,0	207.908	105,0	218.303	105,0
MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING							
075 AND CONSTRUCTION							
080 MINISTRY OF SCIENCE, EDUCATION AND SPORTS	92.004	94.764	103,0	99.502	105,0	104.477	105,0
081 INSTITUTE FOR EDUCATION OF THE REPUBLIC OF CROATIA							
100 MINISTRY OF HEALTH AND SOCIAL WELFARE	16.623.458	17.592.785	105,8	18.622.425	105,9	19.703.546	105,8
106 CROATIAN ACADEMY OF SCIENCE AND ARTS							
110 MINISTRY OF JUSTICE	4.107	4.230	103,0	4.442	105,0	4.664	105,0
115 DEVELOPMENT AND EMPLOYMENT FUND	19.750	20.343	103,0	21.360	105,0	22.428	105,0
116 REGIONAL DEVELOPMENT FUND							
120 OFFICE OF THE OMBUDSMAN							
121 OMBUDSMAN FOR CHILDREN							
122 OMBUDSMAN FOR GENDER EQUALITY							
140 METEOROLOGICAL AND HYDROLOGICAL SERVICE							
150 STATE BUREAU OF METROLOGY							
151 CROATIAN STANDARDS INSTITUTE							
152 CROATIAN ACCREDITATION AGENCY							
156 STATE INTELLECTUAL PROPERTY OFFICE							
160 CENTRAL BUREAU OF STATISTICS	475	489	103,0	514	105,0	539	105,0
175 CROATIAN HYDROGRAPHIC INSTITUTE							
180 STATE GEODETIC ADMINISTRATION							
185 STATE AUDIT OFFICE	200	206	103,0	216	105,0	227	105,0
STATE COMMISSION FOR CONTROL OF PUBLIC PROCUREMENT							
196 PROCEDURES							
220 CROATIAN DEMINING CENTRE	100	103	103,0	108	105,0	114	105,0
225 CROATIAN STATE INSPECTORATE							
230 COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES							
235 CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	14	14	103,0	15	105,0	16	105,0
240 OFFICE FOR NATIONAL SECURITY COUNCILS							
250 CROATIAN PERSONAL DATA PROTECTION AGENCY							
255 STATE INSTITUTE FOR RADIATION PROTECTION							
260 STATE INSTITUTE FOR NUCLEAR SAFETY							

Table 15: Limits of other expense and outlays by divisions of the state budget for the sources of financing: general revenue and income, contributions and special purpose income from borrowing for 2007-2009

000 HRK	2006 plan	2007 projection	2007 / 2006 index	2008 projection	2008 / 2007 indeks	2009 projection	2009 / 2008 indeks
TOTAL	22.273.555	23.606.214	106,0	25.527.053	108,1	27.437.769	107,5
010 CROATIAN PARLIAMENT	10.381	11.000	106,0	11.657	106,0	12.352	106,0
015 PRESIDENT OF THE REPUBLIC OF CROATIA	3.376	3.527	104,5	3.688	104,5	3.858	104,6
016 INTELLIGENCE AGENCY	3.683	3.894	105,7	4.118	105,7	4.355	105,8
017 CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	513	542	105,6	573	105,7	605	105,7
018 AGENCY FOR THE PROTECTION OF MARKET COMPETITION	136	144	105,6	152	105,7	160	105,7
019 COUNTERINTELLIGENCE AGENCY	25.150	26.653	106,0	28.246	106,0	29.935	106,0
020 GOVERNMENT OF THE REPUBLIC OF CROATIA	44.513	47.169	106,0	49.984	106,0	52.968	106,0
021 CENTRAL STATE OFFICE FOR PUBLIC ADMINISTRATION	12.155	12.853	105,7	13.593	105,8	14.377	105,8
022 CENTRAL STATE OFFICE FOR E-CROATIA	6.022	6.382	106,0	6.764	106,0	7.169	106,0
CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND							
023 COORDINATION OF EU FUNDS	1.045	1.107	105,9	1.172	105,9	1.241	105,9
024 CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT	1.495	1.553	103,9	1.643	105,8	1.739	105,8
025 MINISTRY OF FINANCE	8.302.381	9.022.148	108,7	9.707.209	107,6	10.409.021	107,2
030 MINISTRY OF DEFENCE	44.759	45.068	100,7	45.395	100,7	45.741	100,8
040 MINISTRY OF THE INTERIOR	243.298	257.440	105,8	298.592	116,0	316.051	105,8
MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND							
046 INTERGENERATIONAL SOLIDARITY	152.071	163.728	107,7	172.750	105,5	184.069	106,6
048 MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	35.429	37.438	105,7	59.568	159,1	59.728	100,3
050 MINISTRY OF ECONOMY, LABOUR AND ENTREPRENEURSHIP	1.353.988	1.424.417	105,2	1.599.072	112,3	1.834.207	114,7
055 MINISTRY OF CULTURE	553.677	564.744	102,0	576.032	102,0	587.546	102,0
060 MINISTRY OF AGRICULTURE, FORESTRY AND WATER MANAGEMENT	2.534.233	2.599.451	102,6	2.669.870	102,7	2.742.506	102,7
065 MINISTRY OF THE SEA, TOURISM, TRANSPORT AND DEVELOPMENT	5.651.707	5.970.095	105,6	6.532.752	109,4	7.100.333	108,7
MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING							
075 AND CONSTRUCTION	492.951	497.876	101,0	527.722	106,0	559.359	106,0
080 MINISTRY OF SCIENCE, EDUCATION AND SPORTS	1.193.314	1.304.212	109,3	1.407.925	108,0	1.511.974	107,4
081 INSTITUTE FOR EDUCATION OF THE REPUBLIC OF CROATIA	1.829	1.938	105,9	2.053	105,9	2.175	105,9
100 MINISTRY OF HEALTH AND SOCIAL WELFARE	797.146	841.911	105,6	989.362	117,5	1.095.660	110,7
106 CROATIAN ACADEMY OF SCIENCE AND ARTS	10.191	10.799	106,0	11.444	106,0	12.128	106,0
110 MINISTRY OF JUSTICE	128.561	136.076	105,8	144.042	105,9	152.485	105,9
115 DEVELOPMENT AND EMPLOYMENT FUND	522.017	462.887	88,7	501.551	108,4	526.399	105,0
116 REGIONAL DEVELOPMENT FUND	107.441	108.830	101,3	115.302	105,9	122.163	106,0
120 OFFICE OF THE OMBUDSMAN	233	247	105,9	261	105,9	277	105,9
121 OMBUDSMAN FOR CHILDREN	143	151	105,8	160	105,8	169	105,8
122 OMBUDSMAN FOR GENDER EQUALITY	106	112	105,7	118	105,7	125	105,7
140 METEOROLOGICAL AND HYDROLOGICAL SERVICE	481	502	104,4	524	104,4	548	104,5
150 STATE BUREAU OF METROLOGY	3.133	3.255	103,9	3.445	105,8	3.647	105,9
151 CROATIAN STANDARDS INSTITUTE	1.046	1.087	104,0	1.152	105,9	1.219	105,9
152 CROATIAN ACCREDITATION AGENCY	875	925	105,7	978	105,7	1.035	105,8
156 STATE INTELLECTUAL PROPERTY OFFICE	1.946	2.021	103,9	2.138	105,8	2.262	105,8
160 CENTRAL BUREAU OF STATISTICS	5.938	6.290	105,9	6.663	105,9	7.058	105,9
175 CROATIAN HYDROGRAPHIC INSTITUTE		0		0		0	
180 STATE GEODETIC ADMINISTRATION	16.720	17.712	105,9	18.764	105,9	19.878	105,9
185 STATE AUDIT OFFICE	927	982	106,0	1.041	106,0	1.103	106,0
STATE COMMISSION FOR CONTROL OF PUBLIC PROCUREMENT							
196 PROCEDURES	396	419	105,9	444	105,9	470	105,9
220 CROATIAN DEMINING CENTRE	2.698	2.856	105,9	3.023	105,9	3.201	105,9
225 CROATIAN STATE INSPECTORATE	2.161	2.287	105,9	2.422	105,9	2.564	105,9
230 COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	23	24	105,5	26	105,5	27	105,5
235 CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	307	325	105,9	344	105,9	365	105,9
240 OFFICE FOR NATIONAL SECURITY COUNCILS	710	752	106,0	797	106,0	845	106,0
250 CROATIAN PERSONAL DATA PROTECTION AGENCY	1.462	1.549	106,0	1.642	106,0	1.740	106,0
255 STATE INSTITUTE FOR RADIATION PROTECTION	98	104	105,8	110	105,8	116	105,8
260 STATE INSTITUTE FOR NUCLEAR SAFETY	690	730	105,7	772	105,8	816	105,8

Expense and outlays the state budget that are financed from the source of general revenues and income, contributions and special purpose income from borrowing represent the largest part of the total expense and outlays of the state budget. The remaining part of the expense and outlays is financed from other sources of financing.

Table 16: Estimate of expense and outlays by sources of financing for the period from 2007-2009

000 HRK	2006 plan	2007 projection	2008 projection	2009 projection
General revenue and income; Contributions; Special purpose income from borrowing	95.175.440	100.902.786	107.377.493	114.237.787
Other sources	4.363.379	4.830.701	4.980.000	5.078.764
Total	99.538.819	105.733.486	112.357.493	119.316.551

3.5.3 Determinants of Expense of Extrabudgetary Funds and Agencies for the Period 2007-2009

The total expense of extrabudgetary funds and agencies in the observed medium-term period will go down from the level of 4.4% of GDP in 2007 to 3.7% of GDP in 2009, which is a direct effect of the gradual decrease of capital expense, especially those oriented on the road infrastructure. A further decrease of the deficit of the Croatian Motorways by 0.3 percentage points is planned to take place before the end of 2009. The deficit of the Croatian Roads will remain at the level of 0.3% of GDP. Projects in the field of water management and environment protection will also affect expenses in the coming period. Among other expense, one should mention material expense (share of about 1.1% of GDP), compensation of employees (share of 0.5% of GDP) and interest (share of 0.3% of GDP). Such development of expense will result in a decrease of fiscal deficit of extrabudgetary funds and agencies from 0.8% of GDP, as expected in 2007, to 0.4% of GDP in 2009.

Table 17: Key items of expense of extrabudgetary funds and agencies

% of GDP	2005	2006 plan	2007 proj.	2008 proj.	2009 proj.
Total expense	4,8	4,9	4,4	4,1	3,7
compensation of employees	0,5	0,5	0,5	0,5	0,5
material expense	0,9	1,2	1,2	1,1	1,1
interest	0,3	0,3	0,3	0,3	0,3
investments in roads and motorways	2,2	1,6	1,4	1,2	0,9
investments in waters	0,3	0,4	0,3	0,3	0,3
expense for environment protection	0,1	0,1	0,1	0,1	0,1
other	0,5	0,7	0,6	0,5	0,5

3.5.4 Determinants of Expense of Local and Regional Self-Government Units for the Period 2007-2009

The total expense of local and regional self-government units will be reduced by 0.1 percentage point of GDP, i.e. it will go down from 5.4% of GDP in 2007 to 5.3% of GDP in 2009. Construction projects and investments into local infrastructure will remain major determinants in this respect. Likewise, a significant share of expense will consist of material expense (1.5% of GDP), compensation of employees (1% of GDP) and subsidies to a lesser extent (0.3% of GDP) and social benefits (0.2% of GDP). The medium-term deficit of local units will retain its level of around 0.3% of GDP.

