REPUBLIC OF CROATIA
MINISTRY OF FINANCE

PUBLIC DEBT MANAGEMENT STRATEGY FOR THE 2017-2019 PERIOD

Zagreb, January 2017

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1. INTRODUCTION

At the end of 2015, general government public debt reached the level of HRK 289.6 billion, i.e. 86.7% of gross domestic product (hereinafter referred to as: GDP). Such a high level of public debt represents a significant burden for economic policy in general and it emphasizes the vulnerability of public finance by its related risks. In the period 2008 – 2015, cyclical disturbances followed by structural rigidities demonstrated consequential proportions and the speed of expansion of the public debt, which, in that period, increased by HRK 152 billion, or measured by share in GDP from 39.6% to 86.7%.

During 2015, coming out of a multiannual economic recession backed the efforts and effects of the implemented fiscal consolidation and it consequently stopped the multiannual trend of excessive year-on-year rates of growth of public debt shares in GDP. In the short term, the existing macroeconomic projections suggest the reduction of the refinancing risk and the reversion of this trend. However, the achieved level of public debt requires a comprehensive approach of the economic policy at three basic levels:

In the narrowest possible sense, the public debt management implies the definition of the way of meeting the state budget requirements for financing and the design of the debt structure by selecting markets, instruments and date of the debt issuance.

In a broader sense, the debt management is an integral part of the fiscal policy and it refers to the decisions on which part of state revenues will be financed via debt and what the target level of debt is. These decisions are further explained in the annual strategic documents such as guidelines for the preparation of the state budget, the state budget itself and the convergence programme which is drawn up within the framework of the European Semester.

The creation and implementation of the Public Debt Management Strategy, in both narrower and broader senses, requires a coordinated and consistent operation of economic policy measures based on three key strategic priorities: stimulation of economic growth, further fiscal consolidation and activation of government assets. These measures will be accompanied by the active public debt management policy with an aim of ensuring its long-term sustainability and limiting negative effects of related risks.

In this context, the Public Debt Management Strategy for the period 2017-2019 (hereinafter referred to as: the Strategy) defines the basic goals and implementing methods for the improvement of the sustainability of total public debt and for mitigating the related risks. Along with the detailed overviews of historical trends and the structure of public debt, three-year projections and principles of realization of determined financing plans, the

Strategy also identifies the implementing risks and principles of the mitigation thereof, with an emphasis in the areas of:

1. legal and institutional framework of public debt management
2. mitigation of refinancing risks and decrease in the share of short-term debt in total public debt
3. mitigation of public debt currency risk
4. mitigation of public debt interest risk
5. increase in the transparency of public debt and borrowing.

Along with the analysis of these public debt management risks, the Strategy also contains the 2017 borrowing plan with anticipated dynamics and calendar of auctions as well as the projections of the borrowing plan until 2019.

The necessary leverage for active public debt management is a regular determination, publication and evaluation of the implementation of the Public Debt Management Strategy, the goals of which are based on the cost-risk analysis, taking into account macroeconomic and market restrictions. Therefore, in the following period, it is anticipated to regularly and annually adopt and publish the strategy for the three-year period, and to harmonize it with the current convergence programme and three-year fiscal projections.

2. LEGAL AND INSTITUIONAL FRAMEWORK OF THE PUBLIC DEBT MANAGEMENT

The Budget Act[1] prescribes the basic goal of borrowing and debt management, and it is directed towards the fulfilment of financial requirements of the state budget by reaching the lower medium-term and long-term financing cost along with taking a reasonable risk degree. Prudential risk management is necessary in order to contribute to the realization of determined fiscal projections, to ensure sustainability and optimal debt structure and to achieve the goals determined by the debt management strategy. Borrowing is carried out for the purpose of financing budget deficit, investment projects and special programmes (according to the approval of the Croatian Parliament), government debt repayment, settlement of due payments in relation to state guarantees, budget liquidity management and for the purpose of covering the needs of the Croatian National Bank (hereinafter referred to as: CNB) for international reserves.

The role of the representative body in debt management differs from country to country, from delegating the entire authority of borrowing to the government/ministry of finance without subsequent reporting obligation, to the practice that the representative body approves each borrowing transaction. The best practice of member states of the European Union (hereinafter referred to as: EU) is present in cases when the right of borrowing is delegated to the government/ministry of finance, with the goals of debt management being defined at the same time along with the annual reporting on borrowing and debt management. In line with the set goals, the government/ministry of finance is the one that decides on the strategy, based on the consideration of expected costs and risks.

The Croatian Parliament, by the State Budget Execution Act which is adopted each year along with the state budget, determines the total amount of the new government debt and state guarantees which may be assumed or issued during the budget year. The Croatian Parliament receives reports twice a year, in the form of a semi-annual and annual report on the state budget execution, on the borrowing in both the domestic and foreign money and capital markets and on granted state guarantees and expenses by state guarantees.

The Budget Act prescribes the limitations of short-term and long-term borrowing for local and regional self-governments units, whereas the State Budget Execution Act regulates the powers of the Government when adopting the decision on giving consent for long-term borrowing of local and regional self-government units. A local and regional self-government unit may borrow for a long-term only for the investment that is financed from its budget and which is confirmed by its representative body, with a prior consent of the Government and on the proposal by the Minister of Finance. One of the conditions is that total annual liability of a local and regional self-government unit which incurs debt by taking a credit, loan or by

[1] Official Gazette, no. 87/08, 136/12 and 15/15

issuing securities, may amount to maximum 20% of realized revenues in a year preceding the year in which it borrows, reduced by revenues and receipts of domestic and foreign grants and donations, as well as from special contracts: co-financing citizens for local self-government, realized on the basis of the additional share in income tax and equalization grants for funding decentralized functions. In such a way, the borrowing of local and regional self-government units is maintained within the set fiscal framework.

Furthermore, the Budget Act prescribes that a legal person in the majority ownership or co-ownership of the Republic of Croatia enters into contracts on credit, i.e. loan, or issues guarantees on the basis of the decision on the Government consent, in case when the value of the transaction or a guarantee exceeds the amount determined by the State Budget Execution Act, which, in 2017, is determined in the amount of HRK 7.5 million.

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Since the first part of this Chapter provides a description of the relevant institutional-legal framework, and for the purpose of better understanding of basic strategic elements of public debt management policy which will be given in the follow-up of this document, it is necessary to define key terms in this context.

Public Debt represents a gross nominal value of the general government sector debt, according to the rules of EU statistical reporting. The debt refers to the units classified according to the official sector classification in general government sector, and it consists of liabilities by following financial instruments: cash and deposits, debt securities and credits and loans.* In line with the Cooperation Agreement in the Field of National Accounts of the General Government and Associated Statistics, CNB is responsible for annual and quarterly statistics of financial accounts of the general government sector and quarterly reporting on debt according to the Maastricht criterion, in line with the ESA 2010 Methodology. Series of data on general government debt are published in CNB Newsletter.

General Government Sector consists of three sub-sectors: central government, local government and social security funds.

Central Government includes state administration organizations, state agencies and other government institutions whose responsibilities cover the whole economic territory of a country and which separated from the social security funds. Central Government also includes non-profit institutions that are under the control and are mostly financed by central authorities. Central Government includes state budget users, extra-budgetary users (Croatian Waters - HV, Environmental Protection and Energy Efficiency Fund - FZOEU, Croatian Roads - HC, State Agency for Deposit Insurance and Bank Rehabilitation - DAB, Croatian Privatization Fund - HFP until march 31, 2011, Agency for State Asset Management - AUDIO until September 30, 2013, Restructuring and Sale Centre - CERP as its legal successors), HŽ Infrastructure - HŽI, Croatian Radio and Television - HRT, Croatian Motorways - HAC, Rijeka – Zagreb Motorway - ARZ, together with Croatian Bank for Reconstruction and Development - HBOR, Croatian Energy Market Operator – HROTE, Croatian Regulatory Authority for Network Industries - HAKOM, and Croatian Energy Regulatory Agency– HERA which are re-classified in the central government sector.

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*State Bureau of Statistics

Local government includes local and regional self-government units and local budgets users. It also includes non-profit institutions that are under the control of local authorities and are mostly financed by it.

Sub-sector of social security funds includes all institutional units the primary activity of which is administration of the social security system (Croatian Health Insurance Fund, Croatian Pension Insurance Institute and Croatian Employment Service).

Government Debt in this document represents a part of the public debt that is directly settled from the state budget, and it consists of liabilities by following instruments: bonds, treasury bills, credits and loans.

3. PUBLIC DEBT AND GUARANTEES OUTSTANDING

In the period from 2008 to 2015, the public debt grew from 39.6% of GDP to 86.7% of GDP, i.e. from HRK 137.6 billion to HRK 289.6 billion. The reason for such an increase of debt from 2008 was the accumulation of budget deficits, but also the factors which mostly refer to the realization of potential risks at companies in the majority state-ownership. Besides, the level of public debt was also influenced by re-classification of several heavily indebted companies in the majority state-ownership to the general government sector, which occurred due to transfer to ESA 2010. So far, the greatest effect on public debt has been the inclusion of the following three entities: HAC, ARZ and HBOR. The debt of these entities at the end of 2015 amounted to HRK 45.2 billion. Furthermore, by the application of new methodology, the debt of Bina Istra d.d. was re-classified to the public debt whereby it was increased by additional 1.4% of GDP.

In terms of the state government levels, the majority of public debt refers to the central government sector in the amount of HRK 284.2 billion, the debt of the local government sector amounts to HRK 5.4 billion, whereas the small part of debt of HRK 1.9 million refers to the sector of social security funds. It is important to point out again that the debt of the general government sector, along with the debt of state budget users, also includes the debt of extra-budgetary users in the amount of HRK 12.2 billion, as well as the debt of the state-owned entities (of HŽI, HRT, HAC, ARZ and HBOR), public-private partnerships and concessions in total amount of HRK 54.3 billion.

In terms of borrowing instruments, the largest part of public debt occurred by borrowing via long-term securities, i.e. bonds (56.1%), and then by borrowing via credits (37.4%) and short-terms securities (6.5%).

Currency structure of the public debt shows that the significant part of debt is denominated in foreign currency whereby 74.4% refers to EUR-denominated debt, 21.4% refers to HRK-denominated debt and 4.1% to USD-denominated debt. Small part of debt (0.1%) is denominated in Swiss francs. The debt denominated in euro has increased gradually during the last few years and to the largest extent it is the result of the issuance of domestic and foreign bonds denominated in euro, of borrowing in domestic market via syndicated loans and of the use of project loans of international financial institutions.

The public debt structure according to maturity shows that, at the end of 2015, the share of public debt with the maturity deadline of up to one year in total debt amounted to 6.7%. The share of public debt with the maturity deadline of one to five years was 16.4%, whereas the share of debt with the maturity deadline of five to ten years amounted to 37.3%. 39.6% of total public debt refers to the debt with the maturity deadline above ten years.

Table 1: Public Debt Structure in the 2013-2016 Period

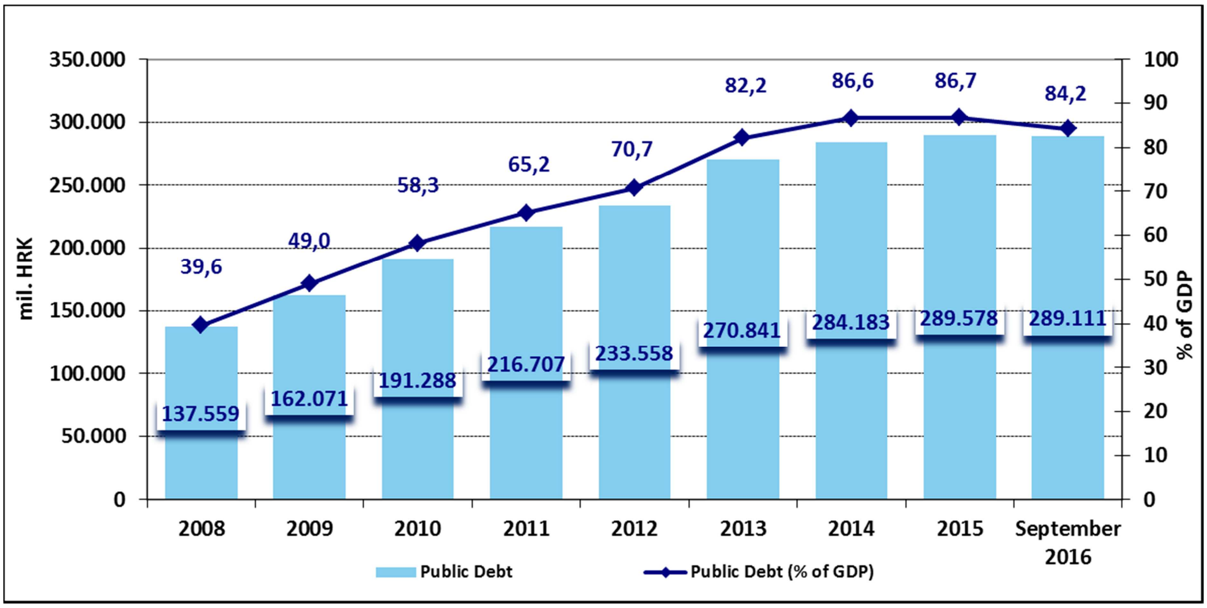
Public Debt Structure, ESA 2010, mil. HRK	2013.	2014.	2015.	September 2016.
1. Domestic General Government Debt*	**156.405**	**165.868**	**171.462**	**179.347**
1.1 Domestic Central Government Debt	151.826	160.889	166.771	175.203
of which:				
HAC	11.058	11.007	11.964	12.213
ARZ	1.405	1.760	1.759	1.804
HRT	343	407	349	336
HŽI	2.556	2.252	2.295	807
HBOR	3.416	747	747	921
HV	1.734	1.546	1.150	813
HC	6.468	7.459	7.886	7.468
DAB	0	0	0	0
FZOEU	0	0	0	101
HFP, AUDIO, DUUDI, CERP	852	1.174	999	952
PPP I CONCESSIONS	216	215	213	212
1.2 Domestic Debt of Social Security Funds	1	4	2	1
1.3 Domestic Local Government Debt	4.761	5.174	4.956	4.435
2. External General Government Debt	**114.435**	**118.315**	**118.116**	**109.764**
2.1 External Central Government Debt	113.952	117.834	117.703	109.391
of which:				
HAC	11.264	12.712	11.857	11.586
ARZ	5.912	5.434	4.954	4.554
HRT	0	0	0	0
HŽI	0	115	253	283
HBOR	12.465	14.318	13.958	15.015
HV	5	2	0	0
HC	2.221	2.137	2.098	1.929
DAB	0	0	0	0
FZOEU	0	0	0	0
HFP, AUDIO, DUUDI, CERP	42	38	34	30
PPP I CONCESSIONS	5.352	5.603	5.965	6.255
2.2 External Debt of Social Security Funds	0	0	0	0
2.3 External Local Government Debt	483	481	414	373
TOTAL PUBLIC DEBT	**270.841**	**284.183**	**289.578**	**289.111**

