



REPUBLIC OF CROATIA
MINISTRY OF FINANCE

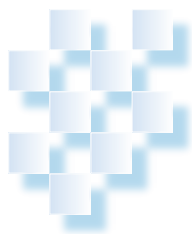
ANNUAL REPORT OF THE MINISTRY OF FINANCE FOR 2007

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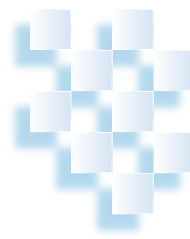


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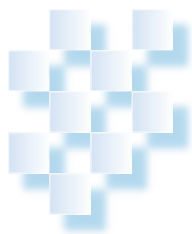
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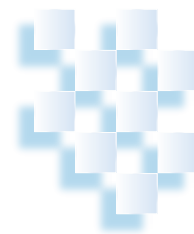
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A WORD FROM THE MINISTER OF FINANCE

Mature and responsible fiscal policy which marked the previous years, also continued in 2007, a year characterised by a favourable macroeconomic developments, further reduction of fiscal deficit and more equitable distribution of tax revenues.

By direct and indirect actions on various aspects of the entire economic activity we created conditions for the acceleration of economic growth, reducing unemployment, together with maintaining low inflation rates. Economic growth was at average level of 4.5% in the last three years, with an acceleration trend, reaching 5.6% in 2007. At the same time, the unemployment rate reduced to historically lowest level of 9.6% in 2007, which makes the annual decrease of 1.6 percentage points.

Regarding the fiscal deficit and public debt, we have done an exceptional improvement. We completely eliminated non-transparency in fiscal policy implementation and through the establishment of quality framework for expenditures control and significantly better collection of budget revenues we reduced fiscal deficit from 6.2% of GDP in 2003 to 2.3% of GDP in 2007. It is important to emphasize that in 2007, by budget amendments, we decreased the target level of the fiscal deficit for the second consecutive time. Therefore, more significant growth of budget revenues due to economic activity growth, but also better system of revenues collection control, wasn't directed to the increase in spending, but used for more significant fiscal consolidation and reduction of fiscal deficit. In so doing, all development projects carried on, regarding the investment in regional development, through fostering entrepreneurship and business environment, as well as the investment in science and education. It is especially important to emphasize the significance of reducing fiscal deficit in terms of constant high level of social sensibility, concern for more uniform development and transport integration of all regions of our country. Namely, by looking after the social state of our society, we gave decent attention to a fair social policy. As well, by amendments to the acts from the area of financing the local and regional self-government we ensured more balanced distribution of funds at the level of the entire country, as well as greater liquidity and the effectiveness of the entire system.

Rationality in the execution of expenditures and the policy of fiscal deficit reduction contributed to the reduction of public debt from 46.4% of GDP in 2006 to 44.2% of GDP in 2007. It is important to point out that mentioned developments are the result of a number of measures focused on the establishment of quality framework of public finances, by which we completely eliminated non-transparency in fiscal policy implementation. With the purpose of further development of efficient and sustainable financial management system based on the highest modern standards, the Strategy of improvement and modernisation of processes in the system of State Treasury 2007 - 2011 was adopted.

Concerning the international activities of the Ministry of Finance, I would definitely emphasize the active role in implementation of the negotiations on the accession of the Republic of Croatia to the European Union in the areas of customs, taxation, financial control and financial and budgetary provisions. I would also like to mention the meaning of the European Union fiscal surveillance process, in which Croatia is obliged to participate with the status of candidate country for EU accession. Fiscal supervision activities include the annual making of Pre-accession Economic Programme (PEP) as one of the basic documents for the implementation of the economic policy in the medium-term period, which is prepared through consultations between the state administration bodies and employers' and unions' representatives. In 2007 Croatia submitted its fourth PEP to the European Commission for the period 2008 - 2010. Moreover, within the fiscal supervision, that is, within the Protocol on excessive deficit procedure, the Ministry of Finance made its third annual Fiscal notification.

At the end, I would like to point out that fiscal policy, guided by the achievements done so far, will continue its consolidation course in the medium term as well. We are strongly determined to a further reduce of fiscal deficit and public debt, providing, this way, more space for further progress and upswing of the private sector, as the main driver of economic growth in the upcoming period.

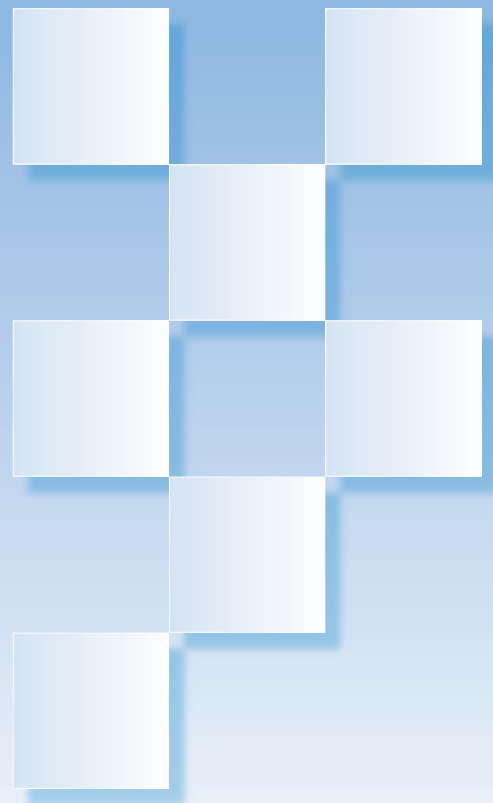
In view of the abovementioned and with an objective of introducing our work and our accomplishments to the public, we have prepared the Annual Report for 2007. This way, I would like to thank all my associates and employees of the Ministry of Finance for their devoted work during the last year.

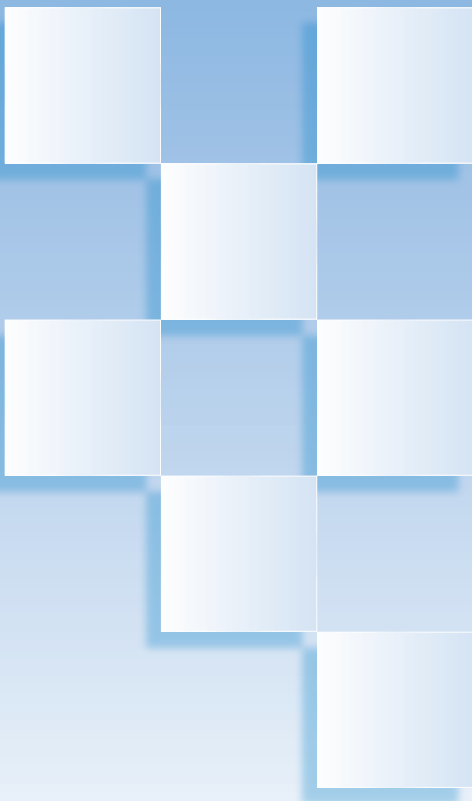
Ivan Šuker

Minister of Finance

Zagreb, October 2008

1 MACROECONOMIC DEVELOPMENTS IN 2007







1.1 INTERNATIONAL ENVIRONMENT

Growth of the world economy in 2007, according to the IMF estimates, amounted to 5.0%, slightly slowing by 0.1 percentage point compared to 2006. Although the majority of advanced economies recorded slower growth than in 2006, the world economy growth was underpinned by emerging and developing economies, which continued to grow strongly in 2007. The growth of the world trade amounted to 6.8% in 2007, which is also deceleration compared to 9.2% in 2006. Real GDP growth of the United States decelerated from 2.9% in 2006 to 2.2% in 2007, while Japanese GDP recorded a slowdown of the real growth from 2.4% to 2.1%.

Real GDP growth of the Euro area amounted to 2.6% in 2007, which is 0.2 percentage points less than the growth recorded in 2006. The European Union recorded somewhat higher real GDP growth, in the amount of 2.8%, however, this is 0.3 percentage points lower than in 2006. The economic activity was more dynamic in the first half of the year, while in the second half it began to slow down, as the consequence of increase in prices of raw materials, financial market turbulences and deterioration of international environment in general. The main drivers of growth in 2007 were personal consumption and gross fixed capital formation. Personal consumption growth was a bit lower in the Euro area (1.5%) than in the European Union (2.1%). Gross fixed capital formation continued a strong growth in 2007, although somewhat lower than the previous year, mostly as the consequence of weakening of investment in construction in the second half of the year. Thereby, the real growth of gross fixed capital formation amounted to 4.3% in the Euro area and 5.4% in the European Union in 2007. Real growth of exports of goods and services was 6.1% in the Euro area and 5.1% in the European Union and real growth of imports of goods and services decelerated to 5.2% in the Euro area and 4.9% in the European Union. Contribution of net exports to the GDP growth was slightly positive in 2007, amounting to 0.4 percentage points in the Euro area and 0.1 percentage point in the European Union.

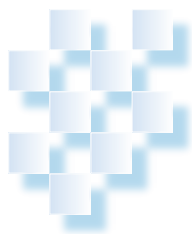
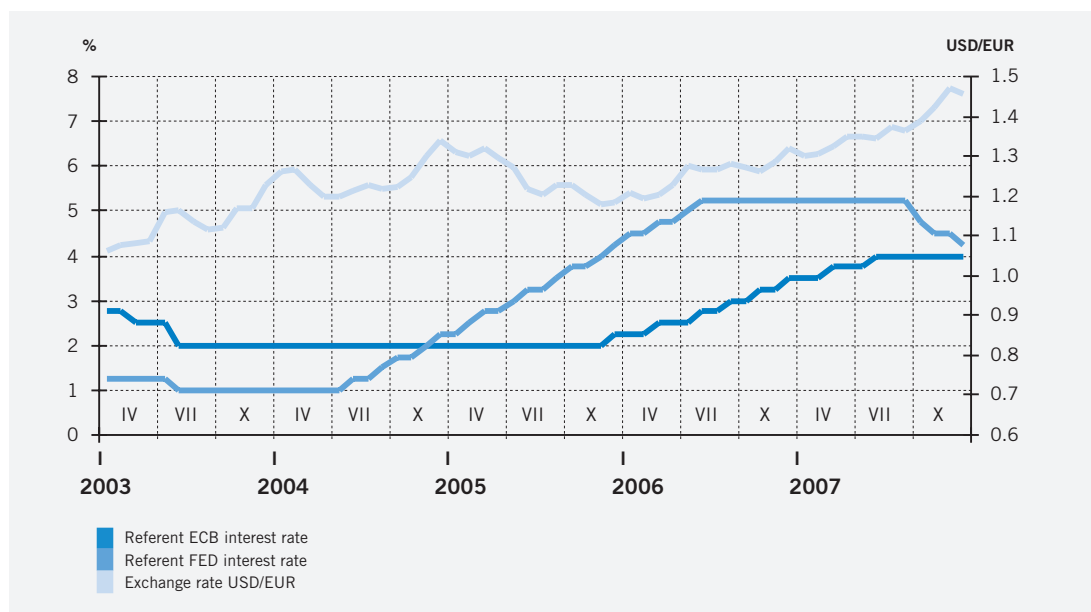
Table 1.1: International Environment - Macroeconomic Indicators

	2004	2005	2006	2007
Real GDP growth				
World	4.9	4.4	5.1	5.0
European Union	2.5	1.9	3.1	2.8
Italy	1.5	0.6	1.8	1.5
Germany	1.1	0.8	2.9	2.5
Slovenia	4.4	4.1	5.7	6.1
Austria	2.3	2.0	3.3	3.4
Euro area	2.1	1.6	2.8	2.6
Consumer price index, annual change				
European Union	2.3	2.3	2.3	2.4
Euro area	2.1	2.2	2.2	2.1
Oil prices growth, %	30.6	41.2	20.5	10.6

Source: European Commission, International Monetary Fund

Inflation measured by harmonized consumer price index amounted in 2007 to 2.1% in the Euro area (0.1 percentage point lower than in 2006) and 2.4% in the European Union (0.1 percentage point higher than in 2006). Until the autumn of 2007, the inflation moved below 2%, but at the end of the year, along with a rise in oil and food prices, it accelerated to above 3%. Core inflation in the Euro area moved around 2% in 2007.

In accordance with inflationary pressures, the European Central Bank conducted restrictive monetary policy in 2007. Referent interest rate of the European Central Bank increased by totally 0.5 percentage points in 2007, that is, from 3.50% in December 2006 to 4.00% in December 2007. FED, on the other hand, decreased the interest rate three times in 2007. That way, the interest rate of FED was at level of 5.25% in December 2006 and decreased to 4.25% in December 2007.


Figure 1.1 Interest Rates and the Exchange Rate of the US Dollar against the Euro


Source: ECB, FED

When observing the economic growth of main Croatian trading partners in 2007, it can be seen that the main driver of growth was mostly domestic demand, except in Germany, where GDP growth was primarily stimulated by the foreign balance. Thus, real GDP growth in Germany amounted to 2.5% in 2007, which is a moderation of 0.4 percentage points compared to 2006. This realization is partly the result of a real decrease in personal consumption, caused by the increase in the VAT rate in 2007. The largest contribution to the GDP growth came from foreign balance, followed by domestic demand, especially gross fixed capital formation in machinery and equipment. Real GDP growth of Italy slowed down to 1.5% in 2007, that is 0.3 percentage points less than in 2006. The main driver of economic growth was the domestic demand, particularly private consumption. Austrian economy grew by 3.4% in 2007, accelerating by 0.1 percentage point compared to 2006. The largest contribution to growth came from exports of goods and services, which recorded high growth rate of 8.1%, and gross fixed capital formation, especially investment in equipment. Real GDP growth in Slovenia reached 6.1% in 2007, the highest value since the country's independence. The main contribution to growth came from domestic demand, primarily gross fixed capital formation, which recorded strong growth of 17.2% (based on investment in motorway and residential construction). Significant contribution also came from personal consumption, while, despite strong growth of exports and imports of goods and services, contribution of net exports to the growth was negative in 2007.

The average price of oil increased from USD 64.3 per barrel in 2006 to USD 71.1 per barrel in 2007.¹ Therefore, oil prices growth amounted to 10.6% in 2007, which is almost twice slower than the growth of 20.4% recorded in 2006. Oil prices growth speeded up in the last quarter, partly due to the base effect, regarding that in the same period of 2006 oil prices decreased.

¹ The average oil price is calculated as simple average of UK Brent, Dubai and West Texas Intermediate, source: International Monetary Fund.



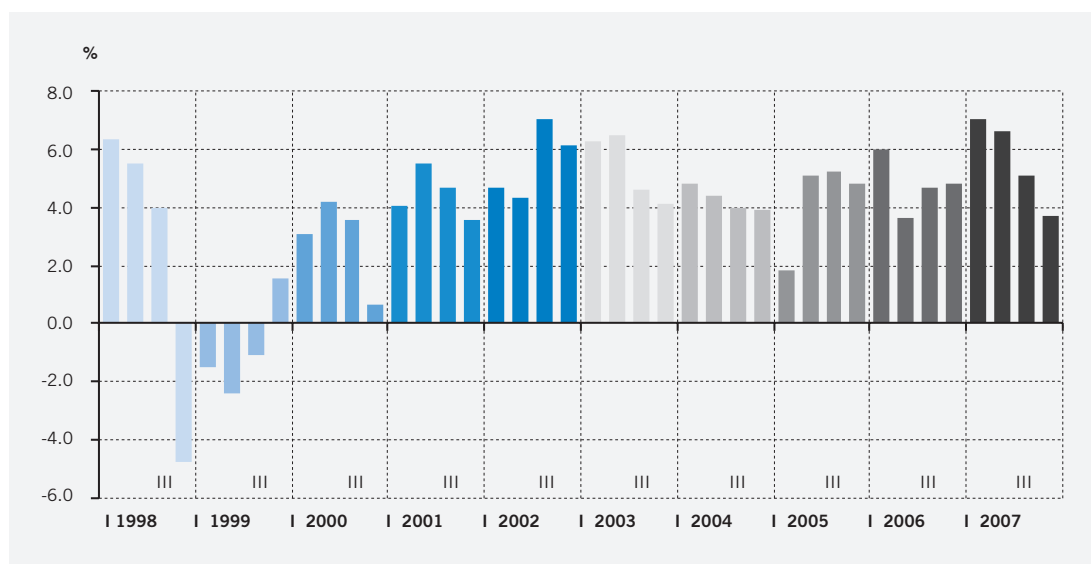
1.2 REAL SECTOR

Real GDP growth accelerated to 5.6% in 2007, which is 0.8 percentage points higher compared to 2006. The largest contribution to GDP growth was made by personal consumption and gross fixed capital formation. GDP per capita increased from EUR 7,700 in 2006 to EUR 8,500 in 2007. The average consumer price index growth slowed from 3.2% recorded in 2006 to 2.9% in 2007, nevertheless, the last quarter saw a speed-up of inflation so at the end of the year consumer price index growth amounted to 5.8%. Industrial production recorded a year-on-year growth of 5.6% in 2007, accelerating by 1.1 percentage point compared to 2006. The highest growth of industrial production recorded durable consumer goods and capital goods. After intensive construction activity in 2006, growth of construction work index slowed down to 2.4% in 2007. Retail trade turnover recorded nominal annual growth of 8.4% in 2007 and a real growth of 5.3%, the highest since 2002. Tourism indicators also recorded positive developments in 2007. Annual growth of tourist arrivals was 7.5% in 2007, while tourist nights rose by 5.6%. Favorable developments also reflected on tourism revenues, which increased by 7.3% compared to 2006. Accelerated economic activity was accompanied by fall in unemployment, so the trend of year-on-year decline in number of unemployed continued. Moreover, in 2007, the lowest labor force survey unemployment rate of 9.6% was recorded.

1.2.1 Gross Domestic Product

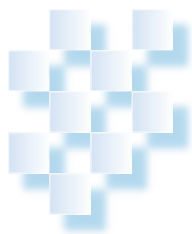
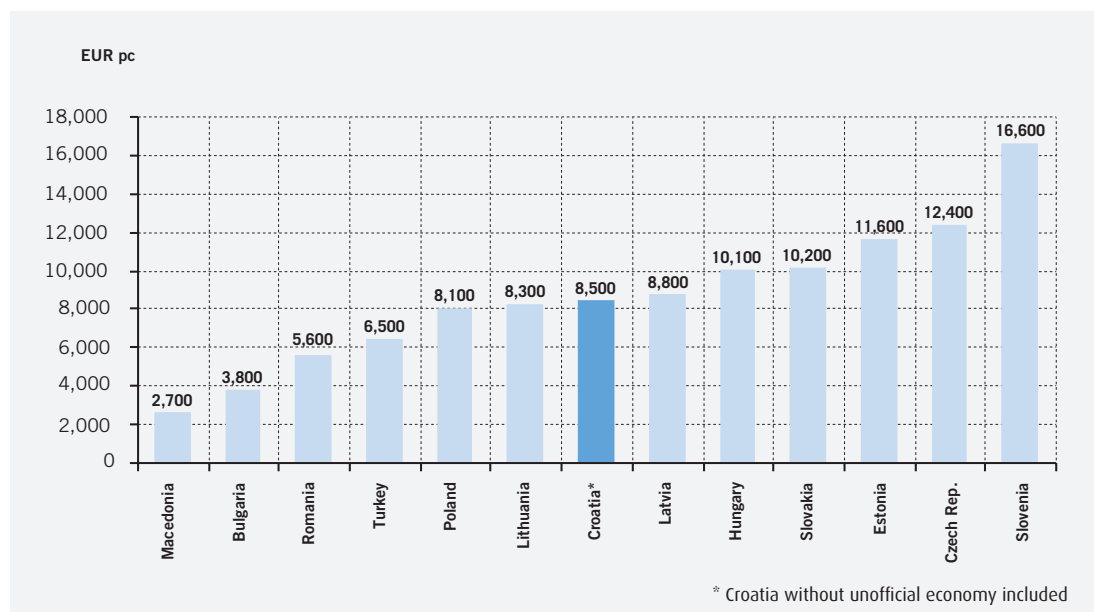
Real GDP growth amounted to 5.6% in 2007, which is a 0.8 percentage points acceleration compared to 2006. Economic activity was the most dynamic in the first two quarters of 2007, thereby GDP growth amounting to 7.0% in the first quarter and 6.6% in the second quarter. A slight slowing down of economic activity is recorded in the second half of the year, so in the third quarter real GDP growth was 5.1% and in the last quarter of 2007 growth decelerated to 3.7%.

Figure 1.2 Quarterly Real Gross Domestic Product Growth



Source: CBS

Nominal GDP reached the level of HRK 275.1 billion in 2007, which makes the nominal growth of 9.8% compared to 2006. GDP per capita went up by 9.7%, from EUR 7,700 in 2006 to EUR 8,500 in 2007. Growth of GDP deflator amounted to 4.0% in 2007, that is, 0.6 percentage points higher than in 2006.

**Figure 1.3 Nominal Gross Domestic Product per Capita in 2007**

Source: Eurostat

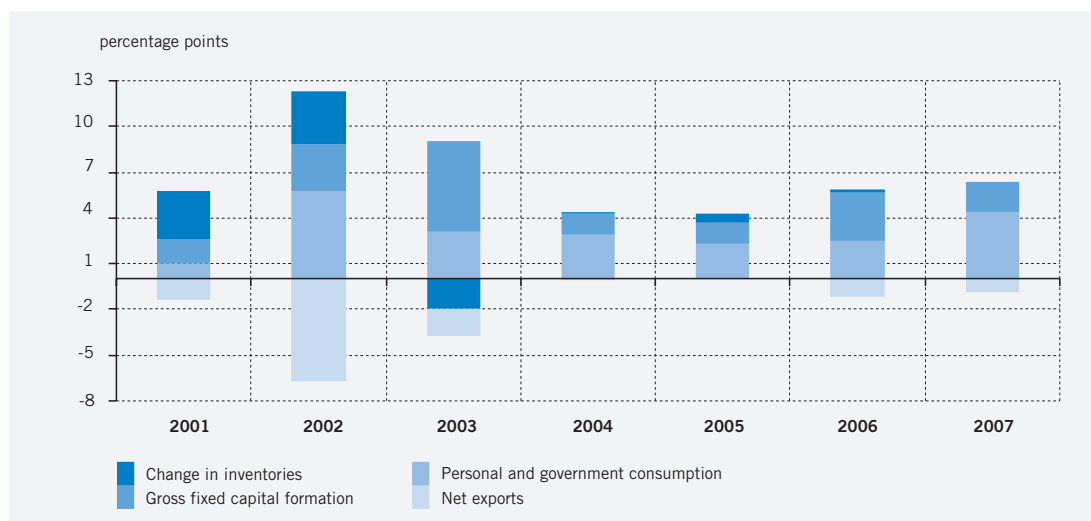
When observing GDP per capita in euros, it can be seen that Croatia is in the middle between candidate countries and new member states of the European Union. However, it should be taken into consideration that Croatian statistical data are not fully aligned with the methodology of European system of national accounts. Mentioned alignment will require the inclusion of unofficial economy in the GDP calculation but also some changes in accounting of imputed rents and financial services indirectly measured, which will have impact on the increase in GDP level.

1.2.2 Expenditure Side of Gross Domestic Product

The highest contribution to GDP growth in 2007, in the amount of 3.7 percentage points, came from personal consumption. This category recorded its highest real growth since 2002, amounting to 6.2%. Acceleration of personal consumption growth was fostered by the increase in disposable income of households in 2007, as the result of rise in the volume of wages, further growth of loans to households, capital gains and increase in real estate prices as well as the pensioners' debt repayment.

Contribution of exports of goods and services was 2.9 percentage points in 2007 and due to a higher negative contribution of imports of goods and services of -3.7 percentage points, the contribution of net exports was negative, amounting to -0.8 percentage points. Real growth of imports and exports of goods and services was 5.8% and 5.7% in 2007, respectively, and the growth of both categories slowed down compared to 2006.

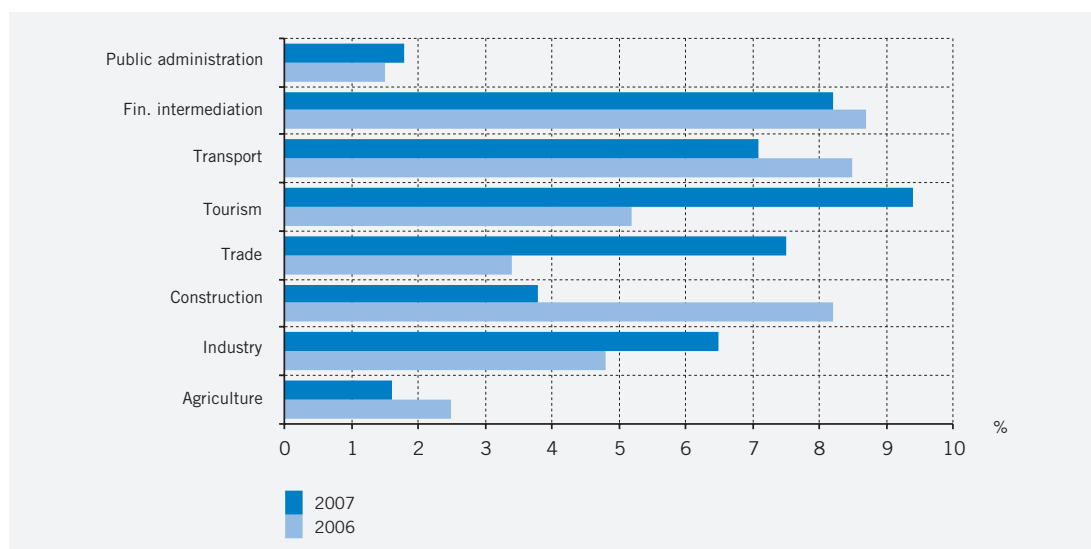
Gross fixed capital formation contributed to the GDP growth with 2.0 percentage points in 2007. This category recorded the highest real growth among the GDP components in 2007, amounting to 6.5%. Nevertheless, growth of gross fixed capital formation decelerated by 4.4 percentage points compared to growth recorded in 2006. Government consumption recorded the highest real growth since 2002, amounting to 3.4% and contributing to GDP growth with 0.7 percentage points in 2007.

**Figure 1.4 Contributions of Individual Components to the Real Gross Domestic Product Growth**

Source: CBS

1.2.3 Production Side of Gross Domestic Product

Real growth of gross value added accelerated to 5.6% in 2007. The largest contribution to its growth in 2007 came from industry² (1.9 percentage points), which also has the largest share in the total gross value added (24.4%), as well as from financial intermediation³ (1.2 percentage points) and trade⁴ (1.2 percentage points). The highest real growth of value added in 2007 was recorded in hotels and restaurants (9.4%), which is 4.2 percentage points higher than in 2006. Financial intermediation recorded the real growth of value added of 8.2% in 2007, while the growth of value added of trade amounted to 7.5%, which is 4.1 percentage points higher than in 2006. Real growth of value added of transport, storage and communication was 7.1%, industry 6.5%, construction 3.8% (a 4.4 percentage points deceleration in comparison with 2006), public service⁵ 1.8% and agriculture⁶ 1.6%.

Figure 1.5 Real Growth of Gross Value Added by Activities

Source: CBS

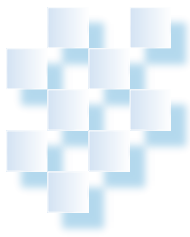
² Category includes mining and quarrying, manufacturing, electricity, gas and water supply.

³ Category includes financial intermediation, real estate, renting and business activities.

⁴ Including wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods.

⁵ Category includes public administration and defense, compulsory social security, education, health and social work, other community, social and personal services and activities of households.

⁶ Including agriculture, hunting, forestry and fishing.



1.2.3.1 Industrial Production

Industrial production recorded a year-on-year growth of 5.6% in 2007, thus accelerating by 1.1 percentage point in comparison with 2006. When observed by main industrial groupings, the highest growth of industrial production in 2007 recorded durable consumer goods (14.5%) and capital goods (10.8%), which indicates further growth of industrial production in the forthcoming period since capital goods are not used for consumption but for further production. Production of non-durable consumer goods went up by 6.1% in 2007, production of intermediate goods by 4.0%, while the production of energy increased by 1.9%. Observed by activities, mining and quarrying recorded a growth of 2.8% in 2007 and growth of electricity, gas and water supply was 1.3%. Manufacturing, the activity which has the largest share in total industrial production (79.33%) rose by 6.6% in 2007. The highest contribution to the manufacturing growth in 2007 came from publishing, printing and reproduction of recorded media, which recorded a year-on-year growth of 14.8%, manufacture of food products and beverages (a year-on-year growth of 5.0%), manufacture of fabricated metal products, except machinery and equipment (15.8%) and manufacture of radio, television and communication equipment and apparatus (17.5%). Total number of employed in industry increased by 0.4% in 2007, while the productivity rose by 5.2%.

1.2.3.2 Construction

After a strong construction activity in 2006, moderation of its growth was recorded in 2007. The annual growth of construction work index decelerated to 2.4% in 2007, which was partially the influence of high last years' base, considering that growth in 2006 was 9.4%. The highest growth rates were recorded in the first two months of 2007, and two months of the observed year recorded a reduction in construction work index at annual level. Accordingly, the highest growth of construction works was recorded in the first quarter of 2007, amounting to 6.5%. The second quarter saw the stagnation of construction works, primarily as the consequence of a year-on-year decline of construction works in June, in the third quarter growth was 1.7% and in the last quarter of 2007 it slightly speeded up to 2.1%. Observed by types of constructions, construction work index of buildings rose by 3.6% in 2007, while the construction work index of civil engineering works increased by 1.4%. Slower growth of construction works in 2007 was partially the consequence of slower growth of housing loans, which went up by 22.5% in 2007, that is, 11.5 percentage points lower than in 2006. Moreover, the total number of building permits issued decreased by 5.7% in 2007, compared to 2006.

1.2.3.3 Retail Trade

Nominal retail trade turnover recorded a year-on-year growth of 8.4% in 2007, while the real growth amounted to 5.3%, the highest since 2002. This was in line with movement of indicators that might influence retail trade, such as employment, loans to households and tourism. Thus, number of employed persons increased at annual level by more than 49 thousands in 2007, loans to households (excluding housing loans) rose by 15.2%, while number of tourist nights recorded a growth of 5.6%. When observing nominal retail trade turnover by branches in 2007, the most significant a year-on-year growth recorded the automotive fuels (12.0%) and non-specialized stores with food, beverages or tobacco predominating (12.0%). Increase in turnover of these branches was partly also the consequence of an increase in prices of oil and food products.

1.2.3.4 Tourism

The total number of tourist arrivals amounted to 11.2 million in 2007 and recorded a year-on-year growth of 7.5%, while the total number of tourist nights equaled 56.0 million, and recorded an annual increase of 5.6%. Number of foreign tourist arrivals went up by 7.5% in 2007 at annual level and number of domestic tourist arrivals by 7.4%, while the number of foreign tourist nights was 5.4% higher than in 2006 and the number of domestic tourist nights increased by 7.3%. Average number of nights per arrival amounted to 5.0 nights in 2007, decreasing by 0.1 night compared to 2006. In the structure of tourist nights, 88.5% of total nights in 2007 were made by foreign tourists.



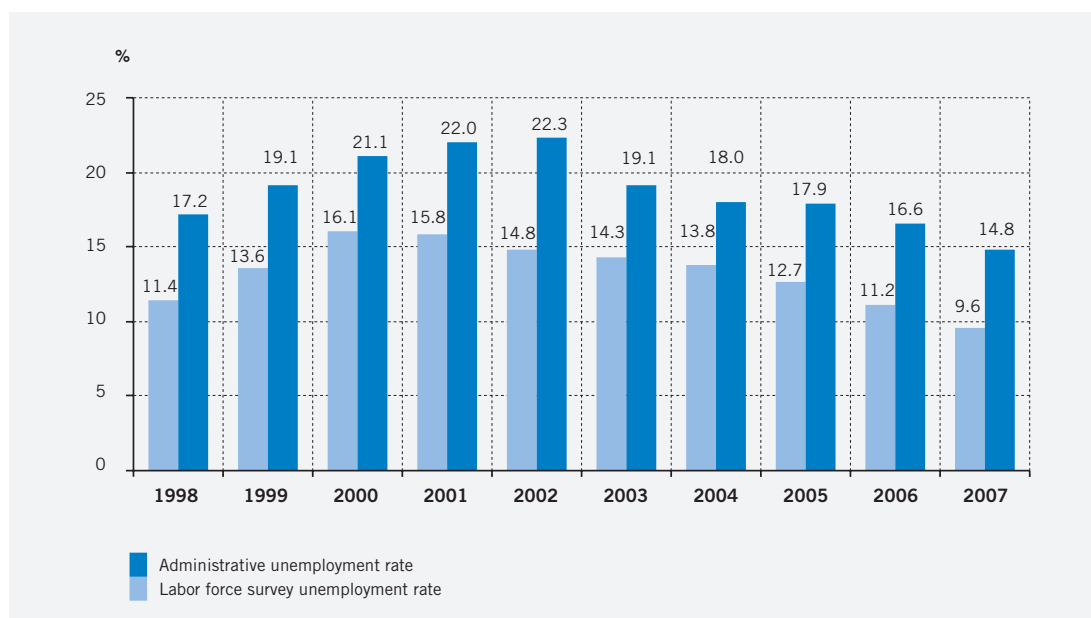
Observing the structure of foreign tourist nights by country of origin, the highest number of nights in 2007 was realized by tourists from Germany (21.9% of total number of nights), Slovenia (11.5%), Italy (11.0%), Czech Republic (8.9%) and Austria (8.6%). Favorable developments in tourist nights and arrivals reflected in tourism revenues, which were at level of EUR 6.8 billion in 2007, which is a rise of 7.3% when compared to 2006.

1.2.4 Labor Market

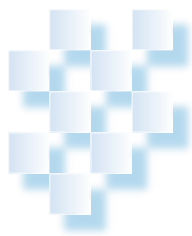
The accelerated economic activity in 2007 was accompanied by positive labor market developments. That way, the trend that started in August 2005 continued, that is, all months of 2007 recorded decrease in the number of unemployed persons when compared to a year before. There were totally 254.5 thousands of people unemployed at the end of 2007, which is 38.7 thousands or 13.2% less than at the end of 2006. The average number of unemployed persons reduced by 27.2 thousands or 9.3% in 2007, while the average number of employed increased, at the same time, by 49.0 thousands or 3.3%. The average annual unemployment rate amounted to 14.8% in 2007, decreasing by 1.8 percentage points when compared to 2006, which is as well the lowest unemployment rate since year 1995.

Starting from year 2007 the Central Bureau of Statistics publishes quarterly results on the Labour Force Survey. Survey results show that the working age population amounted to 3,657,250 persons in 2007. Of that number 48.8% were persons that worked or were actively looking for work and could be classified as the labour force. In comparison with 2006, the working age population increased by 18,750, while the labour force rose by 250 persons. The total number of employed was at average level of 1,614,500 in 2007, recording an increase of 28,500 compared to 2006. The number of unemployed decreased by 27,500 and fell down to the level of 171,000 in 2007. Described developments determined the unemployment rate, which was at the average level of 9.6% in 2007, decreasing by 1.6 percentage points compared to 2006 and representing the lowest recorded unemployment rate.

Figure 1.6 Labor Force Survey and Administrative Unemployment Rate



Source: CBS

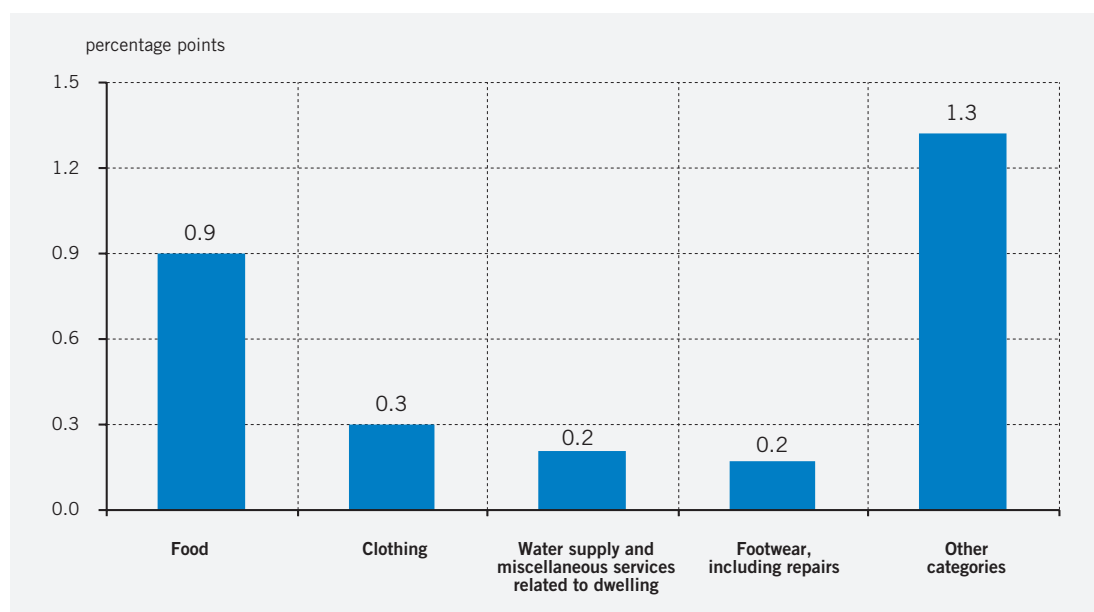


The average monthly gross earning recorded a year-on-year growth of by 6.2% in 2007, while the average net earning increased by 5.2%. When impact of inflation is extracted, the real annual growth of average gross earning amounted to 3.2% and average net earning to 2.2% in 2007, which is acceleration at both components compared to 2006. The highest gross earnings in 2007 were recorded in the sector of financial intermediation, while the lowest were recorded in the sector of fishing.

1.2.5 Prices

The average annual growth of consumer price index slowed from 3.2% recorded in 2006 to 2.9% in 2007. The last quarter saw a speed-up of inflation, so in December 2007 consumer price index growth was 5.8%. The prices of goods increased by 2.8% in 2007, while the prices of services recorded the annual growth of 3.1%. The largest contribution to the prices growth in 2007 came from prices of food, which rose by 3.4% compared to 2006. Within this category, the highest contribution to prices growth came from prices of bread and cereals (a year-on-year growth of 4.4%), milk, cheese and eggs (4.6%), vegetables (5.0%), oils and fats (8.2%) and fruit (5.8%). Mentioned increase in prices of food products was caused by unfavorable weather conditions and growth of wheat prices in world markets. Significant contribution to the prices growth in 2007 also came from increase in prices of clothing (4.4%) and prices of water supply and miscellaneous services relating to dwelling (7.3%), as a result of decisions on price increases from local authorities. Main risk for the prices growth in the forthcoming period presents further rise of oil prices in world markets, but also carry over of higher prices of primary raw materials on food products.

Figure 1.7 Contributions of Individual Categories to Growth of Prices in 2007



Source: CBS



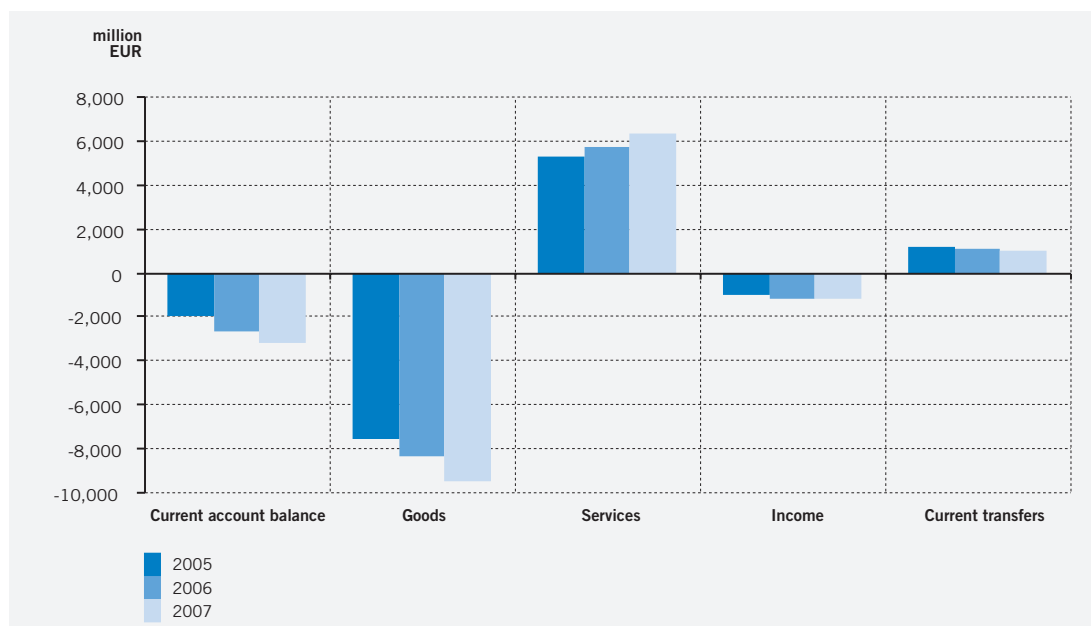
1.3 INTERNATIONAL SECTOR

The increase in the balance of payments current account deficit in 2007 was primarily the consequence of a rise in the negative balance in the goods account. Due to successful tourist season, surplus in the services account recorded considerable growth in 2007 as well. The financial account of the balance of payments marked a historically high inflow of foreign direct investments. External debt growth slightly slowed in 2007 and the exchange rate of the kuna against the euro remained stable.

1.3.1 Balance of Payments

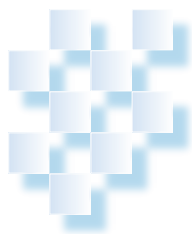
Balance of payments current account deficit amounted to EUR 3.226 billion in 2007, thus increasing by EUR 530 million or 19.6% compared to 2006. Such development is primarily the result of deficit in the goods account, which recorded the annual growth of 13.1%, amounting to EUR 9.434 billion. This was just partly offset by a large surplus in the services account, amounting to EUR 6.309 billion, which rose by 10.5% compared to 2006. The increase in the services account surplus was mostly the result of rise in revenues from tourism, which amounted to EUR 6.753 billion in 2007, with a 7.3% year-on-year growth. Increase in the current account deficit in 2007 was also the result of decrease in the current transfers account surplus of 5.8%, to the level of EUR 1.043 billion. Deficit in the income account amounted to EUR 1.144 billion in 2007, and reduced by 2.2% compared to 2006. Current account deficit expressed as a percentage of GDP increased from 7.9% in 2006 to 8.6% in 2007. Coverage of imports of goods and services by exports of goods and services was 85.4% in 2007 and decreased by 1.1 percentage point in comparison with 2006.

Figure 1.8 Balance of Payments Current Account



Source: CNB

Movements in the financial account of the balance of payments in 2007 were marked by a historically high amount of net foreign direct investments, of EUR 3.416 billion. Compared to 2006, net foreign direct investments recorded a rise of 32.9%. The portfolio investments account recorded a net outflow of funds in the amount of EUR 4 million, whereas the other investments account recorded a net inflow of EUR 1.346 billion. Net inflow of funds was recorded by other sectors, in the amount of EUR 3.837 billion, while net inflow of funds of government was EUR 129 million. On the other hand, the banking sector recorded significant net outflow of funds amounting to EUR 2.621 billion. Described developments in the financial and current account of the balance of payments resulted in increase in international reserves by EUR 722 million. Net errors and omissions in 2007 were again at the high level of EUR -845 million.

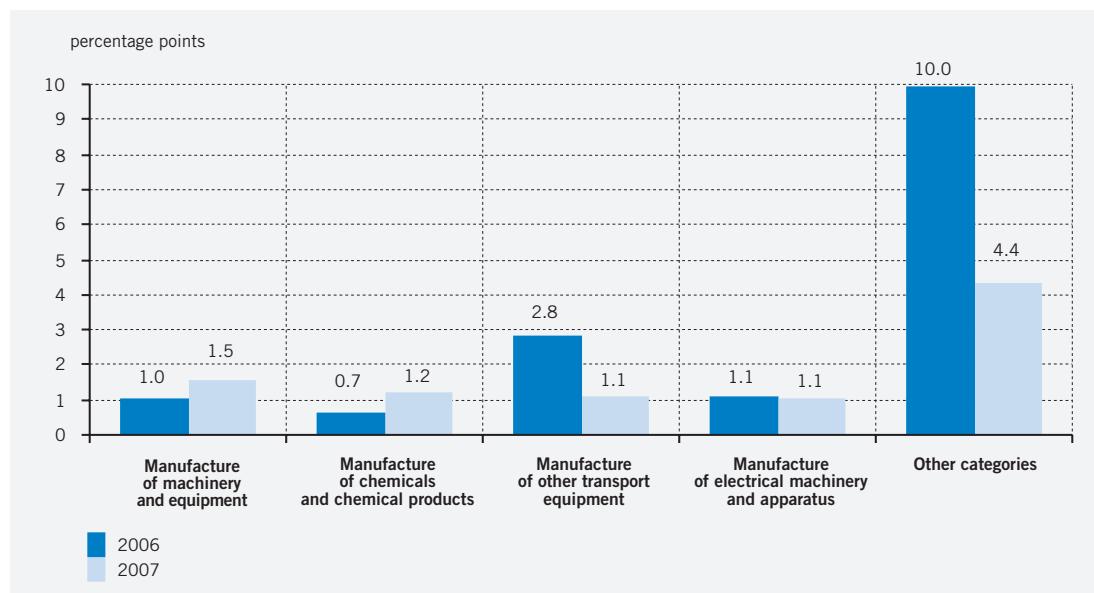


1.3.2 Foreign Trade in Goods

The annual growth of both exports and imports of goods slowed down in 2007, compared to growth achieved in 2006. Thus, total merchandise exports expressed in kuna recorded an annual growth of 9.3% in 2007, while merchandise imports went up by 10.3%. The total value of merchandise exports was at level of HRK 66.0 billion and the value of merchandise imports amounted to HRK 138.2 billion. The foreign trade deficit stood at HRK 72.1 billion in 2007, which is an annual increase of 11.3%. Coverage of imports by exports of goods amounted to 47.9% in 2007, decreasing by 0.4 percentage points compared to 2006.

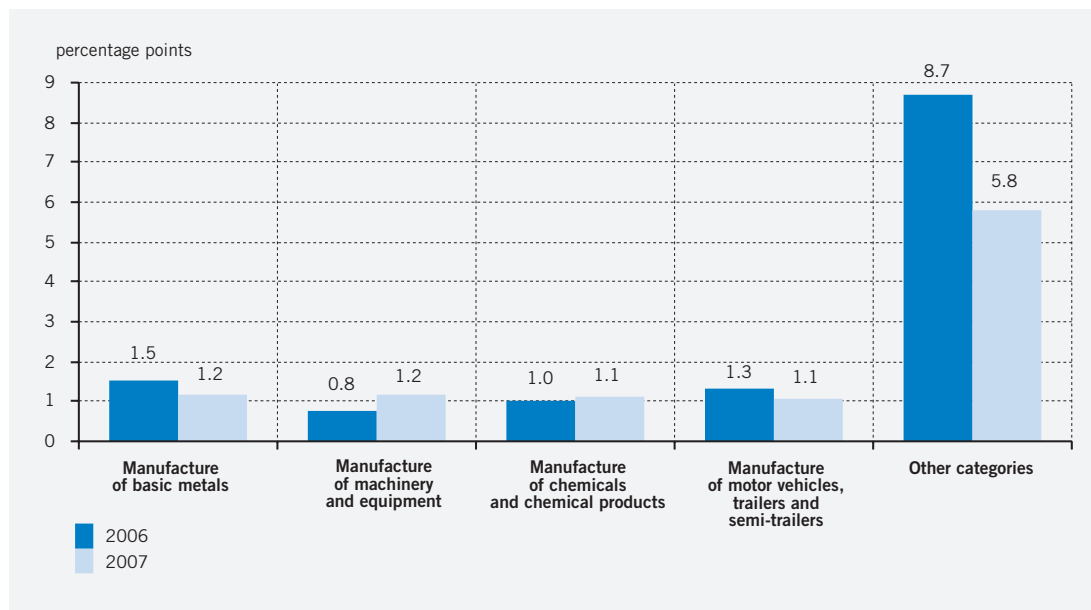
Observed by activities, the largest contribution to merchandise exports growth in 2007 was made by manufacture of machinery and equipment, which recorded the annual growth of exports of 22.3%, manufacture of chemicals and chemical products (exports growth of 13.8%), manufacture of other transport equipment (9.3%), manufacture of electrical machinery and apparatus (21.8%) and manufacture of coke, refined petroleum products and nuclear fuel (10.5%). The categories which contributed the most to the merchandise imports growth in 2007 were manufacture of basic metals (annual growth of imports of 16.8%), manufacture of machinery and equipment (11.5%), manufacture of chemicals and chemical products (11.4%), manufacture of motor vehicles, trailers and semi-trailers (11.9%) and manufacture of other transport equipment (24.6%).

Figure 1.9 Contributions to the Total Merchandise Exports Growth by Individual Categories



Source: CBS

As already mentioned, significant contribution to merchandise exports growth in 2007 came from manufacture of other transport equipment. Within the manufacture of other transport equipment the highest share is taken by ships, which, due to their large transactions, can deform the trend of the remaining exports. When the category of other transport equipment is excluded from merchandise exports and imports, imports increased by 9.8% and exports by 9.3% in 2007.

**Figure 1.10 Contributions to the Total Merchandise Imports Growth by Individual Categories**

Source: CBS

The structure of merchandise exports by countries indicate that the largest share in total exports in 2007 had exports to Italy (19.2%), Bosnia and Herzegovina (14.4%), Germany (10.0%), Slovenia (8.3%) and Austria (6.1%). When compared to year 2006, exports to Bosnia and Herzegovina increased by 25.0%, to Austria 10.6%, to Slovenia 10.2%, to Germany 5.9%, while exports to Italy dropped by 9.5%. Exports to EU countries made 60.3% of total Croatian merchandise exports in 2007 and increased by 2.5% compared to 2006. The highest share in total merchandise imports in 2007 had imports from Italy (16.1%), Germany (14.4%), Russia (10.1%), Slovenia (5.9%) and Austria (5.3%).

When foreign trade in goods expressed in US dollars is observed, exports increased by 19.1% and imports by 20.2% in 2007. Higher annual growth rates of exports and imports expressed in US dollars are the result of the fact that Croatian foreign trade is mostly done with countries of European Union, so exports and imports growth is also influenced by depreciation of the US dollar against the euro.

1.3.3 Foreign Direct Investments

Total stock of foreign direct investments in the Republic of Croatia stood at the level of EUR 17.615 billion at the end of 2007. Total foreign direct investments in the Republic of Croatia amounted to EUR 3.597 billion in 2007, which is the highest amount recorded so far and a nominal increase of EUR 851 million or 31.0% when compared to 2006. Regarding the structure of total foreign direct investments in 2007, 58.8% made equity investments, realized in the amount of EUR 2.114 billion. Other capital recorded the historically high level of EUR 990 million in 2007 and made 27.5% of total investments, while reinvested earnings stood at level of EUR 493 million, which is 13.7% of total investments. When observing the structure of foreign direct investments in the Republic of Croatia by activities, the highest amount in 2007 was invested in financial intermediation (EUR 1.591 billion), wholesale trade and commission trade (EUR 194 million), supporting and auxiliary transport activities (EUR 157 million), extraction of crude petroleum and natural gas (EUR 150 million) and real estate activities (EUR 128 million). Observed by the country of origin, the highest inflow of foreign direct investments in the Republic of Croatia in 2007 came from Austria (EUR 2.195 billion), Belgium (EUR 344 million), Netherlands (EUR 254 million), Germany (EUR 171 million), Hungary (EUR 134 million) and Slovenia (EUR 132 million).

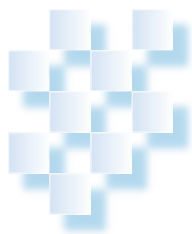
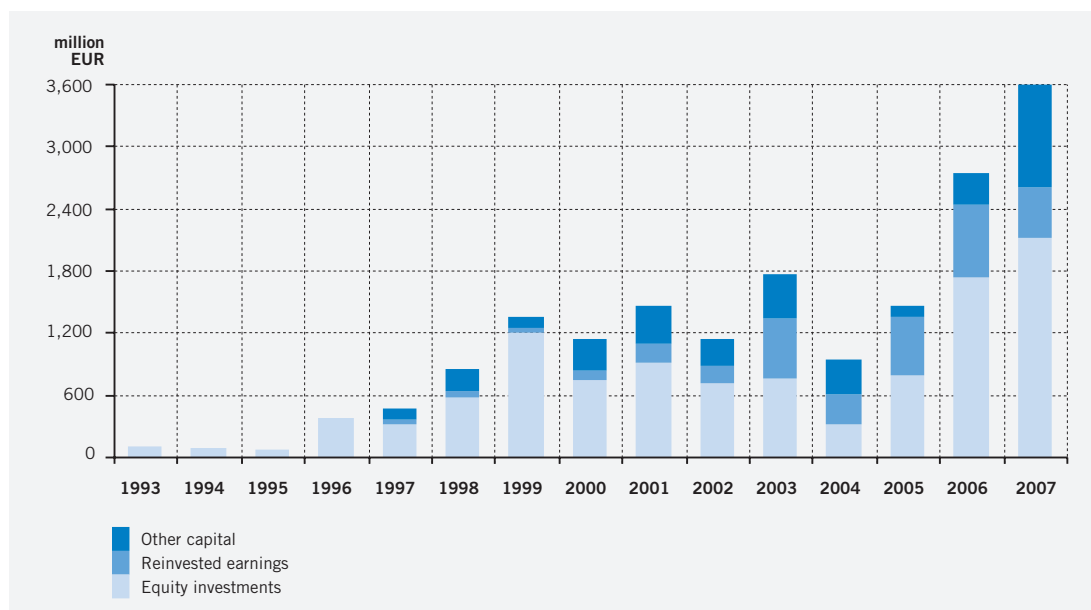


Figure 1.11 Foreign Direct Investments in the Republic of Croatia



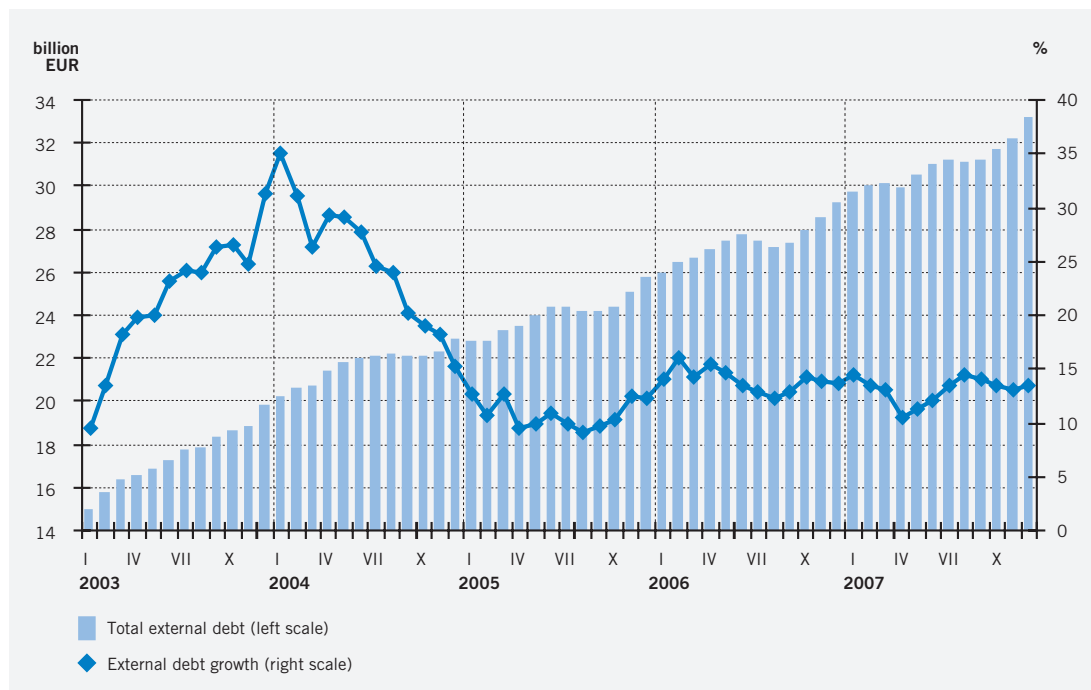
Source: CNB

1.3.4 External Debt

As of beginning of the year 2008, the new system of external debt reporting was implemented, according to which the level of the external debt for December 2007 was corrected. Therefore, according to the new reporting system, external debt in December 2007 amounted to EUR 33.221 billion, which is EUR 292 million higher than before published EUR 32.929 billion. There was also an increase in the external debt's share in GDP for 2007, from 87.8% according to the old reporting system to 88.6% of GDP according to the new reporting system. Annual growth rate of the external debt was 13.5% in 2007, decelerating by 0.2 percentage points in comparison with 2006. The largest increase in external debt in 2007 was recorded by other domestic sectors, in the amount of EUR 4.205 billion and in external debt of ownership-related enterprises through foreign direct investments, which went up by EUR 1.019 billion. External debt of banks decreased by EUR 1.338 billion in 2007, while the external debt of government went up by EUR 62 million. There have also been significant changes in the external debt structure. By this means, the share of the banks' external debt recorded a decline from 34.9% of total external debt in December 2006 to 26.7% in December 2007, while the share of external debt of other sectors increased in the same period from 32.5% to 41.3%, and a share of external debt of ownership-related enterprises through foreign direct investments rose from 9.8% to 11.7%. The share of the government external debt reduced from 22.8% of total external debt in December 2006 to 20.3% in December 2007, in accordance with the government decision to finance own needs in the domestic financial market.

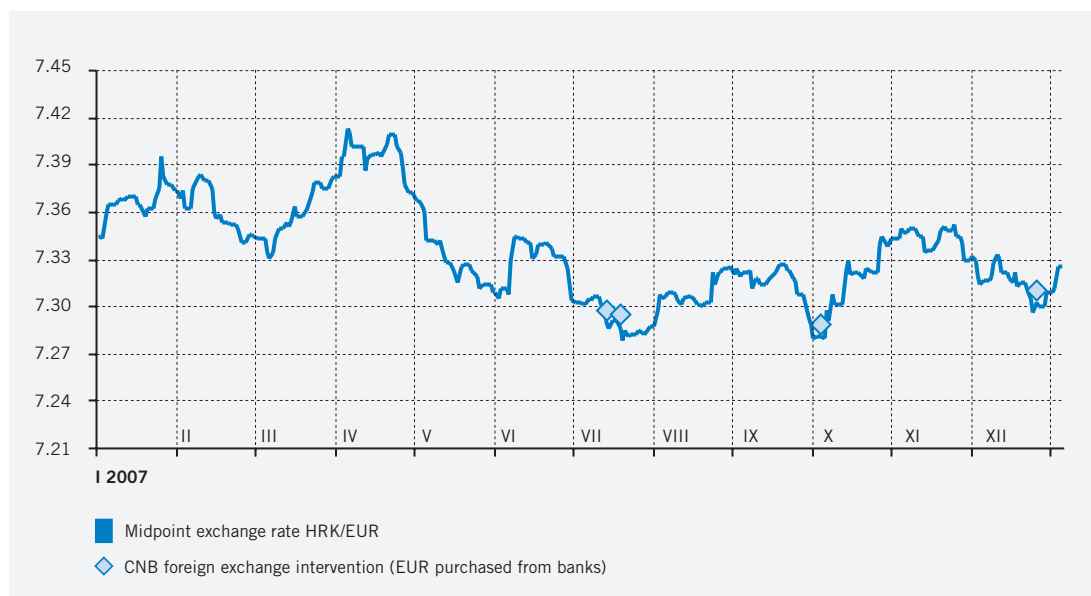
1.3.5 Exchange Rate

Appreciation pressures present in 2007 were mainly the result of seasonal inflow of foreign exchange from tourism, foreign borrowing of enterprises and recapitalization of banks. In addition, the appreciation of the exchange rate of the kuna against the euro was also influenced by the increase in demand for kuna for the purpose of investment in securities on the domestic capital market. Nevertheless, the exchange rate of the kuna against the euro remained stable in 2007. Thus, the average exchange rate of the kuna against the euro increased from 7.32 HRK/EUR in 2006 to 7.34 HRK/EUR in 2007, which is the depreciation of the kuna against the euro of only 0.2%. On the other hand, when observing the exchange rate at the end of period, the exchange rate of the kuna against the euro dropped from 7.35 HRK/EUR at the end of 2006 to 7.33 HRK/EUR at the end of 2007, thereby kuna appreciated by 0.3%. The exchange rate of the US dollar against the kuna was in line with the weakening of the dollar against the euro on world foreign exchange markets.

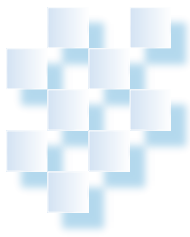
**Figure 1.12 External Debt of the Republic of Croatia**

Source: CNB

At the end of December 2007 the exchange rate amounted to 4.99 HRK/USD, while the average exchange rate stood at 5.36 HRK/USD in 2007, thus kuna appreciating by 8.1% against the US dollar. Due to the stable exchange rate of the kuna against the euro, frequently interventions were not necessary in 2007, so the Croatian National Bank intervened only four times in the foreign exchange market. In so doing, all interventions concerned the purchase of euros from commercial banks and the total amount purchased was at level of EUR 662 million.

Figure 1.13 Midpoint Exchange Rate of the Kuna against the Euro and Foreign Exchange Interventions of the CNB

Source: CNB

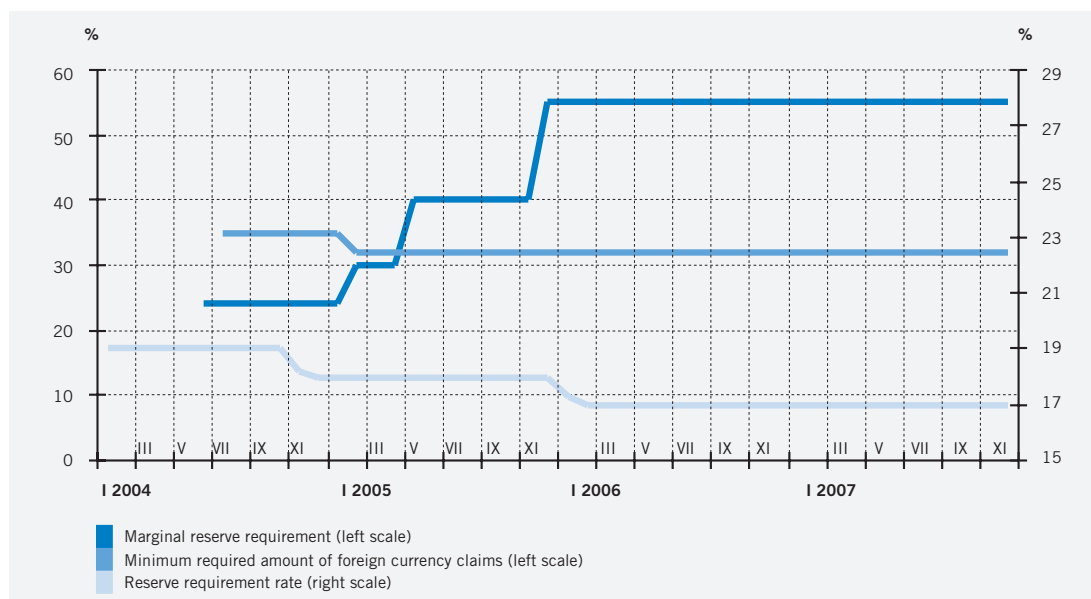


1.4 FINANCIAL SECTOR

Monetary policy in 2007 was primarily focused on the restriction of placements' growth and the restriction of foreign borrowing of banks, with the continuation of policy of stable nominal exchange rate of the kuna against the euro. Apart from the existing instruments of marginal and special reserve requirement and the minimum required amount of foreign currency claims, the Decision on the purchase of compulsory CNB bills is applied since January 2007, introduced with a view to influence directly to the banks placements' growth. The main instruments of the central bank for liquidity management were foreign exchange interventions and the regular weekly reverse repo auctions. Monetary policy measures taken in 2007 resulted in repression of placements' growth and reduction of banks external debt, and eventually also in deceleration of total external debt growth. Despite good liquidity of the banking system, the interest rates on the market money increased significantly in 2007, while the domestic capital market recorded a strong growth.