Table 18: Key items of expense of local and regional self-government units

% of GDP	2005	2006 plan	2007 proj.	2008 proj.	2009 proj.
Total expense	5,6	5,4	5,4	5,3	5,3
compensation of employees	1,0	1,0	1,0	1,0	0,9
material expense	1,6	1,6	1,6	1,5	1,5
subsidies	0,3	0,3	0,3	0,3	0,3
social benefits	0,2	0,2	0,2	0,2	0,2
expense for investments	1,6	1,6	1,6	1,6	1,7
other	0,8	0,7	0,7	0,7	0,7

Note: coverage of 53 largest units (32 cities, 20 counties and the City of Zagreb)

3.6 Consolidated General Government in the Period from 2007-2009

Further decrease of general government deficit is planned in the period from 2007 to 2009. It is the intention of the state to reach the level of fiscal deficit of 2.8% of nominal value of GDP before the end of 2007, with the state budget generating a deficit of 1.7% of GDP, extrabudgetary funds and agencies 0.8% of GDP and local and regional self-government units an estimated 0.3% of GDP. The main determinants of these projections have already been described, but it should be reiterated that these are positive economic trends and successful implementation of numerous structural reforms. This will also result in a significant growth of total revenue and a decrease of the share of total public spending in the value of GDP. Accordingly, total revenue will reach the level of 44.2% of GDP, and total expense the level of 47% of GDP.

Table 19: Consolidated General Government, GFS 2001

	2005		2006 estimate		2007 projection			2008 projection			2009 projection		
	000 HRK	% of GDI	000 HRK	% of GDI	000 HRK	% of GDI	07/06	000 HRK	% of GDI	08/07	000 HRK	% of GDI	09/08
1 REVENUE	102.868.440	44,9	111.244.620	45,0	117.868.416	44,2	106,0	125.456.988	43,6	106,4	133.118.432	42,7	106,1
11 Taxes	60.513.017	26,4	65.528.980	26,5	69.837.357	26,2	106,6	74.316.780	25,8	106,4	78.937.742	25,3	106,2
111 Taxes on income, profits, and capital gains	13.396.910	5,8	14.802.951	6,0	15.925.731	6,0	107,6	17.141.263	6,0	107,6	18.404.987	5,9	107,4
1111 Payable by individuals	7.824.668	3,4	8.372.550	3,4	8.984.140	3,4	107,3	9.655.270	3,4	107,5	10.321.881	3,3	106,9
1112 Payable by corporations and other enterprises	5.572.242	2,4	6.430.400	2,6	6.941.591	2,6	107,9	7.485.992	2,6	107,8	8.083.106	2,6	108,0
113 Taxes on property	763.635	0,3	845.427	0,3	911.730	0,3	107,8	984.454	0,3	108,0	1.065.006	0,3	108,2
114 Taxes on goods and services	44.406.121	19,4	47.713.856	19,3	50.836.619	19,1	106,5	54.028.067	18,8	106,3	57.301.637	18,4	106,1
1141 General taxes on goods and services	32.446.853	14,2	35.052.535	14,2	37.567.499	14,1	107,2	40.113.883	13,9	106,8	42.701.286	13,7	106,5
11411 Value-added tax	32.243.372	14,1	34.830.264	14,1	37.324.647	14,0	107,2	39.848.460	13,8	106,8	42.411.062	13,6	106,4
1142 Excises	10.930.762	4,8	11.539.801	4,7	12.059.644	4,5	104,5	12.608.235	4,4	104,5	13.187.543	4,2	104,6
115 Taxes on international trade and transactions	1.562.930	0,7	1.562.367	0,6	1.531.120	0,6	98,0	1.500.498	0,5	98,0	1.470.488	0,5	98,0
116 Other taxes	383.421	0,2	604.379	0,2	632.156	0,2	104,6	662.499	0,2	104,8	695.624	0,2	105,0
12 Social contributions	31.301.340	13,7	33.496.961	13,5	35.927.454	13,5	107,3	38.611.292	13,4	107,5	41.277.062	13,3	106,9
13 Grants	28.149	0,0	534.027	0,2	705.102	0,3	132,0	680.921	0,2	96,6	571.172	0,2	83,9
14 Other revenue	11.025.934	4,8	11.684.653	4,7	11.398.503	4,3	97,6	11.847.994	4,1	103,9	12.332.456	4,0	104,1
2 EXPENSE	100.932.671	44,1	107.561.280	43,5	114.043.763	42,8	106,0	120.769.752	41,9	105,9	128.022.663	41,1	106,0
21 Compensation of employees	26.670.218	11,6	28.113.262	11,4	30.063.221	11,3	106,9	31.952.028	11,1	106,3	34.111.908	11,0	106,8
22 Use of goods and services	11.326.872	4,9	13.171.540	5,3	13.648.746	5,1	103,6	14.277.014	5,0	104,6	15.108.805	4,9	105,8
24 Interest	5.105.449	2,2	5.453.577	2,2	6.065.858	2,3	111,2	6.557.003	2,3	108,1	7.041.321	2,3	107,4
25 Subsidies	6.000.064	2,6	6.276.786	2,5	6.318.802	2,4	100,7	6.418.943	2,2	101,6	6.474.906	2,1	100,9
26 Grants	1.390.464	0,6	1.438.152	0,6	1.401.827	0,5	97,5	1.808.895	0,6	129,0	2.078.168	0,7	114,9
27 Social benefits	42.468.952	18,5	44.847.697	18,1	47.745.074	17,9	106,5	50.158.309	17,4	105,1	52.742.599	16,9	105,2
28 Other expense	7.970.652	3,5	8.260.267	3,3	8.800.235	3,3	106,5	9.597.559	3,3	109,1	10.464.955	3,4	109,0
31.1 Acquisition on nonfinancial assets	10.064.644	4,4	10.004.283	4,0	10.092.699	3,8	100,9	10.643.213	3,7	105,5	10.716.042	3,4	100,7
Lending minus repayments	1.172.612	0,5	1.007.088	0,4	1.090.870	0,4	108,3	1.480.138	0,5	135,7	1.717.689	0,6	116,0
DEFICIT	-9.301.487	-4,1	-7.328.030	-3,0	-7.358.916	-2,8		-7.436.116	-2,6		-7.337.962	-2,4	

By means of further relaxation of the tax burden, efficient tax collection and containing grey economy, the share of total revenue of consolidated general government will decline from 43.6% of GDP in 2008 to 42.7% of GDP in 2009. On the other hand, total expense will record a decrease from 46.2% of GDP in 2008 to 45.1% in 2009. This way in 2008 and in 2009 the deficit of consolidated general government will reach the level of 2.6% of GDP and 2.4% of GDP respectively.

Table 20: Revenue, expense and deficit of consolidated general government in 2005–2009

000 HRK	2005	2006 estimate	projections		
			2007	2008	2009
State budget					
Revenue (minus income from capital) % of GDP	85.456.310 37,3	94.894.623 38,4	100.796.402 37,8	107.457.276 37,3	114.151.308 36,7
Expense (GFS 1986) % of GDP	91.216.655 39,8	99.215.563 40,1	105.393.486 39,5	112.157.493 39,0	119.166.551 38,3
Deficit / surplus (GFS 1986) % of GDP	-5.760.344 -2,5	-4.320.940 -1,7	-4.597.084 -1,7	-4.700.217 -1,6	-5.015.243 -1,6
Extrabudgetary funds and agencies					
Revenue (minus income from capital) % of GDP	8.099.139 3,5	9.781.914 4,0	9.800.259 3,7	9.953.260 3,5	10.235.239 3,3
Expense (GFS 1986) % of GDP	10.967.710 4,8	12.086.439 4,9	11.801.914 4,4	11.818.490 4,1	11.496.864 3,7
Deficit / surplus (GFS 1986) % of GDP	-2.868.571 -1,3	-2.304.525 -0,9	-2.001.655 -0,8	-1.865.230 -0,6	-1.261.625 -0,4
Local government					
Revenue (minus income from capital) % of GDP	12.162.401 5,3	12.767.764 5,2	13.603.888 5,1	14.513.778 5,0	15.470.127 5,0
Expense (GFS 1986) % of GDP	12.844.973 5,6	13.470.330 5,4	14.364.066 5,4	15.384.446 5,3	16.531.221 5,3
Deficit / surplus (GFS 1986) % of GDP	-682.572 -0,3	-702.566 -0,3	-760.177 -0,3	-870.668 -0,3	-1.061.094 -0,3
Consolidated general government					
Revenue (minus income from capital) % of GDP	102.868.440 44,9	111.244.620 45,0	117.868.416 44,2	125.456.988 43,6	133.118.432 42,7
Expense (GFS 1986) % of GDP	112.169.926 49,0	118.572.651 48,0	125.227.332 47,0	132.893.103 46,2	140.456.394 45,1
Deficit / surplus (GFS 1986) % of GDP	-9.301.487 -4,1	-7.328.030 -3,0	-7.358.916 -2,8	-7.436.116 -2,6	-7.337.962 -2,4

In accordance with the modified accrual accounting principle general government deficit in Tables 19 and 20 is adjusted to include the change of arrears and the amount of revenue from concessions paid in February 2005, although in terms of accounting they form a part of revenues in 2004.

4 GUIDELINES OF PUBLIC DEBT MANAGEMENT STRATEGY

4.1 Public Debt in the Period Until 2009

This chapter describes the institutional framework and major features of borrowing policy and public debt management of the Republic of Croatia in the period from 2007 to 2009. Additionally, it includes projections of repayments of due obligations, the structure of deficit financing and the development and structure of general government debt and public debt. The end of the chapter features the results of public debt sensitivity tests to changes of some key macroeconomic and fiscal indicators as one of the models of quantifying risks of public debt management.

The institutional framework of borrowing and public debt management, as laid down in the Budget Act, remains unchanged: the basic goal of public debt management is to meet the financial requirements of the state with lowest possible costs and a prudent level of risk. The decisions on the volume of debt and government guarantees are passed by the Croatian Parliament. The Government acts on proposals by the Ministry of Finance and makes decisions on sources of financing and modalities of borrowing (types of loans and collateral). The Ministry of Finance is responsible for the operational management of public debt, while the unit in charge of public debt management and public debt records within the Ministry of Finance is the Sector for Public Debt Management in close cooperation with the Directorate for European Integrations and International Financial Relations and the Sector for Budget Execution.

Public debt management strategy in the period from 2007 to 2009 builds upon the borrowing policy from the preceding years and follows the fiscal policy planned for the next three-year period. The basic goals of public debt management are to further slow the growth of general government debt and public debt along with reducing risks relating to public debt, primarily exchange rate risk. Complementary goals to be achieved are as follows: further development of domestic capital market, increase of transparency and security of borrowing operations of the Ministry of Finance and promotion of the function of public debt management, in particular management of risks. Accordingly, orientation on domestic sources of financing will continue to be present, along with increased borrowing in the domestic currency, primarily by means of issuing treasury bills and bonds.

The planned process of fiscal consolidation will reduce total financing requirements in the period from 2007 to 2009, which will also be supported by the repayment schedule of obligations that become due and payable, where, according to the current situation, a continuous decreasing trend is expected until 2009 when a larger value of repayments is expected. Budget deficit will be financed largely from new borrowing. Capital revenue, including revenue from privatisation and revenue from sale of nonfinancial assets, will contribute significantly to financing during 2007, but their role will decrease gradually towards the end of the observed period of time.