Source: CNB

*1. Domestic General Government Debt = (1.1 + 1.2 + 1.3 – consolidation elements)

According to the preliminary data of CNB, at the end of September 2016, public debt amounted to HRK 289.1 billion or 84.2% of the GDP estimated for 2016, whereby the nominal decrease by HRK 467.4 million was registered in relation to the end of 2015.

Figure 1: Public Debt Trend in the 2008-2016 Period



Source: CNB, DZS

At the end of 2015, total issued guarantees of the Republic of Croatia (hereinafter referred to as: RH) amounted to HRK 7.3 billion, i.e. 2.2% of GDP, and, in relation to the end of 2014, they were decreased by HRK 1 billion. Such an amount of total guarantees is primarily the result of the previously mentioned harmonization with the ESA 2010 Methodology and of the assumption of liabilities of public companies to public debt. At the end of September 2016, total issued guarantees of RH amounted to HRK 8.1 billion, i.e. 2.4% of GDP.

4. OVERVIEW OF FINANCIAL BORROWING IN 2015 AND 2016

4.1. Borrowing via bonds

Eurobonds in the international market

In March 2015, RH borrowed in the international financial market by issuing ten-year Eurobonds in the amount of EUR 1.5 billion. The bonds were issued at the price of 97.845% of the nominal amount. Interest coupon rate is unchangeable and it amounts to 3.0% annually, with the yield to maturity of 3.256%. The date of the maturity of bonds is March 11, 2025, and the interest on bonds is paid once a year starting from March 11, 2016.

Bonds with the Placement in the Domestic Capital Market

In 2015, RH borrowed via the issuance of domestic bonds in July and December. In July it borrowed by issuing the bonds with the placement in the domestic capital market in the amount of HRK 6 billion. The bonds were issued at the price of 98.497% of the nominal amount. The maturity of bonds is July 9, 2025, interest coupon rate is unchangeable and it is paid semi-annually.

In December 2015, the bonds in the amount of HRK 6 billion were issued in the domestic capital market. The bonds were issued at the price of 98.703% of the nominal amount. The maturity of bonds is December 14, 2026. Interest coupon rate is unchangeable and it amounts to 4.25% annually. Interest on bonds is paid semi-annually, whereas the principal will be paid in full upon the maturity. This issuance of bonds is supplemented in March 2016 with the amount of HRK 4 billion at the price of 102.248% of the nominal amount. The bonds are consolidated with the issuance of bonds from December and they form an integral emission in the amount of HRK 10 billion with the maturity on December 14, 2026.

In order to execute the expenses determined by the State Budget Execution Act for 2016[2], in July 2016, RH borrowed by issuing the bonds with the placement in the domestic capital market in the amount of HRK 6 billion. The bonds were issued at the price of 99.537% of the nominal amount. The maturity of bonds is July 8, 2021. Interest on bonds is paid semi-annually, whereas the principal will be paid in full upon the maturity. Interest coupon rate is unchangeable and it amounts 2.75% annually.

In July 2016, HRK 3.5 billion of bonds issued in 2011 matured and were redeemed.

[2] Official Gazette, no. 26/16 and 111/16

All bonds of RH were listed in the first quotation of the Zagreb Stock Exchange where at the end of 2016, total of eleven emissions of bonds were listed.

4.2. Borrowing via Long-Term Credits

- Credits in the domestic market in the amount of HRK 720 million

In January 2015, RH borrowed in the domestic financial market in the amount of HRK 720 million with the interest rate at the level of yields on treasury bills of 91 days maturity + 4.10%. The principal is to be redeemed in seventeen equal quarterly instalments, of which the first matured on December 22, 2015, and the last one will mature on December 22, 2019.

- Foreign currency syndicated loan in the amount of EUR 528.5 million

In July 2015, RH borrowed the long-term foreign currency syndicated loan in the amount of EUR 528.5 million with the interest rate at the level of 6-month EURIBOR + 3.70%. Interest rate in changeable with semi-annual calculation. The principal will be redeemed in seven equal six-month instalments, of which the first matures on July 9, 2017 and the last one matures on July 9, 2020.

- Credit in the amount of HRK 600 million

In September 2015, RH borrowed the long-term credit in the amount of HRK 600 million with the interest rate at the level of 6-month ZIBOR + 1.90%. The interest rate is changeable with semi-annual calculation. The principal will be redeemed in six equal six-month instalments, of which the first matured on February 28, 2016 and the last one matures on August 31, 2018.

- Credit in the amount of HRK 735.2 million

In November 2015, RH borrowed the amount of HRK 735.2 million with the interest rate at the level of the yield on treasury bills of 354 days maturity + 2.50%. The principal will be redeemed one-off on May 2, 2017.

- Credit in the domestic market in the amount of HRK 2 billion

In order to execute the expenses determined by the State Budget Execution Act for 2016[3], in June 2016, RH borrowed in the domestic market the amount of HRK 1 billion with interest rate at the level of the yield on treasury bills of 91 days maturity + 2.70% annually. The principal will be redeemed in 10 equal six-month instalments, of which the first matures on

[3] Official Gazette, no. 26/16 and 111/16

November 30, 2018 and the last one matures of May 31, 2023. In addition, in June 2016, RH borrowed the amount of HRK 1 billion with fixed interest rate of 3.40% annually. The principal will be redeemed one-off on June 4, 2021.

Assumed liabilities

In 2015, the Ministry of Finance assumed eleven credit liabilities on the basis of the Decision on giving consents for the increase in equity by transforming the claims on the basis of debt assumption based on given guarantees and unpaid compulsory payments to be paid by debtors.

Out of totally eleven assumed credit liabilities, six of them refer to the company HŽ Cargo d.o.o. The Decision on giving consents for the increase in equity of the company HŽ Cargo d.o.o. is adopted on May 21, 2015. The assumed principal balance amounts to EUR 68.6 million, which is the equivalent of HRK 520.9 million.

In order to efficiently manage the public debt, the decision was adopted on two credit borrowings at the Croatian Post Bank d.d. (hereinafter referred to as: HPB) so that the assumed liabilities of the company HŽ Cargo d.o.o. would be rationalized and repaid under the favourable conditions. The Decision on borrowing of RH in the amount of HRK 112 million at HPB was adopted in order to cover three assumed liabilities towards HPB, while the Decision on borrowing of RH in the amount of HRK 400 million at HPB was adopted in order to close more unfavourable sub-accounts at Erste & Steiermarkische Bank d.d. and Zagrebačka banka d.d. by this credit borrowing with more favourable conditions.

The Decision on giving consent for the increase in equity of the company HŽ Infrastructure d.o.o. was adopted on December 23, 2014. The assumed principal debt balance is HRK 170 million and EUR 208.9 million which is in total HRK 1.8 billion.

On September 24, 2015 the Government also adopted the Decision on giving consent for the increase in equity of the company HŽ Passenger Transport d.o.o. By this Decision, the outstanding debt of EUR 100.7 million was assumed, which is equal to HRK 766 million.

5. THE GOVERNMENT DEBT IN THE 2011-2016 PERIOD

In the follow-up, there are a detailed structure and features of the state budget debt described as a point of reference which will, through the realization of planned financing account, maintain and/or improve all necessary features of total public debt portfolio and thus minimize negative effects of global trends.

Government debt[4] includes domestic and foreign debt. Domestic debt consists of bonds issued in the domestic market, treasury bills and loans in the domestic capital market, whereas the foreign debt consists of bonds and loans in the international financial markets. The Croatian government debt trend in the period from 2011 to 2016 is illustrated in the following table.

Table 2: Government Debt according to Types of Instruments

	2011.		2012.		2013.		2014.		2015.		2016.	
	mil. HRK	%	mil. HRK	%	mil. HRK	%	mil. HRK	%	mil. HRK	%	mil. HRK	%
DOMESTIC DEBT	**90.318**	**64,1%**	**102.644**	**62,8%**	**112.697**	**57,7%**	**119.512**	**57,8%**	**124.124**	**57,0%**	**125.892**	**58,0%**
1. Bonds	52.732	37,4%	53.910	33,0%	58.710	30,0%	65.892	31,9%	69.594	32,0%	75.754	34,9%
2. Treasury Bills	19.879	14,1%	24.803	15,2%	27.892	14,3%	29.367	14,2%	27.686	12,7%	28.673	13,2%
3. Loans	17.707	12,6%	23.931	14,6%	26.095	13,3%	24.253	11,7%	26.844	12,3%	21.465	9,9%
EXTERNAL DEBT	**50.537**	**35,9%**	**60.877**	**37,2%**	**82.784**	**42,3%**	**87.173**	**42,2%**	**93.452**	**43,0%**	**91.282**	**42,0%**
1. Bonds	38.577	27,4%	47.131	28,8%	66.159	33,8%	73.215	35,4%	79.756	36,7%	79.320	36,5%
2. Loans, *o/w*	11.960	8,5%	13.746	8,4%	16.625	8,5%	13.958	6,8%	13.697	6,3%	11.963	5,5%
International Financial Institutions	*10.975*	*7,8%*	*10.936*	*6,7%*	*10.982*	*5,6%*	*10.626*	*5,1%*	*10.972*	*5,0%*	*11.452*	*5,3%*
Total Government Debt	**140.855**	**100,0%**	**163.520**	**100,0%**	**195.481**	**100,0%**	**206.685**	**100,0%**	**217.577**	**100,0%**	**217.174**	**100,0%**

Source: Ministry of Finance

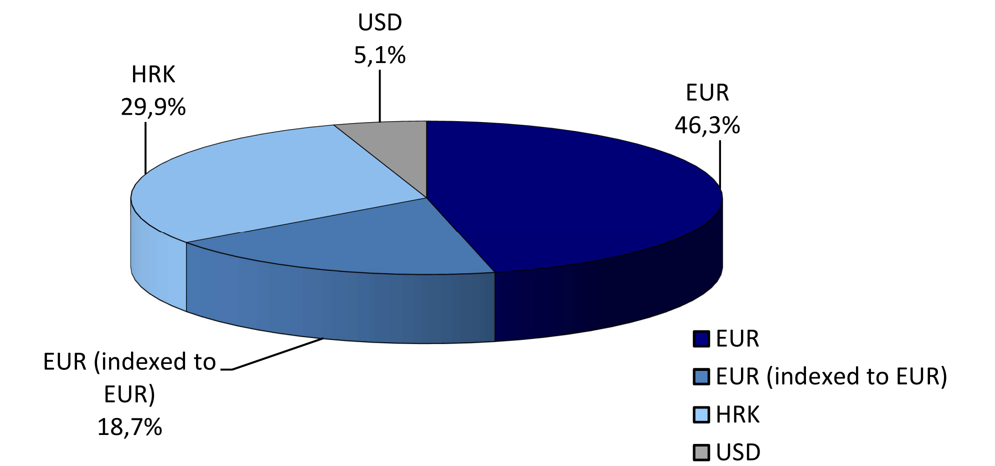
5.1. Currency Structure of the Government Debt

Currency structure at the end of 2016 shows the domination of two currencies, kuna and euro. The share of debt denominated in euro is 65.0% of total government debt and is mostly the result of the issuance of bonds denominated in euro and of the use of project loans of international financial institutions. In the part of the debt denominated in euro, one part refers to the debt which is expressed in euro but paid in kuna and it makes 18.7% of total debt. The debt denominated in kuna makes 29.9% of total government debt and is the result of the borrowing orientation on the domestic capital market, which, at the same time, contributed to the development of long-term curve of yields in national currency. Besides

[4] State Budget Debt includes credit liabilities that are serviced from the state budget, and it does not include the debt of extra-budgetary users of the state budget and the debt of public companies that are classified into the central government sector according to the ESA 2010 Methodology.

kuna and euro which dominate in the currency structure, the share of debt denominated in dollar makes 5%.