1.4.1 Monetary Policy and Developments of Credit Aggregates

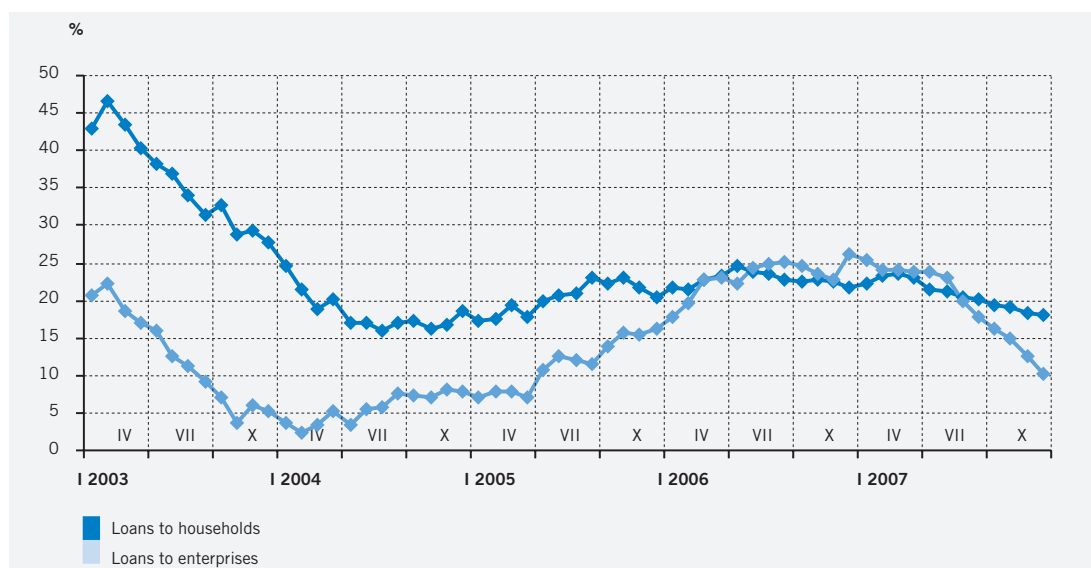
Monetary trends in 2007, whose main characteristics were a strong deceleration of growth of banks' placements to the private sector and a reduction in banks external debt, confirmed the effectiveness of applied monetary policy instruments. This, together with the marginal reserve requirement rate of 55% and a prescribed minimum required amount of foreign currency claims of 32%, mostly refers to the Decision on the purchase of compulsory CNB bills from December 2006, which was additionally modified in two occasions in 2007. The first change was in February, when the permissible growth rate of placements for all calculation periods was raised to 12%, and in June monthly limits for permissible placements' growth were reduced from 1% to 0.5%. Regarding the short-term management of the money supply, central bank mainly used regular weekly reverse repo auctions in 2007, where the increase in banks' demand for kuna liquidity was recorded during the year. The main instrument of liquidity withdrawal was the reserve requirement, whose rate, given the extremely favorable kuna liquidity of the banking system, was kept at the level of 17%. There was a significant substitution of foreign liabilities by equity capital and deposits of the private sector, especially households, in commercial banks' balances in 2007. This increase in the domestic sources of financing has resulted in a strong increase in the reserve requirement. The third quarter was marked by a notably strong influence of seasonal developments, which manifested in a significant growth of deposits with banks and, consequently, reduce in their foreign liabilities. Besides two foreign exchange interventions in July, the main instrument for creating kuna liquidity in the first nine months of 2007 were regular weekly reverse repo auctions. The beginning of the fourth quarter of 2007 was marked by a high demand for kuna owing to the purchase of shares of T-HT and, consequently, appreciation pressures, so the CNB intervened by purchasing foreign currency from banks. At the end of October, as a consequence of return of funds which were paid over and the weakening of the impacts of capital market transactions to the money demand, the surplus of primary liquidity occurred in the system, as well as depreciation pressures, so the CNB responded by canceling three consecutive reverse repo auctions. At the end of 2007 a new problem appeared, in the form of acceleration of general growth of prices, as a consequence of the increase in prices of food and oil, but the growth of interest rates abroad was present as well, so the CNB responded by increasing its referent interest rates on short-term loans. In addition, at the end of 2007, the supervision of banks tightened by a new decision on capital adequacy, by which a one percentage point above the bank placements' growth of 12% requires the increase in capital adequacy by a one and a half percentage point above the 12%. It can be said that 2007 was marked by financial stability of the banking sector, which was additionally encouraged by recapitalizations of some banks.

**Figure 1.14 Changes in Central Bank Instruments**

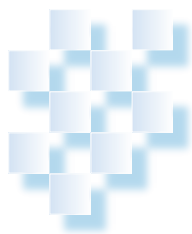
Source: CNB

As already mentioned, the slowing of credit expansion and a stronger orientation of banks on domestic sources of financing were the main characteristics of monetary developments in 2007. However, the structure of placements by sectors indicates that the banks' adjustment to more restrictive CNB measures was primarily manifested in a significantly weaker lending to enterprises, while loans to households, in spite of their slower a year-on-year growth, again contributed the most to overall loans' growth. In comparison with 2006, the deceleration of housing loans was recorded, as well as decrease in loans to central government. Credit activity of banks was for the most part financed with growth of time and savings deposits, especially in summer months, in line with successful tourist season.

Total commercial banks' loans amounted to HRK 215.5 billion at the end of 2007. Their year-on-year growth was 13.3% in 2007, slowing by 9.4 percentage points in comparison with 2006. Loans to households recorded a growth of 18.0% in 2007, a 3.8 percentage points deceleration compared to 2006. Thereby, the housing loans increased by 22.5%. A year-on-year growth of loans to enterprises accounted for only 10.2%, thereby slowed down by 15.8 percentage points in comparison with 2006. Commercial banks' loans to central government reduced by 2.6% compared to 2006.

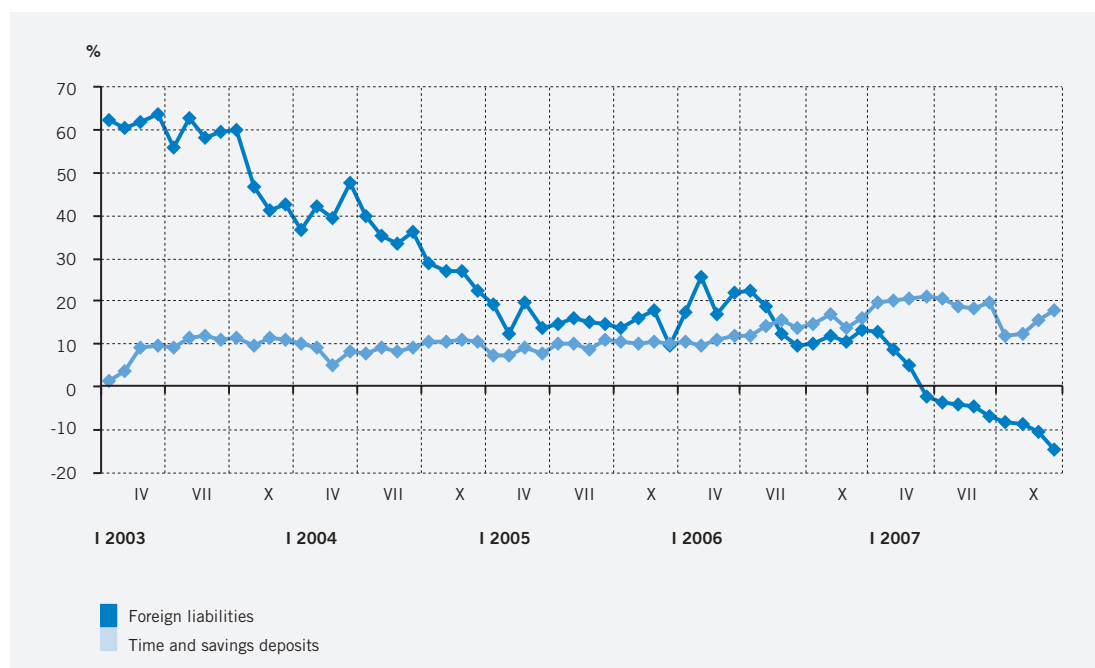
Figure 1.15 Annual Growth of Loans to Enterprises and Loans to Households

Source: CNB



Total kuna and foreign currency time and savings deposits with commercial banks were at HRK 156.7 billion at the end of 2007, increasing by HRK 23.6 billion in comparison with 2006. When observing the annual growth rate, the total kuna and foreign currency time and savings deposits increased by 17.8% in 2007, which is the acceleration of 1.8 percentage points compared to a year before. Total kuna time and savings deposits with commercial banks went up by HRK 8.8 billion or 19.6% in 2007. The major contribution to this increase came from deposits of enterprises, which rose by HRK 3.7 billion, and the deposits of other banking institutions, which also increased by HRK 3.7 billion. Foreign currency time and savings deposits went up by nearly HRK 14.8 billion or 16.8% in 2007. The most important contribution to their growth came from the sector of households, whose deposits have increased by HRK 8.4 billion.

Figure 1.16 Growth of Foreign Liabilities and Time and Savings Deposits

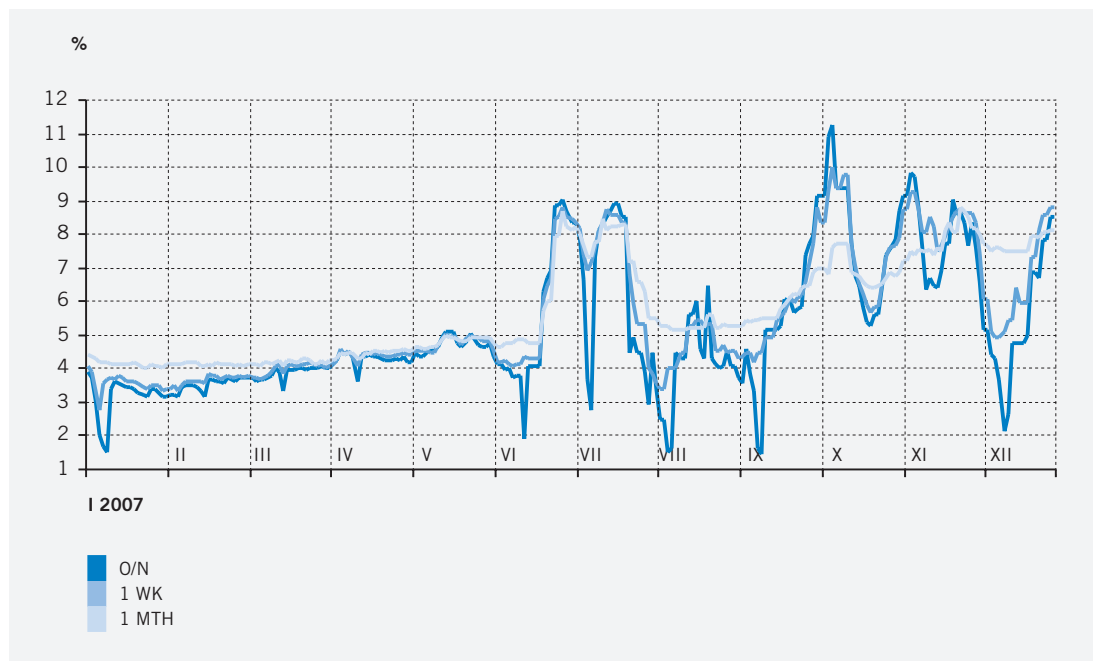


Source: CNB

Total foreign assets of commercial banks amounted to HRK 46.4 billion at the end of 2007, increasing by HRK 6.8 billion or 17.2% compared to 2006. After several years of growth, the total foreign liabilities decreased by HRK 10.9 billion or 14.4% in 2007, amounting to HRK 65.2 billion at the end of the year. Thus, the net foreign assets amounted to HRK -18.7 billion at the end of the year, which shows the improvement in foreign position of banks by approximately HRK 17.7 billion compared to 2006.

1.4.2 Money Market

Characteristics of the money market in the first quarter of 2007 were good liquidity and a relatively low and stable interest rates. Nevertheless, in the second quarter interest rates began strong growth. Despite mostly liquid banking system, the high interest rates on the money market remained until the end of the year, except for short decrease in August. Thus, the average interest rate on the Zagreb Money Market amounted to 4.27% in 2007, increasing by 2.2 percentage points compared to a year before, while the October recorded the highest average interest rate of 6.60%. However, it should be mentioned that in 2007 the money market interest rates, apart from the beginning of the year, oscillated a lot, so the interest rates from the end of the year were up to three times higher than those from the beginning of the year. The reasons for these trends, besides the standard seasonal influences such as increased consumption owing to the tourist season or holidays, should also be searched in public offers of some companies' shares, the issuance of the second tranches of two kuna government bonds in July and October and payment of the fourth rate of the pensioners' debt.

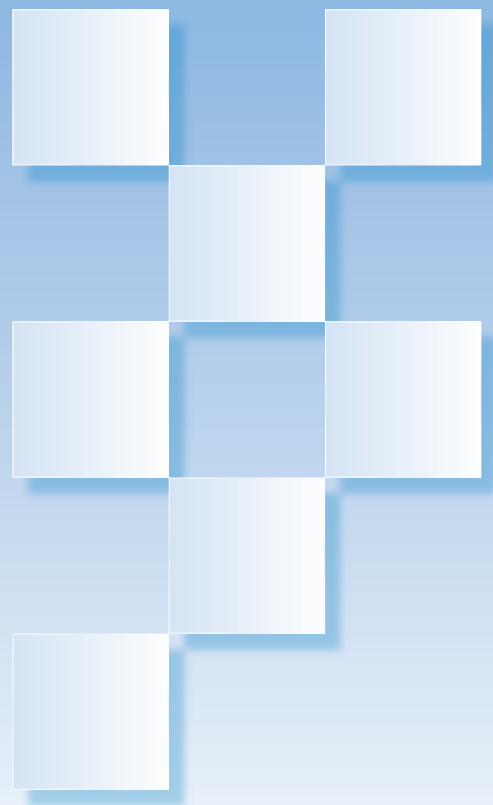
**Figure 1.17 ZIBOR**

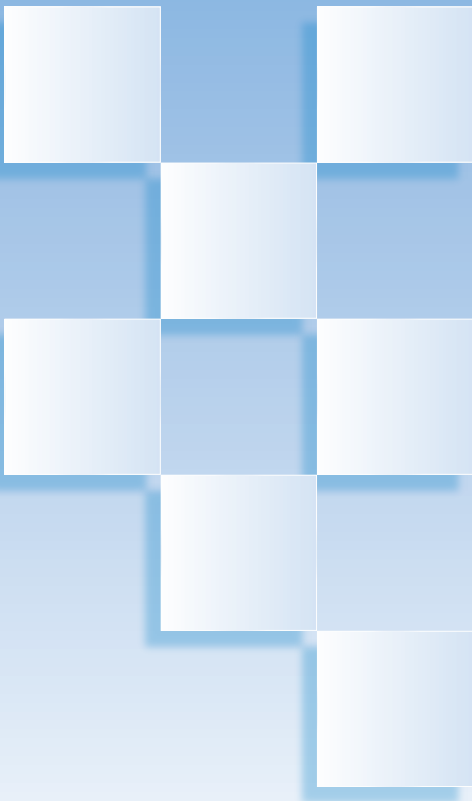
Source: CBA

1.4.3 Capital Market

Croatian capital market continued to grow rapidly in 2007. The greatest annual turnover of shares recorded so far was achieved, amounting to HRK 22.0 billion, which is 57.1% higher than in 2006. At the end of December 2007, stock index CROBEX was at 63.2% higher level than in December 2006, and in October 2007 it recorded its highest value so far, amounting to 5,393 points. Varaždin Stock Exchange was merged with Zagreb Stock Exchange, which, this way, strengthened its role as a center of securities trading in Croatia. Moreover, the year was also marked by public offers of shares, owing to which, apart from increase in institutional investors' assets and inflow of foreign capital, for the first time to the growth of demand for equity securities also significantly contributed interest of general public for investment in shares in the domestic capital market. The result was a pronounced increase in prices and liquidity of shares on the Zagreb Stock Exchange. Regarding institutional investors, pension funds' assets amounted to HRK 21.8 billion at the end of 2007, increasing by 33.2% in comparison with 2006, while the assets of open investment funds was at the level of HRK 30.1 billion at the end of 2007, which makes the annual increase of 87.4%. Ten new bonds were issued on domestic market of debt securities in 2007, whereof one government, three municipal and six corporate, while the second tranches of two government and one municipal bond were issued as well. The first tranche of the new government kuna bond of nominal value of HRK 2.5 billion was issued in February 2007, with a maturity in year 2017. The second tranche of the same bond, the nominal value of HRK 3.0 billion, was issued in July 2007. In addition, the second tranche of a 15-year government kuna bond with currency clause was issued at the end of October 2007, nominal value of EUR 300 million, with a maturity in 2019. The six new corporate bonds were also issued in 2007. The total nominal value of all six issues amounted to HRK 1.3 billion, which is less than a half of the total value of issued corporate bonds in 2006.

2 **BUDGETARY CENTRAL** **GOVERNMENT** **IN 2007**







2.1 BUDGETARY CENTRAL GOVERNMENT REVENUE IN 2007

2.1.1 Budgetary Central Government Revenue Plan

By the end of November 2006, Croatian parliament adopted the Budget of the Republic of Croatia as well as financial plans of extra-budgetary users for year 2007. The budgetary central government revenue was planned in line with underlined macroeconomic indicators and assumptions. To revenues estimated in this way, the effect of budgetary central government consolidation was added. This relates to the inclusion of the Social Security Funds (Croatian institute for Pension Insurance, Croatian Health Insurance Institute and Croatian Employment Service) into the State Treasury System, i.e. the coverage of the budgetary central government. Closing of budgetary users' accounts, which existed out of the single State Treasury System, and which have been included into the Treasury System as of January 1, 2007, also had effect on the projection of the budgetary central government revenue, as well as changes in Act on the Financing of Local Government.

It is worth mentioning that the above-mentioned inclusion of Social Security Funds into the budgetary central government and the closure of budgetary users' accounts represent one of the steps in achieving fully operational Single Treasury Account, which, at the same time, has the purpose of increasing transparency of the budgetary central government. Moreover, changes to the Act on the Financing of Local Government ensure more equal and fairer tax allocation in all areas of the Republic of Croatia, especially the areas of special government concern, as well as more liquidity of overall financing system on the local level.

Budgetary central government revenue, according to the GFS methodology, was planned in the amount of HRK 103.5 billion, which compared to the previous year represented an increase of 8.7%. Such an increase is somewhat stronger compared to the average increase in previous years and the reason behind that is the aforementioned specificity of year 2007 whereby the budgetary central government revenue was increased by the amount of Social Security Funds' revenues and budgetary users' revenues, which till then had their own accounts, and which were in 2007 included in the coverage of the budgetary central government.

During the first half of 2007, the budgetary central government revenue development was above expected. Taking this into account, as well as the perceived dynamics in developments of the budgetary central government revenues and expenditures, at the beginning of July 2007 Amendments to the Budget of Republic of Croatia for 2007 was adopted.

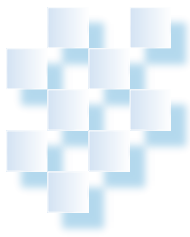
Through the supplementary budget the expected amount of revenue increased by HRK 5.0 billion, i.e. to the total level of HRK 108.5 billion. Compared to the amount of revenue collected in 2006, supplementary budget revenue amount represented an increase of 13.9%. The main reason for introducing amendments to the budget was higher than expected economic growth which entailed higher revenue inflow. The growth of almost all revenue categories is present in the supplementary budget, of which the most significant one is that of social security contributions, VAT, corporate income tax, personal income tax, as well as property income revenue, i.e. increase of expected concession revenue.

On the other hand, budgetary central government expenditures (which include change in arrears) increased by HRK 3.9 billion. Since the increase in expenditures was lower than the increase in revenues, stronger fiscal consolidation has been enabled.

The state budget plan for 2007 set up objectives focused on development. By introducing amendments to the budget this orientation was further enhanced, which was enabled by successful implementation of fiscal policy in the first half of 2007. Strengthening the developmental component of the state budget reflects in stronger investment in regional development, science and education, agriculture sector, social component of a budget, and ensuring permanent growth along with preserving stability.

In addition, one of the key objectives is strengthening of social justice, which is incorporated in 2007 budget. Through the supplementary budget additional means for the social sphere have been secured, out of which the following ones should be noted: dealing with arrears in the health system, increasing of means for veteran pensions, ensuring free textbooks for primary school and for the first class of high school, increasing of means for unemployed persons and for the employment policy as well as for socially vulnerable groups (persons with disability, children, young people).

Although the supplementary budget has been planned very ambitiously, with high level of revenues, increased investments in most significant expenditure categories and further decrease in deficit, it is necessary to emphasize that the state budget has been realized within the planned limits.


Table 2.1 Revenue of the Budgetary Central Government According to the Original and the New Plan for 2007

	(000 HRK)	Plan 2007	New Plan 2007	Index New Plan 07/ Plan 07
1	REVENUE	103,489,203	108,501,515	104.8
11	Taxes	62,346,727	64,148,605	102.9
111	Taxes on income, profits, and capital gains	9,134,969	10,078,339	110.3
1111	Payable by individuals	1,406,947	1,650,551	117.3
1112	Payable by corporations and other enterprises	7,728,022	8,427,788	109.1
113	Taxes on property	493,114	533,685	108.2
114	Taxes on goods and services	50,809,319	51,584,380	101.5
1141	General taxes on goods and services	37,788,443	38,387,622	101.6
11411	Value-added taxes	37,612,931	38,212,839	101.6
11412	Sales taxes	175,513	174,784	99.6
1142	Excises	12,080,177	12,208,771	101.1
1144	Taxes on specific services	35,279	38,940	110.4
1145	Taxes on use of goods, permission to use goods	409,954	452,502	110.4
1146	Other taxes on goods and services	495,466	496,545	100.2
115	Taxes on international trade and transactions	1,506,891	1,615,059	107.2
116	Other taxes	402,435	337,141	83.8
12	Social contributions	36,355,407	37,115,946	102.1
121	Social security contributions	36,355,407	37,115,946	102.1
1211	Employee contributions	16,218,890	16,502,518	101.7
1212	Employer contributions	18,488,051	18,707,820	101.2
1213	Self-employed or nonemployed contributions	1,648,467	1,905,609	115.6
13	Grants	861,097	863,561	100.3
14	Other revenue	3,925,972	6,373,403	162.3
141	Property income	1,081,244	3,440,079	318.2
142	Sales of goods and services	1,583,295	1,527,298	96.5
143	Fines, penalties, and forfeits	407,140	421,307	103.5
144	Voluntary transfers other than grants	5,850	4,316	73.8
145	Miscellaneous and unidentified revenue	848,443	980,404	115.6

Source: Ministry of Finance



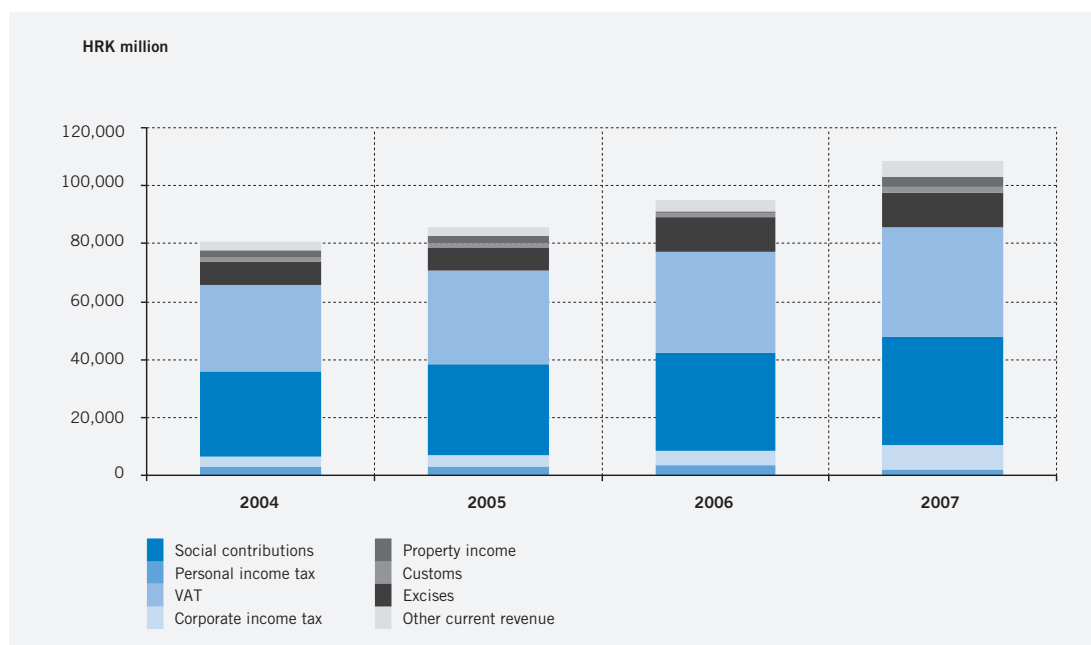
2.1.2 Budgetary Central Government Revenue Outturn in 2007

According to the final data for the 2007 budget execution, total budgetary central government revenues were collected in the amount of HRK 108.3 billion. Such an outturn of the budgetary central government revenues is in line with the plan for 2007, namely 0.2% below the planned amount. Observing the annual increase, it can be seen that the budgetary central government revenues increased by 13.7%. Such a significant annual increase is primarily the result of economic growth but also the result of inclusion of social security funds and individual revenues of extrabudgetary users, which have been administered on separate accounts, into Single Treasury Account.

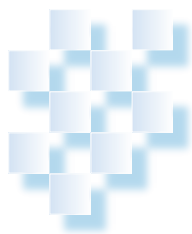
As in the previous years, observing the structure of the budget revenue it can be noted that the largest part relates to taxes which in 2007 accounted for 59.3%, followed by social contributions (share of 34.3% in total revenues) while the remainder relates to grants, property income, administrative fees, revenues under the special regulations and other revenue. During 2007, revenue from grants, property income, sales of goods and services and miscellaneous and unidentified revenues recorded an increase of their share in the total revenue structure while the share of taxes and social contributions decreased. The main reason behind this is inclusion of social security funds and the main part of individual revenues of extrabudgetary users into Single Treasury Account.

If the trend of the total revenue share in GDP from 2002 to 2007 is observed, it can be seen that only moderate oscillations have been recorded. Namely, in 2002 budgetary central government revenue accounted for 38.4% of GDP. This share was moderately decreasing till 2005 when it reached the level of 37.0% of GDP. However, the share of budgetary central government revenue in GDP increased again in 2006 and 2007, specifically to the level of 39.4% of GDP in 2007. The share of tax revenues in GDP was in line with the share of total revenues which means that a slight decrease in the period 2002-2005 has been recorded followed by increase in 2006 and especially in 2007. Social contributions recorded nearly a constant share to GDP in the observed period. Other revenue, especially property income, depends on specific issues in each of the years making thus the comparison of their ratios to GDP unrepresentative.

Figure 2.1 Structure of Budgetary Central Government Revenue



Source: Ministry of Finance

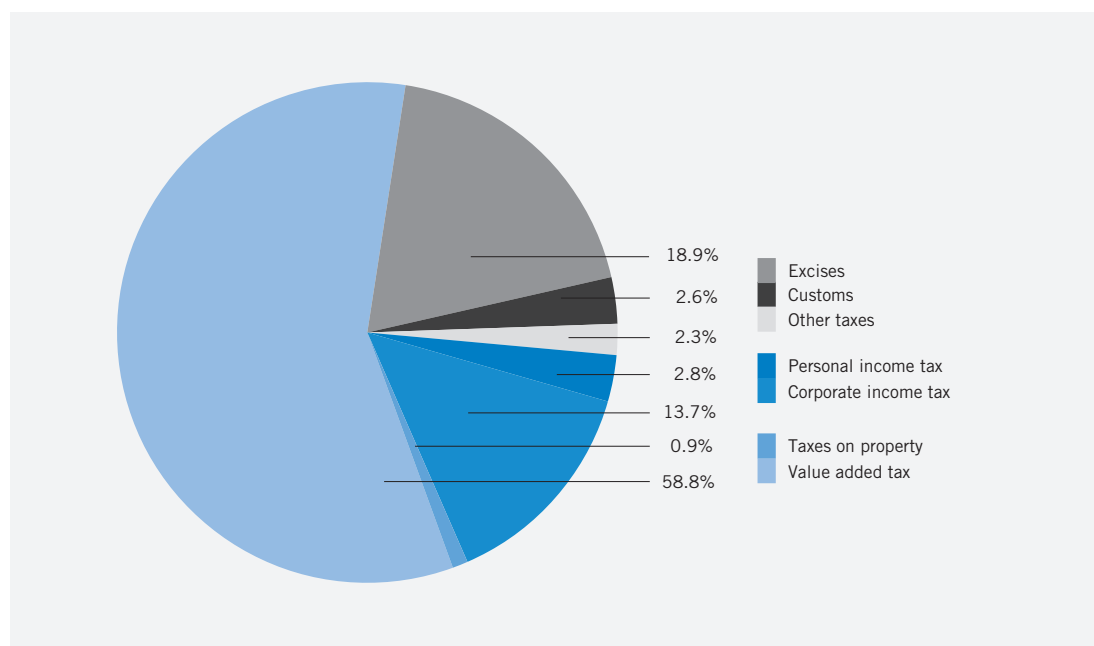


2.1.2.1 Tax Revenue

As already outlined, the highest share in total revenue is that of tax revenue. In 2007, tax revenue amounted to HRK 64.2 billion, which is the increase of 9.9% compared to 2006 while their share in GDP increased by 1.4 percentage points. Total tax revenue was collected in line with the 2007 plan. Such a favourable outturn is primarily the result of good economic performance but also of the measures of the Tax Administration, Customs Administration and Financial Police aimed at fostering the process of tax collection. All tax revenue components were collected in line with the plan or above it, except for taxes on goods and services and other taxes.

Major changes within the tax system in 2007 include the amendments to the Act on Value-Added Tax introduced in August 2007 and amendments to the Act on the Financing of Local Government which entered into force at the beginning of 2007. In line with the aforementioned changes to acts regulating certain taxes, fiscal importance of those taxes changes as well. Although the rate of the VAT for newspapers and magazines being issued daily or periodically has been reduced, the VAT revenue does not diminish its significance within the budget. On the other hand, the tax revenue structure changed in 2007 in a way that corporate income tax increased its share in total revenue, and thereby its significance within the budget compared to preceding years, while at the same time the share of personal income tax decreased its share in total revenue.

Figure 2.2 Tax Revenue Structure in 2007

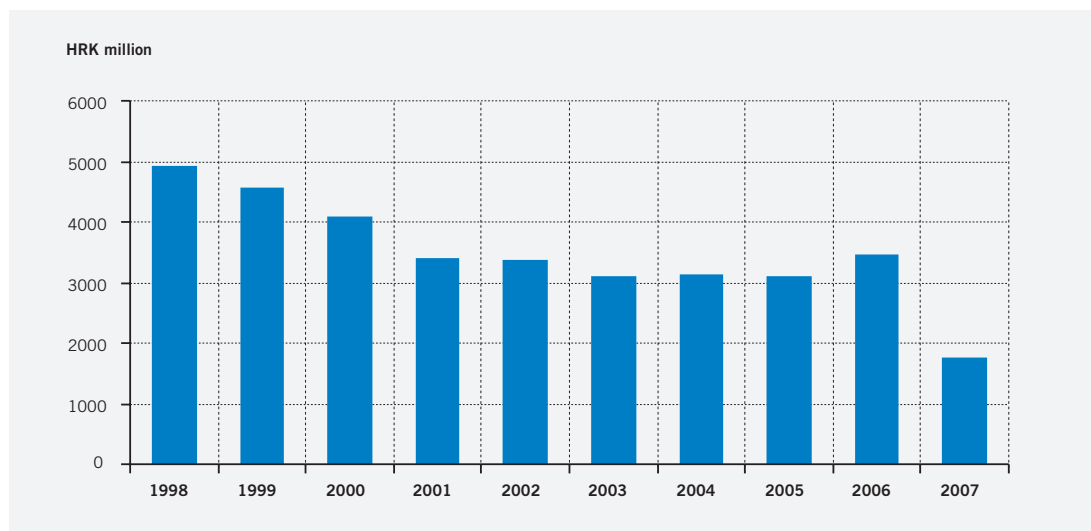


Source: Ministry of Finance



Personal Income Tax

Figure 2.3 Annual Outturns of the Personal Income Tax



Source: Ministry of Finance

Personal income tax revenue is shared between the budgetary central government and local units. However, at the beginning of 2007 the amendments to the Act on the Financing of Local Government were adopted. According to those amendments, revenue from corporate income tax becomes in its entirety the revenue of the state budget, while the revenue from personal income tax is relinquished to local units.

A part of personal income tax revenues from the state budget directly belongs to the local government and a part through the transferred functions. The part which is paid through the transferred functions continues to be collected through the state budget.

Personal income tax revenue (the budgetary central government part) was collected in the amount of HRK 1.8 billion in 2007. Such an outturn represents an increase of 7.4% above the yearly plan, which implies the effect of the cumulative trend of increase in wages and annual reductions in unemployment. The largest part of collected personal income tax can be attributed to taxation of non-self-employment and taxation of self-activities, while lower amounts refer to taxation of property and property rights and taxation of capital.

Return of the personal income tax paid in 2007 is by 14.5% lower than in 2006. On the basis of annual personal income tax return applications made by citizens, the total of HRK 815.6 million was paid in 2007.

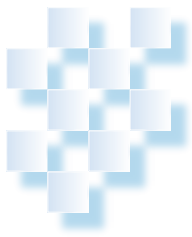
Personal income tax, in 2007, applied:

1. 15% rate for income up to the double amount of personal deduction,
2. 25% rate for the amounts between the double amount of personal deduction and five times the amount of personal deduction,
3. 35% rate was applied for the amounts over the five times the amount of personal deduction,
4. 45% rate was applied for higher wage levels.

Personal deduction in 2007 amounted to HRK 1.6 thousand.

To continue with the favourable collection of the personal income tax revenue in the following year, apart from the economic activity the measures aimed at the reduction of the tax evasion regarding the personal income tax need to be continued.

In addition to the aforementioned amendments to the Act on the Financing of Local Government, whereby the revenue from personal income tax is being relinquished to the local units, some other amendments in personal income tax system were introduced in 2007. In this respect the Ordinance on Amendments to the Ordinance on Personal Income Tax was adopted (Official Gazette, 68/07), and entered into force on July 2, 2007. With the aforementioned Ordinance the amounts of non-



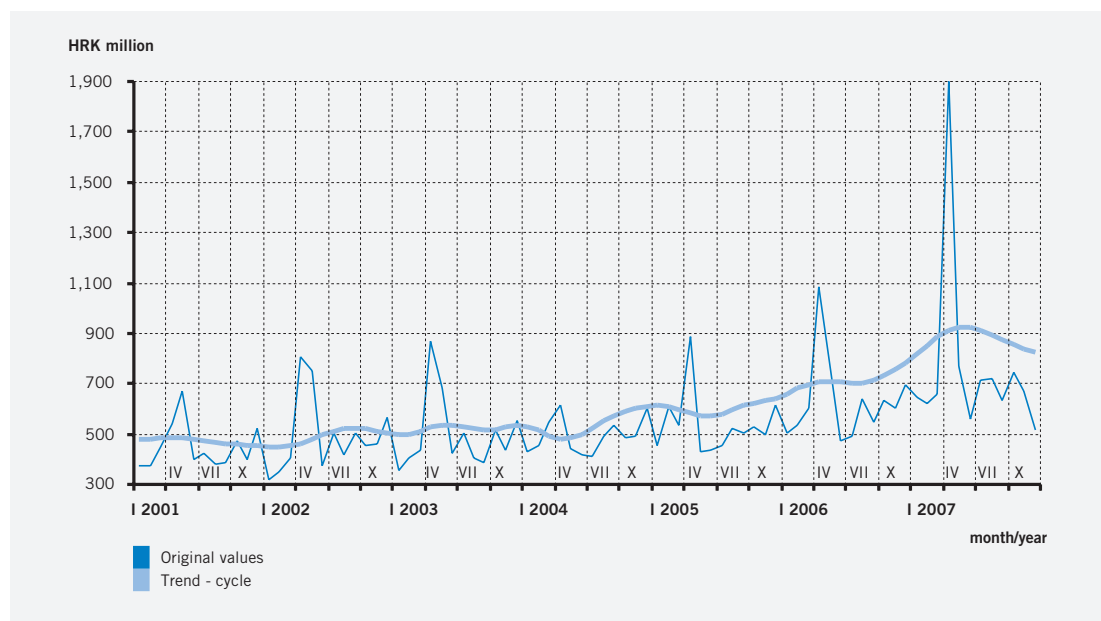
taxable compensations were changed, i.e. the amounts of non-taxable employee receipts were increased. Grant to the child below the age of 15 is increased from HRK 400 to HRK 600 per year. Occasional awards (Christmas bonus, vacation benefit etc.) were increased from HRK 2 thousand to HRK 2.5 thousand annually. The same Ordinance also regulates non-taxable compensation which employers may pay in favour of their employees, namely one-off financial aid for the birth of a child up to the amount of one budgetary unit pursuant to the special legislation.

Corporate Income Tax

Original plan for 2007 anticipated HRK 7.7 billion in revenue from corporate income tax. Supplementary budget increased the expected figure to HRK 8.4 billion primarily due to particularly good outturn in the first five months. Although there is a strong seasonal component in collection of the corporate income tax, where collection is much stronger in the first half of the year, it was even then possible to expect that the total outturn at the end of the year will exceed the original plan.

Revenue from the corporate income tax was collected in the amount of HRK 8.8 billion in 2007, which was 74.4% above the realization of the previous year and, at the same time, above the planned amount. Since in 2007 revenue from the corporate income tax became in its entirety the revenue of the budgetary central government, high annual growth was expected. However, the final realization was even higher than expected. Such a strong increase of the corporate income tax revenue is the result of the high increase in industrial production and business results in 2006.

Figure 2.4 Personal Income Tax and Corporate Income Tax, in real prices (average 2001=100)



Source: Ministry of Finance



In the course of 2006 amendments were introduced to the Act on Corporate Income Tax (Official Gazette 57/06). Those amendments refer to exclusion of some provisions from the Act on Corporate Income Tax:

- provisions regulating exemptions for tax payers which are registered solely for research and development activity;
- provisions regulating tax relieves, namely tax deductions associated with providing the investment incentives;
- provisions regulating the creation of incentives for those tax payers established for professional rehabilitation and employment of disabled persons;
- provisions regulating the deduction of the tax base for costs associated with the research and development and for the cost of wages and contributions paid out to and for new employees for the tax period, which are being paid out to the date of submission of the final tax report.

The above-mentioned amendments introduced changes to the provision regulating the deduction of the tax base for costs associated with education and specialization of employees as well. Those deductions and relieves are in practice regulated by other regulations such as the Act on Investment Stimulation.

Since the Act on Corporate Income Tax entered into force during the 2006, in 2007 the Ordinance on Amendments to the Ordinance on Corporate Income Tax was adopted (Official Gazette, 133/07) which entered into force on December 27, 2007. With the mentioned Ordinance, among other things, corporate income tax application form (PD form) has been changed with the aim of its alignment with special regulations which, along with the Act on Corporate Income Tax (Official Gazette, 177/04, 90/05 and 57/06), stipulate tax reliefs, benefits and stimulations.

Taxes on Property

Total revenue from taxes on property was planned in the amount of HRK 493.1 million in 2007, while the supplementary budget increased the expected amount to HRK 533.7 million primarily due to the exceptionally good outturn in the first six months of the year.

In 2007, revenue from taxes on property was collected in the amount of HRK 578.6 million, or HRK 45 million above the plan, which compared to 2006 represents an increase of 20.0%. Such a favourable increase is the result of the demand increase in real estate market.

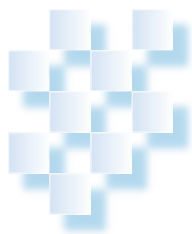
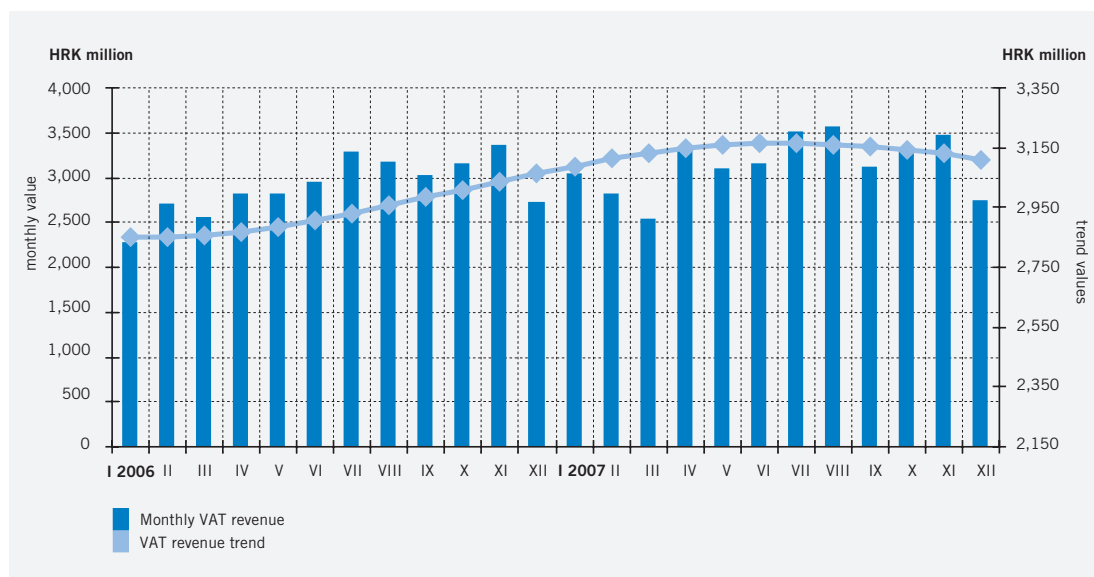
Value-Added Tax

Value-added tax is the most important budgetary central government revenue source, which in the structure of total tax revenue accounts for 58.8% speaking in favour of its importance within the budget.

In 2007, HRK 37.7 billion was collected on the basis of value-added tax, which represents an annual increase of 8.1%. However, despite the high annual growth, value-added tax revenue was collected by HRK 464.9 million below the plan. Compared to 2006, in 2007 value-added tax revenue realization is by HRK 3.3 billion higher. Such favourable trends of the value-added tax revenue are primarily the result of exceptional tourist season and strong economic activity throughout the whole year.

During the whole year, value-added tax revenue recorded very good results while major collections occurred in July and August as well as in October and November. Such dynamics is influenced primarily with the stronger economic activity in the second half of the year, good tourist season as well as the receipts from those tax payers who settle their value-added tax duty quarterly (those whose deliveries of goods and services do not exceed the amount of HRK 300 thousand annually).

Within the structure of value-added tax, the most important is the value-added tax from imports, which in 2007 accounts for 71.7% of total value-added tax revenue. Value-added tax revenue from imports exceeded its amount from 2006 by 10.5%.


Figure 2.5 Value-Added Tax Revenue Monthly Trends


Source: Ministry of Finance

Act on Amendments to the Act on Value-Added Tax and the Ordinance on Amendments to the Ordinance on Value-Added Tax which refer to abolishment of the zero tax rate for services of organized accommodation paid through transfers from abroad and to the introduction of the reduced rate of 10% for services of accommodation, accommodation with breakfast, half board and full board in all commercial tourist facilities, and for agency fees associated with those services, were adopted in 2006. The Act and the Ordinance entered into force on January 1, 2007. The base of products to which a reduced rate of 10% was being applied was expanded during 2007. In that respect, the Act on Amendments to the Act on Value-Added Tax (Official Gazette 76/07) and the Ordinance on Amendments to the Ordinance on Value-Added Tax (Official Gazette 79/07) were adopted, and entered into force on August 1, 2007. Thereby, taxation by reduced rate of 10% of newspapers and magazines being issued daily or periodically, save for those which fully or mainly comprise advertisements or serve for advertising has been introduced.

Excises

Total excise tax revenue was collected in the amount of HRK 12.2 billion in 2007, which compared to 2006 represents an increase of 5.2%. Such a realization is in the line with plan, i.e. HRK 40.1 million under the plan. Within the excise tax revenue structure all categories were realized with the annual growth.

Excise tax on tobacco products and excise tax on cars, motor vehicles, boats and airplanes contributed the most to the overall increase of total excise tax revenue.

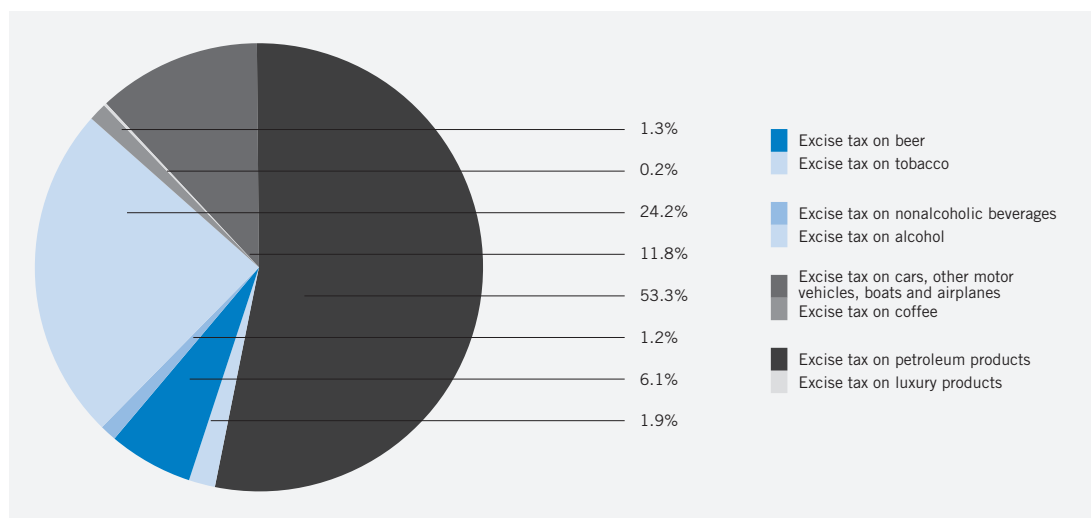
The most important excise tax, the one on oil derivatives, recorded an annual increase of 2.7% and was realized broadly in line with the planned amount.

**Table 2.2 Excise Tax Revenue Trends**

(000 HRK)	Outturn 2006	New Plan 2007	Outturn 2007	Index 07/06	Index 07/New Plan 07
Excises	11,564,709	12,208,771	12,168,666	105.2	99.7
- Excise tax on cars, other motor vehicles, boats and airplanes	1,270,422	1,453,306	1,433,427	112.8	98.6
- Excise tax on petroleum products	6,316,440	6,512,945	6,484,816	102.7	99.6
- Excise tax on alcohol	230,178	230,978	231,342	100.5	100.2
- Excise tax on beer	716,167	755,407	743,000	103.7	98.4
- Excise tax on nonalcoholic beverages	140,404	145,274	142,462	101.5	98.1
- Excise tax on tobacco	2,710,348	2,921,855	2,943,649	108.6	100.7
- Excise tax on coffee	156,666	163,147	161,936	103.4	99.3
- Excise tax on luxury products	24,084	25,859	28,033	116.4	108.4

Source: Ministry of Finance

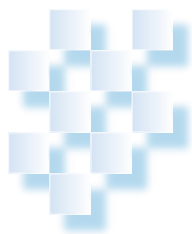
Compared to 2006, the highest increase was recorded in revenue from excise tax on cars (12.8%), excise tax on tobacco products (8.6%) and excise tax on luxury goods (16.4%). The share of excise tax revenue in total tax revenue decreased from 19.8% in 2006 to 18.9% in 2007. Within the structure of total excise tax revenue the most important is the revenue from excise tax on oil derivatives (53.3% of total excise revenue) and the revenue from excise tax on tobacco products (24.2% of total excise revenue).

Figure 2.6 The Structure of Excise Tax Revenues in 2007

Source: Ministry of Finance

As it was already mentioned, revenue from excise tax on oil derivatives accounts for the largest part of total excise tax revenue, and was collected in a total of HRK 6.5 billion in 2007.

The significant change in delivered quantities of oil derivatives in 2007 in comparison to the previous year is also to be mentioned. Namely, gasoline type MB-98 gradually disappears from the use and is replaced with the unleaded gasoline BMB. Delivered quantities of BMB recorded an increase of 3.8% in 2007 compared to 2006, while delivered quantities of diesel recorded an annual increase of 6.8%. At the same time, delivered quantities of blue diesel recorded an annual increase of 3.5%.


Table 2.3 Delivered Quantities of Oil Derivatives in 2006 and 2007

	Unleaded gasoline			DIESEL			BLUE DIESEL		
litres	2006	2007	Index 07/06	2006	2007	Index 07/06	2006	2007	Index 07/06
January	64,273,226	62,172,465	96.7	88,201,819	101,072,665	114.6	7,677,075	10,029,034	130.6
February	59,100,354	60,457,876	102.3	91,924,194	108,141,572	117.6	7,008,786	9,287,252	132.5
March	69,160,647	72,487,183	104.8	113,439,267	128,352,267	113.1	12,156,394	14,124,635	116.2
April	71,814,590	76,526,119	106.6	114,896,439	129,013,969	112.3	17,428,078	19,894,628	114.2
May	75,400,837	79,630,357	105.6	129,340,873	140,032,070	108.3	16,047,597	15,396,468	95.9
June	84,023,521	84,692,922	100.8	135,832,952	142,971,669	105.3	15,935,636	17,749,306	111.4
July	98,650,535	102,426,698	103.8	151,914,109	162,899,332	107.2	19,722,329	17,124,776	86.8
August	105,347,867	103,802,562	98.5	151,861,871	164,424,341	108.3	16,945,789	17,118,711	101.0
September	82,109,775	79,071,177	96.3	137,014,006	137,946,461	100.7	20,235,483	19,998,108	98.8
October	78,706,711	107,537,423	136.6	139,836,627	141,888,668	101.5	26,682,821	24,127,283	90.4
November	68,825,044	68,834,482	100.0	125,413,272	126,366,842	100.8	18,253,148	18,067,880	99.0
December	74,915,150	69,816,958	93.2	117,435,700	115,570,744	98.4	10,490,771	12,305,442	117.3
TOTAL	932,328,257	967,456,222	103.8	1,497,111,128	1,598,680,600	106.8	188,583,907	195,223,523	103.5

Source: Ministry of Finance - Customs Administration

Revenue from excise tax on tobacco products accounts for 24.2% in the structure of total excise tax revenue and is the second most important excise tax. In 2007, a slight increase in the share of revenue from excise tax on tobacco can be noted. This revenue was collected in the amount of HRK 2.9 billion in 2007 which corresponds to an annual increase of 8.6%.

Compared to the plan, this revenue was collected by HRK 22 million above the plan.

Tobacco products retail trade in 2007 increased by 4.8% compared to 2006. It is notable that growth in tobacco products revenue is in line with the growth of tobacco trade.

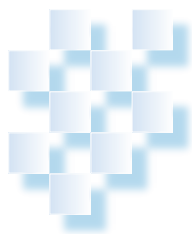
Trends in tobacco products production are to be noted as well. Namely, production of tobacco products intended for export increased by 1.8% in 2007, while at the same time production intended for the domestic market retained the last year's level, i.e. decreased by 0.2%. Import quantities increased by high 21.4% annually.



Table 2.4 Produced Quantities of Cigarettes for Domestic Market and Export, and Import of Foreign Cigarettes in Packages for 2006 and 2007

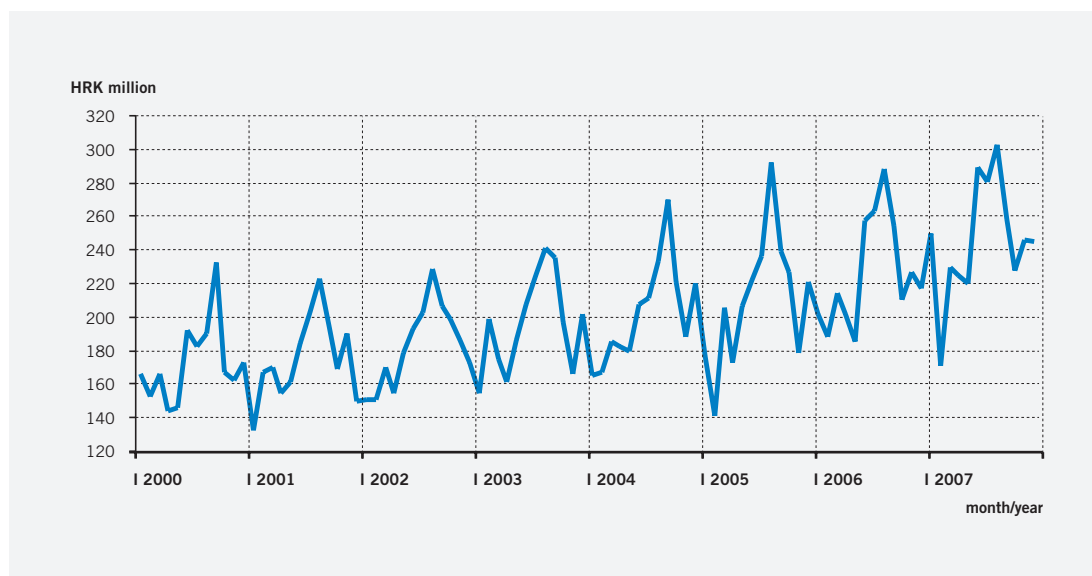
packages	Production for domestic market			Production for export			Total production			Import of cigarettes		
	2006	2007	Index 07/06	2006	2007	Index 07/06	2006	2007	Index 07/06	2006	2007	Index 07/06
January	27,402,625	25,123,590	91.7	21,675,250	15,726,250	72.6	49,077,875	40,849,840	83.2	3,262,500	3,472,000	106.4
February	25,791,998	25,040,482	97.1	26,357,756	27,185,290	103.1	52,149,754	52,225,772	100.1	3,195,200	3,270,730	102.4
March	30,008,588	29,991,200	99.9	35,078,500	26,506,109	75.6	65,087,088	56,497,309	86.8	2,958,400	5,000,250	169.0
April	21,222,763	25,893,909	122.0	22,606,000	29,232,250	129.3	43,828,763	55,126,159	125.8	3,180,000	4,709,400	148.1
May	33,187,792	39,052,236	117.7	31,096,750	32,515,325	104.6	64,284,542	71,567,561	111.3	3,776,500	5,384,100	142.6
June	31,501,825	30,484,618	96.8	27,471,750	33,281,955	121.1	58,973,575	63,766,573	108.1	5,785,000	5,843,500	101.0
July	35,244,182	33,381,461	94.7	32,145,150	35,434,875	110.2	67,389,332	68,816,336	102.1	6,476,500	7,856,900	121.3
August	33,700,308	33,621,859	99.8	37,783,613	35,142,520	93.0	71,483,921	68,764,379	96.2	6,700,500	7,810,000	116.6
September	26,632,575	24,627,748	92.5	31,161,087	31,358,017	100.6	57,793,662	55,985,765	96.9	3,206,750	4,253,108	132.6
October	29,351,455	31,777,338	108.3	24,738,769	36,274,451	146.6	54,090,224	68,051,789	125.8	4,518,350	6,292,750	139.3
November	28,701,722	31,317,176	109.1	38,642,750	31,028,910	80.3	67,344,472	62,346,086	92.6	4,623,000	4,641,550	100.4
December	31,700,198	23,550,154	74.3	35,820,000	37,436,397	104.5	67,520,198	60,986,551	90.3	4,809,600	5,185,050	107.8
TOTAL	354,446,031	353,861,771	99.8	364,577,375	371,122,349	101.8	719,023,406	724,984,120	100.8	52,492,300	63,719,338	121.4

Source: Ministry of Finance - Customs Administration



From the previous table it can be seen that the import of foreign cigarettes in 2007 increased considerably, while at the same time total production retained almost the same level as in previous year, i.e. increased by only 0.8%. The decrease relates primarily to the production intended for domestic market, since the production for foreign market increases.

Figure 2.7 Excise Taxes on Tobacco Monthly Trends



Source: Ministry of Finance

The third excise tax revenue in size is the revenue from excise tax on cars, other motor vehicles, boats and airplanes. This revenue showed increasing trend of its share in total excise tax revenue. Namely, 2007 showed an increase of the share of this revenue of 0.8 percentage points. Revenue from excise tax on cars, other motor vehicles, boats and airplanes was collected in the amount of HRK 1.4 billion in 2007 which corresponds to a high annual increase of 12.8%. Such a significant increase is the result of considerable increase in car sales in Croatia.

All other excise taxes have significantly lower share in total excise revenue, and thereby lower importance within the budgetary central government revenue. All other excise taxes contributed to the total revenue with the amount of HRK 1.3 billion.

Revenue from excise tax on non-alcoholic beverages was collected in the amount of HRK 142.5 million, thus recording an increase of 1.5% compared to 2006. At the same time such a realization is HRK 2.8 million below the plan. Delivered quantities of non-alcoholic beverages in 2007 recorded an increase of 3.9% when compared to 2006.

Revenue from excise tax on luxury goods was collected in the amount of HRK 28.0 million, thus recording an increase of 16.4% compared to 2006, or realization of 8.4% above the plan.

The share of revenue from excise tax on non-alcoholic beverages and the share of revenue from excise tax on luxury goods averaged 1.2% and 0.2% respectively.

Revenue from excise tax on coffee was collected in the amount of HRK 161.9 million recording an increase of 3.4% compared to 2006. This revenue was collected in compliance with the plan.

Regarding data on sales of coffee in 2007, a drop of 20.5% in sold quantities of unrefined coffee can be seen, while an annually decrease of sold quantities of refined coffee amounted to 8.1%.

In 2007, revenue from excise tax on beer recorded an annual increase of 3.8% and was collected in the amount of HRK 743.0 million.

Delivered quantities of beer were by 2.6% higher compared to the same period of the previous year. Delivered quantities of beer recorded increase on the monthly basis compared to the previous year in most periods of the year, except in April, June, September and October.

**Table 2.5 Delivered Quantities of Beer in 2005 - 2007 Period**

hectolitres	2005	2006	2007	Index 07/06
January	129,761	121,386	154,185	127.0
February	168,187	174,719	204,674	117.1
March	238,590	225,268	256,874	114.0
April	303,315	321,308	303,968	94.6
May	365,685	352,275	411,002	116.7
June	477,169	464,521	443,082	95.4
July	421,761	475,290	495,445	104.2
August	452,526	457,614	473,200	103.4
September	297,560	295,660	273,071	92.4
October	254,873	282,142	271,145	96.1
November	221,674	224,902	229,386	102.0
December	279,687	289,841	264,725	91.3
TOTAL	3,610,789	3,684,926	3,780,757	102.6

Source: Ministry of Finance - Customs Administration

Revenue from excise tax on alcohol was collected in the amount of HRK 231.3 million, which is approximately the same as in the previous year, i.e. 0.5% higher. Such a realization is compliant with the plan.

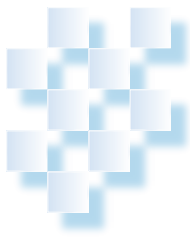
It is worth mentioning that in 2007 delivered quantities of alcoholic beverages grew by 6.1% while at the same time delivered quantities of alcohol fell by 42.8% which ultimately resulted in the low annual increase in revenue from this source.

The level of delivered quantities of alcoholic beverages exceeded the levels from 2006 throughout the whole year except in May, August and September. The highest increases in delivered quantities were recorded in March and April.

Table 2.6 Delivered Quantities of Alcoholic Drinks in 2005 - 2007 Period

hectolitres	2005	2006	2007	Index 07/06
January	209,746	220,605	236,303	107.1
February	222,352	241,137	249,095	103.3
March	253,920	278,458	315,918	113.5
April	245,648	275,004	381,452	138.7
May	320,315	371,233	335,591	90.4
June	361,249	383,536	387,648	101.1
July	392,448	391,970	436,153	111.3
August	396,888	422,064	411,681	97.5
September	308,153	350,748	342,868	97.8
October	273,333	295,843	318,809	107.8
November	303,058	364,676	368,754	101.1
December	456,785	451,926	508,853	112.6
TOTAL	3,743,895	4,047,201	4,293,124	106.1

Source: Ministry of Finance - Customs Administration

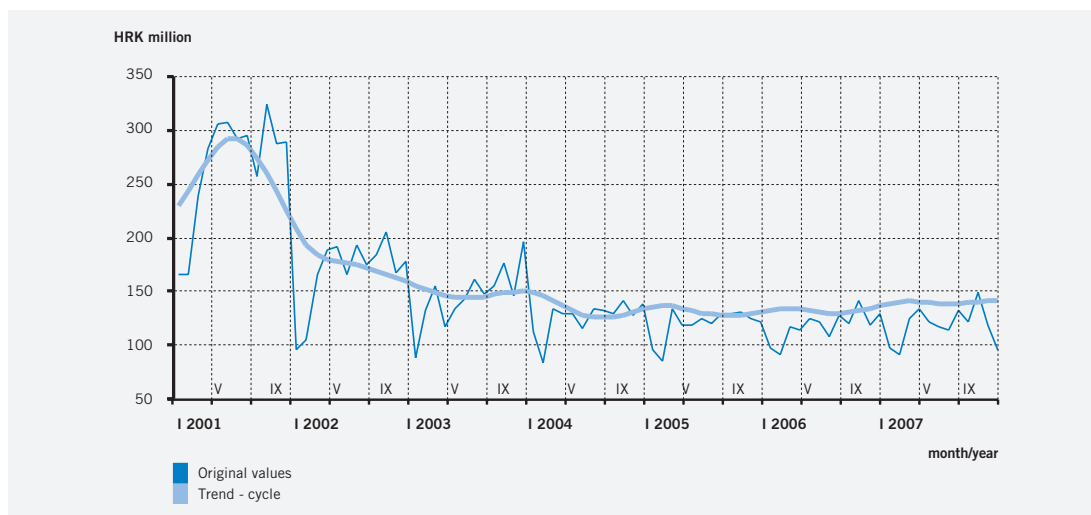


Customs

In 2007, total revenue from taxes on international trade and transactions was collected in the amount of HRK 1.6 billion, which represents an annual increase of 3.3%. Customs revenue exceeded the annual plan for 2007 by HRK 26.4 million. The share of customs revenue in total tax revenue amounted to 4.8% in 2002, while in following years it has been recording a constant decrease. Therefore, in 2007 it amounted to 2.6%. The similar trend of decline in importance of this revenue source within the budget can be expected in forthcoming years as well.

With the purpose of developing the international cooperation, in last several years negotiations on avoidance of the double taxation with different countries have been conducted. Also, Croatia has concluded numerous agreements on free trade, which facilitated both imports and exports, but also caused the reduction in revenue from customs when compared with the years preceding these agreements. The practice of fostering the international cooperation continued in 2007. Therefore, the new Agreement on Avoiding the Double Taxation and Prevention of Avoiding the Income Taxation was concluded with Denmark in Copenhagen (September 14, 2007), which will after the ratification in Croatian Parliament replace former agreement taken over from the former SFRY.

Figure 2.8 Customs Revenue Monthly Trends, in constant prices (average 2001 = 100)



Source: Ministry of Finance

Other Taxes

In 2007, the total of HRK 325.4 million was collected on the basis of other taxes, which compared to the previous year represents a decrease of 3.3%. Other taxes include state and court fees.