Table 21: Financing the deficit of consolidated general government

millions of HRK	2005	2006 plan	2007 p	2008 p	2009 p
Deficit	-8.649	-7.328	-7.359	-7.436	-7.338
Financing	8.649	7.328	7.359	7.436	7.338
Foreign	-4.395	-3.074	-2.013	-1.454	-5.217
Borrowing	1.602	3.201	2.580	2.503	2.448
Repayments	5.997	6.275	4.593	3.957	7.664
Domestic	11.609	4.948	7.807	7.635	11.260
Borrowing	17.202	10.526	13.151	12.349	14.872
Repayments	5.594	5.579	5.345	4.714	3.612
Withdrawal from account	50	-751	-419	-164	111
Capital income	1.385	6.206	1.984	1.420	1.183
Disposal of nonfinancial assets	863	1.132	983	939	876
Privatisation	521	5.074	1.001	480	308

* p - projection

Financial requirements of the state will be covered mostly on the domestic market, by means of issuing bonds and by means of loans. External financing will mostly include loans from foreign financing institutions in connection with individual programmes (PAL) or projects. Short-term financing requirements will be covered by means of issuing treasury bills, and their structure will be levelled off in terms of maturity (91, 182 and 364 days). Orientation on domestic financing will be additionally enhanced by focusing on the kuna sources of financing. The goal of such policy is to reduce foreign currency exposure risk of public debt of Croatia, as debt denominated in foreign currency (mostly the euro) accounts for 80% of public debt. Additionally, intensified and time structured issuing of treasury bills and bonds will result in the development of a reference yield curve that will contribute to higher market liquidity and simplify price formation for other instruments, ultimately contributing to the strengthening of the domestic capital market.

A total of four bonds will mature in the observed period of time. Three of them have been issued on the international market. A domestic bond of the Series VI, issued with a foreign currency clause in the nominal amount of 400 million EUR, and the samurai bond of the Series II in the nominal amount of 40 billion yen will mature in July 2007. In June 2008 and 2009 samurai bonds of the Series IV and V will mature, the nominal amount of which is 25 billion yen. Additionally, regular repayments to the London Club will be payable, based on the bonds from Series A, as the bonds from Series B were repaid fully in 2006.

Table 22: Projection of repayments of state budget obligations

millions of HRK	2006	2007	2008	2009
Foreign repayments	5.859	4.103	3.354	7.004
Bonds	3.568	2.120	1.325	5.025
London Club	704	341	341	341
Paris Club	378	373	423	457
World Bank	390	466	494	509
EBRD	42	43	43	43
EIB	55	62	68	16
Eurofima	142	145	102	52
Other	579	552	559	562
Domestic repayments	4.702	4.443	3.514	2.482
Bonds	558	3.556	2.953	275
Loans	4.144	887	561	2.207
TOTAL REPAYMENTS	10.561	8.546	6.868	9.486

Note: projections on 20 June 2006

As a result of the abovementioned trends in the budget deficit and repayments, it is expected that general government debt will decelerate its growth in absolute terms and that its share in GDP will decline. At the same time, the domestic component of debt will grow faster than the foreign component, in line with the policy of reduced external borrowing. Public debt will be determined by the development of general government debt, but also by the development of the value of issued government guarantees. Their issuing will, to the largest extent, be linked with the process of restructuring of the shipbuilding industry. However, it is expected that they will gradually decrease and that their contribution to the growth of public debt will decline.

Table 23: Projection of development and structure of general government debt and public debt

% of GDP	2005	2006	2007	2008	2009
Deficit	-3,8	-3,0	-2,8	-2,6	-2,4
General government debt	44,1	41,3	40,3	39,5	38,4
External	19,9	17,2	15,1	13,5	10,8
Domestic	24,3	24,2	25,2	25,9	27,6
Public debt	49,5	46,9	45,9	44,9	43,8
External	22,9	20,3	18,3	16,6	13,9
Domestic	26,6	26,6	27,6	28,3	29,9

In the period from 2007 to 2009 the Ministry of Finance will continue to focus on measures aimed at improving public debt management. After the implementation of a new IT system for monitoring and management of public debt, the Ministry of Finance will develop a strategy for public debt management including guidelines for borrowing policy and modalities for risk management concerning public debt. Additionally, activities will continue in connection with the reorganisation of the Sector for Public Debt Management and additional education of its employees will be organized. Furthermore, a new (electronic) system of treasury bill auctions will be implemented in order to additionally simplify the sale of securities and upgrade its security level. These activities will be carried out with technical and financial assistance of the European Union within the CARDS programme.

4.2 Testing Public Debt Sensitivity

Testing public debt sensitivity to changes in key macroeconomic and fiscal assumptions is one of the models of management of risks related to public debt. The purpose of the test is to assess to what extent the projected debt development depends on macroeconomic and fiscal assumptions from the model, i.e. to determine to what extent deviations from assumed variables affect debt and thus help to identify the highest risk factors. The test is carried out by setting a baseline scenario on the basis of medium-term macroeconomic projections. Afterwards, a number of alternative scenarios is carried out, where assumed variables are kept at a certain (historic) level or subjected to various shocks. Shocks are usually linked to historic values of the observed variables and their variability, but they can also be arbitrary.

The sensitivity test that was conducted indicates that Croatia's public debt is highly susceptible to domestic currency trends, in particular against the euro. This is caused by a high share of debt denominated in foreign currency (some 80%). The debt in euro accounts for 60%. This is why the decrease of the share of debt denominated in foreign currency is set as one of the key priorities in public debt management strategy. The debt also demonstrates higher sensitivity to changes in conditional obligations (guarantees), which indicates that there is a need to contain their growth and eliminate the need to issue such guarantees, in order words to restructure certain economic sectors. It is also not surprising that public debt demonstrates highly unfavourable medium-term development with regard to changes in primary deficit, as it is the main generator of debt, even more so as the impact of the initial shock subsides slowly and extends until the end of the observed period.

Another type of impact is shown in the tests where the assumptions are maintained at the existing or historic (average) quantities. In this case debt development trend changes and the share of public debt in GDP is characterized by increasing values. This means that maintaining economic, and particularly fiscal policy at the current level or at the level of the "average" policy of the last few years would result in further debt growth and debt unsustainability. This is why fiscal consolidation is a priority of medium-term economic policy and, along with structural reforms and prudent management of public debt, constitutes a prerequisite for a sustainable fiscal policy.

Chart 14: Development of public debt share in GDP according to various scenarios (%)

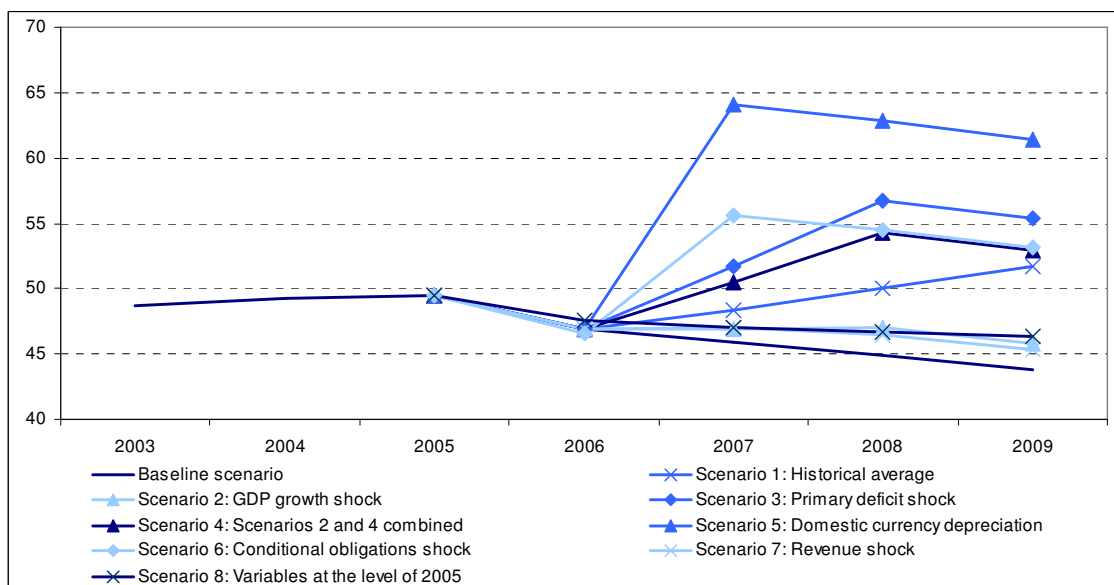


Table 24: Results of public debt sensitivity test

% of GDP	2005	2006	2007	2008	2009
I. Baseline medium-term projection					
Public debt	49,5	46,9	45,9	44,9	43,8
of which: debt denominated in foreign currency	39,6	37,5	36,7	35,9	35,1
Change of public debt	0,2	-2,6	-1,0	-1,0	-1,1
Identified debt-creating flows	-1,5	-3,2	-1,1	-1,0	-1,1
Primary deficit	1,5	0,8	0,5	0,3	0,1
Revenue and grants	45,0	45,0	44,2	43,6	42,7
Primary (noninterest) expenditure	46,5	45,8	44,7	43,9	42,8
Automatic debt dynamics	-2,5	-1,5	-0,8	-0,8	-0,8
Contribution from interest rate / growth differential	-1,0	-1,2	-0,8	-0,8	-0,8
of which: contribution of real interest rate	1,0	0,8	1,2	1,2	1,3
of which: contribution of real GDP growth	-2,0	-2,0	-2,0	-2,0	-2,1
Contribution from exchange rate depreciation	-1,5	-0,3	0,0	0,0	0,0
Other identified debt-creating flows	-0,6	-2,5	-0,7	-0,5	-0,4
Privatization receipts (negative)	-0,6	-2,5	-0,7	-0,5	-0,4
Recognition of implicit or contingent liabilities	0,0	0,0	0,0	0,0	0,0
Other (e.g. bank recapitalisation)	0,0	0,0	0,0	0,0	0,0
Residual, including change in assets	1,7	0,6	0,1	0,0	0,0
Key macroeconomic and fiscal assumptions					
Real GDP growth rate (%)	4,3	4,4	4,6	4,8	5,0
Average nominal interest rate on public debt (%)	5,5	5,4	5,9	6,1	6,2
Average real interest rate (nominal rate minus change of GDP deflator, %)	2,3	2,0	2,8	3,1	3,2
Nominal appreciation (rise of the euro-value of the domestic caurrency, in %)	4,0	0,8	0,0	0,0	0,0
Inflation rate (GDP deflator, in %)	3,2	3,4	3,1	3,0	3,0
Growth of real primary consumption (deflated by the GDP deflator, in %)	1,3	2,6	2,2	2,9	2,5
II. Analysis of sensitivity of public debt share in GDP					
1. Real GDP growth rate, real interest rate and primary deficit in the period from 2007 to 2009 at the level of historical average	49,5	46,9	48,4	50,0	51,7
2. Real GDP growth rate in 2007 and 2008 at the level of historical average diminished by two standard deviations	49,5	46,9	46,9	47,0	45,8
3. Primary deficit in 2007 and 2008 at the level of historical average diminished by two standard deviations	49,5	46,9	51,7	56,7	55,4
4. Combination of the scenario 2 and 2, with a shock at the level of one standard deviation in 2007 and 2008	49,5	46,9	50,5	54,3	53,0
5. One-off depreciation of 30% in 2007	49,5	46,9	64,1	62,8	61,4
6. Increase of other debt-increasing flows (guarantees) amounting to 10% of GDP in 2007	49,5	46,6	55,6	54,5	53,2
7. Share of income in GDP in 2007 and 2008 at the level of historical average diminished by two standard deviations	49,5	46,9	47,0	46,5	45,4
8. Share of income in GDP, share of expense in GDP and real interest rate at the level of 2005	49,5	47,5	47,0	46,7	46,4
Historical value of key variables (in the last 6 years)	Historical average	Standard deviation			
Primary deficit	3,3	1,5			
Real GDP growth rate (in %)	4,4	1,0			
Nominal interest rate (in %) /6	5,7	0,3			
Real interest rate (in %)	1,9	0,3			
Inflation rate (GDP deflator, in %)	3,8	0,6			
% of public revenue in GDP	46,3	1,6			