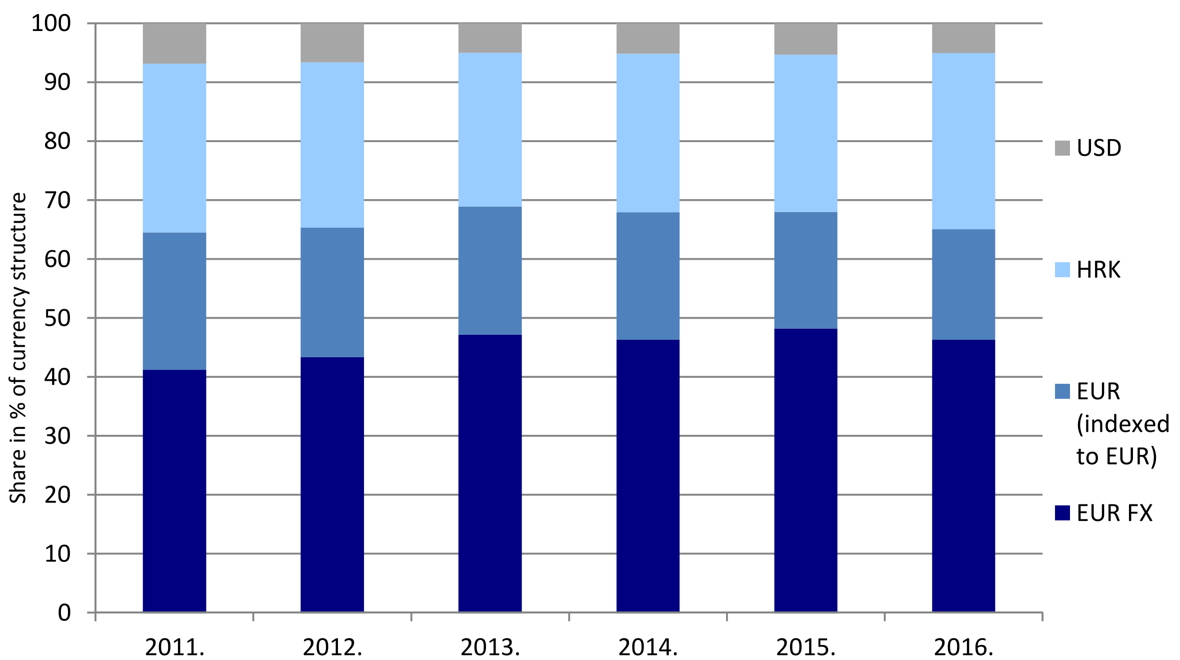
Figure 2: Currency Structure of the Government Debt on December 31, 2016



Source: Ministry of Finance

Figure 3 illustrates the trends in the currency structure of the government debt in the period from 2011 to 2016, from which it is noticeable that the share of debt in euro grew from 41.1% it amounted at the end of 2011 to 46.3% it amounted at the end of 2016. At the same time, the share of debt with a currency clause decreased from 23.3% to 18.7% as a result of the borrowing orientation on the domestic market by issuing bonds in kuna.

Figure 3: Trends in the Currency Structure of the Government Debt in the 2011-2016 Period

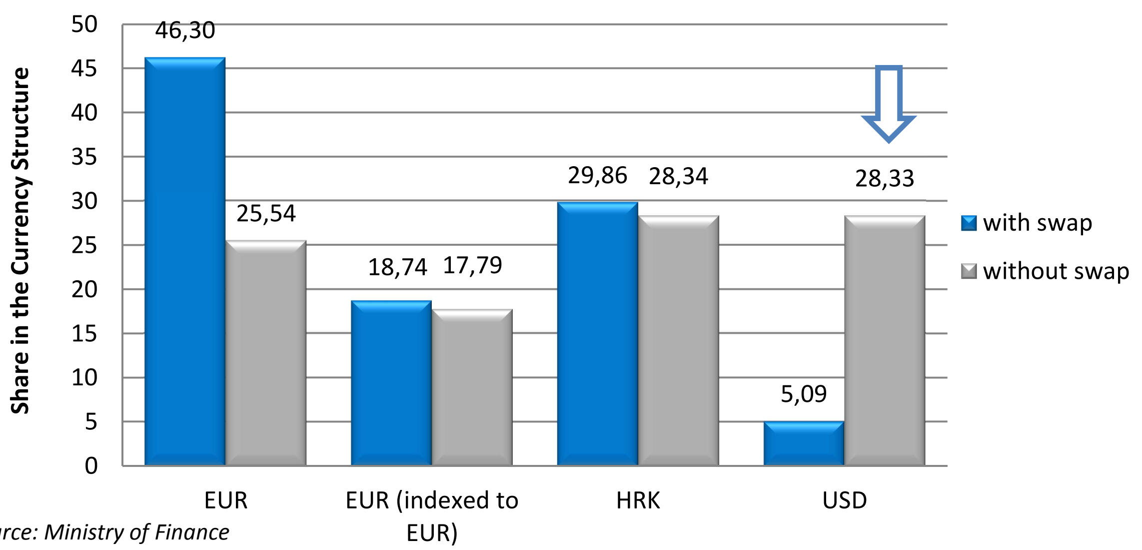


Source: Ministry of Finance

Significant increase in total financing requirements and high volatility in Eurozone caused by debt crisis of certain member states, conditioned the necessity of widening the base of investors, primarily by the issuances of bonds denominated in American dollar. By the Public Debt Management Strategy in the last three-year period, the removal of the currency risk in question was realized through the introduction of the protection instrument (currency swap), i.e. through the replacement of a significant part of liabilities denominated in dollar to euro liabilities, and thus, the significant amount of savings was realized. Five currency swap transactions of bonds were issued in total amount of USD 7.5 billion, whereby the issued dollar bonds and accompanying interests are transferred to euro liabilities according to USD/EUR ratio fixed in advance, which eliminates the risk of unfavourable currency changes considering the less EUR/HRK volatility.

Figure 4 illustrates the current condition of the currency structure of the government debt with the use and without the use of currency swap. The cross-section on December 31, 2016 shows that savings were realized considering the exchange rate trends in the amount of more than HRK 11.6 billion on the amount of debt principal, whereby negative exchange rate differences were avoided as a result of dollar volatility.

Figure 4: Currency Swap as an Instrument of the Protection from Currency Risk

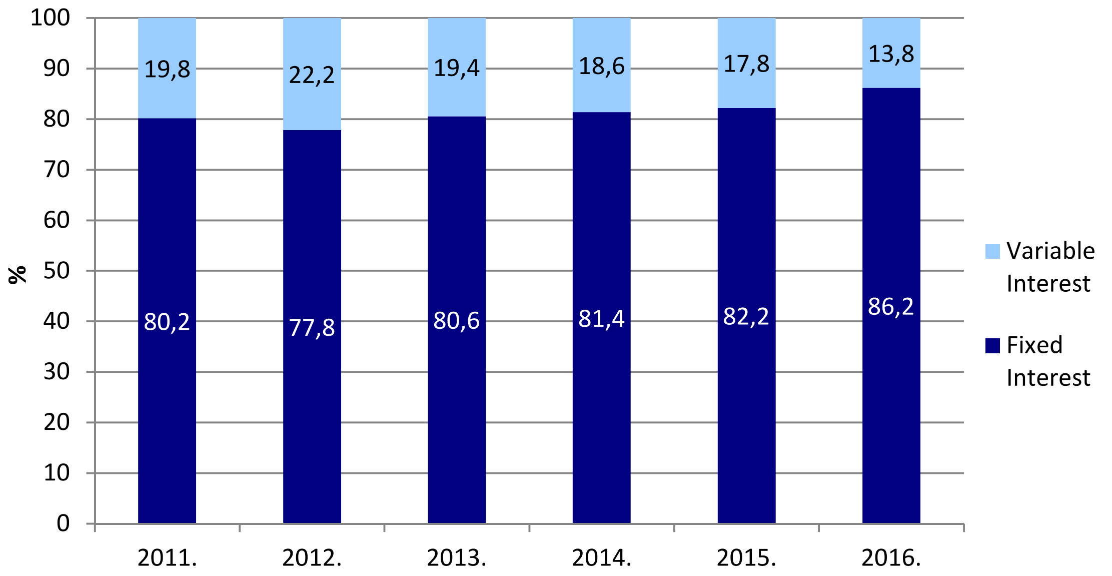


Source: Ministry of Finance

5.2. Interest Structure of Government Debt

In the period from 2011 to 2016, the share of debt with fixed interest rate increased from 80.2% to 86.2%, first of all as a consequence of the issuance of bonds in both domestic and international markets. The trends in the structure of long-term government debt according to the type of interest rate are illustrated in Figure 5.

Figure 5: Structure of the Long-Term Government Debt according to the Types of Interests

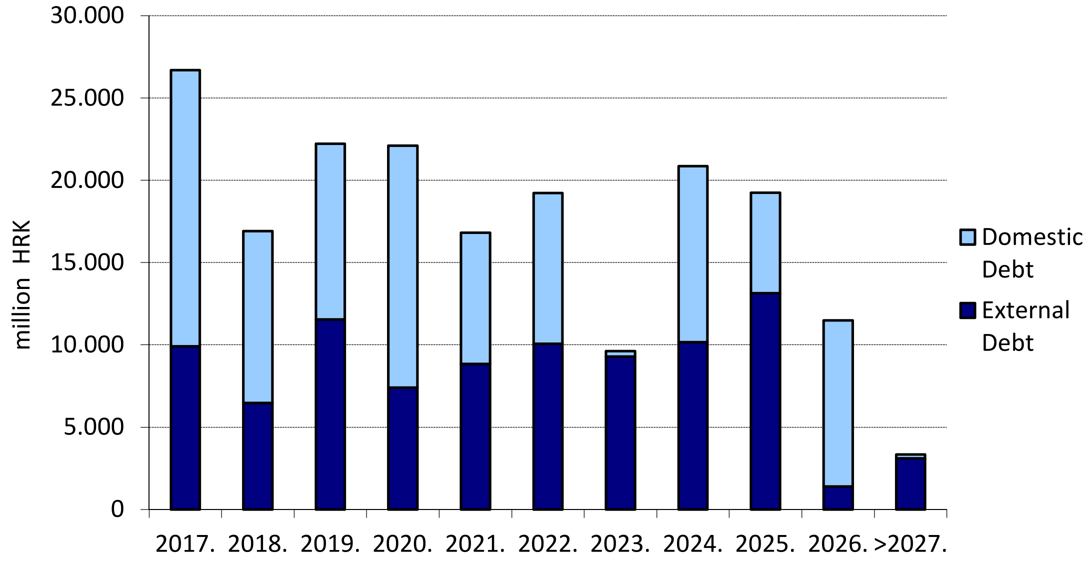


Source: Ministry of Finance

5.3. Maturity Structure of the Government Debt

The projection of the repayment of principals of domestic and foreign debt in the period from 2017 to 2027 is illustrated in Figure 6. The projection does not include liabilities per treasury bills which, at the end of 2016, amounted to HRK 28.7 billion. Without the maturity of treasury bills, in 2017 it is necessary to repay long-term liabilities in the amount of HRK 27 billion. There is also a noticeable increased burden of the repayment in 2019 and 202, due to the maturity of bonds issued in the domestic and foreign markets. Since it is important to maintain an even repayment burden in the following period for one of the tasks of the public debt management, special attention will be paid on keeping the uniform debt maturity. There is also a possibility of refinancing the existing debt under more favourable conditions and with a longer repayment period considering the current situation in financial markets.

Figure 6: Maturity of Long-Term Government Debt in the 2017-2027 Period



Source: Ministry of Finance

5.4. Structure of the Government Debt according to the Type of Instruments

In the period from 2011 to 2016, there is a decrease in the component of domestic debt in debt structure, the share of which in total debt was reduced from 64.1% at the end of 2011 to approximately 58% at the end of 2016. The share of foreign debt grew from 35.9% it amounted at the end of 2011 to 42% of total government debt (at the end of 2016), and in its largest part it refers to the issuance of international bonds and project loans of international financial institutions.

Considering the modified conditions in financial markets and in terms of modified domestic and global macroeconomic conditions, a part of total financing requirements was realized by issuing Eurobonds in foreign market which had an impact on the currency structure.