It is also important to mention some legal amendments to the tax system, which are not directly connected with any of the key tax forms and which were introduced during 2007. Namely, by Decision of the Constitutional Court of the Republic of Croatia from February 21, 2007, the procedure for estimation of compliance with the Constitution was launched and the articles of the Act on the Financing of Local Government concerning uncultivated agricultural land tax, unused enterprise real estate tax and unused construction land tax were abolished. Those abolished regulations ceased to be in force as of the day of announcement of Decision of the Constitutional Court in Official Gazette on March 12, 2007.

2.1.2.2 Social Security Contributions

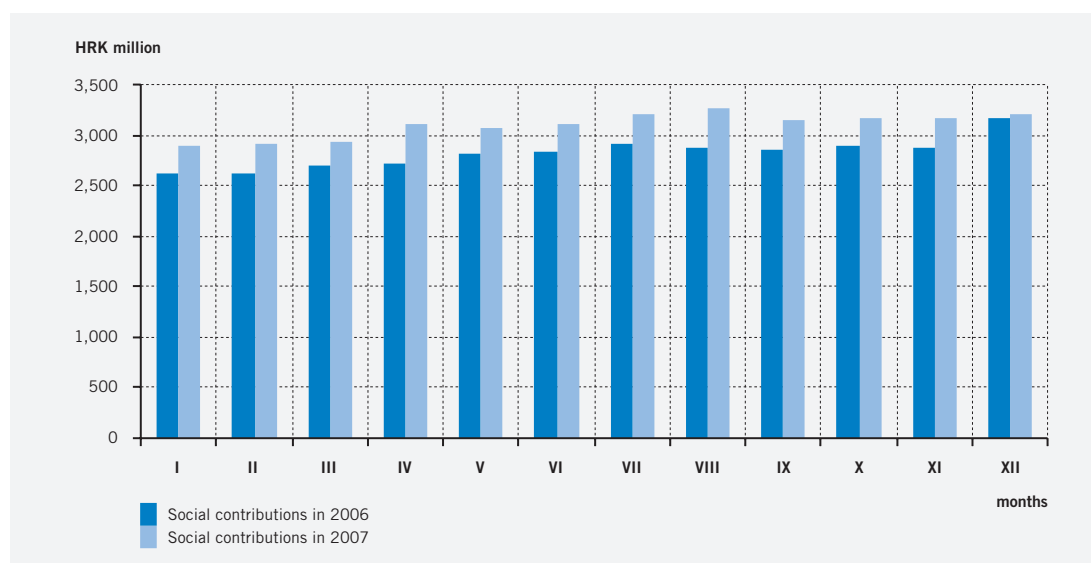
The total of HRK 37.2 billion was collected from social security contributions in 2007, which represents an annual increase of 9.8%, exceeding the annual plan by HRK 87.5 million. Revenue from social security contributions showed the strong correlation with the economic activity throughout the year 2007, especially the correlation with the increasing trend in employment and the trend of the gross wage.



Within the structure of social security contributions the largest part relates to employer contributions (48.5%). Employer contributions in 2007 amounted to HRK 18.1 billion, which represents an annual increase of 10.3% and a realisation close to the planned level. Within the structure of employer contributions, the largest part relates to contributions for health insurance, which in 2007 accounted for more than 80% of total employer contributions. The reminder of the employer contributions refers to contributions for pension insurance and the employment insurance. At the same time, employee contributions recorded an annual increase of 9.7% and accounted for 44.6% of total social security contributions. In 2007, these contributions were collected in the amount of HRK 16.6 billion. Contrary to employer contributions, employee contributions largely refer to contributions for pension insurance while only a small portion (0.5%) refers to mandatory health insurance. Social contributions from self-employed and unemployed persons account for the smallest part of total social security contributions, namely only 6.8%. In 2007, these contributions were collected in the amount of HRK 2.5 billion which represents an annual increase of 7.2%. These contributions in almost the same ratio refer to contributions for health and pension insurance of the self-employed persons.

It is worth mentioning that certain contributions have different dynamics. The reason is that contributions for health insurance are constantly being the revenue of the state budget while contributions for pension insurance are only partly the revenue of the state budget since these contributions partly outflow to the private sector to the second pension insurance pillar. Apart from that, the number of persons paying only to the first pillar is constantly decreasing while the number of those contributing to both pillars is increasing. Hence, also in the future the lower rates of increase in contributions for pension insurance compared to rates of increase in contributions for health insurance and employment insurance can be expected.

Figure 2.9 Social Contributions Revenue Trends in 2006 and 2007, by Months

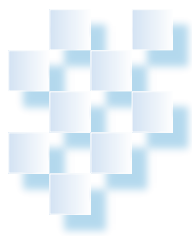


Source: Ministry of Finance

2.1.2.3 Grants

In 2007, grant revenue amounted to HRK 428.0 million. Grants mainly related to grants from international organizations (92.5%) which amounted to HRK 395.8 million and were mainly realised as the current grants (66.2%), while the reminder referred to capital grants.

Grants, other than from international organizations, refer to grants from foreign governments and grants within the general government budget.



2.1.2.4 Property Income

Total property income (financial and nonfinancial) was planned in the amount of HRK 3.4 billion, and was collected in the amount of HRK 3.5 billion. Within the structure of property income the largest part relates to rents, which in 2007 accounted for even 58.1% of total property income. Within the revenue from rent, the most important is the revenue from concessions, which in 2007 amounted to HRK 1.9 billion, being the result of payments on the basis of concessions for motorways. Apart from the aforementioned concessions, in 2007 revenue was realized on the basis of following concession categories: concessions for frequencies, concessions for the use of water and public water wealth, monthly concessions for casinos, maritime concessions, concession in public roads use, concessions for customs zones and other concessions.

Within the structure of revenue from rents, the revenue from lease and renting of assets and other nonfinancial property income is included as well. In 2007 revenue collected on the basis of lease and renting totalled HRK 72.4 million. The largest share in this amount relates to renting the agricultural land, real estate, indemnities for the use of agricultural land property of the Republic of Croatia and indemnities for the use of forest property of the Republic of Croatia. Other nonfinancial property income was collected in the amount of HRK 189.5 million in 2007 with monument rent being the largest item followed by indemnities for the use of oil harbours and oil pipes. Apart from the aforementioned categories, other nonfinancial property income comprises also hunting indemnities, fishing indemnities, revenue from the use of cultural goods and the revaluated amount of real estate debt.

The second property income revenue in size is the revenue from dividend, which totalled HRK 1.2 billion in 2007.

Revenues from interests totalled HRK 164.6 million and comprised interest on given loans, interest on securities, interest on certificate deposits and demand deposits and penalty interest fees.

Revenues from income of public companies and banks in government ownership totalled HRK 117.2 million in 2007. This revenue mainly originates from the revenue from income of the CNB and the FINA.

Table 2.7 Property Income Revenue Outturn

HRK thousand	2006	2007	Index 07/06
Property income	833,321	3,526,540	423.2
Interest	108,231	164,558	152.0
Dividends	18,757	1,194,582	6.368.9
Withdrawals from income of quasi-corporations	288,113	117,730	40.9
Property income attrib. to insurance policyholders	0	0	-
Rent	418,220	2,049,670	490.1

Source: Ministry of Finance



2.1.2.5 Sales of Goods and Services

Revenue from sales of goods and services in 2007 totalled HRK 1.5 billion and was collected in compliance with the plan. At the same time it recorded a strong annual increase of 26.2%. Revenue from sales of goods and services is realized based on administrative fees and incidental sales by nonmarket establishments. Administrative fees were collected in the amount of HRK 1.3 billion in 2007, which is 60.4% more than in the previous year. Incidental sales were realized in the amount of HRK 208.6 million in 2007 or 46.2% less than in the previous year. The largest share in the structure of this revenue belongs to revenue from conducting own activities.

A decrease in revenues from incidental sales by nonmarket establishments and significant growth in revenues from administrative fees is, in the first line, the result of technical change in a state budget, i.e. closure of extra-budgetary users' accounts and reallocation of revenues being at those accounts, as well as inclusion of social security funds into the State Treasury System. Thereby, one part of extra-budgetary users revenue, which had been, till then, recorded as revenue from incidental sales has been redistributed. In addition, revenues which budgetary users had on their own accounts which were out of the coverage of the Treasury System and which were thus not classified as budgetary central government revenues, have been included in budgetary central government.

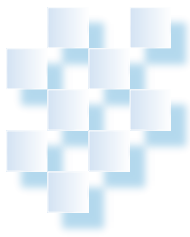
Revenues from administrative fees in 2007 were collected on the basis of health fees, public notary fees, sales of state stamps, fees for government issued guarantees, monument rent fees, rents for issuance of the long term securities, fees for border crossing, fees paid by persons in transit, fees in the area of industrial property and other fees.

2.1.2.6 Revenue from Fines, Penalties and Forfeits

Revenue from fines, penalties and forfeits was planned in the amount of HRK 421.3 million in 2007 and were collected 1.8% above the plan, namely in the amount of HRK 429.0 million. Compared to 2006, such an outturn represents an increase of 9.6%. The largest share in this revenue (50.6%) belongs to traffic fines. The total revenue in the amount of HRK 217.3 million was collected from traffic fines in 2007, which represents an increase of 6.6% compared to 2006. Customs fines follow, with the share of 9.2% and the realization in the amount of HRK 39.6 million, which represents an annual increase of 6.8%. As well, tax fines should be outlined which in 2007 recorded an increase of 33.3%. Other fines have smaller shares in total revenue from fines.

Voluntary transfers other than grants were realized in the amount of HRK 11.2 million. These transfers were realized as capital and current donations from legal and natural persons outside the general government where larger amount came from current donations (76.7%).

During 2007, miscellaneous and unidentified revenue was under strongest influence of the budgetary users' accounts closure process and their inclusion into State Treasury System, as well as the inclusion of Social Security Funds (Croatian institute for Pension Insurance, Croatian Health Insurance Institute and Croatian Employment Service) into Treasury System. Namely, the largest part of revenues from the above-mentioned accounts was transferred to miscellaneous and unidentified revenues. The largest part of revenues from Social Security Funds was transferred to that item as well, because revenues from additional health insurance were recorded under this item, which until 2007 had not been classified as the budgetary central government revenues. Therefore, miscellaneous and unidentified revenue was collected in the amount of HRK 961.1 million in 2007, which is a manifold increase when compared to the previous year when it was collected in the amount of HRK 253.3 million. Within this revenue category, apart from the already mentioned revenue from additional health insurance, revenues from fire insurance, expense remunerations from previous years, positive exchange rate differences, insurance against damage and other unidentified revenues were collected.



2.2 BUDGETARY CENTRAL GOVERNMENT EXPENSE IN 2007

2.2.1 Budgetary Central Government Expense Plan

Croatian Parliament adopted the State Budget of the Republic of Croatia for 2007 on its session of December 1, 2006. Total expense plan for 2007 was set at HRK 103.9 billion which represented an annual increase of 8.2% compared to the outturn of 2006. During the first half of 2007, budgetary central government revenue was collected considerably better than planned based upon stronger economic activity and the measures aimed at better revenue collection. Higher revenue made it possible to increase the level of expense in line with the need while the part of the excess revenue was possible to use for a stronger fiscal consolidation, namely for a stronger reduction of the fiscal deficit than originally planned. Hence, on its session of July 13, 2007, the Croatian Parliament adopted Amendments to the State Budget of the Republic of Croatia whereby revenue plan was revised to a higher expected level by HRK 5.0 billion totaling HRK 108.5 billion while total expense plan was set at the level of HRK 108.4 billion, namely expense plan was increased by HRK 4.6 billion. At the same time, plan of disposals of nonfinancial assets was increased by HRK 161.5 billion compared to the original plan while the plan of acquisitions of nonfinancial assets was increased by HRK 149.6 million. With the supplementary budget, compensation of employees was increased by HRK 673.8 million, use of goods and services was increased by HRK 253.3 million, interest expense was reduced by HRK 22.7 million, subsidies were increased by HRK 201.0 million, grants were increased by HRK 1.7 billion, social benefits were increased by HRK 2.0 billion while other expense was reduced by HRK 175.1 million.

2.2.2 Outturn of the Budgetary Central Government Expense

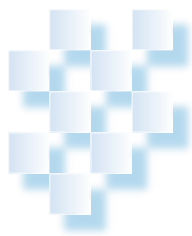
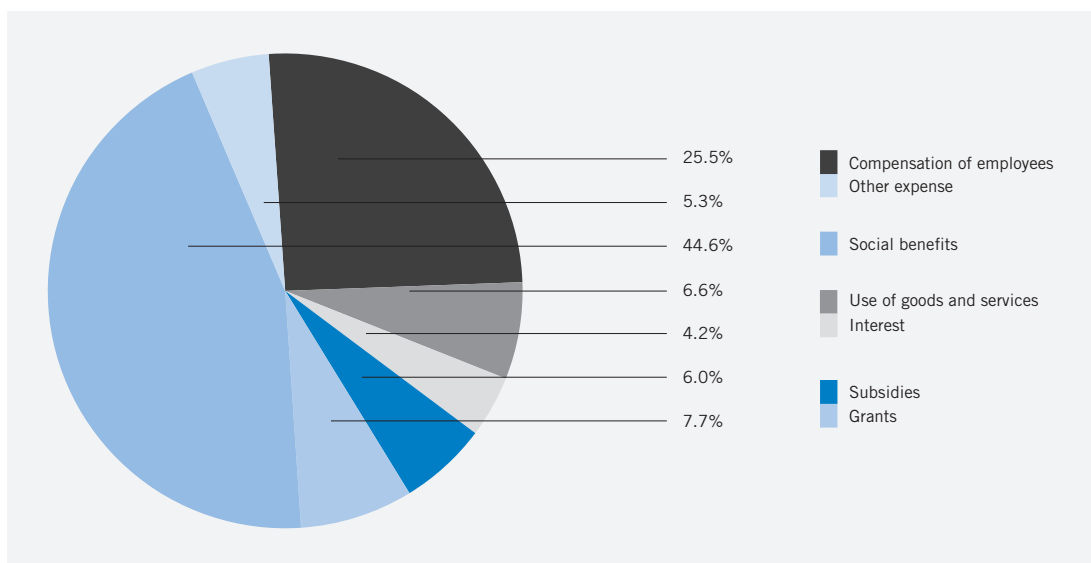
Total budgetary central government expense was realized in the amount of HRK 108.0 billion. Such an outturn represents an increase of 12.6% compared to 2006 and at the same time represents the outturn below the plan for 2007 by 0.4%. The final expense realization was by HRK 439.8 million below the plan for 2007, while observing the structure of expense it can be seen that all of the expense categories except compensation of employees, subsidies and other expense were realized below the plan.

**Table 2.8 Budgetary Central Government Expense 2005 - 2007**

(000 HRK)		2005	2006	Plan 2007	2007	Index 2007 / 2006	Index 2007 / Plan 2007
2	EXPENSE	87,857,464.9	95,949,950.9	108,447,435.3	108,007,604.7	112.6	99.6
21	Compensation of employees	23,182,585.9	24,313,867.4	27,477,951.6	27,545,141.2	113.3	100.2
211	Wages and salaries	19,699,216.4	20,663,890.0	23,113,401.3	23,237,088.2	112.5	100.5
212	Social contributions	3,483,369.5	3,649,977.4	4,364,550.3	4,308,053.0	118.0	98.7
2121	Actual social contributions	3,483,369.5	3,649,977.4	4,364,550.3	4,308,053.0	118.0	98.7
22	Use of goods and services	4,951,917.4	6,069,116.2	7,702,324.6	7,162,402.2	118.0	93.0
24	Interest	4,387,009.7	4,713,615.3	4,586,816.8	4,535,007.5	96.2	98.9
241	To nonresidents	2,053,587.9	1,863,999.2	1,686,209.0	1,672,563.1	89.7	99.2
242	To residents other than general government	2,333,421.8	2,849,616.1	2,900,607.8	2,862,444.4	100.5	98.7
25	Subsidies	5,248,743.7	5,670,788.5	6,017,758.8	6,492,010.1	114.5	107.9
251	To public corporations	2,784,825.0	2,692,784.7	2,827,516.0	3,007,098.6	111.7	106.4
252	To private enterprises	2,463,918.7	2,978,003.8	3,190,242.8	3,484,911.5	117.0	109.2
26	Grants	3,796,846.7	6,652,993.9	8,513,643.0	8,363,201.9	125.7	98.2
261	To foreign governments	73,639.3	64,794.9	93,950.0	103,409.7	159.6	110.1
2611	Current	49,174.0	37,760.4	69,650.0	75,261.1	199.3	108.1
2612	Capital	24,465.3	27,034.5	24,300.0	28,148.6	104.1	115.8
262	To international organizations	93,831.7	89,618.5	73,440.1	73,940.6	82.5	100.7
2621	Current	93,831.7	89,618.5	73,440.1	73,940.6	82.5	100.7
263	To other general government units	3,629,375.7	6,498,580.5	8,346,252.9	8,185,851.6	126.0	98.1
2631	Current	2,623,246.2	2,663,155.5	2,451,058.2	2,305,125.2	86.6	94.0
2632	Capital	1,006,129.5	3,835,425.0	5,895,194.7	5,880,726.4	153.3	99.8
27	Social benefits	41,358,454.8	43,444,589.3	48,538,709.9	48,175,988.9	110.9	99.3
271	Social security benefits	29,308,716.4	30,535,396.3	34,499,553.0	34,167,893.8	111.9	99.0
272	Social assistance benefits	11,792,075.3	12,786,632.4	13,919,089.6	13,815,777.0	108.0	99.3
273	Employer social benefits	257,663.1	122,560.6	120,067.3	192,318.1	156.9	160.2
28	Other expense	4,931,906.7	5,084,980.3	5,610,230.6	5,733,852.9	112.8	102.2
281	Property expense other than interest	4,919.8	7,599.8	0.0	1,132.4	14.9	
282	Miscellaneous other expense	4,926,986.9	5,077,380.5	5,610,230.6	5,732,720.5	112.9	102.2
2821	Current	2,154,806.2	2,304,213.5	2,618,498.0	2,837,556.6	123.1	108.4
2822	Capital	2,772,180.7	2,773,167.0	2,991,732.6	2,895,163.9	104.4	96.8

Source: Ministry of Finance

Within the structure of budgetary central government expense in 2007, it can be seen that the largest share relates to social benefits, with the share of 44.6% in total expense. Compensation of employees follows with a share of 25.5% in total expense. Hence, these two largest expense categories account for almost three quarters of total budgetary central government expense in the observed period.


Figure 2.10 Structure of Budgetary Central Government Expense in 2007


Source: Ministry of Finance

2.2.2.1 Compensation of Employees

Pursuant to the supplementary budget for 2007, total expense plan for compensation of employees was set at the level of HRK 27.5 billion. According to the final data for 2007, total compensation of employees amounted to HRK 27.5 billion, which was by HRK 67.2 million above the plan for the observed period. Within the structure of the realized expense for compensation of employees in 2007 the largest part related to wages and salaries, while the reminder related to social contributions. Hence, out of total compensation for employees, HRK 23.2 billion or almost 84.4% related to wages and salaries while the remaining 15.6% or HRK 4.3 billion related to social contributions.

Table 2.9 Compensation of Employees 2005 - 2007

(000 HRK)		2005	2006	2007	Index 2006 / 2005	Index 2007 / 2006
21	Compensation of employees	23,182,585.9	24,313,867.4	27,545,141.2	104.9	113.3
211	Wages and salaries	19,699,216.4	20,663,890.0	23,237,088.2	104.9	112.5
212	Social contributions	3,483,369.5	3,649,977.4	4,308,053.0	104.8	118.0

Source: Ministry of Finance

2.2.2.2 Use of Goods and Services

Pursuant to the supplementary budget for 2007, total expense for use of goods and services was planned in the amount of HRK 7.7 billion. According to the final data for 2007, this expense category amounted to HRK 7.2 billion or HRK 539.9 million below the supplementary budget plan for 2007 (93.0% of the plan). At the same time such an outturn represents increase of 18.0% compared to the previous year.

Observing the structure of use of goods and services, it can be seen that only several of most important categories of use of goods and services account for more than a half of total expense for use of goods and services. These categories are office equipment, energy, military equipment, current and investment maintenance services, telephone and postal expenses as well as expenses for transportation, intellectual, personal and other services and bank services and payment system services.



2.2.2.3 Interest

According to the final data for 2007, interest expense was realized in the amount of HRK 4.5 billion, which represents an outturn of HRK 51.8 million or 1.1% below the plan. Compared to 2006, interest expense recorded a decrease of 3.8%. Considering domestic and foreign component of interest expense, it can be seen that domestic interest expense was realized above the expense for foreign interest as well as it was the case in 2006 and 2005, while in previous years, expense for foreign interest prevailed.

Table 2.10 Interest Expense 2005 - 2007

(000 HRK)		2005	Structure	2006	Structure	2007	Structure
24	Interest	4,387,009.7	100.0	4,713,615.3	100.0	4,535,007.5	100.0
241	Foreign	2,053,587.9	46.8	1,863,999.2	39.5	1,672,563.1	36.9
242	Domestic	2,333,421.8	53.2	2,849,616.1	60.5	2,862,444.4	63.1

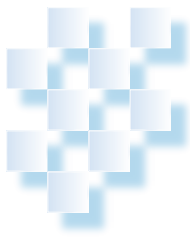
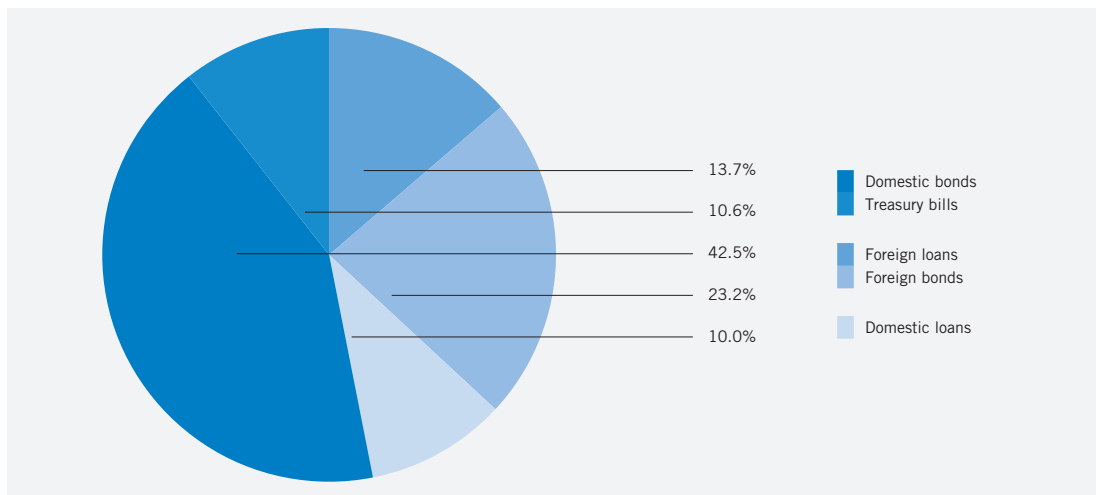
Source: Ministry of Finance

Regarding the structure of interest expense in 2007, it can be seen that the largest part of this expense relates to the interest for issued bonds. Thus, total of HRK 3.0 billion or 65.7% of total interest expense in 2007 can be attributed to interest for issued bonds. Out of this amount, the largest part relates to interest for foreign issued bonds. The reminder of interest expense above the amount for foreign and domestically issued bonds relates to interest for domestic and foreign loans and domestic treasury bills.

Table 2.11 Interest Expense Structure in 2006 and 2007

(000 HRK)	2006	2007
Interest expense	4,713,615.3	4,535,007.5
Foreign	1,863,999.2	1,672,516.1
Loans	628,687.3	620,348.4
Bonds	1,235,311.9	1,052,167.7
Domestic	2,849,616.1	2,862,491.4
Treasury bills	558,919.6	481,570.9
Loans	605,304.7	453,296.2
Bonds	1,685,391.8	1,927,624.3

Source: Ministry of Finance


Figure 2.11 Interest Expense Structure in 2007


Source: Ministry of Finance

2.2.2.4 Subsidies

Pursuant to the supplementary budget for 2007, total subsidies were planned in the amount of HRK 6.0 billion while according to the final data for 2007, total subsidies were realized in the amount of HRK 6.5 billion which represents an outturn by HRK 474.3 million or 7.9% above the plan for 2007. At the same time such an outturn represents an annual increase of 14.5%.

Table 2.12 Subsidy Expense 2005 - 2007

(000 HRK)		2005	2006	2007	Index 2006 / 2005	Index 2007 / 2006
25	Subsidies	5,248,743.7	5,670,788.5	6,492,010.1	108.0	114.5
251	To public corporations	2,784,825.0	2,692,784.7	3,007,098.6	96.7	111.7
252	To private enterprises	2,463,918.7	2,978,003.8	3,484,911.5	120.9	117.0

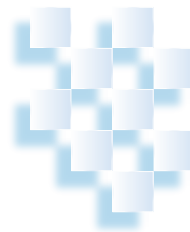
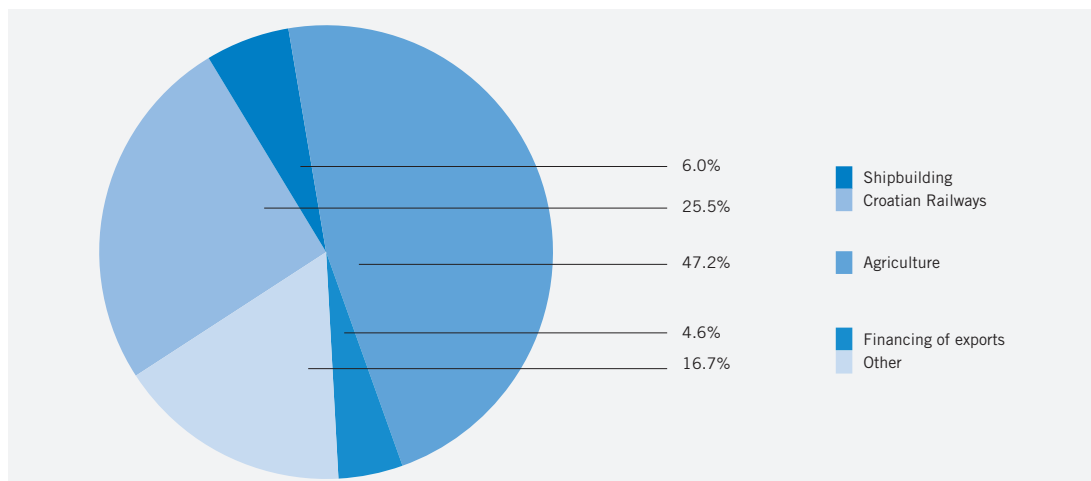
Source: Ministry of Finance

Within the structure of subsidies, in 2007 the largest share is attributed to subsidies to private enterprise (53.7% of total subsidy expense), of which the largest part relates to subsidies in agriculture. The remainder of 46.3% of total subsidy expense relates to subsidies to public corporations, of which the largest part relates to subsidies to Croatian Railways (25.5% of total subsidy expense). Subsidies to agriculture accounted for 47.2% of total subsidy expense in 2007.

Table 2.13 Subsidy Expense Structure in 2006 and 2007

(000 HRK)	2006	2007
Subsidies	5,670,788.5	6,492,010.1
Croatian Railways	1,603,373.0	1,655,699.8
Shipbuilding	479,158.8	390,920.3
Agriculture	2,436,383.3	3,063,450.2
Financing of exports	300,000.0	300,000.0
Other	851,873.4	1,081,939.8

Source: Ministry of Finance

**Figure 2.12 Subsidy Expense Structure in 2007**

Source: Ministry of Finance

2.2.2.5 Grants

Pursuant to the supplementary budget for 2007, total grants were set at HRK 8.5 billion.

Total grants consist of grants to foreign governments, grants to international organizations and grants within the general government. According to the final data for 2007, total grants were realized in the amount of HRK 8.4 billion, which was by HRK 150.4 million or 1.8% below the yearly plan. At the same time, total grants recorded an annual increase of 25.7%.

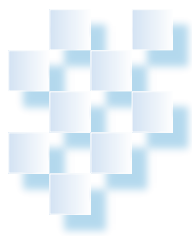
Within the structure of grants, the largest part (97.9%) related to grants within the general government. Within the consolidation on the level of consolidated central or general government, expenses for grants within the general government are consolidated (cancelled).

Table 2.14 Grants 2005 - 2007

(000 HRK)		2005	2006	2007	Index 2006 / 2005	Index 2007 / 2006
26	Grants	3,796,846.7	6,652,993.9	8,363,201.9	175.2	125.7
261	To foreign governments	73,639.3	64,794.9	103,409.7	88.0	159.6
262	To international organizations	93,831.7	89,618.5	73,940.6	95.5	82.5
263	To other general government units	3,629,375.7	6,498,580.5	8,185,851.6	179.1	126.0
2631	Current	2,623,246.2	2,663,155.5	2,454,326.9	101.5	92.2
2632	Capital	1,006,129.5	3,835,425.0	5,908,875.0	381.2	154.1

Source: Ministry of Finance

Considering the structure of grants within the general government as the largest part of total grants, it can be seen that the largest part (71.8%) relates to capital grants within the general government where the largest share relates to transfer of road charges. The remainder of 28.2% relates to current grants within the general government which mainly refer to expenses for decentralized functions, employment incentives, administrative and legal affairs and other.



2.2.2.6 Social Benefits

Social benefits account for the largest part of total budgetary central government expense. This expense category relates to social security benefits, social assistance benefits and employer social benefits. Supplementary budget for 2007 set the plan for social benefits at HRK 48.5 billion.

According to the final data for 2007, social benefits were realized in the amount of HRK 48.2 billion, which is by HRK 362.7 million or 0.7% less than the planned amount for 2007. At the same time, such an outturn represents an annual increase of 10.9%.

Table 2.15 Social Benefits 2005 - 2007

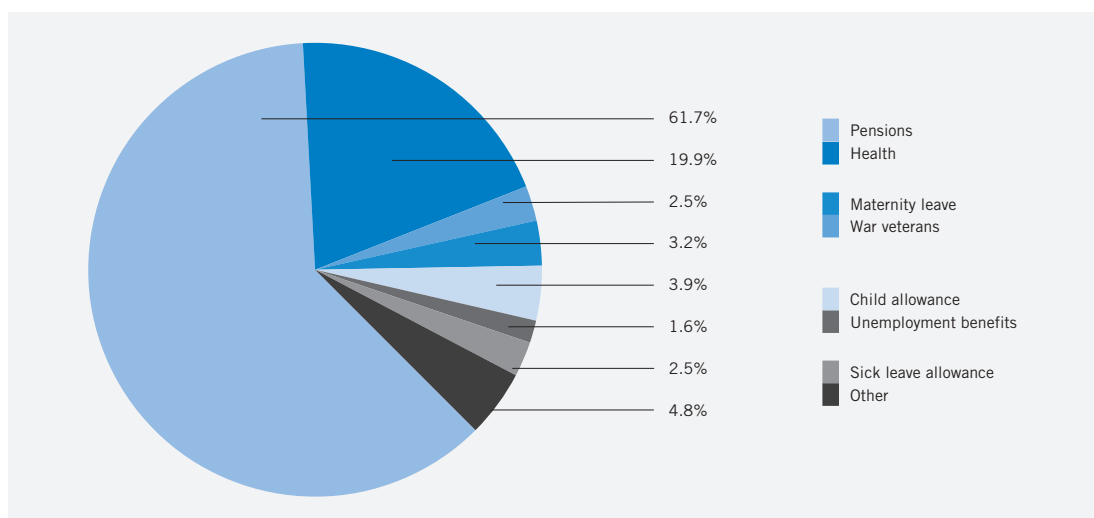
(000 HRK)		2005	2006	2007	Index 2006 / 2005	Index 2007 / 2006
27	Social benefits	41,358,454.8	43,444,589.3	48,175,988.9	105.0	110.9
271	Social security benefits	29,308,716.4	30,535,396.3	34,167,893.8	104.2	111.9
272	Social assistance benefits	11,792,075.3	12,786,632.4	13,815,777.0	108.4	108.0
273	Employer social benefits	257,663.1	122,560.6	192,318.1	47.6	156.9

Source: Ministry of Finance

The largest part of total social benefits traditionally relates to social security benefits. This category of social benefits accounted for 70.9% of the total social benefits in 2007. Within this category the largest part related to expenses for pensions and health system expenses. Social assistance benefits followed with the share in total social benefits of 28.7% in 2007, while the remaining part related to employer social benefits. Within the social assistance benefits we can find numerous expenses associated with social rights of which permanent veteran rights, child allowance, additional maternity leave and equipment for newborn children, care assistance and others should be outlined. The largest part of social assistance benefits related to veteran pensions, while the large part also related to pensions of some other pensioner groups such as ex Yugoslav army personnel, World War II veterans, ex political prisoners and others.

Within the structure of total social benefits, the most important part (62.0%), due to the amount, related to pensions. Health expense followed within the structure of total social benefits, which in 2007 accounted for 22.6% of total social benefits. Hence, it is obvious that just two expense categories, namely pensions and health, accounted for around 84.6% of total social benefits. The following figure shows the structure of social benefits in 2007.

Figure 2.13 Social Benefits Structure in 2007



Source: Ministry of Finance



Observing the structure of pension expense in 2007, it can be noticed that the largest part related to old-age pensions, family and disability pensions. These categories accounted for 61.4% of total social security benefits. War veteran pensions were realized in the amount of HRK 4.2 billion in 2007 and as such this expense represents an annual increase of 22.8%. The reminder of the pension expense related to other pension categories classified upon the beneficiary groups which received the pension, such as the ex Yugoslav army personnel, members of Croatian homeland army, members of Croatian Academy of Science and Art and others.

With regard to social benefits, it should be noted that a part of health system expenditure is included therein as well. It refers to the part of health expenditure which is according to GFS 2001 methodology reclassified in compensation of employees. Namely, budget secures resources for health over the 27 account (stands for social benefits). However, in those amounts a part of expenditure that is not a social benefit by nature is included. As those amounts are compensation of employees they are reclassified according to GFS 2001. Taking into account the entire health expenditure (including the part that is reclassified to compensation of employees) in 2007, total of HRK 17.8 billion was paid out for the health, which compared to the previous year represents an increase of 2.1%. On the other hand, the health expenditure presented without the part being reclassified to compensation of employees amounted to HRK 10.9 billion which represents an annual increase of 31.0%. It is worth mentioning that this expenditure includes HRK 1.2 billion used for paying off arrears to the health fund.

Maternity leave expense was realized in the amount of HRK 1.6 billion in 2007, which is 7.3% above the amount of the previous year. Total expense for unemployment benefits amounted to HRK 750.0 million in 2007. Of other important categories within the structure of social benefits one should mention child allowances, which in 2007 amounted to HRK 1.9 billion as well as sick leave compensations which amounted to HRK 1.3 billion.

2.2.2.7 Other Expense

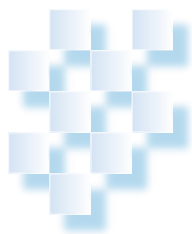
According to GFS 2001 methodology, other expense relates to property expense other than interest and miscellaneous other expense which includes other current and other capital expenses. Supplementary budget for 2007 set the plan for other expense at HRK 5.6 billion. According to the final data for 2007, total other expense was realized in the amount of HRK 5.7 billion which compared to the previous year represents an increase of 12.8%. At the same time, such an outturn represents an increase of 2.2% compared to the yearly plan. Other expense almost in the whole amount of HRK 5.7 billion relates to the category of miscellaneous other expense.

Table 2.16 Other Expense 2005 - 2007

(000 HRK)		2005	2006	2007	Index 2006 / 2005	Index 2007 / 2006
28	Other expense	4,931,906.7	5,084,980.3	5,733,852.9	103.1	112.8
281	Property expense other than interest	4,919.8	7,599.8	1,132.4	154.5	14.9
282	Miscellaneous other expense	4,926,986.9	5,077,380.5	5,732,720.5	103.1	112.9
2821	Current	2,154,806.2	2,304,213.5	2,837,556.6	106.9	123.1
2822	Capital	2,772,180.7	2,773,167.0	2,895,163.9	100.0	104.4

Source: Ministry of Finance

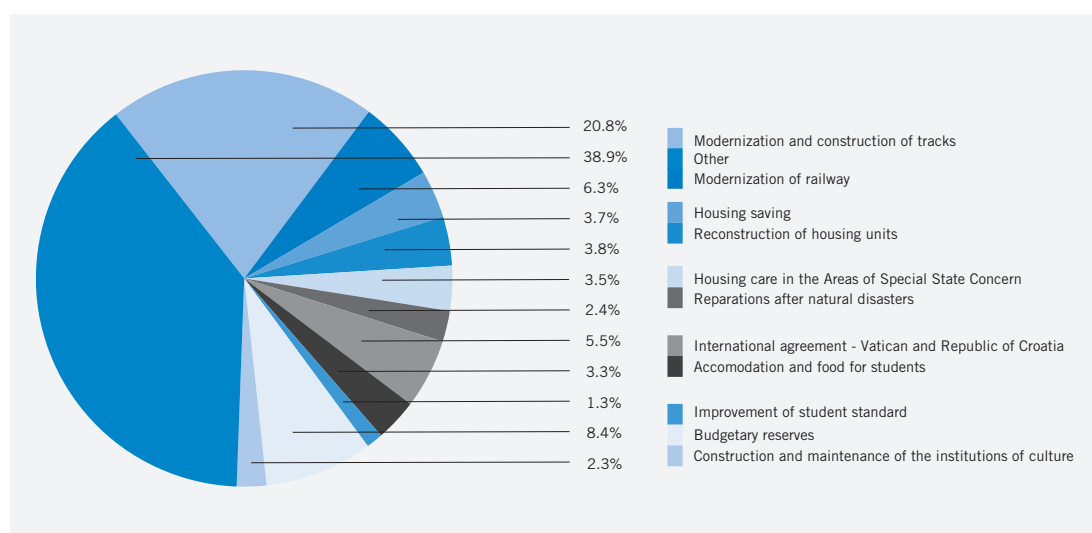
Within the structure of budgetary central government other expense in 2007, the largest part of total other expense relates to capital other expense (50.5%) which was realized in the amount of 2.9%. Within the structure of capital other expense, with the amounts realized, modernization and construction of railway tracks, housing savings, and expenses for the reconstruction of war damaged housing units and expenses for protection of monuments of culture and construction, maintenance and reconstruction of institutions of culture should be outlined. These categories, which are outlined as the most important ones, account for almost 68.0% of total capital other expense.



Observing current other expense, it can be seen that this expense category was realized at the level of HRK 2.8 billion, which accounts for 49.5% of total other expense of the budgetary central government and which represents an annual increase of 23.1%. Within the structure of this expense category, current donations referring to the international agreement of the Republic of Croatia and the Holy See should be outlined, then donations regarding the accommodation and food of students, the improvement of the student standard of living and other.

Hence, by presenting the largest categories of the other expense, a clearer picture of this expense category in 2007 can be seen, which is also demonstrated in the following figure.

Figure 2.14 Structure of Other Expense in 2007

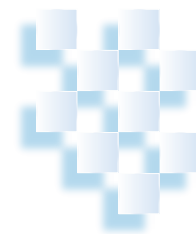


Source: Ministry of Finance

2.2.3 Budgetary Central Government Expense by Function

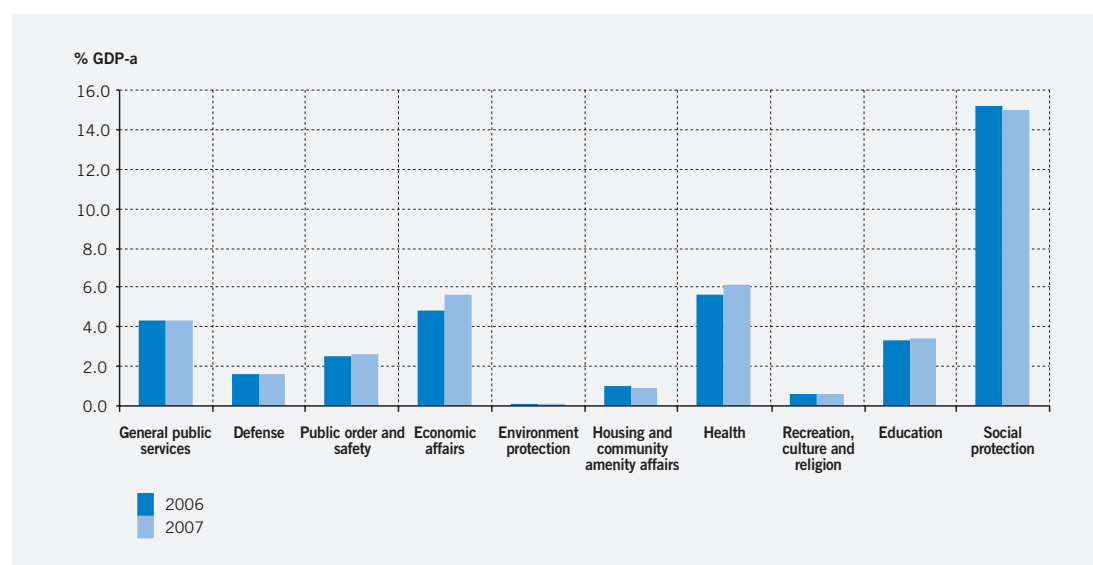
Functional classification of expense provides detailed breakdown of expense categories with respect to the main functions to which the execution of certain expenses serve. Furthermore, functional classification of expense provides a good international comparison and analysis of the public expenses. According to GFS 2001 methodology, based on which functional classification of expense is presented in this chapter, the total amount of budgetary central government expense refers to expenses plus the acquisition of nonfinancial assets. The structure of budgetary central government expense by function has been constantly changing over the years. Namely, since the beginning of independence the importance of some categories has been constantly increasing while of some other categories has been constantly decreasing. This is the result of expense execution policy regarding the specific priorities in different periods of time. For illustration, it can be seen that expenses for defense or expenses for reconstruction of the war damages have been constantly decreasing since the end of the homeland war till the present time while, on the other hand, some other categories have been increasing gradually, moving towards ratios to GDP realized by neighboring countries which have not been burdened with the war developments.

Total budgetary central government expense by functional classification reached the level of HRK 111.1 billion in 2007, which represents an increase of 13.5% compared to the previous year.

**Table 2.17 Budgetary Central Government Expense by Function 2005 - 2007, Structure and Share in GDP**

(000 HRK)		Structure			Share in GDP		
		2005	2006	2007	2005	2006	2007
7	Total expense	100.0	100.0	100.0	38.8	39.1	40.4
701	General public services	11.4	11.1	10.7	4.4	4.4	4.3
702	Defense	4.0	4.1	4.1	1.6	1.6	1.6
703	Public order and safety	6.5	6.4	6.6	2.5	2.5	2.7
704	Economic affairs	9.4	12.4	13.9	3.6	4.8	5.6
705	Environment protection	0.2	0.3	0.3	0.1	0.1	0.1
706	Housing and community amenity affairs	3.2	2.5	2.2	1.2	1.0	0.9
707	Health	14.4	14.4	15.2	5.6	5.6	6.1
708	Recreation, culture and religion	1.5	1.5	1.6	0.6	0.6	0.6
709	Education	8.5	8.4	8.4	3.4	3.3	3.4
710	Social protection	40.9	38.8	37.1	15.9	15.2	15.0

Source: Ministry of Finance

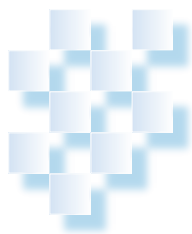
Figure 2.15 Budgetary Central Government Expense by Function in 2006 and 2007

Source: Ministry of Finance

Observing the expense by function in the period 2005-2007 it can be seen that the expense for general public services stabilized their share in GDP.

At the same time the expense for general public services expressed as a share of total budgetary central government recorded a moderate decrease in 2007. This expense category relates by large to public debt transactions, legal and executive affairs. The share of general public services in GDP in 2006 retained the level recorded in 2005 (4.4%), while in 2007 it recorded a decrease of 0.1 percentage points of GDP.

In the observed period, a significant decrease of the share of defense expense in total expense and as a share in GDP can be noticed. Thus, the share of defense expense in total expense is stabilized at 4.1% while the share in GDP is stabilized at 1.6%. This trend is in line with the rationalization of the organization and modernization of armed forces.



In the observed period expense for public order and safety recorded a slight increase expressed both as a share of total expense and as a share of GDP. Namely, this expense category increased from 2.5% in 2006 to 2.7% in 2007 measured as a share of GDP, while as a share of total expense it increased from 6.4% to 6.6% in the same period. The largest part of this category of expense by function relates to police forces, fire fighting and judiciary issues.

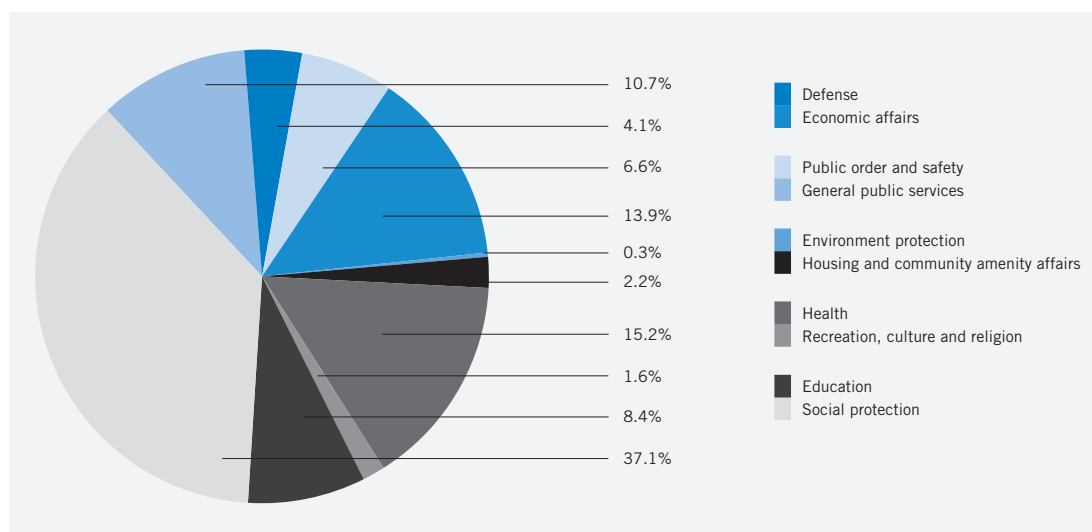
Economic affairs recorded a significant increase both as a share of total expense and as a share of GDP. Namely, these expenses increased from 3.6% of GDP in 2005 to 5.6% in 2007. The largest contribution to the increase of this expense category arises from the increase of general economic affairs associated with labour, then from the increase of expenses related to agriculture as well as investments in research and development. The largest part of this category of expense relates to railway transportation expenses.

Health expense recorded an increase in 2007 compared to the rest of the observed period as well. Thus, it increased from 5.6% of GDP in 2005 and 2006 to 6.1% of GDP in 2007.

Education expense has been recording constant annual increases in the observed period which enabled the constant share to GDP of these expenses in the observed period. The same applies to expense for recreation, culture and religion as well as for expense related to research and development.

The largest part of budgetary central government expense, observed by function, is associated with social protection expenses, which in 2007 accounted for 37.1% of total expense. Although a slight decrease of the share of this category of expense in total expense and as a share of GDP can be noticed, social protection recorded significant annual increases in the observed period. Namely, in 2007 social protection recorded an annual increase of 8.3% where the largest contribution to the increase originated from an increase in pension expense as the largest single category of social protection expense.

Figure 2.16 Structure of the Budgetary Central Government Expense by Function Classification in 2007



Source: Ministry of Finance



2.3 TRANSACTIONS IN NONFINANCIAL ASSETS OF THE BUDGETARY CENTRAL GOVERNMENT IN 2007

Transactions in nonfinancial assets refer to all expenditure associated with the acquisition of nonfinancial assets and to all receipts associated with the disposal of nonfinancial assets. In that sense, the amounts of net transactions in nonfinancial assets are the net result of all acquisitions and all disposals, hence the total acquisition reduced by the amount of total disposal of nonfinancial assets.

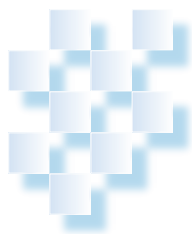
Total net acquisition of nonfinancial assets for 2007 was set at HRK 3.0 billion according to the supplementary budget.

Table 2.18 Transactions in Nonfinancial Assets of the Budgetary Central Government 2005 - 2007

(000 HRK)		2005	2006	2007	Index 2006 / 2005	Index 2007 / 2006
31	Net acquisition of nonfinancial assets	1,553,668.4	1,555,792.1	2,545,220.3	100.1	163.6
311	Fixed assets	1,516,968.2	1,595,120.5	2,625,692.0	105.2	164.6
311.1	Acquisitions: fixed assets	1,781,346.8	1,844,783.1	2,906,863.2	103.6	157.6
311.2	Disposals: fixed assets	264,378.6	249,662.6	281,171.2	94.4	112.6
3111	Buildings and structures	867,662.5	831,376.5	1,154,131.7	95.8	138.8
3111.1	Acquisitions: buildings and structures	1,131,301.5	1,080,074.4	1,423,339.9	95.5	131.8
3111.2	Disposals: buildings and structures	263,639.0	248,697.9	269,208.2	94.3	108.2
3112	Machinery and equipment	557,319.9	656,732.6	1,338,275.3	117.8	203.8
3112.1	Acquisitions: machinery and equipment	558,059.5	657,696.4	1,350,238.1	117.9	205.3
3112.2	Disposals: machinery and equipment	739.6	963.8	11,962.8	130.3	1,241.2
3113	Other fixed assets	91,985.8	107,011.4	133,285.0	116.3	124.6
3113.1	Acquisitions: other fixed assets	91,985.8	107,012.3	133,285.2	116.3	124.6
3113.2	Disposals: other fixed assets	0.0	0.9	0.2		22.2
312	Inventories	0.0	-80,226.0	-161,382.8		201.2
312.1	Acquisitions: inventories	0.0	1,047.9	36,574.2		3,490.2
312.2	Disposals: inventories	0.0	81,273.9	197,957.0		243.6
313	Valuables	7,220.0	7,825.8	9,620.4	108.4	122.9
313.1	Acquisitions: valuables	7,220.0	7,825.8	9,620.4	108.4	122.9
313.2	Disposals: valuables	0.0	0.0	0.0		
314	Nonproduced assets	29,480.2	33,071.8	71,290.7	112.2	215.6
314.1	Acquisitions: nonproduced assets	40,251.0	54,825.6	90,847.9	136.2	165.7
314.2	Disposals: nonproduced assets	10,770.8	21,753.8	19,557.2	202.0	89.9
3141	Land	-10,282.1	-21,650.4	-19,491.6	210.6	90.0
3141.1	Acquisitions: land	488.7	81.3	57.5	16.6	70.7
3141.2	Disposals: land	10,770.8	21,731.7	19,549.1	201.8	90.0
3142	Subsoil assets	0.0	-22.1	0.0		
3142.2	Disposals: subsoil assets	0.0	22.1	0.0		
3144	Intangible nonproduced assets	39,762.3	54,744.3	90,782.3	137.7	165.8

Source: Ministry of Finance

According to the final data for 2007, total net acquisition of nonfinancial assets was realized in the amount of HRK 2.6 billion, which is by HRK 408.9 million or by 13.8% below the annual plan. At the same time, such an outturn represents an annual increase of 63.6%. Total net acquisition of nonfinancial assets in 2007 is the result of the total acquisition of nonfinancial assets in the amount of HRK 3.0 billion and total disposal in the amount of HRK 498.7 million.



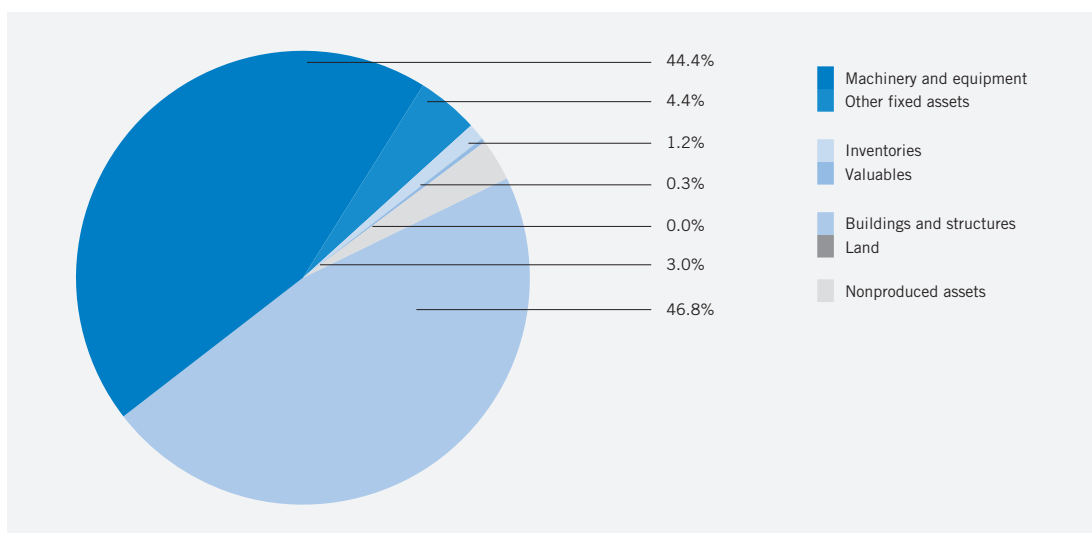
Within the acquisition of fixed assets, which in 2007 amounted to HRK 2.6 billion, the largest part relates to net acquisition of machinery and equipment (51.0%). According to the final data for 2007, this category was realized in the amount of HRK 1.3 billion and represents the result of HRK 1.4 billion in acquisitions and HRK 12.0 million in disposals. Net acquisition of buildings and structures follows with the amount of HRK 1.2 million and net acquisition of the other nonfinancial assets in the amount of HRK 133.3 million.

Net acquisition of inventories was realized in the amount of HRK -161.4 million which is the result of HRK 36.6 million in acquisitions and HRK 198.0 million in disposals.

Total net acquisition of valuables amounted to HRK 9.6 million and it entirely reflected the acquisition of valuables while disposals did not occur.

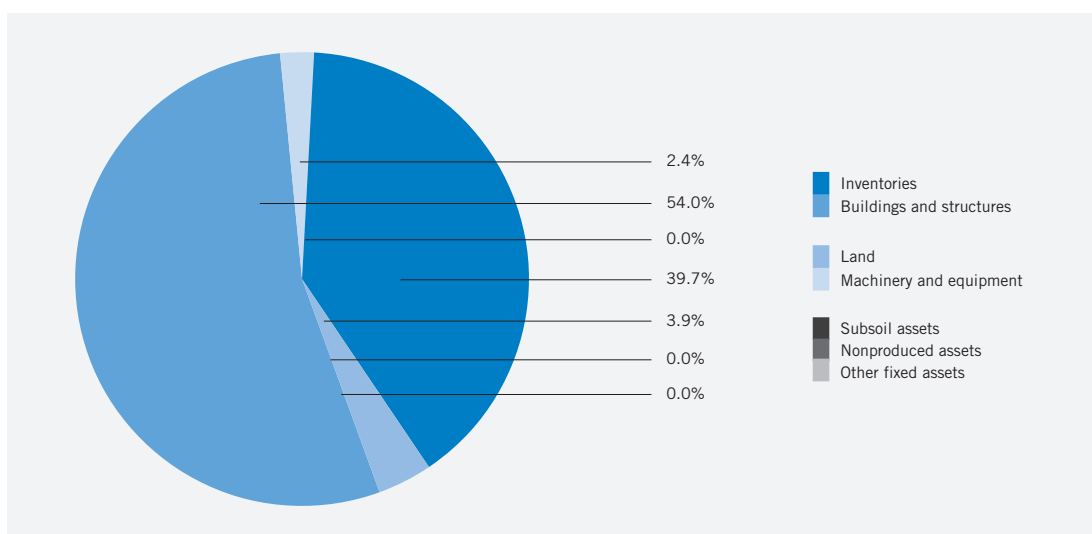
Total net acquisition of nonproduced assets amounted to HRK 71.3 million in 2007 resulting from the acquisition in the amount of HRK 90.8 million and disposal in the amount of HRK 19.6 million. The acquisition of nonproduced assets mostly referred to acquisition of licenses and other rights while disposal entirely originated from sales of land.

Figure 2.17 Structure of Acquisition of Nonfinancial Assets in 2007



Source: Ministry of Finance

Figure 2.18 Structure of Disposal of Nonfinancial Assets in 2007



Source: Ministry of Finance



2.4 TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES OF THE BUDGETARY CENTRAL GOVERNMENT

In 2007, total net incurrence of liabilities amounted to HRK -1.5 billion, while at the same time total net acquisition of financial assets amounted to HRK -3.7 billion. Negative net acquisition of liabilities points out to higher repayments of principals of received loans and principals of issued securities other than shares than incurrence of liabilities. On the other hand, negative net acquisition of financial assets points to higher disposals of financial assets than acquisitions of financial assets. From this figures it comes out that total financing of the net lending/borrowing was realized in the amount of HRK 2.2 billion.

Total net acquisition of financial assets is the result of the difference between domestic and foreign acquisitions and disposals of financial assets and the change in cash and deposits. Hence, net domestic acquisition of financial assets in 2007 in the amount of HRK -3.8 billion is the result of HRK -1.7 billion change of cash and deposits, net acquisition of loans in the amount of HRK 674.3 million and the net acquisition of shares and other equity in the amount of HRK -2.7 billion. The negative sign of the change in cash and deposits indicates the reduction in the account of the state funds in the observed period. Net acquisition of domestic loans, in the amount previously outlined, is the result of total acquisition of loans in the amount of HRK 837.7 million and total disposal of loans in the amount of HRK 163.3 million. Acquisition of loans by large represents loans provided to enterprises in the public sector, then loans provided to domestic enterprises, small and medium size entrepreneurs and loans provided to nonprofit institutions, citizens and households. Disposals of domestic loans in 2007 mainly relate to repayment of the loan principal from domestic enterprises, small and medium size entrepreneurs.

Net domestic acquisition of shares and other equity in amount of HRK -2.7 billion is the result of acquisition of shares and other equity in amount of HRK 226.0 million and disposal in the amount of HRK 2.9 billion. Acquisition of domestic shares and other equity originated mostly from acquisition of shares and other equity of banks and other financial institutions.

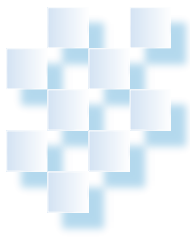
Disposals of domestic shares and other equity in 2007, in the amount previously outlined, relate to the sale of shares and equity that state holds in enterprises within the public enterprises, that is privatization.

Foreign net acquisition of financial assets amounted to HRK 18.0 million in 2007, which relates to the acquisition of shares and other equity in foreign banks and other financial institutions in the stated amount.

Table 2.19 Transactions in Financial Assets of the Budgetary Central Government 2005 - 2007

(000 HRK)		2005	2006	2007
32	Net acquisition of financial assets	1,752,824.5	-3,047,174.0	-3,734,781.0
321	Domestic	1,757,681.4	-3,063,854.6	-3,752,816.6
3212	Currency and deposits	688,185.0	-1,449,670.1	-1,721,590.7
3214	Loans	847,590.4	832,320.5	674,349.6
3214.1	Acquisition	1,026,366.5	1,037,700.7	837,699.1
3214.2	Disposal	178,776.1	205,380.2	163,349.5
3215	Shares and other equity	221,906.0	-2,446,505.0	-2,705,575.5
3215.1	Acquisition	235,065.1	231,357.0	226,005.0
3215.2	Disposal	13,159.1	2,677,862.0	2,931,580.5
322	Foreign	-4,856.9	16,680.6	18,035.6
3225	Shares and other equity	-4,856.9	16,680.6	18,035.6
3225.1	Acquisition	2,699.3	16,680.6	18,035.6
3225.2	Disposal	7,556.2	0.0	0.0

Source: Ministry of Finance



Low budget deficit and receipts from disposals of financial assets have contributed to a significantly lower financing need in 2007 compared to the previous year. Such movements produced positive impacts regarding the trend of the public debt in 2007.

Total net incurrence of liabilities of the budgetary central government amounted to HRK -1.5 million in 2007, which is the result of net domestic incurrence of liabilities in the amount of HRK 1.5 billion and net foreign incurrence of liabilities in the amount of HRK -3.0 billion. Total net domestic incurrence of liabilities is the result of incurrence and repayments on domestic financial markets, where HRK 7.0 billion related to incurrence through securities other than shares.

Total domestic repayments comprised of HRK 3.5 billion of repayment of securities other than shares and to HRK 1.1 million of repayment of loans in 2007.

Total net foreign incurrence of liabilities amounted to HRK -3.0 billion in 2007, which relates to HRK 748.8 billion of foreign incurrence of liabilities and HRK 3.7 billion of foreign repayments. Total amount of foreign incurrence of liabilities in 2007 refers to loans. Total foreign repayments comprised of HRK 1.8 billion of repayment of securities other than shares and of HRK 2.0 billion of repayment of loans. Hence, observed in total, total net incurrence of liabilities in 2007 is the result of total (domestic and foreign) incurrence of liabilities in the amount of HRK 6.8 billion and total (domestic and foreign) repayments in the amount of HRK 8.3 billion.

Table 2.20 Transactions in Liabilities of the Budgetary Central Government 2005 - 2007

(000 HRK)		2005	2006	2007
33	Net incurrence of liabilities	5,510,947.6	-776,988.3	-1,502,550.6
33.1	Total repayments	10,253,489.1	10,056,696.6	8,333,536.5
33.2	Total incurrence	15,764,436.7	9,279,708.3	6,830,985.9
331	Domestic	10,591,559.7	3,166,260.0	1,477,615.0
331.1	Repayment	4,389,322.6	4,250,184.1	4,604,573.2
331.2	Incurrence	14,980,882.3	7,416,444.1	6,082,188.2
3313	Securities other than shares	9,636,343.1	5,648,934.2	3,520,136.0
3313.1	Repayment	2,844,600.8	550,859.1	3,513,171.5
3313.2	Incurrence	12,480,943.9	6,199,793.3	7,033,307.5
3314	Loans	955,216.6	-2,482,674.2	-2,042,521.0
3314.1	Repayment	1,544,721.8	3,699,325.0	1,091,401.7
3314.2	Incurrence	2,499,938.4	1,216,650.8	-951,119.3
332	Foreign	-5,080,612.1	-3,943,248.3	-2,980,165.6
332.1	Repayment	5,864,166.5	5,806,512.5	3,728,963.3
332.2	Incurrence	783,554.4	1,863,264.2	748,797.7
3323	Securities other than shares	-3,713,935.0	-3,480,780.5	-1,757,723.2
3323.1	Repayment	3,713,935.0	3,480,780.5	1,757,723.2
3323.2	Incurrence	0.0	0.0	0.0
3324	Loans	-1,366,677.1	-462,467.8	-1,222,442.4
3324.1	Repayment	2,150,231.5	2,325,732.0	1,971,240.1
3324.2	Incurrence	783,554.4	1,863,264.2	748,797.7

Source: Ministry of Finance



2.5 MEASURES OF DEFICIT/SURPLUS AND FINANCING OF THE BUDGETARY CENTRAL GOVERNMENT

In the following table different measures of deficit/surplus of the budgetary central government are presented according to GFS 2001 methodology. The table shows the amount of financing, being the main measure of deficit/surplus (net lending/borrowing), where the amount of financing is equal to the amount of net lending/borrowing just with an opposite sign.