ANNEXES

Annex 1: State budget, GFS 2001

	2005 result		2006 plan		2007 projection		2008 projection		2009 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
1 REVENUE	85.653.010	37,4	94.894.623	38,4	100.796.402	37,8	107.457.276	37,3	114.151.308	36,7
11 Taxes	50.687.564	22,1	57.860.444	23,4	61.591.442	23,1	65.443.704	22,7	69.417.988	22,3
111 Taxes on income, profits, and capital gains	7.057.112	3,1	7.916.839	3,2	8.523.136	3,2	9.178.293	3,2	9.869.307	3,2
1111 Payable by individuals	3.106.476	1,4	3.323.992	1,3	3.565.176	1,3	3.831.500	1,3	4.096.031	1,3
1112 Payable by corporations and other enterprises	3.950.636	1,7	4.592.847	1,9	4.957.960	1,9	5.346.793	1,9	5.773.275	1,9
113 Taxes on property	375.501	0,2	431.835	0,2	465.702	0,2	502.849	0,2	543.994	0,2
114 Taxes on goods and services	41.323.002	18,0	47.359.427	19,2	50.454.393	18,9	53.615.353	18,6	56.855.153	18,3
1141 General taxes on goods and services	32.399.952	14,1	35.002.420	14,2	37.513.454	14,1	40.055.527	13,9	42.638.155	13,7
11411 Value-added taxes	32.243.372	14,1	34.830.264	14,1	37.324.647	14,0	39.848.460	13,8	42.411.062	13,6
11412 Sales taxes	156.580	0,1	172.156	0,1	188.806	0,1	207.067	0,1	227.093	0,1
1142 Excises	8.177.659	3,6	11.539.801	4,7	12.059.644	4,5	12.608.235	4,4	13.187.543	4,2
115 Taxes on international trade and transactions	1.562.930	0,7	1.562.367	0,6	1.531.120	0,6	1.500.498	0,5	1.470.488	0,5
116 Other taxes	369.019	0,2	589.976	0,2	617.091	0,2	646.711	0,2	679.047	0,2
12 Social contributions	31.301.340	13,7	33.496.961	13,5	35.927.454	13,5	38.611.292	13,4	41.277.062	13,3
13 Grants	27.505	0,0	530.005	0,2	700.895	0,3	676.513	0,2	566.543	0,2
14 Other revenue	3.636.601	1,6	3.007.212	1,2	2.576.611	1,0	2.725.767	0,9	2.889.715	0,9
141 Property income	2.226.647	1,0	1.466.431	0,6	752.642	0,3	808.688	0,3	870.767	0,3
142 Sales of goods and services	782.428	0,3	747.461	0,3	643.298	0,2	678.941	0,2	718.042	0,2
143 Fines, penalties, and forfeits	360.707	0,2	392.381	0,2	410.431	0,2	430.131	0,1	451.638	0,1
144 Voluntary transfers other than grants	5.653	0,0	23.220	0,0	25.041	0,0	27.038	0,0	29.250	0,0
145 Miscellaneous and unidentified revenue	261.166	0,1	377.720	0,2	745.199	0,3	780.969	0,3	820.017	0,3
2 EXPENSE	87.857.465	38,4	96.067.349	38,9	101.850.596	38,2	107.822.731	37,5	114.222.395	36,7
21 Compensation of employees	23.182.586	10,1	24.320.073	9,8	26.022.478	9,8	27.844.051	9,7	29.793.135	9,6
211 Wages and salaries	19.699.216	8,6	20.684.522	8,4	22.132.438	8,3	23.681.709	8,2	25.339.428	8,1
212 Social contributions	3.483.370	1,5	3.635.551	1,5	3.890.040	1,5	4.162.342	1,4	4.453.706	1,4
22 Use of goods and services	4.951.917	2,2	6.181.883	2,5	6.425.609	2,4	6.683.801	2,3	7.113.819	2,3
24 Interest	4.387.010	1,9	4.568.221	1,8	5.068.375	1,9	5.470.542	1,9	5.871.542	1,9
241 To nonresidents	2.053.588	0,9	1.810.023	0,7	2.048.375	0,8	2.212.375	0,8	2.382.375	0,8
242 To residents	2.333.422	1,0	2.758.199	1,1	3.020.000	1,1	3.258.167	1,1	3.489.167	1,1
25 Subsidies	5.248.744	2,3	5.417.206	2,2	5.391.774	2,0	5.417.679	1,9	5.391.999	1,7
251 To public corporations	2.784.825	1,2	2.626.872	1,1	2.605.944	1,0	2.618.464	0,9	2.606.052	0,8
252 To private enterprises	2.463.919	1,1	2.790.334	1,1	2.785.830	1,0	2.799.215	1,0	2.785.947	0,9
26 Grants	3.796.847	1,7	6.640.941	2,7	7.052.373	2,6	7.576.281	2,6	8.083.298	2,6
261 To foreign governments	73.639	0,0	76.550	0,0	80.196	0,0	105.000	0,0	125.000	0,0
262 To international organizations	93.832	0,0	96.767	0,0	104.357	0,0	112.680	0,0	121.900	0,0
263 To other general government units	3.629.376	1,6	6.467.624	2,6	6.867.820	2,6	7.358.601	2,6	7.836.398	2,5
27 Social benefits	41.358.455	18,1	43.687.515	17,7	46.423.141	17,4	48.786.623	16,9	51.295.620	16,5
271 Social security benefits	29.308.716	12,8	30.628.757	12,4	32.496.199	12,2	34.150.636	11,9	35.906.934	11,5
272 Social assistance benefits	11.792.075	5,1	12.918.758	5,2	13.764.461	5,2	14.465.234	5,0	15.209.151	4,9
273 Employer social benefits	257.663	0,1	140.000	0,1	162.481	0,1	170.753	0,1	179.535	0,1
28 Other expense	4.931.907	2,2	5.251.511	2,1	5.466.846	2,1	6.043.753	2,1	6.672.982	2,1
282 Miscellaneous other expense	4.926.987	2,2	5.250.802	2,1	5.466.846	2,1	6.043.753	2,1	6.672.982	2,1
2821 Current	2.154.806	0,9	2.157.350	0,9	2.241.754	0,8	2.485.335	0,9	2.758.721	0,9
2822 Capital	2.772.181	1,2	3.093.453	1,3	3.225.091	1,2	3.558.419	1,2	3.914.260	1,3
31 NONFINANCIAL ASSETS	1.553.668	0,7	1.721.308	0,7	2.318.153	0,9	2.761.490	1,0	3.131.528	1,0
31,1 Acquisition (total)	1.828.818	0,8	2.274.090	0,9	2.603.538	1,0	3.043.075	1,1	3.450.979	1,1
31,2 Disposal (total)	275.149	0,1	552.782	0,2	285.386	0,1	281.585	0,1	319.451	0,1
311 Fixed assets	1.516.968	0,7	1.950.464	0,8	2.254.326	0,8	2.679.363	0,9	3.040.694	1,0
3111 Buildings and structures	867.663	0,4	973.216	0,4	1.110.529	0,4	1.363.969	0,5	1.549.614	0,5
3112 Machinery and equipment	557.320	0,2	800.921	0,3	941.021	0,4	1.082.201	0,4	1.222.907	0,4
3113 Other fixed assets	91.986	0,0	176.328	0,1	202.777	0,1	233.193	0,1	268.172	0,1
312 Inventories	0	0,0	-275.354	-	8.400	0,0	15.000	0,0	15.000	0,0
313 Valuables	7.220	0,0	6.018	0,0	8.518	0,0	8.522	0,0	8.600	0,0
314 Nonproduced assets	29.480	0,0	40.180	0,0	46.908	0,0	58.605	0,0	67.234	0,0
3141 Land	-10.282	-	-17.120	-	-15.000	-	-9.500	-	-7.000	-
3144 Intangible nonproduced assets	39.762	0,0	57.322	0,0	61.908	0,0	68.105	0,0	74.234	0,0
32 FINANCIAL ASSETS	1.752.825	0,8	-3.375.877	-	183.627	0,1	1.035.963	0,4	1.411.578	0,5
321 Domestic	1.757.681	0,8	-3.392.644	-	166.859	0,1	1.010.963	0,4	1.381.578	0,4
3212 Currency and deposits	688.185	0,3	0	0,0	0	0,0	0	0	0	
3214 Loans	847.590	0,4	625.656	0,3	662.584	0,2	931.093	0,3	1.076.901	0,3
3215 Shares and other equity	221.906	0,1	-4.018.300	-	-495.725	-	79.870	0,0	304.676	0,1
322 Foreign	-4.857	-	16.768	0,0	16.768	0,0	25.000	0,0	30.000	0,0
3225 Shares and other equity	-4.857	-	16.768	0,0	16.768	0,0	25.000	0,0	30.000	0,0
33 LIABILITIES	5.510.948	2,4	-481.842	-	3.555.973	1,3	4.162.907	1,4	4.614.193	1,5
331 Domestic	10.591.560	4,6	3.241.520	1,3	6.289.905	2,4	6.154.377	2,1	10.224.517	3,3
3313 Securities other than shares	9.636.343	4,2	6.385.332	2,6	6.444.206	2,4	6.447.385	2,2	11.724.646	3,8
3314 Loans	955.217	0,4	-3.143.811	-	-154.301	-	-293.008	-	-1.500.129	-
332 Foreign	-5.080.612	-	-3.723.363	-	-2.733.932	-	-1.991.470	-	-5.610.324	-
3323 Securities other than shares	-3.713.935	-	-3.480.781	-	-2.120.000	-	-1.325.000	-	-5.025.000	-
3324 Loans	-1.366.677	-	-242.582	-	-613.932	-	-666.470	-	-585.324	-
DEFICIT	-5.760.344	-2,5	-4.320.940	-1,7	-4.597.084	-1,7	-4.700.217	-1,6	-5.015.243	-1,6

