

REPUBLIC OF CROATIA
MINISTRY OF FINANCE

ECONOMIC AND FISCAL POLICY GUIDELINES
FOR THE 2014-2016 PERIOD

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1. INTRODUCTION

The first half of 2013 was marked by unstable macroeconomic environment; however, more favourable developments in international environment are expected over a medium term which will influence economic developments in the Republic of Croatia. In European Union (hereinafter „the EU“), economic activity was still falling down slightly in 2013, with a reversal in this trend and economic growth recovery being expected from 2014. However, the developments in our immediate neighbourhood will lag behind the rest of the EU. As a result of large efforts on the part of the Member States in the area of fiscal consolidation, it is believed that the period of fiscal imbalances widening is over. However, given the risks to economic growth outturn, some Member States are still facing fiscal imbalances and banking system risks.

The Republic of Croatia entered the EU at an economically unfavourable moment so the positive effects of membership will take place slower than in the case of the previous two rounds of enlargement. The economy is still undergoing major restructuring of those branches and companies that have been unprofitable and non-competitive for years. The Government of the Republic of Croatia has launched a number of measures towards financial restructuring and improvement of the economy's competitiveness, as a precondition for achieving positive effects of EU membership, primarily through possibility of export to a market of half a billion consumers. Therefore, the Croatian economy does not expect to see bigger positive effects of EU accession before 2015 when it will be also helped by planned significant increase in the absorption of structural and cohesion funds. The contribution to economic growth will also come from activities aimed towards promoting public and private investment.

These Guidelines have been prepared at a ground-breaking moment in terms of the economy, characterised by expectations of a reversal in economic growth trend, following a four-year recession. After only a slight growth in 2013, economic growth is expected to accelerate gradually to 1.3% in 2014, 2.2% in 2015 and 2.5% in 2016. At the same time, inflation will hold steady at approximately 2.0%. Reduced expectations of economic growth in 2013 and the settlement of the health care debt call for new amendments to the 2013 budget, prior to the adoption of the 2014 budget.

Significant measures have been taken on the revenue side of the budget for the second consecutive year. These measures are primarily directed at improving tax discipline and shifting the structure of tax burden from production to consumption. This policy is aimed at removing the burden from the economy and improving economic competitiveness and will continue to be pursued in the forthcoming period. Particularly important in this context are the activities aimed at direct prevention of poor tax discipline and the unofficial economy, such as fiscalisation and improved efficacy of tax and customs supervision. At the same time, the authorities plan to continue to relieve the economy of the burden through reduced non-tax revenues and equal distribution of tax burden throughout the territory of the Republic of Croatia.

The dynamics of budgetary central government expenditures is determined by high public debt costs financing arising from persistent deficits over the past years and assumed debts arising from poor management in the past and expenditures associated with EU membership. In 2014, additional HRK 2.5bn will need to be allocated for the

settlement of interest expenses, while expenses associated with EU membership of the Republic of Croatia will rise by a high HRK 4.7bn. These expenses thus take up the whole fiscal space and restrict developments in all other categories of budget expenditures. Significant fiscal consolidation is reflected in the negative rate of contribution of government consumption to economic growth in the next period, even in the conditions of the proposed gradual narrowing of the budget deficit.

Under the amendments to the Fiscal Responsibility Act that are being prepared currently, the existing fiscal rule will be replaced by a new rule, compliant with the European requirements provided for by the new framework for economic policy management in the EU. Unlike the existing fiscal rule, this will take into account the existence of economic cycles which is of extreme importance for overcoming the period of recession.

In October this year, the Eurostat will publish a new budget deficit and public debt calculation for this year and several preceding years, in accordance with ESA 95 methodology. The share of budget deficit in GDP will reach over 3% and thus activate the corrective arm of the Stability and Growth Pact, the excessive deficit procedure. Under this procedure, so far activated in 25 Member States, the Council will, on the proposal by the European Commission, determine the speed of fiscal adjustment necessary to bring the budget deficit below 3% of GDP and keep public debt below 60% of GDP.

The Government of the Republic of Croatia has prepared additional measures for fiscal consolidation, the impact of which will be fully taken into account during 2014 budget plan adoption and which should lead to significant restructuring, in particular on the expenditure side of the budget. These measures are essential for budget deficit reduction below 3% of GDP in the next several years. The most significant reforms will take place in health care, social security system, pension insurance, education and the system of wages in government and public services.

2. OBJECTIVES AND PRIORITIES OF THE GOVERNMENT OF THE REPUBLIC OF CROATIA IN THE 2014-2016 PERIOD

Based on the Budget Act which prescribes the process of strategic planning, the Strategy of Government Programmes for the Period from 2014 to 2016 was prepared.

The achievement of the Strategy is based on 12 general objectives: 1. macroeconomic and economic stability; 2. optimum environment for the development of competitive economy; 3. balanced regional development; 4. strengthening of social justice; 5. provision of health care, preservation and promotion of health; 6. promotion of knowledge, excellence and culture; 7. environment protection and spatial development; 8. improved competitiveness of agricultural and food and fisheries sector; 9. improved competitiveness of Croatian tourism and establishment of Croatia as one of the leading international tourist destinations; 10. strengthening of the legal state and the rule of law; 11. maintaining the highest level of public and state security and 12. further strengthening of international position of the Republic of Croatia and preservation of national identity.

To ensure the sources of financing necessary for the achievement of these objectives, the strategic objectives have been linked to budget programmes. While the strategic plan defines the course of activities of ministries and other government bodies, the budget defines the programmes, activities and projects and provides the funding necessary for their implementation. Therefore, the Strategy as a document provides the basis for drafting the Economic and Fiscal Policy Guidelines for the Period from 2014 to 2016.

Some of the new activities envisaged under the Strategy include:

- the drafting of a list of all real estate owned by the Republic of Croatia and putting them into use;
- transfer to electronic public procurement;
- allocation of grants to entities investing into new product development and market widening, thus increasing competitiveness of small economy entities;
- the adoption of the new Crafts Act that will boost the development of crafts and put craftsmen on an equal footing with other economic entities;
- further development of traffic infrastructure: the construction of the second railway track and reconstruction of Dugo Selo – Križevci line, the construction of new Sv. Ivan Žabno – Gradec line;
- the adoption of a new Ordinance on Student Standard (scholarships, subsidies for food, accommodation and transport) aimed at efficient channelling and control of public funds;
- the establishment of a centralised integrated information system for data exchange for eReferrals, eBooking and eMedical Records, which will reduce waiting time in health care;

- the introduction of a new system of special environmental charge levied on motor vehicles aimed at reducing environmental pollution;
- the drafting of a flood risk management plan which will include preventive measures, flood forecasting and warning systems;
- ensuring access to personal information held by public entities through gov.hr home page;
- the establishment of the national Schengen Information System (SIS), linking the national information system with the SIS, thereby ensuring direct inspection of persons and objects.

Also covered by the Strategy are structural EU instruments by means of which significant funding can be drawn for projects that will be aimed at achieving the general objectives set in this Strategy. The funding provided by the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF) have become available to the Republic of Croatia since EU accession.

3. MACROECONOMIC DEVELOPMENTS OVER A MEDIUM TERM

3.1. International macroeconomic environment

Following two consecutive years of economic activity growth, in 2012 the European economy again recorded negative developments. Gross domestic product fell in real terms by 0.3% in the EU and 0.6% in the euro area. The contribution to a fall in gross domestic product came from a fall in domestic demand, particularly gross fixed capital formation and household consumption, and changes in inventories, while contribution of net foreign demand was positive.

Table 1: International environment - macroeconomic indicators

	2011	2012	Projection 2013	Projection 2014
Real GDP growth, in %				
World	4.2	3.0	3.1	3.8
European Union	1.6	-0.3	-0.1	1.4
Austria	2.7	0.8	0.6	1.8
Italy	0.4	-2.4	-1.3	0.7
Germany	3.0	0.7	0.4	1.8
Slovenia	0.6	-2.3	-2.0	-0.1
Euro area	1.4	-0.6	-0.4	1.2
Inflation, in %				
European Union	3.1	2.6	1.8	1.7
Euro area	2.7	2.5	1.6	1.5
Oil price increase, in %	38.3	0.8	-6.2	-5.4

Source: European Commission, *European Economic Forecast, Spring 2013*

In accordance with the latest projections provided by the European Commission in May of this year, gross domestic product is expected to fall in real terms by 0.1% in the EU and 0.4% in the euro area, which is slightly below the previous projections of the European Commission from February this year. Positive contribution to a change in gross domestic product in 2013 is expected to come from exports of goods and services, fuelled by bigger global demand, while growing unemployment, more restrictive terms of financing, deleveraging of the private and the government sector and rising uncertainty will lead to a negative contribution of domestic demand. In 2014, gross domestic product is expected to grow in real terms by 1.4% in the EU and 1.2% in the euro area. Domestic demand is expected to take on the role of the main generator of economic growth, due particularly to increased household consumption and investments, as a result of restored business and consumer confidence, better terms of financing, improved conditions on the labour market and increased household purchasing power.

In 2012, inflation slowed down to 2.6% in the EU and 2.5% in the euro area. Upward pressures on prices are expected to relax further in 2013, once the effects of earlier increases in energy prices, indirect taxes and administrative prices wear off, while weak domestic

demand will limit the possibilities of producer price increases. As a result, inflation in 2013 and 2014 is expected to average 1.8% in the EU and 1.6% in the euro area and 1.7% in the EU and 1.5% in the euro area, respectively.

Negative risks to projected European economy growth outturn are still significant and uncertainty remains high. Major risks lie in renewed worsening of the debt crisis in the euro area and postponement of fiscal consolidation or structural reforms measures. In addition, negative risks arising from the international environment include the possible increase in interest rates in the capital markets, fiscal problems in the U.S. and Japan which have the potential to disrupt the financial markets, faster appreciation of the euro than expected or disturbances in the oil market. By contrast, the factors which could boost faster recovery of the European economy than projected include stronger confidence recovery and faster growth of the global economy than expected. The risks on inflation projection side are balanced. Inflation could be higher than projected owing to faster growth in indirect taxes, bigger increase in administrative or oil prices than envisaged. However, should the economic activity in the European or global economy be slower than expected, inflation could be lower than projected.

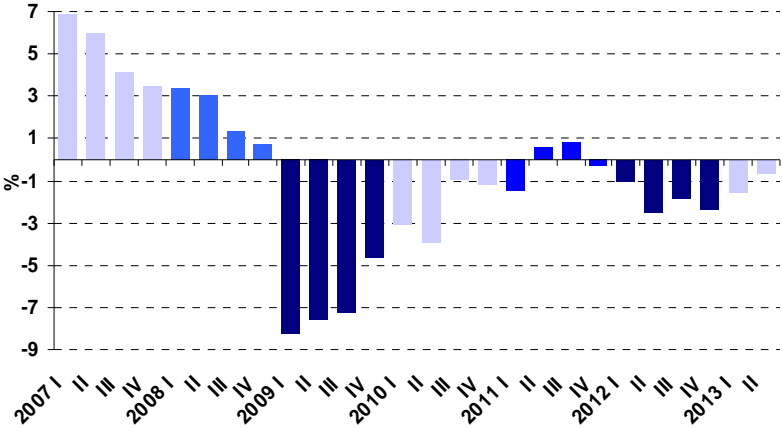
Economic developments in the EU, particularly in Italy, Germany, Austria and Slovenia, the countries with which Croatia has the closest economic links, have a significant impact on the domestic economy. In 2012, gross domestic product in Italy fell by 2.4% in real terms, mostly driven by a sharp fall in domestic demand, particularly household consumption and investments. Similar developments are expected this year, with the expected fall in gross domestic product standing at 1.3%. In 2014, gross domestic product is expected to grow by 0.7% in real terms, mainly as a result of exports and investments. In 2012, real gross domestic product in Germany grew by 0.7% in real terms, based primarily on positive contribution of net exports. In 2013, the growth in gross domestic product in real terms is projected to slow down to 0.4% and in 2014 it is expected to grow by 1.8%. Domestic demand, led by household consumption, will provide the main boost to economic growth in 2013 and 2014. In 2012, Austrian economy grew by 0.8% and in 2013 it is expected to slow down to 0.6%. With gradual reversal expected towards the end of 2013, gross domestic product is expected to grow by 1.8% in 2014. The most significant positive contribution to growth in gross domestic product will come from exports of goods and services. The real fall in gross domestic product in Slovenia in 2012 stood at 2.3%, largely as a result of a fall in household consumption and investments. With similar developments being expected in 2013, economic activity is expected to fall by 2.0%. With expected stabilisation of economic activity in 2014, gross domestic product in that year is expected to fall by a negligible 0.1%.

3.2. Macroeconomic developments in Croatia in 2012 and 2013

Negative developments in Croatian economy, which started in 2009, were still present in the first half of 2013. Despite stagnation in real economic activity in 2011, the year 2012 again closed with a fall in gross domestic product of 2.0%. The trend of negative contribution of domestic demand to the change in gross domestic product and positive contribution of net foreign demand continued into 2012. The biggest contribution to a fall in domestic demand came from household consumption (-1.8 percentage points) which fell by 3.0%, followed by gross fixed capital formation (-0.9 percentage points) which fell by 4.6% in real terms. The

contributions of changes in inventories, government consumption and non-profit institutions serving households were insignificant (-0.3, -0.2 and 0.0 percentage points, respectively). Government consumption fell by 0.8% in real terms and that of non-profit institutions serving households by 1.2%. The positive contribution of net foreign demand to the change in gross domestic product amounted to 1.1 percentage point, as a result of positive contribution of imports of goods and services (0.9 percentage points) which fell by 2.1% and a positive contribution of exports of goods and services (0.2 percentage points) which rose by 0.4% in real terms. On the production side, the biggest contribution to the real fall in gross added value in 2012 came from manufacturing, mining and quarrying and other industries and wholesale and retail trade, transportation, storage, accommodation and food service activities, the activities which account for the biggest share of the total gross added value, and construction, the activity that has recorded the sharpest fall in gross added value since the beginning of the crisis.