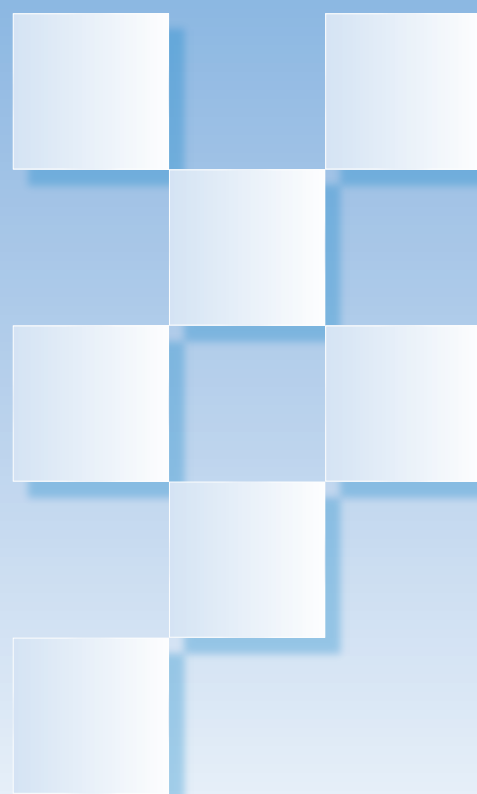
Table 2.21 Budgetary Central Government Deficit/Surplus Measures

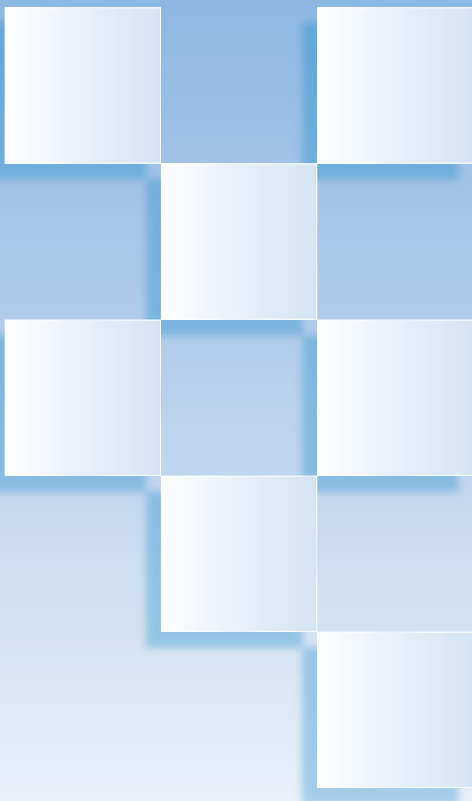
(000 HRK)		2004	2005	2006	2007
	TRANSACTIONS AFFECTING NET WORTH				
1	Revenue	80,463,518.2	85,653,010.2	95,235,557.3	108,320,594.6
2	Expense	83,131,114.4	87,857,464.9	95,949,950.9	108,007,604.7
24	Interest	3,972,466.3	4,387,009.7	4,713,615.3	4,535,007.5
	Net - gross operating balance (1 - 2)	-2,667,596.2	-2,204,454.7	-714,393.6	312,989.9
	Primary operating balance (1 - 2 + 24)	1,304,870.1	2,182,555.0	3,999,221.7	4,847,997.4
	TRANSACTIONS IN NONFINANCIAL ASSETS				
31	Net acquisition of nonfinancial assets	1,419,466.9	1,553,668.4	1,555,792.1	2,545,220.3
	Net lending - borrowing (1 - 2 - 31)	-4,087,063.1	-3,758,123.1	-2,270,185.7	-2,232,230.4
	Financing (33-32)	4,087,063.1	3,758,123.1	2,270,185.7	2,232,230.4
	TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES				
32	Net acquisition of financial assets	221,977.3	1,752,824.5	-3,047,174.0	-3,734,781.0
33	Net incurrence of liabilities	4,309,040.4	5,510,947.6	-776,988.3	-1,502,550.6

Source: Ministry of Finance

Net operating balance, which according to government finance statistics methodology 2001 is defined as the difference between the revenue and the expense of the budgetary central government, amounted to HRK -313.0 million in 2007. In addition, as a measure of budgetary deficit/surplus, primary operating balance is observed as well. This measure serves as the indicator of the current fiscal policy having in mind that this measure excludes interest payments from previously explained measure of deficit/surplus and thus excludes the effects of previous deficits and accumulated public debt. In 2007, interest payments amounted to HRK 4.5 billion making the primary operating balance in the amount of HRK 4.8 billion. Net lending/borrowing is defined as the difference between the net operating balance and net acquisition of nonfinancial assets. Net acquisition of nonfinancial assets amounted to HRK 2.5 billion in 2007 making the net lending/borrowing at the level of HRK -2.2 billion. Compared to 2006, net lending/borrowing was reduced by almost HRK 38 million or 0.1 percentage points. Total financing of the net lending/borrowing is the result of net incurrence of liabilities in the amount of HRK -1.5 billion and net acquisition of financial assets in the amount of HRK -3.7 billion. In other words, low deficit realization of the budgetary central government and the privatization receipts resulted in higher repayments than incurrence of liabilities while in financial assets higher disposals than acquisitions of financial assets were realized.

3
**EXTRABUDGETARY USERS
AND CONSOLIDATED
CENTRAL GOVERNMENT
IN 2007**







3.1 EXTRABUDGETARY USERS

Pursuant to the Article 3 of the Budget Act ("Official Gazette" 96/2003), extrabudgetary users are extrabudgetary funds, enterprises and other legal entities in which the central or local government has decisive management control. New Budget Act ("Official Gazette" 87/2008), which will be applied as of 1 January 2009, stipulates the same. Extrabudgetary users acquire revenue from own sources (the main categories are Sales of Goods and Services, Property Income and Miscellaneous and Unidentified Revenue) and in the form of grants from general government units. The social security funds (Croatian Institute for Pension Insurance (HZMO), Croatian Health Insurance Institute (HZZO), Croatian Employment Service (HZZ)) and the public enterprise "Croatian Waters" (HV) have been classified as extrabudgetary funds since 1994. Since the 1st of January 2004, the coverage of extrabudgetary funds also includes the Environment Protection Fund (FZOEU). In April of 2001, two new state-owned legal entities were created, namely the Croatian Motorways (HAC) and Croatian Roads (HC). These entities took over the functions of the former Croatian Road Authority and with the State Agency for Deposit Insurance and Bank Rehabilitation (DAB), established in 1994, and the Croatian Privatization Fund (HFP), established in December 1992, make agencies.

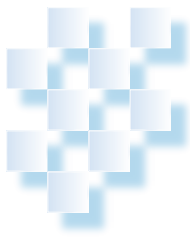
Some important changes in the coverage of extrabudgetary users were introduced in 2007 whereby stronger transparency and enhanced budget executing control have been ensured. Namely, all the transactions of HZMO, HZZO and HZZ have been included in the State Treasury System (by then the majority of them was already included in Budgetary Central Government). Here we can recall that as of July 1, 2001, State Treasury System includes the biggest part of HZMO's revenues and expense, and as of January 1, 2002, also the biggest part of HZZO's and HZZ's revenue and expense. Thus, since 2007 there have been six extrabudgetary users: Croatian Waters, Environment Protection Fund, Croatian Motorways, Croatian Roads, State Agency for Deposit Insurance and Bank Rehabilitation and Croatian Privatization Fund.

Total revenue of extrabudgetary users in 2007 amounted to HRK 10.6 billion. In the same period total expenditures were at level of HRK 6.6 billion. Within the structure of total revenue, for several years in row, the most significant place is occupied by the Croatian Motorways (41.6%), Croatian Waters (23.7%), Croatian Roads (20.0%) and Environment Protection Fund (10.4%). Other extrabudgetary users individually account for less than 5% in total revenues. Similar is with expenditures. Within the structure of total expenditures, also for several years in row, the most significant place is occupied by the Croatian Waters (32.1%), Croatian Motorways (30.2%), Croatian Roads (18.9%) and Environment Protection Fund (16.6%).

Total net acquisition of nonfinancial assets amounted to HRK 5.3 billion, (Croatian Motorways contributed with 64.0% and Croatian Roads with 30.5%). Nonfinancial assets usually occur as outputs from a production process, as natural resources or as a creation of enterprise. Depending on that, nonfinancial assets are classified as produced and nonproduced nonfinancial assets. Produced nonfinancial assets are composed of following components, according to GFS 2001: Fixed assets - represent produced assets that are used repeatedly or continuously in the production process for more than one year (buildings and structures, machinery and equipment, other fixed asset); Inventories - represent goods and services held by producers for sale, use in production or other use at a later date, and Valuables - produced goods of considerable value that are acquired and held over time primarily as stores of value and not for purposes of production or consumption (precious stones, paintings, sculptures etc.). Of those, above-mentioned HRK 5.3 billion, or 93.1% were related to produced nonfinancial assets and in its whole amount referred to fixed assets. That implies that nonproduced nonfinancial assets - consisting of tangible, naturally occurring assets over which ownership rights are enforced (land, subsoil assets and other naturally occurring assets, e.g. electro-magnetic frequencies), and intangible nonproduced assets which are of social origin (patents, leasing contracts etc.) - account for 6.9%.

Financial assets of extrabudgetary users in 2007 amounted to HRK 795.6 million relating completely to domestic financial claims. State Agency for Deposit Insurance and Bank Rehabilitation had large part also in financial assets (45.6%), then Croatian Motorways (36.3%), Croatian Waters (14.6%) and Croatian Privatization Fund (10.4%).

Upon the creation of a financial claim of the creditor, the debtor, as the counterpart of the financial asset, simultaneously incurs a liability of equal value. As well as transactions in financial assets, transactions in liabilities are defined as domestic or foreign liabilities. Total net liabilities of the extrabudgetary users decreased 22.7%, so they amounted to HRK 2.1 billion. Total net domestic incurrence of



liabilities amounted to HRK 539.5 million, which represents annual decline of 74.5% and refers to loans and to repayments of securities other than shares. Foreign incurrence of liabilities amounted to HRK 1.5 billion and refers totally to loans. Incurrence of domestic liabilities, amounted to HRK 1.2 billion, it is mostly the result of incurrence of liabilities of Croatian Roads (46.1%) and Croatian Motorways (36.5%). In the same time, HRK 673.1 million was repaid through Croatian Motorways (78,7%) and Croatian Waters (14%). On the other hand, on the foreign market HRK 623.9 million were repaid (Croatian Motorways (93,1%)) and HRK 2.1 billion were result of incurrence (Croatian Motorways (89.4%)).

Table 3.1 Transactions in Financial Assets and Liabilities of Extrabudgetary Users in 2007

(000 HRK)	Croatian Waters	Environment Protection Fund	Croatian Motorways	Croatian Roads	State Agency for Deposit Insurance and Bank Rehabilitation	Croatian Privatization Fund	TOTAL
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES							
32 Net acquisition of financial assets	116,100	-9,811	289,126	-45,061	362,580	82,691	795,625
321 Domestic	116,100	-9,811	289,126	-45,061	362,580	82,691	795,625
Loans	59,357	23,437	0	-26,712	0	126,467	182,549
Shares and other equity	-646	0	0	0	-6,597	-58,453	-65,696
Currency and deposits	57,389	-33,248	289,126	-18,349	369,177	14,677	678,772
322 Foreign	0	0	0	0	0	0	0
33 Net incurrence of liabilities	32,555	0	1,249,822	691,704	0	89,094	2,063,175
331 Domestic	-2,259	0	-87,997	523,681	0	106,055	539,480
Loans	-2,259	0	442,003	523,681	0	106,055	1,069,480
Repayments	94,259	0	0	34,903	0	13,945	143,107
Incurrences	92,000	0	442,003	558,584	0	120,000	1,212,587
Securities other than shares	0	0	-530,000	0	0	0	-530,000
Repayments	0	0	530,000	0	0	0	530,000
332 Foreign	34,814	0	1,337,819	168,023	0	-16,961	1,523,695
Loans	34,814	0	1,337,819	168,023	0	-16,961	1,523,695

Source: Ministry of Finance

Operating balance (revenue minus expense) represents a measure of total cost of public goods and services. Positive operating balance increases net worth of the public sector indicating an excess of resources which are direct result of current operations and which can be used to acquire assets and/or to reduce liabilities. On the other hand, negative operating balance indicates a shortage of resources which is the result of current operations and, which reduces net worth and thus results as an increase in liabilities and/or sales of assets. Hence, operating balance is the indicator of sustainability of current government operations, but it is not necessarily an indicator of sustainability of future government operations. Net operating balance stood at HRK 4.0 billion in 2007, that is HRK 1.6 billion more than year before. In the same time, primary operating balance, (operating balance (revenue minus expense) augmented by interest expense), amounted to HRK 4.9 billion (HRK 1.9 billion more than year before).

The category net lending/borrowing amounted to HRK -1.3 billion. Net lending/borrowing is equal to operating balance minus net acquisition of nonfinancial assets. Net lending/borrowing is also equal to net acquisition of financial assets minus net incurrence of liabilities or in other words, the amount of net lending/borrowing is financed with the difference between the net incurrence of liabilities and net acquisition of financial assets. This measure can serve as an indicator of financial effect of government operations to the rest of the economy: positive net lending/borrowing implies that the government is placing financial assets to domestic sectors or abroad, while negative net lending/borrowing implies an incurrence of liabilities from domestic sectors or abroad by the government.

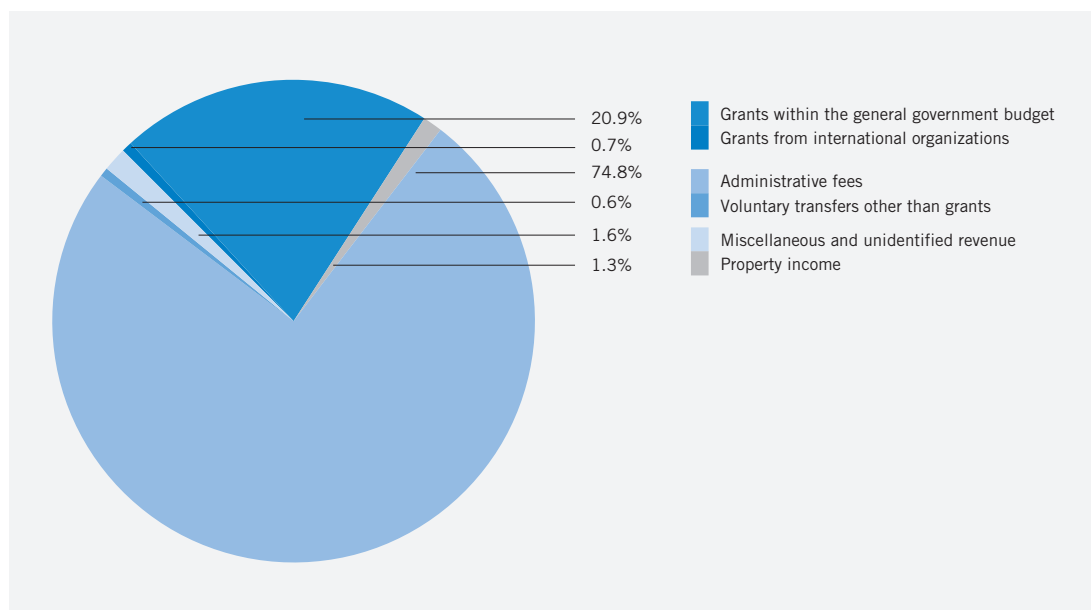
**Table 3.2 Measures of Deficit/Surplus and Financing of the Extrabudgetary Users in 2007**

(000 HRK)	Croatian Waters	Environment Protection Fund	Croatian Motorways	Croatian Roads	State Agency for Deposit Insurance and Bank Rehabilitation	Croatian Privatization Fund	TOTAL
TRANSACTIONS AFFECTING NET WORTH							
1 Revenue	2,507,327	1,102,946	4,391,205	2,110,381	391,441	58,324	10,561,624
2 Expense	2,108,778	1,092,568	1,982,632	1,243,399	47,820	88,241	6,563,438
24 Interest	34,639	0	787,824	85,641	345	17,783	926,232
Net/Gross operating balance (1 - 2)	398,549	10,378	2,408,573	866,982	343,621	-29,917	3,998,186
Primary operating balance (1 - 2 + 24)	433,188	10,378	3,196,397	952,623	343,966	-12,134	4,924,418
TRANSACTIONS IN NONFINANCIAL ASSETS							
31 Net acquisition of nonfinancial assets	315,004	20,189	3,369,269	1,603,747	-18,959	-23,514	5,265,736
Net lending/borrowing (1 - 2 - 31)	83,545	-9,811	-960,696	-736,765	362,580	-6,403	-1,267,550
Financing (33 - 32)	-83,545	9,811	960,696	736,765	-362,580	6,403	1,267,550
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES							
32 Net acquisition of financial assets	116,100	-9,811	289,126	-45,061	362,580	82,691	795,625
33 Net incurrence of liabilities	32,555	0	1,249,822	691,704	0	89,094	2,063,175

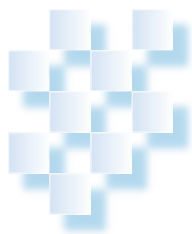
Source: Ministry of Finance

3.1.1 The Croatian Waters

The Croatian Waters conducts integrated management of Croatian water resources on four river basin districts comprising one or more river basins of the major watercourses or parts thereof, which constitute a natural hydrographic unit, as follows: the river basin district of the Sava River basin, the river basin district of the Drava and Danube river basins, the river basin district of the Istrian-Littoral basin and the river basin district of the Dalmatian basin. The main activities of Croatian Waters, based on the principle of sustainable development and conducted with the purpose of achieving integrated water management, are the following: protection from adverse effects of water, water use and protection of water from pollution.

Figure 3.1 Revenue Structure of the Croatian Waters in 2007

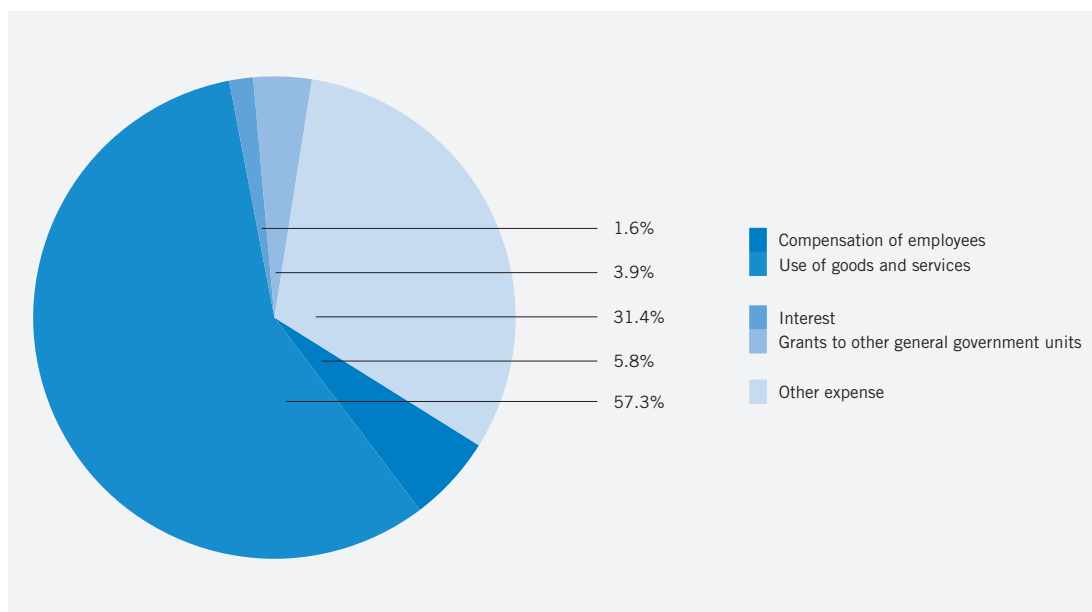
Source: Croatian Waters, Ministry of Finance



Total revenue of the Croatian Waters was realized in the amount of HRK 2.5 billion in 2007 which represents annual increase of 27.2%. Administrative fees of HRK 1.9 billion, i.e. 74.8% of total revenue, made the largest contribution to this outturn. Grants from other general government units, which account for 21% of total revenue, stood at HRK 524.7 million. Property income was realized in the amount of HRK 31.4 million (1.3% of total revenue), miscellaneous and unidentified revenue HRK 40.9 million (1.6% of total revenue) and voluntary transfers other than grants HRK 16 million (0.6% of total revenue).

The Croatian Waters recorded HRK 2.1 billion of total expense in 2007, which represents annual increase of 18.5%. The largest share was appropriated to the use of goods and services recorded in the amount of HRK 1.2 billion, i.e. 57.3% of total expenses. Other expense amounted to HRK 661.1 million, which represents a share of 31.4% of total expenses. An amount of HRK 121.8 million (5.8%) was appropriated to the compensation of employees, of which HRK 104.7 million was for wages and salaries and HRK 17 million for social contributions. The Croatian Waters appropriated HRK 82.3 million (3.9%) for grants to other general government units and HRK 34.6 million (1.6%) for interest payments.

Figure 3.2 Expense Structure of the Croatian Waters in 2007



Source: Croatian Waters, Ministry of Finance

Net acquisition of nonfinancial assets of the Croatian Waters recorded the amount of HRK 315 million in 2007, where total of HRK 278.7 million relates to fixed assets, while the remainder in the amount of HRK 36.3 million refers to nonproduced assets. The acquisition of fixed assets was realized in the amount of HRK 282.5 million and its disposal in the amount of HRK 3.8 million. The acquisition is mostly (94.4% or HRK 266.6 million) related to acquisitions of buildings and structures and the remainder of HRK 16 million refers to acquisition of machinery and equipment (3.7% or HRK 10.4 million) and acquisition of fixed assets (2% or HRK 5.5 million). Disposal of fixed assets related to disposal of buildings and structures (97.5% or HRK 3.7 million) and to disposal of machinery and equipment (2.5% or HRK 94 thousand). In the same time, nonproduced assets refer completely to acquisition of land (HRK 36.3 million).

Net acquisition of financial assets recorded the amount of HRK 116.1 million and was totally realized on domestic market. The amount of HRK 57.4 million refers to currency and deposit and HRK 59.4 million of loans of which HRK 59.6 million of repayment and HRK 214 thousand of incurrence. Disposal of shares and other equity amounted to HRK 646 thousand.

The Croatian Waters recorded the amount of HRK 32.6 million of net incurrence of liabilities in 2007, which is a consequence of total incurrence of liabilities in the amount of HRK 152.6 million and repayments of HRK 120 million. On the domestic market, the Croatian Waters incurred liabilities in the



net amount of HRK 92 million, solely on the basis of loans and also repaid liabilities in the amount of HRK 94.3 million. On the other hand, on the foreign market, repayments of loans amounted to HRK 25.8 million and incurrence of loans amounted to HRK 60.6 million.

3.1.2 The Environment Protection Fund

The main reason for establishing The Environment Protection Fund is ensuring additional funds for financing projects, programs and similar activities in the area of protection, sustainable use and improvements in the environment. The Environment Protection Fund is ensuring its resources through the budgetary central government and four types of fees related to the environment protection. These include: fee for polluters, environment users' fee, fee for wastage and a special environment fee paid by all owners of the motor vehicles at the time of the registration of the vehicle.

In 2007 the Environment Protection Fund collected HRK 1.1 billion of revenue, which represents the annual increase of 67.1%. Almost 100% of this amount refers to administrative fees in amount of HRK 1.1 billion. The rest of the sum refers to interests (HRK 2.7 million) and miscellaneous and unidentified revenue (HRK 110 thousand).

Total expense of the Environment Protection Fund stood at HRK 1.1 billion in 2007 which represents the annual increase of 48.7%. The Fund mostly appropriated its resources to use of goods and services (HRK 945.7 million or 86.6% of total expenses). Capital grants to other general government units amounted to HRK 108.6 million and subsidies to private enterprises amounted to HRK 18.6 million. Compensation of employees recorded the level of HRK 12.9 million while the rest of the HRK 6.8 million refers to other expense.

The Environment Protection Fund realized the amount of HRK 20.2 million in net acquisition of nonfinancial assets in 2007. The largest contribution (61.7% of total nonfinancial assets) was made by acquisition of intangible assets in the amount of HRK 12.4 million. Fixed assets amounted to HRK 7.7 million (38.3%) of which HRK 7.8 million of acquisition and HRK 67 thousand of disposal (entirely on the basis of machinery and equipment). In acquisition of fixed assets, acquisition of machinery and equipment took part with 77.5% or HRK 6.1 million, acquisition of buildings and structures took part with 18.7% or HRK 1.5 million and acquisition of other fixed assets took part with 3.8% or HRK 299 thousand.

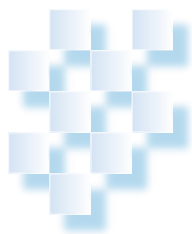
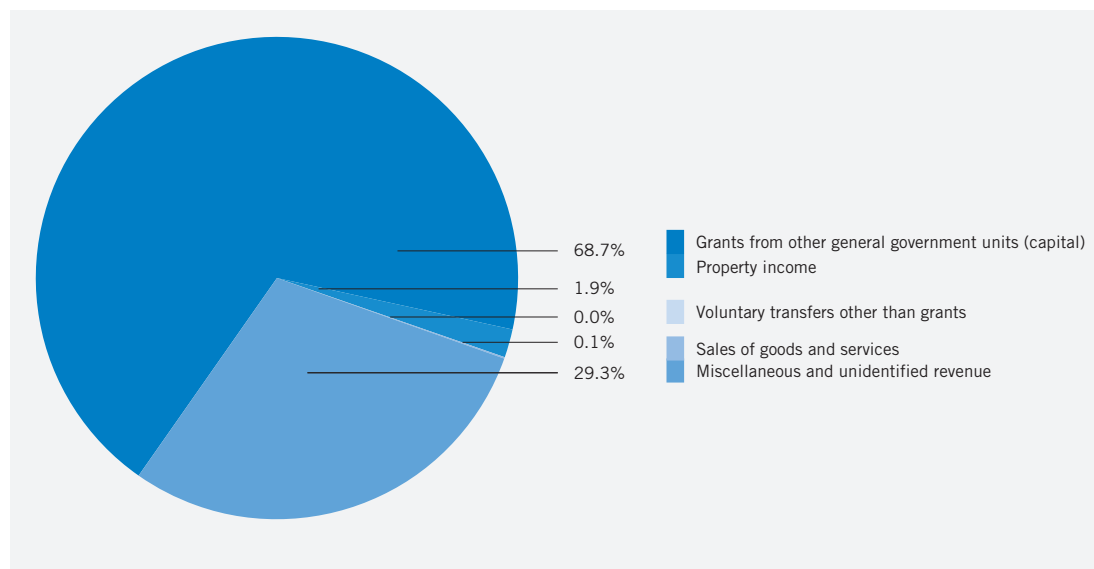
Net acquisition of financial assets was recorded in the amount of HRK -9.8 million and was totally realized on domestic market. The amount of HRK -33.2 million refers to currency and deposit and HRK 23.4 million of loans of which HRK 43.4 million of repayment and HRK 20 million of incurrence.

The Environment Protection Fund recorded no transactions in liabilities in 2007.

3.1.3 The Croatian Motorways Ltd.

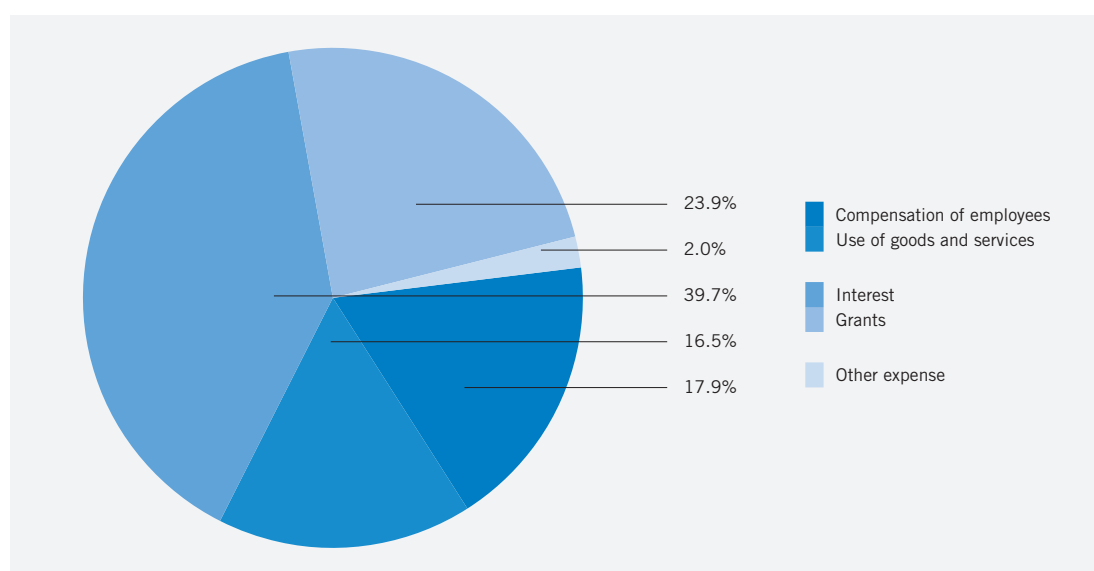
Croatian Motorways Ltd. (Hrvatske autoceste d.o.o.), a limited liability company for operation, construction and maintenance of motorways, was registered and started its business activity on April 11, 2001, as one of two legal successors of "Hrvatske uprave za ceste". The company is 100% owned by the Republic of Croatia. The funds needed for conducting described activities derive from six main sources: petrol fee for financing motorway construction and maintenance, toll for the use of motorways and toll-gates, special transport fee, fee for the use of road area and provision of supporting services as well as other sources and long-term indebtedness. The prevailing sources of the Croatian Motorways are petrol fees, tolls and debt incurrence.

The Croatian Motorways collected HRK 4.4 billion of revenue, which represents an annual increase of 61.4%. The most significant category of total revenue is capital grants from other general government units realized in the amount of HRK 3.0 billion (68.7% of total revenue). Other revenue recorded the amount of HRK 1.4 billion (31.3% of total revenue). The largest contribution to these developments was made by miscellaneous and unidentified revenue, which amounted to HRK 1.3 billion (29.3% of total revenue). Property income revenue amounted to HRK 85 million. Namely, rents amounted to HRK 48.1 million (1.1%), dividends to HRK 26.1 million (0.6%), withdrawals from income of quasi-corporation HRK 7 million (0.2%) and interests to HRK 3.8 million (0.1% of total revenue).


Figure 3.3 Revenue Structure of the Croatian Motorways in 2007


Source: Croatian Motorways, Ministry of Finance

Total expenses of the Croatian Motorways were executed in the amount of HRK 2.0 billion, which represents an annual increase of 25.9%. The largest share was appropriated for the interests in the amount of HRK 787.8 million (39.7%), out of which HRK 528.5 million refers to interests to nonresidents and HRK 259.4 million refers to interest to resident other than general government. Within the structure of the compensation of employees which were at the level of HRK 354.4 million (17.9%), HRK 305.3 million (86.2%) refers to wage and salaries and HRK 49.1 million (13.8%) refers to social contributions. Capital grants to other general government units recorded the level of HRK 474.2 million (23.9% of total expenses). Other expense of the Croatian Motorways recorded the level of HRK 39.7 million (2% of total expenses) and use of goods and services amounted to HRK 326.4 million (16.5% of total expenses).

Figure 3.4 Expense Structure of the Croatian Motorways in 2007


Source: Croatian Motorways, Ministry of Finance

The acquisition of nonfinancial assets amounted to HRK 3.4 billion in 2007. The largest contribution (96.2%) to these developments was made by fixed assets in the amount of HRK 3.2 billion, where 98.5% refers to acquisition of buildings and structures (HRK 3.2 billion) and the rest of the sum refers to acquisition of machinery and equipment (HRK 43 million) and other fixed assets (HRK 5.8 million).



The disposal of nonfinancial assets was realized in the amount of HRK 16.9 million, solely on the basis of disposals of buildings and structures. The acquisition of nonproduced assets was realized at the level of HRK 128.8 million, which resulted from land acquisition (98.5% or HRK 126.9 million) and the acquisition of intangible nonproduced assets (1.5% or HRK 1.9 million).

Transactions in financial assets were conducted only on domestic market recording the amount of HRK 289.1 million of net financial assets. This balance is in its entirety the result of currency and deposits.

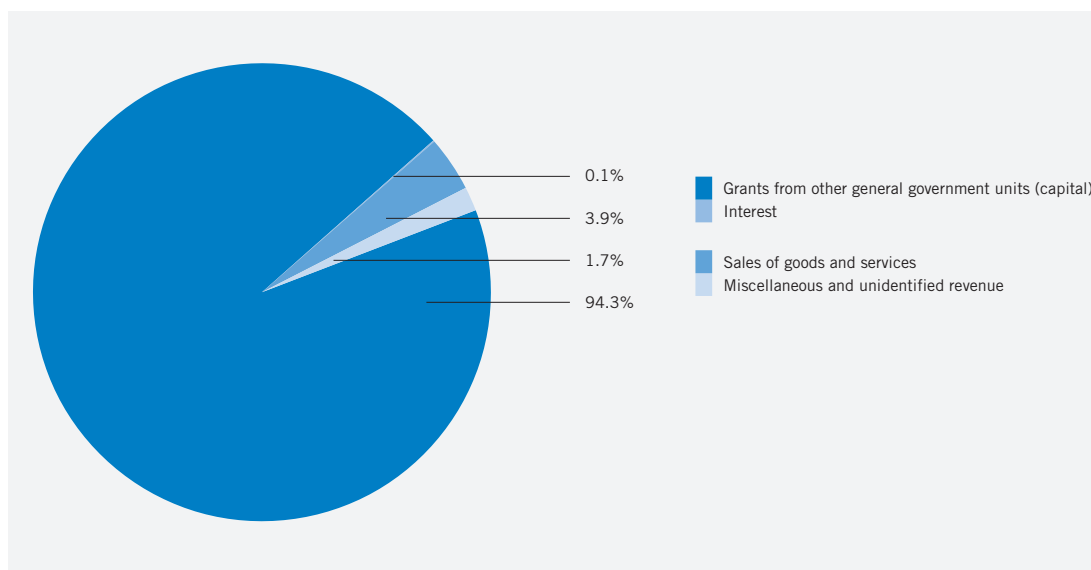
Net incurrence of liabilities of the Croatian Motorways stood at HRK 1.2 billion, where total of HRK 442 million relates to domestic incurrence of loans and HRK 530 million refers to domestic repayment of securities other than shares. The reminder, in the amount of HRK 1.3 billion refers to foreign loans of which HRK 581.2 million of repayments and HRK 1.9 billion of incurrence.

3.1.4 The Croatian Roads Ltd.

The Croatian Roads Ltd. is limited liability Company for management, construction and maintenance of the state roads. The company's profit is used for the construction and maintenance of the state roads.

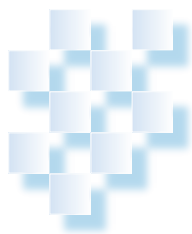
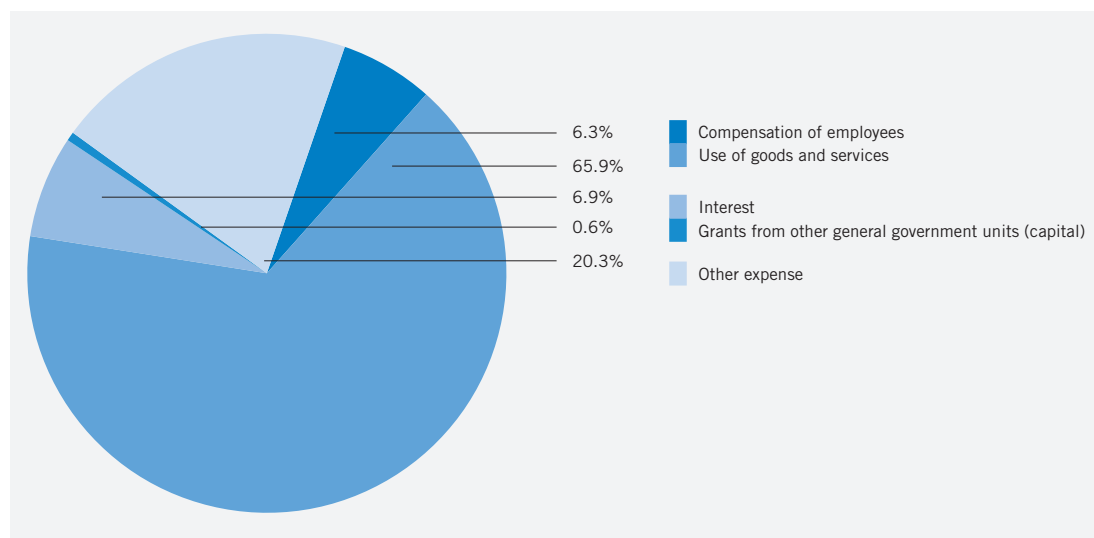
Total revenue of the Croatian Roads recorded the level of HRK 2.1 billion in 2007 which represents annual growth of 17%. The largest contribution to this outturn was made by capital grants from other general government collected in the amount HRK 2 billion (94.3% of total revenue). The remaining revenue relates to interest, which amounted to HRK 1.6 million and sales of goods and services, which amounted to HRK 82.7 million. Within their structure, the most significant are administrative fees realized at the level of HRK 47.6 million and incidental sales by nonmarket establishments realized at the level of HRK 35.1 million. The miscellaneous and unidentified revenue stood at HRK 35.6 million.

Figure 3.5 Revenue Structure of the Croatian Roads in 2007



Source: Croatian Roads, Ministry of Finance

Total expense of the Croatian Roads was realized at the level of HRK 1.2 billion, which represents annual increase of 1.3%. The largest share of total expenses relates to the use of goods and services, which amounted to HRK 819.3 million (65.9% of total expenses), followed by the other expense in the amount of HRK 252.8 million of which capital expense in the amount of HRK 241.6 million, and current expense HRK 11.3 million. The compensation of employees was realized at the level of HRK 78 million (6.3% of total expenses), of which 85.9% relates to wages and salaries (HRK 67 million) and the rest to social contributions. The Croatian Roads spent HRK 85.6 million for interest payments. Within its structure interests for nonresidents amounted to HRK 17.2 million and interests to resident other than general government amounted to HRK 68.5 million.


Figure 3.6 Expense Structure of the Croatian Roads in 2007


Source: Croatian Roads, Ministry of Finance

Net acquisition of nonfinancial assets of the Croatian Roads were recorded in the amount of HRK 1.6 billion, where total of HRK 1.4 billion (88.3%) relates to fixed assets, while the reminder in the amount of HRK 187.1 million (11.7%) refers to nonproduced assets. The acquisition of fixed assets is mostly (99.2%) related to acquisitions of buildings and structures and only 0.8% refers to acquisition of machinery and equipment and acquisition of other fixed assets. Disposal of fixed assets, which in its whole amount refers to disposals of buildings and structures, are recorded in the amount of HRK 986 thousand. In the same time, nonproduced assets refer completely to acquisition. Namely, acquisition of land amounted to HRK 185 million (98.9%) and acquisition of intangible nonproduced assets amounted to HRK 2.1 million (1.1%).

Net acquisition of financial assets of the Croatian Roads amounted to HRK -45.1 million, which resulted from the transactions on the domestic market. This amount is the result of currency and deposits recorded at the level of HRK -18.3 million and loans in the amount of HRK -26.7 million.

Net incurrence of liabilities of the Croatian Roads in the amount of HRK 691.7 million resulted from the net incurrence (loans) of liabilities on the foreign market at the level of HRK 168 million and on the domestic market at the level of HRK 558.6 million. Repayments of loans on the domestic market were HRK 34.9 million.

3.1.5 The State Agency for Deposit Insurance and Bank Rehabilitation

The State Agency for Deposit Insurance and Bank Rehabilitation is established in accordance with the Law on the State Agency for Deposit Insurance and Bank Rehabilitation as specialized financial institution for deposit insurance in banks and saving banks and for implementation of bank rehabilitation procedures. The founder of the Agency is the Republic of Croatia, which guarantees the commitments and liabilities of the Agency. The assets for the operation of the Agency comprise insurance premiums paid to the Agency by banks and saving banks for the purpose of savings deposit insurance and revenues earned by the Agency through its operation.

Total revenue of the State Agency for Deposit Insurance and Bank Rehabilitation recorded an annual decline of 4.4%, so amounting to HRK 391.4 million. This is the result of decrease in miscellaneous and unidentified revenue from HRK 79.2 million in 2006 to HRK 40.6 million in 2007. On the other hand, property income recorded an increase of 6.2% (HRK 350.9 million). Within the structure of property income, the largest amount of HRK 334.4 million (95.3%) was collected by withdrawals from income of quasi-corporations (premiums) while the remaining share (4.7%) relates to the interest revenue recorded in the amount of HRK 10.6 million, dividends in the amount of HRK 5.8 million and revenues from rent in the amount of HRK 61 thousand.

The State Agency for Deposit Insurance and Bank Rehabilitation recorded HRK 47.8 million of total expense, which represents an annual increase of 74.8%. The largest amount of HRK 20.5 million (42.9% of total expenses) was spent for other expense (current). Then follows use of goods and services with HRK 20.4 million (42.6% of total expenses). Compensation of employees was recorded in the amount of HRK 6.1



million (12.7% of total expenses). Within the structure of the compensation of employees, HRK 5.2 million refers to wages and salaries and the rest of the sum (HRK 868 thousand) refers to social contributions. Social security benefits was recorded at the amount of HRK 523 thousand (1.1% of total expenses) and interest to residents other than general government amounted to HRK 345 thousand (0.7% of total expenses).

Net acquisition of financial assets amounted to HRK -19 million, which is totally the result of the transaction in fixed assets (HRK 1.2 million of acquisition and HRK 20.2 million of disposals, mostly disposals of buildings and structures). The largest amount of the acquisition (54.2%) of HRK 651 thousands relates to machinery and equipment, while the remaining of HRK 551 thousand (45.8%) relates to the acquisition of buildings and structures.

Transactions in financial assets were made exclusively on the domestic market and they amounted to HRK 362.6 million. Namely, the State Agency for Deposit Insurance and Bank Rehabilitation recorded in currency and deposits the amount of HRK 369.2 million and for the disposal of shares and other equity the amount of HRK 6.6 million.

The State Agency for Deposit Insurance and Bank Rehabilitation recorded no transactions in liabilities.

3.1.6 The Croatian Privatization Fund

The Croatian Privatization Fund was established to implement and complete the privatization of former socially-owned enterprises, assets and legal persons in its portfolio wherein the state institutions (State Agency for Bank Rehabilitation and Guarantee of Saving Deposits (DAB); Croatian Pension Insurance Institute (HZMO), Croatian Health Insurance Institute (HZZO); HEP; INA; Croatian Bank for Reconstruction and Development (HBOR) hold shares and business interests. The Fund engages in the following professional and administrative operations: transformation of socially-owned enterprises into public companies; privatization of shares, interests, property and rights and the transfer of shares free of charge when stipulated by law; management of legal entities in which state institutions hold shares and interests, and other operations stipulated by law and the Fund's Charter; management of assets owned by the Republic of Croatia when stipulated by law or a decision of the Government; management of legal entities in which the Fund holds shares and interests, and other operations stipulated by law and the Fund's Charter. The main funds of the Croatian Privatization Fund are collected from the dividends from its equities in the companies.

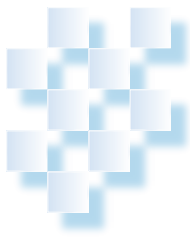
Total revenue of the Croatian Privatization Fund in the amount of HRK 58.3 million was realized solely on the basis of other revenue. Compared to 2006, total revenue recorded a decrease of 11.5% and was almost in its entirety realized as property income in the amount of HRK 58.2 million. The biggest part of property income are revenues from dividends which amounted to HRK 41.2 million (70.8% of total property income), while the rest of the sum refers to revenues from withdrawals from income of quasi-corporations (HRK 8 million or 13.8% of total property income), interest (HRK 6.9 million or 11.9% of total property income) and rent (HRK 2 million or 3.5% of total property income).

The Croatian Privatization Fund recorded total expense in the amount of HRK 88.2 million (annual increase of 12.6%). Compensation for employees was recorded at the level of HRK 36.3 million (41.1% of total expenses), of which 86.1% (HRK 31.2 million) refers to wages and salaries and the rest of the sum to social contributions (13.9% or HRK 5.1 million). Use of goods and services was recorded at the level of HRK 34.2 million (38.7% of total expenses) and interest at the level of HRK 17.8 million (20.2% of total expenses) of which HRK 7.7 million for domestic interest and HRK 10.1 million for foreign interest.

Net acquisition of nonfinancial assets of the Croatian Privatization Fund was realized at the level of HRK -23.5 million as the result of the disposal of fixed assets in the amount of HRK 27.1 million and its acquisition in the amount of HRK 3.6 million. The disposal of fixed assets was exclusively the result of the disposal of buildings and structures while its acquisition resulted from the acquisition of machinery and equipment of HRK 2.4 million (68.9%) and acquisitions of buildings and structures in the amount of HRK 1.1 million (31.1%).

Transactions in financial assets were made only on the domestic market where HRK 82.7 million of net financial assets. Currency and deposits of the Fund amounted to HRK 14.7 million. Net loans were recorded in the amount of HRK 126.5 million as a result of disposal of loans in the amount of HRK 76 million and its acquisition in the amount of HRK 202.5 million. Disposals of shares and other equity amounted to HRK 84.6 million while its acquisition recorded the amount of HRK 26.1 million, which resulted in net shares and other equity in the amount of HRK -58.5 million.

Net incurrence of liabilities amounted to HRK 89.1 million, which resulted from the transactions in loans on the domestic market (incurrence in the amount of HRK 120 million and repayments in the amount of HRK 13.9 million) and transaction on the foreign market in amount of HRK 17 million.



3.2 CONSOLIDATED CENTRAL GOVERNMENT

In this section consolidated central government is presented with the intention of more realistic review of connection between budgetary central government and extrabudgetary users.

The share of total revenue of consolidated central government in nominal GDP increased from 40.1% in 2006 to 41.2% in 2007 as a result of increase in total revenue of budgetary central government for HRK 13.1 billion. This trend resulted in faster increase of total revenue of consolidated central government (12.9%) when compared to 2006 when they recorded growth of 8.4%. In absolute amount, total revenues of consolidated central government stood at HRK 113.4 billion.

Total expense of consolidated central government also recorded an increase of its share in GDP from 39.4% of GDP in 2006 to 39.7% of GDP in 2007. This is a result of increase of expense of budgetary central government in the amount of 0.7 percentage points of GDP on the level of 37.4% of GDP (HRK 103 billion). In the same time, expense of extrabudgetary users recorded share of 2.2% of nominal GDP (annual decline of 0.5%).

Consolidated central government net acquisition of nonfinancial assets was realized at the level of HRK 7.8 billion as a result of greater acquisition of nonfinancial assets (HRK 8.4 billion) than its disposal (HRK 567.7 million). This resulted in increase of nonfinancial assets from 2.4% of GDP in 2006 to 2.8% of GDP in 2007, which is based on increase of acquisition of budgetary central government. In the same time, total disposal decreased for 0.1 percentage points, which was mostly influenced by extrabudgetary users, sells decrease.

Net acquisition of financial assets of consolidated central government recorded an amount of HRK -2.9 billion. At the same time its domestic component recorded an amount of HRK -3 billion while its foreign component recorded an amount of HRK 18 million.

Net liabilities of consolidated central government amounted to HRK 560.6 million or 0.2% of GDP. Domestic liabilities amounted to HRK 2 billion while foreign liabilities amounted to HRK -1.5 billion. The net liabilities were reduced by 70.3% compared with previous year.

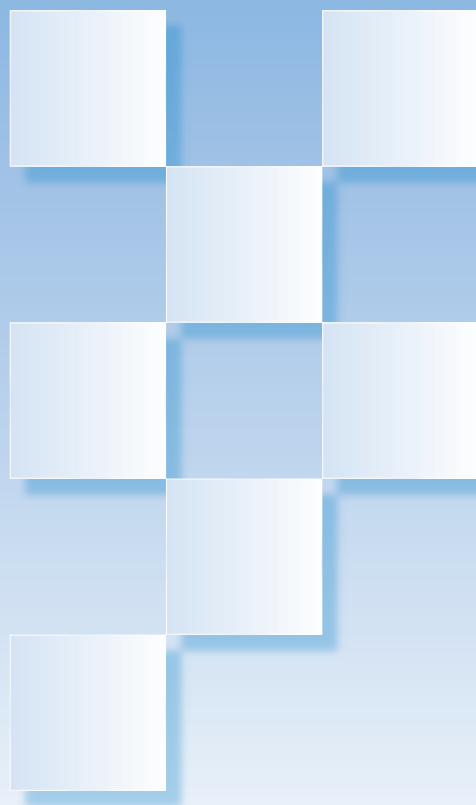
**Table 3.3 Consolidated Central Government According to Government Level, 2004 - 2007**

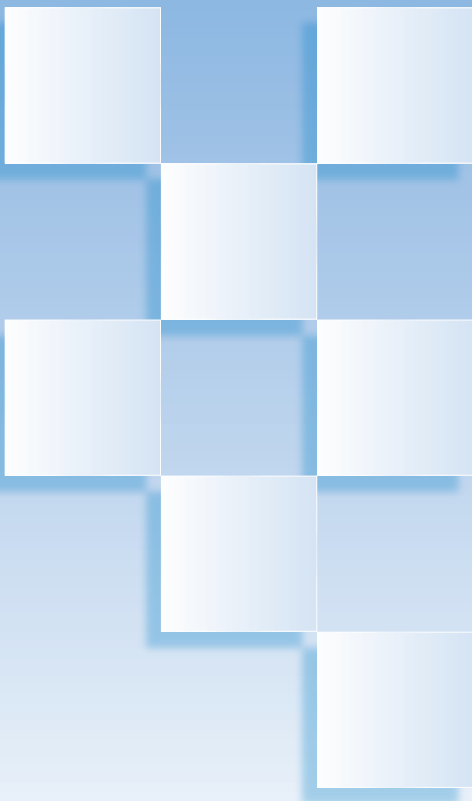
(000 HRK)	2004	% GDP	2005	% GDP	2006	% GDP	2007	% GDP
1 REVENUE	87,019,284.2	40.5	92,642,473.2	40.0	100,392,605.3	40.1	113,386,165.0	41.2
Budgetary Central Government	80,463,518.2	37.4	85,653,010.2	37.0	95,234,057.3	38.0	108,296,963.0	39.4
Extrabudgetary Users	6,555,766.0	3.0	6,989,463.0	3.0	5,158,548.0	2.1	5,089,202.0	1.9
Croatian Institute for Pension Insurance	129,892.0	0.1	38,010.0	0.0	293,485.0	0.1	-	-
Croatian Health Insurance Institute	663,139.0	0.3	863,868.0	0.4	848,683.0	0.3	-	-
Croatian Employment Service	15,507.0	0.0	18,855.0	0.0	18,363.0	0.0	-	-
Croatian Waters	1,224,431.0	0.6	1,227,794.0	0.5	1,526,851.0	0.6	2,041,209.0	0.7
Environment Protection Fund	170,748.0	0.1	214,737.0	0.1	659,840.0	0.3	1,102,946.0	0.4
Development and Employment Fund	-	-	-	-	-	-	-	-
Regional Development Fund	-	-	-	-	-	-	-	-
Croatian Motorways Ltd.	2,295,423.0	1.1	2,547,003.0	1.1	1,271,125.0	0.5	1,375,336.0	0.5
Croatian Roads Ltd.	1,417,787.0	0.7	1,474,714.0	0.6	64,749.0	0.0	119,946.0	0.0
State Agency for Deposit Insurance and Bank Rehabilitation	575,893.0	0.3	367,438.0	0.2	409,581.0	0.2	391,441.0	0.1
Croatian Privatization Fund	62,946.0	0.0	237,044.0	0.1	65,871.0	0.0	58,324.0	0.0
2 EXPENSE	86,941,437.4	40.4	92,332,139.9	39.9	98,751,407.9	39.4	109,074,989.1	39.7
Budgetary Central Government	81,861,164.4	38.1	86,715,597.9	37.5	91,979,692.9	36.7	103,004,916.1	37.4
Extrabudgetary Users	5,080,273.0	2.4	5,616,542.0	2.4	6,771,715.0	2.7	6,070,073.0	2.2
Croatian Institute for Pension Insurance	587,420.0	0.3	382,162.0	0.2	565,857.0	0.2	-	-
Croatian Health Insurance Institute	831,295.0	0.4	914,345.0	0.4	931,628.0	0.4	-	-
Croatian Employment Service	141,333.0	0.1	145,931.0	0.1	155,002.0	0.1	-	-
Croatian Waters	1,426,283.0	0.7	1,489,465.0	0.6	1,779,088.0	0.7	2,099,001.0	0.8
Environment Protection Fund	32,443.0	0.0	172,045.0	0.1	734,764.0	0.3	1,083,268.0	0.4
Development and Employment Fund	-	-	-	-	-	-	-	-
Regional Development Fund	-	-	-	-	-	-	-	-
Croatian Motorways Ltd.	752,254.0	0.3	1,085,077.0	0.5	1,272,713.0	0.5	1,509,844.0	0.5
Croatian Roads Ltd.	934,630.0	0.4	1,062,405.0	0.5	1,226,934.0	0.5	1,241,899.0	0.5
State Agency for Deposit Insurance and Bank Rehabilitation	314,474.0	0.1	182,993.0	0.1	27,354.0	0.0	47,820.0	0.0
Croatian Privatization Fund	60,141.0	0.0	182,119.0	0.1	78,375.0	0.0	88,241.0	0.0
31 NET ACQUISITION OF NONFINANCIAL ASSETS	8,373,462.9	3.9	6,699,416.4	2.9	6,108,627.1	2.4	7,810,956.3	2.8
Acquisition	8,648,382.9	4.0	7,024,179.8	3.0	6,836,371.4	2.7	8,378,645.7	3.0
Budgetary Central Government	1,663,867.9	0.8	1,828,817.8	0.8	1,908,482.4	0.8	3,043,905.7	1.1
Extrabudgetary Users	6,984,515.0	3.2	5,195,362.0	2.2	4,927,889.0	2.0	5,334,740.0	1.9
Disposals	274,920.0	0.1	324,763.4	0.1	727,744.3	0.3	567,689.4	0.2
Budgetary Central Government	244,401.0	0.1	275,149.4	0.1	352,690.3	0.1	498,685.4	0.2
Extrabudgetary Users	30,519.0	0.0	49,614.0	0.0	375,054.0	0.1	69,004.0	0.0
32 NET ACQUISITION OF FINANCIAL ASSETS	28,384.3	0.0	1,609,759.5	0.7	-2,576,689.0	-	-2,939,156.0	-
321 Domestic	18,598.5	0.0	1,614,616.4	0.7	-2,593,369.6	-	-2,957,191.6	-
Budgetary Central Government	138,577.5	0.1	1,747,681.4	0.8	-3,063,854.6	-	-3,752,816.6	-
Extrabudgetary Users	-119,979.0	-	-133,065.0	-	470,485.0	0.2	795,625.0	0.3
322 Foreign	9,785.8	0.0	-4,856.9	-	16,680.6	0.0	18,035.6	0.0
Budgetary Central Government	9,785.8	0.0	-4,856.9	-	16,680.6	0.0	18,035.6	0.0
Extrabudgetary Users	0.0	-	0.0	-	-	-	-	-
33 NET INCURRENCE OF LIABILITIES	8,324,000.4	3.9	7,998,842.6	3.5	1,890,740.7	0.8	560,624.4	0.2
331 Domestic	4,107,680.1	1.9	12,041,677.7	5.2	5,282,792.0	2.1	2,017,095.0	0.7
Budgetary Central Government	4,038,705.1	1.9	10,591,559.7	4.6	3,166,260.0	1.3	1,477,615.0	0.5
Extrabudgetary Users	68,975.0	0.0	1,450,118.0	0.6	2,116,532.0	0.8	539,480.0	0.2
332 Foreign	4,216,320.3	2.0	-4,042,835.1	-	-3,392,051.3	-	-1,456,470.6	-
Budgetary Central Government	270,335.3	0.1	-5,080,612.1	-	-3,943,248.3	-	-2,980,165.6	-
Extrabudgetary Users	3,945,985.0	1.8	1,037,777.0	0.4	551,197.0	0.2	1,523,695.0	0.6

Source: Ministry of Finance and Central Bureau of Statistics for GDP data

4

FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT IN 2007







4.1 TERRITORIAL ORGANISATION AND LEGAL BASE FOR FINANCING LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

The framework for development of local and regional self-government units in the Republic of Croatia was created by Constitution of the Republic of Croatia and by accepting the principles of European Charter of Local Self-government and the Law on Local and Regional Self-government Units.

The legal framework which regulates territorial organisation, domain and the system of financing the local and regional self-government units consists of the following legal documents and subordinate legislation:

- Constitution of the Republic of Croatia⁷
- The Law on Local and Regional Self-government Units⁸
- The Budget Law
- The Law on the Financing of Local and Regional Self-government Units⁹
- The Law on the Areas of Special State Concern¹⁰
- The Law on the Territories of Counties, Cities and Municipalities in the Republic of Croatia¹¹
- The Law on Hilly and Mountainous Areas
- The Law on the City of Zagreb
- The Law on Islands
- special laws which regulate certain activities from the scope of municipalities, cities and counties
- The Law on the Execution of the State Budget of Republic of Croatia for the Year 2007
- annual regulations of the Government of Republic of Croatia that regulate minimal financial standards for the decentralised functions financing (the criteria and benchmarks for determining rights for financing primary and secondary education standards, health care and social welfare, fire-fighting, and methodology for determining the limit of accommodation grants and allocation of funds).

In the field of territorial organisation of Local and Regional Self-government Units in 2007 there were no quantitative and status changes. The territory of the Republic of Croatia consists of 576 local and regional units, of which 429 municipalities, 126 cities, 20 counties as well as the City of Zagreb which has the joined status of the capital city and the county.

The legal position of all local units is equalized, where municipalities and cities constitute local self-government units and counties constitute regional self-government units.

Municipalities and cities¹², within their scope of competences, deal with the affairs of local importance, which directly fulfil the citizen needs and which are not assigned to the government bodies by Constitution or law, while the counties¹³ deal with the affairs of regional importance.

Municipalities, cities and counties deal with the government administration affairs which are transferred to them by special laws and for which the funds are secured in the state budget.

With the existing territorial organisation and large differences among units in the level of development and fiscal capacity, the Government of Republic of Croatia, by accepting majority of the European Charter of Local Self-government principles in the Government Program has continued the process of decentralisation. Transfer and financing of the affairs from the government level to the local and

⁷ Constitution of the Republic of Croatia (Official Gazette, No 41/01)

⁸ Law on Local and Regional Self-government Units (Official Gazette, No 33/01, 60/01 i 129/05)

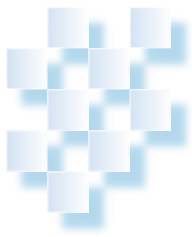
⁹ Law on the Financing of Local and Regional Self-government Units (Official Gazette, No 117/93, 69/97, 33/00, 127/00, 59/01, 107/01, 117/01, 150/02, 147/03, 132/06)

¹⁰ Law on the Areas of Special State Concern (consolidated text) (Official Gazette, No. 26/03)

¹¹ Law on the Territories of Counties, Cities and Municipalities in the Republic of Croatia (Official Gazette, No. 86/06, 125/06 and 16/07)

¹² The affairs related to: settlement regulation and housing, spatial and urban planning, communal services, child care, social welfare, primary health care, primary school education, culture, physical culture and sport, consumer protection, natural environment protection and promotion, fire and civil protection, transport in their territory and other affairs in accordance with special laws.

¹³ The affairs related to: education, health care, spatial and urban planning, economic development, transport and transport infrastructure, planning and development of educational, health care, social and cultural institutions network.



regional self-government units has been continued with the goal of encouraging their economic progress and development and eliminating unevenness among local and regional self-government units, where service providing quality would increase as well as level development.

As a continuation in the process of decentralisation in 2005 Croatian Parliament adopted the Law on Amendments to the Law on Local and Regional Self-government Units where a different scope of competences of municipalities and cities' activities on the one hand and large cities and cities which are county centres on the other was regulated for the first time. Large cities were introduced as local self-government units where 24 cities gained new jurisdiction in: maintenance of public roads, issuance of construction and location licences and implementation of urban planning documents and transport in their territory. The changes mentioned here have been a further step forward; in order to facilitate implementation of previously mentioned legal rights, amendments to special laws¹⁴ were adopted in 2007 which transferred certain affairs to jurisdiction of a large city or a county.

Local units in general finance the affairs within their scope of competences by their own resources and grants from the state budget. However, due to the large differences among units in their demographic structure, economic development and fiscal capacity, and variety of expenditures and activities they finance, larger number of units do not have enough of their own resources for performing activities within their scope of competences, and therefore special laws and programs have been adopted, which determined incentive measures for their reconstruction and development.

Among the significant laws which define units' special status is law on the areas of special state concern. The areas of special state concern are divided into three groups by Law on the Areas of Special State Concern. Within the total number of municipalities and cities 180 have the special state concern status (111 municipalities/ cities are included in the first and second group, and 69 municipalities are included in the third group). Law regulates the marginal value where the special state concern area can cover up to 15% of total population of the Republic of Croatia.

Pursuant to the law special incentive measures are prescribed; revenues which were realised on this area and belong to the state budget are conceded to these units. Also, various tax reliefs and other privileges are introduced for private and legal entities with the place of residence on the special state concern territory.

The Law¹⁵ also defines the hilly and mountainous areas of special concern, in order to mitigate the problems arising from geographical characteristics (height, slope, climate, etc.) and to create preconditions for raising the standard of living. The status of hilly and mountainous areas is assigned to 45 local self-government units. Tax and other reliefs for the areas of special state concern are also applicable to hilly and mountainous areas.

Special state measures are applied also to the islands' territory. With the aim of island protection¹⁶ and faster economic and demographic development, programs of sustainable island development are defined. The governmental programs support the development of the islands through incentive measures (improvement of connections between the islands and the mainland, privileges during the purchase or renting of the agricultural land, water consumption, financing of water supply capital projects, spatial planning and improvement of transport infrastructure).

Many institutions on the state level care about local and regional self-government development. Besides competent ministries, each of which takes care from their own scope of competences and proposes appropriate programs and incentives, other authorities have been organized (Regional Development Fund¹⁷, Development and Employment Fund, Environmental Protection Fund etc.). The Regional Development Fund was established with a purpose of faster and more equal regional development of areas characterized by budgetary funds per capita lower than 65% of the Republic of Croatia average. The Fund directs its resources to capital infrastructure and economic projects of interest to development of local self-government units as non-refundable and/or refundable resources (loans), a precondition for economic development of the area.

¹⁴ Spatial Development and Construction Law (Official Gazette, No 76/07), Law on Environmental Protection (Official Gazette, No 110/07)

¹⁵ Law on Hilly and Mountainous Areas (Official Gazette, No 12/02, 32/02, 117/03, 42/05 i 90/05)

¹⁶ Law on Islands (Official Gazette, No 34/99, 32/02 i 33/06)

¹⁷ Law on the Regional Development Fund of Republic of Croatia (Official Gazette, No 107/01)



As mentioned in the introduction, the Law on Local and Regional Self-government Units and special laws from certain activities (education, health care, social welfare, fire-fighting) preconditions for decentralisation process were created. By decentralisation, i.e. by transferring the functions/affairs and funds from the government to local and regional level, the authorities, besides the territorial organisation, wish to establish an efficient public sector closely related to the citizens and their needs, and to strengthen responsibility of the local authorities for performing the activities from their scope of competences.

The Law on the Financing of Local and Regional Self-government Units regulates the sources and modes of financing, while special laws and other regulations define the functions and subjects of decentralisation. Parts of functions/expenses, for school education, health care and social welfare, have been decentralised to counties, 32 cities and the City of Zagreb, while the regular activities of public fire brigades (62)¹⁸ are financed by 126 municipalities/ cities. An additional share of the personal income tax for each function (further increased since January 1st 2007) has been provided for the units for transferred functions, which settles the minimum standards determined according to the objective criteria regulated by the annual decisions of the Government of the Republic of Croatia from referent areas. Furthermore, according to the Law, units which on the basis of additional share of the personal income tax do not achieve sufficient funds for covering the minimum standards determined by the annual Decision of the Government have the right to equalization grants for decentralised functions from the state budget. Additional shares for the decentralised functions are shown in Table 4.1.