Annex 2: Croatian Motorways (accrual basis), GFS 2001

	2005 result		2006 plan		2007 projection		2008 projection		2009 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
1 REVENUE	2.516.925	1,1	2.633.000	1,1	2.742.600	1,0	2.870.197	1,0	3.003.926	1,0
11 Taxes	1.376.960	0,6	0	0,0	0	0,0	0	0,0	0	0,0
114 Taxes on goods and services	1.376.960	0,6	0	0,0	0	0,0	0	0,0	0	0,0
1142 Excises	1.376.960	0,6	0	0,0	0	0,0	0	0,0	0	0,0
12 Social contributions	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
13 Grants	0	0,0	1.480.000	0,6	1.546.600	0,6	1.616.197	0,6	1.688.926	0,5
133 From other general government units	0	0,0	1.480.000	0,6	1.546.600	0,6	1.616.197	0,6	1.688.926	0,5
14 Other revenue	1.139.965	0,5	1.153.000	0,5	1.196.000	0,4	1.254.000	0,4	1.315.000	0,4
141 Property income	35.704	0,0	77.728	0,0	95.000	0,0	98.000	0,0	101.000	0,0
142 Sales of goods and services	0	0,0	213	0,0	0	0,0	0	0,0	0	0,0
144 Voluntary transfers other than grants	0	0,0	1.000	0,0	1.000	0,0	1.000	0,0	1.000	0,0
145 Miscellaneous and unidentified revenue	1.104.261	0,5	1.074.059	0,4	1.100.000	0,4	1.155.000	0,4	1.213.000	0,4
2 EXPENSE	1.067.693	0,5	1.654.503	0,7	1.438.660	0,5	1.518.767	0,5	1.637.779	0,5
21 Compensation of employees	278.938	0,1	345.221	0,1	328.700	0,1	352.311	0,1	369.900	0,1
211 Wages and salaries	240.858	0,1	298.230	0,1	284.151	0,1	304.561	0,1	319.767	0,1
212 Social contributions	38.080	0,0	46.991	0,0	44.549	0,0	47.750	0,0	50.133	0,0
22 Use of goods and services	313.089	0,1	229.375	0,1	236.600	0,1	242.700	0,1	251.575	0,1
24 Interest	439.853	0,2	704.888	0,3	831.360	0,3	881.756	0,3	954.304	0,3
241 To nonresidents	297.150	0,1	429.703	0,2	513.746	0,2	544.889	0,2	589.720	0,2
242 To residents	142.703	0,1	275.185	0,1	317.614	0,1	336.867	0,1	364.584	0,1
25 Subsidies	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
26 Grants	3.610	0,0	319.335	0,1	0	0,0	0	0,0	0	0,0
261 To foreign governments	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
262 To international organizations	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
263 To other general government units	3.610	0,0	319.335	0,1	0	0,0	0	0,0	0	0,0
27 Social benefits	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
28 Other expense	32.203	0,0	55.684	0,0	42.000	0,0	42.000	0,0	62.000	0,0
282 Miscellaneous other expense	32.203	0,0	55.684	0,0	42.000	0,0	42.000	0,0	62.000	0,0
2821 Current	0	0,0	5.019	0,0	2.000	0,0	2.000	0,0	2.000	0,0
2822 Capital	32.203	0,0	50.665	0,0	40.000	0,0	40.000	0,0	60.000	0,0
31 NONFINANCIAL ASSETS	4.045.655	1,8	2.702.662	1,1	2.637.060	1,0	2.483.040	0,9	1.852.962	0,6
31,1 Acquisition (total)	4.045.655	1,8	2.702.662	1,1	2.637.060	1,0	2.483.040	0,9	1.852.962	0,6
31,2 Disposal (total)	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
311 Fixed assets	3.899.531	1,7	2.592.252	1,0	2.540.848	1,0	2.393.400	0,8	1.787.524	0,6
3111 Buildings and structures	3.863.524	1,7	2.555.830	1,0	2.509.109	0,9	2.363.829	0,8	1.765.938	0,6
3112 Machinery and equipment	32.231	0,0	36.422	0,0	31.738	0,0	29.571	0,0	21.586	0,0
3113 Other fixed assets	3.776	0,0	0	0,0	0	0,0	0	0,0	0	0,0
312 Inventories	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
313 Valuables	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
314 Nonproduced assets	146.124	0,1	110.410	0,0	96.212	0,0	89.640	0,0	65.437	0,0
3141 Land	140.602	0,1	99.932	0,0	87.082	0,0	81.133	0,0	59.227	0,0
3144 Intangible nonproduced assets	5.522	0,0	10.478	0,0	9.131	0,0	8.507	0,0	6.210	0,0
32 FINANCIAL ASSETS	-154.770	-	12.835	0,0	-41.920	-	-90.538	-	-86.815	-
321 Domestic	-154.770	-	12.835	0,0	-41.920	-	-90.538	-	-86.815	-
3212 Currency and deposits	-154.770	-	0	0,0	-51.800	-	-100.418	-	-86.815	-
3214 Loans	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
3215 Shares and other equity	0	0,0	12.835	0,0	9.880	0,0	9.880	0,0	0	0,0
322 Foreign	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
3225 Shares and other equity	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
33 LIABILITIES	2.441.653	1,1	1.737.000	0,7	1.291.200	0,5	1.041.072	0,4	400.000	0,1
331 Domestic	1.698.272	0,7	1.396.026	0,6	1.047.671	0,4	853.560	0,3	397.767	0,1
3313 Securities other than shares	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
3314 Loans	1.698.272	0,7	1.396.026	0,6	1.047.671	0,4	853.560	0,3	397.767	0,1
332 Foreign	743.381	0,3	340.974	0,1	243.529	0,1	187.512	0,1	2.233	0,0
3323 Securities other than shares	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
3324 Loans	743.381	0,3	340.974	0,1	243.529	0,1	187.512	0,1	2.233	0,0
DEFICIT	-2.596.423	-1,1	-1.737.000	-0,7	-1.343.000	-0,5	-1.141.490	-0,4	-486.815	-0,2

Annex 3: Croatian Roads (on an accrual basis), GFS 2001

	2005 result		2006 plan		2007 projection		2008 projection		2009 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
1 REVENUE	1.468.991	0,6	1.825.700	0,7	1.615.500	0,6	1.687.597	0,6	1.758.174	0,6
11 Taxes	1.376.143	0,6	0	0,0	0	0,0	0	0,0	0	0,0
114 Taxes on goods and services	1.376.143	0,6	0	0,0	0	0,0	0	0,0	0	0,0
1142 Excises	1.376.143	0,6	0	0,0	0	0,0	0	0,0	0	0,0
12 Social contributions	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
13 Grants	0	0,0	1.780.000	0,7	1.546.600	0,6	1.616.197	0,6	1.688.926	0,5
133 Grants from other general government units	0	0,0	1.780.000	0,7	1.546.600	0,6	1.616.197	0,6	1.688.926	0,5
14 Other revenue	92.848	0,0	45.700	0,0	68.900	0,0	71.400	0,0	69.248	0,0
141 Property income	1.021	0,0	10.300	0,0	10.774	0,0	11.600	0,0	12.489	0,0
142 Sales of goods and services	52.063	0,0	22.200	0,0	44.058	0,0	46.040	0,0	48.112	0,0
145 Miscellaneous and unidentified income	39.764	0,0	13.200	0,0	14.069	0,0	13.760	0,0	8.647	0,0
2 EXPENSE	1.049.498	0,5	1.219.700	0,5	1.419.746	0,5	1.625.724	0,6	1.747.324	0,6
21 Compensation of employees	62.500	0,0	69.800	0,0	77.805	0,0	84.794	0,0	92.202	0,0
211 Wages and salaries	53.693	0,0	59.927	0,0	66.800	0,0	72.800	0,0	79.160	0,0
212 Social contributions	8.807	0,0	9.873	0,0	11.005	0,0	11.994	0,0	13.042	0,0
22 Use of goods and services	722.854	0,3	867.580	0,4	1.017.580	0,4	1.167.580	0,4	1.297.580	0,4
24 Interest	24.144	0,0	37.200	0,0	33.000	0,0	72.000	0,0	83.000	0,0
241 To nonresidents	10.150	0,0	13.600	0,0	30.000	0,0	35.000	0,0	45.000	0,0
242 To residents	13.994	0,0	23.600	0,0	3.000	0,0	37.000	0,0	38.000	0,0
25 Subsidies	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
26 Grants	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
27 Social benefits	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
28 Other expense	240.000	0,1	245.120	0,1	291.361	0,1	301.350	0,1	274.542	0,1
282 Miscellaneous other expense	240.000	0,1	245.120	0,1	291.361	0,1	301.350	0,1	274.542	0,1
2821 Current	0	0,0	5.120	0,0	5.000	0,0	5.000	0,0	5.000	0,0
2822 Capital	240.000	0,1	240.000	0,1	286.361	0,1	296.350	0,1	269.542	0,1
31 NONFINANCIAL ASSETS	961.706	0,4	1.331.400	0,5	1.036.078	0,4	1.000.687	0,3	979.541	0,3
31,1 Acquisition (total)	963.598	0,4	1.331.400	0,5	1.037.678	0,4	1.002.287	0,3	979.541	0,3
31,2 Disposal (total)	1.892	0,0	0	0,0	1.600	0,0	1.600	0,0	0	0,0
311 Fixed assets	868.932	0,4	1.230.000	0,5	967.009	0,4	935.693	0,3	917.877	0,3
3111 Buildings and structures	836.040	0,4	1.224.050	0,5	961.853	0,4	930.877	0,3	912.738	0,3
3112 Machinery and equipment	32.892	0,0	4.550	0,0	3.801	0,0	3.542	0,0	3.930	0,0
3113 Other fixed assets	0	0,0	1.400	0,0	1.354	0,0	1.274	0,0	1.209	0,0
312 Inventories	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
313 Valuables	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
314 Nonproduced assets	92.774	0,0	101.400	0,0	69.069	0,0	64.994	0,0	61.664	0,0
3141 Land	92.774	0,0	100.000	0,0	67.715	0,0	63.719	0,0	60.455	0,0
3144 Intangible nonproduced assets	0	0,0	1.400	0,0	1.354	0,0	1.274	0,0	1.209	0,0
32 FINANCIAL ASSETS	-542.213	-	0	0,0	-49.124	-	-97.742	-	-68.691	-
321 Domestic	-542.213	-	0	0,0	-49.124	-	-97.742	-	-68.691	-
3212 Currency and deposits	-542.203	-	0	0,0	-49.124	-	-97.742	-	-68.691	-
3214 Loans	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
3215 Shares and other equity	-10	-	0	0,0	0	0,0	0	0,0	0	0,0
322 Foreign	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
3225 Shares and other equity	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
33 LIABILITIES	0	0,0	725.400	0,3	791.200	0,3	841.072	0,3	900.000	0,3
331 Domestic	0	0,0	445.400	0,2	314.200	0,1	481.072	0,2	500.000	0,2
3313 Securities other than shares	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
3314 Loans	0	0,0	445.400	0,2	314.200	0,1	481.072	0,2	500.000	0,2
332 Foreign	0	0,0	280.000	0,1	477.000	0,2	360.000	0,1	400.000	0,1
3324 Loans	0	0,0	280.000	0,1	477.000	0,2	360.000	0,1	400.000	0,1
DEFICIT	-544.105	-0,2	-725.400	-0,3	-841.924	-0,3	-940.414	-0,3	-968.691	-0,3