Chart 1: Real year-on-year GDP growth



Source: CBS

In the first half of 2013, gross domestic product fell by 1.1% in real terms, compared to the same period in 2012, owing to a real year-on-year decline of 1.5% in the first quarter and 0.7% in the second quarter of 2013. The biggest negative contribution to the fall in gross domestic product in the first half of 2013 came from household consumption which fell by 1.2% in real terms compared to the same period in 2012, followed by the negative contribution of exports of goods and services, which fell by 1.7% year-on-year in real terms in the first half of the year. The other components did not make a significant contribution to the change in gross domestic product. Gross fixed capital formation fell by 0.6% year-on-year in real terms, government consumption and consumption of non-profit institutions serving households increased by 0.9% and 1.1%, respectively, while imports of goods and services declined by 0.2% year-on-year in real terms in the first half of 2013. The calculation of gross domestic product on the production side shows that the biggest contribution to the real fall in gross value added in the first half of 2013 came from a fall in gross value added in construction, wholesale and retail trade, transportation, storage, accommodation and food service activities and manufacturing, mining and quarrying and other industries.

Table 2: Overview of basic macroeconomic indicators

year-on-year change, in %	2011	2012	2013 I - III	2013 IV - VI	2013 VII
GDP (real)	0.0	-2.0	-1.5	-0.7	-
Industrial production (working-day adj.)	-1.2	-5.5	1.1	-2.5	-4.1
Retail trade turnover (real, working-day adj.)	1.0	-4.3	-4.0	1.2	0.4
Number of tourist nights	7.0	4.0	9.9	4.3	1.8
Construction work index (working-day adj.)	-8.7	-9.7	-5.1	-4.6	-
Exports of goods (HRK)	9.8	1.6	-7.6	-1.2	-
Imports of goods (HRK)	9.7	0.7	-6.0	6.0	-
Registered unemployment rate (level)	17.8	18.9	21.7	19.7	18.5
Consumer price index	2.3	3.4	4.6	2.3	2.3
Credit institutions' loans	6.0	-2.4	-2.9	-1.8	-1.6

Source: CBS, CNB

Average inflation measured by the consumer price index accelerated to 3.4% in 2012, an increase of 1.1 percentage point from 2011. Inflation developments in 2012 were largely influenced by adjustments in administrative electricity and gas prices for households¹, changes in the value added tax (VAT) system² and increased prices of unprocessed food products caused by drought and increased prices of food raw materials on the global market. The biggest contribution to consumer price growth in 2012 therefore came from energy and food prices.

Inflation slowed down in the first seven months of this year. The year-on-year growth in the consumer price index slowed down from 4.7% in December 2012 to 2.3% in July 2013. The biggest contribution to consumer price growth on a year-on-year basis in July came from food prices, which rose by 4.6% from July 2012, mostly driven by increased prices of milk, cheese and eggs (12.8%) and to a lesser extent tobacco prices which rose by 15.6% from July 2012. The consumer price index grew by 3.3% on average in the first seven months of this year, compared to the same period in the previous year.

Chart 2: Consumer price index, year-on-year change



Source: CBS

¹ Electricity and gas prices were raised on 1 May 2012.

² On 1 March 2012, the general VAT rate was raised from 23% to 25%, and at the same time a lower, 10% VAT rate was introduced on some goods and services (edible oils and fats, water supply, sugar and baby food).

Slow economic activity in 2012 led to continued unfavourable developments in the labour market. According to administrative data, the average number of total employment fell by 1.1%, mainly as a result of a fall in employment in manufacturing, construction and trade, while the average number of registered unemployment rose by 6.2%. The average rate of registered unemployment in 2012 stood at 18.9%, an increase of 1.1 percentage point, while the average ILO unemployment rate stood at 15.8%, an increase of 2.4 percentage points from 2011. Despite their nominal growth, real wages continued to trend downwards, with the average monthly gross wage falling by 2.3% in real terms and the average monthly net wage paid falling by 2.6%.

The developments in the labour market up to the present part of 2013 point to further negative trends. The average number of unemployed persons rose by 8.9% in the first seven months of this year, compared to the same period in 2012, while the average number of employed persons fell by 2.8%. The average registered unemployment rate stood at 20.4% in the first seven months of 2013, an increase of 1.8 percentage points compared to the same period in 2012.³ In the first half of this year, average gross and net wages fell year-on-year in real terms by 2.2% and 2.4%, respectively.

3.3. Macroeconomic projections for the 2014–2016 period

Macroeconomic projections are based on available information and statistical indicators published until mid-September 2013. Unfavourable economic developments in the international environment, most notably in the EU, towards the end of 2012 and in the first part of 2013 increased negative risks and resulted in downward correction of projections for most of Croatia's foreign trade partner countries. As negative developments in economic activity in 2012 also continued into the first half of 2013 in the domestic economy, these macroeconomic projections were also corrected downwards in comparison with the last projections of the Government of the Republic of Croatia provided in April this year. However, the main assumption upon which these macroeconomic projections rest, and one of the main economic objectives of the Government of the Republic of Croatia, remains to be the effect on domestic economy recovery through wider public sector investment efforts.

After a real year-on-year decline in GDP of 1.5% in the first and 0.7% in the second quarter, economic activity is expected to grow in the remaining part of 2013, in part suggested by high frequency indicators for the third quarter of 2013 published so far. The expected recovery in economic activity in the remaining part of 2013 will be based on strong acceleration of the investment cycle of public enterprises towards the end of the year together with a significant contribution of services exports and further mild growth in household consumption. Real GDP on the entire 2013 level is expected to grow by an insignificant 0.2%. Domestic demand should make a positive contribution to the change in GDP as a result of a positive contribution of gross fixed capital formation and a negligible positive contribution of government consumption. The contribution of net foreign demand will be negative. In the rest of the projection period, real GDP growth is expected to accelerate steadily; from 1.3% in 2014, 2.2% in 2015 to 2.5% in 2016. Acceleration in the economic activity in the remaining part of the observed period will be based primarily on positive contribution from gross fixed capital

³ Data on the number of employed persons and unemployment rate for 2013 are preliminary.

formation and goods and services exports, while a more significant positive contribution from household consumption can be expected only towards the end of the period. Envisaged economic growth in Croatia over the next medium term will also be supported by more favourable economic developments in the international environment, particularly acceleration in the economic activities of EU countries, starting from the end of 2013, as suggested by the latest available projections of the European Commission for 2013 and 2014.

Table 3: Projections of macroeconomic indicators of the Republic of Croatia

	2012	Projection 2013	Projection 2014	Projection 2015	Projection 2016
GDP in current prices (HRK million)	330,232	336,326	347,178	361,730	378,010
GDP, real growth (%)	-2.0	0.2	1.3	2.2	2.5
Households' consumption	-2.9	-0.3	0.2	1.5	2.2
Government consumption	-0.8	0.3	-1.5	-0.4	0.6
Gross fixed capital formation	-4.6	3.3	7.6	7.5	5.9
Exports of goods and services	0.4	-0.5	2.3	3.4	4.2
Imports of goods and services	-2.1	0.6	2.5	4.3	5.0
GDP, contributions to growth (percentage points)	-2.0	0.2	1.3	2.2	2.5
Households' consumption	-1.8	-0.2	0.1	0.9	1.3
Government consumption	-0.2	0.1	-0.3	-0.1	0.1
Gross fixed capital formation	-0.9	0.6	1.4	1.5	1.2
Exports of goods and services	0.2	-0.2	1.0	1.5	1.8
Imports of goods and services	0.9	-0.3	-1.0	-1.8	-2.2
Employment growth (ILO, %)	-3.1	-2.4	0.3	1.2	1.4
Consumer price index change (%)	3.4	2.4	2.0	2.0	1.9

Source: CBS, Ministry of Finance

The projected real fall in household consumption of only 0.3% in 2013 is based primarily on the assumption of a continued positive trend which started in the second quarter. Household consumption in 2013 will be positively influenced by recovery in consumer confidence, already evident in 2013 and particularly evident in the second quarter of 2013, associated mainly with the country's accession to the EU. In the remaining part of 2013 and in 2014, for which a negligible real growth in household consumption of 0.2% is projected, consumer optimism is expected to rise further in the environment of slowing consumer price inflation and more favourable economic developments, both domestically and internationally. However, consumption will be limited in the remaining part of 2013 and in the biggest part of 2014 by a further real fall in household disposable income, primarily as a result of unfavourable developments in the labour market. A negative impact will also come from fiscal consolidation measures taken in the last two years, primarily on the revenue but also on the expenditure side of the budget, which are expected to continue in 2014, and household sector deleveraging reflected in a real fall in consumer loans granted by banks. Household consumption is expected to recover gradually in the forthcoming years with its real growth accelerating to 1.5% in 2015 and 2.2% in 2016. This projection is based primarily on the expectation of favourable general economic conditions, particularly positive developments in the labour market. Also expected is the gradual recovery in household demand for loans. The gap between developments in household consumption and disposable income, present in 2013 and most of 2014, should disappear gradually in the forthcoming years. After a small real growth in government consumption of 0.3% in 2013, government consumption is expected to decline in 2014 and 2015 in accordance with the fiscal consolidation on the expenditure side of the budget. Government consumption is thus expected to fall in real terms by 1.5% in 2014 and 0.4% in 2015. In 2016, at the end of the projection period, government consumption is

projected to grow by a small 0.6% in real terms. As mentioned previously, gross fixed capital formation is expected to be the generator of economic growth in the 2013-2015 period. Gross fixed capital formation is envisaged to grow in real terms by 3.3% in 2013, 7.6% in 2014, 7.5% in 2015 and 5.9% in 2016. The increase in aggregate investments in 2013 and part of 2014 will be based primarily on the public sector investment cycle while private investment will remain subdued. More significant recovery in private sector investments is expected to start some time in 2014, with the expected recovery in business optimism and improved general liquidity in the economy. Bigger absorption of EU funds is also expected to make a positive impact on investments. In general, with a gradual reduction in negative risks and uncertainty as regards future economic developments and positive results of implemented structural reforms in the domestic economy, a bigger inflow of foreign capital directed at investment projects is expected in the forthcoming years, after a break of several years. Changes in inventories are expected to give a small positive contribution to real GDP growth in all the years covered by the projection period with no significant stock building by corporate sector being expected before 2015.

Goods and services exports are expected to fall by 0.5% in real terms in 2013, mainly as a result of slower foreign demand dynamics at the beginning of the year, loss of CEFTA countries market in the second part of 2013 and the existing structural problems of the domestic export sector. By contrast, based on the outturn of the available volume indicators in tourism, and taking into account improved price competitiveness in this activity as a result of fiscal policy measures, the results of services exports in 2013 are expected to be good. As regards the remaining part of the projection period, the real growth in goods and services exports is expected to accelerate from 2.3% in 2014 to 3.4% in 2015 and 4.2% in 2016. In the last year of the projection period, the goods and services exports will give the biggest individual positive contribution to economic growth. Such a projection, apart from the expected strengthening of foreign demand, is based on the assumption of a relatively low level and a significant slowdown in the fall of the domestic share in the export markets in the last two years of the projection period which is in turn based on already implemented and planned structural reforms, and the assumption that the export sector will be able to adjust over a short term in a satisfactory manner to the new circumstances. The growth in goods and services imports of 0.6% in 2013 involves primarily imports fuelled by previously mentioned investments of public enterprises. In the remaining part of the projection period, in accordance with an increase in final demand, the real growth in goods and services imports will accelerate from 2.5% in 2014 to 4.3% in 2015 and 5.0% in 2016. Although the share of imports in final demand will increase gradually with economic growth, at the end of the projection period it will still remain somewhat lower than that in the period up to the year 2008. The contribution of net exports to economic growth will be negative throughout the projection period. It should be noted that the existence of a slightly larger negative value of net exports in the conditions of very small economic growth in 2013 was also due to a change to a new foreign trade regime. Taking into account the projected path of economic growth, the absolute values of net exports will be relatively small towards the end of the observed period in comparison with the years before the crisis. This will be made possible by, in addition to the projected relatively strong growth in goods and services exports, partial substitution of energy imports by domestic production, which will be reflected in a slower growth in imports elasticity compared to final demand towards the end of the period.

In 2013, inflation is expected to slow down and the average growth in the consumer price index is expected to stand at 2.4%. The spillover effect of the previous year's inflation will have a significant impact on inflation in 2013, particularly in the first half of the year. In

accordance with the expected further fall in the prices of raw materials in the global market, imported inflationary pressures should continue to ease. Domestic inflationary pressures should also be weak as a result of stifled household consumption and the expected reduction in unit labour costs. In addition, developments in inflation in 2013 will also be influenced by changes in the system of taxation, mostly associated with alignment of domestic legislation with the *acquis communautaire*⁴. In 2014, inflation is expected to slow down further to 2.0%. Imported inflationary pressures will continue to be suppressed, while those domestic might grow slightly as the projected dynamics of household consumption will be too slow to cause any significant pressure on consumer prices. Also, no significant changes in administrative prices have been envisaged so far. In the last two years of the projection period, inflation is expected to hold steady at approximately 2.0%.

As employment recovery will lag behind recovery in economic activity, negative developments in the labour market will continue in 2013 when ILO unemployment rate is expected to rise to 17.6%. From 2014 on, with acceleration in economic growth, the negative trend in the labour market is expected to come to a halt. ILO unemployment rate is thus envisaged to fall to 17.3% in 2014, 16.6% in 2015 and 15.8% in 2016. In line with the projected developments in economic growth and employment, average labour productivity will grow mildly by approximately 1.0% between 2014 and 2016. After falling in 2013, unit labour costs will at first see mild growth in the forthcoming years that will accelerate towards the end of the projection period, reflecting faster growth in gross wages than labour productivity. It should be noted that developments in administrative data on employment are expected to be more favourable than developments in the Labour Force Survey data, especially in 2013 when the fall in registered employment will be more than 1 percentage point slower than the projected fall in ILO employment rate.