Table 4.1 Additional Shares of the Personal Income Tax Allocated for Decentralised Functions in 2006 and 2007

	2006	2007
School education		
Primary Education	2.90%	3.10%
Secondary Education	2.00%	2.20%
Social welfare		
Centres for social welfare	0.40%	0.50%
Homes for elderly and disabled persons	1.60%	1.70%
Health care		
Health care institutions	2.50%	3.20%
Fire-fighting		
Public fire brigades	1.00%	1.30%
Funds of equalization grants for decentralised functions	21.00%	21.00%

Annual Decisions¹⁹ of the Government on the minimum financial standards prescribe the criteria and benchmarks for provision of minimum financial standard for each decentralised function, which is the basis of the annual commitment of local and regional self-government units for each of the transferred functions.

Based on the mentioned decisions, by the Decree²⁰ the Government of the Republic of Croatia regulates the method of calculation of the amount of equalization grants for local and regional self-government units, which have taken over the financing of decentralised functions, their allocation, planning and control of state authorities, and the local and regional self-government.

¹⁸ Law on Fire-fighting (Official Gazette, No 139/04 i 174/04)

¹⁹ - Decision on criteria and benchmarks for determining balance rights for financing minimum financial standards of public needs for primary education, secondary education and student homes in 2007;

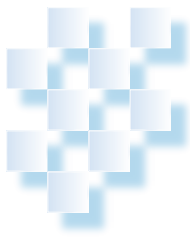
- Decision on minimum financial standards of material and financial expenses for social welfare centres and grants for settlement of the costs of living to users who used firewood in 2007;

- Decision on minimum financial standards for decentralised financing of homes for elderly and disabled persons in 2007;

- Decision on minimum financial standards for decentralised functions for health institutions in 2007;

- Decision on minimum financial standards for decentralised financing of regular activity of public fire brigades in 2007 (Official Gazette, No 143/06, 64/07 i 109/07) and

²⁰ The Decree on the Method of Calculating the Amount of Equalization Grants for Decentralised Functions of Local and Regional Self-government Units (Official Gazette, No 143/06 i 109/07).



By the Decree, the equalization grants are allocated depending on the expense category and activity. For expenses for primary and secondary education and fire-fighting, grants are allocated for current month and the monthly difference is being adjusted with the payments for the next month. The grants for acquisition of nonfinancial assets and additional investments in nonfinancial assets are allocated on the basis of delivered documentation verified by the line ministry, for the due accounts and the accounts coming due in the month in which the grant is given.

Based on the counties and cities decision, the beneficiaries of the primary and secondary education grants can join the funds for the acquisition of fixed assets and additional investments in nonfinancial assets, up to the level of balanced rights determined by Decree. Also, counties, cities and the City of Zagreb can distribute funds realized by additional share in personal income tax and equalization grants by institutions. In this way the local and regional self-government gains more space for independent decision-making as well as the possibility to reallocate funds between the institutions within specific functions, whereat this reallocation should be based on the plan published two months before the adoption.

Besides additional sources of financing, cities, municipalities and counties, holders of the decentralised functions, have the following responsibilities:

- The obligation of resources planning in their budgets and financial plans of budgetary users;
- The obligation to allocate the funds to final users regularly (schools, hospitals, social welfare centres, homes for elderly and disabled persons and public fire brigades);
- The obligation of their earmarked usage and control.

The legality of administrative bodies' performance of decentralised activities and the earmarked usage of funds is, by priority, controlled by counties, the City of Zagreb, cities and municipalities, while the legality of performance and earmarked usage of the Decree funds is controlled by line ministries and the Ministry of Finance, or competent authorities for fire-fighting.

Local and regional self-government units which have taken over the decentralised functions financing are obliged to report on the amount of funds spent on quarterly basis to the line ministry. If the funds achieved exceed those prescribed by the Decisions and the Decree, the excess funds are to be returned to the state budget of the Republic of Croatia.



4.2 FINANCING OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

Sources of revenues for financing the activities from the scope of competences of municipalities, cities and counties are found in their budget. The Law on Financing of Local and Regional Self-government Units determines the revenue types, their distribution, rates, i.e. limits within which they are prescribed. In addition to this regulation, local units must comply with other special laws and regulations which regulate different areas of public spending.

Local units have several sources of revenues at their disposal but the structure of the revenues collected is very significant, as well as the proportion of revenues and activities the local authorities are performing. Counties, cities and municipalities generate revenues from their own revenues, joint revenues (taxes and other revenues) shared between the government, municipalities/cities and counties, grants from the state and county budget and the receipts on the basis of borrowing in accordance with a special law.

Counties' own revenues come from their own assets, county taxes (inheritance and gifts tax, road motor vehicles tax, boat tax, slot machine tax) and other revenues determined by special law.

Municipalities/cities' own revenues come from their own assets, taxes (surtax on personal income tax, sales tax, second home tax, enterprise or trading name tax, tax on public land usage), administrative charges, residence charges, utility and other fees.

Joint revenues of the government, municipality and city from the contracted annual concession fees for the exploitation of mineral and thermal waters and for the usage of water for public water supply are divided so that municipality/city as well as the government each account for 50% of the revenues from the fees for exploitation of mineral and thermal waters, while the share of the municipality/city in the revenue for public water supply is 30%, whereas the government share is 70%.

Local and regional self-government units receive also the joint taxes collected on their territory, determined in the Law previously mentioned. The major part of the revenues of local and regional self-government units, both in terms of structure and in absolute amount, realise from the joint tax revenues.

Since it has been determined that corporate income tax as one of the joint revenues, is concentrated at the larger cities level, the even redistribution of the mentioned tax is questioned, it not being stated at the level of the units where the income and the corporate income tax was realised but according to the taxpayer seat. By Amendments to the Law on Financing, scope and allocation of taxes that are shared between the state, municipalities/cities and counties has been altered since 1st January 2007, so that the corporate income tax is excluded from the joint taxes becoming state budget revenue, whereat local units increased their share in personal income tax.

Joint taxes are personal income tax and real estate tax.

Redistribution of the joint tax revenues is stated in percentage (Table 4.2).

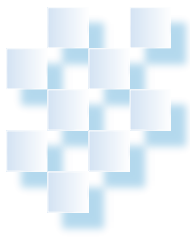
Table 4.2 Redistribution of Joint Tax Revenues

2006	State Budget	Counties	Municipalities / Cities
Personal income tax	25.60% share of equalization 21%	10% increased by the share for transferred functions (9.4%)	34%, increased by the share for transferred functions
Corporate income tax	70%	10%	20%
Tax on real estate transactions	40%	-	60%

2007	State Budget	Counties	Municipalities / Cities
Personal income tax	0% share of equalization 21%	15% increased by the share for transferred functions (10.70%)	52%, increased by the share for transferred functions
Tax on real estate transactions	40%	-	60%

Source: Ministry of Finance

Note: The share of the City of Zagreb in the personal income tax amounts to 67%, increased by the share for transferred functions (12%).



As indicated above, the share of personal income tax for municipalities and cities in 2007 has been increased from 34% to 52%, enlarged by the share of personal income tax for decentralised functions taken over by the unit (3.1 % share for primary education and 1.3% share for public fire brigades).

Considering the significance of the revenues from personal income tax in local budgets and the fact that the same division is applied for payment as for personal income tax return based on annual application, in order to prevent financial and difficulties in performing the regular functions, like the previous years the state has taken over the obligation of the personal income tax return to the citizens - taxpayers from the special state concern areas with the funds from the state budget. The return of the personal income tax to the citizens that the state has paid out instead of the units amounted to HRK 510 million in 2007, which is 5% increase comparing to the previous year.

Furthermore, municipalities and cities situated on islands, which signed the agreement on financing the projects of common interest for island development, use part of the personal income tax realised on their territory (21%) for capital projects. The amount of HRK 51 million was allocated to these areas in 2007, mostly intended for water supply, spatial planning and transport infrastructure improvement projects.

Special laws on the special state concern areas and hilly and mountainous areas prescribe that corporate income tax realised on their territory, which belongs to the state budget, becomes their local self-government units' revenue. Since corporate income tax is no longer a joint tax but state budget revenue, these units have realised more revenues. The mentioned laws were implemented by state budget grants amounting to HRK 309 million whereat funds were allocated to the units in accordance with the corporate income tax realised on their territory in 100% amount.

Besides the above mentioned, it is also necessary to mention the subsidies, refundable and non-refundable resources and direct capital investments from the state budget of the Republic of Croatia through the Regional Development Fund. Infrastructural projects proposed by areas with financial strength (budgetary funds per capita) lower than 65% of the Republic of Croatia average, can be financed by non-refundable resources up to 50% of the investment project value. In 2007 the amount of HRK 187 million has been allocated to the local and regional self-government units for communal infrastructure construction - regional water-supply network, road infrastructure, entrepreneurial zones, co-financing of the regional operational plans construction and other.

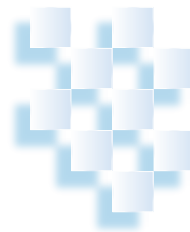
In addition, pursuant to the Law on the Execution of the State Budget of the Republic of Croatia, grants are ensured for the units in the group I and II of the special state concern area, which equal the difference between possible grants and projected personal income tax returns based on annual application.

Legal criteria for the calculation of the grants are determined and applied for municipalities, cities and counties, and on the basis of financial statements of the local and regional self-government units from the previous year the amount of the state budget grants is determined.

The ensured grants to counties refer to incentives for development programs (for acquisition of nonfinancial assets) and grants to municipalities and cities refer to financing of expenditures for material, energy and investments in capital programs. Grants to municipalities and cities in 2007 amounted to HRK 38.7 million, while grants to counties for stimulating the capital projects amounted to HRK 44 million.

Legal criteria for calculation and allocation of grants to counties include: population number, average revenue of counties' budgets per capita on the state level (state average), revenues of the county budget in 2006 per capita on county level, population of Croatia without the City of Zagreb per 1 km² and the county population per 1 km² of the county territory.

To the municipalities and cities which are not direct beneficiaries of the state budget grants, counties allocate at least 75% of their grants. The counties themselves regulate their criteria for allocation of grants on their territory and the obligation of reporting on the usage of grants. In addition to the grants from the state budget, counties ensure grants to units on their territory or co-finance expenditures for nonfinancial assets from their own resources.

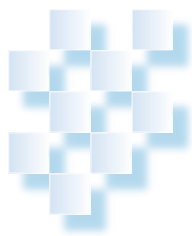


Legal criteria, that are applied on calculation of the grants to municipalities and cities in the special state concern area, include: population number, average revenues per capita of municipalities and cities on the state level in 2006, average revenues per capita of the group, population per 1 km² in the areas of special state concern, population per 1 km² of specific municipality or city, share of expenses for capital programs in total expenses, rationality funds for expenses for employees and funds for covering the functions of cities of the population below 30,000.

One of the indicators of the size and significance of the local self-government is share of the local and regional-self government revenues in gross domestic product, as well as in total revenues of the general government. Share of the local and regional-self government units' revenues (53 units) in GDP in 2007, compared to the previous year, increased from 5.4% to 5.6%, while its share in total revenues of the general government increased from 12.1% to 12.2%.

Further on the budget revenue outturn is shown for a total of 53 units (32 cities, 20 counties and the City of Zagreb) which have taken over the financing of decentralised functions according to the GFS 2001 methodology. It is important to indicate that 53 units of the local and regional self-government participate with 70-80% in total revenues of all units of the local and regional self-government.

Report includes revenues, expenses, net transactions in nonfinancial and financial assets and net transactions in liabilities.



4.3 BUDGET REVENUES OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

Revenues according to GFS 2001 classification are observed through basic categories: taxes, grants and other revenues.

Table 4.3 Budget Revenue Outturn in 2006 and 2007 for 53 Units (32 Cities, 20 Counties and the City of Zagreb)

000 HRK	Outturn 2006	Structure 2006	Outturn 2007	Structure 2007	Index 2007/2006
REVENUES	13,560,211	100.0	15,502,588	100.00	114.3
Tax Revenues	8,299,155	61.2	9,157,898	59.1	110.3
Grants	1,664,688	12.3	2,137,646	13.8	128.4
Other Revenues	3,596,368	26.5	4,207,044	27.1	117.0

Note: According to the GFS 2001 methodology

Source: Ministry of Finance

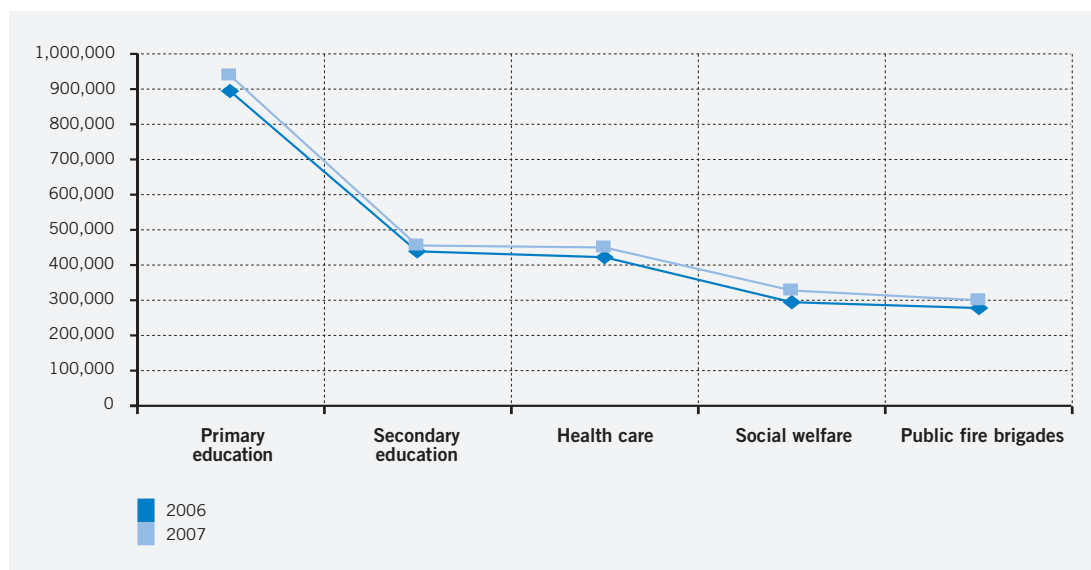
Total revenues of cities and counties in 2007 amounted to HRK 15.5 billion, an increase of 14.3% compared to 2006. Within the total revenues structure in 2007, tax revenues were dominant, realised in the amount of HRK 9.2 billion which is annual increase of 10.3%. Second significant revenue of local budgets is other revenues, increased by 17% compared to the previous year. Although other revenues in nominal amount exceed the amount of grants, grants have had the biggest annual increase of 28.4%.

Table 4.4 Financing of Decentralised Functions in 2007

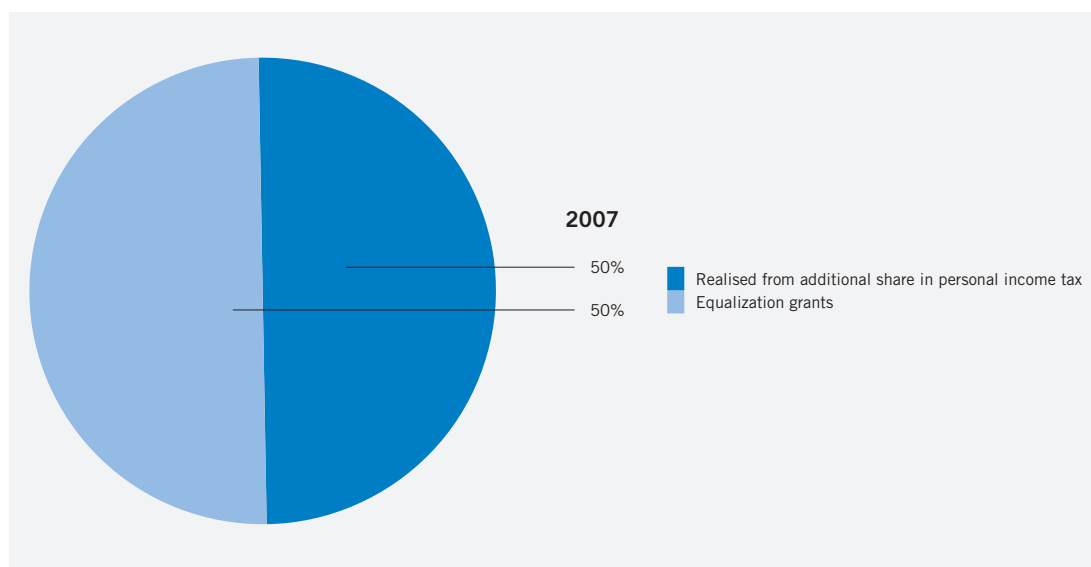
Function	Counties and City of Zagreb	Cities (32)	Cities / Municipalities	Total (000 HRK)
Primary education	691,010	247,698		938,708
Secondary education	456,767			456,767
Health care	452,638			452,638
Social welfare	326,448			326,448
Public fire brigades	41,761	166,353	91,791	299,908
Total liabilities	1,968,624	414,051	91,791	2,474,469

Source: Ministry of Finance

In 2007 total liabilities for decentralised functions amounted to HRK 2.5 billion, an increase of 5.6% compared to the year 2006 when total liabilities amounted to HRK 2.2 billion. The annual increase of the functions is shown in Figure 4.1.

**Figure 4.1 Annual Increase of Decentralised Functions in 2007**

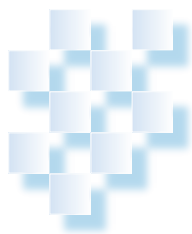
Source: Ministry of Finance

Figure 4.2 Structure of the Revenue Outturn for Decentralised Functions in 2007

Source: Ministry of Finance

The realised share of total income tax from the additional share in 2007 (Figure 4.2) amounted to HRK 1.22 billion, an amount sufficient for financing 50% of total decentralised functions, while the rest of the transferred liabilities was settled from the equalisation grants. Although in 2007, in comparison to the previous year, in the revenues structure significantly increased amount of funds from the additional share in personal income tax was collected, which is the result of the increased share in the personal income tax, 50% of the funds is still extracted from the equalisation grants position.

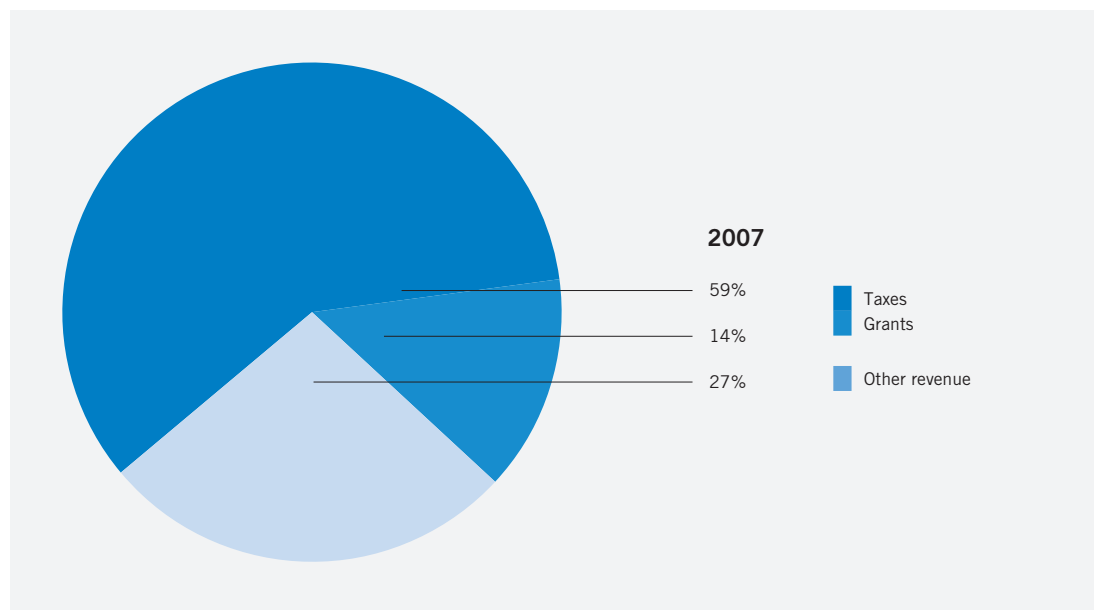
The unequal economic strength and the coverage of the institution network, which is usually not in proportion to the units' fiscal capacity, can also be seen from the relation between the realisation of the additional shares in personal income tax for the decentralised functions and the allocated equalisation grants. Except for the City of Zagreb, all counties and cities used the equalisation grants in 2007. Examined by counties, the highest revenues on the basis of the additional share in the personal income tax has been recorded in Zagreb County, Istria County and Primorje-Gorski kotar County (above 50%), while Lika-Senj County (97%) and Vukovar-Srijem County (88%) had the biggest need for equalisation grants. The rest of the total transferred liabilities are paid from the State budget - equalisation grants.



4.3.1 Taxes

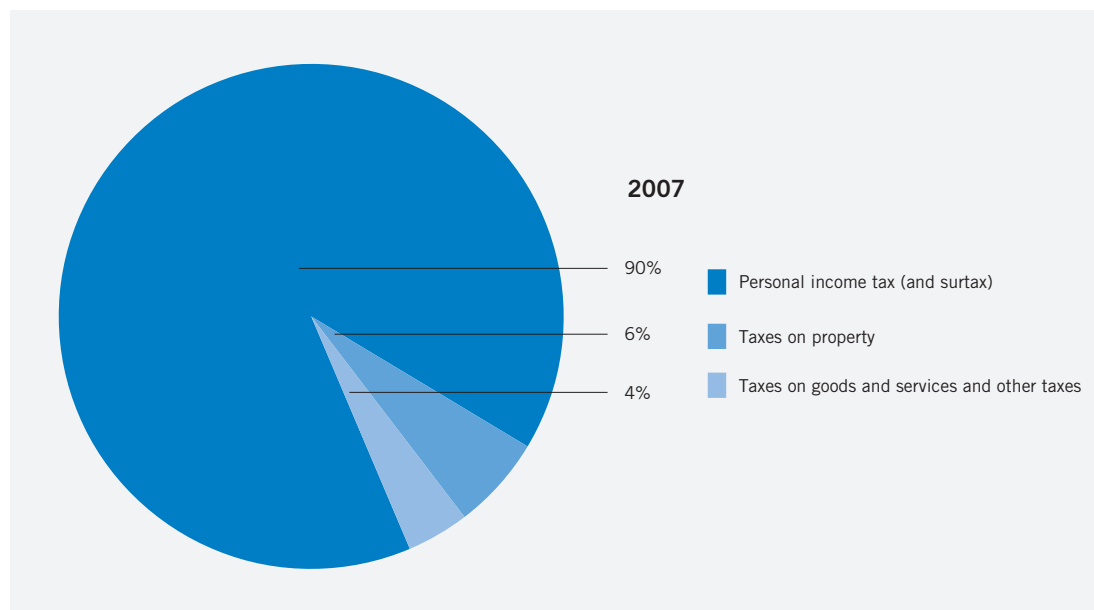
In the structure and absolute amount the most important budget revenue category of local and regional self-government units' budget are tax revenues which account for 59.1% of total revenues. In 2007 tax revenues amounted to HRK 9.2 billion and recorded an increase of 10.3%. Units realise their tax revenues from own and joint tax revenues. Within the structure of total budget revenues of local and regional self-government units (Figures 4.3 and 4.4) the most important are the joint tax revenues. The joint tax revenues amounted to HRK 8.2 billion which is a 53% share in total revenues structure.

Figure 4.3 Structure of Total Revenues of 32 Cities, Counties and the City of Zagreb in 2007



Source: Ministry of Finance

Figure 4.4 Structure of Tax Revenues of 32 Cities, Counties and the City of Zagreb in 2007



Source: Ministry of Finance



Observing the structure of tax revenues (see Figure 4.4), it can be noticed that the most revenues are collected on the basis of joint tax revenues, while the share of other taxes (taxes on goods and services and other taxes) amounted to 4% of total tax revenues. It is important to emphasize that the personal income tax also includes the surtax on personal income tax which is municipalities/cities' own revenue, but due to the specific tax collection technique it is reported together with the personal income tax.

Surtax is an additional tax, representing the revenue of the city or municipality on whose territory the tax payer has his place of residence. The basis for calculation of the surtax is personal income tax. The legal framework for the introduction of the surtax for local self-government units was set in 2001. Municipalities and cities determine the surtax rate by their decisions, within legally prescribed limits (up to 10% for municipalities, up to 12% for cities with the population below 30,000, up to 15% for cities with the population above 30,000 and up to 30% for the City of Zagreb). Although the realised revenues on the basis of surtax on personal income tax are significant, by the end of 2007, 257 local self-government units issued their decisions on introducing the surtax which indicates that majority of the units has not introduced this tax.

Total realised surtax on personal income tax of all cities/municipalities in 2007 amounted to 1.23 billion (out of which the surtax of the City of Zagreb amounted to 774 million), a 16% increase in comparison with 2006.

In comparison to the joint taxes, revenues collected on the basis of local taxes, with the exception of surtax on personal income tax, are poorly represented within the budget revenue structure of local units, even though they have recorded an annual increase.

4.3.2 Grants

Grants which budget and budgetary users receive from foreign governments, international organisations and other entities within the general government include current and capital transfers. The total amount of grants, except the direct grants for the special state concern areas (for counties), grants from line ministries, Croatian Waters, Regional Development Fund and other, also includes a part of personal income tax received as an equalisation grant from the state budget for decentralised functions which, in accordance to GFS methodology, has the status of received grant within general government and not the status of tax revenue.

In 2007 grants were realised in the amount of HRK 2.14 billion, an annual increase of 28%. The share of grants in total revenues realised in 53 local and regional self-government units amounted to 13.8% in 2007. Grants were almost completely realised as grants within the government, while only HRK 14 million of the grants from international organisations and foreign governments was realised.

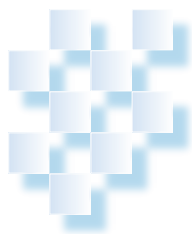
Besides these grants, through line ministries various programs of regional development are financed: programs of economic and entrepreneurial encouragement, programs of investment in culture, investment in health care infrastructure renovation, construction of schools and sports hall, programs of island and hilly and mountainous areas development, also special state concern areas, programs of communal infrastructure renovation and development, water supply development, county and local roads co-financing.

4.3.3 Other Revenues

Among all types of revenues of local units, other revenues realised in the total amount of HRK 4.2 billion, represent the second (see Figures 4.2 to 4.5) most significant revenue of local budgets. From the basis of these revenues 17% funds more were collected in comparison to the previous year, whereat in the total revenues structure their share is 27%.

Other revenues, according to the GFS 2001 methodology, can be divided into three main categories, as follows:

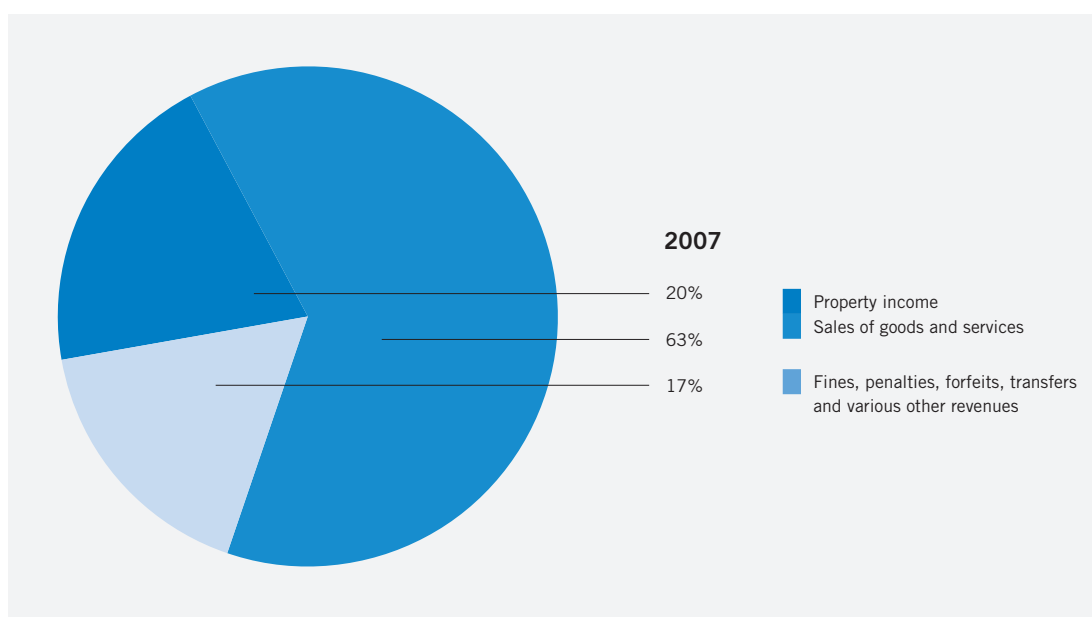
- property income (revenues from moveable and immoveable objects, concessions, fees for the use of the space of power plants, mineral raw materials, for the use of public space etc.) which are realised in the amount of HRK 844 million and account for the share of 20% of other revenues,



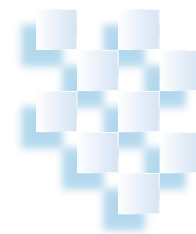
- revenues from the sale of goods and services, realised in the amount of HRK 2.6 billion (revenues from sale of duty stamps, revenues from tourist fees, utility fees, utility contributions and other fees) with a 63% share, and
- various other revenues with a 17% share.

Counties, cities and municipalities collect numerous other revenues determined by special regulations, e.g. fees and charges, which are included in other revenues of their budgets. Units themselves prescribe the introduction of revenues and their levels within the legal limits. However, it should be noted that these are earmarked revenues which can only be used for activities for which they were introduced. In the structure of other revenues utility contribution and utility fee have a significant share.

Figure 4.5 Structure of Other Revenues of 32 Cities, Counties and the City of Zagreb in 2007



Source: Ministry of Finance



4.4 BUDGET EXPENSES OF 53 LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

Budget expenses of counties, cities and municipalities are conditioned by laws and legally based own decisions that determine expense types, but also by realisation of budgetary revenues which come out of economic activity. Expenses of local units are related to the activities performed within the scope of competences of local and regional self-government.

Financing of expenses is planned on the basis of special laws and decisions of the units, whereas the execution is ensured by the decisions on the execution of the budget, with the obligation of the budget users to use funds for earmarked purposes rationally and efficiently, on the basis of revenues planned in the budget. The expenses, according to GFS 2001 methodology, are divided into main categories: compensation of employees, use of goods and services, interests, subsidies, grants, social benefits and other expenses.

Table 4.5 Budget Expenses in 2006 and 2007 for 53 Units (32 Cities, 20 Counties and the City of Zagreb in 2007)

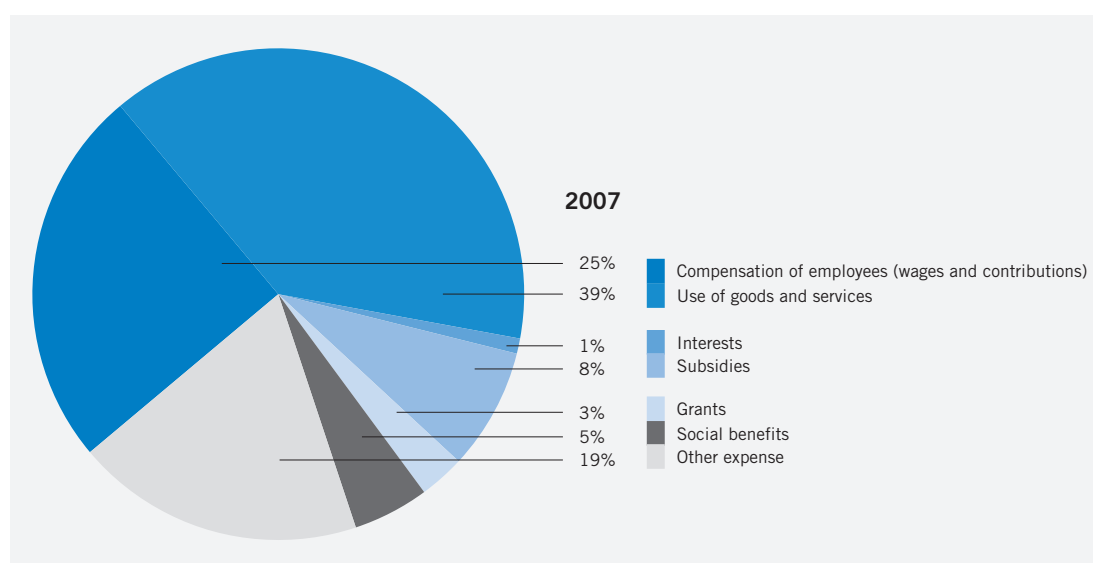
000 HRK	Outturn 2006	Structure 2006	Outturn 2007	Structure 2007	Index 2007/2006
EXPENSE	10,629,313	100.0	11,868,231	100.0	111.7
Compensation of employees	2,695,251	25.4	2,957,744	24.9	109.7
Wages and salaries	2,335,943	22.0	2,572,575	21.7	110.1
Social contributions	359,308	3.4	385,169	3.2	107.2
Use of goods and services	4,108,888	38.7	4,678,873	39.4	113.9
Interests	71,548	0.7	93,250	0.8	130.3
Subsidies	877,361	8.3	993,791	8.4	113.3
Grants	286,226	2.7	334,732	2.8	116.9
Social benefits	635,152	6.0	554,175	4.7	87.3
Other expense	1,954,887	18.4	2,255,666	19.0	115.4

Note: According to the GFS 2001 methodology

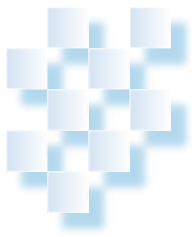
Source: Ministry of Finance

Total expenses in 2007 amounted to HRK 11.9 billion, increased by 11.7% in comparison to the year 2006, when they amounted to HRK 10.6 billion. Expense structure is shown in Figure 4.6.

Figure 4.6 Structure of Total Expenses of 32 Cities, Counties and the City of Zagreb in 2007



Source: Ministry of Finance



Out of total expenses in 2007, the share of compensation of employees amounted to 25%, expenses for use of goods and services 39%, other expenses (donations) 19% and the share of all other expenses (subsidies, grants, social benefits and interests) amounted to 17%.

Observing the nominal amount of total expenses in 2007, the majority of funds was spent on use of goods and services (HRK 4.7 billion), which was primarily the result of the financing of operation expenses within the decentralised functions. The expenses for use of goods and services include the expenses necessary for regular functioning of all budget users. Funds were spent on material, energy, street-lighting, cleaning, public spaces, utility and other services for regular needs, and expenses for current maintenance of buildings and equipment. The expenses for the use of goods and services have increased by 13.9% in comparison to 2006.

Compensation of employees (wages and contributions), realised in the amount of HRK 2.96 billion, grew at the rate of 9.7% in comparison to the previous year. Besides the wages of employees in the local and regional self-government bodies, it includes also their budget users' wages (theatres, museums, libraries, kindergartens, etc.).

Financial expenses related to interest paid have the least share of 1% in total expenses of local budgets. Interests refer in the biggest part to the settlement of liabilities based on loans of the local and regional self-government units from the previous years.

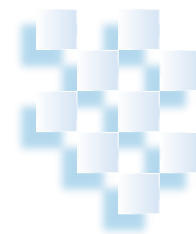
Subsidies are current funds transfers which are given on one-time or regular basis and can be used as interest subsidies, subsidies for employee training programs, etc.

Subsidies grew by 13% in comparison to 2006. They are executed in the total amount of HRK 994 million and account for a share of 8.4% in total expenses. Primarily they are intended for public enterprises, while a smaller share is earmarked for companies outside the public sector, to farmers, craftsmen and small and medium size enterprises.

Social benefits were realised in the total amount of HRK 554 million, decreased by 12% in comparison to the previous year. This is primarily related to expenses for co-financing the costs for students' transport, accommodation and meals and co-financing of the costs for firewood for the users of social welfare.

Grants are non-compulsory current and/or capital transfers which are allocated to the budget users for co-financing of current and capital expenses. In 2007, the mentioned expenses were executed in the amount of HRK 335 million, a share of 3% in total expenses. The largest part, i.e. 60% of grants is allocated for capital grants (construction of roads, spatial plans, water supply, etc.).

In the total expenses structure, other expenses were executed by 15% more than in 2006. Other expenses (donations) include current and capital expenses which amounted to HRK 2.26 billion in 2007 and have a 19% share in total expenses. In the structure of other expenses, 63% of the amount refers to current expenses, while 37% refers to capital expenses. Donations are mostly intended for non-profit organisations for non-economic investments, reparations after natural disasters, acquisition of equipment, and for companies and non-profit institutions in the ownership of local and regional self-government for the acquisition of nonfinancial assets.



4.5 TRANSACTIONS IN NONFINANCIAL ASSETS

Table 4.6 Transactions in Nonfinancial Assets in 2006 and 2007 for 53 Units (32 Cities, 20 Counties and the City of Zagreb)

	2006	2007
NET ACQUISITION OF NONFINANCIAL ASSETS	2,974,314	3,204,000
Fixed assets	2,963,175	3,381,738
Acquisition: fixed assets	3,192,520	3,654,365
Disposal: fixed assets	229,345	272,627
Valuables	436	196
Acquisition: valuables	436	196
Disposal: valuables	0	0
Nonproduced assets	10,703	-177,934
Acquisition: nonproduced assets	320,923	286,233
Disposal: nonproduced assets	310,220	464,167

Note: According to the GFS 2001 methodology

Source: Ministry of Finance

Net nonfinancial assets recorded annual growth of 8% and amounted to HRK 3.2 billion in 2007, which is the result of the acquisition and the disposal of nonfinancial assets. Nonfinancial assets include produced and nonproduced assets. Produced fixed assets include buildings, structures, machinery, equipment and other fixed assets.

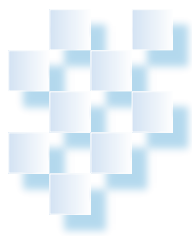
Total acquisition of produced fixed nonfinancial assets increased by 14% compared to 2006 and amounted to HRK 3.65 billion (school and health care institutions, cultural facilities, preschool institutions, entrepreneurial zones, business buildings, reconstruction and construction of roads, sport and recreational centres, furniture and equipment, etc.), while the disposal of fixed assets (business facilities, revenue from the sale of flats and other structures) increased by 19% compared to the previous year and stood at only HRK 272 million.

Nonproduced nonfinancial assets comprise land, subsoil assets, other naturally occurring assets and other rights (concessions, licenses, patents etc.). Acquisition and disposal of nonproduced assets in 2007 was almost fully realised on the basis of land disposal. The acquisition of nonfinancial assets was financed not only from the disposal of these assets but mostly from the other revenues realised and receipts from incurrence of liabilities.

In deficiency of revenue for acquisition of nonfinancial assets, for the purpose of financing the capital projects, the possibility of borrowing in accordance to decrees of the Law²¹ and subordinate legislation²² has been given to local and regional self-government units. Counties, cities and municipalities can debit by credit financing or by issue of securities only at banks on the territory of the Republic of Croatia for capital projects financed from their budgets and confirmed by representative body, with the agreement of the Government.

²¹ The Budget Law (Official Gazette, No 96/03), The Law on the Execution of the State Budget of Republic of Croatia (Official Gazette, No 137/06 i 78/07)

²² Ordinance on the local and regional self-government units' indebtedness and guarantees granting (Official Gazette, No 55/04)



4.6 TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES

Table 4.7 Transactions in Financial Assets and Liabilities in 2006 and 2007 for 53 Units (32 Cities, 20 Counties and the City of Zagreb)

	2006	2007
NET ACQUISITION OF FINANCIAL ASSETS	-53,130	536,089
Domestic	-53,130	536,089
Foreign	0	0
NET INCURRENCE OF LIABILITIES	-9,714	105,732
Domestic	80,882	130,416
Foreign	-90,596	-24,684

Note: According to the GFS 2001 methodology

Source: Ministry of Finance

Transactions in financial assets and liabilities in 2007 are characterised by growth in financial assets (by HRK 536.1 million) and, at the same time, growth of liabilities of the local and regional self-government units (by HRK 105.7 million).

Net amount of the transactions in financial assets results from expenditures and receipts on the basis of financial assets and change in the status of money and deposits.

Transactions in financial assets include primarily:

- expenditures for given domestic loans in the amount of HRK 173.2 million, also shares and purchase of equities in companies' capital in the amount of HRK 44.4 million;
- receipts from the repayment of given loans in the amount of HRK 80.2 million and receipts from the sale of shares and equities in companies in the amount of HRK 25.3 million;
- growth of deposits by HRK 423.4 million.

Given loans are mostly intended for public companies, small and medium size enterprises or banks as a guarantee for the loan repayment of entrepreneurs in the units' territory.

Transactions in liabilities include incurrence of liabilities and repayments of received loans on the basis of issued securities. Incurrence of liabilities in 2007, based on loans from domestic retail banks and issued bonds for financing the capital projects, stood at HRK 412 million. Repayments are mostly related to domestic loans, and partly to domestic issued securities and foreign loans, and amounted to HRK 306 million, less than the revenues debt. Hence the incurrence of liabilities of the local and regional self-government units recorded an increase in 2007.

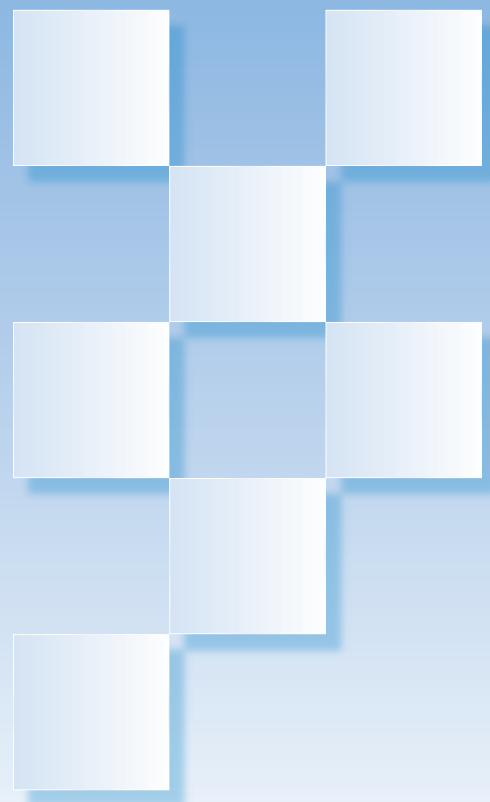
The Budget Law prescribes the limit of liabilities, annuity and the base for determining the scope for incurrence of liabilities. Annuity of loans, guarantees and other arrears can amount up to 20% of units' revenues realised in the year preceding the year in which liabilities incurred. Also, municipalities, cities and counties can independently give guarantees for the incurrence of liabilities of the public institution or public company whose founders and majority owners they are. Guarantees mentioned are included in the stated limit for annual incurrence of liabilities of a certain unit.

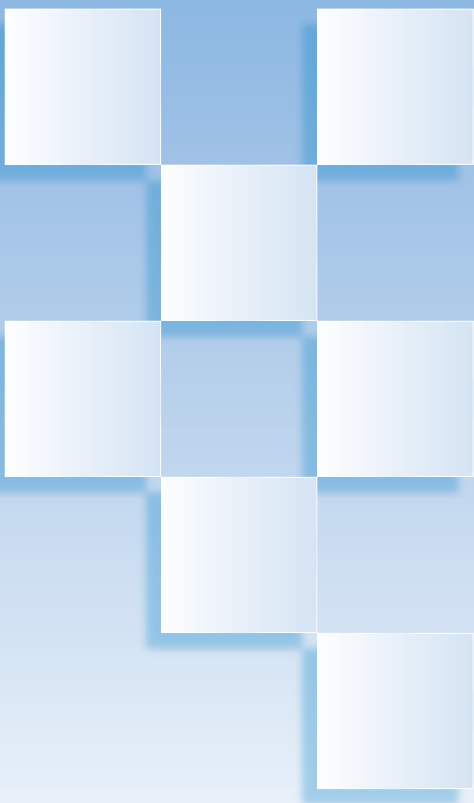
Units are also allowed to refinance present loan liabilities because of more favourable loan conditions, in the first place because of the decrease of interest rates on the capital market. Loan for which the Government of the Republic of Croatia gave its consent can be refinanced under the condition that the refinanced amount is smaller than the rest of the debt from the previous Government Decree.

The Law on the Execution of the State Budget prescribes restriction measures to which the Government of the Republic of Croatia can give its consent on the incurrence of liabilities to the local and regional self-government units. In accordance with the Law, municipalities, cities and counties were allowed to make a request for the incurrence of liabilities if their revenues exceeded their expenses in the financial reports for 2006, whereat the Government could give its consent on the incurrence of liabilities up to the level of 2.3% of the revenues of all local and regional self-government units, presented in the financial reports for the year 2006. The provision on the limits of the amount up to which the Government of the Republic of Croatia can give the incurrence of liabilities do not refer to units from the special state concern area nor to the units which receive credit funds from the resources of the Republic of Croatia Regional Development Fund and the Development and Employment Fund.

Local and regional self-government units used the previously mentioned legislation in accordance with their abilities, for financing of utility infrastructure construction, roads construction, public lighting, entrepreneurial zones, libraries, school sports halls and other.

5
CONSOLIDATED
GENERAL GOVERNMENT
IN 2007



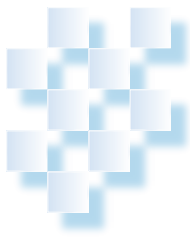




5.1 SIGNIFICANT FISCAL POLICY FEATURES IN 2007

Fiscal consolidation process that started in 2004 continued in the next three years. The general government deficit was reduced for 3.9 percentage points compared to 2003 or from 6.2% of GDP in 2003 to 2.3% of GDP in 2007. However, it's important to emphasize that the reduction of deficit realized in 2007 was below the annual level planned, of 2.6% of GDP. This was connected with the strong economic growth, reflected in high tax revenue growth. These developments were the result of progress achieved in the process of control and collection of budget revenues in addition to significant improvements concerning the entire process of planning and control of budget execution. The need for government financing was reduced due to these positive effects on the reduction of general government deficit which was positively reflected in the financial system at the state level and ultimately in the economy as whole. The state ensured the need for financial funds on the domestic financial market in the biggest part.

The beginning of the year 2007 was marked by the implementation of the Act on Amendments on Financing Local and Regional Self-Government Units, aimed to stimulate decentralization and balanced developments in all regions of the Republic of Croatia as well as to achieve the simplification of the tax system. In addition, the tax system introduced a differentiated value-added tax applied to all newspapers and daily and periodical magazines, apart from those which are used for advertising. Further process of the Single Treasury Account establishment was continued by incorporation of Social Security Funds (Croatian Pension Fund, Croatian Health Fund and Croatian Employment Fund) in the state budget. Moreover, for the purpose of improvements in the budgetary process the Strategy for Improvement and Modernization of Processes in the State Treasury for 2007-2011 was adopted in order to raise a further development of an efficient and sustainable financial management system based on the highest contemporary standards.



5.2 CONSOLIDATED GENERAL GOVERNMENT BY ECONOMIC CLASSIFICATION

5.2.1 Consolidated General Government Revenues

During 2007, consolidated general government revenues were collected in the amount of HRK 126.7 billion, which represents an increase of HRK 14.4 billion or 12.8% on annual level. Thus, the revenue plan was exceeded by HRK 205.3 billion. At the same time, the ratio between revenues and GDP increased from 44.8% in 2006 to 46.1% in 2007.

Table 5.1 presents basic categories of consolidated general government revenues, reported according to economic classification, in nominal terms and as a share of GDP.

Table 5.1 Consolidated General Government Revenues 2005-2007

	(000 HRK)	2005	% GDP	2006	% GDP	2007	% GDP
1	REVENUES	103,100,940.9	44.6	112,293,777.0	44.8	126,716,000.1	46.1
11	Taxes	60,521,399.0	26.2	66,768,245.5	26.6	73,392,426.2	26.7
111	Taxes of income, profits and capital gains	13,396,909.8	5.8	15,972,290.5	6.4	18,762,495.8	6.8
1111	Taxes on individual income	7,824,668.1	3.4	8,812,854.7	3.5	9,937,982.9	3.6
1112	Taxes on corporate income	5,572,241.7	2.4	7,159,435.8	2.9	8,824,512.9	3.2
113	Taxes on property	763,635.2	0.3	961,823.3	0.4	1,155,211.9	0.4
114	Taxes on goods and services	44,414,502.5	19.2	47,894,481.3	19.1	51,491,440.8	18.7
1141	General taxes on goods and services	32,446,852.9	14.0	35,143,439.3	14.0	37,972,061.4	13.8
11411	Value-added taxes	32,243,371.6	13.9	34,931,749.5	13.9	37,747,987.2	13.7
11412	Sales taxes	203,481.3	0.1	211,689.8	0.1	224,074.2	0.1
1142	Excises	10,939,144.1	4.7	11,564,709.0	4.6	12,168,665.8	4.4
1144	Taxes on specific services	33,881.4	0.0	38,079.2	0.0	41,716.1	0.0
1145	Taxes on use of goods, permission to use goods	564,149.9	0.2	684,894.5	0.3	793,939.9	0.3
1146	Other taxes on goods and services	430,474.2	0.2	463,359.3	0.2	515,057.6	0.2
115	Taxes on international trade and transactions	1,562,930.2	0.7	1,588,456.0	0.6	1,641,478.0	0.6
116	Other taxes	383,421.3	0.2	351,194.4	0.1	341,799.7	0.1
12	Social contributions	31,301,339.6	13.5	33,877,147.6	13.5	37,203,485.8	13.5
13	Grants	28,149.2	0.0	200,132.9	0.1	446,065.9	0.2
131	From foreign governments	314.2	0.0	4,455.1	0.0	18,210.1	0.0
132	From international organizations	27,835.0	0.0	195,677.8	0.1	418,470.9	0.2
133	From other general government units	0.0	-	0.0	-	9,384.9	0.0
14	Other revenues	11,250,053.1	4.9	11,448,251.0	4.6	15,674,022.2	5.7

Source: Ministry of Finance and Central Bureau of Statistics for GDP data

In the structure of consolidated general government revenues, tax revenues with the share of 57.9% represent the most important category. The next are social contributions with 29.4% while the other revenues and grants recorded the share of 12.7%.

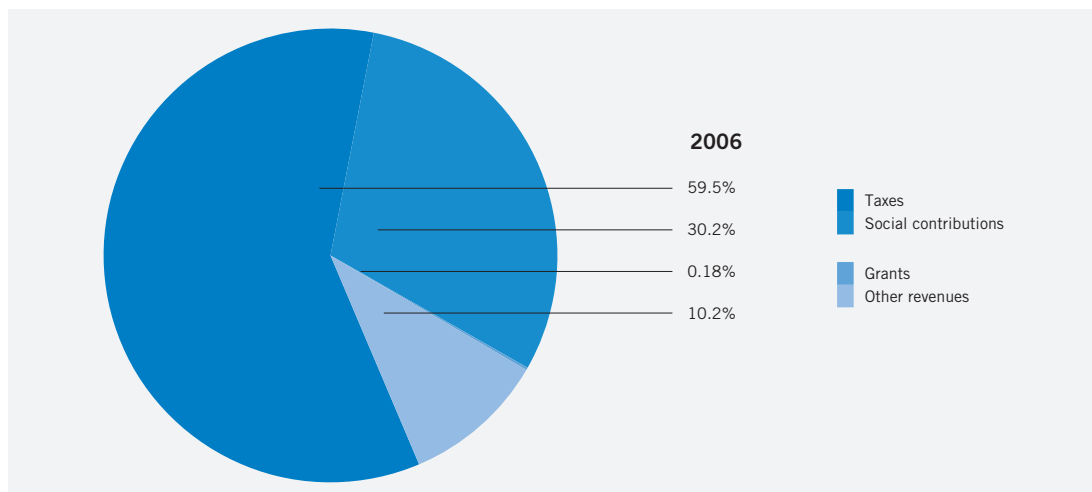
Tax revenues amounted to HRK 73.4 billion, which represents an annual growth of 9.9%, due to the increase in economic activity and strengthening of tax revenues collection control. Social contributions, the second most important revenue category, stood at HRK 37.2 billion, thus keeping



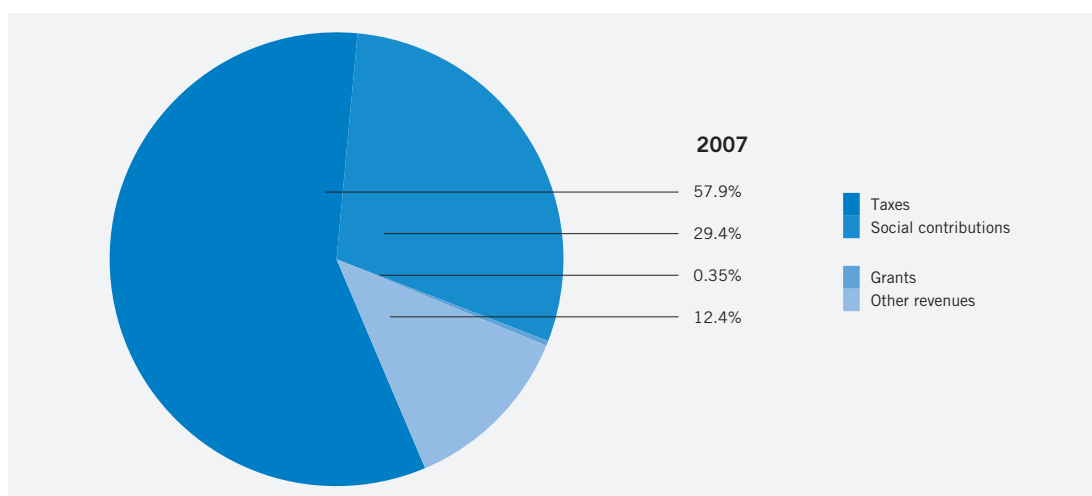
its share in GDP at the level of 13.5%. Grants amounted to HRK 446.1 million which is HRK 245.9 million more than in 2006. Other revenues recorded HRK 15.7 billion, while its share in GDP increased from 4.6% in 2006 to 5.7% in 2007.

The structure of consolidated general government revenues in 2006 and 2007 is illustrated in Figures 5.1 and 5.2.

Figures 5.1 and 5.2 Structure of Consolidated General Government Revenues in 2006 and 2007



Source: Ministry of Finance

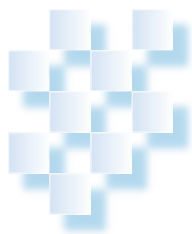


Source: Ministry of Finance

Figures 5.3 and 5.4 indicate the structure of consolidated general government tax revenues in 2006 and 2007, according to economic classification.

Value added tax revenues, which make up for more than a half of all consolidated general government tax revenues, decreased their share in total tax revenues by 0.9 percentage points i.e. from 52.3% in 2006 to 51.4% in 2007. They were collected in the amount of HRK 37.8 billion, which is 1.2% less than planned by rebalance, but 8.1% more compared to the previous fiscal year.

Revenues from excises, collected in the amount of HRK 12.2 billion, had a share of 16.6% in the tax revenue structure. Excises increased by 5.2% on annual level whereat all excises grew except for excises on oil which recorded a slight annual decrease of 0.1%. It is worth noting that a part of excises on oil and oil derivatives, which used to be collected by Croatian Motorways and Croatian Roads, have been included in the budgetary central government since 2006.



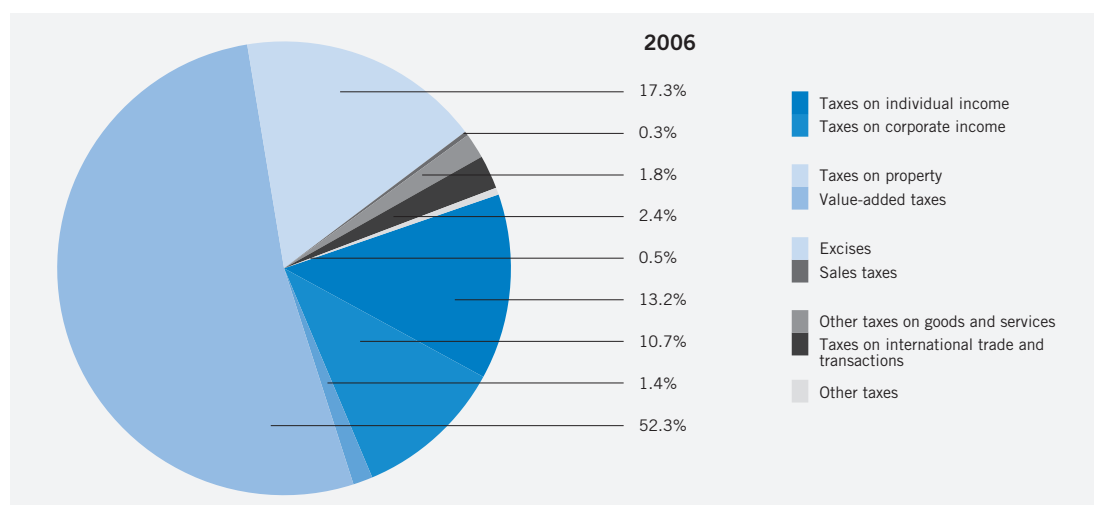
Revenues from personal income tax increased their share in total tax revenues from 13.2% in 2006 to 13.5% in 2007. They recorded the amount of HRK 9.9 billion, which is an increase of HRK 1.1 billion or 12.8% compared to the previous year. Out of the total personal income tax revenues of the consolidated general government, HRK 8.2 billion were collected by the local government units and HRK 1.8 billion were collected by the budgetary central government as a result of new revenues distribution among state, municipalities, cities and counties.

In 2007, corporate income tax revenues increased by high rate of 23.3%, thus influencing their share in the tax revenues, which increased from 10.7% in 2006 to 12.0% in 2007. Revenues from corporate income tax, which almost completely belong to the budgetary central government, were collected in the amount of HRK 8.8 billion whereby increased by 23.3% on annual level and exceeded the planned amount by 4.7% or HRK 396.7 million. This high growth rate may be explained by high increase in the industrial production during 2007.

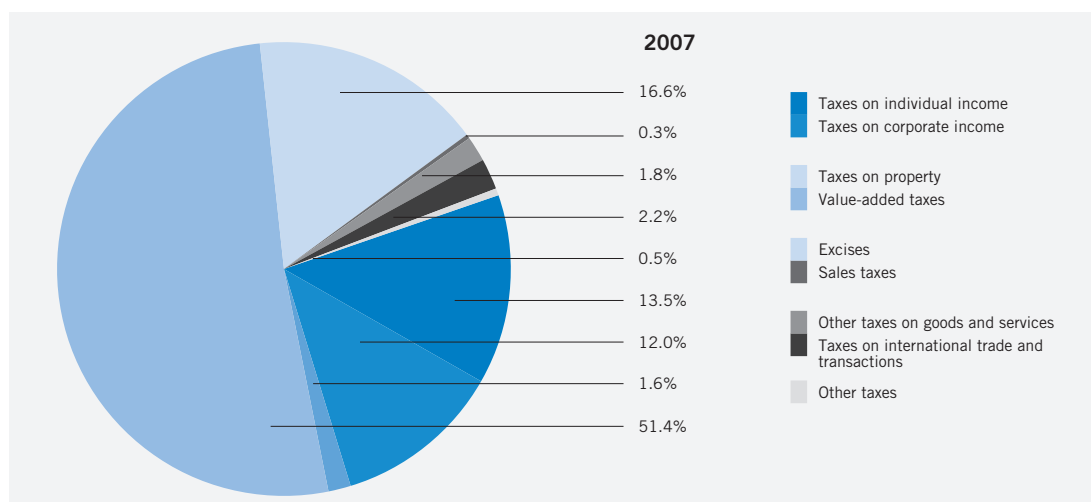
The decline in the share of revenues from taxes on international trade and transactions in total tax revenues continued in 2007. Therefore, the share of 2.4% in 2006 decreased to 2.2% in 2007. These revenues were collected in the amount of HRK 1.6 billion, with annual increase of 3.3%, and they completely belong to the budgetary central government.

Within the structure of tax revenues, revenues from taxes on property are also worth mentioning. Their share in total tax revenues increased from 1.4% in 2006 to 1.6% in 2007. They were collected in the amount of almost HRK 1.2 billion and therefore recorded high annual increase of 20.1%. The budgetary central government collected 50.1% of mentioned amount while the other 49.9% refers to local government units. For the most part these revenues refer to revenues from financial and capital transactions due to increasing demand on the real estate market.

Figures 5.3 and 5.4 Structure of Consolidated General Government Tax Revenues in 2006 and 2007



Source: Ministry of Finance



Source: Ministry of Finance

In 2007 social contributions, which include pension and health care contributions as well as unemployment contributions, amounted to HRK 37.2 billion. Thus they exceeded the planned amount for HRK 87.5 million as a result of higher increase in 2007 (9.8%) compared to 2006 (8.2%).

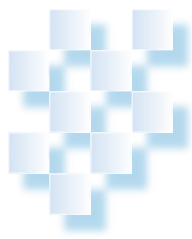
Grants increased their share in total revenues from 0.2% in 2006 to 0.4% in 2007 whereby the biggest contribution was given by the grants from international organizations.

Other revenues, which include the revenues from sales of goods and services, property income, miscellaneous and unidentified revenues, fines, penalties and forfeits as well as voluntary transfers other than grants, were collected in the amount of HRK 15.7 billion which represents 36.9% more than in the previous year. In this way, they increased their share for 2.2 percentage points in the revenue structure or from 10.2% in 2006 to 12.4% in 2007. Around 44.3% of the mentioned amount refers to administrative fees which increased by 34.6% on annual level meaning that they were recorded in the amount of HRK 6.9 billion. At the same time, extrabudgetary users collected 43.5% of these revenues, local government units 37.5% and budgetary central government 19.0%. Revenues from rents and concessions amounted to HRK 2.8 billion which represents an annual increase of HRK 1.7 billion while dividends amounted to HRK 1.3 billion.

5.2.2 Consolidated General Government Expense

Consolidated general government expense stood at HRK 118.8 billion in 2007 which was HRK 517.7 million less than it was planned by rebalance. At the same time, total expense recorded an annual increase of 10.3%, which is higher than in 2006 when the annual increase was 7.2%. The share of consolidated general government total expense in GDP increased for 0.2 percentage points i.e. from 43.0% in 2006 to 43.2% in 2007.

Table 5.2 presents consolidated general government total expense, according to economic classification and as a share of GDP in the period 2005-2007.


Table 5.2 Consolidated General Government Expense 2005-2007

	(000 HRK)	2005	% GDP	2006	% GDP	2007	% GDP
2	EXPENSE	100,510,748.2	43.4	107,721,681.0	43.0	118,770,466.6	43.2
21	Compensation of employees	26,679,699.7	11.5	28,208,212.7	11.3	31,112,370.0	11.3
211	Wages and salaries	22,731,437.0	9.8	24,035,666.5	9.6	26,334,259.6	9.6
212	Social contributions	3,948,262.7	1.7	4,172,546.2	1.7	4,778,110.4	1.7
22	Use of goods and services	10,876,095.4	4.7	13,302,369.1	5.3	15,196,187.8	5.5
24	Interest	5,102,696.5	2.2	5,468,594.7	2.2	5,554,489.0	2.0
241	To nonresidents	2,402,223.1	1.0	2,393,739.8	1.0	2,238,570.4	0.8
242	To residents other than general government	2,700,339.0	1.2	3,074,682.9	1.2	3,315,841.4	1.2
243	To other general government units	134.4	0.0	172.0	0.0	77.2	0.0
25	Subsidies	6,000,064.2	2.6	6,561,952.3	2.6	7,504,354.1	2.7
251	To public corporations	3,438,743.6	1.5	3,407,080.7	1.4	3,785,080.4	1.4
252	To private enterprises	2,561,320.6	1.1	3,154,871.6	1.3	3,719,273.7	1.4
26	Grants	1,390,464.0	0.6	1,466,028.9	0.6	1,701,861.4	0.6
261	To foreign governments	73,639.3	0.0	64,913.2	0.0	103,409.7	0.0
262	To international organizations	93,831.7	0.0	89,720.3	0.0	81,189.1	0.0
263	To other general government units	1,222,993.0	0.5	1,311,395.4	0.5	1,517,262.6	0.6
27	Social benefits	42,468,952.0	18.4	44,828,002.8	17.9	48,730,687.0	17.7
271	Social security benefits	29,879,823.4	12.9	31,276,694.3	12.5	34,168,416.8	12.4
272	Social assistance benefits	12,318,373.1	5.3	13,411,044.9	5.4	14,350,053.0	5.2
273	Employer social benefits	270,755.5	0.1	140,263.6	0.1	212,217.2	0.1
28	Other expense	7,992,776.4	3.5	7,886,520.5	3.1	8,970,517.3	3.3

Source: Ministry of Finance and Central Bureau of Statistics for GDP data

The biggest contribution to the increase of the total expense, observed in the value of GDP, came from expense for use of goods and services, other expense and subsidies. Namely, use of goods and services and other expense increased their share for 0.2 while subsidies increased their share for 0.1 percentage points in GDP. Expense for social benefits decreased their share in GDP from 17.9% in 2006 to 17.7% in 2007. Also, expense for interests decreased their share for 0.2 percentage points of GDP. Compensation of employees kept their share at the level of 11.3% of GDP while grants kept their share at the level of 0.6% of GDP.