Annex 4: Extrabudgetary funds and agencies, GFS 2001

	2005 result		2006 plan		2007 projection		2008 projection		2009 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
1 REVENUE	8.099.139	3,5	9.781.914	4,0	9.800.259	3,7	9.953.260	3,5	10.235.239	3,3
11 Taxes	2.753.103	1,2	0	0,0	0	0,0	0	0,0	0	0,0
114 Taxes on goods and services	2.753.103	1,2	0	0,0	0	0,0	0	0,0	0	0,0
1142 Excises	2.753.103	1,2	0	0,0	0	0,0	0	0,0	0	0,0
Taxes on international trade and transactions	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
12 Social contributions	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
13 Grants	1.145.477	0,5	4.495.748	1,8	4.549.820	1,7	4.599.461	1,6	4.776.984	1,5
133 From other general government units	1.145.477	0,5	4.495.748	1,8	4.549.820	1,7	4.599.461	1,6	4.776.984	1,5
14 Other revenue	4.200.559	1,8	5.286.166	2,1	5.250.439	2,0	5.353.799	1,9	5.458.256	1,8
141 Property income	440.190	0,2	609.117	0,2	520.273	0,2	569.544	0,2	580.596	0,2
142 Sales of goods and services	1.701.528	0,7	2.723.230	1,1	2.755.925	1,0	2.730.717	0,9	2.760.862	0,9
143 Fines, penalties, and forfeits	840	0,0	550	0,0	0	0,0	0	0,0	0	0,0
144 Voluntary transfers other than grants	100	0,0	74.000	0,0	17.000	0,0	17.000	0,0	17.000	0,0
145 Miscellaneous and unidentified revenue	2.057.901	0,9	1.879.269	0,8	1.957.242	0,7	2.036.538	0,7	2.099.798	0,7
2 EXPENSE	5.586.251	2,4	7.441.539	3,0	7.620.260	2,9	7.804.966	2,7	8.126.000	2,6
21 Compensation of employees	1.108.047	0,5	1.282.199	0,5	1.414.248	0,5	1.355.410	0,5	1.408.578	0,5
211 Wages and salaries	958.341	0,4	1.109.205	0,4	1.222.493	0,5	1.171.628	0,4	1.217.700	0,4
212 Social contributions	149.706	0,1	172.994	0,1	191.755	0,1	183.781	0,1	190.878	0,1
22 Use of goods and services	2.143.268	0,9	3.036.208	1,2	3.069.687	1,2	3.219.764	1,1	3.370.996	1,1
24 Interest	620.392	0,3	800.339	0,3	911.293	0,3	995.266	0,3	1.073.569	0,3
241 To nonresidents	315.952	0,1	460.164	0,2	559.038	0,2	593.747	0,2	646.120	0,2
242 To residents	304.440	0,1	340.175	0,1	352.255	0,1	401.519	0,1	427.449	0,1
25 Subsidies	5.189	0,0	58.251	0,0	62.853	0,0	68.159	0,0	73.450	0,0
251 To public corporations	5.189	0,0	19.925	0,0	21.500	0,0	23.315	0,0	25.200	0,0
252 To private enterprises	0	0,0	38.325	0,0	41.353	0,0	44.844	0,0	48.250	0,0
26 Grants	153.390	0,1	702.671	0,3	371.489	0,1	368.514	0,1	370.000	0,1
263 To other general government units	153.390	0,1	702.671	0,3	371.489	0,1	368.514	0,1	370.000	0,1
27 Social benefits	571.777	0,2	616.398	0,2	720.956	0,3	724.116	0,3	749.619	0,2
28 Other expense	984.188	0,4	945.474	0,4	1.069.734	0,4	1.073.738	0,4	1.079.787	0,3
282 Miscellaneous other expense	984.188	0,4	945.474	0,4	1.069.734	0,4	1.073.738	0,4	1.079.787	0,3
2821 Current	146.355	0,1	39.909	0,0	100.089	0,0	108.337	0,0	110.550	0,0
2822 Capital	837.833	0,4	905.565	0,4	969.646	0,4	965.400	0,3	969.237	0,3
31 NONFINANCIAL ASSETS	5.287.211	2,3	4.370.690	1,8	3.917.326	1,5	3.752.315	1,3	3.105.192	1,0
31,1 Acquisition (total)	5.335.529	2,3	4.486.304	1,8	3.995.136	1,5	3.830.075	1,3	3.181.352	1,0
31,2 Disposal (total)	48.318	0,0	115.614	0,0	77.810	0,0	77.760	0,0	76.160	0,0
311 Fixed assets	5.031.437	2,2	4.108.133	1,7	3.707.702	1,4	3.553.005	1,2	2.933.031	0,9
3111 Buildings and structures	4.892.430	2,1	3.991.921	1,6	3.602.162	1,4	3.449.243	1,2	2.835.616	0,9
3112 Machinery and equipment	125.854	0,1	97.132	0,0	93.735	0,0	91.727	0,0	85.106	0,0
3113 Other fixed assets	13.153	0,0	19.080	0,0	11.804	0,0	12.034	0,0	12.309	0,0
312 Inventories	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
313 Valuables	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
314 Nonproduced assets	255.774	0,1	262.557	0,1	209.624	0,1	199.310	0,1	172.161	0,1
3141 Land	239.300	0,1	202.932	0,1	162.796	0,1	152.853	0,1	127.682	0,0
3144 Intangible nonproduced assets	16.474	0,0	59.625	0,0	46.827	0,0	46.457	0,0	44.479	0,0
32 FINANCIAL ASSETS	-837.587	-	97.882	0,0	295.424	0,1	219.085	0,1	258.014	0,1
321 Domestic	-837.587	-	97.882	0,0	295.424	0,1	219.085	0,1	258.014	0,1
3212 Currency and deposits	-397.572	-	741.286	0,3	334.406	0,1	240.135	0,1	274.702	0,1
3214 Loans	8.896	0,0	145.761	0,1	176.638	0,1	173.570	0,1	189.512	0,1
3215 Shares and other equity	-448.911	-	-789.165	-	-215.620	-	-194.620	-	-206.200	-
322 Foreign	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
3225 Shares and other equity	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
33 LIABILITIES	1.936.736	0,8	2.128.197	0,9	2.032.751	0,8	1.823.105	0,6	1.253.967	0,4
331 Domestic	1.157.742	0,5	1.387.439	0,6	1.216.909	0,5	1.190.745	0,4	760.367	0,2
3313 Securities other than shares	-263.827	-	0	0,0	0	0,0	0	0,0	0	0,0
3314 Loans	1.573.310	0,7	1.387.439	0,6	1.216.909	0,5	1.190.745	0,4	760.367	0,2
332 Foreign	778.994	0,3	740.758	0,3	815.841	0,3	632.361	0,2	493.600	0,2
3323 Securities other than shares	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
3324 Loans	778.994	0,3	740.758	0,3	815.841	0,3	632.361	0,2	493.600	0,2
DEFICIT	-2.868.571	-1,3	-2.304.525	-0,9	-2.001.655	-0,8	-1.865.230	-0,6	-1.261.625	-0,4

Annex 5: Consolidated Central Government, GFS 2001

	2005 result		2006 plan		2007 projection		2008 projection		2009 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
1 REVENUE	92.606.672	40,4	100.180.789	40,5	106.046.842	39,8	112.811.075	39,2	119.609.564	38,4
11 Taxes	53.440.667	23,3	57.860.444	23,4	61.591.442	23,1	65.443.704	22,7	69.417.988	22,3
111 Taxes on income, profits, and capital gains	7.057.112	3,1	7.916.839	3,2	8.523.136	3,2	9.178.293	3,2	9.869.307	3,2
1111 Payable by individuals	3.106.476	1,4	3.323.992	1,3	3.565.176	1,3	3.831.500	1,3	4.096.031	1,3
1112 Payable by corporations and other enterprises	3.950.636	1,7	4.592.847	1,9	4.957.960	1,9	5.346.793	1,9	5.773.275	1,9
113 Taxes on property	375.501	0,2	431.835	0,2	465.702	0,2	502.849	0,2	543.994	0,2
114 Taxes on goods and services	44.076.105	19,2	47.359.427	19,2	50.454.393	18,9	53.615.353	18,6	56.855.153	18,3
1141 General taxes on goods and services	32.399.952	14,1	35.002.420	14,2	37.513.454	14,1	40.055.527	13,9	42.638.155	13,7
11411 Value-added taxes	32.243.372	14,1	34.830.264	14,1	37.324.647	14,0	39.848.460	13,8	42.411.062	13,6
11412 Sales taxes	156.580	0,1	172.156	0,1	188.806	0,1	207.067	0,1	227.093	0,1
1142 Excises	10.930.762	4,8	11.539.801	4,7	12.059.644	4,5	12.608.235	4,4	13.187.543	4,2
115 Taxes on international trade and transactions	1.562.930	0,7	1.562.367	0,6	1.531.120	0,6	1.500.498	0,5	1.470.488	0,5
116 Other taxes	369.019	0,2	589.976	0,2	617.091	0,2	646.711	0,2	679.047	0,2
12 Social contributions	31.301.340	13,7	33.496.961	13,5	35.927.454	13,5	38.611.292	13,4	41.277.062	13,3
13 Grants	27.505	0,0	530.005	0,2	700.895	0,3	676.513	0,2	566.543	0,2
14 Other revenue	7.837.160	3,4	8.293.379	3,4	7.827.050	2,9	8.079.566	2,8	8.347.971	2,7
141 Property income	2.666.837	1,2	2.075.548	0,8	1.272.915	0,5	1.378.232	0,5	1.451.364	0,5
142 Sales of goods and services	2.483.956	1,1	3.470.691	1,4	3.399.223	1,3	3.409.658	1,2	3.478.904	1,1
143 Fines, penalties, and forfeits	361.547	0,2	392.931	0,2	410.431	0,2	430.131	0,1	451.638	0,1
144 Voluntary transfers other than grants	5.753	0,0	97.220	0,0	42.041	0,0	44.038	0,0	46.250	0,0
145 Miscellaneous and unidentified revenue	2.319.067	1,0	2.256.989	0,9	2.702.441	1,0	2.817.507	1,0	2.919.815	0,9
2 EXPENSE	92.298.239	40,3	99.013.141	40,0	104.921.036	39,4	111.028.235	38,6	117.571.412	37,7
21 Compensation of employees	24.290.633	10,6	25.602.272	10,4	27.436.726	10,3	29.199.461	10,1	31.201.713	10,0
211 Wages and salaries	20.657.557	9,0	21.793.726	8,8	23.354.931	8,8	24.853.337	8,6	26.557.128	8,5
212 Social contributions	3.633.076	1,6	3.808.545	1,5	4.081.795	1,5	4.346.124	1,5	4.644.585	1,5
22 Use of goods and services	7.095.185	3,1	9.218.090	3,7	9.495.296	3,6	9.903.565	3,4	10.484.816	3,4
24 Interest	5.007.402	2,2	5.368.560	2,2	5.979.668	2,2	6.465.808	2,2	6.945.111	2,2
241 To nonresidents	2.369.540	1,0	2.270.187	0,9	2.607.414	1,0	2.806.123	1,0	3.028.496	1,0
242 To residents	2.637.862	1,2	3.098.374	1,3	3.372.255	1,3	3.659.685	1,3	3.916.616	1,3
25 Subsidies	5.253.933	2,3	5.475.456	2,2	5.454.627	2,0	5.485.837	1,9	5.465.449	1,8
251 To public corporations	2.790.014	1,2	2.646.798	1,1	2.627.443	1,0	2.641.778	0,9	2.631.252	0,8
252 To private enterprises	2.463.919	1,1	2.828.659	1,1	2.827.184	1,1	2.844.059	1,0	2.834.197	0,9
26 Grants	2.804.760	1,2	2.847.864	1,2	2.874.041	1,1	3.345.334	1,2	3.676.315	1,2
261 To foreign governments	73.639	0,0	76.550	0,0	80.196	0,0	105.000	0,0	125.000	0,0
262 To international organizations	93.832	0,0	96.767	0,0	104.357	0,0	112.680	0,0	121.900	0,0
263 To other general government units	2.637.289	1,2	2.674.547	1,1	2.689.489	1,0	3.127.654	1,1	3.429.414	1,1
27 Social benefits	41.930.232	18,3	44.303.913	17,9	47.144.097	17,7	49.510.739	17,2	52.045.239	16,7
271 Social security benefits	29.879.823	13,0	31.243.155	12,6	33.217.155	12,5	34.874.752	12,1	36.656.553	11,8
272 Social assistance benefits	11.792.745	5,1	12.920.758	5,2	13.764.461	5,2	14.465.234	5,0	15.209.151	4,9
273 Employer social benefits	257.663	0,1	140.000	0,1	162.481	0,1	170.753	0,1	179.535	0,1
28 Other expense	5.916.095	2,6	6.196.985	2,5	6.536.580	2,5	7.117.491	2,5	7.752.769	2,5
282 Miscellaneous other expense	5.911.175	2,6	6.196.276	2,5	6.536.580	2,5	7.117.491	2,5	7.752.769	2,5
2821 Current	2.301.161	1,0	2.197.259	0,9	2.341.843	0,9	2.593.672	0,9	2.869.271	0,9
2822 Capital	3.610.014	1,6	3.999.018	1,6	4.194.737	1,6	4.523.819	1,6	4.883.498	1,6
31 NONFINANCIAL ASSETS	6.840.879	3,0	6.091.998	2,5	6.235.479	2,3	6.513.804	2,3	6.236.720	2,0
31,1 Acquisition (total)	7.164.347	3,1	6.760.394	2,7	6.598.674	2,5	6.873.149	2,4	6.632.331	2,1
31,2 Disposal (total)	323.467	0,1	668.396	0,3	363.196	0,1	359.345	0,1	395.611	0,1
311 Fixed assets	6.548.405	2,9	6.058.598	2,5	5.962.029	2,2	6.232.368	2,2	5.973.725	1,9
3111 Buildings and structures	5.760.093	2,5	4.965.137	2,0	4.712.691	1,8	4.813.212	1,7	4.385.230	1,4
3112 Machinery and equipment	683.174	0,3	898.053	0,4	1.034.756	0,4	1.173.928	0,4	1.308.013	0,4
3113 Other fixed assets	105.139	0,0	195.408	0,1	214.581	0,1	245.228	0,1	280.481	0,1
312 Inventories	0	0,0	-275.354	-	8.400	0,0	15.000	0,0	15.000	0,0
313 Valuables	7.220	0,0	6.018	0,0	8.518	0,0	8.522	0,0	8.600	0,0
314 Nonproduced assets	285.254	0,1	302.737	0,1	256.532	0,1	257.915	0,1	239.395	0,1
3141 Land	229.018	0,1	185.812	0,1	147.796	0,1	143.353	0,0	120.682	0,0
3144 Intangible nonproduced assets	56.236	0,0	116.947	0,0	108.736	0,0	114.562	0,0	118.713	0,0
32 FINANCIAL ASSETS	905.238	0,4	-3.277.995	-	479.051	0,2	1.255.048	0,4	1.669.592	0,5
321 Domestic	910.094	0,4	-3.294.762	-	462.283	0,2	1.230.048	0,4	1.639.592	0,5
3212 Currency and deposits	290.613	0,1	741.286	0,3	334.406	0,1	240.135	0,1	274.702	0,1
3214 Loans	846.486	0,4	771.417	0,3	839.222	0,3	1.104.663	0,4	1.266.413	0,4
3215 Shares and other equity	-227.005	-	-4.807.465	-	-711.345	-	-114.750	-	98.476	0,0
322 Foreign	-4.857	-	16.768	0,0	16.768	0,0	25.000	0,0	30.000	0,0
3225 Shares and other equity	-4.857	-	16.768	0,0	16.768	0,0	25.000	0,0	30.000	0,0
33 LIABILITIES	7.437.684	3,2	1.646.355	0,7	5.588.724	2,1	5.986.013	2,1	5.868.160	1,9
331 Domestic	11.739.302	5,1	4.628.959	1,9	7.506.815	2,8	7.345.122	2,6	10.984.884	3,5
3313 Securities other than shares	9.372.516	4,1	6.385.332	2,6	6.444.206	2,4	6.447.385	2,2	11.724.646	3,8
3314 Loans	2.518.527	1,1	-1.756.372	-	1.062.608	0,4	897.736	0,3	-739.762	-
332 Foreign	-4.301.618	-	-2.982.605	-	-1.918.091	-	-1.359.109	-	-5.116.724	-
3323 Securities other than shares	-3.713.935	-	-3.480.781	-	-2.120.000	-	-1.325.000	-	-5.025.000	-
3324 Loans	-587.683	-	498.176	0,2	201.909	0,1	-34.109	-	-91.724	-
DEFICIT	-8.628.915	-3,8	-6.625.465	-2,7	-6.598.739	-2,5	-6.565.447	-2,3	-6.276.868	-2,0