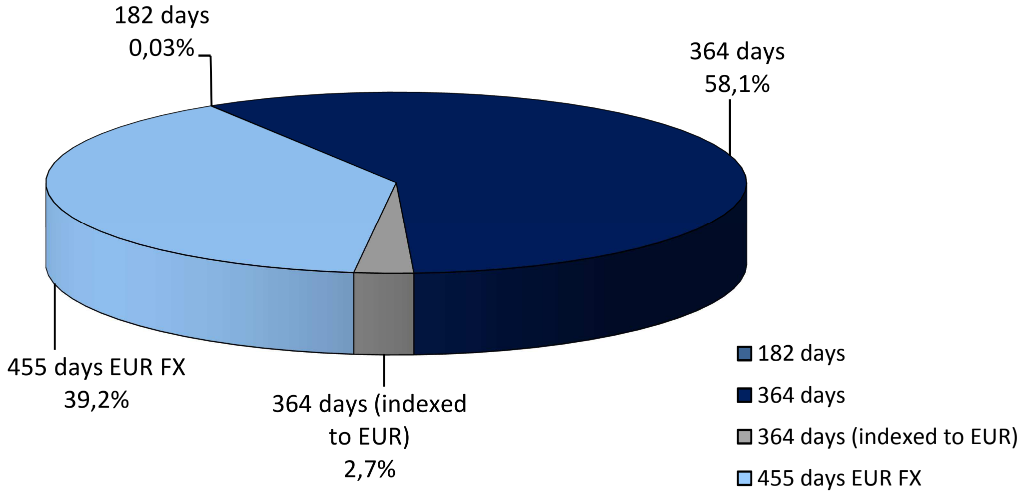
In terms of borrowing instruments, the largest part of the government debt occurred by borrowing via long-term securities, i.e. bonds (71.4%), and then by borrowing via credits (15.4%) and short-term securities (13.2%).

Treasury Bills

The Ministry of Finance carries out treasury bill auctions in line with the Rules and Conditions for Treasury Bill Auctions by using the electronic Bloomberg Auction System (BAS).

At the treasury bill auctions, the greatest interest is shown for treasury bills with maturity of 364 days, so that on December 31, 2016 the balance of the share of treasury bills with maturity of 364 days amounted to 60.8% of total nominal amount of issued treasury bills. The share of treasury bills with maturity of 455 days amounted to 39.2%, whereas the treasury bills with maturity of 182 days amounted only to 0.03%.

Figure 7: Treasury Bill Structure on December 31, 2016

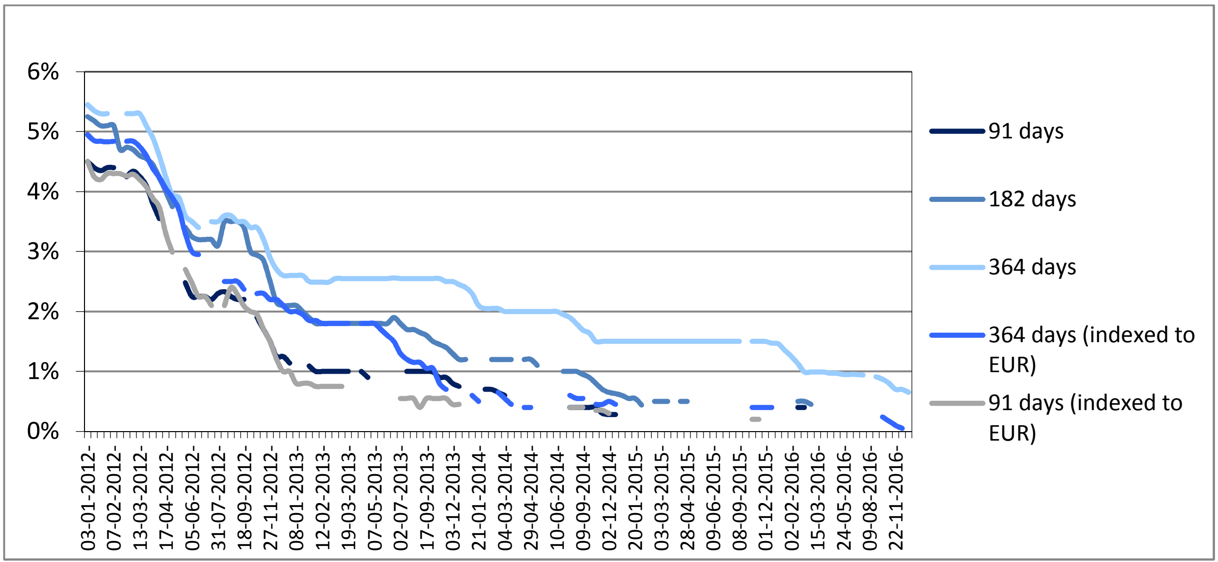


Source: Ministry of Finance

Figure 8 illustrates the trends in interest rates on treasury bills of the Ministry of Finance in the period from 2012 to 2016 for all types of issuances. From the end of 2012, interest rates on treasury bills by all types of issuances have been gradually decreasing. At the end of 2016, interest rates on HRK treasury bills of 91 days maturity amounted to 0.4%, those of 182 days maturity to 0.3% and those of 364 days maturity to 0.65%. Interest rates on treasury bills with a currency clause amounted to 0.05% for those of 364 days maturity and to 0.2% for those of 91 days maturity.

Throughout the whole observed period, the demand for treasury bills exceeds the amounts of issued treasury bills, particularly at the end of the observed period when the trend of increased demand for treasury bills is especially noticeable.

Figure 8: Interest Rates on Treasury Bills in the 2012-2016 Period



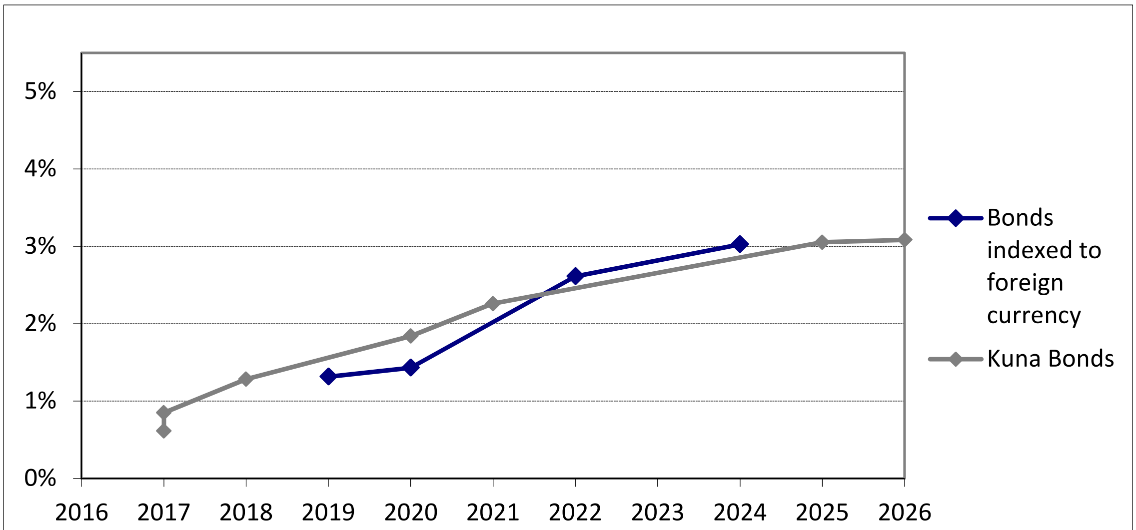
Bonds

In the period from 2011 to 2016, three issuances of international bonds and six issuances of bonds issued in the domestic capital market matured and were redeemed. When analysing and determining the source of the financing account of the State Budget in the period 2011-2016, RH issued seven bonds in the foreign market and six government bonds in the domestic market.

New issuances of bonds in both domestic and foreign markets contributed to the development of the RH bonds yield curves.

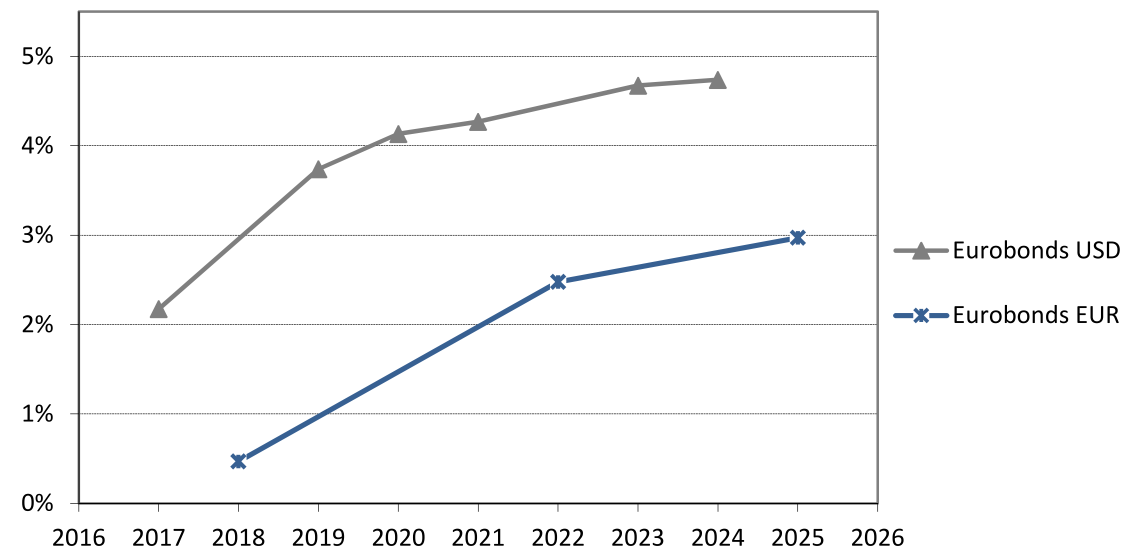
In the follow-up, Figures 9 and 10 show yield curves on domestic and foreign bonds.

Figure 9: Yield Curve of Domestic Bonds



Source: Ministry of Finance

Figure 10: Yield Curve of Foreign Bonds



Source: Ministry of Finance

6. MACROECONOMIC FRAMEWORK

This macroeconomic framework is equal to the one from the State Budget of the Republic of Croatia for 2017 and the projections for 2018 and 2019[5] and is prepared on the basis of all so-far published indicators and projections of budget categories[6]. External assumptions have, to the great extent, been taken over from the projections of the European Commission "Autumn 2016". The recovery of economic activity that started during 2015 will accelerate in 2016, when the real growth of GDP is expected to be of 2.7%. In the medium-term period, the continuation of positive trends is expected as well as gradual acceleration in the economic activity growth. Therefore, in 2017 and 2018, the growth of GDP is expected to be of 3.2% and will then accelerate to 3.3% in 2019. The economic growth will, throughout the whole projection period, be based solely on the contribution of domestic demand. The contribution of net foreign demand will be slightly negative in 2016, somewhat more pronounced in 2017, and then stabilized until the end of the observed period.

The comprehensive tax reform, to be applied from the beginning of 2017, will have a significant impact on the expected economic growth in the following year. More precisely, the multiplicative effect of the reform is estimated to be 0.5% of GDP. In other words, the growth rate in 2017 is increased by the approximately same amount expressed in percentage points in relation to the basic scenario without the reform which suggests the growth of 2.7%, as it was in 2016. The initial effect of the reform happens due to the estimated release of funds to the household sector and to the corporate sector in the amount of 0.5% and 0.2% of GDP, respectively. When calculating the multiplicative effect, it was assumed that the household sector and the corporate sector will spend, that is, invest approximately 70% of released funds, taking into consideration the current point of economic cycle. The growth rates of certain elements of the expenditure side of the GDP

[5] Official Gazette, number 119/16

[6] We would like to point out that after the preparation of this macroeconomic framework, the first estimation of the quarterly GDP was published for the third quarter of 2016, according to which GDP increased by 2.9% at a year-on-year level. The projection for 2016 referred to in Table 2 suggested only a slightly stronger increase in the third quarter, but with somewhat different dynamics of the elements of GDP on the expenditure side. More precisely, regarding the domestic demand, weaker increase in government spending is anticipated, as well as somewhat weaker increase in household spending, while on the other hand, somewhat stronger increase is anticipated in gross investment in fixed capital. Besides, although it was expected that the dynamics of the export of goods will significantly slow down, the assumed year-on-year growth rate in the third quarter was however somewhat higher than the first published estimation, while regarding the import of services, significantly weaker growth rate was projected. In addition, the reduction of the category of the change in stocks, expressed in constant prices, which derives from the first published estimation of the quarterly GDP on the expenditure side, seems more pronounced than in relation to the reduction assumed in these projections. Regarding the export of services and import of goods, the growth rate that had been expected was close to the realized one. Regarding the GDP projection at annual level which derives from the published realizations in the third quarter, the real GDP growth rate will still amount to 2.7% in 2016 as well, whereby a slightly more pronounced positive contribution should come from domestic demand, while the contribution of net export should reflect equal change but with the opposite sign.

calculation were also corrected for the effect of the reform, whereby the household spending slightly slowed down in relation to 2016 in the basic scenario without the reform, while the investments significantly accelerated its growth in relation to 2016 in the basic scenario as well.