Figures 5.5 and 5.6 present the structure of consolidated general government expense in 2006 and 2007.

During the year 2007, expense for social benefits stood at HRK 48.7 billion, thus decreasing their share in the structure of total expense from 41.6% in 2006 to 41.0% in 2007. At the same time, 70.1% of social benefits were paid out in the form of social security benefits, 29.4% in the form of social assistance benefits and the remaining 0.6% in the form of social benefits to employees. Their annual increase of 8.7% was a result of significant expenses in pensions, healthcare system, maternity leave, child allowance and unemployment benefits, mentioned in the second chapter.

Compensation of employees with the share of 26.2% in total expense, stood at HRK 31.1 billion or 10.3% more than in the previous year. Out of this amount, HRK 26.3 billion was spent on wages and salaries while HRK 4.8 billion was spent on social contributions paid by the government.

A third place in total expense structure is taken by the expense for the use of goods and services (including services for telephone, post, transport, energy and other services for current and investment maintenance) which increased its share by 0.4 percentage points during 2007, thus reaching the level of 12.8%. They amounted to HRK 15.2 billion, which represents an increase of 14.2% compared to 2006, when this expense recorded an annual growth of 22.3%. They were realised 1.2% below the planned amount.

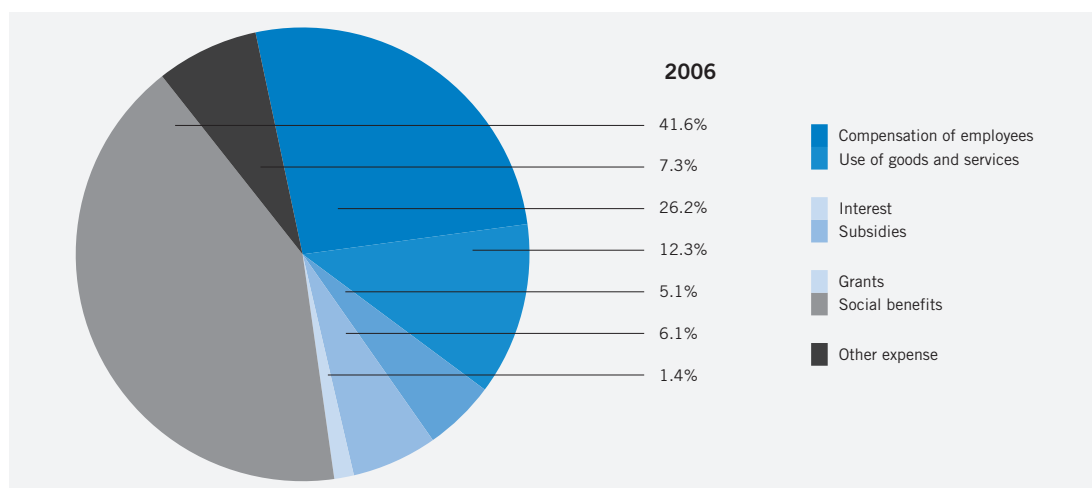


The share of other expense of consolidated general government increased from 7.3% in 2006 to 7.6% in 2007. They amounted to almost HRK 9.0 billion, thus recording the level of 100.7% of the planned amount. In comparison with the previous year, other expense was increased by 13.7%. Capital expense stood at HRK 4.7 billion, current expense amounted to HRK 4.3 billion while property expense other than interest recorded HRK 1.1 billion. Around HRK 2.9 billion of total capital expense refers to budgetary central government, HRK 928.4 million to extrabudgetary users (particularly Croatian Waters and Croatian Roads) and almost HRK 831.5 million to local government units. At the same time, almost HRK 2.8 billion was spent on current expense by the budgetary central government, HRK 1.4 billion by local government units and HRK 52.6 million by extrabudgetary users.

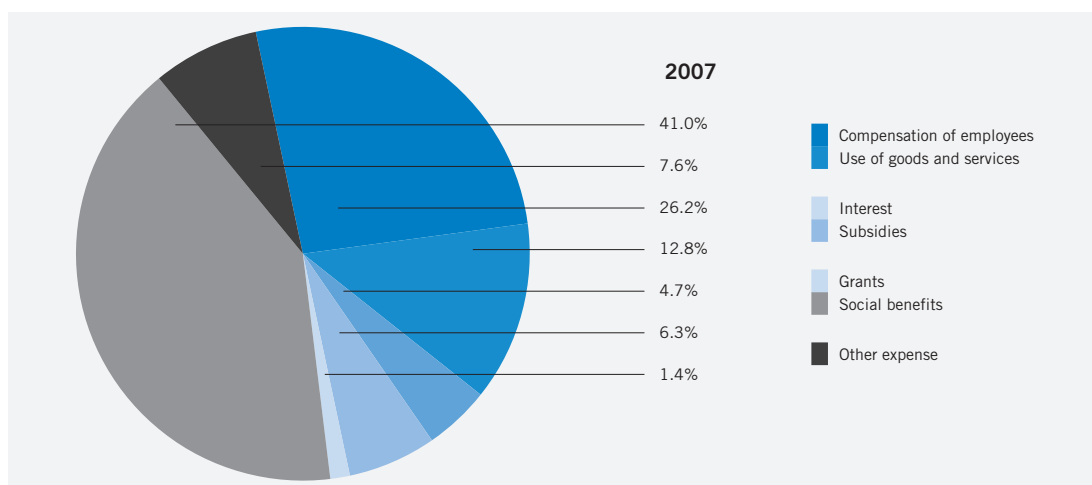
Expense for subsidies reached the level of HRK 7.5 billion in 2007 which is 14.4% more than in 2006 and 7.8% more than it was planned. Therefore, they have slightly increased their share in total expense from 6.1% in 2006 to 6.3% in 2007. More than half of total subsidies (50.4%) were paid to companies in the public sector (HRK 3.8 billion), where the biggest part refers to subsidies to Croatian Railways aimed to maintenance of the railway infrastructure and transport regulation. The remaining 49.6% of total subsidies refers to companies outside the public sector (HRK 3.7 billion) which includes subsidies to agriculture, craftsmen, small and medium entrepreneurs.

Expense for interest payments stood at HRK 5.6 billion, whereas their annual increase was significantly lower than in the previous year (1.6% in 2007 compared to 7.2% in 2006). Out of this amount, HRK 3.3 billion interest to residents was paid whereas their annual increase was slowed down from 13.9% in 2006 to 7.8% in 2007. Interest to non-residents was paid in the amount of HRK 2.2 billion or 6.5% less than in 2006.

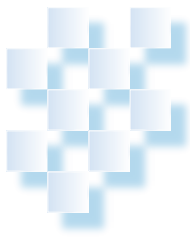
Figure 5.5 and 5.6 Structure of Consolidated General Government Expense in 2006 and 2007



Source: Ministry of Finance



Source: Ministry of Finance



5.2.3 Transactions in Nonfinancial Assets of Consolidated General Government

Table 5.3 gives the overview of nonfinancial assets and their share in GDP from 2005 to 2007.

In 2007 net acquisition of nonfinancial assets of the consolidated general government amounted to HRK 11.0 billion, which is HRK 1.9 billion higher than the year before. The acquisition of nonfinancial assets in the amount of HRK 12.3 billion exceeded its disposal which amounted to HRK 1.3 billion. This increasing was a result of acquisition from extrabudgetary users (43.3%), local government units (32.0%) and budgetary central government users (24.7%). The acquisition of fixed assets accounts for 93.6% of total acquisition of nonfinancial assets in 2007. It mostly relates to the acquisition of buildings and structures and in a smaller share to the acquisition of machinery and equipment and other fixed assets. The remaining share (6.0%) of the acquisition of nonfinancial assets refers to the acquisition of nonproduced assets, mostly land and intangible nonproduced assets while the smaller part refers to valuables and inventories.

On the other hand, disposal of nonfinancial assets is mostly related to local government units and budgetary central government users which participated with 56.5% i.e. 38.2% in total disposal of nonfinancial assets. Disposal is in the biggest part result of disposal of fixed assets, mostly buildings and structures and other fixed assets (47.7%) as well as disposal of nonproduced assets (37.1%), primarily land which was mostly performed by local government units. Disposal of inventories was completely realised by budgetary central government.

Table 5.3 Transactions in Nonfinancial Assets of the Consolidated General Government 2005-2007

	(000 HRK)	2005	% GDP	2006	% GDP	2007	% GDP
31	NET ACQUISITION OF NONFINANCIAL ASSETS	9,059,706.4	3.9	9,082,941.4	3.6	11,014,956.7	4.0
311	Fixed assets	8,900,042.8	3.8	8,751,828.2	3.5	10,908,538.4	4.0
312	Inventories	0.0	-	-80,226.0	-	-161,382.8	-
313	Valuables	7,429.4	0.0	8,261.7	0.0	9,816.9	0.0
314	Nonproduced assets	152,234.2	0.1	403,077.5	0.2	257,984.2	0.1

Source: Ministry of Finance and Central Bureau of Statistics for GDP data

5.2.4 Transactions in Financial Assets and Liabilities of Consolidated General Government

Table 5.4 gives the overview of financial assets and liabilities and their share in GDP from 2005 to 2007.

In 2007 net acquisition of financial assets of the consolidated general government amounted to HRK -2.4 billion, whereat domestic financial assets decreased by HRK 2.4 billion, while foreign financial assets increased by HRK 18.0 million. A decrease in domestic financial assets is primarily a result of higher disposal of shares and other equity (HRK 3.0 billion) compared to their acquisition (HRK 296.5 million), which in the biggest part refers to budgetary central government where shares and other equity are decreased by HRK 2.7 billion. Extrabudgetary users also recorded a decrease (HRK 65.7 million) in shares and other equity while local government units recorded an increase on the same basis in the amount of HRK 19.1 million.

Currency and deposits of consolidated general government were decreased by HRK 619.4 million as a result of their reduction by budgetary central government (HRK 1.7 billion) and increase by extrabudgetary users (HRK 678.8 million) as well as by local government units (HRK 423.4 million).

Net loans recorded an increase of HRK 949.9 million primarily due to higher acquisitions (HRK 1.3 billion) given to companies in the public sector, craftsman, small and medium entrepreneurs, compared to disposals (HRK 372.5 million). By observing the government level, budgetary central government loans increased by HRK 674.3 million, extrabudgetary users by HRK 182.5 million and local government units by HRK 93 million.

An increase of foreign financial assets in the abovementioned amount of HRK 18.0 million was solely a result of an increased acquisition of shares and other equity at the level of budgetary central government.

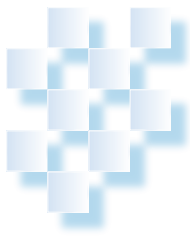
**Table 5.4 Transactions in Financial Assets and Liabilities of the Consolidated General Government 2005-2007**

	(000 HRK)	2005	% GDP	2006	% GDP	2007	% GDP
	TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES						
32	NET ACQUISITION OF FINANCIAL ASSETS	1,305,876.1	0.6	-2,629,878.3	-	-2,403,066.5	-
321	Domestic	1,310,733.0	0.6	-2,646,558.9	-	-2,421,102.1	-
3212	Currency and deposits	737,398.9	0.3	-1,011,388.6	-	-619,373.9	-
3213	Securities other than shares	0.0	-	242.4	0.0	0.0	-
3214	Loans	774,287.3	0.3	879,051.1	0.4	949,888.0	0.3
3215	Shares and other equity	-218,890.3	-	-2,534,596.1	-	-2,752,189.2	-
3218	Other accounts receivable	17,937.1	0.0	20,132.3	0.0	573.0	0.0
322	Foreign	-4,856.9	-	16,680.6	0.0	18,035.6	0.0
3224	Loans	0.0	-	0.0	-	0.0	-
3225	Shares and other equity	-4,856.9	-	16,680.6	0.0	18,035.6	0.0
			-		-		
33	NET LIABILITIES	7,775,389.8	3.4	1,880,967.1	0.8	666,356.7	0.2
331	Domestic	11,911,230.9	5.1	5,363,614.9	2.1	2,147,511.4	0.8
3313	Securities other than shares	9,369,420.6	4.0	5,751,820.2	2.3	3,166,657.4	1.2
3314	Loans	2,693,551.3	1.2	-388,205.3	-	-1,019,146.0	-
332	Foreign	-4,135,841.1	-	-3,482,647.8	-	-1,481,154.7	-
3323	Securities other than shares	-3,713,935.0	-	-3,480,780.5	-	-1,757,723.2	-
3324	Loans	-421,906.1	-	-1,867.3	-	276,568.5	0.1

Source: Ministry of Finance and Central Bureau of Statistics for GDP data

In the previous fiscal year net liabilities of the consolidated general government increased by HRK 666.4 million, of which total incurrence of liabilities amounted to HRK 10.6 billion, while total repayments stood at HRK 9.9 billion. Domestic liabilities were increased by HRK 2.1 billion, due to an increase of liabilities on the basis of securities other than shares (HRK 3.2 billion) and a decrease in liabilities based on loans (HRK 1 billion). The incurrence of liabilities on the basis of securities other than shares (bonds and Treasury bills) stood at HRK 7.2 billion, which is primarily realised at the level of budgetary central government (HRK 7.0 billion) and smaller part by the incurrence of local government units (HRK 185.9 million). At the same time, repayments of the principal of securities other than shares amounted almost to HRK 4.1 billion, of which the budgetary central government repaid HRK 3.5 billion, extrabudgetary users HRK 530 million and local government units HRK 9.4 million. The incurrence of domestic liabilities based on loans stood at HRK 487.5 million, of which the extrabudgetary users (Croatian Roads, Croatian Motorways, Croatian Privatization Fund and Croatian Waters) accounted for the largest part in the amount of HRK 1.2 billion and the local government units in the amount of HRK 226 million while the incurrence of budgetary central government was reduced by HRK 952.1 million. Repayments of loans of the consolidated general government exceeded the incurrence by HRK 1 billion, i.e. they stood at HRK 1.5 billion. The largest repayments were made by the budgetary central government (HRK 1.1 billion), while the extrabudgetary users and local government units had much lower repayments in the amount of HRK 143.1 million and HRK 272.1 million, respectively.

The reduction of foreign liabilities of the consolidated general government in 2007 in the amount of HRK 1.5 billion was a result of incurrence much lower than repayments of liabilities. Repayments of the principal of securities other than shares in the amount of HRK 1.8 billion were solely a result of budgetary central government repayments. Repayments of foreign loans in the amount of HRK 2.6 billion were made at the level of the budgetary central government (HRK 2.0 billion), extrabudgetary



users (HRK 623.9 million) and in a smaller part at the level of the local government units (HRK 24.7 million). At the same time, the incurrence of liabilities based on loans (HRK 2.9 billion) was a result of incurrence at the level of budgetary central government users (HRK 748.8 million) and extrabudgetary users (HRK 2.1 billion), particularly Croatian Motorways, Croatian Roads and Croatian Waters.

5.2.5 Measures of Deficit/Surplus and Financing of the Consolidated General Government

Table 5.6 gives the overview of different measures of deficit/surplus of the consolidated general government and the calculation of net lending/borrowing in the period 2005-2007, according to GFS 2001 methodology.

Net operating balance of the consolidated general government, which is defined as a difference between total revenues and total expenses, recorded the amount of HRK 7.9 billion in 2007.

Primary operating balance, which is used as an indicator of current fiscal policy, excludes the interest from the calculation of a balance, and therefore eliminates the effects of previous fiscal deficits and accumulated public debt. In 2007, primary operating balance stood at HRK 13.5 billion, which represents an increase of HRK 3.5 billion compared to the previous year. This means that the current expenditure has been entirely financed from revenues without the need of borrowing and that part of revenues is used to cover the amortization of the previous debts (repayment of interests).

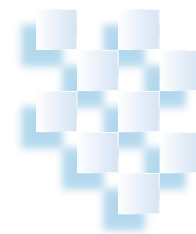
A category net lending/borrowing, which amounted to HRK -3.1 billion, is obtained by reducing the net operating balance of the consolidated general government by the value of net acquisition of nonfinancial assets. Compared to the previous year, net lending/borrowing was reduced by the high 32.0% in 2007, which is the result of the significant increase of net operating balance.

Total financing of this measure resulted in the previously described transactions which led to the decrease of the financial assets (HRK 2.4 billion) and to the increase of liabilities (HRK 666.4 million).

Table 5.5 Measures of Deficit/Surplus and Financing of the Consolidated General Government 2005-2007

(000 HRK)		2005	% GDP	2006	% GDP	2007	% GDP
TRANSACTIONS AFFECTING NET WORTH							
1	Revenues	103,100,940.9	44.6	112,293,777.0	44.8	126,716,000.1	46.1
2	Expense	100,510,748.2	43.4	107,721,681.0	43.0	118,770,466.6	43.2
24	Interest	5,102,696.5	2.2	5,468,594.7	2.2	5,554,489.0	2.0
Net-gross operating balance (1-2)							
		2,590,192.7	1.1	4,572,096.0	1.8	7,945,533.5	2.9
Primary operating balance (1-2+24)							
		7,692,889.2	3.3	10,040,690.7	4.0	13,500,022.5	4.9
TRANSACTIONS IN NONFINANCIAL ASSETS							
31	Net acquisition of nonfinancial assets	9,059,706.4	3.9	9,082,941.4	3.6	11,014,956.7	4.0
Net lending-borrowing (1-2-31)							
		-6,469,513.7	-	-4,510,845.4	-	-3,069,423.2	-
Financing (33-32)							
		6,469,513.7	2.8	4,510,845.4	1.8	3,069,423.2	1.1
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES							
32	Net acquisition of financial assets	1,305,876.1	0.6	-2,629,878.3	-	-2,403,066.5	-
33	Net acquisition of liabilities	7,775,389.8	3.4	1,880,967.1	0.8	666,356.7	0.2

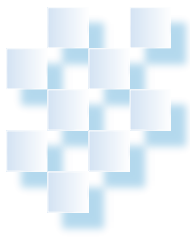
Source: Ministry of Finance and Central Bureau of Statistics for GDP data



5.3 CONSOLIDATED GENERAL GOVERNMENT ACCORDING TO GOVERNMENT LEVEL

Table 5.6 presents the trend of total revenue and expense, nonfinancial assets, financial assets and liabilities as a share in GDP, for each level of the government in the period 2005-2007, according to GFS 2001 methodology.

Compared to the years 2006 and 2007, it can be noticed that the increase of the share of total revenue of the consolidated general government in GDP of 1.3 percentage points was a result of its increase at the level of budgetary central government and local government units and its decrease at the level of extrabudgetary users. An increase of the share of consolidated general government expense in GDP of 0.2 percentage points was primarily a result of its increase at the level of budgetary central government (0.6 percentage points) and in minor part at the level of local government units (0.1 percentage points). The expense of extrabudgetary users decreased their share in GDP from 2.7% to 2.2% at the annual level. It is worth mentioning that the share of the value of nonfinancial assets in GDP increased from 3.6% in 2006 to 4.0% in 2007 while the value of net liabilities decreased by 0.6 percentage points, reaching the level of 0.2% of GDP.


Table 5.6 Consolidated General Government According to Government Level 2005-2007

	(000 HRK)	2005	% GDP	2006	% GDP	2007	% GDP
1	REVENUES	103,100,940.9	44.6	112,293,777.0	44.8	126,716,000.1	46.1
	Budgetary Central Government	85,653,010.2	37.0	95,234,057.3	38.0	108,296,963.0	39.4
	Extrabudgetary Users	6,989,463.0	3.0	5,158,548.0	2.1	5,040,017.9	1.8
	Croatian Institute for Pension Insurance	38,010.0	0.0	293,485.0	0.1	-	-
	Croatian Health Insurance Institute	863,868.0	0.4	848,683.0	0.3	-	-
	Croatian Employment Service	18,855.0	0.0	18,363.0	0.0	-	-
	Croatian Waters	1,227,794.0	0.5	1,526,851.0	0.6	1,992,024.9	0.7
	Environment Protection Fund	214,737.0	0.1	659,840.0	0.3	1,102,946.0	0.4
	Croatian Motorways Ltd.	2,547,003.0	1.1	1,271,125.0	0.5	1,375,336.0	0.5
	Croatian Roads Ltd.	1,474,714.0	0.6	64,749.0	0.0	119,946.0	0.0
	State Agency for Deposit Insurance and Bank Rehabilitation	367,438.0	0.2	409,581.0	0.2	391,441.0	0.1
	Croatian Privatization Fund	237,044.0	0.1	65,871.0	0.0	58,324.0	0.0
	Budgetary Local Government	10,458,467.7	4.5	11,901,171.7	4.7	13,379,019.2	4.9
2	EXPENSE	100,510,748.2	43.4	107,721,681.0	43.0	118,770,466.6	43.2
	Budgetary Central Government	85,239,871.8	36.8	90,525,330.1	36.1	100,936,318.3	36.7
	Extrabudgetary Users	5,556,949.6	2.4	6,726,777.9	2.7	6,015,101.8	2.2
	Croatian Institute for Pension Insurance	382,162.0	0.2	565,857.0	0.2	-	-
	Croatian Health Insurance Institute	914,345.0	0.4	931,628.0	0.4	-	-
	Croatian Employment Service	145,931.0	0.1	155,002.0	0.1	-	-
	Croatian Waters	1,489,465.0	0.6	1,773,976.0	0.7	2,086,599.8	0.8
	Environment Protection Fund	112,452.6	0.0	694,938.9	0.3	1,047,291.8	0.4
	Croatian Motorways Ltd.	1,085,077.0	0.5	1,272,713.0	0.5	1,509,357.2	0.5
	Croatian Roads Ltd.	1,062,405.0	0.5	1,226,934.0	0.5	1,235,792.0	0.4
	State Agency for Deposit Insurance and Bank Rehabilitation	182,993.0	0.1	27,354.0	0.0	47,820.0	0.0
	Croatian Privatization Fund	182,119.0	0.1	78,375.0	0.0	88,241.0	0.0
	Budgetary Local Government	9,713,926.8	4.2	10,469,573.0	4.2	11,819,046.5	4.3
31	NET ACQUISITION OF NONFINANCIAL ASSETS	9,059,706.4	3.9	9,082,941.4	3.6	11,014,956.7	4.0
	Acquisition	9,924,476.9	4.3	10,350,251.0	4.1	12,319,440.8	4.5
	Budgetary Central Government	1,828,817.8	0.8	1,908,482.4	0.8	3,043,905.7	1.1
	Extrabudgetary Users	5,195,362.0	2.2	4,927,889.0	2.0	5,334,740.0	1.9
	Budgetary Local Government	2,900,297.1	1.3	3,513,879.6	1.4	3,940,795.1	1.4
	Disposals	864,770.5	0.4	1,267,309.6	0.5	1,304,484.1	0.5
	Budgetary Central Government	275,149.4	0.1	352,690.3	0.1	498,685.4	0.2
	Extrabudgetary Users	49,614.0	0.0	375,054.0	0.1	69,004.0	0.0
	Budgetary Local Government	540,007.1	0.2	539,565.3	0.2	736,794.7	0.3
32	NET ACQUISITION OF FINANCIAL ASSETS	1,305,876.1	0.6	-2,629,878.3	-	-2,403,066.5	-
321	Domestic	1,310,733.0	0.6	-2,646,558.9	-	-2,421,102.1	-
	Budgetary Central Government	1,747,681.4	0.8	-3,063,913.0	-	-3,752,816.6	-
	Extrabudgetary Users	-133,065.0	-	470,485.0	0.2	795,625.0	0.3
	Budgetary Local Government	-303,883.4	-	-53,130.9	-	536,089.5	0.2
322	Foreign	-4,856.9	-	16,680.6	0.0	18,035.6	0.0
	Budgetary Central Government	-4,856.9	-	16,680.6	0.0	18,035.6	0.0
	Extrabudgetary Users	0.0	-	0.0	-	0.0	-
	Budgetary Local Government	0.0	-	0.0	-	0.0	-
33	NET INCURANCE OF LIABILITIES	7,775,389.8	3.4	1,880,967.1	0.8	666,356.7	0.2
331	Domestic	11,911,230.9	5.1	5,363,614.9	2.1	2,147,511.4	0.8
	Budgetary Central Government	10,591,559.7	4.6	3,166,260.0	1.3	1,477,615.0	0.5
	Extrabudgetary Users	1,450,118.0	0.6	2,116,532.0	0.8	539,480.0	0.2
	Budgetary Local Government	-130,446.8	-	80,822.9	0.0	130,416.4	0.0
332	Foreign	-4,135,841.1	-	-3,482,647.8	-	-1,481,154.7	-
	Budgetary Central Government	-5,080,612.1	-	-3,943,248.3	-	-2,980,165.6	-
	Extrabudgetary Users	1,037,777.0	0.4	551,197.0	0.2	1,523,695.0	0.6
	Budgetary Local Government	-93,006.0	-	-90,596.5	-	-24,684.1	-

Source: Ministry of Finance and Central Bureau of Statistics for GDP data



5.4 DEFICIT OF THE CONSOLIDATED GENERAL GOVERNMENT ACCORDING TO MODIFIED ACCRUAL PRINCIPLE

The calculation of general government deficit, according to modified accrual basis uses the deficit of consolidated general government on cash basis as a starting point, which represents the difference between revenues and expense of all general government levels and excludes all capital revenues, revenues resulting from the disposal of nonfinancial assets and revenues from privatization used for the financing of deficit. It should be noted that the aforementioned basis for this kind of calculation of deficit can not be regarded as "pure cash basis" since it includes transactions of Croatian Roads and Croatian Motorways presented according to accrual basis. Furthermore, in the amount of the deficit on the cash basis the change in the stock of arrears of budgetary central government and local government units is added.

The calculation of consolidated general government deficit according to modified accrual basis in the period 2005-2007 is provided in Table 5.7.

Consolidated general government deficit on modified accrual basis amounted to HRK 6.3 billion or 2.3% of GDP in 2007, which is below the annual plan level of 2.6% of GDP. Therefore, the consolidated general government deficit was reduced by 0.7 percentage points or HRK 1.2 billion compared to 2006. This represents the significant fiscal adjustment which started in 2004 and was supported by additional measures directed to improvement of tax administration and achieving constant fiscal savings that gives strong basis in the further process of fiscal consolidation in the next medium term.

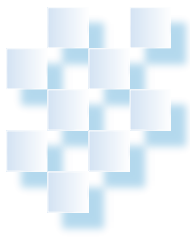
Table 5.7 Calculation of Consolidated General Government Deficit According to Modified Accrual Principle 2005-2007

(000 HRK)	2005	2006	2007
1. Revenues *	102,868,439.9	112,237,278.0	126,621,570.1
2. Expense GFS 1986	111,714,102.7	119,212,775.1	133,066,928.8
Expense GFS 2001 *	100,476,847.2	107,644,348.0	118,818,567.6
Net acquisition of nonfinancial assets *	10,064,643.9	10,363,757.0	12,956,635.8
Net loans (total acquisition minus disposals of loans) *	851,349.3	882,152.1	976,600.0
Acquisition of shares and other equity *	303,325.2	302,143.3	314,552.4
Other accounts receivable *	17,937.1	20,374.7	573.0
3. Consolidated General Government Deficit without capital revenues * (1-2)	-8,845,662.8	-6,975,497.1	-6,445,358.7
4. Change in arrears	-455,823.7	-482,182.4	155,463.0
5. Consolidated General Government Deficit - modified accrual basis (3+4+5)	-9,301,486.5	-7,457,679.5	-6,289,895.7
Deficit as a share of GDP, %	-4.0	-3.0	-2.3

Note: Total revenues of Consolidated General Government in 2004 are increased for the amount of concession fee (HRK 196.7 million). In accordance with this, total revenues in 2005 are decreased for the same amount.

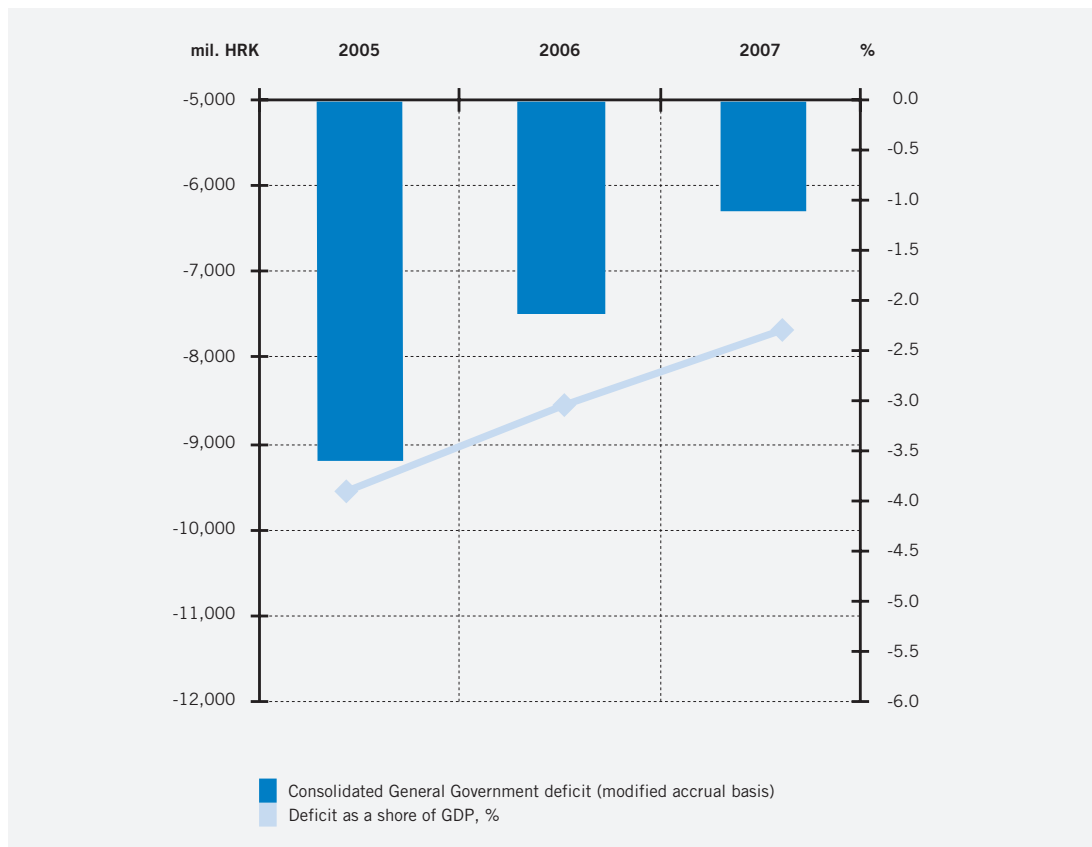
* HAC and HC are on accrual basis

Source: Ministry of Finance



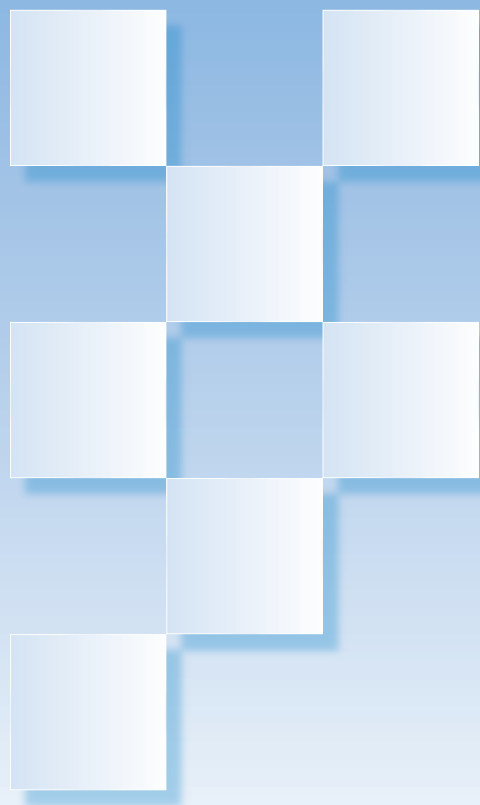
According to the government level, one can notice a significant decrease in the budgetary central government deficit from 1.7% of GDP in 2006 to 1.2% of GDP in 2007. The extrabudgetary users also recorded a reduction of the deficit from 1.1% of GDP in 2006 to 0.9% of GDP in 2007 while the deficit of local government units kept the level of 0.3% of GDP.

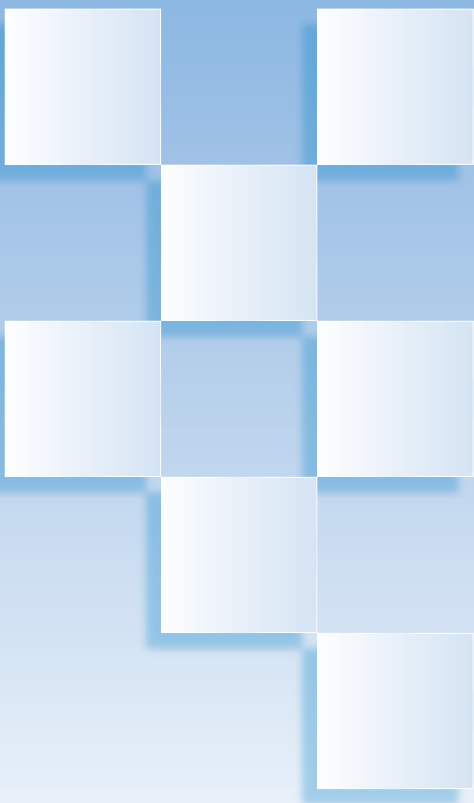
Figure 5.7 Consolidated General Government Deficit 2005-2007



Source: Ministry of Finance

6
**PUBLIC DEBT OF THE
REPUBLIC OF CROATIA
IN 2007**







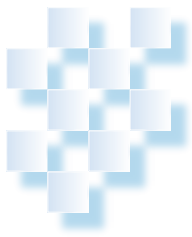
The Budget Act, (Official Gazette, No. 96/2003), specifies public debt scope, public debt management strategy objectives and borrowing conditions and competences. Pursuant to the aforementioned Act, government debt is defined as a debt of the consolidated central budget excluding state guarantees. With the addition of state guarantees, the government debt is defined as public debt.

Table 6.1 presents the developments of the public debt of the Republic of Croatia in the period 2003 - 2007.

Table 6.1 General Government Debt

GENERAL GOVERNMENT DEBT end of period, HRK million	2003	2004	2005	2006	2007
1. Domestic general government debt	35,313.1	42,717.8	56,045.0	61,077.1	64,793.3
1.1 Domestic debt of the Republic of Croatia	28,159.5	37,220.4	50,558.1	54,215.8	56,505.5
Treasury bills	6,548.1	9,022.5	12,533.4	12,662.2	11,975.3
Money market instruments	0.3		0.9		
Bonds	17,422.0	23,080.1	30,716.0	34,827.9	38,795.2
Bank loans	4,189.1	5,117.8	7,307.8	6,725.7	5,735.0
1.2 Domestic debt of extrabudgetary users	6,247.5	3,911.2	3,935.0	5,168.2	6,332.6
Money market instruments	-	-	-	-	-
Bonds	3,418.2	1,726.0	-	-	-
Bank loans	2,829.3	2,185.1	3,935.0	5,168.2	6,332.6
1.3 Domestic debt of the local government	906.1	1,586.2	1,551.9	1,693.1	1,955.2
Money market instruments	16.9	6.6	40.7	29.3	36.8
Bonds	-	204.4	196.4	314.8	500.5
Bank loans	889.2	1,375.1	1,314.7	1,349.0	1,418.0
2. Foreign general government debt	45,648.0	50,220.3	45,380.3	41,647.2	39,835.4
2.1 Foreign debt of the Republic of Croatia	41,041.9	42,231.2	36,414.5	32,556.6	29,408.8
Money market instruments	-	-	-	-	-
Bonds	32,115.1	32,919.3	27,020.1	22,836.9	20,397.3
Loans	8,926.8	9,311.9	9,394.5	9,719.7	9,011.4
2.2 Foreign debt of extrabudgetary users	4,285.6	7,747.0	8,749.8	8,938.2	10,202.1
Money market instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Loans	4,285.6	7,747.0	8,749.8	8,938.2	10,202.1
2.3 Foreign debt of the local government	320.6	242.1	216.0	152.5	224.4
Money market instruments	-	-	-	-	-
Bonds	-	-	-	-	-
Loans	320.6	242.1	216.0	152.5	224.4
3. Total (1+2)	80,961.1	92,938.1	101,425.3	102,724.3	104,628.7
Addendum: Issued guarantees of the Republic of Croatia	15,419.2	12,262.3	12,455.2	14,188.2	17,418.5
1. Domestic	6,796.5	4,551.9	5,268.5	7,252.3	7,867.8
2. Foreign	8,622.7	7,710.4	7,186.7	6,935.9	9,550.7
3. Total debt of the HBOR	4,925.3	5,841.5	7,139.4	7,686.4	9,662.6
Total: Issued guarantees	20,344.5	18,103.8	19,594.6	21,874.6	27,081.1
GRAND TOTAL:	101,305.6	111,041.9	121,019.9	124,598.9	131,709.8
GDP	198,422.0	214,983.0	231,349.0	250,590.0	274,660.1
GENERAL GOVERNMENT DEBT (% GDP)	40.80%	43.23%	43.84%	40.99%	38.09%
PUBLIC DEBT (% u BDP)	51.06%	51.65%	52.31%	49.72%	47.95%

Source: CNB, Ministry of Finance



At the end of 2007, general government debt amounted to HRK 104.6 billion while the issued domestic and foreign guarantees of the Republic of Croatia (including HBOR) stood at HRK 27 billion. Altogether, it sums to HRK 131.7 billion and represents a public debt of the Republic of Croatia, which accounts for 47.9% of the estimated nominal GDP for 2007.

At the end of 2006, general government debt amounted to HRK 102.7 billion while the issued domestic and foreign guarantees of the Republic of Croatia (including HBOR) stood at HRK 21.8 billion. Altogether, it sums to HRK 124.5 billion and represents a public debt of the Republic of Croatia, which accounts for 49.7% of the estimated nominal GDP for 2006.

This indicates a slow-down in the public debt growth, which is a key objective of the public debt management strategy.

During 2007, a reduction of foreign general government borrowing has continued as a result of emphasized orientation towards domestic capital market, in order to alleviate foreign debt growth. The share of foreign component in total general government debt has been reduced from 56.4% at the end of 2003, to 38% at the end of 2007.

This confirms the strong development of domestic financial market, which, by its volume, maturity structure and favorable returns, represents an attractive alternative to foreign financial markets.

The key objectives of the public debt management strategy are further slow-down in the public debt growth, reduction of risks related to public debt, particularly currency risks, increased transparency and further development of domestic capital market.



6.1 CREDIT RATING OF THE REPUBLIC OF CROATIA

The top three agencies specialized for credit ratings assesses the Republic of Croatia: Moody's Investors Service, Standard & Poor's (S&P) and Fitch Ratings. Apart from the mentioned agencies, the Republic of Croatia is also rated by the Japanese rating agency Rating and Investment Information (R&I), which is specialized in rating the issuers of securities in Japan.

The agencies S&P, Moody's and Fitch Ratings granted the initial credit rating to the Republic of Croatia in January 1997, while the Japanese rating agency R&I has done so in 1998.

Each year these agencies perform the annual verification of granted credit rating, which in 2007 resulted in the confirmation of the credit rating of the Republic of Croatia. In July 2007, Moody's Investors Service improved chances for credit rating changes of the Republic of Croatia from "stable" into "positive".

Table 6.2 Overview of Credit Ratings of the Republic of Croatia

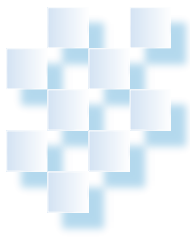
	Long-run rating Foreign currency	Long-run rating Domestic currency	Short-run rating Foreign currency
Mood's Investors Service	Baa3 / positive "outlook"	Baa1	P-1
Standard & Poors	BBB / stable "outlook"	BBB+	A-3
Fitch Ratings	BBB- / stable "outlook"	BBB+	F3
R & I	BBB+ / stable "outlook"		

Source: Ministry of Finance

Table 6.3 Comparison of Credit Ratings at the End of 2007

Country	Moody's (long-term debt in foreign currency)	Standard and Poor's (long-term debt in foreign currency)
Bulgaria	Baa3	BBB+
Czech Republic	A1	A
Croatia	Baa3	BBB
Hungary	A2	BBB+
Poland	A2	A-
Romania	Baa3	BBB-
Slovakia	A1	A

Source: Ministry of Finance



6.2 DOMESTIC DEBT OF THE CENTRAL BUDGET IN 2007

6.2.1 Categories of Domestic Debt

Table 6.4 presents the structure of domestic debt by category and the debt outstanding at the end of 2006 and 2007. The domestic debt redemption plan and the plan of interest payments for the period 2008-2019 are given in Table 6.5.

Total domestic debt recorded the amount of HRK 54.6 billion at the end of 2007, while at the end of 2006 it amounted to HRK 52.2 billion. An increase of the debt during 2007 was the result of bond issuance on the domestic market.

Table 6.4 Domestic Debt of the Republic of Croatia (HRK thousand, as of 31 December)

Debt item	Org. currency	2006		2007		Maturity	Coupon
		Amount in orig. curr.	Amount in HRK	Amount in orig. curr.	Amount in HRK		
Big bonds I	HRK	1,895,424	1,895,424	1,964,084	1,964,084	2011	5.000%
Big bonds II	EUR	50,402	370,209	41,637	304,995	2011	7.200%
Big bonds III	EUR	51,637	379,277	43,682	319,974	2012	7.200%
Bonds - Series 02 D-08	EUR	200,000	1,469,016	200,000	1,465,026	2008	6.875%
Bonds - Series 03 D-12	EUR	500,000	3,672,541	500,000	3,662,566	2012	6.875%
Bonds - Series 04 D-8	HRK	1,000,000	1,000,000	1,000,000	1,000,000	2008	6.125%
Bonds - Series 05 D-14	EUR	650,000	4,774,303	650,000	4,761,335	2014	5.500%
Bonds - Series 06 D-07	EUR	400,000	2,938,032	400,000			
Bonds - Series 07 D-19	EUR	200,000	1,469,016	500,000	3,662,566	2019	5.375%
Bonds - Series 08 D-10	HRK	3,000,000	3,000,000	3,000,000	3,000,000	2010	6.750%
Bonds - Series 09 D-15	EUR	350,000	2,570,778	350,000	2,563,796	2015	4.250%
Bonds - Series 10 D-15	HRK	5,500,000	5,500,000	5,500,000	5,500,000	2015	5.250%
Bonds - Series 11 D-13	HRK	4,000,000	4,000,000	4,000,000	4,000,000	2013	4.500%
Bonds - Series 12 D-17	HRK			5,500,000	5,500,000	2017	4.750%
BRA bonds - Series I	EUR	20,232	148,602				
BRA bonds - Series II	EUR	20,095	147,598	16,832	123,299	2012	5.000%
BRA bonds - Series III	EUR	53,543	393,278	45,294	331,787	2012	7.200%
BRA bonds - Series IV	EUR	27,507	202,039	23,041	168,777	2012	5.000%
BRA bonds - Series V-A	EUR	561	4,117				
BRA bonds - Series V-B	EUR	55,666	408,870	29,018	212,561	2008	7.000%
Syndicated FX loan	EUR	500,000	3,672,541	500,000	3,662,566	2010	4.980%
Medium-term and long-term debt			38,015,641		42,203,332		
Treasury bills	HRK	12,326,500	12,326,500	11,669,800	11,669,800		
	EUR	45,700	335,670	41,700	305,458		
Other short-term debt	HRK	1,612,521	1,612,521	476,268	476,268		
Short-term debt			14,274,691		12,451,526		
Total debt			52,290,332		54,654,858		

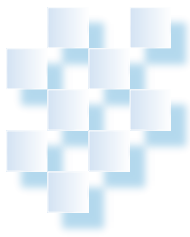
Source: Ministry of Finance



Table 6.5 Amortisation of Domestic Debt (HRK million)

(HRK mil.)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Repayment of principle	2,933.16	2,103.85	5,121.83	2,275.02	3,781.75	4,000.00	4,761.34	8,063.80	0.00	5,500.00	0.00	3,662.57
Big bonds I	0.00	0.00	0.00	1,964.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds II (RB.SB)	68.78	73.40	78.23	84.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds III (PBZ)	62.56	67.10	72.04	77.30	40.98	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series II (PBZdm)	25.05	26.37	27.69	29.08	15.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series III (PBZk)	64.83	69.59	74.72	80.21	42.44	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series IV (PBZk5)	34.35	36.11	37.87	39.78	20.66	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series V - B (DUB)	212.56	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 02 D-08	1,465.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 03 D-12	0.00	0.00	0.00	0.00	3,662.57	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 04 D-08 (HRK)	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 05 D-14	0.00	0.00	0.00	0.00	0.00	0.00	4,761.34	0.00	0.00	0.00	0.00	0.00
Bonds - Series 07 D-19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 08 D-10 (HRK)	0.00	0.00	3,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 09 D-15	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,563.80	0.00	0.00	0.00	0.00
Bonds - Series 10 D-15 (HRK)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,500.00	0.00	0.00	0.00	0.00
Bonds - Series 11 D-13 (HRK)	0.00	0.00	0.00	0.00	0.00	4,000.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 12 D-17 (HRK)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,500.00	0.00	0.00
Syndicated FX loan	0.00	1,831.28	1,831.28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest payments	2,251.95	2,044.49	1,829.41	1,659.45	1,427.54	1,297.73	986.80	855.86	458.15	327.52	196.90	196.90
Big bonds I	86.44	86.44	86.44	86.44	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds II (RB.SB)	20.95	16.26	11.35	4.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Big bonds III (PBZ)	21.90	17.36	12.45	7.11	1.47	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series II (PBZdm)	5.86	4.61	3.22	1.83	0.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series III (PBZk)	22.71	17.95	12.89	7.40	1.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series IV (PBZk5)	7.98	6.30	4.47	2.56	0.51	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BRA bonds-Series V - B (DUB)	11.21	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 02 D-08	100.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 03 D-12	251.84	251.84	251.84	251.84	125.92	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 04 D-08 (HRK)	30.63	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 05 D-14	261.87	261.87	261.87	261.87	261.87	261.87	130.94	0.00	0.00	0.00	0.00	0.00
Bonds - Series 07 D-19	196.90	196.90	196.90	196.90	196.90	196.90	196.90	196.90	196.90	196.90	196.90	196.90
Bonds - Series 08 D-10 (HRK)	202.50	202.50	101.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 09 D-15	108.96	108.96	108.96	108.96	108.96	108.96	108.96	108.96	0.00	0.00	0.00	0.00
Bonds - Series 10 D-15 (HRK)	288.75	288.75	288.75	288.75	288.75	288.75	288.75	288.75	0.00	0.00	0.00	0.00
Bonds - Series 11 D-13 (HRK)	180.00	180.00	180.00	180.00	180.00	180.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonds - Series 12 D-17 (HRK)	261.25	261.25	261.25	261.25	261.25	261.25	261.25	261.25	261.25	130.62	0.00	0.00
Syndicated FX loan	191.48	143.50	47.76	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total debt service	5,185.11	4,148.34	6,951.24	3,934.47	5,209.28	5,297.73	5,748.13	8,919.66	458.15	5,827.52	196.90	3,859.47

Source: Ministry of Finance



When analysing and determining the sources of financing of the budgetary central government, the government continues with its orientation towards domestic capital market with a purpose of mitigating the growth of total foreign debt of the Republic of Croatia. At the same time, in the structure of the budgetary central government debt, a significant increase of domestic market debt component has been recorded (bonds and treasury bills), the share of which in total budgetary central government debt increased from 20.8% at the end of 2003, to 54.5% at the end of 2007. The government's orientation towards borrowing through long-run and short-run issuance of securities on domestic market provides the realization of the financing account in accordance with the original plan with reduced dependence on foreign capital markets.

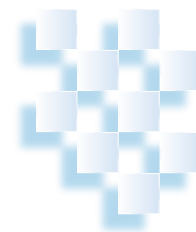
Following the policy of orientation towards domestic capital market, the Republic of Croatia has issued government bonds in the amount of HRK 5.5 billion and EUR 300 million during 2007.

In February 2007, the Republic of Croatia issued bonds of the Series 12 D-17 in the amount of HRK 2.5 billion, with the maturity of ten years, with a fixed annual coupon of 4.75%. The bonds were subscribed on February, 8 2007. The bond coupon will be paid semi-annually, while the principle will be completely repaid at maturity (February 8, 2017). The bonds were placed on the market with Erste & Steiermärkische Bank d.d., HVB Splitska banka d.d., Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d. and Zagrebačka banka d.d. as lead managers. In July 2007 the Republic of Croatia issued a second tranche of these bonds in the amount of HRK 3 billion, which was consolidated with the first issuance, thus representing an integral issuance in the amount of HRK 5.5 billion and with maturity on February 8, 2017.

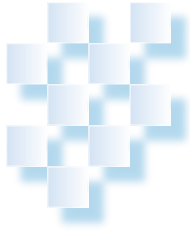
The second tranche of the bond of the Series 07 D-19 in the amount of EUR 300 million (in Kuna equivalent) was issued in October and was consolidated with the first issuance from November 2004, thus representing the integral issuance of EUR 500 million with a maturity on November, 29 2019.

In July 2007, the Republic of Croatia redeemed bonds of the Series 06 D-07 in the amount of EUR 400 million issued in 2004.

All bonds of the Republic of Croatia are listed within the first quotation ("Official Market") of the Zagreb Stock Exchange. At the end of 2007, a total of ten bonds issued by the Republic of Croatia were enlisted in the first quotation of the Zagreb Stock Exchange, whose list with the conditions is given in Table 6.6.

**Table 6.6 Overview of Domestic Bonds Issued by the Republic of Croatia or with the Guarantee of the Republic of Croatia**

DAB Bonds for insured savings I	DAB Bonds for insured savings II
DAB-O-03CA	DAB-O-05CA
Issuer: State Agency for Deposit Insurance and Bank Rehabilitation	Issuer: State Agency for Deposit Insurance and Bank Rehabilitation
EUR 105 000 000	EUR 225 000 000
3 years	5 years
8% coupon	8.375% coupon
Lead manager(s): Privredna banka Zagreb d.d. and Zagrebačka banka d.d. Zagreb	Lead manager(s): Privredna banka Zagreb d.d. and Zagrebačka banka d.d. Zagreb
Listing: ZSE	Listing: ZSE
Date of issue: 19/12/2000	Date of issue: 19/12/2000
Date of maturity: 19/12/2003	Date of maturity: 19/12/2005
The bond was fully repaid on maturity.	The bond was fully repaid on maturity.
HZZO Bonds	Bonds - Series 01 D-04
HZZO-O-047A	RHMF-O-049A
Issuer: Croatian Institute for Health Insurance (HZZO)	Issuer: Republic of Croatia
EUR 222 000 000	EUR 200 000 000
4 years	3 years
8.5% coupon	6.5% coupon
Lead manager(s): Zagrebačka banka d.d. Zagreb	Lead manager(s): Privredna banka Zagreb d.d. and Zagrebačka banka d.d. Zagreb
Listing: ZSE	Listing: ZSE
Date of issue: 19/07/2000	Date of issue: 20/09/2001
Date of maturity: 19/07/2004	Date of maturity: 20/09/2004
The bond was fully repaid on maturity.	The bond was fully repaid on maturity.
Bonds - Series 02 D-08	Bonds - Series 03 D-12
RHMF-O-08CA	RHMF-O-125A
Issuer: Republic of Croatia	Issuer: Republic of Croatia
EUR 200 000 000	EUR 500 000 000
7 years	10 years
6.875% coupon	6.875% coupon
Lead manager(s): Privredna banka Zagreb d.d. and Zagrebačka banka d.d. Zagreb	Lead manager(s): Privredna banka Zagreb d.d., Zagrebačka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb
Listing: ZSE	Listing: ZSE
Date of issue: 14/12/2001	Date of issue: 23/05/2002
Date of maturity: 14/12/2008	Date of maturity: 23/05/2012
Bonds - Series 04 D-08	Bonds - Series 05 D-14
RHMF-O-085A	RHMF-O-142A
Issuer: Republic of Croatia	Issuer: Republic of Croatia
HRK 1 000 000 000	EUR 650 000 000
5 years	10 years
6.125% coupon	5.5% coupon
Lead manager(s): Riječka banka d.d. Rijeka and Splitska banka d.d. Split	Lead manager(s): Privredna banka Zagreb d.d., Zagrebačka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb
Listing: ZSE	Listing: ZSE
Date of issue: 28/05/2003	Date of issue: 10/02/2004
Date of maturity: 28/05/2008	Date of maturity: 10/02/2014



Bonds - Series 06 D-07	Bonds - Series 07 D-19
RHMF-O-077A	RHMF-O-198A
Issuer: Republic of Croatia	Issuer: Republic of Croatia
EUR 400 000 000	EUR 500 000 000
3 years	15 years
3.875% coupon	5.375% coupon
Lead manager(s): Privredna banka Zagreb d.d., Zagrebačka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb	Lead manager(s): Erste & Steiermärkische Bank d.d., Privredna banka Zagreb d.d., Zagrebačka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb
Listing: ZSE	Listing: ZSE
Date of issue: 07/07/2004	Date of issue: 29/11/2004
Date of maturity: 07/07/2007	Date of maturity: 29/11/2019
The bond was fully repaid on maturity.	
Bonds - Series 08 D-10	Bonds - Series 09 D-15
RHMF-O-103A	RHMF-O-157A
Issuer: Republic of Croatia	Issuer: Republic of Croatia
HRK 3 000 000 000	EUR 350 000 000
5 years	10 years
6.750% coupon	4.25% coupon
Lead manager(s): Privredna banka Zagreb d.d., Zagrebačka banka d.d. Zagreb and Raiffeisenbank d.d. Zagreb	Lead manager(s): Erste & Steiermärkische Bank d.d.
Listing: ZSE and VSE	Listing: ZSE and VSE
Date of issue: 08/03/2005	Date of issue: 14/07/2005
Date of maturity: 08/03/2010	Date of maturity: 14/07/2015
Bonds - Series 10 D-15	Bonds - Series 11 D-13
RHMF-O-15CA	RHMF-O-137A
Issuer: Republic of Croatia	Issuer: Republic of Croatia
HRK 5 500 000 000	HRK 4 000 000 000
10 years	7 years
5.25% coupon	4.50% coupon
Lead manager(s): Erste&Steiermärkische Bank d.d., HVB Splitska banka d.d., Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d. and Zagrebačka banka d.d.	Lead manager(s): Erste&Steiermärkische Bank d.d., HVB Splitska banka d.d., Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d. and Zagrebačka banka d.d.
Listing: ZSE and VSE	Listing: ZSE and VSE
Date of issue: 15/12/2005	Date of issue: 11/7/ 2006
Date of maturity: 15/12/2015	Date of maturity: 11/7/ 2013
Bonds - Series 12 D-17	
RHMF-O-172A	
Issuer: Republic of Croatia	
HRK 5 500 000 000	
10 years	
4.75% coupon	
Lead manager(s): Erste&Steiermärkische Bank d.d., SG Splitska banka d.d., Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d. and Zagrebačka banka d.d.	
Listing: ZSE and VSE	
Date of issue: 8/2/2007	
Date of maturity: 8/2/2017	

Source: Ministry of Finance



6.2.2 Treasury Bills

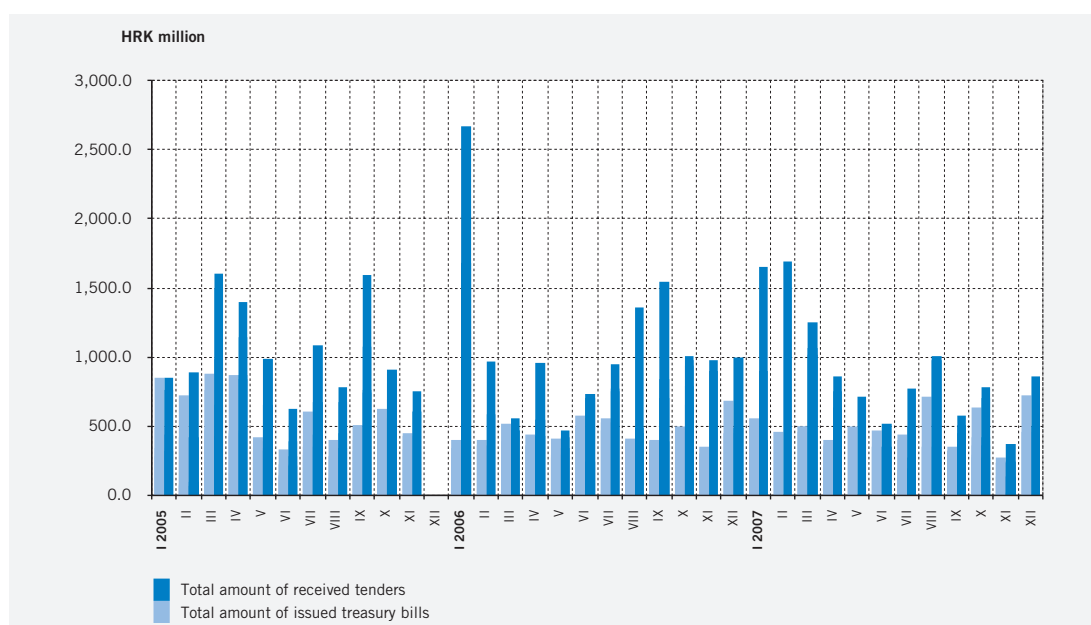
In March 2007, for the purpose of conduction of Treasury Bills auction, the Ministry of Finance introduced electronic Bloomberg Auction System (BAS) to replace the former telefax system for collection of bids. Conducting Treasury Bills Auctions via BAS, the Ministry of Finance upgrades efficiency and transparency of the auction process, joining thus the automated and modern auction system for placement of securities, which is, already being applied in, among others, Australia, Great Britain, Belgium, Czech Republic, Netherlands, Finland, Ireland, Portugal, Slovenia, Israel...

In line with this, a new Treasury Bills Auction Rules and Conditions were established.

A total of 34 auctions of treasury bills were held during 2007, including a total of 87 issuances, of which 26 issuances of 91-days treasury bills, 27 issuances of 182-days treasury bills and 34 issuances of 364-days treasury bills.

During the year, a total of HRK 13 billion was issued at the treasury bills auctions, while at the same time a total of HRK 13.6 billion of treasury bills were redeemed.

Figure 6.1 Results of the Treasury Bills Auctions



Source: Ministry of Finance

Figure 6.1 presents the relation between the total amount of the received tenders and the amount of issued treasury bills at the auctions of the Ministry of Finance. A trend of higher demand for the treasury bills than amount of issued treasury bills can be noticed throughout the observed period.

Figure 6.2 shows the maturity structure of treasury bills outstanding as of December 31, 2007, while Figure 6.3 depicts their maturity structure as of December 31, 2006. On the treasury bills auctions, the highest interest was expressed for the treasury bills with the longest maturity. Therefore, at the end of 2007, 364-days treasury bills accounted for 91.1% of the total amount (HRK 11.6 billion) of treasury bills issued by the Ministry of Finance.

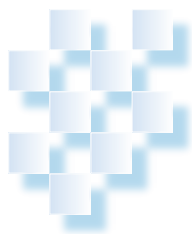
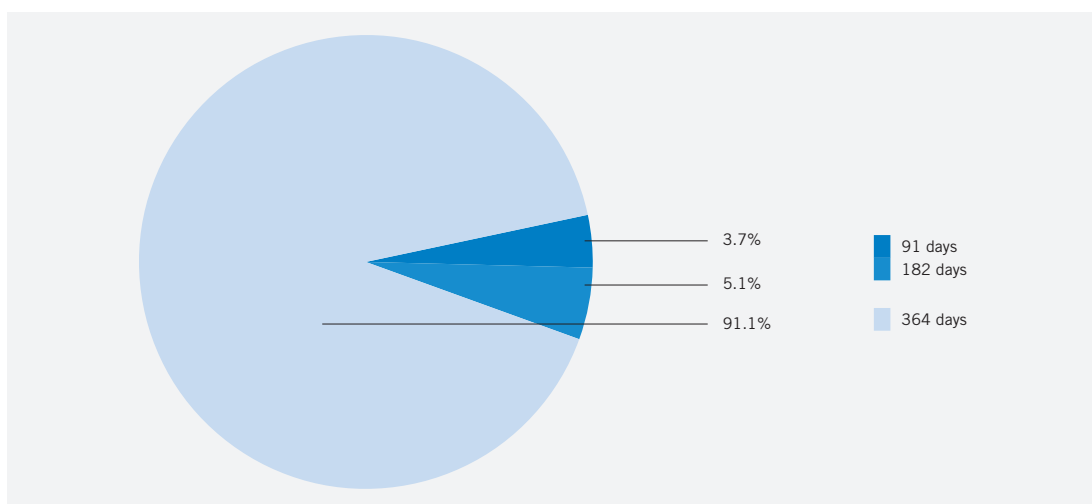
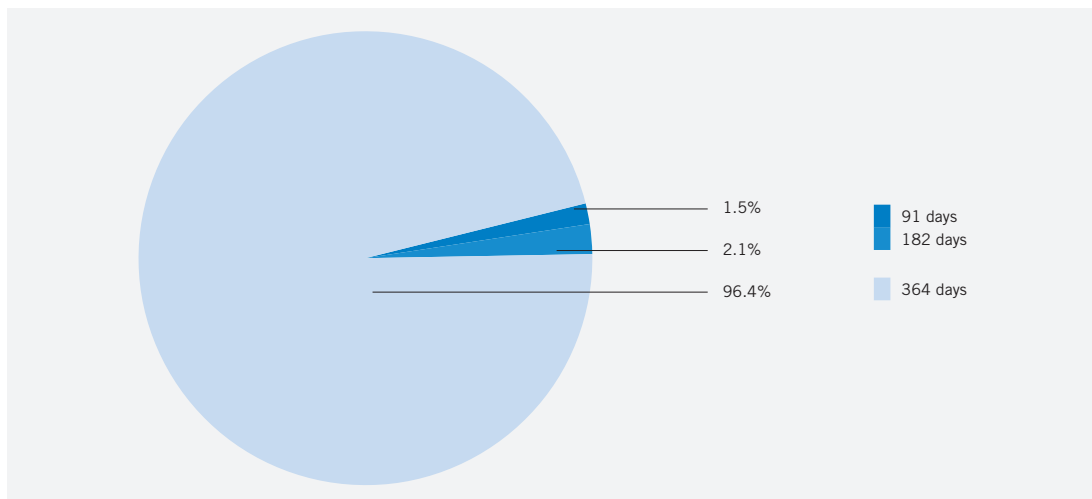


Figure 6.2 Maturity Structure of Treasury Bills as of 31 December 2007



Source: Ministry of Finance

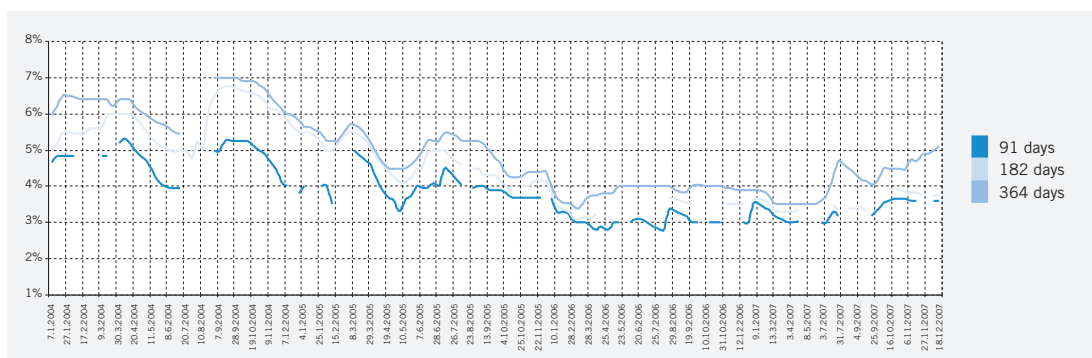
Figure 6.3 Maturity Structure of Treasury Bills as of 31 December 2006



Source: Ministry of Finance

Figure 6.4 presents the interest rates on the treasury bills of the Ministry of Finance, which at the end of 2007 stood at 3.6% for 91-days treasury bills, 3.75% for 182-days treasury bills and 5.1% for 364-days treasury bills.