Annex 6: Local and Regional Self-government Units, GFS 2001

	2005 result		2006 plan		2007 projection		2008 projection		2009 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
1 REVENUE	12.162.401	5,3	12.767.764	5,2	13.603.888	5,1	14.513.778	5,0	15.470.127	5,0
11 Taxes	7.072.350	3,1	7.668.536	3,1	8.245.915	3,1	8.873.076	3,1	9.519.754	3,1
111 Taxes on income, profits, and capital gains	6.339.798	2,8	6.886.112	2,8	7.402.596	2,8	7.962.969	2,8	8.535.680	2,7
1111 Payable by individuals	4.718.192	2,1	5.048.559	2,0	5.418.965	2,0	5.823.770	2,0	6.225.850	2,0
1112 Payable by corporations and other enterprises	1.621.606	0,7	1.837.553	0,7	1.983.631	0,7	2.139.199	0,7	2.309.831	0,7
113 Taxes on property	388.135	0,2	413.592	0,2	446.028	0,2	481.605	0,2	521.012	0,2
114 Taxes on goods and services	330.015	0,1	354.429	0,1	382.226	0,1	412.714	0,1	446.484	0,1
1141 General taxes on goods and services	46.901	0,0	50.115	0,0	54.045	0,0	58.356	0,0	63.131	0,0
11412 Sales taxes	46.901	0,0	50.115	0,0	54.045	0,0	58.356	0,0	63.131	0,0
1144 Taxes on specific services	13.881	0,0	15.000	0,0	16.176	0,0	17.467	0,0	18.896	0,0
1145										
Taxes on use of goods and on permission to use goods or perform activities	264.587	0,1	286.315	0,1	308.769	0,1	333.398	0,1	360.678	0,1
1146 Other taxes on goods and services	4.645	0,0	3.000	0,0	3.235	0,0	3.493	0,0	3.779	0,0
116 Other taxes	14.403	0,0	14.403	0,0	15.065	0,0	15.788	0,0	16.578	0,0
12 Social contributions	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
13 Grants	1.704.577	0,7	1.707.955	0,7	1.786.521	0,7	1.872.273	0,7	1.965.887	0,6
14 Other revenue	3.385.474	1,5	3.391.274	1,4	3.571.453	1,3	3.768.428	1,3	3.984.485	1,3
141 Property income	760.183	0,3	785.036	0,3	844.982	0,3	910.720	0,3	983.495	0,3
142 Sales of goods and services	2.298.516	1,0	2.282.800	0,9	2.387.808	0,9	2.502.423	0,9	2.627.544	0,8
143 Fines, penalties, and forfeits	7.803	0,0	6.815	0,0	7.129	0,0	7.471	0,0	7.845	0,0
144 Voluntary transfers other than grants	25.632	0,0	10.697	0,0	11.535	0,0	12.456	0,0	13.475	0,0
145 Miscellaneous and unidentified revenue	293.339	0,1	305.926	0,1	319.998	0,1	335.358	0,1	352.126	0,1
2 EXPENSE	9.882.542	4,3	10.252.072	4,1	10.905.041	4,1	11.609.382	4,0	12.412.510	4,0
21 Compensation of employees	2.379.585	1,0	2.510.990	1,0	2.626.496	1,0	2.752.567	1,0	2.910.166	0,9
211 Wages and salaries	2.065.605	0,9	2.163.359	0,9	2.262.873	0,8	2.371.491	0,8	2.505.066	0,8
212 Social contributions	313.980	0,1	347.631	0,1	363.622	0,1	381.076	0,1	405.130	0,1
22 Use of goods and services	3.775.863	1,6	3.953.449	1,6	4.153.449	1,6	4.373.449	1,5	4.623.989	1,5
24 Interest	98.047	0,0	85.017	0,0	86.190	0,0	91.195	0,0	96.210	0,0
241 To nonresidents	43.218	0,0	5.688	0,0	6.000	0,0	6.000	0,0	6.000	0,0
242 To residents	54.694	0,0	79.142	0,0	80.000	0,0	85.000	0,0	90.000	0,0
25 Subsidies	746.132	0,3	801.330	0,3	864.175	0,3	933.105	0,3	1.009.456	0,3
251 To public corporations	648.730	0,3	671.330	0,3	723.980	0,3	781.727	0,3	845.692	0,3
252 To private enterprises	97.402	0,0	130.000	0,1	140.195	0,1	151.378	0,1	163.764	0,1
26 Grants	289.638	0,1	294.222	0,1	310.100	0,1	331.427	0,1	363.112	0,1
261 To foreign governments	0	0,0	100	0,0	100	0,0	100	0,0	100	0,0
262 To international organizations	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
263 To other general government units	289.638	0,1	294.122	0,1	310.000	0,1	331.327	0,1	363.012	0,1
27 Social benefits	538.720	0,2	543.784	0,2	600.976	0,2	647.570	0,2	697.361	0,2
271 Social security benefits	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
272 Social assistance benefits	525.628	0,2	522.043	0,2	578.279	0,2	623.851	0,2	672.574	0,2
273 Employer social benefits	13.092	0,0	21.741	0,0	22.698	0,0	23.719	0,0	24.786	0,0
28 Other expense	2.054.558	0,9	2.063.281	0,8	2.263.655	0,8	2.480.068	0,9	2.712.186	0,9
282 Miscellaneous other expense	2.054.558	0,9	2.063.281	0,8	2.263.655	0,8	2.480.068	0,9	2.712.186	0,9
2821 Current	1.450.781	0,6	1.457.960	0,6	1.572.302	0,6	1.697.716	0,6	1.846.631	0,6
2822 Capital	603.777	0,3	605.321	0,2	691.353	0,3	782.353	0,3	865.555	0,3
31 NONFINANCIAL ASSETS	2.360.290	1,0	2.780.209	1,1	2.874.024	1,1	3.190.064	1,1	3.603.711	1,2
31,1 Acquisition (total)	2.900.297	1,3	3.243.889	1,3	3.494.024	1,3	3.770.064	1,3	4.083.711	1,3
31,2 Disposal (total)	540.007	0,2	463.679	0,2	620.000	0,2	580.000	0,2	480.000	0,2
311 Fixed assets	2.460.334	1,1	2.784.496	1,1	2.913.624	1,1	3.208.624	1,1	3.596.624	1,2
3111 Buildings and structures	2.033.629	0,9	2.339.676	0,9	2.398.352	0,9	2.608.352	0,9	2.898.352	0,9
3112 Machinery and equipment	348.704	0,2	354.196	0,1	394.626	0,1	439.626	0,2	487.626	0,2
3113 Other fixed assets	78.001	0,0	90.624	0,0	120.646	0,0	160.646	0,1	210.646	0,1
312 Inventories	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
313 Valuables	209	0,0	301	0,0	0	0,0	0	0,0	0	0,0
314 Nonproduced assets	-100.253	-	-4.587	-	-39.600	-	-18.560	-	7.087	0,0
3141 Land	-140.416	-	-28.888	-	-70.000	-	-58.960	-	-33.313	-
3144 Intangible nonproduced assets	40.163	0,0	23.901	0,0	30.000	0,0	40.000	0,0	40.000	0,0
32 FINANCIAL ASSETS	-303.883	-	-37.450	-	29.823	0,0	-90.668	-	-371.094	-
321 Domestic	-303.883	-	-37.450	-	29.823	0,0	-90.668	-	-371.094	-
3212 Currency and deposits	-340.806	-	10.101	0,0	84.823	0,0	-75.668	-	-386.094	-
3214 Loans	4.863	0,0	-66.315	-	-80.000	-	-50.000	-	-20.000	-
3215 Shares and other equity	14.123	0,0	8.764	0,0	15.000	0,0	25.000	0,0	25.000	0,0
322 Foreign	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
3225 Shares and other equity	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
33 LIABILITIES	-223.453	-	227.067	0,1	205.000	0,1	195.000	0,1	175.000	0,1
331 Domestic	-130.447	-	318.544	0,1	300.000	0,1	290.000	0,1	275.000	0,1
3313 Securities other than shares	-3.096	-	123.075	0,0	140.000	0,1	140.000	0,1	135.000	0,0
3314 Loans	-127.351	-	195.469	0,1	160.000	0,1	150.000	0,1	140.000	0,0
332 Foreign	-93.006	-	-91.477	-	-95.000	-	-95.000	-	-100.000	-
3323 Securities other than shares	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0
3324 Loans	-93.006	-	-91.477	-	-95.000	-	-95.000	-	-100.000	-
DEFICIT	-682.572	-0,3	-702.566	-0,3	-760.177	-0,3	-870.668	-0,3	-1.061.094	-0,3