3.4. Projection risks

The internal and external negative risks facing the described projections of economic growth will remain pronounced. The external risk lies in more unfavourable developments in the real economic activity in the international environment than those expected, primarily in the EU Member States, as well as in possible new instabilities in foreign financial markets. As regards internal risks, the projected developments in economic activity, particularly in the first years of the observed period, are based on the assumption of strong real growth in wider public sector gross investments. Poorer performance of the public investment cycle than expected will undermine the projected developments in economic activity both directly and indirectly, in terms of absence of positive spillover effects on the economy. In addition, the situation where structural changes in the domestic economy would result over a short term in worse developments in the labour market than expected would have an impact on household consumption dynamics, the process of fiscal consolidation and the quality of domestic financial system assets. As regards domestic risks, it should also be noted that future financing of domestic business entities will largely depend on the inclination of domestic banks towards corporate lending. The envisaged developments in exports depend on further

⁴ The changes include a reduction in VAT rate from 25% to 10% on food preparation and serving of food and beverages in hotel and restaurant facilities, abolishment of the zero VAT rate and gradual alignment of the Croatian excise system with EU legislation.

improvement in the competitiveness of the domestic economy and, in general, on success of adjustment of domestic exporters to the common EU market, while imports dynamics will be linked to the results of domestic energy policy. As regards inflation projection, the risk of a higher inflation than that projected lies in the so far unplanned significant increases in administrative prices or in additional fiscal consolidation measures on the revenue side, as well as in a bigger than expected increase in the prices of raw materials on the global market. By contrast, a factor that could lead to lower than projected inflation lies in slower recovery in domestic demand than expected.

4. FISCAL POLICY OVER A MEDIUM TERM

4.1. Fiscal policy in 2013

Macroeconomic conditions in our immediate international environment worsened in 2013, and were reflected in further negative developments in the domestic economy. This led to changes in the projections of gross domestic product growth and the state budget plan and financial plans of extrabudgetary users in 2013.

In line with changes in growth projections, the amended budget plan envisaged reduced aggregate revenue projections compared to the original plan for 2013. These projections included a one-off effect of revenue increase due to expected property income. No additional changes in tax policy have been planned under budget amendments; however, further activities have been undertaken that are aimed at reducing tax evasion and ensuring equal market conditions for all tax payers in the Republic of Croatia.

The planned budgetary central government expenditures have also been reduced compared to the original plan and so have the expenditures of extrabudgetary users and local and regional self-government units. Selective cuts and redistributions have been planned on the expenditure side of the budget to contain as much as possible the negative impact of these measures on potential growth and further, somewhat downsized, investments in water supply and transport infrastructure, health care and education.

Changes in the system of taxation in 2013 involved those in the system of value added tax and special taxes and excise duties. The Amendments to the Value Added Tax Act which entered into force on 1 January 2013 contain a provision on a reduced 10% rate levied on food preparation and serving of food and beverages in hotel and restaurant facilities. The zero VAT rate was abolished on 1 January 2013 and the products taxed at this rate until then are now taxed at the rate of 5%, the lowest possible rate in the EU, which the authorities hope will help avoid any bigger increase in the prices of these products and alleviate the effect of tax changes on lower income household categories. The Cash Transaction Fiscalisation Act which provides for a gradual implementation of the process of fiscalisation from 1 January 2013 and is aimed towards improvement of fiscal discipline in cash transactions also entered into force on 1 January 2013.

As regards the system of excise duties, further activities were undertaken towards alignment of Croatian legislation with the *acquis communautaire*. The biggest changes involved changes in special taxes on personal vehicles, excise duties on energy products and electricity and excise duties on manufactured tobacco. The new Excise Duties Act has introduced a new system of taxation of personal vehicles, other motor vehicles and vessels and aircrafts which is based on a combined system of taxation. Under this system, the special tax is determined in part on the basis of the value criteria (percentage of selling price) and in part on the basis of the ecological criteria (depending on CO₂ emission). The use of such ecological criteria encourages reduction in carbon dioxide emissions in line with the objectives of the Republic of Croatia and its obligations towards the EU. In addition, equal excise duties are now levied on both new and used cars while aircrafts are exempt from special tax taxation.

Excise duties on manufactured tobacco were raised gradually in the first half of 2013 so that full alignment with the *acquis communautaire* could be achieved during the agreed transitional period. To achieve minimum excise duty prescribed by EU legislation, excise duties on energy products and electricity were changed on 1 January 2013. To avoid increase in the retail price of petroleum products and the effect that it would have on end users, HANDA (Croatian Compulsory Oil Stocks Agency) fee which had been included in the retail price of petroleum products was transferred in its entirety to excise duty.

In addition to the described changes in the system of taxation, further steps were taken to analyse and assess the feasibility of some non-tax revenues so as to boost additionally the competitiveness and relieve the entrepreneurs and investors of the burden. These efforts resulted in an update of the Register of Non-Tax Revenues which is planned to help in reducing/abolishing some non-tax revenues in 2014.

The budget plan for 2013 envisaged a significant increase in certain expenditure categories, such as the increase in the cost of public debt servicing and the assumption of the shipyards' debt, the direct result of which is an increase in interest expense of HRK 1.2bn compared to 2012. The shipyard restructuring programme has created additional burden for the government budget of approximately HRK 460m. The implication of EU membership of the Republic of Croatia since 1 July 2013 in fiscal sense, is its contribution to the EU budget, estimated at HRK 1.7bn in 2013.

In the first half of 2013, total budgetary central government revenue fell by 1.4% year-on-year, an outturn of 46.1% of the planned level. These developments were mostly driven by a fall in revenue from profit tax and contributions, as a result of legislative changes aimed at taking the load off the private sector. Total expenditure amounted to 51.5% of the plan, an increase of HRK 4.9bn compared to the same period in 2012. This was the result of the settlement of obligations of institutions in the health sector in rehabilitation and the Croatian Health Insurance Fund of HRK 3.3bn. Owing to earlier payments of planned subsidies to farmers, these subsidies rose by HRK 764m compared to the first six months of 2012. As a result, the total budgetary central government deficit reached HRK 11.4bn or 3.4% of the estimated GDP in the first half of 2013. At the same time, extrabudgetary users ran a deficit of HRK 486m, as a result of heightened investment activities in the water supply and roads sector. With local units running a surplus of HRK 143m, the total general government deficit stood at HRK 11.8bn or 3.5% of the estimated GDP for 2013.

4.2. Developments in revenues in the 2014–2016 period

Budgetary Central Government

The projected budgetary central government revenue for the 2014-2016 period is based on the expected recovery and heightening of economic activity, and takes into account changes in the system of taxation, improved tax discipline and fiscal impacts of EU membership.

The total budgetary central government revenues are projected in the amount of HRK 114.3bn, a year-on-year growth of 0.8%. Total revenues will grow by 5.6% in 2015 and 4.6% in 2016 and will stand at HRK 120.7bn in 2015 and HRK 126.2bn in 2016, respectively.

Tax revenues, as the most significant source of budget financing, are projected under the assumption of no changes in tax policy with the exception of the necessary alignment of the system of taxation in terms of convergence of the relevant legislation with the *acquis communautaire* (excise duties). The projections also take into account the expected further improvement in tax collection, prevention of tax evasion and gradual resolution of the issue of tax debts. Tax changes implemented in 2013, primarily those in value added tax and excise duties, will also have a fiscal impact in the forthcoming years. Overall, tax revenues in 2014 have been planned in the amount of HRK 65.7bn, a fall of 0.7% year-on-year. The main reason for such developments in tax revenues is the fall in revenues from profit tax, largely due to a fall in bank profit in 2013. In addition, further cuts are expected in the tax base for profit tax in 2014 due to reinvested earnings, which should ultimately boost investment activities. Income tax reliefs in the areas of special state concern and hilly and mountain areas are planned to be abolished from 1 January 2014 and the fiscal impact of this measure will be seen in 2015. Tax revenues will stand at HRK 68.1bn in 2015 and at HRK 70.5bn in 2016.

Revenues from contributions are the second most important budget revenue and their projections for the forthcoming mid-term period have been made in accordance with expectations in the labour market. Increased inflows are expected based on the settlement of tax payers' debts. Revenues from contributions are expected to amount to HRK 38.3bn in 2014, HRK 39.7bn in 2015 and HRK 41.3bn in 2016.

As regards the structure of total revenues over the observed medium term, a significant increase is expected in revenues from EU grants, directly associated with projects financed by pre-accession and accession funds, Schengen capacity-building and direct payments in agriculture. From 2014 on, significant funding will be placed at Croatia's disposal in the framework of the new EU programme for the 2014-2020 period. Thus, total revenues from grants will stand at HRK 4.6bn in 2014, HRK 7.1bn in 2015 and HRK 8.4bn in 2016.

As regards other budget revenues, which as a rule are not directly associated with developments in the economic activity, account should be taken of revenues from property income which will largely depend on revenue outturn based on concession fees and other fees, shares and profit of state-owned companies, as well as revenues based on interest on loans granted. In the forthcoming period, revenues from administrative fees and fees based on special regulations, revenues from own activities of budget users and revenues from fines and administrative measures are expected to be in line with their current trends. Revenues from disposal of non-financial assets are also expected to be in line with current trends.

Table 4: Trends in the budgetary central government revenue in the 2012–2016 period

(000 HRK)	2012	2013 Plan	Index 13/12	2014 Projection	Index 14/13	2015 Projection	Index 15/14	2016 Projection	Index 16/15
TOTAL REVENUE (6+7)	109,837,284	113,399,552	103.2	114,266,197	100.8	120,685,640	105.6	126,207,499	104.6
6 Revenue	109,558,928	113,109,794	103.2	114,000,677	100.8	120,407,110	105.6	125,916,969	104.6
Tax revenues	64,332,058	66,216,970	102.9	65,740,030	99.3	68,107,533	103.6	70,533,120	103.6
Income tax	1,269,525	1,243,959	98.0	1,374,776	110.5	1,824,085	132.7	1,898,455	104.1
Profit tax	7,697,342	7,282,737	94.6	5,773,399	79.3	5,960,438	103.2	6,113,399	102.6
Tax on goods and services, of which:	53,205,019	56,148,269	105.5	57,562,961	102.5	59,250,810	102.9	61,403,184	103.6
Value-Added Tax	40,652,023	42,958,717	105.7	44,146,392	102.8	45,684,639	103.5	47,645,321	104.3
Special taxes and excise duties	11,206,489	11,797,802	105.3	11,945,392	101.3	12,040,735	100.8	12,178,108	101.1
Taxes on international trade and transactions	1,754,364	1,142,661	65.1	588,647	51.5	623,269	105.9	659,926	105.9
Other revenues from taxes	1,752,315	1,791,094	102.2	1,911,422	106.7	1,974,367	103.3	2,037,909	103.2
Contributions	37,845,871	37,634,900	99.4	38,330,699	101.8	39,725,229	103.6	41,298,824	104.0
Grants	1,046,210	2,727,540	260.7	4,576,129	167.8	7,090,000	154.9	8,442,059	119.1
Property income	2,061,569	1,729,412	83.9	1,033,296	59.7	1,067,160	103.3	1,106,444	103.7
Revenues from administrative fees, fees under special regulations and compensations	3,668,068	4,198,850	114.5	3,706,614	88.3	3,789,251	102.2	3,895,834	102.8
Other revenues	605,153	602,122	99.5	613,908	102.0	627,936	102.3	640,688	102.0
7 Revenue from the disposal of nonfinancial assets	278,356	289,758	104.1	265,520	91.6	278,530	104.9	290,530	104.3

Source: Ministry of Finance

Extrabudgetary users

In the 2014-2016 period, extrabudgetary users will increase their share in gross domestic product from 1.7% in 2014 to 2.2% in 2015 and 2.6% in 2016. Such developments are associated with an increase in revenues from grants which are determined by budget revenues, mostly directed to water supply and road infrastructure, i.e. EU-funded projects. The share in GDP of other revenues of extrabudgetary users, of which the most important are revenues from water management, fees for environmental protection services, and deposit insurance premiums, will remain unchanged.

Table 5: Trends in the extrabudgetary users revenue in the 2012–2016 period

% of GDP	2012	2013 Plan	2014 Projection	2015 Projection	2016 Projection
Total revenue	1.5	1.7	1.7	2.2	2.6
Grants	0.5	0.6	0.7	1.2	1.6
Revenues from water management	0.4	0.5	0.5	0.5	0.5
Fees for environmental protection services	0.3	0.3	0.3	0.3	0.3
Deposit insurance premiums	0.1	0.1	0.1	0.1	0.1
Other	0.1	0.2	0.1	0.1	0.1

Source: Ministry of Finance

Local and regional self-government units

The total revenues of the local units will average approximately 6.6% of GDP, with income tax and surtax, as the biggest revenue, accounting for a constant share of GDP of 3.1%. Revenues from administrative fees and fees based on special regulations, which include utility-service fees and utility-service payments, will average 1.3% of GDP. Developments in other revenue categories will be similar to current trends.

Table 6: Trends in the local government revenue in the 2012–2016 period

% of GDP	2012	2013 Plan	2014 Projection	2015 Projection	2016 Projection
Total revenue	6.9	6.8	6.7	6.6	6.5
Income tax and surtax	3.2	3.2	3.1	3.1	3.1
Grants from the state budget	0.5	0.5	0.4	0.4	0.4
Property income	0.5	0.5	0.5	0.5	0.5
Revenues from administrative fees, fees under special regulations and compensations	1.4	1.4	1.4	1.3	1.3
Revenue from the disposal of nonfinancial assets	0.2	0.2	0.2	0.2	0.2
Other	1.1	1.0	1.0	1.0	1.0

Source: Ministry of Finance

4.3. Developments in expenditures in the 2014–2016 period

Budgetary Central Government

In the 2014-2016 period, budgetary central government expenditures will be determined by the objectives and priorities of the Government of the Republic of Croatia contained in the Strategy of Government Programmes, taking into account the fiscal impacts of full membership of the Republic of Croatia in the EU, which influence the level and the structure of budgetary central government expenditures. The full effect of reform and other measures of fiscal consolidation for the 2014-2016 period will be fully visible in the adoption of the 2014 budget.