Table 3: Projections of Macroeconomic Indicators of the Republic of Croatia

	2015	Projection 2016	Projection 2017	Projection 2018	Projection 2019
GDP - current prices, HRK million	**333.837**	**343.188**	**357.714**	**373.780**	**391.524**
GDP - real growth (%)	**1,6**	**2,7**	**3,2**	**3,2**	**3,3**
Household consumption	1,2	2,8	3,6	2,9	2,8
Government consumption	-0,3	1,0	1,1	1,2	2,0
Gross fixed capital formation	1,6	4,9	6,8	8,0	7,4
Exports of goods and services	10,0	5,7	4,6	4,7	5,0
Imports of goods and services	9,4	6,1	6,2	6,2	6,3
Contributions to real GDP growth					
Household consumption	0,7	1,7	2,1	1,7	1,6
Government consumption	-0,1	0,2	0,2	0,2	0,4
Gross fixed capital formation	0,3	0,9	1,3	1,6	1,6
Exports of goods and services	4,7	2,9	2,4	2,4	2,6
Imports of goods and services	-4,2	-2,9	-3,0	-3,0	-3,2
Contributions to real GDP growth					
Domestic demand	1,0	2,8	3,7	3,6	3,6
Changes in inventories	0,2	0,0	0,0	0,1	0,1
Net exports	0,5	-0,1	-0,6	-0,6	-0,5
Final demand, real growth (%)	4,0	3,8	4,1	4,1	4,3
GDP deflator, growth (%)	0,1	0,0	1,0	1,3	1,5
Consumer price index, growth (%)	-0,5	-1,1	1,0	1,5	1,7
Employment, growth* (%)	1,5	1,5	1,6	1,6	1,5
Unemployment rate* (%)	16,3	13,6	11,9	10,4	9,5

* ILO definition.

Source: Croatian Bureau of Statistics, Ministry of Finance

Household spending will be the main stimulator of domestic demand growth in the medium-term period. The continuation of its recovery will be under the influence of the continuation of the real growth of disposable household income, although of somewhat weaker intensity in relation to the previous two years, and in spite of strong change in the inflation rate of consumer prices between 2017 and 2018. The tax reform will also contribute to such trend to the significant extent. Positive published data from the financial sector indicate the termination of the process of household sector deleveraging and they inspire optimism in terms of future credit activity of banks which, however, still largely avoid the risk. In line with the continuation of fiscal consolidation, no significant contribution of government spending to the economic growth is expected until the end of the medium-term period. Key stimulus to the projected dynamics of gross investments in fixed capital is expected from the increase in the rate of use of EU structural and investment funds which is already underway. After the abatement of the largest part of temporary influences in 2016, the real growth of the export of goods and services will continue the trend in line with the growth of foreign demand for domestic goods and services. At the same time, the favourable trend of shares in the Croatian export markets will continue, with somewhat weaker intensity. In relation to that, the growth of import of goods and services underwent the largest part of the adjustment in 2016, as a consequence of the effects caused by the accession to the EU, and it will follow, more steadily, the dynamics of final demand at a lower level of elasticity in relation to its change in the continuation of the period.

In 2017, following the three-year stagnation, the growth of GDP deflators should reach the level of 1.0%, first of all as a result of the growth of household spending deflators and export-of-goods deflators. In the remaining years of the projection period, a gradual acceleration of the inflation is expected under the conditions of the domestic demand recovery, as well as the continuation of the growth of prices of primary raw materials in the global market. In 2017, the recovery of raw material prices in the global market will significantly influence the trend of consumer prices inflation, primarily due to the expected increase in the prices of oil. In addition, the strengthening of the household spending and growth of the unit labour cost should operate in the direction of the growth of consumer prices index. In 2017, negative contribution caused by changes in the VAT system should be partly reversed by the increase in excise duties on cigarettes. The foreign price trends will have an important impact on the trends of the deflators of the export and import of goods and services in 2017. In addition, the increase in VAT rate on catering services will have an impact on the increase in the deflators of the export of services.

The recovery of economic activity already had a strong favourable effect on the labour market in 2015, and the continuation of such trend is anticipated further on. Throughout the whole projection period, the constant reduction of the survey unemployment rate is also anticipated under the conditions of the decreasing labour force, except in the last year of the observed period. This projection contains an assumption that, in spite of unfavourable total demographic trends, the economic recovery will have certain positive effects on the participation rate, backed by the fact on the existence of unfavourable structural characteristics of the Croatian labour market, primarily a high share of long-term unemployed persons and long average duration of unemployment. Since the anticipated GDP growth in all the years of the projection period will be faster than the growth of employment, the average product of labour will register the increase and it will not accelerate more significantly until the end of the observed period. The growth of unit labour costs will remain soft until the end of the period.

The described macroeconomic scenario is exposed to the prevailingly negative risks, both external and domestic ones. As a consequence of significant and growing level of integration in the EU, the risks which endanger the expected trends in Europe have a strong effect on the domestic economy as well. They all refer to the realization of the expected dynamics of the global economic growth, but at the same time of the global trade as well. Let us point out here the uncertainty about the intensity of unfavourable effect on the growth due to changes in trends of prices in the global raw-materials market, first of all of the oil. Regarding the domestic risks for the projected trajectory of economic growth, they mostly refer to medium-term restrictions on the side of supply. More precisely, the growth rates from this macroeconomic framework will definitely lead to fast closing of the negative and opening of the positive output gap, under the conditions of unfavourable long-term influences from the aspect of each single factor of production. However, it should be mentioned here that projected trajectory of economic growth also includes a strong investment cycle throughout the whole period, bearing in mind that the character of investment goods produces certain self-generating effect on the GDP growth.

7. CREDIT RATING OF THE REPUBLIC OF CROATIA

RH has been given evaluations of credit rating by three leading specialized agencies for the evaluation of creditworthiness, and these are: Moody`s Investors Service (hereinafter referred to as: Moody's), Standard & Poor`s (hereinafter referred to as: S&P) and Fitch Ratings (hereinafter referred to as: Fitch). Besides the aforementioned agencies, RH has also been given the evaluation by the Japanese rating agency Rating & Investment Information (hereinafter referred to as: R&I), which is specialized for rating evaluation of the securities issuers in Japan. These agencies carry out the verification of the assigned credit rating every year.

By observing the trends in credit rating of RH in the last six years, a significant decrease can be noticed from the end of 2012, which was primarily the consequence of a multiannual recession and weaker economic growth prospects as well as insufficient fiscal consolidation which was reflected in high budget deficit and large increase in public debt. In the following years, the rating was maintained at low levels. In December 2016, S&P agency improved the evaluation of the trends in credit rating from the negative to stable on the basis of the realized macroeconomic and fiscal indicators. Therefore, in the following period, one of the goals of the Government of RH will be the improvement of the international credit rating based on the expected positive effects of the existing fiscal projections. The overview of the evaluation of credit rating of RH is illustrated in Table 4, compared with EU member states.

Table 4: Comparison of Credit Ratings of European Union States

State	Moody's		Standard & Poors		Fitch	
	2011.	2016.	2011.	2016.	2011.	2016.
Austria	Aaa	Aa1	AAA	AA+	AAA	AA+
Belgium	Aa3	Aa3	Aa	AA	AA+	AA-
Bulgaria	Baa3	Baa2	BBB	BB+	BBB-	BBB-
Cyprus	Baa3	B1	BBB	BB	BBB	BB-
Czech Republic	A1	A1	AA-	AA-	A+	A+
Denmark	Aaa	Aaa	AAA	AAA	AA+	AAA
Estonia	A1	A1	AA-	AA-	A+	A+
Finland	Aaa	Aa1	AAA	AA+	AAA	A+
France	Aaa	Aa2	AAA	AA	AAA	AA
Greece	Ca	Caa3	CC	B-	CCC	CCC
Croatia	Baa3	Ba2	BBB-	BB	BBB-	BB
Ireland	Ba1	A3	BBB+	A+	BBB+	A
Italy	A2	Baa2	A	BBB-	A+	BBB+
Latvia	Baa3	A3	BB+	A-	BBB-	A-
Lithuania	Baa1	A3	BBB	A-	BBB	A-
Luxembourg	Aaa	Aaa	AAA	AAA	AAA	AAA
Hungary	Ba0	Baa3	BBB-	BBB-	BBB-	BBB-
Malta	A2	A3	A	A-	A+	A
Netherlands	Aaa	Aaa	AAA	AAA	AAA	AAA
Germany	Aaa	Aaa	AAA	AAA	AAA	AAA
Poland	A2	A2	A-	BBB+	A-	A-
Portugal	Ba2	Ba1	BBB-	BB+	BB+	BB+
Romania	Baa3	Baa3	BB+	BBB-	BBB-	BBB-
Slovakia	A1	A2	A+	A+	A+	A+
Slovenia	A1	Baa3	AA-	A	AA-	A-
Spain	A1	Baa2	AA-	BBB+	AA-	BBB+
Sweden	Aaa	Aaa	AAA	AAA	AAA	AAA
United Kingdom	Aaa	Aa1	AAA	AA	AAA	AA

Source: Ministry of Finance, Bloomberg

In the follow-up, there is also a calendar of expected publications of RH credit ratings by the abovementioned three key credit rating agencies in 2017.

Table 5: Calendar of Publications of Credit Rating of the Republic of Croatia in 2017

Moody's	Standard & Poors	Fitch
March 10 July 14 November 10	March 24 September 22	January 27 July 14

8. PROJECTIONS OF TRENDS AND BASIC GOALS AND GUIDELINES FOR THE PUBLIC DEBT MANAGEMENT IN THE 2017-2019 PERIOD

Sustainability of public debt represents a key macroeconomic risk of the Croatian economy. Therefore, it is extremely important to achieve the planned fiscal adjustment the goal of which is to bring back the shares of public debt in GDP to a sustainable trajectory. For this reason, Programme of the Government of RH for the term of 2016-2020 states that the Government will continue to strengthen the sustainability of public finance because the stability of public finance is the basis of permanent economic growth, as well as of the entire economic stability. This means further reduction in budget deficit which will reflect in the decrease of the share of debt in GDP and generally enable the reduction of cost of interests that RH pays on public debt today.

As a consequence of all the aforementioned, the basic strategic goal of the Government of RH and national priority is to reduce the share of public debt in GDP by more than 10 percentage points by the end of 2020.

Pursuant to the existing fiscal projections of the state budget for the period from 2017 to 2019, and in line with the projected trends of revenues and expenses of other levels of the general government budget, including the estimations of deficit/surplus of public companies and other units included in the general government sector according to the ESA 2010 Methodology, it is expected that the planned deficit of the general government will amount to 1.6% of GDP in 2017, 1.0% in 2018, and 0.6% of GDP in 2019 (which is illustrated in Table 6). In line with the trends of the consolidated general government deficit, and taking into account the planned privatization receipts and change in the balance of deposits, it is expected that the share of public debt in GDP will register the reduction already in 2016 and will amount to 83.9% of GDP, whereby the assumptions for the exit of RH from the excessive budget deficit procedure will be fulfilled, along with the continuation of maintaining a sustainable, reasonable and balanced fiscal policy, and the return of the credit rating to the level of the investment rating will be ensured, as well as the permanent reduction of the debt burden.

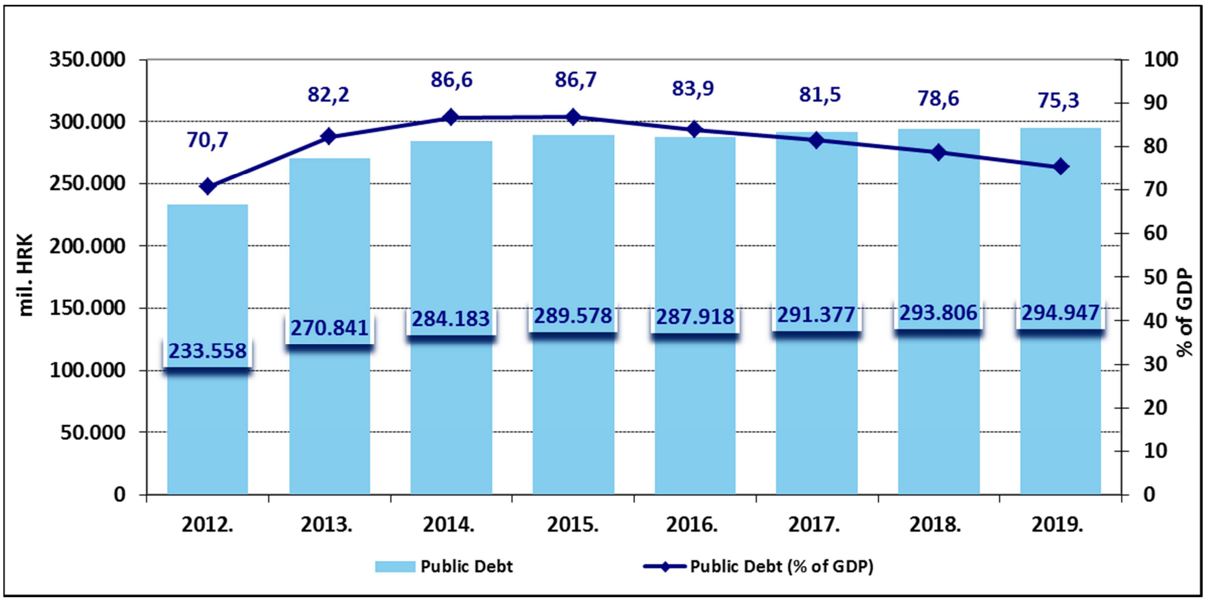
By further implementation of fiscal consolidation and of the reduction in general government budget deficit and activation of state assets, i.e. privatization receipts in the amount of HRK 1.4 billion annually, the share of public debt in GDP will continue to decrease to the level of 81.5% of GDP in 2017, 78.6% of GDP in 2018, whereas the public debt in 2019 will amount to 75.3% of GDP (Figures 11 and 12).