Annex 7: Consolidated General Government, GFS 2001

	2005 result		2006 plan		2007 projection		2008 projection		2009 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
1 REVENUE	103.065.140	45,0	111.244.620	45,0	117.868.416	44,2	125.456.988	43,6	133.118.432	42,7
11 Taxes	60.513.017	26,4	65.528.980	26,5	69.837.357	26,2	74.316.780	25,8	78.937.742	25,3
111 Taxes on income, profits, and capital gains	13.396.910	5,8	14.802.951	6,0	15.925.731	6,0	17.141.263	6,0	18.404.987	5,9
1111 Payable by individuals	7.824.668	3,4	8.372.550	3,4	8.984.140	3,4	9.655.270	3,4	10.321.881	3,3
1112 Payable by corporations and other enterprises	5.572.242	2,4	6.430.400	2,6	6.941.591	2,6	7.485.992	2,6	8.083.106	2,6
113 Taxes on property	763.635	0,3	845.427	0,3	911.730	0,3	984.454	0,3	1.065.006	0,3
114 Taxes on goods and services	44.406.121	19,4	47.713.856	19,3	50.836.619	19,1	54.028.067	18,8	57.301.637	18,4
1141 General taxes on goods and services	32.446.853	14,2	35.052.535	14,2	37.567.499	14,1	40.113.883	13,9	42.701.286	13,7
11411 Value-added taxes	32.243.372	14,1	34.830.264	14,1	37.324.647	14,0	39.848.460	13,8	42.411.062	13,6
11412 Sales taxes	203.481	0,1	222.271	0,1	242.851	0,1	265.423	0,1	290.224	0,1
1142 Excises	10.930.762	4,8	11.539.801	4,7	12.059.644	4,5	12.608.235	4,4	13.187.543	4,2
115 Taxes on international trade and transactions	1.562.930	0,7	1.562.367	0,6	1.531.120	0,6	1.500.498	0,5	1.470.488	0,5
116 Other taxes	383.421	0,2	604.379	0,2	632.156	0,2	662.499	0,2	695.624	0,2
12 Social contributions	31.301.340	13,7	33.496.961	13,5	35.927.454	13,5	38.611.292	13,4	41.277.062	13,3
13 Grants	28.149	0,0	534.027	0,2	705.102	0,3	680.921	0,2	571.172	0,2
14 Other revenue	11.222.634	4,9	11.684.653	4,7	11.398.503	4,3	11.847.994	4,1	12.332.456	4,0
141 Property income	3.427.020	1,5	2.860.584	1,2	2.117.897	0,8	2.288.952	0,8	2.434.858	0,8
142 Sales of goods and services	4.782.472	2,1	5.753.490	2,3	5.787.031	2,2	5.912.081	2,1	6.106.449	2,0
143 Fines, penalties, and forfeits	369.351	0,2	399.747	0,2	417.560	0,2	437.603	0,2	459.483	0,1
144 Voluntary transfers other than grants	31.385	0,0	107.916	0,0	53.576	0,0	56.493	0,0	59.725	0,0
145 Miscellaneous and unidentified revenue	2.612.406	1,1	2.562.916	1,0	3.022.440	1,1	3.152.865	1,1	3.271.941	1,1
2 EXPENSE	100.476.847	43,9	107.561.280	43,5	114.043.763	42,8	120.769.752	41,9	128.022.663	41,1
21 Compensation of employees	26.670.218	11,6	28.113.262	11,4	30.063.221	11,3	31.952.028	11,1	34.111.908	11,0
211 Wages and salaries	22.723.162	9,9	23.957.085	9,7	25.617.804	9,6	27.224.828	9,5	29.062.194	9,3
212 Social contributions	3.947.056	1,7	4.156.177	1,7	4.445.417	1,7	4.727.200	1,6	5.049.715	1,6
22 Use of goods and services	10.871.048	4,7	13.171.540	5,3	13.648.746	5,1	14.277.014	5,0	15.108.805	4,9
24 Interest	5.105.449	2,2	5.453.577	2,2	6.065.858	2,3	6.557.003	2,3	7.041.321	2,3
241 To nonresidents	2.412.758	1,1	2.275.875	0,9	2.613.414	1,0	2.812.123	1,0	3.034.496	1,0
242 To residents	2.692.556	1,2	3.177.516	1,3	3.452.255	1,3	3.744.685	1,3	4.006.616	1,3
25 Subsidies	6.000.064	2,6	6.276.786	2,5	6.318.802	2,4	6.418.943	2,2	6.474.906	2,1
251 To public corporations	3.438.744	1,5	3.318.128	1,3	3.351.423	1,3	3.423.506	1,2	3.476.944	1,1
252 To private enterprises	2.561.321	1,1	2.958.659	1,2	2.967.379	1,1	2.995.437	1,0	2.997.961	1,0
26 Grants	1.390.464	0,6	1.438.152	0,6	1.401.827	0,5	1.808.895	0,6	2.078.168	0,7
261 To foreign governments	73.639	0,0	76.650	0,0	80.296	0,0	105.100	0,0	125.100	0,0
262 To international organizations	93.832	0,0	96.767	0,0	104.357	0,0	112.680	0,0	121.900	0,0
263 To other general government units	1.222.993	0,5	1.264.735	0,5	1.217.175	0,5	1.591.115	0,6	1.831.167	0,6
27 Social benefits	42.468.952	18,5	44.847.697	18,1	47.745.074	17,9	50.158.309	17,4	52.742.599	16,9
271 Social security benefits	29.879.823	13,0	31.243.155	12,6	33.217.155	12,5	34.874.752	12,1	36.656.553	11,8
272 Social assistance benefits	12.318.373	5,4	13.442.801	5,4	14.342.740	5,4	15.089.085	5,2	15.881.726	5,1
273 Employer social benefits	270.756	0,1	161.741	0,1	185.179	0,1	194.472	0,1	204.321	0,1
28 Other expense	7.970.652	3,5	8.260.267	3,3	8.800.235	3,3	9.597.559	3,3	10.464.955	3,4
282 Miscellaneous other expense	7.965.733	3,5	8.259.557	3,3	8.800.235	3,3	9.597.559	3,3	10.464.955	3,4
2821 Current	3.751.942	1,6	3.655.218	1,5	3.914.145	1,5	4.291.388	1,5	4.715.902	1,5
2822 Capital	4.213.791	1,8	4.604.339	1,9	4.886.090	1,8	5.306.171	1,8	5.749.053	1,8
31 NONFINANCIAL ASSETS	9.201.169	4,0	8.872.207	3,6	9.109.503	3,4	9.703.868	3,4	9.840.431	3,2
31,1 Acquisition (total)	10.064.644	4,4	10.004.283	4,0	10.092.699	3,8	10.643.213	3,7	10.716.042	3,4
31,2 Disposal (total)	863.475	0,4	1.132.076	0,5	983.196	0,4	939.345	0,3	875.611	0,3
311 Fixed assets	9.008.739	3,9	8.843.093	3,6	8.875.653	3,3	9.440.992	3,3	9.570.349	3,1
3111 Buildings and structures	7.793.722	3,4	7.304.813	3,0	7.111.044	2,7	7.421.564	2,6	7.283.583	2,3
3112 Machinery and equipment	1.031.878	0,5	1.252.249	0,5	1.429.382	0,5	1.613.554	0,6	1.795.639	0,6
3113 Other fixed assets	183.140	0,1	286.031	0,1	335.227	0,1	405.873	0,1	491.127	0,2
312 Inventories	0	0,0	-275.354	-	8.400	0,0	15.000	0,0	15.000	0,0
313 Valuables	7.429	0,0	6.319	0,0	8.518	0,0	8.522	0,0	8.600	0,0
314 Nonproduced assets	185.001	0,1	298.149	0,1	216.932	0,1	239.355	0,1	246.483	0,1
3141 Land	88.602	0,0	156.924	0,1	77.796	0,0	84.393	0,0	87.369	0,0
3144 Intangible nonproduced assets	96.399	0,0	140.847	0,1	138.736	0,1	154.562	0,1	158.713	0,1
32 FINANCIAL ASSETS	601.354	0,3	-3.315.445	-	508.874	0,2	1.164.380	0,4	1.298.497	0,4
321 Domestic	606.211	0,3	-3.332.212	-	492.106	0,2	1.139.380	0,4	1.268.497	0,4
3212 Currency and deposits	-50.193	-	751.387	0,3	419.229	0,2	164.467	0,1	-111.392	-
3214 Loans	851.349	0,4	705.101	0,3	759.222	0,3	1.054.663	0,4	1.246.413	0,4
3215 Shares and other equity	-212.882	-	-4.798.701	-	-696.345	-	-89.750	-	123.476	0,0
322 Foreign	-4.857	-	16.768	0,0	16.768	0,0	25.000	0,0	30.000	0,0
3225 Shares and other equity	-4.857	-	16.768	0,0	16.768	0,0	25.000	0,0	30.000	0,0
33 LIABILITIES	7.214.231	3,1	1.873.422	0,8	5.793.724	2,2	6.181.013	2,1	6.043.160	1,9
331 Domestic	11.608.855	5,1	4.947.504	2,0	7.806.815	2,9	7.635.122	2,7	11.259.884	3,6
3313 Securities other than shares	9.369.421	4,1	6.508.407	2,6	6.584.206	2,5	6.587.385	2,3	11.859.646	3,8
3314 Loans	2.391.175	1,0	-1.560.903	-	1.222.608	0,5	1.047.736	0,4	-599.762	-
332 Foreign	-4.394.624	-	-3.074.082	-	-2.013.091	-	-1.454.109	-	-5.216.724	-
3323 Securities other than shares	-3.713.935	-	-3.480.781	-	-2.120.000	-	-1.325.000	-	-5.025.000	-
3324 Loans	-680.689	-	406.699	0,2	106.909	0,0	-129.109	-	-191.724	-
DEFICIT	-9.301.487	-4,1	-7.328.030	-3,0	-7.358.916	-2,8	-7.436.116	-2,6	-7.337.962	-2,4