In 2014, total budgetary central government expenditures have been projected in the amount of HRK 131.7bn, an increase of HRK 8bn compared to the budget plan for 2013. The expense associated with EU membership will rise by a significant HRK 4.7bn, with expense associated with payments to the EU budget rising by HRK 1.9bn and the remaining part of HRK 2.8bn relating to EU grants and national co-financing. The increase in expenditures is also due to a considerable increase in interest expense of HRK 2.5bn, as a result of a persistent budget deficit in the previous years and incorporation of debts of public enterprises into public debt. The remaining part of the increase of HRK 862m can be mostly attributed to increased compensation of employees and pensions. Budget expenditures are expected to grow additionally in 2015 and 2016 when they will reach HRK 136.9bn and 141.7bn, respectively.

Table 7: Trends in the budgetary central government expenditure for the 2012-2016 period

(HRK 000)	2012	2013 Plan	Index 13/12	2014 Projection	Index 14/13	2015 Projection	Index 15/14	2016 Projection	Index 16/15
TOTAL EXPENDITURE (3+4)	119,837,973	123,646,478	103.2	131,669,938	106.5	136,938,534	104.0	141,664,568	103.5
3 Expense	118,729,992	121,450,157	102.3	128,943,710	106.2	133,903,219	103.8	138,767,466	103.6
31 Compensation of employees	22,394,794	20,711,915	92.5	21,359,300	103.1	22,039,954	103.2	22,732,510	103.1
32 Material expense	8,241,000	8,748,648	106.2	8,796,839	100.6	8,914,790	101.3	8,759,233	98.3
34 Financial expense	8,821,579	10,051,993	113.9	12,552,575	124.9	13,454,852	107.2	14,493,134	107.7
35 Subsidies	5,762,321	5,989,258	103.9	6,687,649	111.7	6,894,035	103.1	6,809,894	98.8
36 Grants	4,755,279	6,730,572	141.5	9,491,902	141.0	10,428,013	109.9	11,845,030	113.6
37 Compensations to citizens and households based on insurance and other compensations	64,373,649	63,975,455	99.4	64,421,092	100.7	64,927,406	100.8	65,897,334	101.5
38 Other expense	4,381,369	5,242,315	119.7	5,634,353	107.5	7,244,169	128.6	8,230,331	113.6
4 Expense for the acquisition of nonfinancial assets	1,107,982	2,196,321	198.2	2,726,228	124.1	3,035,315	111.3	2,897,102	95.4

Source: Ministry of Finance

Compensation of employees

By its share in total expenditures compensation of employees represents the second largest item of budget expenditures, which is to the greatest extent determined by trends in the number of state and civil servants. Total compensation of employees will amount to HRK 21.4bn in 2014, that is, will increase by HRK 647m as a consequence of the increase in basic salary accounting for the years of service, while, same as in 2013, no payments arising from acquired benefits, such as Christmas or holiday bonus are envisaged. The reform of the salary system and the expansion of the scope of beneficiaries of the central salary calculation system (COP) will also lead to savings in this expenditure category. In addition, next year is expected to bring about a decline in the number of employees in state and civil service due to a certain number of civil servants and employees qualifying for old-age pension. Total compensation of employees will reach HRK 22bn in 2015 and HRK 22.7bn in 2016.

Material expense

Material expense include the reimbursement of costs of employees, expenses on current and investment maintenance, office equipment, energy, military equipment, etc. In the 2014–2016 period they are projected to average at some HRK 8.8bn, which assumes that rationalisation measures and saving will continue in relation to all items, especially in relation to the reimbursement of costs of employees, expenses on services, as well as other operating expenses not mentioned.

Financial expense

Financial expense, which consist of interest on issued securities, interest on received loans and other financial expenses, have been projected in accordance with the situation in the financial markets, that is, with the repayment costs of the public debt incurred in the previous period and due to inclusion of the debts of public enterprises into public debt. The projected financial expense in 2014 is HRK 12.6bn, up HRK 2.5bn relative to the plan for 2013. It is

expected to increase further by HRK 900m in 2015 and HRK 1bn in 2016. In other words, financial expense is projected at HRK 13.5bn in 2015 and 14.5bn in 2016.

Subsidies

Expense on subsidies will record an increase of HRK 698m in 2014 and amount to HRK 6.7bn. Expense is projected to be the highest for subsidies in agriculture and to Croatian Railways (HŽ) and subsidies for shipbuilding due to obligations under restructuring plans. In 2014, subsidies for agriculture are expected to increase by HRK 450m. The amount of national contribution for direct payments in agriculture will remain in line with the plan in 2013, while this will be topped by EU funds for direct payments in agriculture worth HRK 732m. In the upcoming period, subsidies for agriculture will require greater supervision and control in order to eliminate irregularities in the withdrawal of budgetary funds, increase efficiency and achieve a higher level of total agricultural production.

Subsidies to Croatian Railways will increase by HRK 281m, totalling HRK 1.2bn, of which HRK 516m is earmarked for the maintenance of railway infrastructure and transport regulation, while HRK 636m is intended for incentives to railway passenger transport.

Subsidies to shipbuilding will total HRK 672m, which is HRK 198m less than planned in 2013. This is in line with the financing dynamics agreed with the European Commission under the shipyard restructuring plans.

Subsidies to small and medium-sized enterprises have been projected at HRK 349m, up HRK 189m relative to the plan in 2013. This is a result of the access to EU structural funds for regional competitiveness and strengthening of measures aimed at spurring investments.

Subsidies are projected at HRK 6.9bn and HRK 6.8bn in 2015 and 2016 respectively.

Grants allocated abroad and within the general government

Expenses for grants from the state budget allocated abroad and within the general government are projected at HRK 9.5bn in 2014. This is HRK 2.8bn more than in the previous year, primarily as a result of the year-long effect of the obligation of the Republic of Croatia to contribute to the European Union budget, in the total of HRK 3.6bn. In addition, EU grants for projects will increase by HRK 925m, primarily in the sectors of regional development, science, agriculture, environment and labour. The projected grants for funds to decentralised functions of local government units will total HRK 1.4bn.

In the following two years, total grants will reach HRK 10.4bn and HRK 11.8bn respectively, as a result of further increase in EU grants.

Compensations to citizens and households based on insurance and other compensations

Compensations to citizens and households based on insurance and other compensations represent the largest item of budget expenditure and will increase by HRK 446m in 2014

relative to the plan for 2013. Their amount will to the greatest extent be determined by the trends in expenses on pensions and health care and expenses on child allowances, maternity benefits, unemployment benefits and social welfare.

Expenses for pensions in 2014 are projected at HRK 36bn. This envisages the alignment of pensions arising from employment with the costs of living and a parallel reform of the system of privileged pensions. Health care expenses are projected at HRK 19.5bn, in line with this year's plan. The upcoming period is expected to see further effects of the implementation of the unified public procurement and the reduction in expenses for prescription medicines, as well as of sick leave controls and improvements in the efficiency of organisational units in health care institutions. In addition, the objective of the implementation of the programme of restructuring of some health care institutions that has started in 2013 will be to rationalise this category of expenses and improve the quality of the health care system as a whole.

Expenses for social welfare went up by HRK 235m relative to the plan for 2013. As of 1 January 2014 a guaranteed minimum benefit will be introduced unifying certain social welfare benefits that have up to this point been under the jurisdiction of the Ministry of Veterans' Affairs, Ministry of Labour and Pension System and the Ministry of Social Policy and Youth. Thus, payments for subsistence benefits, extended social benefits and social benefits will in the existing social welfare system legally and budgetary be unified into a guaranteed minimum benefit, thus strengthening the efficiency and organisation of the social welfare system. In addition, the planned developments relating to these expenses are also determined by the increase in number of applications for social welfare benefits.

Compensations to citizens and households in 2015 and 2016 are projected at HRK 64.9bn and HRK 65.9bn, respectively.

Other expense

Other expense, including current and capital donations, fines, penalties and forfeits, extraordinary expense and capital grants, is projected at HRK 5.6bn in 2014, which is HRK 392m more than planned for 2013. In 2015, it will reach HRK 7.2bn and in 2016 HRK 8.2bn. The largest portion of these expenses will be directed to current and capital investments in transport infrastructure, rural development and science. The substantial increase in these expenses arises from the implementation of projects co-financed from EU funds. In the next three years substantial funds will be directed into HŽ modernisation.

Expense for the acquisition of nonfinancial assets

In 2014, expense for the acquisition of nonfinancial assets is projected at HRK 2.7bn, up HRK 530m on the year before, with the largest portion of this increase relating to projects financed from the EU budget, such as the development of the Schengen capacity as well as scientific and judiciary projects. In addition, the expenses for financing the construction of border crossings and for the procurement of a fire fighting aircraft will be registered in this item category.

This expense category is expected to continue increasing in 2015 and 2016, thus reaching HRK 3bn in 2015 and HRK 2.9bn in 2016.

Extrabudgetary users

The share of expenditure of extrabudgetary users as a share in the gross domestic product will increase in the upcoming medium-term period from 2.2% in 2014 to 2.9% in 2015 and 3% in 2016. This increase in expenditure will arise from increased investment activity of Croatian Waters, Croatian Roads and the Environmental Protection and Energy Efficiency Fund. The substantial portion of activities is planned to be financed from EU funds. Compensation of employees, material expense and financial expense will maintain the same share in GDP over the medium-term horizon under review.

Table 8: Trends in the extrabudgetary users expenditure for the 2012-2016 period

% of GDP	2012	2013 Plan	2014 Projection	2015 Projection	2016 Projection
Total expenditure	2.0	2.1	2.2	2.9	3.0
Compensation of employees	0.1	0.1	0.1	0.1	0.1
Material expense	0.7	0.7	0.7	0.7	0.7
Financial expense	0.1	0.2	0.2	0.2	0.2
Capital grants	0.2	0.2	0.2	0.8	1.2
Expense for the acquisition of nonfinancial assets	0.8	0.8	0.9	1.0	0.8
Other	0.1	0.1	0.1	0.1	0.1

Source: Ministry of Finance

Local and regional self-government units

Total expenditure of all 576 local and regional self-government units in the 2014–2016 period are projected to average at some 6.6% of GDP, with the material expense and compensation of employees, as the largest categories in the total expenditure, decreasing their share in GDP towards the end of the medium-term period. The share of other expenditure categories in GDP will remain unchanged throughout the entire medium-term period.

Table 9: Trends in the local government expenditure for the 2012-2016 period

% of GDP	2012	2013 Plan	2014 Projection	2015 Projection	2016 Projection
Total expenditure	6.9	6.8	6.7	6.5	6.5
Compensation of employees	1.6	1.5	1.5	1.4	1.4
Material expense	2.5	2.5	2.4	2.4	2.3
Subsidies	0.3	0.3	0.3	0.3	0.3
Compensations to citizens and households based on insurance and other compensations	0.3	0.3	0.3	0.3	0.3
Current donations and capital grants	0.8	0.8	0.8	0.8	0.8
Expense for the acquisition of nonfinancial assets	1.1	1.0	1.0	1.0	1.0
Other	0.3	0.3	0.3	0.3	0.3

Source: Ministry of Finance

4.3.1. Expenditure of the budgetary central government by divisions

Table 10 contains an estimate of the ceiling of the financial plan for the 2014–2016 period broken down by budgetary central government divisions. These estimates include operating expenses (group of accounts 3) and expense for the acquisition of nonfinancial assets (group of accounts 4). These expenditures are financed from the following sources: general revenue and receipts, contributions (only for the Ministry of Health and the Ministry of Labour and Pension System) and special purpose income from borrowing.

The source of financing entitled “general revenue and receipts” comprises the following items: revenues from taxes (for the most part), revenues from financial assets, revenues from administrative fees, state administration revenues, revenues from fines, receipts from financial assets and borrowings and other.

The purpose of use of revenues which are classified under the source of financing “general revenue and receipts” is determined within the budget itself.

Expenditures planned in the financial plan of a budget user from the source of financing “general revenue and receipts” are settled up to the amount of the planned expenditure irrespective of revenues collected.

Table 10 does not include an estimate of operating expenses and expense for the acquisition of nonfinancial assets to be financed from other sources, such as: own revenues, special purpose revenues, grants and donations. The spending rule for these sources of finance depends on the nature of the source of financing itself.

Table 11 gives the estimate of the financial plan for the category of compensation of employees for the 2014–2016 period broken down by budgetary central government divisions for the sources of financing entitled general revenue and receipts, contributions and special purpose income from borrowing. Budgetary users are obligated to adhere to the amount set for compensation of employees, as shown in Table 11.

Table 12 contains an estimate of the ceiling of the total financial plan for the 2014–2016 period broken down by budgetary central government divisions, which does not include the amount of financial plan of the category of compensation of employees, shown in Table 11.

For the purpose of developing fiscally and socially sustainable budgets in the upcoming three year period, the ministries, state offices and agencies must draft their financial plans respecting the set limits according to divisions of the state budget for the sources of finance that affect the level of the general government deficit.

Given the limitations of the budget, budgetary users are encouraged to plan projects which can be co-financed from European funds. Own funds must be secured in their own positions for the purpose of national co-financing. To use EU funds allocated to the Republic of Croatia in the programme 2014–2020 period financing priorities are set in operating programmes in line with the theme priorities of the EU. Budgetary users are primarily to plan projects in line with the set priorities, available funds and realistic dynamics of the implementation of individual projects.

It is noteworthy that expenditure shown in Tables 10–12 do not include expenses of those agencies, funds and institutes which will become budgetary users as of 1 January 2014 and are up to that point outside the State Treasury system. Those are as follows: the Fund for Indemnification of Seized Property, the Agency for Areas Endangered by Explosive Atmosphere, Fund for Financing the Decommissioning of the Krško Nuclear Plant, the Croatian Energy Regulatory Agency, the Electronic Media Agency, the Croatian Civil Aviation Agency, the Croatian Post and Electronic Communications Agency, the Croatian Institute for Toxicology and Antidoping. The competent ministries are obligated to implement the necessary changes to regulations in order for the listed agencies, funds and institutes to be included into the State Treasury system as of 1 January 2014. The total revenue and expenditure of the budgetary central government, as shown in these Guidelines, will be

adjusted following the inclusion of the mentioned users into the budgetary central government.