Table 6: Estimation of Total Deficit/Surplus of General Government, ESA 2010 Methodology

(000 HRK)	Plan for 2016	Plan for 2017	Projection 2018	Projection 2019
STATE BUDGET				
Total Deficit/Surplus	**-5.347.883**	**-6.815.883**	**-5.659.607**	**-3.938.932**
% of GDP	*-1,6*	*-1,9*	*-1,5*	*-1,0*
EXTRA-BUDGETARY USERS				
Total Deficit/Surplus	**-971.846**	**948.949**	**1.185.101**	**709.985**
% of GDP	-0,3	0,3	0,3	0,2
LOCAL GOVERNMENT				
Total Deficit/Surplus	**600.000**	**222.910**	**245.775**	**266.870**
% of GDP	0,2	0,1	0,1	0,1
CONSOLIDATED GENERAL GOVERNMENT, national methodology				
Total Deficit/Surplus	**-5.719.729**	**-5.644.023**	**-4.228.732**	**-2.962.077**
% of GDP	-1,7	-1,6	-1,1	-0,8
PUBLIC COMPANIES				
Total Deficit/Surplus	**943.529**	**-103.111**	**334.998**	**376.521**
% of GDP	0,3	0,0	0,1	0,1
OTHER ADJUSTMENTS	**-823.214**	**59.388**	**64.748**	**44.481**
% of GDP	-0,2	0,0	0,0	0,0
CONSOLIDATED GENERAL GOVERNMENT, ESA 2010	**-5.599.414**	**-5.687.747**	**-3.828.986**	**-2.541.075**
% of GDP	-1,6	-1,6	-1,0	-0,6

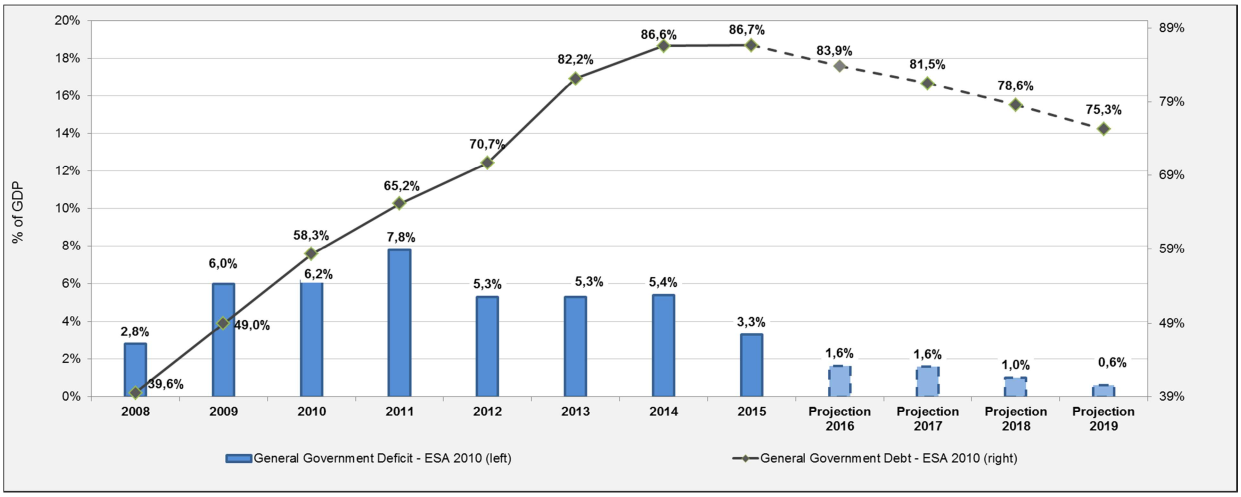
Source: Ministry of Finance

Figure 11: Public Debt Trends 2012 - 2019



Source: CNB, Ministry of Finance

Figure 12: Trends of Public Debt and General Government Budget Deficit



Source: Eurostat, Ministry of Finance

The existing macroeconomic projections suggest, in the short-term, the mitigation of refinancing risks and the reversion of multiannual trend of excessive year-on-year rates of growth of shares of public debt in GDP. As it has already been mentioned, the achieved high level of public debt requires a comprehensive economic policy directed towards the stimulation of economic growth, further fiscal consolidation and activation of state assets followed by active public debt management policy.

The basic goal of borrowing and debt management is to ensure financial requirements of the state budget by achieving the lowest medium-term and long-term financing cost along with taking the reasonable risk degree.

For the purpose of realizing the general goal of debt management, the Strategy defines, along with the basic goal, implementing methods for the improvement of sustainability of total public debt and for the mitigation of related risks. Along with the detailed overviews of historical trends and public debt structure, three-year projections and principles of realization of determined financing plans, the Strategy also identifies implementing risks and principles of the mitigation thereof, with an emphasis on:

1. strengthening of legal and institutional framework of public debt management,
2. mitigation of risks of refinancing and reducing the share of short-term debt in total public debt,
3. mitigation of currency risk of public debt,
4. mitigation of interest risk of public debt, and
5. increase in the transparency of public debt and borrowing.

8.1. Strengthening of Legal and Institutional Framework of the Public Debt Management

The existing legal framework of the public debt management, primarily the provisions of the Budget Act, provides a relatively satisfactory implementing and control framework along with the necessary flexibility at the level of central budget, extra-budgetary users and local and regional self-government units. During the previous period, it was found necessary to strengthen the control of business operations of public companies that are included into the general government sector according to the ESA 2010 Methodology. As a consequence of the aforementioned, the existing legal framework will be analysed for the purpose of strengthening the efficiency of the mechanism of control of such companies, and in order to consider and to comprehensively define the goals and to respect the restrictions of fiscal policy.

Furthermore, with an aim of fully adjusting the national legislation to the provisions of the Stability and Growth Pact and to the recommendations of the EU Council within the European Semester, it is necessary to adopt a new Fiscal Responsibility Act. This Act will determine the numerical fiscal rules which include the structural balance rule, expenditures rule and public debt rule. According to the EU legal provisions, the public debt rule defines that a share of public debt in GDP shall not exceed the reference value of 60%. Should the share of public debt exceed the reference value of 60%, the difference between the share of public debt in GDP and reference value of 60% shall have to be reduced at an average rate of one twentieth per year in the following three years, starting from the year in which the public debt share in GDP has exceeded the reference value of 60%.

According to the currently valid Regulation on the Internal Organization of the Ministry of Finance, the tasks related to the public debt management are within the scope of the Public Debt Management Sector as an organizational unit within the State Treasury. The institutional and administrative capacities have to follow, correspondingly, the goals of public debt management determined by this Strategy, so it is, therefore, necessary to organize the work of this Sector at the level of the directorate by the amendments to the internal organization of the Ministry of Finance.

8.2. Mitigation of Risks of Refinancing and Reducing the Share of Short-Term Debt in Total Public Debt

The existing level of public debt and determined structure of annual repayments of principal generate a need for significant refinancing in annual amounts of up to 20% of GDP. The existing, relatively favourable conditions in financial markets provide a possibility of extending the average maturity of debt and balancing of maturity profile, along with the reduction in the share of short-term debt in total public debt.

8.3. Mitigation of Currency Risk of Public Debt

Although the majority component in the structure of total public debt is the domestic one, its prevailing share (about 75%) is denominated or indexed in euro. This currency risk cannot be removed in the short term, but the conditions in the domestic capital market enable its partial mitigation since the kuna sources provided, by its volume, available maturity and price throughout the last 18 months, the adequate alternative to the currency-denominated one. The further increase in the share of kuna component in total debt is anticipated through primary emissions in the domestic market, as well as through the possibility of switching the shares of the existing currency instruments to kuna ones, should financial institutions prefer it in terms of the adjustment to capital requirements as a consequence of regulatory provisions.

8.4. Mitigation of Interest Risk of Public Debt

Considering the high total level of indebtedness, long-term increase in reference market interest rates would represent a significant threat to fiscal sustainability and it would consequentially generate a significant increase in public debt. In the short term, this threat is mitigated by the existing interest rate structure in which more than 86% of long-term liabilities at the level of state budget debt are instruments with fixed interest rate. In addition, in the short term, current market conditions suggest the refinancing of the maturity of the existing liabilities with a lower nominal interest rate in relation to the contracted rate of maturing liabilities. In the medium term, this risk may be mitigated by a consistent implementation of the sustainable fiscal policy and consequential improvement of the country credit rating and, thus, by the reduction in the existing high risk premiums.

8.5. Increase in the Transparency of Public Debt and Borrowing

A significant emphasis in this three-year Strategy as well is given to the transparency of public debt and borrowing that is manifested through the publicly published plans, conditions and rules of borrowing. Therefore, in order to better inform potential investors and to provide better predictability of borrowing, the Strategy contains:

- projection of the state budget borrowing plan by 2019,
- calendar of treasury bills issuances in 2017 by dates of planned monthly auctions,
- plan of bonds issuances in 2017 by quarters,

- projection of the repayment of the state budget debt principal for the period 2017-2027,
- projection of the repayment of domestic debt and international bonds of RH,
- overview of outstanding bonds of RH issued in the period 2007 and 2016, with maturity deadlines in the period from 2017 and 2026,
- trends in risk premiums for RH in the period from 2013 and 2016, in relation to the selected EU states (Credit Default Swap - CDS).

Table 7, the State Budget Financing Account, illustrates an overview of total liabilities of the state budget and of sources of financing in the period 2017-2019. In 2017, the state budget deficit amounted to HRK 6.8 billion, whereas the total repayments of the government debt which include short-term and long-term debt amount to HRK 55.4 billion. Since, among others, the liabilities on the basis of given loans and deposits and stocks and equity shares have an impact on total borrowing requirements, as well as the level of cash deposit that is transferred from the previous budget year, i.e. is transferred to the next budget year, total borrowing need in 2017 is determined at the level of HRK 65.3 billion.

Within the structure of total repayments in 2017, HRK 28.7 billion refer to short-term debt, i.e. to expenditures for the repayment of principal for issued treasury bills. The maintenance of the treasury bills principal balance at the level of the balance of December 31, 2016 is anticipated in the state budget financing account for 2017, which means that in 2017 treasury bills will be restored in the amount of liabilities on the basis of the repayment of issued treasury bills that will be paid in 2017. Within the structure of the repayments of long-term debt which amounts to HRK 26.7 billion, HRK 16.8 billion refer to the expenditures for the repayment of the principal of domestic bonds and loans, whereas HRK 9.9 billion refer to foreign liabilities. The settlement of liabilities of the domestic government debt is planned via the issuance of bonds in the domestic market in the amount of HRK 14 billion, whereas the borrowing in the amount of HRK 5.9 billion is planned via domestic loans. Considering the foreign liabilities that are to be paid in 2017, of which the most significant ones refer to principals and interests of foreign bonds with maturity in April 2017 in the amount of HRK 8.9 billion, the borrowing in the foreign market is anticipated via the issuance of bonds and foreign loans in total amount of HRK 13.2 billion. The largest part of funds will be spent for the payment of liabilities on the basis of the prominent government debt, while the remaining funds will be used for financing other foreign exchange liabilities of the state budget during the year.

The projections for 2018 and 2019 set the reduction in the state budget deficit, so in 2018 it amounts to HRK 5.7 billion, and in 2019 it amounts to HRK 3.9 billion. In the same period, there will be a reduction in total liabilities on the basis of the state budget debt in relation to total liabilities determined in 2017, so in 2018 they amount to HRK 45.6 billion, and in 2019 to HRK 49.9 billion, which will significantly influence the trends of the total borrowing level. Taking into consideration the determined data, total borrowing requirements in 2018 are significantly lowered in relation to 2017 and they amount to HRK 52.9 billion, and in 2019 to HRK 54.5 billion.

In relation to 2017, the projections for 2018 and 2019 anticipate the trend of gradual decrease in short-term debt (treasury bills) by HRK 1.1 billion in 2018, i.e. by additional HRK 500 million in 2019.

Depending on the conditions in financial markets, which currently indicate the possibility of extending the average debt maturity, the reduction in short-term debt and the reduction of its share in total government budget debt will be planned in the future as well.