Figure 6.4 Interest Rates on Treasury Bills

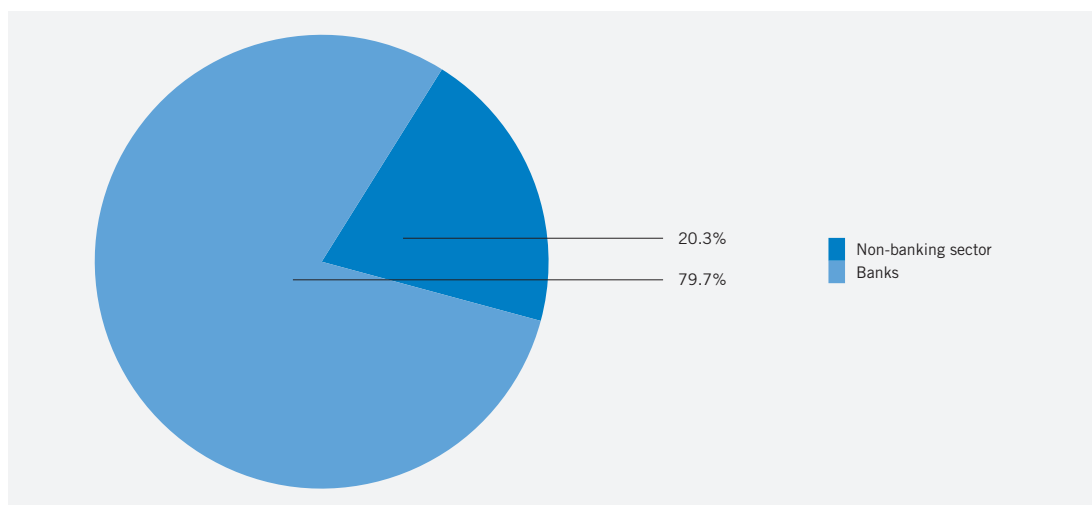


Source: Ministry of Finance



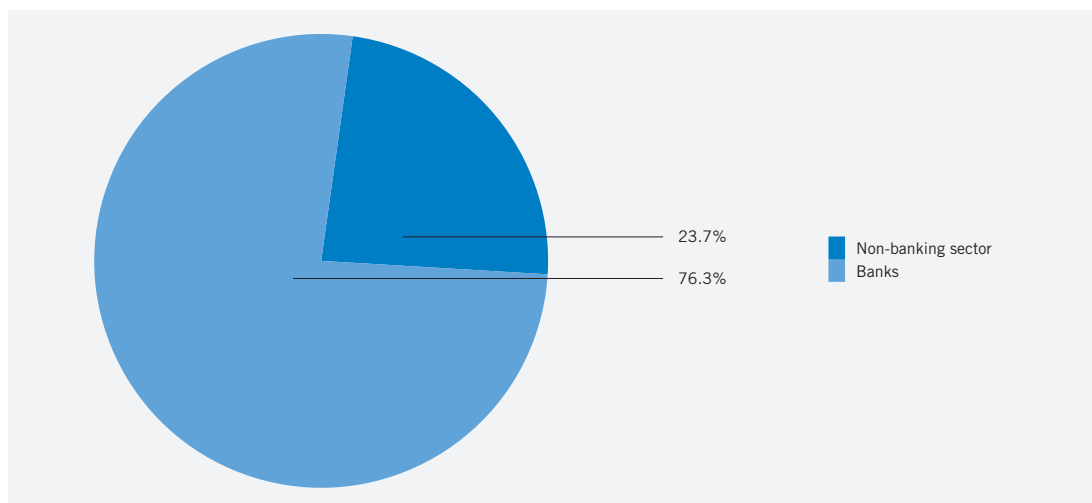
During 2007, no significant changes occurred within the structure of investors in treasury bills when compared with 2006, which is visible on Figures 6.5 and 6.6. The share of the banking sector in total treasury bills amounted to 79.69% at the end of 2007.

Figure 6.5 Structure of Treasury Bills by Investors as of 31 December 2007

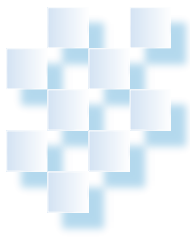


Source: Ministry of Finance

Figure 6.6 Structure of Treasury Bills by Investors as of 31 December 2006



Source: Ministry of Finance



6.3 FOREIGN DEBT OF THE REPUBLIC OF CROATIA

6.3.1 International Bonds of the Republic of Croatia

At the end of 2007 there were a total of 7 bonds issued by the Republic of Croatia listed on international market. The overall list of international bonds with their conditions of issue is given in Table 6.7.

In July 2007, JPY 40 billion matured and was redeemed (issued on 11 July 2000).

Due to the orientation towards domestic capital market, foreign debt of the government sector decreased by HRK 1.8 billion in 2007.

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

London Club Series A:	London Club Series B:
US\$ 857 796 000	US\$ 604 426 000
3 years grace period, 11 years repayment	10 years repayment
US\$ 6-month LIBOR+81,25 bps	US\$ 6-month LIBOR+81,25 bps
Listing: Luxembourg	Listing: Luxembourg
Date of issue: 31/07/1996	Date of issue: 31/07/1996
Date of maturity: 31/07/2010	Date of maturity: 31/07/2006
	The bond was fully repaid on maturity.
Euro-dollar bonds:	Euro-DEM bonds:
US\$ 300 million	DEM 300 million
5 years, bullet	7 years, bullet
7% coupon	6.125% coupon
(80 bps over 5-year Treasuries)	(95 bps over the relevant Bund)
Lead Manager(s): Merrill Lynch and UBS	Lead Manager(s): Credit Suisse and Deutsche Morgan Grenfell
Listing: Luxembourg	Listing: Frankfurt
Date of issue: 06/02/1997	Date of issue: 01/07/1997
Date of maturity: 27/02/2002	Date of maturity: 16/07/2004
The bond was fully repaid on maturity.	The bond was fully repaid on maturity.
Matador Bonds:	Euro-EUR bonds / I:
ESP 15 billion	EUR 300 million
3 years, bullet	7 years, bullet
6.5 % coupon	7.375 % coupon
(225 bps over relevant Spanish bonds)	(375 bps over 7-year German Bund)
Lead Manager(s): Santander Investment	Lead Manager(s): Credit Suisse and Dresdner Kleinwort Benson
Listing: Madrid	Listing: Luxembourg
Date of issue: 04/03/1998	Date of issue: 23/02/1999
Date of maturity: 26/03/2001	Date of maturity: 10/03/2006
The bond was fully repaid on maturity.	The bond was fully repaid on maturity.



Samurai bond / I:	Euro-EUR bonds / I:
JPY 25 billion	EUR 500 million
5 years, bullet	5 years, bullet
4% coupon	7% coupon
(310 bps over 5-year Yen LIBOR)	(210 bps over 5-year German Bund)
Lead Manager(s): Daiwa securities SB	Lead Manager(s): Dresdner Kleinwort Benson
Listing: Tokyo	Listing: Luxembourg
Date of issue: 14/12/1999	Date of issue: 28/03/2000
Date of maturity: 14/12/2004	Date of maturity: 28/03/2005
The bond was fully repaid on maturity.	The bond was fully repaid on maturity.
Samurai bond / II:	Samurai bond / III:
JPY 40 billion	JPY 25 billion
7 years, bullet	5 years, bullet
3% coupon	2.5% coupon
(135 bps over 7-year LIBOR)	(152 bps over 5-year Yen LIBOR)
Lead Manager(s): Daiwa securities SB	Lead Manager(s): Daiwa securities SB
Listing: Tokyo	Listing: Tokyo
Date of issue: 11/07/2000	Date of issue: 06/02/2001
Date of maturity: 11/07/2007	Date of maturity: 23/02/2006
The bond was fully repaid on maturity.	The bond was fully repaid on maturity.
Euro-EUR bonds / III:	Euro-EUR bonds / IV:
EUR 750 million	EUR 500 million
10 years, bullet	7 years, bullet
6.75% coupon	6.25% coupon
(215 bps over 10-year German Bund)	(158 bps over 7-year German Bund)
Lead Manager(s): JP Morgan and Deutsche Bank	Lead Manager(s): Deutsche Bank and CSFB
Listing: Luxembourg	Listing: Luxembourg
Date of issue: 06/03/2001	Date of issue: 28/01/2002
Date of maturity: 14/03/2011	Date of maturity: 11/02/2009
Samurai bond / IV:	Euro-EUR bonds / V:
JPY 25 billion	EUR 500 million
6 years, bullet	7 years, bullet
2.15% coupon	4.625% coupon
(144 bps over 6-year Yen LIBOR)	(95 bps over 7-year Euribor)
Lead Manager(s): Daiwa Securities SMBC and Nomura Securities	Lead Manager(s): Deutsche Bank and Citigroup
Date of issue : 26/06/2002	Listing: Luxembourg
Date of maturity: 26/06/2008	Date of issue: 24/02/2003
	Date of maturity: 24/02/2010
Samurai bond / V:	Euro-EUR bonds / VI:
JPY 25 billion	EUR 500 million
6 years, bullet	10 years, bullet
1.23% coupon	5% coupon
(99 bps over 6-year Yen LIBOR)	(100 bps over 10-year Euribor)
Lead Manager(s): Daiwa Securities SMBC and Nomura Securities	Lead Manager(s): JP Morgan and UBS Investment Bank
Date of issue : 26/06/2003	Listing: Luxembourg
Date of maturity: 26/06/2009	Date of issue: 15/04/2004
	Date of maturity: 15/04/2014

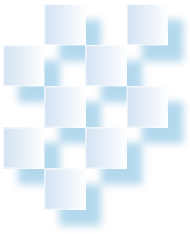
Source: Ministry of Finance

Table 6.8 Projections of Repayments of International Bonds of the Republic of Croatia

	Currency	Amount orig. cur.	Amount EUR*	2008	2009	2010	2011	2012	2013	2014
London Club Series A	USD	857,796,000	583,812,660	53,073,878	53,073,878	53,073,878	0			
- coupon: 6m LB+13/16				7,894,242	5,023,608	2,452,975	0			
EURO bond	EUR	750,000,000	750,000,000	0	0	0	750,000,000			
- coupon: 6.75%				50,625,000	50,625,000	50,625,000	50,625,000			
EURO bond	EUR	500,000,000	500,000,000		500,000,000					
- coupon: 6.25%				31,250,000	31,250,000					
Samurai bond / IV	JPY	25,000,000,000	150,838,668	150,838,668						
- coupon: 2.15%				1,621,516						
EURO bond	EUR	500,000,000	500,000,000			500,000,000				
- coupon: 4.625%				23,125,000	23,125,000	23,125,000				
Samurai bond / V	JPY	25,000,000,000	150,838,668		150,838,668					
- coupon: 1.23%				1,855,316	927,658					
EURO bond	EUR	500,000,000	500,000,000							500,000,000
- coupon: 5.0%				25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Repayment	EUR			203,912,546	703,912,546	553,073,878	750,000,000	0	0	500,000,000
Interest payment	EUR			141,371,073	135,951,266	101,202,975	75,625,000	25,000,000	25,000,000	25,000,000
Total servicing costs	EUR			345,283,619	839,863,811	654,276,853	825,625,000	25,000,000	25,000,000	525,000,000
Outstanding (end year)	EUR			2,506,986,424	1,803,073,878	1,250,000,000	500,000,000	500,000,000	500,000,000	0

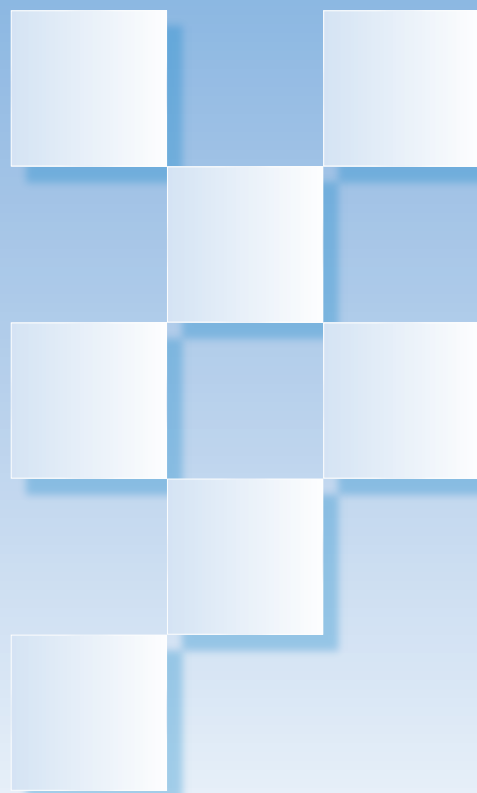
*exchange rate as of 29/12/2007
6m USD LIBOR (31/12/2007)

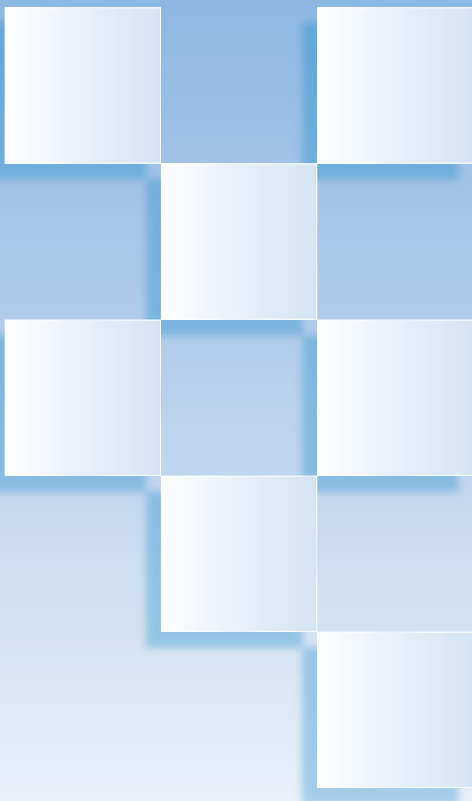
Source: Ministry of Finance



7

**REPORT ON THE ACTIVITIES
OF THE DIRECTORATE FOR
EUROPEAN INTEGRATION
AND INTERNATIONAL
FINANCIAL RELATIONS**

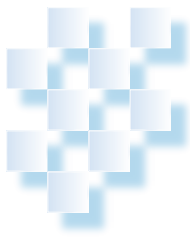






7.1 INTRODUCTION

Directorate for European Integration and International Financial Relations (hereinafter referred to as 'Directorate') through Department for European Integration deals with activities related to international financial law and alignment of financial legal system of the Republic of Croatia with the *acquis communautaire*, as well as with activities related to the coordination of projects financed from the EU assistance programmes being within the jurisdiction of the Ministry of Finance. Department for International Financial Institutions deals with activities which include development of relations with leading international financial institutions, organizations, banks and their governing and expert bodies, it follows up business policies, programmes, executive decisions, rules and procedures, conditions, financial products and instruments, with special emphasis on those that are of special interest to the Republic of Croatia. Within the scope of work of the Directorate, activities of management and monitoring of the execution of international financial agreements are being performed as well as financial follow-up thereof. The Directorate deals with activities related to bilateral and multilateral financial relations within the jurisdiction of the Ministry as well.



7.2 RELATIONS WITH THE EUROPEAN UNION

Negotiations on the accession of the Republic of Croatia to the European Union formally started on October 3, 2005. In the course of 2006 the analytical overview (screening) was completed and the Ministry of Finance, as the competent authority, opened chapter 29 Customs Union. In the course of 2007, as the competent authority for 5 and co-competent authority for 8 more negotiation chapters, the Ministry opened 3 more chapters being under its jurisdiction: Chapter 9 Financial Services, Chapter 32 Financial Control and Chapter 33 Financial and Budgetary Provisions.

With regard to activities of harmonization of the financial legal system of the Republic of Croatia with the *acquis communautaire*, and pursuant to the National Programme for the Accession of the Republic of Croatia into the European Union, in 2007 three acts and two pieces of subordinate legislation for which the Ministry of Finance was the competent authority were planned to be adopted by the Croatian Government.

In what follows, the overview of legislation and subordinate legislation within the jurisdiction of the Ministry of Finance through which the legal system of the Republic of Croatia was harmonized with the EU legislation in 2007 is presented.

**Table 7.1 Acts that Align the Legislation of the Republic of Croatia with the European Union
Legislation within the Jurisdiction of Ministry of Finance - year 2007**

ACTS THAT ALIGN THE LEGISLATION OF THE REPUBLIC OF CROATIA WITH EUROPEAN UNION REGULATIONS FROM THE SCOPE OF MINISTRY OF FINANCE - YEAR 2007					
Nº	LEGISLATIVE MEASURES	COMPETENT AUTHORITY	GOVERNMENT OF THE REPUBLIC OF CROATIA	CROATIAN PARLIAMENT	OFFICIAL GAZETTE
PARLIAMENT SESSION		2 nd QUARTER			
1	The Financial Collateral Act	MFIN / CDA	15 June 2007	06 July 2007	76/07
PARLIAMENT SESSION		3 rd QUARTER			
2	Act on the Takeover of Joint-stock Companies	MFIN / CFSSA	20 September 2007	05 October 2007	109/07
3	The Accounting Act	MFIN	20 September 2007	05 October 2007	109/07
SUBORDINATE LEGISLATION THAT ALIGN THE LEGISLATION OF THE REPUBLIC OF CROATIA WITH EUROPEAN UNION REGULATIONS FROM THE SCOPE OF MINISTRY OF FINANCE - YEAR 2007					
Nº	SUBORDINATE LEGISLATION	COMPETENT AUTHORITY	GOVERNMENT OF THE REPUBLIC OF CROATIA	OFFICIAL GAZETTE	
PARLIAMENT SESSION		2 nd QUARTER			
1	Regulation on Export Insurance	MFIN	05 June 2007	61/07	
PARLIAMENT SESSION		4 th QUARTER			
2	Regulation on the Customs Tariff	MFIN-CA	29 November 2007	124/07	

In the course of 2007, 11 projects financed from CARDS 2002, 2003, and 2004 programmes as well as the Phare 2005 programme in the amount of EUR 20.2 million were being carried out. Within those projects, 7 projects in the amount of EUR 6.6 million were completed. Furthermore, tender procedure for 3 projects from the Phare 2006 programme commenced; the programming phase for 2 projects from the Phare 2006 PPF programme was completed; the tender procedure phase for 2 projects from the IPA 2007 programme commenced. The total value of the aforementioned projects is EUR 41.7 million. Within the projects of the Ministry of Finance which are either in implementation, programming or tender phase, out of 18 projects 13 are decentralized in the amount of EUR 33.9 million.

Apart from assistance programmes, Community Programmes are opened to the Republic of Croatia as well. In that context, in the course of 2006 Memorandums of Understanding which enable participation of the Republic of Croatia in Customs 2007 and Fiscalis 2003-2007 programmes were signed between the Republic of Croatia and the European Commission. Those programmes are aimed at the improvement of the operation of Customs and Tax Administration and are being conducted through educational activities. In the course of 2007 Tax and Customs Administration participated in those activities, while Directorate for Harmonization of Internal Audit and Financial Control initiated

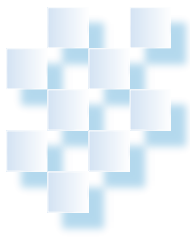


the procedure for launching the negotiation process for participation in the programme Hercule II aimed at the protection of financial interests of the Republic of Croatia.

In what follows, the detailed overview of the projects financed from European Union assistance programmes within the jurisdiction of the Ministry of Finance implemented in 2007 is presented.

Table 7.2 Projects Financed from European Union Assistance Programmes within the Jurisdiction of the Ministry of Finance - year 2007

PROJECTS FROM EUROPEAN UNION ASSISTANCE PROGRAMMES WITHIN THE JURISDICTION OF MINISTRY OF FINANCE - YEAR 2007				
Project Title	Aim of the Project	Budget and type of contract (000 EUR)	Project status in 2007	Remarks
Current Projects				
Central part of the Ministry of Finance				
CARDS 2004 Strengthening Public Internal Financial Control Structure	Horizontal and vertical strengthening of the Public Internal Financial Control system at the level of local and regional self-government units, developing the Public Internal Financial Control methodology and organisational structure at the level of local and regional self-government units, capacity strengthening for the implementation of Public Internal Financial Control and Internal Audit procedures at the level of local and regional self-government units.	Technical Assistance and Supply 1,500.00	Implementation phase	Supply component decentralised
PHARE 2006 Improving Budget Processes for Effective Financial Management	Effective and sustainable system of financial management based on modern instruments and mechanisms made by European Union standards.	Technical Assistance and Supply 4,095.00	Beginning of tender procedure	Decentralised
PHARE 2006 PPF Further Capacity Building to the Certifying Body for SAPARD and Technical Assistance to the Audit Authority for Instrument for Pre-accession Assistance (IPA)	Providing assistance to the Croatian authorities in successful setting up of the Audit Authority for IPA through the development of tools and procedures for audit and control, and providing assistance to the SAPARD Certifying Body in carrying out the audit activities relevant for the SAPARD programme.	Technical Assistance - Framework contract 199.50	Beginning of the programming phase	Decentralised
PHARE 2006 PPF Developing Public Internal Financial Control in the State Treasury	Development of operational procedures, risk analysis, audit tools and other elements necessary for setting up of comprehensive Public Internal Financial Control within the State Treasury.	Twinning Light 198.90	Beginning of the programming phase	Decentralised
Current Projects				
Tax Administration				
PHARE 2005 Assistance to the Croatian Tax Administration in the Development of Activities Proceeding from the EU Fiscal Blueprints	Development of capacities for introduction of VIES information system of interconnectivity in the Tax Administration of the Republic of Croatia.	Twinning and Technical Assistance 3,000,000.00	Implementation phase	Decentralised
PHARE 2006 Strengthening and Enhancement of the Croatian Tax Administration IT Function to Achieve the EU Standards in the VAT Field	Establishment of VIES (VAT Information Exchange System) and VES (VAT on e-services) information systems of interconnectivity.	Twinning and Technical Assistance 3,000.00	Beginning of the tender procedure	Decentralised
PHARE 2005 Capacity Building and Project Preparation Facility-Strengthening and Enhancement of the Croatian Tax Administration in the field of Audit	Strengthening the capacity of the Croatian Tax Administration regarding control functions, collection and simplification of procedures in order to effectively prosecute tax evasion.	Twinning Light 200.00	Implementation phase	Decentralised

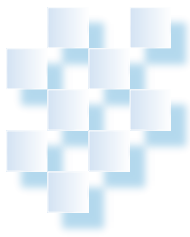


**PROJECTS FROM EUROPEAN UNION ASSISTANCE PROGRAMMES WITHIN THE JURISDICTION
OF MINISTRY OF FINANCE - YEAR 2007**

Project Title	Aim of the Project	Budget and type of contract (000 EUR)	Project status in 2007	Remarks
Current Projects				
Custom Administration				
PHARE 2005 Interoperability of Croatian Customs IT Systems with the EU Customs IT Systems	Strengthening of operative capacity of the Customs Administration of the Republic of Croatia in the field of control of transit and control of movement of goods on which excise duties apply, with the aim of achieving complete compatibility and interconnectivity of the Croatian Customs Administration IT system with the EU IT systems.	Twinning and Technical Assistance 8,700.00	Implementation phase	Decentralised
PHARE 2006 Integration of the Croatian Customs Information Systems with the EU Customs Information Systems	Achieving complete compatibility and interconnectivity of the Croatian Customs Administration information system with the EU IT systems.	Twinning, Twinning Light, Technical Assistance, Supply 6,450.00	Beginning of tender procedure	Decentralised
IPA 2007 Development of the Customs Laboratories System in Croatia	Further development of the customs laboratories in order to achieve operative capacity in line with the European Union standards.	Twinning and Supply 2,900.00	Beginning of the tender procedure	Decentralised
IPA 2007 Supply of Equipment for the Croatian Customs Administration Anti-smuggling Mobile Units	Strengthening of customs control and supervision in the customs zone of the Republic of Croatia area.	Supply 4,700.00	Beginning of tender procedure	Decentralised
Completed Projects				
Central part of the Ministry of Finance				
CARDS 2003 Support to the Ministry of Finance of the Republic of Croatia in Reporting on the Level of Fiscal Deficit and Public Debt According to the ESA 95 methodology	Improvement in reporting on fiscal deficit and public debt monitoring according to European Union requests, that is ECOFIN and ECOSTAT, and improvement in capacities in Bureau for Macroeconomic Analysis and Planning for the purpose of harmonization in reporting on fiscal deficit and public debt according to ESA 95 methodology.	Twinning 60.00	Project completed	
CARDS 2002 Fiscal Decentralisation	Promotion of fiscal decentralisation process in the Republic of Croatia with a goal of establishing public administration in line with the European Union standards.	Supply and Technical Assistance 1,300.00	Project completed	
CARDS 2002 Development of Public Debt Management Capacity	Strengthening of the legislative and institutional framework in the public debt management system, development of the organisational structure of the Cash and Public Debt Management Department and capacity strengthening of staff in the Cash and Public Debt Management Department.	Supply and Technical Assistance 1,500.00	Project completed	



PROJECTS FROM EUROPEAN UNION ASSISTANCE PROGRAMMES WITHIN THE JURISDICTION OF MINISTRY OF FINANCE - YEAR 2007				
Project Title	Aim of the Project	Budget and type of contract (000 EUR)	Project status in 2007	Remarks
Completed Projects				
Tax Administration				
CARDS 2004 Strengthening the Taxation System in the VAT Field to Prepare the Development of the VIES IT Interconnectivity System	Strengthening the administrative capacity of the Croatian Tax Administration for the implementation of new legal provisions and procedures in the area of VAT, and strengthening the capacity of the Tax Administration with the objective of introducing the VIES system (VAT Information Exchange System).	Twinning 1,300.00	Project completed	
CARDS 2004 Assessment and Strategy Development Based on Fiscal Blueprints	Improvement in administrative capacities of the Tax Administration of the Republic of Croatia through assistance in preparation of the general Business Change Management Plan on the basis of Fiscal Blueprint documents, and through assistance in preparation of general IT strategy that represents basis for further organisation of Tax Administration IT.	Framework Contract 199.25	Project completed	Decentralised
Completed Projects				
Customs Administration				
CARDS 2002 NCTS Transit System Establishing	Development of NCTS transit system (New Computerized Transit System) through strengthening the administrative capacity of the Customs Administration for implementation of new legal regulations and procedures in the field of Union transit, and through preparation activities for development of transit system compatible with NCTS and based on MCC (Minimal Common Core) IT platform.	Twinning 1,000.00	Project completed	
CARDS 2004 Support to the Customs Administration in preparing BCMP (Business Change Management Plan) and IT strategy	Assistance to the Croatian Customs Administration in preparation of long-term Business Change Management Plan in main administrative and operative fields related to customs. The assistance to the Croatian Customs Administration in preparation of long-term IT strategy that would provide basis for further IT organisation in the Customs Administration, especially concerning introduction of IT interoperable systems.	Framework Contract 150.00	Project completed	
CARDS 2003 Support of the Croatian Customs Administration in the Field of Excise Duties	Strengthening the administrative efficiency of the Customs Administration in the area of excise duties and preparations for the introduction of appropriate IT structures for excise duties in line with EU standards.	Twinning 800.00	Project completed	
CARDS 2003 Support to the Customs Laboratories	Support to the customs laboratory development.	Twinning Light 150.00	Project completed	Decentralised
CARDS 2002 Modernisation of Customs Administration with Regard to ITMS System Establishing	Further harmonisation of the legal framework in the field of Union transit, preparation for joining the TARIC system and strengthening the institutional capacities of the Customs Administration.	Twinning 1,350.00	Project completed	



7.3 RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS

7.3.1 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

The Republic of Croatia has been a full member of the International Bank for Reconstruction and Development (IBRD) since February 25, 1993. The International Bank for Reconstruction and Development (IBRD) is a unique development organization within the World Bank (hereinafter referred to as the 'Bank'). In the total IBRD capital, the Republic of Croatia owns 0.15% shares and has 0.16% of the voting power. Since July 1, 2007 Mr. Robert B. Zoellick has been appointed to the function of the president of the World Bank. Vice president of the bank in charge of Europe and Central Asia Region was Mr. Shigeo Katsu. The Republic of Croatia makes part of the Dutch Constituency²³ headed by the World Bank executive director Mr. Herman Wijffels (since November 1, 2006).

As of January 1, 1998 in Zagreb operated permanent World Bank office which became Regional World Bank Office for Croatia, Bulgaria and Romania on October 1, 2001. Head of the Regional Office was director Anand K. Seth.

At the end of November 2006, within the reorganization process, the Regional World Bank Office moved to Washington, while in Zagreb remained the World Bank Office for Croatia, to the head of which Mr. Andras Horvai has been appointed (since July 1, 2007).

Since September 2007 the Bank has reorganized its departments in order to improve efficiency in its co-operation with the member countries. The Republic of Croatia was put under the jurisdiction of the Office for Central European and Baltic Countries. Doing so, the Bank has proved to recognize progress and reforms that have been carried out in Croatia.

Apart from the Republic of Croatia, the new organizational unit includes 10 EU Member Countries which have acceded to the EU within last two enlargements.

IBRD is the most important international financial institution for the Republic of Croatia which continuously and comprehensively supports:

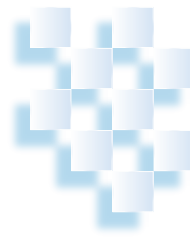
- (a) economic-social development;
- (b) maintenance of macroeconomic stability;
- (c) achievement of sustainable economic growth based on private sector and sustainable management of natural resources;
- (d) initiation and implementation of numerous structural and institutional reforms;
- (e) undertaking the measures to remove obstacles for economic growth and strengthening of market institutions and economic competitiveness;
- (f) creation of business environment favourable for investments.

Since 1993 till today, the IBRD has been important financing source and catalyst of reform adjustments. Significant financial IBRD funds are used in the Republic of Croatia in the form of programmatic, sector and investment loans under the most favourable financial conditions which IBRD is getting in international financial markets. Also, numerous grants, technical assistances and consultant services are being used in the Republic of Croatia which supports economic development and implementation of structural reforms in different areas, starting from infrastructure, agriculture and health, to banking, pension and judicial system.

Cooperation of the Republic of Croatia and the IBRD has important, not only financial, but also broader significance for maintenance of macroeconomic stability, achievement of sustainable and accelerated economic growth and fulfilment of conditions for successful integration in the European Union.

The role of the IBRD and financial support to the Republic of Croatia in reconstruction, building the infrastructure, restructuring and privatization of public enterprises, determining and defining structural reforms and implementation of structural adjustments important for development of the Republic of Croatia were defined in the framework of strategic documents which the Board of Executive Directors adopted in earlier periods. During 2004 strategic document was prepared: the Country Assistance Strategy (CAS) of the World Bank for the Republic of Croatia in the period from

²³ Dutch Constituency includes thirteen countries: Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Israel, Croatia, Macedonia, Moldova, Netherlands, Romania, Ukraine and Montenegro. Regular meetings of the constituency are being held a day before annual and spring convention of the World Bank and the IMF and every year in one of the member countries. The last constituency meeting was held in Kishinev, Moldova on June 9 and 10, 2007.



2005 to 2008²⁴ in partnership with the Government of the Republic of Croatia and on the basis of consultations with representatives of the local authorities, nongovernmental organizations, unions, scientists and general public. The Document (CAS) is mutual programme which defines objectives and instruments of assistance and priority areas for cooperation based on broad sector analysis. CAS comprises three growth scenarios for the period from 2005 to 2008 (base, high and low) and on that basis adjusted IBRD lending programmes through different financial instruments. Lending programme in the base scenario amounts to USD 1.1 billion, while low scenario amounts to USD 314 million and high scenario to USD 1.5 billion for four fiscal years.

The Bank has drawn up, in the co-operation with the Ministry of Finance, the Country Assistance Strategy Progress Report for the period 2005-2008, which has been adopted by the Government of the Republic of Croatia as well as the Board of Executive Directors of the Bank. This report envisages lending programme in the high scenario for the period 2007-2008 in the amount of USD 960 million, where priorities are public administration reform, improving water supply and waste water collection, and judicial reform, which are, at the same time, key elements for fulfilment of the accession criteria.

For the implementation of projects and utilization of loans, portfolio ministries and government agencies are in charge (HBOR, Croatian Waters, etc.).

The Ministry of Finance of the Republic of Croatia coordinates planning, propositioning and contracting of new loans and grants. Also, it monitors and records their utilization and fulfils the matured obligations towards the Bank on the basis of direct loans, while obligations contracted with the government guarantee are serviced directly by borrowers.

7.3.1.1 New Loans and Grants Contracted in 2007

In 2007 the Republic of Croatia and the IBRD concluded agreements on 4 new loans in the amount of EUR 335.3 million, of which 3 direct loans in the amount of EUR 300 million aimed at financing structural reforms, water supply improvement, waste water collection and treatment services, flood protection measures in the Sava, Drava and Danube river basin, and the modernization of the Tax Administration, and 1 loan with the government guarantee in the amount of EUR 35.3 million for the modernization of the Port of Rijeka.

Furthermore, with the IBRD as administrator of financial funds 1 grant agreement was concluded in the total amount of USD 350,000. The grant was financed from the Institutional Development Fund - IDF, in the form of technical assistance and training to the National Steering Committee for enhancing financial reporting and auditing and relevant stakeholders.

7.3.1.1 A. Loans

a) Second Programmatic Adjustment Loan (Loan No. 74500-HR), EUR 150 million

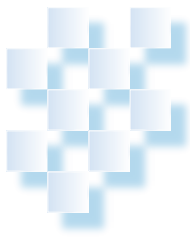
Second Programmatic Adjustment Loan (PAL II) is the instrument of the Bank which supports the implementation of structural reforms both in public and private sector, thus representing support to the Government of the Republic of Croatia in the EU accession process. The loan is aimed at achieving the following objectives: reduction of the public sector and enhancement of its effectiveness through the public administration reform, reduction of social benefits and grants, reduction of expense for health and railways, judiciary modernization, improvement of investment climate through encouraging stronger activity and productivity of the private sector.

The Loan Agreement was signed on June 11, 2007. However, the loan did not become effective within 2007. The loan funds will be withdrawn until June 30, 2008 while the withdrawn principal will be repaid after 5 year grace period in semi-annual instalments (from October 15, 2012 till April 15, 2022).

b) Loan for the Inland Waters Project (Loan No. 74530 - HR), EUR 100 million

The overall object of the project is the improvement of the conditions in water supply, waste water collection and treatment services, and protection against floods in the Sava, the Drava and the Danube river basins. The total value of the financial resources is EUR 105.3 million, where EUR 100 million

²⁴ Document of The World Bank-International Bank for Reconstruction and Development and International Financial Corporation-Country Assistance Strategy for The Republic of Croatia, November 24, 2004 is available in Croatian and English language on the WEB page of the World Bank Office in Croatia: www.worldbank.hr and the Ministry of Finance of the Republic of Croatia: www.mfin.hr.



originates from the IBRD loan funds and EUR 5.3 million originates from the Croatian Waters direct revenue. The project supports institutional strengthening for municipal services to operate efficiently and for Croatia to effectively meet EU directives and access EU funds. The total amount envisaged for this component is EUR 5.3 million. The remainder of EUR 100 million is aimed at financing the construction and rehabilitation of dikes, overflow structures and flood protection walls in Lonjsko polje as well as the construction of key buildings of utility infrastructure. Within the project preparation activities, the grant has been used to finance the drafting of feasibility studies for the nominated projects, solutions, environment management studies, human resource training and supply of equipment necessary to carry out project activities. Pursuant to the Resolution of the Government of the Republic of Croatia, the loan repayment will be financed from the State Budget of the Republic of Croatia (from 45% to 70%, up to 50% of the value of the loan respectively), from the revenue of the Croatian Waters (in the amount of 25%), and from funds of the project beneficiaries (in the amount of 5 to 30%) depending on the financial stance of the local authority units involved in the project. The Croatian Waters are in charge of the overall management of the project.

The loan agreement was signed on June 12, 2007. However, the loan did not become effective within 2007. Therefore, the loan resources have not been withdrawn in the course of 2007. The loan funds will be withdrawn till December 31, 2012, while the withdrawn principal will be repaid after 5 year grace period, in semi-annual instalments (from April 15, 2012 till October 15, 2022).

c) Loan for the Revenue Administration Modernization Project (Loan No. 74710 - HR),
EUR 50 million

The overall objective of the Project is to achieve further improvements in efficiency, taxpayer services, and tax compliance through capacity building and system improvement in the Croatian Tax Administration.

With the aim of financing the preparation activities for the future loan components, on February 14, 2007 the Project Preparation Facility in the amount of USD 750,000 was signed. However, the loan funds have never been used.

The Loan Agreement was signed on July 3, 2007 and became effective on December 21, 2007. The loan funds will be withdrawn till June 30, 2013 and the withdrawn principal will be repaid after 5 year grace period in semi-annual instalments (from November 1, 2012 till May 1, 2022).

d) Rijeka Gateway - additional financing (Loan No. 47151 - HR),
EUR 35.3 million (with guarantee of the Republic of Croatia)

The additional loan agreement for financing the Rijeka Gateway Project is provided for the Port of Rijeka Authority (PRA) with the aim of modernization and reconstruction of the Port of Rijeka. The main objective is the construction of the main port component, the Zagrebacko Terminal. The total length of the terminal will be 680 m, of which 400 m will be constructed in the first construction phase. The new terminal, with the total surface of 22 hectares, will be used for handling of cargo and bulky goods. The natural depth of the sea in the area of Zagrebacko terminal will enable access to vessels regardless of the size. Due to non-intended work related to the recovery of the seabed, the Government of the Republic of Croatia has approved the increase of the project investments. The additional loan agreement was signed between the IBRD and the PRA on June 11, 2007. The additional loan is in its entirety intended for financing of the construction of the Zagrebacko container terminal to allow vessels of all sizes to service the port of Rijeka.

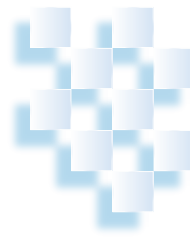
The loan became effective on November 21, 2007. The loan funds will be withdrawn until December 31, 2010, and the withdrawn principal will be repaid, after 5 year grace period, in semi-annual instalments (from October 15, 2011 till April 15, 2020).

For all of the aforementioned loans variable interest rate has been contracted, based on six month LIBOR increased by fixed spread and commitment charge. Instalments will be paid semi-annually.

7.3.1.1 B. Grants

a) Grant for Enhancing Corporate Financial Reporting in Croatia (TF 90642), USD 350,000

The Grant Agreement TF 90642 for Enhancing Corporate Financial Reporting in Croatia was signed on November 22, 2007 between the IBRD and the Ministry of Finance. The objective of this grant in the amount of 350,000 was to support the implementation of steps of enhancement of the



corporate financial reporting framework in compliance with international standards. The project consists of provision of technical assistance and training to the National Steering Committee (NSC) for enhancing financial reporting and auditing and relevant stakeholders on the European Union acquis communautaire with respect to financial reporting and auditing, as well as of provision of technical assistance to NSC in drafting the Country Strategy and Action Plan on Corporate Financial Reporting. The grant funds are also intended for following activities: provision of technical assistance to strengthen key stakeholders in financial reporting infrastructure; provision of technical assistance to the audit profession through training programmes and drafting an in-depth analysis of recommendations for the Chamber of Auditors; provision of technical support to improve academic education, professional training and public awareness; drafting an up-to-date curriculum, designing training programmes and textbooks on financial reporting. For the purpose of realisation of the project the Steering Committee for enhancing financial reporting and auditing composed of representatives of the Ministry of Finance, the Croatian National Bank, the Faculty of Economics in Zagreb and the banking sector was founded.

b) Dutch Grant for the Human Resource Development Project in the Croatian Ministry of Finance (5105CF)²⁵, USD 44.8 million

The Grant Agreement was signed on March 7, 2007 between the IBRD and the Ministry of Finance, while the funds have been granted by the Government of Kingdom of the Netherlands through so-called Constituency funds. The funds have been used for the project of human resource development as a part of the successful and well accepted training programme of the Ministry of Finance officials which commenced within the IBRD Technical Assistance project in 2003. The purpose of the grant was further development of the strategic, managing and leadership abilities of managers in the Ministry of Finance. Activities financed from this grant, especially those related to the appraisal process as a method of the more efficient human resource management process, have been carried out in the course of 2007 in the form of workshops carried out in different directorates of the Ministry of Finance.

7.3.1.2 Overview of Loans, Disbursed Funds and Outstanding Debt Owed to IBRD

In the period from 1994 to 2007 the IBRD allocated totally 41 long term loans for financing the projects and programmes in the Republic of Croatia in the total amount of EUR²⁶ 1,268.2 million and USD 653.1 million (see the Table 7.3. Overview of IBRD Loans Contracted in the Period from 1994 to 2007 with Debt Outstanding and Disbursement of Funds as of December 31, 2007 and Disbursements in 2007). In the structure of observed loans, 28 long term loans were directly approved to the Republic of Croatia while 12 long term loans were approved with the guarantee of the Republic of Croatia. Repaid loan allocated in 1990 and taken over in 1994 by the guarantee of the Republic of Croatia should also be counted in long term loans²⁷. As of December 31, 2007, 17 direct loans were closed for withdrawing while on the basis of 11 still effective loans for withdrawing remained EUR 493.5 million (49.1%) and USD 13.0 million (2.3%). The funds of 4 loans contracted in 2007 have not been withdrawn during 2007. Namely, the funds of the Second Programmatic Loan and the loan for the Inland Waters Project were not withdrawn because these loans did not become effective within 2007. These funds will be disbursed in the forthcoming period in line with the implementation of projects and according to the closing dates. Five loans obtained with the guarantee of the Republic of Croatia as well as already mentioned repaid loan taken over in 1994 were also closed for withdrawing. On the basis of 7 effective loans with the guarantee of the Republic of Croatia, it remained for disbursement EUR 117.1 million (44.7%) and USD 25.7 million (31.7%).

²⁵ The grant funds are being administrated by the IBRD.

²⁶ The secured amount in euros is sum of amounts initially contracted in euros and amount initially contracted in DEM and converted to EUR.

²⁷ Loan number 30690-HR allocated in the amount of USD 28.0 million was taken over on the basis of the Ratification Act on the Agreement on the Guarantee between the Republic of Croatia and the IBRD and the Agreement on the Loan take over between the Republic of Croatia and the IBRD concluded on February 25, 1993 ("Official Gazette - International contracts", number 7/1994). In January 2001 the non withdrawn amount of approximately USD 1.98 million was cancelled and the loan was closed for withdrawing. The loan was repaid in 2004.

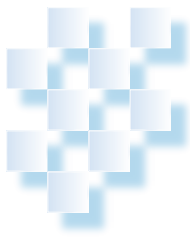


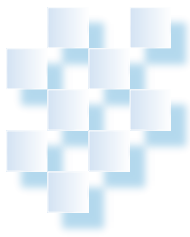
Table 7.3 Overview of IBRD Loans Contracted in the Period from 1994 to 2007 with Debt Outstanding and Disbursed Funds on December 31, 2007 and Disbursed Funds in 2007

DIRECT LOANS									
Settlement date	Published in the NN/MU no.	Effectuation / Closing date	Currency	Loan amount	Disbursed	Non disbursed	Debt outstanding	Principal repayment: first and last	Disbursed in 2007
Emergency Reconstruction Project - loan no. 37600 - HR Pool									
27. 6. 1994	7/1994	19. 8. 1994 31. 12. 1999	000 USD	128,000.00	128,000.00	0.00	46,810.00	15. 12. 1998 15. 6. 2011	0.00
Health Project - loan no. 38430 - HR CPL (1)									
8. 3. 1995	7/1995	17. 8. 1995 31. 12. 1999	000 USD	38,925.50	38,925.50	0.00	12,968.70	15. 6. 2000 15. 12. 2011	0.00
Highway Sector Project - loan no. 38690 - HR CPL (2)									
27. 4. 1995	8/1995	26. 7. 1995 30. 6. 2001	000 USD	79,878.49	79,878.49	0.00	36,072.04	15. 12. 1999 15. 6. 2012	0.00
Capital Markets Development Project - loan no. 39990 - HR VSL									
23. 4. 1996	1/1996 and 9/1996	22. 7. 1996 30. 6. 1999	000 EUR	7,260.35	7,260.35	0.00	3,338.74	15. 10. 2001 15. 4. 2013	0.00
Farmer Support Services Project - loan no. 39880 - HR CPL (3)									
23. 4. 1996	1/1996 and 9/1996	22. 7. 1996 31. 12. 2000	000 USD	14,258.75	14,258.75	0.00	6,429.15	1. 9. 2001 1. 3. 2013	0.00
Technical Support Project - loan no. 39890 - HR VSL									
23. 4. 1996	1/1996 and 8/1996	22. 7. 1996 30. 4. 2000	000 USD	5,000.00	5,000.00	0.00	2,270.00	15. 10. 2001 15. 4. 2013	0.00
Emergency Transport and Mine Clearing Project - loan no. 41040 - HR VSL (4)									
4. 12. 1996	3/1997	4. 3. 1997 31. 12. 2001	000 EUR	74,797.17	74,797.17	0.00	33,541.50	15. 7. 2002 15. 1. 2012	0.00
Coastal Forest Reconstruction and Protection Project - loan no. 41190 - HR CPL (5)									
31. 1. 1997	8/1997	31. 7. 1997 30. 6. 2003	000 USD	38,589.31	38,589.31	0.00	18,846.51	15. 6. 2002 15. 12. 2013	0.00
Enterprise and Financial Sector Adjustment Loan Project - loan no. 41590 - HR VSL EFSAL									
4. 6. 1997	17/1997	5. 11. 1997 31. 12. 2001	000 EUR	81,806.70	81,806.70	0.00	36,813.02	15. 12. 2002 15. 6. 2012	0.00
Reconstruction Project for Eastern Slavonia, Baranja and Western Srijem - loan no. 43510 - HR VSL (6)									
8. 9. 1998	15/1998	6. 1. 1999 31. 12. 2004	000 EUR	36,600.50	36,600.50	0.00	21,775.06	15. 1. 2004 15. 7. 2013	0.00
Railway Modernization and Restructuring Project - loan no. 44330 - VSL (7)									
20. 1. 1999	4/1999	9. 6. 1999 30. 6. 2005	000 EUR	85,398.55	85,398.55	0.00	55,508.85	15. 9. 2004 15. 3. 2014	0.00
Technical Assistance for Institutional and Regulatory Reform of Private Sector Development Project - loan no. 44600 - HR VSL (8)									
5. 5. 1999	8/1999	3. 8. 1999 30. 6. 2006	000 USD	7,253.43	7,253.43	0.00	4,704.65	15. 10. 2004 15. 4. 2014	0.00
Health System Project - loan no. 45130 - HR VSL (9)									
7. 10. 1999	14/1999	28. 3. 2000 30. 12. 2005	000 USD	26,155.16	26,155.16	0.00	18,157.46	15. 6. 2005 15. 12. 2014	0.00
Trade and Transport Facilitation in South East Europe - loan no. 45820 - HR VSL (10)									
27. 10. 2000	5/2001	2. 5. 2001 31. 3. 2005	000 EUR	13,813.21	13,813.21	0.00	11,050.81	15. 5. 2006 15. 11. 2015	0.00
Court and Bankruptcy Administration Project - loan no. 46130 - HR VSL (11)									
3. 7. 2001	14/2001 and 5/2002	29. 1. 2002 31. 1. 2007	000 USD	4,636.27	4,636.27	0.00	3,886.27	15. 12. 2006 15. 6. 2016	674.28
Structural Adjustment Loan - loan no. 46410 - HR VSL SAL									
5. 12. 2001	2/2002 and 5/2002	8. 2. 2002 31. 10. 200	000 USD	202,000.00	202,000.00	0.00	181,800.00	15. 4. 2007 15. 10. 2016	0.00
Pension System Investment Project - loan no. 46720 - HR VSL (12)									
17. 9. 2002	2/2003 and 3/2003	20. 2. 2003 31. 12. 2007	000 USD	27,300.00	14,279.78	13,020.22	12,914.78	15. 11. 2007 15. 5. 2017	396.51



DIRECT LOANS

Settlement date	Published in the NN/ MU no.	Effectuation / Closing date	Currency	Loan amount	Disbursed	Non disbursed	Debt outstanding	Principal repayment: first and last	Disbursed in 2007
Real Estate Registration and Cadastre Project - loan no. 46740 - HR VSL									
18. 9. 2002	2/2003 and 6/2003	20. 2. 2003 30. 9. 2008	000 EUR	26,000.00	17,012.34	8,987.66	17,012.34	15. 5. 2008 15. 11. 2017	4,737.06
Coastal Cities Pollution Control Project - loan no. 72260 - HR FSL									
2. 7. 2004	11/2004	17. 12. 2004 30.11.2008	000 EUR	40,000.00	16,776.15	23,223.85	16,776.15	15. 10. 2009 15. 4. 2019	9,083.58
Social and Economic Recovery Project - loan no. 72830 - HR FSL									
2. 5. 2005	9/2005	30. 9. 2005 30. 6. 2009	000 EUR	35,000.00	3,500.00	31,500.00	3,500.00	15. 5. 2010 15. 11. 2019	0.00
Social Welfare Development Project - loan no. 73070 - HR FSL									
6. 7. 2005	11/2005	30. 1. 2006 30. 9. 2009	000 EUR	31,000.00	5,549.53	25,450.47	5,549.53	15. 11. 2010 15. 5. 2020	4,752.07
Science and Technology Project - loan no. 73200 - HR FSL									
16. 9. 2005	12/2005	11. 5. 2006 30. 11. 2009	000 EUR	31,000.00	4,257.82	26,742.18	4,257.82	15. 11. 2010 15. 5. 2020	2,788.25
Croatia Programmatic Adjustment Loan - loan no. 73300 - HR FSL PAL									
20. 9. 2005	12/2005	19. 12. 2005 30. 6. 2006	000 EUR	150,000.00	150,000.00	0.00	150,000.00	15. 9. 2015	0.00
Education Sector Development Program Project - loan no. 73320 - HR FSL									
17. 10. 2005	12/2005	15. 3. 2006 31. 3. 2010	000 EUR	67,800.00	12,700.00	55,100.00	12,700.00	15. 11. 2010 15. 5. 2020	8,500.00
Project of Legal and Institutional Acquis Cohesion in the Agricultural Area - loan no. 73600 - HR FSL (13)									
8. 5. 2006	10/2006	21. 11. 2006 31. 10. 2010	000 EUR	25,500.00	3,013.61	22,486.39	3,013.61	15. 4. 2011 15. 10. 2020	2,949.86
Second Programmatic Adjustment Loan - loan no. 74500-HR FSL									
11. 6. 2007	7/2007	not effective 30. 6. 2008	000 EUR	150,000.00	0.00	150,000.00	0.00	15. 10. 2012 15. 4. 2022	0.00
Inland Waters Project - loan no. 74530 - HR FSL									
12. 6. 2007	8/2007	not effective 31. 12. 2008	000 EUR	100,000.00	0.00	100,000.00	0.00	15. 4. 2012 15. 10. 2022	0.00
Revenue Administration Modernization Project - loan no. 74710 - HR FSL									
3. 7. 2007	8/2007	21. 12. 2007 30. 6. 2013	000 EUR	50,000.00	0,00	50,000.00	0.00	1. 11. 2012 15. 4. 2022	0.00
TOTAL DIRECT LOANS			000	571,996.91	558,976.69	13,020.22	344,859.56		1,070.79
			USD	100.00%	97.72%	2.28%			
			000	1,005,976.48	512,485.93	493,490.55	374,837.43		32,810.82
			EUR	100.00%	50.94%	49.06%			



LOANS GUARANTEED BY RC

Settlement date	Published in the NN/MU no.	Effectuation / Closing date	Currency	Loan amount	Disbursed	Non disbursed	Debt outstanding	Principal repayment: first and last	Disbursed in 2007
Istria Water Supply Project - loan no. 30690 - HR CPL (14)									
1. 2. 1990	7/1994	31. 5. 1990 30. 6. 2000	000 USD	26,016.29	26,016.29	0.00	0.00	15. 10. 1994 15. 4. 2004	0.00
Investment Recovery Project (4 loans) - loan no. 42460 - HR VSL (Varaždinska banka - Zagrebačka banka d.d.), 42470 - HR VSL (Dalmatinska banka d.d. - Nova banka), 42480 - HR VSL (Slavonska banka d.d.) i 42490 - HR VSL (Alpe Jadran banka d.d. in liquidation) (15)									
4. 12. 1997	3/1998	17. 3. 1998 31. 12. 2002	000 EUR	21,589.50	21,589.50	0.00	10,756.49	15.03.2003 15.09.2012	0.00
Investment Program for Local Infrastructure and Environmental Protection - loan no. 43520 - HR VSL									
25. 9. 1998	2/1999	28. 6. 1999 31. 12. 2007	000 EUR	33,233.97	33,233.97	0.00	18,278.69	15. 11. 2003 15. 5. 2013	9,826.88
Rijeka Gateway Project - loan no. 47140 - HR VSL (Croatian Highways) (16)									
12. 7. 2003	16/2003 and 18/2003	10. 10. 2003 30. 9. 2009	000 EUR	8,700.00	2,519.47	6,180.53	2,519.47	15. 12. 2008 15. 6. 2018	788.81
Rijeka Gateway Project - loan no. 47150 - HR VSL (Port Authority Rijeka) (17)									
12. 7. 2003	16/2003 and 18/2003	10. 10. 2003 30. 9. 2009	000 USD	55,100.00	29,415.61	25,684.39	29,415.61	15. 12. 2008 15. 6. 2018	7,452.80
Rijeka Gateway Project - loan no. 47160 - HR VSL (Croatian Roads)									
12. 7. 2003	16/2003 and 18/2003	10. 10. 2003 30. 9. 2009	000 EUR	76,200.00	75,447.26	752.74	75,447.26	15. 12. 2008 15. 6. 2018	12,844.54
Energy Efficiency Project - loan no. 71980 - HR FSL (HEP group)									
10. 11. 2003	3/2004	8. 4. 2004 30. 6. 2010	000 EUR	4,400.00	927.57	3,472.43	927.57	15. 4. 2009 15. 10. 2017	400.00
Production, Distribution and Supply of Heat Energy - loan no. 48280 - HR VSL (HEP - Toplinarstvo)									
11. 9. 2006	1/2007	not effective 30. 6. 2010	000 EUR	24,000.00	7,566.99	16,433.01	7,566.99	15. 3. 2012 15. 9. 2021	7,566.99
Trade Integration and Transport Project - loan no. 74100 - HR FSL (Luka Ploče) (18)									
20. 11. 2006	3/2007	not effective 31. 12. 2011	000 EUR	58,800.00	3,799.03	55,000.97	3,799.03	1. 4. 2012 1. 10. 2021	3,799.03
Rijeka Gateway - additional financing - loan No. 47151 - HR VSL (Port of Rijeka Authority)									
11. 6. 2007	9/2007	21. 11. 2007 31. 12. 2010	000 EUR	35,300.00	0.00	35,300.00	0.00	15. 10. 2011 15. 4. 2020	0.00
TOTAL LOANS GUARANTEED BY RC				000 USD	81,116.29 100.00%	55,431.90 68.34%	25,684.39 31.66%	29,415.61	7,452.80
				000 EUR	262,223.47 100.00%	145,083.79 55.33%	117,139.68 44.67%	119,295.50	35,226.25
GRAND TOTAL DIRECT + GUARANTEED				000 USD	653,113.20 100.00%	614,408.59 94.07%	38,704.61 5.93%	374,275.17	8,523.59
				000 EUR	1,268,199.95 100.00%	657,569.72 51.85%	610,630.23 92.86%	494,132.93	68,037.07

Source: Ministry of Finance of the Republic of Croatia- Department for European Integrations and International Financial Relations

Loans no. 39990, 41040, 41590, 43510, 42460, 42470, 42480, 42490 i 43520 were contracted in DEM and were converted to EUR as of November 30, 2001

1 - contracted loan amount USD 40 million; cancelled: USD 1,1 million

2 - contracted loan amount USD 80 million; cancelled: USD 121.5 thousand

3 - contracted loan amount USD 17 million; cancelled: USD 2 million

4 - cancelled: EUR 2.4 million

5 - MAFWM executed reimbursement of funds: USD 18.5 thousand, the IBRD informed about cancellation: USD 3.4 million

6 - cancelled: EUR 1.2 million

7 - contracted loan amount EUR 85.4 million; cancelled EUR 1.5 thousand

8 - contracted loan amount USD 7.3 million; cancelled USD 46.6 thousand

9 - contracted loan amount USD 29 million; cancelled USD 1.7 million, IBRD accepted requests for withdrawals up to April 30, 2006. Therefore there were three withdrawals in 2006 in spite of the closure of the loan on December, 30 2005.

10 - contracted loan amount EUR 14.8 million; cancelled EUR 986.6 thousand

11 - contracted loan amount EUR 5 million; cancelled EUR 363,7 thousand

12 - The PPF in the amount of USD 1,8 million was contracted because of the preparation of this project. However, only USD 657,2 thousand was disbursed. That amount is included in the amount of the withdrawn loan no. 46720 - HR.

13 - The PPF in the amount of USD 1,9 million was contracted because of the preparation of this project.

However, only USD 788,74 thousand was disbursed. That amount is included in the amount of the withdrawn loan no. 73600 - HR.

14 - contracted loan amount USD 28 million; cancelled: USD 1.9 million

15 - Four loans were granted for the same project (the beneficiary banks are listed in the table)

16 - contracted loan amount USD 15,7 million; cancelled: USD 7 million

17 - The PPF in the amount of USD 1,5 million was contracted because of the preparation of this project. However, only USD 684,3 thousand was disbursed. That amount is included in the amount of the withdrawn loan no. 47150 - HR.

18 - The PPF in the amount of USD 1,8 million was contracted because of the preparation of this project. However, only USD 534,3 thousand was disbursed. That amount is included in the amount of the withdrawn loan no. 74100 - HR.



During 2007 the largest amount of funds from IBRD loans was disbursed:

- for implementation of Rijeka Gateway Project, EUR 21.3 million (the Croatian Roads withdrawn EUR 12.9 million; the Port of Rijeka Authority withdrawn around EUR 7.6 million; and the Croatian Motorways withdrawn EUR 0.8 million).
- Around EUR 9.8 million was withdrawn with the purpose of implementation of the Investment in Local Infrastructure and Environment Protection Programme; around EUR 9.1 million for the Coastal Cities Pollution Control Project; around EUR 8.5 million for Education Sector Development Programme Project; and around EUR 7.6 million for the implementation of the District Heating Project.
- Out of other IBRD loan funds, significant resources were invested in development of the social security system, real property registration and cadastre improvement, modernisation of the Port of Ploče and legal and institutional harmonisation with the *acquis communautaire* in the area of agriculture.

Total stock of debt of the Republic of Croatia towards the IBRD, as direct debt or guaranteed debt, as of December 31, 2007, amounted to EUR 494.1 million and USD 374.3 million. Total debt²⁸ in EUR increased when compared with 2005 by EUR 32.7 million while total debt in USD decreased by USD 43.9 million.

Matured loan liabilities towards the IBRD were paid regularly and on time in line with received requests for payments and contracted repayment schedules. The IBRD waived part of its interests and fees in fiscal year 2007²⁹ which would otherwise have to be paid by debtors. This is in line with the decision of the Bank's Board and compliant with the present practice towards debtors who settle their liabilities of contracted loans in time. Owing to regular and timely payments of matured liabilities towards IBRD and respecting strict IBRD financial discipline rules, debtors from the Republic of Croatia realized significant savings. The liabilities on the basis of direct loans and one loan with the guarantee of the Republic of Croatia (liabilities of Alpe Jadran Banka d.d., Split in liquidation) in 2007 were paid from the government budget in total amount of EUR 54.9 million, EUR 45.5 million and JPY 2 billion.

During 2007 accounted interests were paid semi-annually by rates that moved, depending on the type of the loan, in following range:

- (a) Currency Pooled Loans - CPL - from 5.16% to 6.09%;
- (b) Variable Single Currency Loans: for Loans contracted in EUR - from 2.75% to 4.66% and for loans contracted in USD - from 5.30% to 5.79%;
- (c) Fixed Single Currency Loans: for loans contracted or converted to EUR - from 3.37% to 4.68%.

Front-end fees for loans contracted in 2007 were accounted and charged on a one-time basis by the rate of 0.25% on the contracted amount of the loan or were not charged at all³⁰, while the commitment charges were charged by rates from 0.25% to 0.35%.

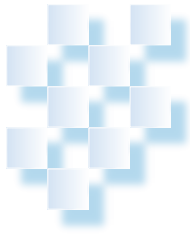
7.3.1.3 Overview of Grants

In the period from 1995 to 2007, 51 grant agreements were concluded for implementation of projects in the Republic of Croatia in the area of infrastructure, environmental protection as well as private sector development and structural adjustment in the sectors of health, social security, agriculture, education, public finances and judiciary (*Table 7.4: Overview of IBRD Grants and Dutch Constituency Grants within the IBRD, on December 31, 2007*). Funds of the grant are being used for consultant services payments, procurement of goods, expert training and drafting the studies needed for preparation of projects. During 2007 the total amount of EUR 41.4 million was contracted through grant agreements. The Republic of Croatia concluded agreements with the IBRD on 48 grants in the total amount of EUR 41.3 million, while 3 grants in the total amount of EUR 104,800 were obtained from the Government of the Kingdom of Netherlands within the Dutch Constituency the member of which Croatia is as the IBRD member. As of December 31, 2007, out of 51 contracted grants, 37 grants were closed and 14 active for withdrawal. The funds of active grants amount to EUR 22.4 million and will be disbursed as latest till 2010 according to the closing date of an individual grant.

²⁸ As of December 31, 2006 total debt towards IBRD amounted to EUR 461.4 million and USD 418.2 million.

²⁹ IBRD fiscal year started on July 1, 2008 and lasts till June 30, 2008. More information on waived payments for initial fees, interest and fees for non withdrawn funds can be found on <http://treasury.worldbank.org/index.html>.

³⁰ Application of rate according to which the front-end fee was calculated depended on the date on which loan was approved by IBRD: for example, for all loans approved on or after August 10, 2006, and before July 29, 2007 the IBRD introduced 100% waiver of front-end fees.