Table 10: Total expenditure limits by divisions of the budgetary central government for the following sources of financing: general revenue and receipts, contributions and special purpose income from borrowing for the 2014–2016 period

(HRK 000)		2013	2014	Index	2015	Index	2016	Index
		Plan	Projection	14/13	Projection	15/14	Projection	16/15
TOTAL		118,845,264	124,439,772	104.7	126,949,680	102.0	130,265,446	102.6
010	CROATIAN PARLIAMENT	254,734	223,914	87.9	324,487	144.9	179,719	55.4
013	FORMER PRESIDENT OF THE REPUBLIC OF CROATIA	948	910	96.0	922	101.3	924	100.3
015	PRESIDENT OF THE REPUBLIC OF CROATIA	45,620	43,303	94.9	44,508	102.8	45,057	101.2
017	CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	30,763	28,602	93.0	30,100	105.2	30,237	100.5
018	CROATIAN COMPETITION AGENCY	13,056	14,124	108.2	13,691	96.9	13,742	100.4
020	GOVERNMENT OF THE REPUBLIC OF CROATIA	172,728	182,045	105.4	186,341	102.4	184,985	99.3
025	MINISTRY OF FINANCE	16,012,859	20,448,384	127.7	21,407,011	104.7	22,379,630	104.5
026	STATE OFFICE FOR TRADE POLICY	15,777	14,973	94.9	15,024	100.3	15,075	100.3
027	RC – SECURITY AND INTELLIGENCE AGENCY	331,848	330,335	99.5	341,382	103.3	343,451	100.6
028	CENTRAL PROCUREMENT OFFICE	5,393	12,334	228.7	8,683	70.4	8,054	92.8
029	STATE PROPERTY MANAGEMENT ADMINISTRATION	7,023	21,283	303.1	21,018	98.8	21,945	104.4
030	MINISTRY OF DEFENCE	4,626,700	4,627,170	100.0	4,659,724	100.7	4,741,410	101.8
032	STATE OFFICE FOR CROATS ABROAD	56,000	55,173	98.5	57,240	103.7	57,702	100.8
033	STATE OFFICE FOR RECONSTRUCTION AND HOUSING CARE	234,109	228,495	97.6	225,453	98.7	232,262	103.0
040	MINISTRY OF THE INTERIOR	4,129,247	4,477,458	108.4	4,627,098	103.3	4,814,792	104.1
041	MINISTRY OF WAR VETERANS	1,104,241	961,371	87.1	939,689	97.7	950,706	101.2
048	MINISTRY OF FOREIGN AND EUROPEAN AFFAIRS	634,772	565,181	89.0	564,981	100.0	584,992	103.5
049	MINISTRY OF ECONOMY	1,794,104	1,658,457	92.4	1,441,550	86.9	1,342,505	93.1
051	MINISTRY OF ENTREPRENEURSHIP AND CRAFTS	259,460	335,954	129.5	356,101	106.0	320,969	90.1
055	MINISTRY OF CULTURE	674,090	648,867	96.3	675,896	104.2	687,794	101.8
060	MINISTRY OF AGRICULTURE	3,492,193	3,168,639	90.7	3,418,883	107.9	3,844,780	112.5
061	MINISTRY OF REGIONAL DEVELOPMENT AND EU FUNDS	705,138	526,560	74.7	590,904	112.2	660,895	111.8
065	MINISTRY OF MARITIME AFFAIRS, TRANSPORT AND INFRASTRUCTURE	5,522,558	5,886,829	106.6	6,184,769	105.1	6,505,729	105.2
076	MINISTRY OF CONSTRUCTION AND PHYSICAL PLANNING	441,304	424,363	96.2	403,891	95.2	383,946	95.1
077	MINISTRY FOR ENVIRONMENTAL AND NATURE PROTECTION	236,651	283,340	119.7	275,266	97.2	249,526	90.6
080	MINISTRY OF SCIENCE, EDUCATION AND SPORTS	10,956,285	11,490,375	104.9	11,631,983	101.2	11,992,107	103.1
086	MINISTRY OF LABOUR AND PENSION SYSTEM	38,330,962	38,646,018	100.8	39,023,021	101.0	39,761,717	101.9
090	MINISTRY OF TOURISM	202,544	202,004	99.7	205,561	101.8	206,958	100.7
095	MINISTRY OF ADMINISTRATION	340,404	348,097	102.3	374,582	107.6	383,942	102.5
096	MINISTRY OF HEALTH	19,693,440	19,661,823	99.8	19,898,541	101.2	20,228,728	101.7
102	MINISTRY OF SOCIAL POLICY AND YOUTH	5,791,614	6,078,833	105.0	6,107,254	100.5	6,140,763	100.5
106	CROATIAN ACADEMY OF SCIENCE AND ARTS	52,200	53,306	102.1	54,118	101.5	54,838	101.3
110	MINISTRY OF JUSTICE	2,303,655	2,413,655	104.8	2,444,234	101.3	2,504,160	102.5
120	OMBUDSMAN'S OFFICE	8,505	8,554	100.6	8,997	105.2	9,375	104.2
121	OMBUDSMAN FOR CHILDREN	5,331	5,291	99.2	5,303	100.2	5,505	103.8
122	OMBUDSMAN FOR GENDER EQUALITY	2,644	2,655	100.4	2,853	107.4	2,990	104.8
123	OMBUDSMAN FOR PEOPLE WITH DISABILITIES	2,971	3,143	105.8	3,206	102.0	3,246	101.2
160	CROATIAN BUREAU OF STATISTICS	83,316	84,377	101.3	85,583	101.4	89,539	104.6
185	STATE AUDIT OFFICE	53,530	52,960	98.9	56,892	107.4	57,313	100.7
196	STATE COMMISSION FOR SUPERVISION OF PUBLIC PROCUREMENT PROCEDURE	7,831	8,802	112.4	10,027	113.9	10,371	103.4
225	STATE INSPECTOR'S OFFICE	128,956	128,102	99.3	132,470	103.4	132,955	100.4
230	COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	529	554	104.7	569	102.7	578	101.6
235	CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	4,812	0	#	0	#	0	#
240	OFFICE OF THE NATIONAL SECURITY COUNCIL	20,597	22,012	106.9	22,789	103.5	22,812	100.1
241	OPERATIONAL AND TECHNICAL CENTRE FOR THE SUPERVISION OF TELECOMMUNICATIONS	21,209	23,151	109.2	26,919	116.3	19,934	74.1
242	INFORMATION SYSTEMS SECURITY BUREAU	12,823	12,758	99.5	13,558	106.3	12,788	94.3
250	PERSONAL DATA PROTECTION AGENCY	5,483	7,147	130.4	7,229	101.1	7,324	101.3
256	STATE OFFICE FOR RADIOLOGICAL AND NUCLEAR SAFETY	12,113	15,090	124.6	15,803	104.7	13,087	82.8
257	RAILWAY MARKET REGULATORY AGENCY	2,195	3,003	136.8	3,576	119.1	3,592	100.4

Source: Ministry of Finance

Table 11: Limits on compensation of employees by divisions of the budgetary central government for the following sources of financing: general revenue and receipts, contributions and special purpose income from borrowing for the 2014–2016 period

(HRK 000)		2013	2014	Index	2015	Index	2016	Index
		Plan	Projection	14/13	Projection	15/14	Projection	16/15
TOTAL		20,628,796	21,281,304	103.2	21,958,321	103.2	22,655,664	103.2
010	CROATIAN PARLIAMENT	109,108	102,407	93.9	106,438	103.9	110,231	103.6
013	FORMER PRESIDENT OF THE REPUBLIC OF CROATIA	256	248	96.9	255	102.7	255	100.2
015	PRESIDENT OF THE REPUBLIC OF CROATIA	23,826	21,601	90.7	22,905	106.0	23,434	102.3
017	CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	23,673	22,030	93.1	23,518	106.8	23,635	100.5
018	CROATIAN COMPETITION AGENCY	9,856	10,617	107.7	10,328	97.3	10,378	100.5
020	GOVERNMENT OF THE REPUBLIC OF CROATIA	63,731	60,973	95.7	66,735	109.5	69,374	104.0
025	MINISTRY OF FINANCE	918,697	909,851	99.0	923,639	101.5	935,225	101.3
026	STATE OFFICE FOR TRADE POLICY	10,133	10,133	100.0	10,183	100.5	10,234	100.5
027	RC – SECURITY AND INTELLIGENCE AGENCY	220,854	212,405	96.2	224,353	105.6	225,387	100.5
028	CENTRAL PROCUREMENT OFFICE	3,945	3,331	84.4	3,510	105.4	3,681	104.9
029	STATE PROPERTY MANAGEMENT ADMINISTRATION	5,589	13,424	240.2	13,992	104.2	14,580	104.2
030	MINISTRY OF DEFENCE	2,570,797	2,440,281	94.9	2,543,232	104.2	2,620,374	103.0
032	STATE OFFICE FOR CROATS ABROAD	10,111	8,684	85.9	9,141	105.3	9,589	104.9
033	STATE OFFICE FOR RECONSTRUCTION AND HOUSING CARE	7,546	11,092	147.0	11,144	100.5	11,199	100.5
040	MINISTRY OF THE INTERIOR	2,824,035	3,051,508	108.1	3,166,922	103.8	3,252,584	102.7
041	MINISTRY OF WAR VETERANS	22,360	22,501	100.6	22,904	101.8	23,187	101.2
048	MINISTRY OF FOREIGN AND EUROPEAN AFFAIRS	285,642	285,950	100.1	286,800	100.3	297,450	103.7
049	MINISTRY OF ECONOMY	80,053	64,185	80.2	77,784	121.2	81,504	104.8
051	MINISTRY OF ENTREPRENEURSHIP AND CRAFTS	26,410	25,096	95.0	29,648	118.1	34,822	117.5
055	MINISTRY OF CULTURE	225,036	198,872	88.4	227,470	114.4	238,608	104.9
060	MINISTRY OF AGRICULTURE	235,799	272,149	115.4	286,054	105.1	300,157	104.9
061	MINISTRY OF REGIONAL DEVELOPMENT AND EU FUNDS	67,890	59,725	88.0	66,108	110.7	68,021	102.9
065	MINISTRY OF MARITIME AFFAIRS, TRANSPORT AND INFRASTRUCTURE	99,053	103,811	104.8	108,987	105.0	111,379	102.2
076	MINISTRY OF CONSTRUCTION AND PHYSICAL PLANNING	154,586	154,877	100.2	160,318	103.5	163,823	102.2
077	MINISTRY FOR ENVIRONMENTAL AND NATURE PROTECTION	116,749	119,886	102.7	129,242	107.8	136,401	105.5
080	MINISTRY OF SCIENCE, EDUCATION AND SPORTS	8,855,038	9,354,051	105.6	9,639,286	103.0	10,008,975	103.8
086	MINISTRY OF LABOUR AND PENSION SYSTEM	436,001	459,321	105.3	421,298	91.7	427,578	101.5
090	MINISTRY OF TOURISM	12,667	13,053	103.0	14,042	107.6	14,739	105.0
095	MINISTRY OF ADMINISTRATION	258,470	264,233	102.2	278,007	105.2	281,336	101.2
096	MINISTRY OF HEALTH	263,481	268,607	101.9	289,431	107.8	302,833	104.6
102	MINISTRY OF SOCIAL POLICY AND YOUTH	670,657	696,817	103.9	701,999	100.7	708,884	101.0
106	CROATIAN ACADEMY OF SCIENCE AND ARTS	48,031	48,990	102.0	49,693	101.4	50,413	101.4
110	MINISTRY OF JUSTICE	1,696,561	1,728,290	101.9	1,754,757	101.5	1,801,452	102.7
120	OMBUDSMAN'S OFFICE	7,160	6,943	97.0	7,324	105.5	7,685	104.9
121	OMBUDSMAN FOR CHILDREN	3,609	3,608	100.0	3,733	103.5	3,919	105.0
122	OMBUDSMAN FOR GENDER EQUALITY	1,944	1,946	100.1	2,139	109.9	2,270	106.1
123	OMBUDSMAN FOR PEOPLE WITH DISABILITIES	2,072	2,121	102.3	2,195	103.5	2,234	101.8
160	CROATIAN BUREAU OF STATISTICS	56,283	53,419	94.9	57,149	107.0	60,430	105.7
185	STATE AUDIT OFFICE	46,058	43,940	95.4	47,822	108.8	48,243	100.9
196	STATE COMMISSION FOR SUPERVISION OF PUBLIC PROCUREMENT PROCEDURE	5,666	6,588	116.3	7,635	115.9	7,713	101.0
225	STATE INSPECTOR'S OFFICE	101,295	98,971	97.7	102,740	103.8	103,225	100.5
230	COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	385	409	106.3	423	103.4	431	101.9
235	CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	3,682	0	#	0	#	0	#
240	OFFICE OF THE NATIONAL SECURITY COUNCIL	16,606	16,143	97.2	17,034	105.5	17,145	100.7
241	OPERATIONAL AND TECHNICAL CENTRE FOR THE SUPERVISION OF TELECOMMUNICATIONS	10,847	10,832	99.9	10,850	100.2	11,075	102.1
242	INFORMATION SYSTEMS SECURITY BUREAU	7,098	7,042	99.2	7,742	109.9	7,772	100.4
250	PERSONAL DATA PROTECTION AGENCY	4,461	4,893	109.7	4,933	100.8	5,178	105.0
256	STATE OFFICE FOR RADIOLOGICAL AND NUCLEAR SAFETY	3,772	3,220	85.4	3,776	117.3	3,906	103.4
257	RAILWAY MARKET REGULATORY AGENCY	1,217	2,231	183.3	2,702	121.1	2,715	100.5

Source: Ministry of Finance

Table 12: Limits of total expenditure except compensation of employees by divisions of the budgetary central government for the following sources of financing: general revenue and receipts, contributions and special purpose income from borrowing for the 2014–2016 period