Table 7: State Budget Financing Account – Liabilities and Sources

FINANCING NEEDS (HRK mil.)	2016	2017.	2018.	2019.
Total debt repayment (1)	**45.120**	**55.354**	**45.585**	**49.870**
Short-term debt (Treasury Bills)	27.686	28.673	28.673	27.605
Long-term debt	17.434	26.681	16.912	22.265
Domestic Bonds (HRK)	3.500	9.500	6.000	0
Domestic Bonds (indexed to foreign currency)	0	0	0	7.600
Domestic Loans	10.884	7.281	4.441	3.123
External Bonds	0	8.647	5.668	10.753
External Loans	3.050	1.253	803	789
o/w International Financial Institutions	*1.098*	*804*	*776*	*775*
Others (given loans and equity holdings) (2)	**1.368**	**1.818**	**1.606**	**650**
Fiscal deficit (3)	**5.348**	**6.816**	**5.660**	**3.939**
Cash adjustment (accumulation of government deposits) (4)	**2.103**	**1.274**		
Funding requirements (1) + (2) + (3) + (4)	**53.939**	**65.262**	**52.851**	**54.459**

FINANCING SOURCES (HRK mil.)	2016.	2017.	2018.	2019.
Borrowing (1)	**47.194**	**61.759**	**51.451**	**53.059**
Short-term debt (Treasury Bills)	28.673	28.673	27.605	27.105
Long-term debt	18.521	33.086	23.846	25.954
Domestic Bonds (HRK)	10.000	11.000	7.500	11.500
Domestic Bonds (indexed to foreign currency)	0	3.000	4.200	
Domestic Loans	7.917	5.905	4.321	4.893
Exsternal Bonds	0	11.400	7.600	9.524
External Loans	604	1.781	225	37
o/w International Financial Institutions	*604*	*1.781*	*225*	*37*
Other (use of government deposits) (2)	**6.400**	**2.103**		
Privatisation revenues (3)	**345**	**1.400**	**1.400**	**1.400**
Financing (1) + (2) + (3)	**53.939**	**65.262**	**52.851**	**54.459**

Source: Ministry of Finance

Calendar of treasury bills issuances in 2017 (Table 8) indicates planned amounts and dates of the treasury bills auctions. Indicative amount is limited at annual level of HRK 29 billion.

Table 8: Calendar of Treasury Bills Issuances in 2017

Number	Date of Auction	Maturity (mil. HRK)	Indicative amount (mil. HRK)
1.	03.01.2017.	1.580,0	1.600,0
2.	24.01.2017.	683,2	700,0
3.	31.01.2017.	626,0	600,0
4.	21.02.2017.	1.295,8	1.300,0
5.	28.02.2017.	1.500,0	1.500,0
6.	07.03.2017.	778,0	800,0
7.	14.03.2017.	352,0	350,0
8.	28.03.2017.	581,0	550,0
9.	25.04.2017.	672,0	650,0
10.	02.05.2017.	575,0	600,0
11.	23.05.2017.	451,6	450,0
12.	30.05.2017.	683,0	700,0
13.	06.06.2017.	402,0	400,0
14.	27.06.2017.	562,0	550,0
15.	22.08.2017.	1.151,0	1.150,0
16.	29.08.2017.	558,8	550,0
17.	24.10.2017.	1.420,4	1.400,0
18.	07.11.2017.	11.400,0	11.400,0
19.	21.11.2017.	1.722,8	1.700,0
20.	28.11.2017.	939,4	950,0
21.	05.12.2017.	1.068,0	1.100,0

Source: Ministry of Finance

The Plan of the bonds issuances in 2017 (Table 9) determines that the financing via the bonds will be realized in total amount of HRK 25.4 billion, of which HRK 14 billion in the domestic market (I., II., and IV. quarter) and the amount of HRK 11.4 billion in the foreign money and capital market in the I. quarter of 2017.

Table 9: Plan of Bonds Issuances in 2017

Market	Plan of Issuances (in HRK)	Quarter
Domestic Market	14 Billions	I., II. i IV.
External Market	11,4 Billions	I.

Source: Ministry of Finance

Table 10 illustrates the projection of the repayment of the government debt principal according to the forms of borrowing in the period from 2017 to 2027.

Table 10: Projection of the Repayments of State Budget Debt Principals for the 2017-2027 Period

Type of borrowing	Balance of liabilities 31.12.2016.	2017.	2018.	2019.	2020.	2021.
Treasury Bills	28.673.178.327	28.673.178.327				
Domestic Bonds	75.754.262.800	9.500.000.000	6.000.000.000	7.557.787.000	12.557.787.000	6.000.000.000
International Bonds	79.319.812.693	8.647.353.547	5.668.340.250	10.752.804.000	6.669.420.225	8.170.580.540
Domestic Loans	21.464.515.787	7.280.516.150	4.441.379.548	3.122.686.803	2.156.251.890	1.981.889.044
International Loans	11.962.516.302	1.252.753.222	803.427.237	789.094.604	722.770.473	660.798.063
Total	**217.174.285.908**	**55.353.801.246**	**16.913.147.035**	**22.222.372.407**	**22.106.229.588**	**16.813.267.647**

Type of borrowing	2022.	2023.	2024.	2025.	2026.	> 2027.
Treasury Bills						
Domestic Bonds	7.557.787.000		10.580.901.800	6.000.000.000	10.000.000.000	
International Bonds	9.447.233.750	8.823.006.071	9.804.393.810	11.336.680.500		
Domestic Loans	1.609.883.132	335.249.978	125.713.636	95.097.623	95.097.623	220.750.359
International Loans	614.193.522	456.395.061	353.695.241	1.805.702.336	1.393.459.866	3.110.226.677
Total	**19.229.097.404**	**9.614.651.110**	**20.864.704.488**	**19.237.480.459**	**11.488.557.489**	**3.330.977.036**

Values are pronounced in HRK according to the mid exchange rate of CNB as of December 31, 2016
Source: Ministry of Finance

Analytical overview of the projections of repayments of domestic debt and international bonds in the period from 2017 to 2026 is illustrated in details in Tables 11 and 12. Table 11 provides the projections of the repayment of bonds, loans and interests of domestic debt pronounced in HRK.

Table 11: Projection of the Repayment of Domestic Debt

mil. HRK *	2017.	2018.	2019.	2020.	2021.	2022.	2023.	2024.	2025.	2026.
Depreciation	**16.780,51**	**10.441,38**	**10.680,47**	**14.714,03**	**7.981,89**	**9.167,67**	**335,25**	**10.706,62**	**6.095,10**	**10.095,10**
Bonds – Series 07 D-19	0,00	0,00	7.557,79	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 12 D-17	5.500,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 13 D-20	0,00	0,00	0,00	5.000,00	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 14 D-20	0,00	0,00	0,00	7.557,79	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 15 D-17	4.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 17 D-22	0,00	0,00	0,00	0,00	0,00	7.557,79	0,00	0,00	0,00	0,00
Bonds – Series 18 D-18	0,00	6.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 19 D-24	0,00	0,00	0,00	0,00	0,00	0,00	0,00	10.580,90	0,00	0,00
Bonds – Series 20 D-25	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	6.000,00	0,00
Bonds – Series 21 D-26	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	10.000,00
Bonds – Series 22 D-21	0,00	0,00	0,00	0,00	6.000,00	0,00	0,00	0,00	0,00	0,00
Long-term loans (HRK)	1.699,40	814,53	547,37	377,96	1.721,46	243,96	143,96	43,96	43,96	43,96
Long-term loans (EUR)	5.307,80	3.597,17	2.575,32	1.778,29	260,43	1.365,92	191,29	81,75	51,14	51,14
Long-term loans (USD)	273,31	29,68	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Repayment of Interest	**4.670,91**	**4.037,83**	**3.537,57**	**2.614,72**	**2.114,19**	**1.869,06**	**1.341,69**	**1.338,21**	**717,95**	**442,09**
Bonds – Series 07 D-19	406,23	406,23	406,23	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 12 D-17	130,63	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 13 D-20	337,50	337,50	337,50	168,75	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 14 D-20	491,26	491,26	491,26	245,63	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 15 D-17	250,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 17 D-22	491,26	491,26	491,26	491,26	491,26	491,26	0,00	0,00	0,00	0,00
Bonds – Series 18 D-18	315,00	315,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Bonds – Series 19 D-24	608,40	608,40	608,40	608,40	608,40	608,40	608,40	608,40	0,00	0,00
Bonds – Series 20 D-25	270,00	270,00	270,00	270,00	270,00	270,00	270,00	270,00	270,00	0,00
Bonds – Series 21 D-26	425,00	425,00	425,00	425,00	425,00	425,00	425,00	425,00	425,00	425,00
Bonds – Series 22 D-21	165,00	165,00	165,00	165,00	165,00	0,00	0,00	0,00	0,00	0,00
Long-term loans (HRK)	184,69	137,14	107,22	90,04	58,22	21,14	13,18	9,30	6,47	3,68
Long-term loans (EUR)	591,58	390,27	235,71	150,64	96,31	53,26	25,11	25,51	16,48	13,42
Long-term loans (USD)	4,37	0,78	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Total	**21.451,41**	**14.479,21**	**14.218,05**	**17.328,75**	**10.096,08**	**11.036,73**	**1.676,94**	**12.044,82**	**6.813,05**	**10.537,19**

**Mid exchange rate of CNB as of December 31, 2016*
Source: Ministry of Finance

Table 12 provides the projections of the repayments of principals and interests of international bonds where the original currency of borrowing is expressed in euro without the application of currency swap transactions.

Table 12: Projection of the Repayments of International Bonds of the Republic of Croatia

		The Amount of the Original Principal (EUR*)	2017. (EUR*)	2018. (EUR*)	2019. (EUR*)	2020. (EUR*)	2021. (EUR*)	2022. (EUR*)	2023. (EUR*)	2024. (EUR*)	2025. (EUR*)
USD 1.500.000.000	Principal	1.422.745.044	**1.422.745.044**								
6.25% Maturity: 2017	Interest		44.460.783								
EUR 750.000.000	Principal	750.000.000	0	**750.000.000**							
5.875%, Maturity: 2018	Interest		44.062.500	44.062.500							
USD 1.500.000.000	Principal	1.422.745.044	0	0	**1.422.745.044**						
6.75 %, Maturity: 2019	Interest		96.035.290	96.035.290	96.035.290						
USD 1.250.000.000	Principal	1.185.620.870	0	0	0	**1.185.620.870**					
6.625 %, Maturity: 2020	Interest		78.547.383	78.547.383	78.547.383	78.547.383					
USD 1.500.000.000	Principal	1.422.745.044	0	0	0	0	**1.422.745.044**				
6.375% Maturity: 2021	Interest		90.699.997	90.699.997	90.699.997	90.699.997	45.349.998				
EUR 1.250.000.000	Principal	1.250.000.000	0	0	0	0	0	**1.250.000.000**			
3.875%, Maturity: 2022	Interest		48.437.500	48.437.500	48.437.500	48.437.500	48.437.500	48.437.500			
USD 1.500.000.000	Principal	1.422.745.044	0	0	0	0	0	0	**1.422.745.044**		
5.500% Maturity: 2023	Interest		78.250.977	78.250.977	78.250.977	78.250.977	78.250.977	78.250.977	39.125.489		
USD 1.750.000.000	Principal	1.659.869.218	0	0	0	0	0	0	0	**1.659.869.218**	
6.000% Maturity: 2024	Interest		99.592.153	99.592.153	99.592.153	99.592.153	99.592.153	99.592.153	99.592.153	49.796.077	
EUR 1.500.000.000	Principal	1.500.000.000	0	0	0	0	0	0	0	0	**1.500.000.000**
3.000%, Maturity: 2025	Interest		45.000.000	45.000.000	45.000.000	45.000.000	45.000.000	45.000.000	45.000.000	45.000.000	45.000.000
Repayment of Principal (EUR*)			1.422.745.044	750.000.000	1.422.745.044	1.185.620.870	1.422.745.044	1.250.000.000	1.422.745.044	1.659.869.218	1.500.000.000
Repayment of Interest (EUR*)			625.086.583	580.625.800	536.563.300	440.528.010	316.630.629	271.280.631	183.717.642	94.796.077	45.000.000
Total Repayment (Principal + Interest) (EUR*)			2.047.831.627	1.330.625.800	1.959.308.345	1.626.148.880	1.739.375.673	1.521.280.631	1.606.462.686	1.754.665.295	1.545.000.000
Total Principal at the end of the year (EUR*)			-1.422.745.044	-2.172.745.044	-3.595.490.089	-4.781.110.959	-6.203.856.003	-7.453.856.003	-8.876.601.047	-10.536.470.266	-12.036.470.266

** Mid exchange rate of CNB as of December 31, 2016*

Source: Ministry of Finance

The overview of outstanding bonds of RH (Table 13) provides the review of bonds issued in domestic and international markets in the period between February 2007 and December 2016, and by maturity from February 2017 to December 2026. Along with each individual series of bonds, there is a date, currency and amount of issuance stated, as well as interest rate and date of repayment maturity.