(HRK 000)		2013	2014	Index	2015	Index	2016	Index
		Plan	Projection	14/13	Projection	15/14	Projection	16/15
TOTAL		98,216,468	103,158,469	105.0	104,991,359	101.8	107,609,783	102.5
010	CROATIAN PARLIAMENT	145,626	121,506	83.4	218,049	179.5	69,488	31.9
013	FORMER PRESIDENT OF THE REPUBLIC OF CROATIA	692	662	95.7	667	100.8	669	100.3
015	PRESIDENT OF THE REPUBLIC OF CROATIA	21,794	21,703	99.6	21,603	99.5	21,623	100.1
017	CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	7,090	6,572	92.7	6,582	100.2	6,602	100.3
018	CROATIAN COMPETITION AGENCY	3,200	3,507	109.6	3,363	95.9	3,363	100.0
020	GOVERNMENT OF THE REPUBLIC OF CROATIA	108,997	121,072	111.1	119,606	98.8	115,610	96.7
025	MINISTRY OF FINANCE	15,094,161	19,538,533	129.4	20,483,372	104.8	21,444,406	104.7
026	STATE OFFICE FOR TRADE POLICY	5,645	4,841	85.8	4,841	100.0	4,841	100.0
027	RC – SECURITY AND INTELLIGENCE AGENCY	110,994	117,929	106.2	117,029	99.2	118,064	100.9
028	CENTRAL PROCUREMENT OFFICE	1,448	9,003	621.8	5,173	57.5	4,373	84.5
029	STATE PROPERTY MANAGEMENT ADMINISTRATION	1,434	7,859	547.9	7,026	89.4	7,365	104.8
030	MINISTRY OF DEFENCE	2,055,903	2,186,889	106.4	2,116,492	96.8	2,121,036	100.2
032	STATE OFFICE FOR CROATS ABROAD	45,889	46,489	101.3	48,100	103.5	48,114	100.0
033	STATE OFFICE FOR RECONSTRUCTION AND HOUSING CARE	226,563	217,403	96.0	214,309	98.6	221,063	103.2
040	MINISTRY OF THE INTERIOR	1,305,212	1,425,950	109.3	1,460,176	102.4	1,562,208	107.0
041	MINISTRY OF WAR VETERANS	1,081,881	938,870	86.8	916,785	97.6	927,519	101.2
048	MINISTRY OF FOREIGN AND EUROPEAN AFFAIRS	349,130	279,231	80.0	278,181	99.6	287,542	103.4
049	MINISTRY OF ECONOMY	1,714,051	1,594,272	93.0	1,363,766	85.5	1,261,001	92.5
051	MINISTRY OF ENTREPRENEURSHIP AND CRAFTS	233,050	310,858	133.4	326,453	105.0	286,147	87.7
055	MINISTRY OF CULTURE	449,054	449,995	100.2	448,426	99.7	449,186	100.2
060	MINISTRY OF AGRICULTURE	3,256,394	2,896,490	88.9	3,132,829	108.2	3,544,624	113.1
061	MINISTRY OF REGIONAL DEVELOPMENT AND EU FUNDS	637,248	466,836	73.3	524,796	112.4	592,873	113.0
065	MINISTRY OF MARITIME AFFAIRS, TRANSPORT AND INFRASTRUCTURE	5,423,505	5,783,018	106.6	6,075,782	105.1	6,394,349	105.2
076	MINISTRY OF CONSTRUCTION AND PHYSICAL PLANNING	286,718	269,486	94.0	243,573	90.4	220,123	90.4
077	MINISTRY FOR ENVIRONMENTAL AND NATURE PROTECTION	119,902	163,454	136.3	146,024	89.3	113,125	77.5
080	MINISTRY OF SCIENCE, EDUCATION AND SPORTS	2,101,247	2,136,324	101.7	1,992,696	93.3	1,983,132	99.5
086	MINISTRY OF LABOUR AND PENSION SYSTEM	37,894,961	38,186,696	100.8	38,601,723	101.1	39,334,139	101.9
090	MINISTRY OF TOURISM	189,877	188,951	99.5	191,520	101.4	192,220	100.4
095	MINISTRY OF ADMINISTRATION	81,934	83,864	102.4	96,575	115.2	102,605	106.2
096	MINISTRY OF HEALTH	19,429,959	19,393,216	99.8	19,609,111	101.1	19,925,896	101.6
102	MINISTRY OF SOCIAL POLICY AND YOUTH	5,120,957	5,382,016	105.1	5,405,255	100.4	5,431,878	100.5
106	CROATIAN ACADEMY OF SCIENCE AND ARTS	4,169	4,316	103.5	4,425	102.5	4,425	100.0
110	MINISTRY OF JUSTICE	607,094	685,364	112.9	689,477	100.6	702,708	101.9
120	OMBUDSMAN'S OFFICE	1,345	1,611	119.7	1,674	103.9	1,690	101.0
121	OMBUDSMAN FOR CHILDREN	1,722	1,683	97.7	1,570	93.3	1,586	101.0
122	OMBUDSMAN FOR GENDER EQUALITY	700	710	101.4	714	100.6	721	100.9
123	OMBUDSMAN FOR PEOPLE WITH DISABILITIES	898	1,023	113.8	1,012	98.9	1,012	100.0
160	CROATIAN BUREAU OF STATISTICS	27,033	30,958	114.5	28,434	91.8	29,109	102.4
185	STATE AUDIT OFFICE	7,472	9,020	120.7	9,070	100.6	9,070	100.0
196	STATE COMMISSION FOR SUPERVISION OF PUBLIC PROCUREMENT PROCEDURE	2,165	2,214	102.3	2,392	108.1	2,658	111.1
225	STATE INSPECTOR'S OFFICE	27,661	29,132	105.3	29,730	102.1	29,730	100.0
230	COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	144	145	100.4	146	100.7	147	100.7
235	CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	1,130	0	#	0	#	0	#
240	OFFICE OF THE NATIONAL SECURITY COUNCIL	3,991	5,869	147.1	5,755	98.1	5,667	98.5
241	OPERATIONAL AND TECHNICAL CENTRE FOR THE SUPERVISION OF TELECOMMUNICATIONS	10,362	12,319	118.9	16,069	130.4	8,859	55.1
242	INFORMATION SYSTEMS SECURITY BUREAU	5,725	5,716	99.8	5,816	101.7	5,016	86.2
250	PERSONAL DATA PROTECTION AGENCY	1,022	2,255	220.6	2,296	101.8	2,146	93.5
256	STATE OFFICE FOR RADIOLOGICAL AND NUCLEAR SAFETY	8,342	11,870	142.3	12,027	101.3	9,181	76.3
257	RAILWAY MARKET REGULATORY AGENCY	978	773	79.0	874	113.1	876	100.2

Source: Ministry of Finance

4.4. Consolidated general government in the 2014–2016 period

According to the projected trends in revenue and expenditure at all levels of the general government budget, the planned deficit is expected to increase from 3.5% of GDP in 2013 to 5.5% of GDP in 2014, after that it is expected to decline to 5.1% in 2015 and 4.5% of GDP in 2016. The largest contribution to the overall consolidated general government deficit will come from the budgetary central government which will in 2014 record a deficit of 5% of GDP, in 2015 a deficit of 4.5% of GDP, and in 2016 a deficit of 4.1% of GDP. The deficit of extrabudgetary users will amount to 0.5% of GDP in 2014, 0.6% of GDP in 2015 and 0.4% of GDP in 2016. Local government units, totalling 576 units, will have a balanced budget in the observed medium-term period.

Table 13: Consolidated general government in 2012-2016 period

(HRK 000)	2012	2013 Plan	2014 Projection	2015 Projection	2016 Projection
BUDGETARY CENTRAL GOVERNMENT					
Total revenue	109,837,284	113,399,552	114,266,197	120,685,640	126,207,499
% of GDP	33.3	33.7	32.9	33.4	33.4
Total expenditure	119,837,973	123,646,478	131,669,938	136,938,534	141,664,568
% of GDP	36.3	36.8	37.9	37.9	37.5
Total deficit/surplus	-10,000,689	-10,246,926	-17,403,741	-16,252,894	-15,457,069
% of GDP	-3.0	-3.0	-5.0	-4.5	-4.1
EXTRABUDGETARY USERS					
Total revenue	5,048,199	5,681,284	5,875,205	8,123,303	9,967,463
% of GDP	1.5	1.7	1.7	2.2	2.6
Total expenditure	6,597,369	7,016,522	7,664,163	10,426,346	11,486,839
% of GDP	2.0	2.1	2.2	2.9	3.0
Total deficit/surplus	-1,549,170	-1,335,239	-1,788,958	-2,303,043	-1,519,376
% of GDP	-0.5	-0.4	-0.5	-0.6	-0.4
LOCAL GOVERNMENT					
Total revenue	22,894,072	22,823,558	23,221,098	23,844,145	24,592,781
% of GDP	6.9	6.8	6.7	6.6	6.5
Total expenditure	22,798,097	22,921,425	23,287,305	23,792,712	24,511,857
% of GDP	6.9	6.8	6.7	6.6	6.5
Total deficit/surplus	95,976	-97,868	-66,207	51,433	80,924
% of GDP	0.0	0.0	0.0	0.0	0.0
CONSOLIDATED GENERAL GOVERNMENT					
Total revenue	133,172,765	137,153,953	138,255,793	146,103,387	152,743,244
% of GDP	40.3	40.8	39.8	40.4	40.4
Total expenditure	144,626,649	148,833,984	157,514,699	164,607,891	169,638,765
% of GDP	43.8	44.3	45.4	45.5	44.9
Total deficit/surplus	-11,453,884	-11,680,032	-19,258,906	-18,504,504	-16,895,521
% of GDP	-3.5	-3.5	-5.5	-5.1	-4.5

Source: Ministry of Finance

These indicators show that the Republic of Croatia has breached the fiscal criteria under the Stability and Growth Pact, i.e. that the threshold of 3% of GDP for the general government deficit or 60% of GDP for government debt has been exceeded and that in the upcoming period the Excessive Deficit Procedure will be imposed as a corrective arm. This is expected after the European Commission establishes the existence of the excessive budgetary deficit based on the Fiscal Notification, i.e. the state finances report to be submitted by the Republic of Croatia to the European Commission on 1 October 2013, its first as a full member of the EU. The Republic of Croatia was subject to fiscal surveillance as a candidate country based on its Fiscal Notifications starting from 2005. Since the spring Fiscal Notification of April 2013, the responsibility for the compilation and submitting of the Notification to Eurostat lies

with the Croatian Bureau of Statistic and no longer with the Ministry of Finance which was formerly the case.

Excessive Deficit Procedure – EDP

The Stability and Growth Pact sets out fiscal criteria that Member States must adhere to in order to ensure fiscal discipline necessary to introduce the euro as a national currency, i.e. in order to achieve and maintain a stable position in the Economic and Monetary Union. The quantitative criteria relate to:

1. the (general) government deficit, which must not breach the threshold of 3% of GDP,
2. government debt, which must not exceed 60% of GDP.

In case a Member State exceeds the set criteria, the Excessive Deficit Procedure (EDP) is launched at EU level. The procedure has several steps and may, inter alia, include fiscal sanctions, aimed at motivating Member States to implement measures necessary to meet the said criteria.

The criteria, timeframes and the schedule of activities for establishing and treating Member States at the moment and after establishing the excessive budget deficit are clearly defined in the Excessive Deficit Procedure. The Commission establishes the existence of excessive deficit in the period after April or October every year, that is, after every Member State has submitted to the Commission its Fiscal Notification. A Member State is not subject to Excessive Deficit Procedure where the Commission establishes that a government deficit exceeding 3% of GDP is exceptional and temporary.

After the Council establishes, in view of the said criteria and at the recommendation by the Commission, the existence of excessive deficit, it proposes to the Member State to adopt an effective corrective plan with a set of time limits which must be in line with Council recommendations. The Council supervises the implementation of its recommendations and, following the correction of the excessive deficit, closes the EDP.

In case a Member State fails to comply with the recommendations of the Council and fails to implement the measures set within the corrective plan, the Council may take it to another level of Excessive Deficit Procedure, which may culminate in financial sanctions for euro area Member States, respectively in the suspension of a share of funds from the Cohesion Fund for other Member States.

Given the four years of economic recession and substantial costs associated with EU membership which paired with the effects of the crisis narrowed the existing fiscal manoeuvring space, these Guidelines advocate gradual fiscal adjustment.

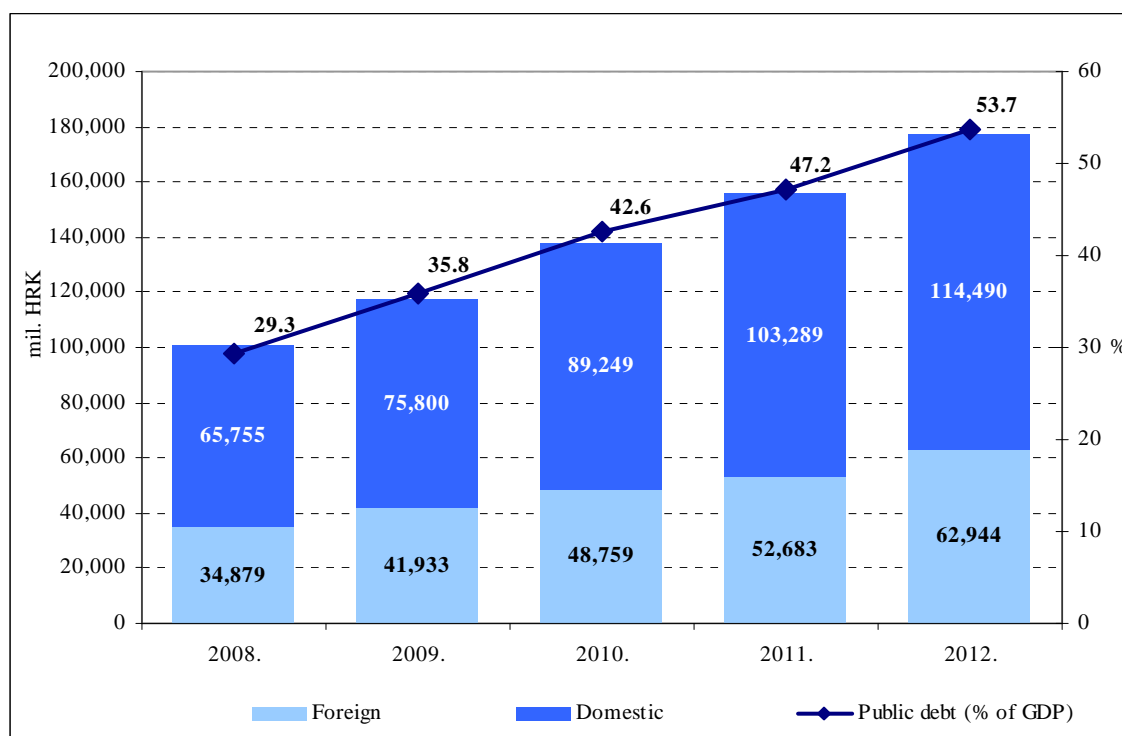
5. PUBLIC DEBT OVER A MEDIUM TERM

5.1. Public debt balance and projections in the 2014–2016 period

At the end of 2012, the public debt of the Republic of Croatia was HRK 177.4bn, increasing from the end of 2011 by HRK 21.5bn. The share of public debt in GDP at the end of 2012 was 53.7%. This increase in public debt in the period under review is a result of the consolidated general government deficit realised in 2012 but also of the fact that the government, in line with plans to restructure the country's shipyards, assumed their liabilities in the public debt in the total amount of HRK 9.2bn. The foreign component of public debt increased relative to 2011 by HRK 10.3bn, while the domestic component increased by 11.2bn in the same period.

With regard to the amount of debt according to the levels of government, at the end of 2012 the central government accounted for the largest portion of debt, HRK 165.9bn, followed by the debt of extrabudgetary users of HRK 9.6bn and the debt of local government units of HRK 1.9bn. The central government made most of its borrowing in the domestic market. Consequently, the domestic component of debt accounts for 63.5% of its total debt. The domestic component of debt also predominates in extrabudgetary users with a 76.2% share of total debt of extrabudgetary users. Local government units also borrowed predominantly in the country so the domestic component of debt reached 91.1% in the total debt of the local government.

Chart 3: Trends in public debt in the 2008–2012 period



Source: Ministry of Finance

Financing the general government budget and projections of public debt developments

The overall financing needs in the upcoming medium-term period will be determined by the developments in the general government budget deficit, financial assets, as well as liabilities falling due during the period. The need to finance the overall budget deficit and due liabilities will attract attention towards both the domestic and the foreign financial markets. As for debt instruments, in the period under review attention will be drawn towards instruments with longer maturities, primarily bonds. As for positive effects on financing and public debt dynamics, it is noteworthy that in the following three years privatisation is expected to contribute with some 0.6% of GDP per year.

The majority of liabilities falling due in the 2014–2016 period relates to six bonds, of which four are domestic and two foreign. Two of the domestic bonds are denominated in euro, the first in the amount of EUR 650m and the second EUR 350m, while the remaining two are denominated in kuna with their total worth being HRK 9bn. Foreign bonds are two Eurobonds, the first in the amount of EUR 500m, maturing in 2014, and the second in the amount of EUR 750m, maturing in 2015. As for loans, the greatest liabilities maturing in the period under review relate to syndicated loans issued in the domestic financial market.

Table 14: Overview of the bonds of the Republic of Croatia in the 2014–2016 period

Bond	Date of issue	Amount (in million)	Interest rate	Date of maturity
DOMESTIC BONDS				
Series 05 D-14	10.2.2004	650 EUR	5.50%	10.2.2014
Series 09 D-15	14.7.2005	350 EUR	4.25%	14.7.2015
Series 10 D-15	15.12.2005	5.500 HRK	5.25%	15.12.2015
Series 16 D-16	22.7.2011	3.500 HRK	5.75%	22.7.2016
FOREIGN BONDS				
Euro - EUR VI 2014	15.4.2004	500 EUR	5.00%	15.4.2014
Euro - EUR VII 2015	5.6.2009	750 EUR	6.50%	5.1.2015

Source: Ministry of Finance

In line with the planned consolidated general government deficit, i.e. the financing needs in 2013, it is expected that public debt will end the year at HRK 190.4bn or 56.6% of GDP. The projections of public debt developments indicate that due to the increase in general government budget deficit, public debt will exceed the threshold of 60% of GDP in 2014 and according to these fiscal projections will amount to 63.4% of GDP in 2015 and 65.3% of GDP in 2016.

Table 15: Projection of trend and structure of public debt in the 2011-2016 period

% of GDP	2011	2012	2013*	2014*	2015*	2016*
Public debt	47.2	53.7	56.6	60.6	63.4	65.3
Foreign	16.0	19.1	23.2	27.1	29.4	31.6
Domestic	31.3	34.7	33.4	33.5	34.0	33.7

* projection

Source: Ministry of Finance

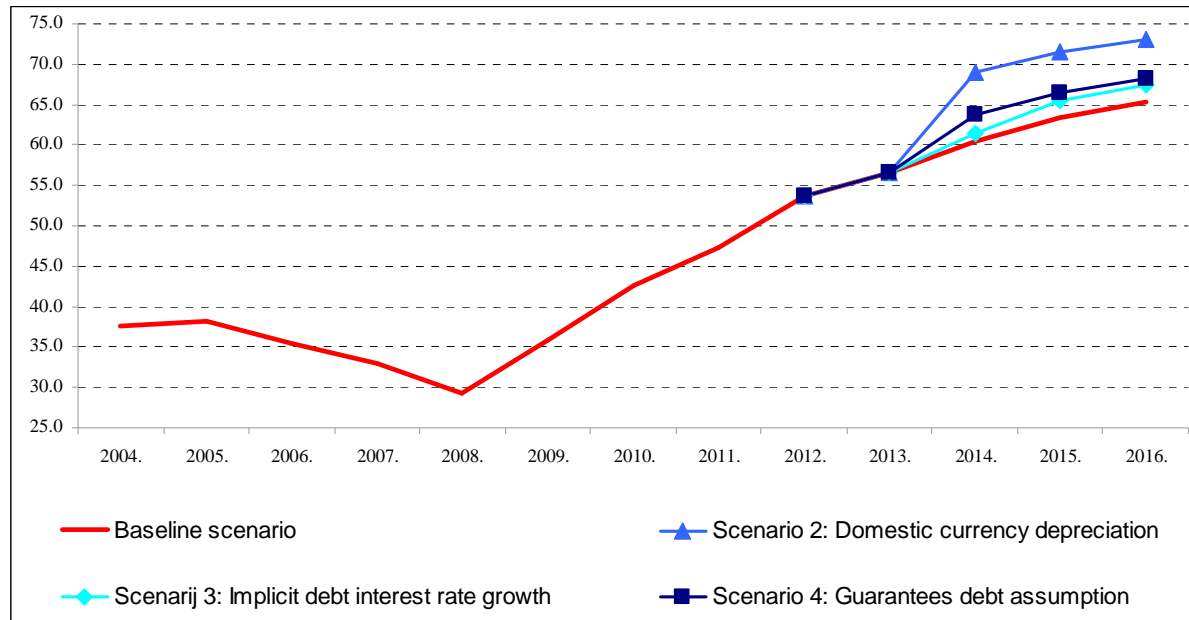
Sensitivity tests

Public debt sensitivity tests indicate that the greatest impact on its growth would come from the depreciation of the domestic currency against the euro, given the high share of public debt denominated in euros. It arises from the test conducted that the randomly set shock of the kuna depreciating by 20% would raise the public debt level to over 70% of GDP in the 2015–2016 period.

In addition, the inability of public enterprises to meet their loan liabilities, for example in the transport sector, that are covered by government guarantees would lead to them being assumed into public debt. Such a scenario was seen in 2012, when the Republic of Croatia took over shipyards' liabilities of HRK 9.2bn, which also contributed to the increase in interest expenses in the upcoming period. Under a random scenario of conditional liabilities, worth 3% of GDP, being assumed into public debt the debt level would go up to approximately 68% of GDP in 2016.

In addition, deterioration in the conditions in the financial markets would contribute to the increase in interest rates and thus increase repayment costs of the existing but also new debt, that is, interest expenses would see additional increases relative to the plan. For the purpose of this test, it has been assumed that the average implicit interest rate on debt would increase by three percentage points in 2014 and 2015, which would lead to increased financing costs and negative effects on public debt developments, which would grow beyond projections and at the end of the medium-term period reach some 67% of GDP.

Chart 4: Development of public debt share in GDP according to various scenarios, (in %)



Source: Ministry of Finance

ANNEXES

Annex 1: Budgetary central government 2012-2016

Budgetary central government 2012-2016	2012 Outturn		2013 Plan		2014 Projection		2015 Projection		2016 Projection	
	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP
TOTAL REVENUE (6+7)	109,837,284	33.3	113,399,552	33.7	114,266,197	32.9	120,685,640	33.4	126,207,499	33.4
6 Revenue	109,558,928	33.2	113,109,794	33.6	114,000,677	32.8	120,407,110	33.3	125,916,969	33.3
61 Tax revenues	64,332,058	19.5	66,216,970	19.7	65,740,030	18.9	68,107,533	18.8	70,533,120	18.7
62 Contributions	37,845,871	11.5	37,634,900	11.2	38,330,699	11.0	39,725,229	11.0	41,298,824	10.9
63 Grants	1,046,210	0.3	2,727,540	0.8	4,576,129	1.3	7,090,000	2.0	8,442,059	2.2
64 Property income	2,061,569	0.6	1,729,412	0.5	1,033,296	0.3	1,067,160	0.3	1,106,444	0.3
65 Revenues from administrative fees, fees under special regulations and compensations	3,668,066	1.1	4,198,850	1.2	3,706,614	1.1	3,789,251	1.0	3,895,834	1.0
66 Revenues from sale of products and goods, provided services and revenues from donations	79,198	0.0	74,884	0.0	69,536	0.0	69,587	0.0	66,381	0.0
67 Revenues from the state budget	0	0.0	0	0.0	0	0.0	0	0	0	0.0
68 Fines, administrative measures and other revenues	525,955	0.2	527,238	0.2	544,373	0.2	558,349	0.2	574,308	0.2
7 Revenue from the disposal of nonfinancial assets	278,356	0.1	289,758	0.1	265,520	0.1	278,530	0.1	290,530	0.1
71 Revenues from the disposal of non-produced assets	17,910	0.0	20,000	0.0	22,000	0.0	24,000	0.0	26,000	0.0
72 Revenues from the disposal of produced assets	256,251	0.1	268,248	0.1	242,010	0.1	253,020	0.1	263,020	0.1
74 Revenues from the disposal of produced current assets	4,195	0.0	1,510	0.0	1,510	0.0	1,510	0.0	1,510	0.0
TOTAL EXPENDITURE (3+4)	119,837,973	36.3	123,646,478	36.8	131,669,938	37.9	136,938,534	37.9	141,664,568	37.5
3 Expense	118,729,992	36.0	121,450,157	36.1	128,943,710	37.1	133,903,219	37.0	138,767,466	36.7
31 Compensation of employees	22,394,794	6.8	20,711,915	6.2	21,359,300	6.2	22,039,954	6.1	22,732,510	6.0
32 Material expense	8,241,000	2.5	8,748,648	2.6	8,796,839	2.5	8,914,790	2.5	8,759,233	2.3
34 Financial expense	8,821,579	2.7	10,051,993	3.0	12,552,575	3.6	13,454,852	3.7	14,493,134	3.8
35 Subsidies	5,762,321	1.7	5,989,258	1.8	6,687,649	1.9	6,894,035	1.9	6,809,894	1.8
36 Grants	4,755,279	1.4	6,730,572	2.0	9,491,902	2.7	10,428,013	2.9	11,845,030	3.1
37 Compensations to citizens and households based on insurance and other compensations	64,373,649	19.5	63,975,455	19.0	64,421,092	18.6	64,927,406	17.9	65,897,334	17.4
38 Other expense	4,381,369	1.3	5,242,315	1.6	5,634,353	1.6	7,244,169	2.0	8,230,331	2.2
4 Expense for the acquisition of nonfinancial assets	1,107,982	0.3	2,196,321	0.7	2,726,228	0.8	3,035,315	0.8	2,897,102	0.8
41 Expense for the acquisition of non-produced assets	42,610	0.0	87,968	0.0	75,051	0.0	70,383	0.0	72,785	0.0
42 Expense for the acquisition of produced fixed assets	955,161	0.3	1,606,453	0.5	2,044,305	0.6	2,224,236	0.6	2,066,068	0.5
43 Expense for the acquisition of precious metals and other deposited valuables	3,494	0.0	5,891	0.0	4,434	0.0	4,434	0.0	4,434	0.0
44 Strategic inventories	33,475	0.0	362,513	0.1	362,564	0.1	371,605	0.1	411,145	0.1
45 Expense for additional investments in nonfinancial assets	73,242	0.0	133,477	0.0	239,874	0.1	364,657	0.1	342,670	0.1
TOTAL DEFICIT(-)/SURPLUS(+)	-10,000,689	-3.0	-10,246,926	-3.0	-17,403,741	-5.0	-16,252,894	-4.5	-15,457,069	-4.1
NET FINANCING	10,000,689	3.0	10,246,926	3.0	17,403,741	5.0	16,252,894	4.5	15,457,069	4.1
CHANGES TO DEPOSIT BALANCE	-1,208,562	-0.4	0	0.0	0	0.0	0	0.0	0	0.0
8 Income from financial assets and borrowings	21,367,565	6.5	29,364,065	8.7	38,869,560	11.2	39,014,549	10.8	30,200,995	8.0
5 Expense for financial assets and loan repayments	12,575,438	3.8	19,117,140	5.7	21,465,819	6.2	22,761,655	6.3	14,743,926	3.9