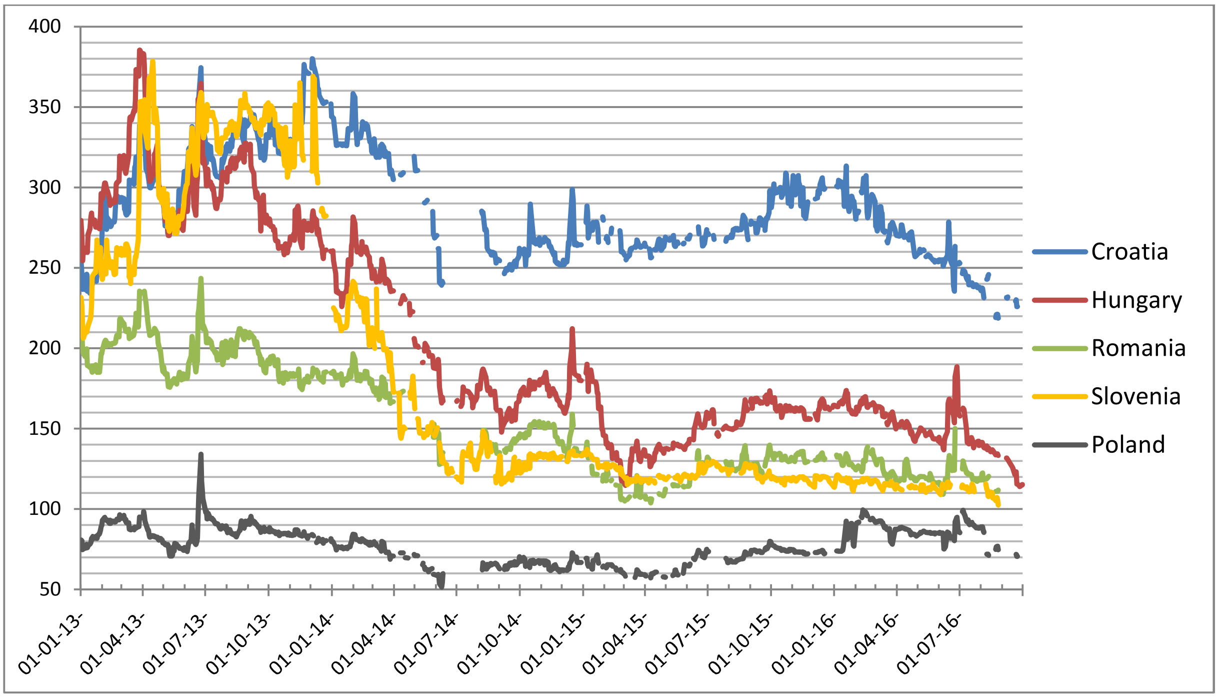
Table 13: Overview of Outstanding Bonds of the Republic of Croatia

Bond	Date of Issue	Currency	Amount (millions)	Interest Rate	Maturity
Domestic Bonds					
Series 12 D-17	08.02.2007.	HRK	5.500	4,750%	08.02.2017.
Series 15 D-17	25.11.2010.	HRK	4.000	6,250%	25.11.2017.
Series 18 D-18	10.07.2013.	HRK	6.000	5,250%	10.07.2018.
Series 07 D-19	29.11.2004.	EUR	1.000	5,375%	29.11.2019.
Series 13 D-20	05.03.2010.	HRK	5.000	6,750%	05.03.2020.
Series 14 D-20	05.03.2010.	EUR	1.000	6,500%	05.03.2020.
Series 22 D-21	08.07.2016.	HRK	6.000	2,750%	08.07.2021.
Series 17 D-22	22.07.2011.	EUR	1.000	6,500%	22.07.2022.
Series 19 D-24	10.07.2013.	EUR	1.400	5,750%	10.07.2024.
Series 20 D-25	09.07.2015	HRK	6.000	4,500%	09.07.2025.
Series 21 D-26	14.12.2015.	HRK	10.000	4,250%	14.12.2026.
Total		**EUR**	**4.400**		
		HRK	**42.500**		
International Bonds					
Euro-USD IV D 2017 (swap)	27.04.2012.	USD	1.500	6,250%	27.04.2017.
Euro-EUR VIII	08.07.2011.	EUR	750	5,875%	09.07.2018.
Euro-USD I D 2019	05.11.2009.	USD	1.500	6,750%	05.11.2019.
Euro-USD II D 2020 (swap)	14.07.2010.	USD	1.250	6,625%	14.07.2020.
Euro-USD III D 2021 (swap)	24.03.2011.	USD	1.500	6,375%	24.03.2021.
Euro-EUR IX	29.05.2014.	EUR	1.250	3,875%	30.05.2022.
Euro-USD V D 2023 (swap)	04.04.2013.	USD	1.500	5,500%	04.04.2023.
Euro-USD VI D 2024 (swap)	26.11.2013.	USD	1.750	6,000%	26.01.2024.
Euro-EUR X	11.03.2015.	EUR	1.500	3,000%	11.03.2025.
Total		**EUR**	**3.500**		
		USD	**9.000**		

Source: Ministry of Finance

The trends of the credit risk insurance premium (Credit Default Swap, CDS 5Y – Figure 13) for RH in the period from 2013 to 2016, indicate that its level and dynamics continuously negatively departs from the level and dynamics of the premium of comparable Central and Eastern European countries.

Figure 13: Trends in the Credit Risk Insurance Premium (Credit Default Swap, CDS 5Y) for RH and Comparable EU Countries in the 2013-2016 Period



Source: Ministry of Finance, Bloomberg

9. PUBLIC DEBT TRENDS VULENRABILITY TESTS AND RISKS IN THE REALIZATION OF THE STRATEGY GOALS

In the last few years, the so-called snowball effect also had a great impact on the increase in public debt, and it derives from the difference between the government financing cost and nominal increase in GDP. Since the interest rate in previous years was significantly higher than nominal increase in GDP, this led to automatic increase in public debt. Therefore, the half of the increase in public debt in the period from 2011 and 2015 can be explained by the snowball effect.

Considering the level of indebtedness, long-term increase in reference market interest rate would represent a significant threat to fiscal sustainability and would consequentially generate a large increase in public debt. The increase in financing cost would lead to the increase in the debt repayment and interest payment burden, whereby a significant pressure would be imposed on current business operations of the state. Thus, in the scenario of the increase in average implicit interest rate on debt by 1 percentage point in the period from 2017 and 2019, the public debt would register an increase above the projected one, and it would be higher by 2.3 percentage points at the end of the projected period than in relation to the one in the basic scenario.

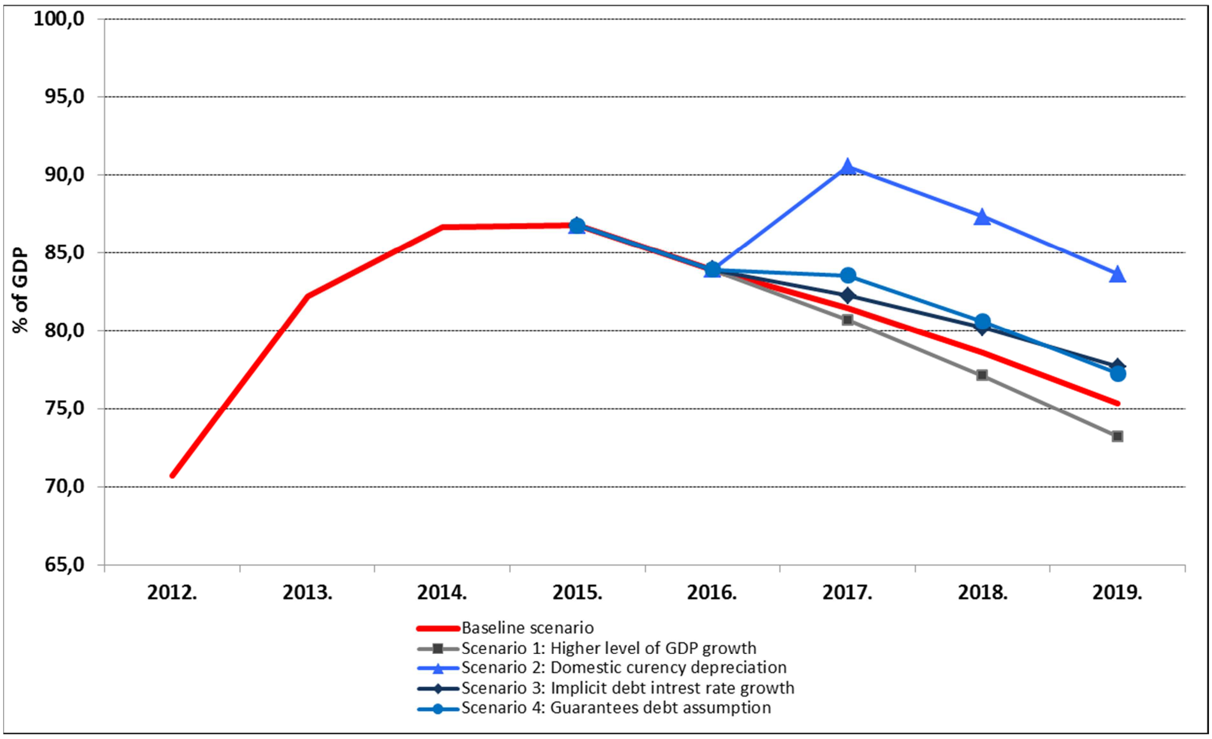
Furthermore, in terms of negative impacts on the public debt trends in the medium-term period, the risk of a more significant change in the exchange rate of the domestic currency should be pointed out. More precisely, bearing in mind the fact that almost 75% of total public debt is denominated in euro, the depreciation of domestic currency would result in higher level of public debt as well as in aggravated servicing thereof. The implemented vulnerability test shows that the depreciation of kuna against euro of 15% raises the level of public debt to 90.5% of GDP in 2017.

Besides, taking into consideration the fact of the activation of guarantees, i.e. of assuming the debts of public companies into public debt in the last few years, public companies still represent a potential large risk for public finances. Thus, in the supposed scenario of assuming the guarantees into the public debt in the amount of 2% of GDP, the public debt would reach the level of 83.5% of GDP in 2017. Therefore, it is of key importance to carry out the process of financial and business restructuring among the users of state guarantees in order to increase the efficiency and sustainability of their business operations and thus to reduce potential state guarantees activation risks which are reflected in the negative effect on fiscal aggregates, i.e. budget deficit and public debt.

On the other hand, higher economic growth rates would have an impact on the accelerated decrease in the share of public debt in GDP. Thus, in the scenario of a stronger growth of

GDP by 1 percentage point in each year in relation to the basic scenario, the public debt would decrease to the level of 73.2% of GDP in 2019.

Figure 14: Trends of Public Debt Shares in GDP according to Specific Scenarios



Source: Ministry of Finance

The positioning of public debt management and of identified risks mitigation takes place in the conditions of positive expected effects of national programmes, determined by three-year fiscal projections, and reversing negative trends from the global environment. In 2017, global financial markets enter the atmosphere of increased uncertainties and risks, caused, *inter alia*, by:

- political changes (negotiations on the exit of the United Kingdom of Great Britain and Northern Ireland from EU and the elections in leading EU member states)
- changes in monetary policy of leading economies (increase in interest rates in the USA, slowing down/termination of the programme of market purchase of securities by the European Central Bank)
- macroeconomic uncertainties and disturbances as a consequence of sudden and significant capital outflows from emerging markets.

All the aforementioned has already caused the drop in prices and the increase in bond yields in secondary markets with the expectation of the continuation of such trend in the following period, reduced liquidity of primary markets and the increase in nominal and real yields on future issuances for all global markets, particularly for the category of emerging markets

(Croatia being one of them). However, positive diversification is expected for RH and it will partially mitigate negative consequences of these global trends, based on:

- positive dynamics of domestic economic trends and GDP growth
- long-term currency stability and realized three-year surplus of the balance of payments
- efficient fiscal consolidation and reduction in the public debt shares in GDP
- proportionally deep and highly liquid domestic financial market that covers the largest part of total financial requirements of the state
- availability and increasing volume of EU funds use.

These factors would reasonably minimize negative effects of external environment for which the former public debt management policy also carried out adequate portfolio structuring policies, particularly in the part of direct government debt the repayments of which are executed from the state budget.

Table 14: Condition and Projection of Trends of the State Budget Debt Structure Reference Indicators

	2015.	2016.	2017.	2018.	2019.
Domestic Debt (%)	57,0%	58,0%	57,7%	58,3%	59,8%
External Debt (%)	43,0%	42,0%	42,3%	41,7%	40,2%
Fixed Interest Rate (%)	82,2%	86,2%	87,1%	87,1%	86,7%
Variable Interest Rate (%)	17,8%	13,8%	12,9%	12,9%	13,3%
Weighted Average Maturity (year)	3,6	5,2	5,3	5,3	5,4
Treasury Bills short-term debt (%)	12,7%	13,2%	12,9%	12,2%	11,9%
Currency Structure (%)					
HRK	26,7%	29,9%	30,1%	30,6%	32,1%
EUR (indexed to foreign currency)	19,8%	18,7%	18,7%	19,0%	19,8%
EUR	48,2%	46,3%	46,4%	45,7%	47,9%
USD	5,3%	5,1%	4,8%	4,7%	0,2%
CHF	0,1%	0,0%	0,0%	0,0%	0,0%

Source: Ministry of Finance

10. CONCLUSION

The implementation of the elements stated in this Strategy will provide the improvement of the sustainability of total public debt and, at the same time, it will mitigate the related risks. The execution of the these tasks, along with the exit of RH from the excessive budget deficit procedure in the shortest term possible, will contribute to the continuation of implementing sustainable, reasonable and balanced fiscal policy. This will ensure a permanent reduction in debt burden and raising of the credit rating, which represent key priorities of the economic policy of the Government of RH.

The realization of these goals will also be strengthened by the economic policy measures directed towards stimulation of growth, fiscal consolidation and state assets activation, which the reduction of the public debt share in GDP, as one of the key goals of the Government and national interest of RH, is based on.