Source: Ministry of Finance

Annex 2: Extrabudgetary users 2012-2016

Extrabudgetary users 2012-2016	2012 Outturn		2013 Plan		2014 Projection		2015 Projection		2016 Projection	
	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP
TOTAL REVENUE (6+7)	5,048,199	1.5	5,681,284	1.7	5,875,205	1.7	8,123,303	2.2	9,967,463	2.6
6 Revenue	5,019,626	1.5	5,586,184	1.7	5,875,105	1.7	8,123,203	2.2	9,967,363	2.6
61 Tax revenues	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
62 Contributions	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
63 Grants	1,719,833	0.5	1,915,681	0.6	2,278,695	0.7	4,255,184	1.2	5,890,156	1.6
64 Property income	694,372	0.2	779,300	0.2	714,182	0.2	767,480	0.2	779,331	0.2
65 Revenues from administrative fees, fees under special regulations and compensations	2,572,910	0.8	2,838,530	0.8	2,827,070	0.8	3,097,689	0.9	3,296,006	0.9
66 Revenues from sale of products and goods, provided services and revenues from donations	30,464	0.0	50,666	0.0	55,150	0.0	2,850	0.0	1,870	0.0
67 Revenues from the state budget	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
68 Fines, administrative measures and other revenues	2,047	0.0	2,000	0.0	0	0.0	0	0.0	0	0.0
7 Revenue from the disposal of nonfinancial assets	28,573	0.0	95,100	0.0	100	0.0	100	0.0	100	0.0
71 Revenues from the disposal of non-produced assets	11,350	0.0	11,000	0.0	0	0.0	0	0.0	0	0.0
72 Revenues from the disposal of produced assets	17,223	0.0	84,100	0.0	100	0.0	100	0.0	100	0.0
74 Revenues from the disposal of produced current assets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
TOTAL EXPENDITURE (3+4)	6,597,369	2.0	7,016,522	2.1	7,664,163	2.2	10,426,346	2.9	11,486,839	3.0
3 Expense	3,925,509	1.2	4,305,663	1.3	4,409,297	1.3	6,817,403	1.9	8,451,086	2.2
31 Compensation of employees	273,524	0.1	308,696	0.1	265,743	0.1	274,508	0.1	293,725	0.1
32 Material expense	2,326,990	0.7	2,479,535	0.7	2,349,647	0.7	2,689,232	0.7	2,708,965	0.7
34 Financial expense	454,694	0.1	644,556	0.2	746,887	0.2	826,680	0.2	838,969	0.2
35 Subsidies	983	0.0	19,608	0.0	18,922	0.0	43,740	0.0	32,250	0.0
36 Grants	141,599	0.0	172,838	0.1	226,521	0.1	418,317	0.1	516,852	0.1
37 Compensations to citizens and households based on insurance and other compensations	76,558	0.0	7,200	0.0	3,200	0.0	1,700	0.0	1,050	0.0
38 Other expense	651,161	0.2	673,230	0.2	798,377	0.2	2,563,227	0.7	4,059,275	1.1
4 Expense for the acquisition of nonfinancial assets	2,671,860	0.8	2,710,859	0.8	3,254,867	0.9	3,608,943	1.0	3,035,753	0.8
41 Expense for the acquisition of non-produced assets	138,015	0.0	166,500	0.0	136,000	0.0	127,500	0.0	120,000	0.0
42 Expense for the acquisition of produced fixed assets	2,419,256	0.7	2,430,559	0.7	2,962,867	0.9	3,207,443	0.9	2,661,753	0.7
43 Expense for the acquisition of precious metals and other deposited valuables	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
44 Strategic inventories	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
45 Expense for additional investments in nonfinancial assets	114,590	0.0	113,800	0.0	156,000	0.0	274,000	0.1	254,000	0.1
TOTAL DEFICIT(-)/SURPLUS(+)	-1,549,170	-0.5	-1,335,239	-0.4	-1,788,958	-0.5	-2,303,043	-0.6	-1,519,376	-0.4
NET FINANCING	1,549,170	0.5	1,335,239	0.4	1,788,958	0.5	2,303,043	0.6	1,519,376	0.4
CHANGES TO DEPOSIT BALANCE	164,910	0.0	637,679	0.2	656,695	0.2	680,302	0.2	661,357	0.2
8 Income from financial assets and borrowings	3,501,695	1.1	4,523,287	1.3	3,688,753	1.1	4,590,415	1.3	3,901,853	1.0
5 Expense for financial assets and loan repayments	1,787,615	0.5	2,550,370	0.8	1,243,100	0.4	1,607,070	0.4	1,721,120	0.5

Source: Ministry of Finance

Annex 3: Local government 2012-2016

Local government 2012-2016	2012 Outturn		2013 Plan		2014 Projection		2015 Projection		2016 Projection	
	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP
TOTAL REVENUE (6+7)	22,894,072	6.9	22,823,558	6.8	23,221,098	6.7	23,844,145	6.6	24,592,781	6.5
6 Revenue	22,241,519	6.7	22,181,669	6.6	22,585,428	6.5	23,202,412	6.4	23,945,209	6.3
61 Tax revenues	11,891,334	3.6	11,894,260	3.5	12,191,365	3.5	12,625,651	3.5	13,143,895	3.5
62 Contributions	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
63 Grants	2,960,112	0.9	2,912,388	0.9	2,932,534	0.8	2,958,046	0.8	2,973,552	0.8
64 Property income	1,712,869	0.5	1,713,846	0.5	1,745,249	0.5	1,793,761	0.5	1,849,741	0.5
65 Revenues from administrative fees, fees under special regulations and compensations	4,681,612	1.4	4,721,124	1.4	4,760,266	1.4	4,843,061	1.3	4,966,930	1.3
66 Revenues from sale of products and goods, provided services and revenues from donations	890,541	0.3	832,812	0.2	847,306	0.2	871,754	0.2	899,310	0.2
67 Revenues from the state budget	242,760	0.1	222,000	0.1	227,000	0.1	232,000	0.1	237,000	0.1
68 Fines, administrative measures and other revenues	105,051	0.0	107,239	0.0	108,708	0.0	110,139	0.0	111,781	0.0
7 Revenue from the disposal of nonfinancial assets	652,553	0.2	641,889	0.2	635,670	0.2	641,733	0.2	647,572	0.2
71 Revenues from the disposal of non-produced assets	438,339	0.1	433,330	0.1	435,115	0.1	436,944	0.1	438,818	0.1
72 Revenues from the disposal of produced assets	214,214	0.1	208,559	0.1	200,555	0.1	204,789	0.1	208,754	0.1
74 Revenues from the disposal of produced current assets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
TOTAL EXPENDITURE (3+4)	22,798,097	6.9	22,921,425	6.8	23,287,305	6.7	23,792,712	6.6	24,511,857	6.5
3 Expense	19,314,202	5.8	19,556,159	5.8	19,846,737	5.7	20,257,392	5.6	20,839,382	5.5
31 Compensation of employees	5,133,324	1.6	5,162,102	1.5	5,190,879	1.5	5,219,858	1.4	5,249,043	1.4
32 Material expense	8,235,486	2.5	8,296,029	2.5	8,411,012	2.4	8,586,872	2.4	8,826,309	2.3
34 Financial expense	332,649	0.1	350,738	0.1	359,558	0.1	372,848	0.1	389,825	0.1
35 Subsidies	1,139,028	0.3	1,113,780	0.3	1,129,267	0.3	1,158,108	0.3	1,197,786	0.3
36 Grants	422,086	0.1	447,435	0.1	458,787	0.1	482,197	0.1	507,821	0.1
37 Compensations to citizens and households based on insurance and other compensations	1,114,612	0.3	1,148,993	0.3	1,192,303	0.3	1,259,110	0.3	1,316,452	0.3
38 Other expense	2,937,017	0.9	3,037,082	0.9	3,104,931	0.9	3,178,399	0.9	3,352,146	0.9
4 Expense for the acquisition of nonfinancial assets	3,483,895	1.1	3,365,266	1.0	3,440,568	1.0	3,535,319	1.0	3,672,476	1.0
41 Expense for the acquisition of non-produced assets	491,482	0.1	497,870	0.1	503,794	0.1	514,813	0.1	529,857	0.1
42 Expense for the acquisition of produced fixed assets	2,558,648	0.8	2,429,658	0.7	2,492,341	0.7	2,558,440	0.7	2,654,657	0.7
43 Expense for the acquisition of precious metals and other deposited valuables	688	0.0	1,096	0.0	1,257	0.0	1,319	0.0	1,385	0.0
44 Strategic inventories	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
45 Expense for additional investments in nonfinancial assets	433,076	0.1	436,642	0.1	443,177	0.1	460,747	0.1	486,576	0.1
TOTAL DEFICIT(-)/SURPLUS(+)	95,976	0.0	-97,868	0.0	-66,207	0.0	51,433	0.0	80,924	0.0
NET FINANCING	-95,976	0.0	97,868	0.0	66,207	0.0	-51,433	0.0	-80,924	0.0
CHANGES TO DEPOSIT BALANCE	-77,277	0.0	-154,071	0.0	-90,425	0.0	0	0.0	0	0.0
8 Income from financial assets and borrowings	674,137	0.2	729,219	0.2	778,378	0.2	816,531	0.2	839,562	0.2
5 Expense for financial assets and loan repayments	847,389	0.3	785,423	0.2	802,596	0.2	867,965	0.2	920,486	0.2

Note: All 576 local units

Source: Ministry of Finance

Annex 4: Consolidated general government 2012-2016

Consolidated general government 2012-2016	2012 Outturn		2013 Plan		2014 Projection		2015 Projection		2016 Projection	
	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP	HRK 000	% of GDP
TOTAL REVENUE (6+7)	133,172,765	40.3	137,153,953	40.8	138,255,793	39.8	146,103,387	40.4	152,743,244	40.4
6 Revenue	132,213,283	40.0	136,127,206	40.5	137,354,503	39.6	145,183,024	40.1	151,805,042	40.2
61 Tax revenues	76,223,392	23.1	78,111,230	23.2	77,931,395	22.4	80,733,184	22.3	83,677,015	22.1
62 Contributions	37,845,871	11.5	37,634,900	11.2	38,330,699	11.0	39,725,229	11.0	41,298,824	10.9
63 Grants	1,119,365	0.3	2,805,168	0.8	4,680,651	1.3	7,753,530	2.1	9,281,267	2.5
64 Property income	4,468,810	1.4	4,222,558	1.3	3,492,727	1.0	3,628,401	1.0	3,735,516	1.0
65 Revenues from administrative fees, fees under special regulations and compensations	10,922,590	3.3	11,758,511	3.5	11,293,959	3.3	11,730,001	3.2	12,158,770	3.2
66 Revenues from sale of products and goods, provided services and revenues from donations	1,000,202	0.3	958,361	0.3	971,991	0.3	944,191	0.3	967,560	0.3
67 Revenues from the state budget	242,760	0.1	222,000	0.1	227,000	0.1	232,000	0.1	237,000	0.1
68 Fines, administrative measures and other revenues	633,053	0.2	636,477	0.2	653,081	0.2	668,488	0.2	686,089	0.2
7 Revenue from the disposal of nonfinancial assets	959,482	0.3	1,026,747	0.3	901,290	0.3	920,363	0.3	938,202	0.2
71 Revenues from the disposal of non-produced assets	467,599	0.1	464,330	0.1	457,115	0.1	460,944	0.1	464,818	0.1
72 Revenues from the disposal of produced assets	487,688	0.1	560,907	0.2	442,665	0.1	457,909	0.1	471,874	0.1
74 Revenues from the disposal of produced current assets	4,195	0.0	1,510	0.0	1,510	0.0	1,510	0.0	1,510	0.0
TOTAL EXPENDITURE (3+4)	144,626,649	43.8	148,833,984	44.3	157,514,699	45.4	164,607,891	45.5	169,638,765	44.9
3 Expense	137,362,913	41.6	140,561,538	41.8	148,093,036	42.7	154,428,313	42.7	160,033,434	42.3
31 Compensation of employees	27,801,642	8.4	26,182,714	7.8	26,815,921	7.7	27,534,320	7.6	28,275,278	7.5
32 Material expense	18,803,477	5.7	19,524,212	5.8	19,557,498	5.6	20,190,894	5.6	20,294,507	5.4
34 Financial expense	9,608,922	2.9	11,047,287	3.3	13,659,020	3.9	14,654,380	4.1	15,721,929	4.2
35 Subsidies	6,902,332	2.1	7,122,646	2.1	7,835,838	2.3	8,095,883	2.2	8,039,930	2.1
36 Grants	712,173	0.2	2,600,404	0.8	5,070,503	1.5	4,778,826	1.3	4,845,203	1.3
37 Compensations to citizens and households based on insurance and other compensations	65,564,819	19.9	65,131,648	19.4	65,616,594	18.9	66,188,216	18.3	67,214,836	17.8
38 Other expense	7,969,548	2.4	8,952,627	2.7	9,537,662	2.7	12,985,794	3.6	15,641,752	4.1
4 Expense for the acquisition of nonfinancial assets	7,263,737	2.2	8,272,447	2.5	9,421,662	2.7	10,179,578	2.8	9,605,331	2.5
41 Expense for the acquisition of non-produced assets	672,107	0.2	752,358	0.2	714,845	0.2	712,695	0.2	722,642	0.2
42 Expense for the acquisition of produced fixed assets	5,933,064	1.8	6,466,670	1.9	7,499,512	2.2	7,990,120	2.2	7,382,478	2.0
43 Expense for the acquisition of precious metals and other deposited valuables	4,182	0.0	6,987	0.0	5,691	0.0	5,753	0.0	5,819	0.0
44 Strategic inventories	33,475	0.0	362,513	0.1	362,564	0.1	371,605	0.1	411,145	0.1
45 Expense for additional investments in nonfinancial assets	620,908	0.2	683,919	0.2	839,051	0.2	1,099,404	0.3	1,083,246	0.3
TOTAL DEFICIT(-)/SURPLUS(+)	-11,453,884	-3.5	-11,680,032	-3.5	-19,258,906	-5.5	-18,504,504	-5.1	-16,895,521	-4.5
NET FINANCING CHANGES TO DEPOSIT BALANCE	11,453,884	3.5	11,680,032	3.5	19,258,906	5.5	18,504,504	5.1	16,895,521	4.5
8 Income from financial assets and borrowings	25,331,175	7.7	34,221,936	10.2	42,740,643	12.3	43,791,235	12.1	34,792,142	9.2
5 Expense for financial assets and loan repayments	14,998,221	4.5	22,058,297	6.6	22,915,467	6.6	24,606,429	6.8	17,235,264	4.6

Source: Ministry of Finance