Table 7.4 Overview of IBRD Grants and Grants of Dutch Constituency within the IBRD, as of December 31, 2007

No.	Year granted	Grant reference	Grant name	Currency	Contracted amount of the grant in the payment currency (000)	Cancelled amount in the payment currency (000)	Left for disbursement in the payment currency (000)
A. Grants contracted with the IBRD							
1	1995	28851 (closed)	Preparation for the Procurement Law	USD	148.00	101.47	0.00
2	1995	29116 (closed)	Farmer Support Services Project	JPY	56,600.00	13,888.31	0.00
3	1995	29117 (closed)	Coastal Forest Reconstruction & Protection	JPY	21,200.00	146.62	0.00
4	1995	29314 (closed)	Public Sector Adjustment - PSAL	JPY	75,600.00	5,504.82	0.00
5	1995	29315 (closed)	Structural Adjustment of Agriculture	JPY	29,400.00	24,096.29	0.00
6	1995	29316 (closed)	Croatian Railways Restructuring	JPY	58,800.00	5,457.69	0.00
7	1996	29486 (closed)	Municipal Environmental Infrastructure Investment Project	USD	500.00	0.44	0.00
8	1996	29674 (closed)	Reconstruction of Transport Infrastructure of the City of Zagreb	USD	800.00	0.00	0.00
9	1997	28360 (closed)	Biodiversity Strategy	USD	102.00	0.00	0.00
10	1997	27098 (closed)	Private Sector Development	USD	398.00	216.25	0.00
11	1997	25539 (closed)	Public Finance Management	USD	314.00	130.49	0.00
12	1997	25229 (closed)	Enterprise and Financial Sector Adjustment Loan Project	JPY	28,900.00	21,561.55	0.00
13	1998	27099 (closed)	Eastern Slavonia Flood Control	USD	200.00	3.05	0.00
14	1998	25139 (closed)	Health Sector Modernisation	USD	418.26	2.16	0.00
15	1998	25597 (closed)	Sava River Flood Component	USD	476.15	0.00	0.00
16	1999	20574 (closed)	Y2000 ("Millennium Bug")	USD	80.00	0.00	0.00
17	1999	27259 (closed)	Environmental Protection and Strengthening of Management Systems	USD	276.49	7.67	0.00
18	1999	22644 (closed)	Managing Marshlands of Kopački Rit Nature Park	USD	750.00	0.44	0.00
19	1999	25799 (closed)	Municipal Environmental Infrastructure Project	USD	216.84	0.05	0.00
20	1999	26113 (closed)	Bankruptcy Law Adjustment	USD	253.70	110.26	0.00
21	1999	23163 (closed)	Karst Ecosystem Conservation Project	USD	230.00	0.11	0.00
22	1999	26112 (closed)	Port of Rijeka Modernisation	USD	337.50	0.01	0.00
23	2000	27386 (closed)	Capacity Building for Social and Economic Communications	USD	400.00	8.51	0.00
24	2001	26262 (closed)	Social Protection Project	USD	200.00	0.00	0.00
25	2001	26441 (closed)	Coastal Cities Pollution Protection Project	USD	325.00	0.00	0.00
26	2001	29810 (closed)	Social Protection Project	GBP	352.80	2.83	0.00
27	2003	52381 (closed)	Preparation of the City of Zagreb Wastewater Nutrient Reduction Project	USD	350.00	350.00	0.00
28	2002	50539	Karst Ecosystem Conservation Project	USD	5,070.00	0.00	346.37
29	2002	50513 (closed)	Social and Economic Recovery Project	USD	425.36	27.84	0.00
30	2003	51107 (closed)	Renewable Energy Resources Project	USD	350.00	15.93	0.00
31	2003	52014	Monitoring Judicial Efficiency - Institutional Capacities Building Project	USD	350.00	47.82	0.00
32	2003	52062	Budget Management Strengthening Project	USD	368.00	9.46	0.00
33	2003	51781	Land Registry and Cadastre Project	EUR	4,900.00	0.51	0.00
34	2004	52141	Energy Efficiency Project	USD	7,000.00	0.00	4,900.33
35	2003	52844	Neretva and Trebišnjica Integrated Ecosystem Management Project	USD	145.00	0.00	6.20
36	2004	52657	Land Registry and Cadastre Project: Coastal Goods Registration Support	EUR	1,960.00	0.00	490.56
37	2004	53149 (closed)	Preparation of Education System Reform	USD	766.15	396.55	0.00
38	2005	53150	Sustainable Health System Project	USD	425.00	1.46	0.00
39	2005	53242	Karst Ecosystem Conservation Project	USD	200.00	13.97	0.00
40	2005	54973	Renewable Energy Resources Project	USD	5,500.00	0.00	4,950.00
41	2005	55104	EU CARDS grant for Land Registry and Cadastre Project	EUR	4,410.00	0.00	2,252.74
42	2005	55789	Strengthening of Statistical Capacities for the Development of the Statistical Master-Plan	USD	89.75	0.00	5.66
43	2006	54882	Technical Assistance for the Support of Implementation of the Coastal Cities Pollution Protection Project	USD	2,461.67	0.00	1,264.86
44	2006	56237	Cofinancing of the Social Protection Development Project	SEK	14,700.00	0.00	8,908.48
45	2006	56572	Preparation of Inland Waters Project	USD	500.00	0.00	22.76
46	2006	56514	Grant for the Public Service Reform	SEK	8,550.00	0.00	6,807.46
47	2006	56498	Technical Assistance for the Support of Implementation of the Agricultural Acquis Cohesion Project	USD	4,750.06	0.00	4,023.45
48	2007	90642	Enhancing Corporate Financial Reporting in Croatia	USD	350.00	0.00	350.00
TOTAL (1 - 48):				USD	35,526.93	1,443.92	15,869.63
				JPY	270,500.00	70,655.27	0.00
				GBP	352.80	2.83	0.00
				EUR	11,270.00	0.51	2,743.30
				SEK	23,250.00	0.00	15,715.94
TOTAL (1 - 48) in:				EUR	41,340.35		
B. Grants of the Dutch Constituency within the IBRD							
1	2004	5105 CF (closed)	Strategic Study of Information System and Financial Management Development Project	EUR	30.00	0.00	0.00
2	2004	5105 CF (closed)	Study of Information System and Financial Management Rationalization Project	EUR	30.00	0.00	0.00
3	2007	5105 CF	Human Resource Development Project in the Croatian Ministry of Finance	EUR	44.82	0.00	4.48
TOTAL (1 - 3):				EUR	104.82	0.00	4.48
TOTAL (A + B):				USD	35,526.93	1,443.92	15,869.63
				JPY	270,500.00	70,655.27	0.00
				GBP	352.80	2.83	0.00
				EUR	11,374.82	0.51	2,747.78
				SEK	23,250.00	0.00	15,715.94
TOTAL (A + B) in:				EUR	41,445.17		

Source: Ministry of Finance of the Republic of Croatia- Department for European Integrations and International Financial Relations



7.3.1.4 Projects under Preparation in 2007

7.3.1.4 A. Loans

During 2007, preparations were made and projects were defined which will be financed from four new loans in 2008 in the total amount of USD 282 million:

- a) Rijeka Gateway II (USD 130 million);
- b) Judicial Reform Project (USD 35 million);
- c) Coastal Cities Pollution Control Project II (USD 90 million);
- d) Sustainable Development of the Health System Project (USD 27 million).

7.3.1.4 B. Grants

During 2007 three grants were under preparation which will be contracted with the IBRD during 2008 (from the GEF funds) and the Netherlands Development Assistance fund in the total amount of USD 5 million and EUR 823,500 for the following projects:

- a) Project of Pollution Control in Agriculture, from GEF funds (USD 5 million);
- b) Project of Neretva and Trebišnjica River Basin Management, GEF grant (USD 8 million; USD 2 million for the Republic of Croatia and USD 6 million for Bosnia and Hercegovina)
- c) Human Resource Development and Adaptation of Conference Halls and Archives with Libraries Project, from the Netherlands Development Assistance Fund (EUR 532,500)
- d) Development of Corporate Financial Reporting and Analysis in the Ministry of Finance Project, from the Netherlands Development Assistance Fund (EUR 300,000).

7.3.2 International Development Association (IDA)

The International Development Association (IDA) is the part of the World Bank established in 1960, with the aim of reducing poverty by providing interest-free credits and grants for programmes that boost economic growth and social development, reduce inequalities and improve living conditions in the world's poorest countries. Eligibility for the IDA support depends first and foremost on a country's relative poverty, defined as GNI per capita below an established threshold and updated annually (in fiscal year 2007: USD 1,065). The IDA also supports some countries, including several small island economies, which are above the operational cut-off but lack the creditworthiness needed to borrow from the IBRD.

Business policy of the IDA has lately been aligned with the United Nations Millennium Development Goals and it specifies that 60% of the total available funds be directed to grants to beneficiary countries, and 40% to loans which exclude interest charge and the repayment of which is stretched over 35 to 40 years, including a 10-year grace period (known as credits).

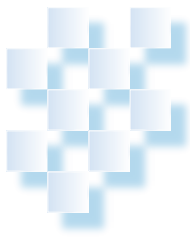
By the end of fiscal year 2007, the IDA provided credits for financing projects in 108 countries to the total of USD 182 billion. Annual commitments of the IDA were being increased steadily and averaged about USD 10 billion over the last three years.

Financial resources of the IDA include internal resources comprised of income derived from liquid asset investment, interests and charges, contributions of the World Bank Group, regular contributions of its member countries and contributions of developed countries which present its most abundant financial resource.

Donors get together every three years to replenish IDA funds. Replenishments secure financial stability of the IDA and enable providing continuous development assistance to the poorest countries in order to achieve Millennium Development Goals.

The IDA is the largest multilateral channel for concessional financing and provides support to the world's poorest countries, especially to Sub-Saharan Africa, in their efforts to boost economic growth, lower poverty and improve the living conditions of people. The IDA participates in the Multilateral Debt Relief Initiative (MDRI) and in The Heavily Indebted Poor Countries Initiative (HIPC).

The IDA has 166 member countries, of which 91 are beneficiary countries (mostly from Africa, East Asia and Latin America, South Asia, Europe and Central Asia). The IDA has provided resources in the largest amount for financing projects in India, Pakistan, Nigeria, Vietnam, Ethiopia, Uganda, Tanzania, Kenya, Indonesia and Bangladesh (10 largest beneficiaries).



IDA member countries are divided into two groups. The first group comprises developed countries and middle-income countries (Contributing Members) that provide donations which present the main financial source of the IDA. The second group comprises all other countries (Subscribing Members).

Members of the first group contribute resources partly in the form of subscriptions carrying voting rights and partly as supplementary resources in the form of contributions not carrying voting rights. For the members of the second group a special model which protects rights of the second group is being applied. Namely, the share of subscription votes is being recorded based on subscriptions (Subscription Votes) and based on payments (Membership Votes). In order to maintain the voting power of member countries, upon deposition of the Instrument of Commitment with the Association the number of votes based on subscription is being increased, while upon payment of contributions the number of votes based on payments is being increased.

The Republic of Croatia became the member of IDA on February 25, 1993 pursuant to the Law on Accepting Membership of the Republic of Croatia in the International Monetary Fund and Other International Financial Organizations on the Basis of Succession ('Official Gazette - International contracts', number 89/1992) and the Decision on Membership of the Republic of Croatia in the International Bank for Reconstruction and Development and its affiliations ('Official Gazette - International contracts', number 14/1993). The Republic of Croatia falls into the second group of IDA member countries (Subscribing Members).

From 1993 to 2007 the Republic of Croatia has participated in all of the Replenishments. The Republic of Croatia provided its resources by issuing 8 non-negotiable, non-interest bearing, and payable at par value on demand notes, deposited with the Croatian National Bank. None of those 8 notes have been encashed yet.

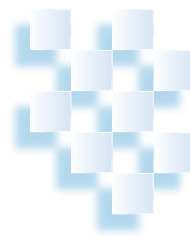
The Republic of Croatia participates in providing contributions for IDA's MDRI costs pursuant to the Decision of the Republic of Croatia of January 21, 2007 whereby it committed to pay in around HRK 494,100 in three instalments. So far, the first instalment has been paid and the note to the amount of HRK 164,700 has been issued. The remaining two instalments fall due on January 15, 2016 and January 15, 2026.

Total contributions of the Republic of Croatia, (pursuant to the acceptance of membership stemming from succession and membership in IDA from 1993 to 2007), amount to USD 5.7 million, which accounts for 0.27% of the total voting power of IDA member countries.

In the course of 2007 activities related to the Fifteenth Replenishment commenced. In the period from March to December 2007, 5 replenishment meetings were held (in Paris, Maputo (Mozambique), Washington, Dublin and Berlin) in which deputies of donor countries joined by representatives of borrower countries and observers from other multilateral banks and agencies (African Development Bank, Asian Development Bank, African Development Fund) participated.

Upon the invitation of the World Bank as of February 1, 2007 the Republic of Croatia joined discussions on replenishment as the observer and prospective donor country. Consequently, Delegation of the Republic of Croatia participated in meetings held in Paris, Dublin and Berlin. Topics discussed at those meetings were as follows: progress and remaining challenges in achieving Millennium Development Goals; the role of the IDA in global aid architecture; providing support to national, regional and global programmes and priorities; enhancement of the country-level effectiveness; the Results Measurement System at the country level as well as in IDA programmes and projects; strengthening of harmonization and alignment of aid; ensuring financial support to fragile states, financial management; financing of debt relief and arrears of member countries; IDA financial framework; amounts of donations etc.

During the Fifteenth Replenishment meetings 6 countries joined IDA as donors: Cyprus, Egypt, Estonia, Lithuania, Latvia, and China. Thereby, the total number of donors reached 45. After the final meeting, in December 2007 the Draft Report from the Executive Directors of the International Development Association to the Board of Governors named "Additions to IDA Resources: Fifteenth Replenishment, IDA: The Platform for Achieving Results at the Country Level" and the Draft Resolution No. 219 "Additions to Resources: Fifteenth Replenishment" were drawn up. It was planned to draw up the final text of those documents at the beginning of 2008 after inclusion of comments, proposals and amendments and to prepare them for voting procedure which would be held in April 2008.



7.3.3 European Bank for Reconstruction and Development (EBRD)

The European Bank for Reconstruction and Development is the youngest international financial institution, established in May 1990 in order to support the process of transition in Central and Eastern European states. The Bank was founded by 39 states and two institutions - the European Investment Bank and the European Union. Today the Bank has 63 members, 61 of which are states and the remaining two are the above mentioned institutions. From those 61 member states, 29 are the beneficiaries of Bank's funds. The Republic of Croatia became a full member of the European Bank for Reconstruction and Development (EBRD) on 15 April 1993. In total EBRD capital the Republic of Croatia owns 0.37 percent of shares and has the voting power of 0.37 percent.

Judging by the amounts of loans granted and the technical assistance provided so far, the Bank is (apart from the International Bank for Reconstruction and Development) one of the most significant foreign financial sources of the Republic of Croatia. The total of loans/investments in Croatia from 1994 to the present day amounts to EUR 1.8 billion for 83 projects. The average annual amount of Bank's investment in the Republic of Croatia stands around EUR 150 million. The Bank also financed 134 technical assistance projects with the total value of EUR 10.3 million. The structure of financing, by sectors, is as follows: financial institutions 32 percent, infrastructure 31 percent, special activities 29 percent (of which agro industry 21 percent, real estates and tourism 5 percent, telecommunications, computer science, media 3 percent), general economy 5 percent, energy 3 percent. Out of the total amount of funds invested by EBRD in projects in the Republic of Croatia, the investments in private sector account for 67 percent, and the investments in public sector account for the remaining 33 percent.

During 2006, in cooperation with the state bodies of the Republic of Croatia, EBRD has started the preparations for drafting of the new Strategy for Croatia for the period from 2007 to 2009. The government of the Republic of Croatia adopted the Strategy at a sitting held on 26 April 2007 and on 15 May 2007 it was endorsed by the Board of Executive Directors of EBRD. The key operating priority of EBRD for the two-year period covered by the Strategy is the continuation of a close cooperation with the Croatian authorities and business circles concerning the support for the preparation of Croatia's accession to the EU. The Strategy includes the main guidelines for cooperation and the mutually defined framework plan and program for the projects to be financed by EBRD during the two-year period.

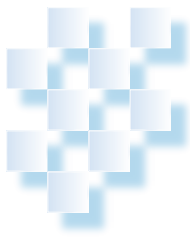
The priority sectors for investments of EBRD in Croatian economy are:

1. Enterprise sector - EBRD will support the privatization and restructuring of sensitive and strategically important branches (shipbuilding, heavy industry, tourism) and financially accompany Croatian firms in their regional growth and concentration. Provided they have a strong management and good chances of growth, to small and medium size enterprises EBRD will offer financing through equity capital. Also, EBRD will look for investment opportunities in the parts of the country where the economy has suffered the effects of war;
2. Infrastructure and environment - EBRD will focus on projects that can be financed on commercial basis, without the assistance of state guarantees. At the level of local and regional self-government, EBRD will introduce new instruments and enable an easier development of efficient regional projects wherever it is feasible. It will continue to support the preparation of projects which can benefit from the co-financing through IPA program funds. It will promote energy efficiency and strive to support the improvements regarding the security and diversity of energy supply, with the emphases on renewable sources of energy;
3. Financial sector - with the support of the EU, EBRD will strive to finance small and medium size enterprises through the credit line for the financing of small and medium size enterprises (SME Finance Facility), with the emphases on firms dealing with leasing. Also, it will try to finance the firms dealing with factoring through Trade Facilitation Programme. It will promote new products, including securitization, in order to assist banks in managing their balances.

7.3.3.1 New Loans Agreed in 2007

Loan for the Project of Integration of Trade and Transport - Bulk Terminal in the Port of Ploče (Loan No. 36127), EUR 11.2 million (the guarantee of the Republic of Croatia)

The loan agreement for the financing of the Project of Integration of Trade and Transport - Bulk Terminal in the Port of Ploče was concluded on 9 November 2007 between the Ploče Port Authority and EBRD.



On the same day the guarantee agreement for the granted loan in the amount of EUR 11.2 million between the Republic of Croatia and EBRD was concluded. The loan funds are intended for financing of the construction of a part of infrastructure of the new bulk terminal in the Port of Ploče with the aim of expansion of existing capacities and improvement of efficiency in trans-shipment and storage of bulk. During 2007 the loan was not effective. It is agreed that the loan funds will be available for withdrawal until 1 September 2011 and that the withdrawn principal will be repaid, after a four year grace period, through semi-annual repayments from 20 March 2012 to 20 September 2022. The variable interest, which is based on 6-month EURIBOR increased by a fixed interest margin of 1 percent and which is paid semi-annually on 20 March and 20 September, was agreed upon. The standard additional costs of the loan were also agreed upon: a one-off initial compensation of 1 percent and a compensation for the non-withdrawn loan funds in the amount of 0.5 percent on the annual bases.

7.3.3.2 Overview of Loans, Disbursement of Funds and Outstanding Debt owed to EBRD

During 2007 EBRD has granted EUR 90 million for the financing of five new projects in the Republic of Croatia, three of which refer to private sector (in the amount of EUR 48.8 million) and two to public sector (in the amount of EUR 41.2 million)³¹. Within the public sector, one new loan with the state guarantee totaling EUR 11.2 million and one loan for the financing of local infrastructure without the state guarantee were concluded³². In the period from 1994 to the end of 2007 EBRD granted eighteen loans for project financing in Croatia (in the total amount of USD 66.2 million and EUR 466 million), three of which were direct loans (in the total amount of USD 19.7 million and EUR 39.4 million) and the remaining fifteen were the loans with the state guarantee (in the total amount of USD 46.5 million and EUR 426.6 million) - (look at the table 7.5.).

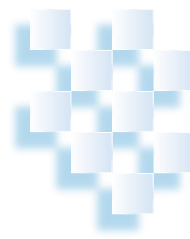
During 2007 the Republic of Croatia has not concluded even one new direct loan with EBRD. However, pursuant to its plan to support the projects whose financing is comparatively advantageous to EBRD, in the second half of 2007 the Government of the Republic of Croatia supported the conclusion of a new loan agreement with the state guarantee for the financing of the Project of Integration of Trade and Transport - Bulk Terminal in the Port of Ploče. This project has been financed by the IBRD loan in the amount of EUR 58.8 million since 2006. Since the loan agreement regarding this new project has not come into force by the end of 2007, no funds from this loan were withdrawn in 2007.

According to the situation on 31 December 2007 it is clear that all the USD loans funds were entirely withdrawn (USD 66.2 million), while out of the total of EUR 466 million loans funds, EUR 377.2 million was withdrawn (80.9 percent) therefore leaving EUR 88.8 million (19.1 percent) unused. During 2007 most of EBRD loans funds were withdrawn for the implementation of road building projects: Project of the Construction of second B Phase of Rijeka - Zagreb Highway (EUR 30 million), the Project of the Construction of Rijeka - Zagreb Highway (EUR 1.8 million), Project of the Completion of the Highway on Corridor X in the Republic of Croatia (EUR 1.2 million) and the Project of Beltway around Rijeka (EUR 400 thousand). Furthermore, the loan funds were used for the Project of the Construction of Coastal Infrastructure of Port of Dubrovnik (EUR 3 million).

The total debt of the Republic of Croatia in the property of debtor and guarantor towards EBRD on 31 December 2007 stood at USD 17.5 million and EUR 221.3 million on the basis of nine loans that are being repaid and three loans whose repayment has not yet started. All of the matured liabilities towards EBRD on the bases of direct loans (2 loans) and the loan with the state guarantee given to the Croatian Railways were settled from the State Budget of the Republic of Croatia for the year 2007 in the total amount of EUR 3.9 million (EUR 3.3 million for the principal and around EUR 520 thousand for the interest) and USD 4.3 million (USD 2.9 million for the principal and around USD 1.3 million for the interest). The beneficiaries of EBRD loans, HBOR, INA, Croatian Air Navigation System, Highway Rijeka-Zagreb, Croatian Highways and Port Authority of Dubrovnik have all timely repaid their liabilities towards EBRD during 2007 so that the guarantees of the Republic of Croatia for those loans were not activated. The interest on the loans concluded or converted to EUR were paid with the annual rate in the span from the lowest of 4.57 percent to the highest of 7.44 percent while the interest on the loans obtained in USD were paid with the rate in the span from 6.36 percent to 6.39 percent. The one-off initial compensations were calculated and collected at the rate of 1 percent (on the contracted amount

³¹ Source: EBRD Publications, Annual Report 2007; www.ebrd.com.

³² This refers to the loan for the Project of Integration of Trade and Transport - Bulk Terminal in the Port of Ploče (Loan No. 36127), with the state guarantee, and the loan for the Project of Zagreb Holding for Plumbing and Sewage Network, without the state guarantee.

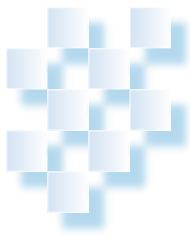
**Table 7.5 Overview of EBRD Loans Contracted in the Period from 1994 to 2007 with Overview of Debt Outstanding and Disbursed Funds on 31 December 2007 and Disbursed Funds During 2007**

DIRECT LOANS									
Settlement date	Published in the NN/MU no.	Effectuation / Closing date	Currency	Loan amount 000 USD /000 EUR	Disbursed 000 USD /000 EUR	Undisbursed 000 USD /000 EUR	Debt outstanding 000 USD /000 EUR	Principal repayment: first and last	Disbursed in 2007 000 USD /000 EUR
Air Navigation System Project - Loan No. 231 (1)									
21. 9. 1994	13/1994	31. 12. 2001	USD	19,735.52	19,735.52	0.00	0.00	21. 9. 1996 21. 3. 2004	0.00
Highway Reconstruction Project (HC) - Loan No. 286 (2)									
17. 1. 1995	6/1995	28. 2. 1999	EUR	36,195.88	36,195.88	0.00	6,031.82	10. 4. 1998 10. 10. 2009	0.00
Wholesale Market Project (Nacionalne veletirnice d.d.) - Loan No. 627 (3)									
8. 12. 1997	7/1998	24. 3. 2002	EUR	3,203.56	3,203.56	0.00	1,281.42	24. 5. 2002 24. 11. 2011	0.00
				USD	19,735.52	19,735.52	0.00		0.00
TOTAL DIRECT LOANS				EUR	39,399.43	39,399.43	0.00	7,313.24	0.00
LOANS OBTAINED WITH THE GUARANTEE OF RC									
Settlement date	Published in the NN/MU no.	Effectuation / Closing date	Currency	Loan amount 000 USD /000 EUR	Disbursed 000 USD /000 EUR	Undisbursed 000 USD /000 EUR	Debt outstanding 000 USD /000 EUR	Principal repayment: first and last	Disbursed in 2007 000 USD /000 EUR
Power Supply and Distribution Network Project (HEP) - Loan No. 283									
2. 2. 1995	6/1995	30. 6. 2000	EUR	32,211.39	32,211.39	0.00	0.00	10. 3. 1998 10. 3. 2005	0.00
Credit Line for Tourism (HBOR) - Loan No. 443									
26. 6. 1996	1/1996 and 10/1996	1. 5. 1998	EUR	25,564.59	25,564.59	0.00	0.00	23. 12. 1998 23. 12. 2002	0.00
Program of Investment into Local Infrastructure and Environmental Protection (HBOR) - Loan No. 494 (4)									
9. 12. 1996	4/1997	31. 1. 2004	EUR	31,575.22	31,575.22	0.00	13,630.08	10. 4. 2001 10. 10. 2011	0.00
Railway Locomotive Reconstruction Project (HŽ) - Loan No. 733									
8. 12. 1998	4/1999	5. 2. 2004	USD	35,000.00	35,000.00	0.00	17,499.99	20. 5. 2002 20. 11. 2013	0.00
Small and Medium Entrepreneurship (HBOR) - Loan No. 923 (5)									
20. 3. 2001	9/2001 and 5/2002	19. 9. 2004	EUR	4,685.36	4,685.36	0.00	0.00	Repaid before maturity on 5. 8. 2005	0.00
Ecological Projects in INA d.d. - Loan No. 935 (6)									
10. 5. 2001	11/2001 and 1/2002	31. 12. 2005	EUR	29,694.21	29,694.21	0.00	16,585.95	30. 9. 2005 30. 3. 2011	0.00
Rijeka - Zagreb Motorway (ARZ) - Loan No. 975 (7)									
22. 10. 2001	8/2002	31. 12. 2007	EUR	60,000.00	58,845.66	1,154.34	46,845.66	12. 5. 2005 12. 11. 2019	1,802.78
Uljanik Shipyard d.d. Pula - Tanker Construction No. 450 - advance guarantee from EBRD with the state guarantee - Loan No. 18149									
26. 2. 2002	7/2002 and 11/2002	4 guarantees until 7. 12. 2004.	USD	11,490.00	11,490.00	0.00	0.00	Guarantees returned on 3. 3. 2005	0.00
Zagreb Center for Regional Control Project - Loan No. 25800 (8)									
5. 9. 2002	14/2002	31. 12. 2006	EUR	24,944.05	24,944.05	0.00	17,140.16	20. 11. 2005 20. 5. 2013	0.00
Highway Reconstruction in Croatia Project (HAC) - Loan No. 27171 (9)									
13. 12. 2002	10/2003	1. 9. 2006	EUR	45,254.45	45,254.45	0.00	37,666.92	20. 5. 2006 20. 11. 2017	0.00
Project Completion of Highway on Corridor X in RC (Županja-Lipovac)(HAC) - Loan No. 31848 (10)									
12. 11. 2003	6/2004	9. 12. 2007	EUR	44,983.88	44,983.88	0.00	42,066.03	20. 5. 2007 20. 11. 2021	1,216.05
Coastal Infrastructure of Port Dubrovnik Construction Project - Loan No. 13451									
1. 2. 2005	7/2005 and 11/2005	31. 3. 2008	EUR	26,500.00	9,571.30	16,928.70	9,571.30	10. 4. 2008 10. 10. 2017	2,950.57
Highway Rijeka - Zagreb Phase IIB (Kikovica-Sušica) - Loan No. 35790									
26. 7. 2006	11/2006	1. 10. 2010	EUR	50,000.00	30,033.27	19,966.73	30,033.27	17. 12. 2010 17. 6. 2031	30,033.27
Project of the Beltway around Rijeka (HC) - Loan No. 31849									
12. 12. 2006	4/2007	31. 3. 2010	EUR	40,000.00	400.00	39,600.00	400.00	23. 9. 2010 23. 9. 2031	400.00
Project of Integration of Trade and Transport - Bulk Terminal in the Port of Ploče - Loan No. 36127									
9. 11. 2007.	(not effective)	1. 9. 2011	EUR	11,200.00	0.00	11,200.00	0.00	20. 3. 2012 20. 9. 2022	0.00
TOTAL LOANS WITH THE GUARANTEE OF RC				USD	46,490.00	46,490.00	0.00	17,499.99	0.00
				EUR	426,613.16	337,763.39	88,849.77	213,939.37	36,402.67
GRAND TOTAL PUBLIC + GUARANTEED				USD	66,225.52	66,225.52	0.00	17,499.99	0.00
				EUR	466,012.59	377,162.82	88,849.77	221,252.61	36,402.67

Source: Ministry of Finance of the Republic of Croatia- Department for European Integrations and International Financial Relations

Notes:

- 1 - Contracted loan amount USD 22 million; cancelled: USD 2 million and USD 264.5 thousand.
- 2 - Contracted loan amount DEM 70.9 million; cancelled: DEM 107 thousands. The loan was converted in EUR.
- 3 - Contracted loan amount DEM 33.5million; cancelled: total of DEM 27.2 million and EUR 11.4 thousands. The loan was converted in EUR
- 4 - Contracted loan amount DEM 105 million; cancelled: total of DEM 24.6 million and EUR 9.6 million. The loan was converted in EUR.
- 5 - Contracted loan amount EUR 12 million; cancelled: EUR 6 million. Funds on the special account, EUR 1.3 million, HBOR cancelled in year 2005.
- 6 - Contracted loan amount EUR 36 million; cancelled: EUR 4.3 million; returned from the special account: EUR 2 million.
- 7 - Contracted loan amount EUR 90 million; EBRD decreased the loan in year 2002 by EUR 30 million.
- 8 - Contracted loan amount EUR 25 million; cancelled: EUR 55.9 thousand.
- 9 - Contracted loan amount EUR 46.5 million; cancelled: EUR 1.2 million.
- 10 - Contracted loan amount EUR 45 million; cancelled: EUR 16.1thousand.



of the loan) while the compensations for non-withdrawn loan funds were calculated and collected at the rate of 0.50 percent annually.

7.3.4 Council of Europe Development Bank (CEB)

The Republic of Croatia became the full member of the Council of Europe Development Bank on 24 June 1997. By becoming a full member of the Council of Europe on 6 November 1996, the Republic of Croatia earned the right to become a full member of CEB according to the procedure prescribed for the Council of Europe member states (according to Article III.a. of the Statute of CEB). The direct relations between the Republic of Croatia and CEB were established at the beginning of 1992, prior to Croatia becoming a member of the Council of Europe. Since then the Government of the Republic of Croatia has directed its efforts at developing a healthy cooperation with this specific financial institution which supports the European states in dealing with humanitarian issues, social and development problems. The legal and financial relations of the Republic of Croatia with CEB were defined by the Agreement between the Council of Europe Social Development Fund and the Government of the Republic of Croatia (on 15 June 1996) and the specific loan agreements (on 22 July 1996)³³. The Law on the Accession of the Republic of Croatia to the Council of Europe Social Development Fund and on the Ratification of the Statute of the Council of Europe Social Development Fund was adopted in May 1997³⁴. With the purpose of easier access to funds and to international capital markets, on 1 November 1999 the Banks' governing bodies adopted the conclusion on changing of the name from the Council of Europe Social Development Fund to the Council of Europe Development Bank (CEB). However, the objectives, the organizational structure and the defined activity priorities remained unchanged.

The Republic of Croatia has the share of 0.4 percent in the total capital of CEB. In 2005, after many common activities of the Ministry of Finance of the Republic of Croatia and CEB, the Croatian government adopted CEB's Strategy for Croatia for the Period from 2005 to 2009 at the session held on 20 May 2005. The strategy defines the strategic framework for the priority areas of cooperation with CEB, the scope and the direction of favorable long term financial loans, the forms of technical assistance and various arrangements of co-financing with the other international financial institutions. CEB's financial support to the Republic of Croatia consists of the support to national development and modernization programs in the following social sectors: 1. Displaced persons and refugees, 2. Health sector, 3. Education, 4. Building of social housing objects, 5. Improvement of the life conditions in urban and rural areas, 6. Protection of the environment, 7. Employment and professional training, 8. Cultural heritage, 9. Improvement of minorities' life conditions (the Roma issue). According to the Strategy, CEB's investments in the Republic of Croatia in the period from 2005 to 2009 should amount to EUR 600 million.

During 2007 the cooperation of the Republic of Croatia with CEB was mostly directed at tackling the current problems in the health sector and in the environmental protection sector concerning waste management. The successful implementation of projects in the sector of education and projects with the purpose of modernization of rural areas by developing communal and social infrastructure on Croatian islands was continued. At the end of 2007 EBRD has expressed an interest to the Ministry of Finance in developing cooperation with commercial banks, local and regional self-government units as well as in continuation of cooperation with HBOR.

7.3.4.1 New Loans Agreed in 2007

During 2007, only one new framework loan for the Project of Financing of Health Institutions in the Republic of Croatia, between the Republic of Croatia and CEB and in the amount of around HRK

³³ Within the former SFRJ, 15 enterprises located in less developed areas of the Republic of Croatia, in the period from 1987 to 1990, used the funds from 18 loans provided by CEB, which totaled EUR 11.8 million, for financing industrial development projects with the purpose of increasing local employment. In the period from 1992 to 1994 the Ministry of Finance of the Republic of Croatia in cooperation with the Croatian National Bank and 6 commercial banks fully cooperated with CEB in order to first establish the total amount of arrears and debt outstanding and then comprehensively define mutual relations. For that reason, the aforementioned Agreement and the specific loan agreements were concluded. These agreements were the Agreement between the Council of Europe Social Development Fund and the Government of the Republic of Croatia and the loan agreements between the Council of Europe Social Development Fund and Dalmatinska banka, Privredna banka, Riječka banka, Slavonska banka, Splitska banka and Zagrebačka banka, concluded with the state guarantee. The Law on the Ratification of the concluded Agreement, the Loan agreement and the specific agreements was published in the Official Gazette - International Agreements, No. 3/1997. On 22 July 1996 the total assumed debt stood at EUR 4.1 million. In accordance with the agreed repayment plans, the mentioned debt has been entirely repaid in the period from 1997 to 31 July 2000, inclusive.

³⁴ The Law was published in the Official Gazette - International Agreements, No. 8/1997.


Table 7.6 Overview of CEB Loans Contracted in the Period from 1998 to 2007 with Overview of Debt Outstanding and Disbursed Funds on 31 December 2007 and Disbursed Funds During 2007

DIRECT LOANS							
Settlement date	Published in the NN/MU no.	Framework Loan Amount 000 HRK	Disbursed 000 HRK	Undisbursed 000 HRK	Debt Outstanding in the Currency of Withdrawal (000 EUR)	Debt Outstanding in the Currency of Withdrawal (000 USD)	Disbursed in 2007 000 HRK
Reconstruction of Health Infrastructure in Eastern Slavonia Project - Loan No. F/P 1278/1998							
16. 7. 1998	13/1998 and 15/1998	172,744.13	172,744.13	0.00	11,720.00	2,030.00	0.00
Reconstruction of Schools in Eastern Slavonia Project - Loan No. F/P 1279/1998 (1)							
16.07.1998.	13/1998 and 15/1998	66,380.80	66,380.80	0.00 Cancelled: 987.21	3,750.00	964.00	0.00
School Infrastructure Reconstruction - Loan No. F/P 1352/1999 (2)							
19. 1. 2001	7/2001	96,935.64	96,935.64	0.00 Cancelled: 1,746.36	12,467.00	0.00	0.00
Return of Displaced Persons and Refugees in the RC Project - Loan No. F/P 1378/2000							
2. 2. 2001	7/2001	232,000.00	232,000.00	0.00	29,780.00	0.00	0.00
Reconstruction of the Franciscan Monastery Mala Braća in Dubrovnik Project - Loan No. F/P 1379/2000 (3)							
19. 6. 2001	14/2001 and 2/2002	10,324.79	10,324.79	0.00 Cancelled: 0.67	1,392.10	0.00	0.00
Reconstruction of the SPH "Andrija Štampar" Zagreb and the ICHM in Dubrovnik Project - Loan No. F/P 1419/2001							
29. 3. 2002	10/12/2002	21,395.00	19,756.41	1,638.59	2,568.43	0.00	0.00
Health Infrastructure Reconstruction Project - Loan No. F/P 1351/1999							
30. 10. 2001	9/2002 and 12/2002	186,837.03	138,056.99	48,780.04	18,278.00	0.00	27,191.30
Project of Sustainable Return of Displaced Persons and Refugees - Return of Property and Housing Care - Loan No. F/P 1435/2002 (4)							
30. 1. 2004	6/2004	292,304.13	292,304.13	0.00 Cancelled: 46.89	39,861.00	0.00	0.00
Project of Building and Reconstruction of School Objects in the Republic of Croatia - Loan No. F/P 1456/2004							
15. 12. 2004	5/2005 and 8/2005	402,456.00	362,433.30	40,022.70	49,131.00	0.00	79,591.80
Project of Construction of Utility and Social Infrastructure Objects on the Croatian Islands - Loan No. F/P 1498/2004							
15. 12. 2004	5/2005 and 8/2005	193,364.37	106,334.32	87,030.05	14,389.00	0.00	17,940.13
Project "Research, Rehabilitation and Revitalisation of the Cultural Heritage in Ilok, Vukovar and Vucedol" - Loan No. F/P 1511/2005							
23. 5. 2005	8/2005 and 9/2005	169,716.27	42,252.14	127,464.13	5,740.00	0.00	0.00
Project of Financing of Health Care Institutions in the Republic of Croatia, Loan No. F/P 1576/2006 W (5)							
1. 6. 2007	9/2007	327,679.34	0.00	327,679.34	0.00	0.00	0.00
TOTAL DIRECT LOANS		2,172,137.50	1,539,522.65	632,614.85	189,076.53	2,994.00	124,723.23
		100%	70.88%	29.12%			
LOANS OBTAINED WITH THE GUARANTEE OF RC							
Settlement date	Published in the NN/MU no.	Framework Loan Amount 000 HRK	Disbursed 000 HRK	Undisbursed 000 HRK	Debt Outstanding in the Currency of Withdrawal (000 EUR)	Debt Outstanding in the Currency of Withdrawal (000 USD)	Disbursed in 2007 000 HRK
Financing of Credit Programme for Small and Medium Enterprises Project (HBOR) - Loan No. F/P 1392/2000							
16. and 21. 2. and 15. 3. 2001	9/2001 and 5/2002	8,000.00	6,000.00	2,000.00	4,166.67		2,000.00
TOTAL LOANS WITH THE GUARANTEE OF RC		8,000.00	6,000.00	2,000.00	4,166.67		2,000.00
		100%	75.00%	25.00%			
GRAND TOTAL PUBLIC + GUARANTEED				000 EUR	193,243.20		
				000 USD	2,994.00		

Source: Ministry of Finance of the Republic of Croatia- Department for European Integrations and International Financial Relations

Notes:

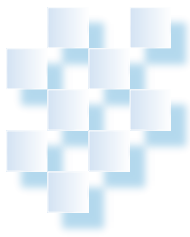
1 - Contracted loan amount HRK 67.4 million; cancelled: HRK 987.2 thousand

2 - Contracted loan amount HRK 98.6 million; cancelled: HRK 1.8 million

3 - Contracted loan amount HRK 10.3 million; cancelled: HRK 0.7 thousand

4 - Contracted loan amount HRK 292.4 million; cancelled: HRK 46.9 thousand

5 - Term for withdrawal of loan funds 30. 6. 2010



327.7 million, was agreed. However, based on already concluded framework direct loan agreements, four additional contracts were concluded on the basis of which the total of HRK 124.7 million was withdrawn and EUR 2 million was withdrawn on the basis of a loan with the guarantee of the Republic of Croatia (look at the table 7.6.). With concluding of the mentioned additional contracts, the reconstruction of school objects, health care infrastructure and utility and social infrastructure on Croatian islands, as well as the financing of the loan program of small and middle size enterprises continued.

Loan for the Project of Financing of Health Care Institutions in the Republic of Croatia, loan No. F/P 1576(2006) W, HRK 327.7 million

With the purpose of implementation of the Project of Financing of Health Care Institutions in the Republic of Croatia, on 1 June 2007 CEB and the Republic of Croatia have concluded the framework loan agreement in the amount of HRK 327.7 million. The loan became effective on 8 November 2007. By the mentioned project, the construction, upgrading and equipping of Lipik Special Hospital for Medical Rehabilitation, Vukovar General Care Hospital, Split Clinic, Merkur (Zagreb) Clinic, University Hospital for Tumors (Zagreb), Zadar General Care Hospital and Osijek Clinic were planned. Total estimated value of the project is around HRK 655.4 million, 74 percent of which will be spent on construction works and the rest on equipping of aforementioned objects. It is expected that the project will ensure more preventive examinations, better and faster diagnostic procedures and therapeutic hospitalizations, improved quality of surgical procedures, postoperative sanitary conditions and accommodation of patients. Investments in health care infrastructure should contribute to visible improvements of health condition of the population of the Republic of Croatia in the long run. During 2007 there was no withdrawal of loan funds. It is agreed that the loan funds will be withdrawn in tranches until 30 June 2010, whereat, the amount of the tranche, its interest rate, currency, date of withdrawal and repayment period will be established before each withdrawal. The withdrawal of tranches will be conditioned by a level of completed and/or projected progress of implementation of the project.

7.3.4.2 Overview of Loans, Disbursement of Funds and Outstanding Debt owed to CEB

According to the overview of loans given in the table 7.6., in the period from 1998 to the end of 2007, the Republic of Croatia directly concluded with CEB 12 framework loan contracts for co-financing of projects, and offered a guarantee for the framework loan of CEB to HBOR. In the mentioned period, for the co-financing of projects in the Republic of Croatia CEB provided direct loans in the amount of around HRK 2.2 billion³⁵ and a loan to HBOR in the amount of EUR 8 million (with the guarantee of the Republic of Croatia). All the direct framework loans and the loan with the guarantee of the Republic of Croatia were withdrawn in tranches. All direct loan tranches are treated as separate loans and were concluded with the repayment period of 5 to 10 years and a 5 year grace period. Framework loan tranches are also treated as separate loans, with the repayment period of 6 years and 2 to 3 year grace period. The tranches withdrawn from direct loans, on the bases of concluded additional agreements, are repaid with the fixed interest rate which, in the period from 1998 to the end of 2007, stood between the lowest of 2.89 percent and the highest of 5.71 percent while the tranches withdrawn on the basis of the loan obtained with the guarantee of the Republic of Croatia are repaid with a floating interest rate based on EURIBOR increased by between 0.24 and 0.4 percent annually. Up to 31 December 2007, the Republic of Croatia has withdrawn HRK 1.5 billion or 70.9 percent of the funds from direct loans. The amount of HRK 632.6 million (29.1 percent), still available for withdrawal, will be used in the following years in accordance with the projects implementation progress. At the end of 2007, EUR 4 million or 25 percent of the funds from the loan granted to HBOR, with the guarantee of the Republic of Croatia, were left for withdrawal. This amount will be used for further fostering of the development of small- and medium-size enterprises.

On 31 December 2007, the debt of the Republic of Croatia towards CEB stood at EUR 193.2 million and USD 2.9 million, while the debt on the basis of the framework loan to HBOR with the guarantee of the Republic of Croatia stood at EUR 4.2 million. In 2007, the debt in EUR of the Republic of Croatia towards CEB was increased by 14.6 million compared with 2006³⁶, while the

³⁵ Look at the notes from table 7.6.

³⁶ On 31 December 2006 the direct debt of the Republic of Croatia towards CEB stood at EUR 178.6 million and USD 4.5 million.



debt in USD decreased by 1.6 million. During 2007 HBOR increased its debt towards CEB by EUR 1.4 million compared to 2006. All of the matured liabilities towards CEB in 2007 were settled timely, whereat from the State Budget of the Republic of Croatia the amount of EUR 13.9 million and USD 1.7 million was repaid on the basis of direct loans, while HBOR repaid the amount of EUR 771.2 thousand for all of the matured liabilities on the basis of its loan.

7.3.5 European Investment Bank (EIB)

The European Investment Bank was established by the Rome Agreement in 1958, in the same time when other institutions known by their common name of European Economic Community (later renamed to European Union) were founded. The European Investment Bank is a financial institution of the European Union with headquarters in Luxembourg. The basic role of EIB is to provide the funds for capital investments related to the development and integration of the European Union. Only a full member of the European Union can be a full member of EIB, although EIB also has the mandate to grant loans to certain Mediterranean states, some African, Caribbean and Pacific states, the South African Republic, some Asian and Latin American states and to South Eastern Europe.

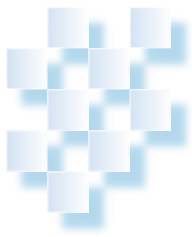
The direct cooperation of the Republic of Croatia with EIB started in 1992 after the establishment of diplomatic relations with the former European Community and was activated after the Ministerial Council of the European Union approved EIB's mandate to financially support infrastructural and development projects in private sector of the Republic of Croatia. Key document - the Framework Agreement which regulates EIB activities in the Republic of Croatia was concluded on 13 December 2000 by the Republic of Croatia and EIB (The Law on ratification of the Framework Agreement was published in the Official Gazette - International Agreements, No. 6/2001). On the basis of this Agreement, on 6 February 2001 the Governor Committee of EIB gave its consent to the granting of loans for investment projects in the Republic of Croatia, which enabled the conclusions of first loan agreements. On 2 January 2007 a new Decision of the Ministerial Council of the European Union (2006/1016/EC, published in the Official Journal of the European Union on 30 December 2006), which changes and supplements EIB's mandate, came into force. This Decision grants EIB a guarantee of placements in amount of EUR 27.8 billion for all operations outside the European Union in the period from 1 February 2007 to 31 December 2013, of which EUR 8.7 billion is planned for the group of EU membership candidate countries, which includes the Republic of Croatia.

7.3.5.1 New Loans Agreed in 2007

During 2007, two new loans with the guarantee of the Republic of Croatia, in the total amount of EUR 290 million, were agreed.

a) Loan for the Plinacro Gas Pipeline II Project (Loan No. FINo.24.067), EUR 190 million (with the guarantee of the Republic of Croatia)

The financing contract under the name "Plinacro Gas Pipeline II" between EIB and Plinacro Ltd. was signed on 31 July 2007. On the same day the Guarantee Agreement for the financing of the project was concluded between EIB and the Republic of Croatia. By the financial contact, the Bank granted a loan in the amount of EUR 190 million to Plinacro Ltd., which will be used for the financing of the Development Plan, construction and modernization of gas transport system in the Republic of Croatia from 2002 to 2011 - second development-investment cycle 2007 to 2011, with the purpose of expanding the gas transport system capacity, connecting of new areas, developing of integrated gas network with neighbouring countries and diversifying sources of gas supply. This Plan includes construction and operating activities on approximately 930 km of new sections of high pressure gas pipeline, which are located in different areas of the Republic of Croatia. The realization of the project begun soon after the signing of the contract in November 2007 with the start of construction work on the first section of the magistral gas pipeline Bosiljevo-Split from Jospidol to Podrebar. The total value of the project is estimated at EUR 475.4 million, out of which EIB will finance 40 percent, and the remaining 60 percent will be financed by Plinacro Ltd from its own resources. EIB's loan is granted for the period of 20 years, including a five year grace period, with the possibility of choosing interest rate (fixed or variable with fixed interest rate margin) separately for each withdrawal of the funds. The Bank will provide the loan in a maximum of twenty five tranches with the minimal amount (if it is not the non-withdrawn remainder of the



loan) of EUR 10 million (for a tranche with a variable interest rate with fixed interest rate margin) and EUR 5 million (for a tranche with a fixed interest rate). During 2007 there was no withdrawal of funds.

b) Loan for the New Port of Zadar Project (Loan No. FINo.24.093), EUR 100 million (with the guarantee of the Republic of Croatia)

The financing contract under the name "New Port of Zadar", concluded between EIB and Zadar Port Authority was signed on 7 September 2008. On the same day the Guarantee Agreement for the financing of the project was concluded between EIB and the Republic of Croatia. The loan amounts to EUR 100 million and it was agreed with the purpose of reallocation of the ferry terminal situated in center of the historic city nucleus and construction of new ferry port in Gaženica near the cargo port, which is 3.5 km south of the city center with excellent connections to the highway, railway and airport. The total value of the project is EUR 236 million and it will be financed from EIB's loans (EUR 100 million) and the German Development Bank Kreditanstalt für Wiederaufbau (EUR 120 million), while the remaining EUR 16 million will be provided by the Zadar Port Authority. The beginning of the work is envisaged for November 2008, and the end of construction work for the end of 2011. EIB's loan is granted for the period of 25 years, including a five year grace period, with the possibility of choosing interest rate (fixed or variable with fixed interest rate margin) separately for each withdrawal of the funds. The Bank will provide the loan in a maximum of ten tranches with the minimal amount (if it is not the non-withdrawn remainder of the loan) of EUR 5 million. During 2007 there was no withdrawal of funds.

7.3.5.2 Overview of Loans, Disbursement of Funds and Outstanding Debt Owed to EIB

EIB has been financing projects in the Republic of Croatia through long term loans since the year 2001. In the period from 2001 to the end of 2007 it granted 21 loans in the total amount of EUR 1.3 billion. Out of these 21 loans, 3 were the direct loans and 12 loans with the state guarantee in the total amount of EUR 955 million, 4 were global loans without the state guarantee granted to commercial banks for the financing of small and medium size private enterprises and to a leasing company, in the total amount of EUR 66 million³⁷ and 2 were global loans to HBOR in the total amount of EUR 50 million³⁸. The data on the direct loans and loans with the state guarantee can be found in table 7.7.

Out of the total of 15 loans, direct or with the state guarantee, concluded with EIB, by 31 December 2007 11 were effective and the amount of EUR 575 million was withdrawn from them through 67 tranches. All the tranches, apart from those withdrawn for the implementation of two projects (the Highway Rijeka - Zagreb Project and the Project of Completion of Highway Rijeka-Zagreb), were withdrawn with fixed interest rates which, in the period from 2001 to 2007, stood between the lowest of 3.479 percent and the highest of 5.26 percent. During 2007 9 tranches were withdrawn, in the total amount of EUR 148.6 million. In the case of withdrawals with the fixed interest rate, the rate stood between 4.414 percent and 5.054 percent in 2007, while the floating interest rates for withdrawals regarding the two above mentioned projects, stood between the lowest of 3.99 percent and the highest of 4.736 percent in 2007.

In 2007, for the implementation of the projects financed by EIB's loans, the total of EUR 148.6 million was withdrawn, the most of which was invested in the implementation of the following projects: "Completion of Highway Rijeka-Zagreb" Project (EUR 90 million), "Integral Development of Local Community" Project (EUR 15 million), "Utilities Infrastructure Reconstruction in the Areas of Special State Concern" Project (EUR 10 million), "Repair of State Roads in the Republic of Croatia" Project (EUR 10 million) and "Construction of Gas Pipeline System in the Republic of Croatia" Project (EUR 10 million). Furthermore, during 2007 many activities on the implementation of the "Infrastructure Reconstruction and Modernization of the Signalization and Telecommunication System of the Sections of Pan-European Vc Corridor" Project (EUR 9 million) and "Highway Rijeka-

³⁷ Global loans without the state guarantee were approved: to PBZ EUR 16 million by the contract from 2001, to HVB Croatia EUR 20 million by the contract from 2001, to RBA Austria EUR 20 million by the contract from 2003 and to RBA Leasing EUR 10 million by the contract from 2003.

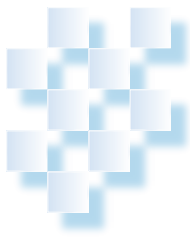
³⁸ EUR 10 million with the agreement from 2001 and EUR 40 million with the agreement from 2007 were granted to HBOR on the bases of global loans


Table 7.7 Overview of EIB Loans Contracted in the Period from 2001 to 2007 with Overview of Debt Outstanding and Disbursed Funds on 31 December 2007 and Disbursed Funds During 2007

DIRECT LOANS							
Settlement date	Published in the NN/MU no.	Loan amount 000 EUR	Disbursed 000 EUR	Undisbursed 000 EUR	Debt Outstanding in the Currency of Withdrawal (000 EUR)	Term for Withdrawal	Disbursed in 2007 000 EUR
Project of Infrastructure Reconstruction and Modernization of the Signalization and Telecommunication Systems within Sections of the Vc Pan-European Corridor - Loan No. FINo. 21.051							
24. and 31. 5. 2001	2/2002	40,000.00	39,000.00	1,000.00	36,954.04	31. 12. 2007	9,000.00
Project of Utilities Infrastructure Reconstruction on the Areas of Special State Concern - Loan No. FINo. 22.165							
30. 7. 2003	16/2003	50,000.00	36,000.00	14,000.00	36,000.00	30. 9. 2007	10,000.00
Framework Multisectoral Loan for the Utilities Infrastructure - Integral Development of the Local Community - Loan No. FINo. 22.881							
20. and 24. 12. 2004	7/2005	150,000.00	15,000.00	135,000.00	15,000.00	31. 7. 2008	15,000.00
TOTAL DIRECT LOANS		240,000.00	90,000.00	150,000.00	87,954.04		34,000.00
LOANS OBTAINED WITH THE GUARANTEE OF RC							
Settlement date	Published in the NN/MU no.	Loan amount 000 EUR	Disbursed 000 EUR	Undisbursed 000 EUR	Debt Outstanding in the Currency of Withdrawal (000 EUR)	Term for Withdrawal	Disbursed in 2007 000 EUR
Project of Reconstruction of State Roads (HC) - Loan No. FINo. 21.262							
29. 10. 2001	4/2002	60,000.00	60,000.00	0.00	60,000.00	30. 6. 2007	10,000.00
Global Loan to HBOR - Loan No. FINo. 21.316							
26. 11. 2001	4/2002	10,000.00	10,000.00	0.00	7,058.82	26. 11. 2004	0.00
Rijeka - Zagreb Highway Project (ARZ) - Loan No. FINo. 21.609							
24. 6. 2002	10/2002	60,000.00	60,000.00	0.00	60,000.00	30. 12. 2007	4,637.52
Project for the Zagreb AIR Traffic Control - Loan No. FINo. 21.677							
10. and 12. 9. 2002	14/2002	20,000.00	20,000.00	0.00	17,013.89	30. 6. 2007	0.00
Projects of Highways Repair in RC (HAC) - Loan No. FINo. 21.850							
13. 12. 2002.	10/2003	50,000.00	50,000.00	0.00	50,000.00	31. 12. 2006	0.00
Construction of the Gas Pipeline System in RC Project (Plinacro) - Loan No. FINo. 22.374							
16. 12. 2003	3/2004	90,000.00	90,000.00	0.00	90,000.00	1. 12. 2007	10,000.00
Project of Completion of the Highway in the Corridor X within the RC (Section: Županja Lipovac) (HAC) - Loan No. FINo. 22.639							
22. and 29. 7. 2004	1/2005	45,000.00	45,000.00	0.00	45,000.00	1. 4. 2007	0.00
Project "Croatian Roads - Split Beltway" (HC) - Loan No. FINo. 23.135							
20. 7. 2005	2/2006	60,000.00	0.00	60,000.00	0.00	31. 12. 2009	0.00
Project of Completion of Highway Rijeka-Zagreb (ARZ) - Loan No. FINo. 23.419							
9. 3. 2006	8/2006	210,000.00	150,000.00	60,000.00	150,000.00	8. 3. 2009	90,000.00
Project of Reconstruction of State Roads II (HC) - Loan No. FINo. 23.780							
12. 12. 2006	5/2007	60,000.00	0.00	60,000.00	0.00	11. 12. 2009	0.00
Plinacro Gas Pipeline II Project - Loan No. FINo.24.067							
31. 7. 2007	11/2007	190,000.00	0.00	190,000.00	0.00	31. 7. 2012	0.00
New Port of Zadar Project (Zadar Port Authority) - Loan No. FINo.24.093							
7. 9. 2007	10/2007	100,000.00	0.00	100,000.00	0.00	31. 12. 2012	0.00
TOTAL LOANS WITH THE GUARANTEE OF RC		955,000.00	485,000.00	470,000.00	479,072.71		114,637.52
GRAND TOTAL PUBLIC + GUARANTEED		1,195,000.00	575,000.00	620,000.00	567,026.75		148,637.52

Source: Ministry of Finance of the Republic of Croatia- Department for European Integrations and International Financial Relations

Zagreb" Project (EUR 4.6 million) were conducted. None of the loan funds for the financing of Projects "Croatian Roads - Beltway around Split", "Repair of Roads II", "Plinacro Gas Pipeline II" and "New Port of Zadar" were withdrawn in 2007, although the loans have become effective. Loan funds for the financing of Projects "Completion of Highway on Corridor X in the Republic of Croatia" and "Zagreb Air Traffic Control" were withdrawn entirely before the term for withdrawal expired. According to the situation on 31 December 2007, out of the total of EUR 1.2 billion of contracted loan funds, EUR 620 million (51.9 percent) is still available for withdrawal until the end of projects implementation.


Table 7.8 Overview of EIB Assumed Loans with Debt Outstanding on 31 December 2007

ASSUMED LOANS							
	Loan amount 000 EUR	Settlement date	Interest rate %	First maturity of principal	Last maturity of principal	Currencies of payment	Debt Outstanding in the Currency of payment (000)
Loan No. 16275 EEMS-HE CRO (HEP) - guarantee of RC							
	10,552.50	17. 12. 1982	11.50	31. 5. 1992	30. 11. 2001	(1)	0
Loan No. 16279 TYH-II-HC CRO (HC)							
	16,000.00	21. 7. 1983	10.50	15. 1. 1988	15. 7. 2003	(2)	0
Loan No. 16284 TYR-I-HŽ CRO (HŽ) - guarantee of RC							
	29,190.00	03. 2. 1984	10.75	31. 1. 1988	31. 1. 2004	(3)	0
Loan No. 16289 TYH-III-HC CRO (HC)							
	15,250.00	10. 10. 1984	10.25	15. 3. 1990	15. 9. 2004	(4)	0
Loan No. 13554 TYH-IV-HC CRO (HC)							
	60,000.00	20. 9. 1988	7.65	15. 3. 1994	15. 9. 2008	EUR	2,315.60
						CHF	2,008.05
						GBP	200.36
						JPY	331,657.92
Loan No. 14090 TYR-IIB-HŽ CRO (HŽ) - guarantee of RC							
	18,000.00	24. 7. 1989	8.20	15. 9. 1994	15. 3. 2009	EUR	1,524.54
						GBP	383.23
						CHF	1,088.51
						USD	394.37
TOTAL:	148,992.50	Exchange rate list No. 249/2007., midpoint CNB exchange rate effective from 29. 12. 2007 =				HRK	64,231.78

Source: Ministry of Finance of the Republic of Croatia - Department for European Integrations and International Financial Relations

Notes:

- (1) currencies of payments were EUR and GBP;
- (2) currencies of payments were EUR and USD;
- (3) currencies of payments were EUR, DKK, GBP and USD;
- (4) currencies of payments were EUR, DKK, GBP, USD and CHF

On 31 December 2007, the total debt towards EIB on the basis of direct loans and loans with the state guarantee stood at EUR 567 million. As all of the matured liabilities towards EIB during 2007 were settled in due time and according to the set repayments plans, the state guarantees were not activated. The users of the loans with the state guarantees (HC, HBOR, ARZ, HKZP, HAC and Plinacro) accurately and in due time settled all of their matured liabilities in the total amount of EUR 20.1 million (the principal EUR 2.7 million and the interest EUR 17.4 million). All of the matured liabilities on the bases of direct loans in the amount of EUR 4 million and on the basis of inherited long term loans granted in the period from 1982 to 1989³⁹, were settled from the State Budget of the Republic of Croatia for the year 2007. The overview of these assumed EIB loans and of the debt outstanding on 31 December 2007 is given in the table 7.8. On 31 December 2007, the total assumed debt converted to HRK amounted to HRK 64.2 million.

³⁹ The six remaining unsettled long term loans of the users with the headquarters in the Republic of Croatia (HEP, HC and HŽ), nominated in ECU, with the obligation of repayment in different currencies, were assumed according to the partial succession principle and with regard to the so called territorial principal. The total assumed debt in 11 currencies and expressed in HRK stood at HRK 877.2 million.



7.4 BILATERAL AND MULTILATERAL FINANCIAL RELATIONS

7.4.1 Bilateral Financial Cooperation

Substantial technical and financial assistance in implementation of economic reforms, development of market economy and economic law was provided to the Republic of Croatia by the Federal Republic of Germany (further in the text: Germany), one of the main trading partners of the Republic of Croatia.

Bilateral economic cooperation of the Republic of Croatia with Germany takes place at several levels - from financial and technical to the involvement of Germany in the funds put at disposal to Croatia by the EU.

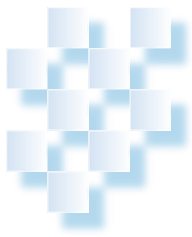
The Government of the Republic of Croatia, represented by the Ministry of Finance, has lately achieved significant financial cooperation with the Government of the Federal Republic of Germany.

The legal bases of that cooperation are bilateral framework contracts on financial cooperation between the Government of the Republic of Croatia and the Government of the Federal Republic of Germany, with the purpose of financing, under favorable conditions, of certain projects and programs proposed by the Government of the Republic of Croatia and verified as eligible for financing within public cooperation in the field of development by the Government of the Federal Republic of Germany.

Agreements on financial cooperation concerning the financing of the second phase of the Project of Water Supply and Drainage of Waste Waters (the first phase was financed out of the special funds of the Stability Pact for Southeast Europe) and of the Project of Energy Efficiency and Renewable Energy Sources, were concluded so far between the two mentioned Governments. By the Agreement on financing of the second phase of the Project of Water Supply and Drainage of Waste Waters, signed on 6 July 2004 (Official Gazette - International Agreements, No. 4/05), a loan in the amount up to EUR 12 million with a reduced interest rate, a deed of donation in the amount up to EUR 1 million for financing of concurrent measures and a so called "soft loan" in the amount up to EUR 3 million was granted to the Republic of Croatia. By the Agreement on financing of the Project of Energy Efficiency and Renewable Sources of Energy, signed on 20 March 2007 (Official Gazette - International Agreements, No. 9/07), a loan in the amount up to EUR 20 million with a reduced interest rate and a deed of donation in the amount up to EUR 1.5 million for financing of concurrent measures was granted to the Republic of Croatia. The funds from both of these framework agreements are granted via a German Development Bank Kreditanstalt für Wiederaufbau and HBOR is the receiver of the loan and beneficiary of the deed of donation. The framework agreements do not imply any costs. The use of mentioned funds, conditions, procedure of approving of individual loans and assigning of activities regarding the funds from the deed of donation are established by individual agreements between KfW and HBOR.

Based on the framework Agreement on Financial Cooperation for the financing of the Project of Energy Efficiency and Renewable Energy Sources, HBOR and KfW signed an individual Loan Agreement in the amount of EUR 19.5 million, with repayment in 20 semi-annual annuities during the period from 30 December 2012 to 30 June 2022, with a reduced interest rate (KfW's cost of financing was reduced by 114 basic points two days before the withdrawal of funds) and a one-off initial compensation of 0.4 percent (management fee) and a compensation for the non-withdrawn loan funds i.e. fund reservation (commitment fee) in the amount of 0.25 percent, annually, on 8 November 2007. By the end of 2007 the loan was not used. The negotiations regarding the concluding of the deed of donation in the amount of up to EUR 1.5 million for the financing of concurrent measures in realisation of afore-mentioned Project are underway.

Concluding of the individual Loan Agreement and the deed of donation for financing of the second phase of the Project of Water Supply and Drainage of Waste Waters is foreseen at the earliest opportunity and the negotiations regarding the concluding of the bilateral framework Agreement on Financial Cooperation for the third phase of the same Project, whereat the Government of the Federal Republic of Germany would grant the Republic of Croatia a favorable loan in the amount of up to EUR 18 million, are underway.



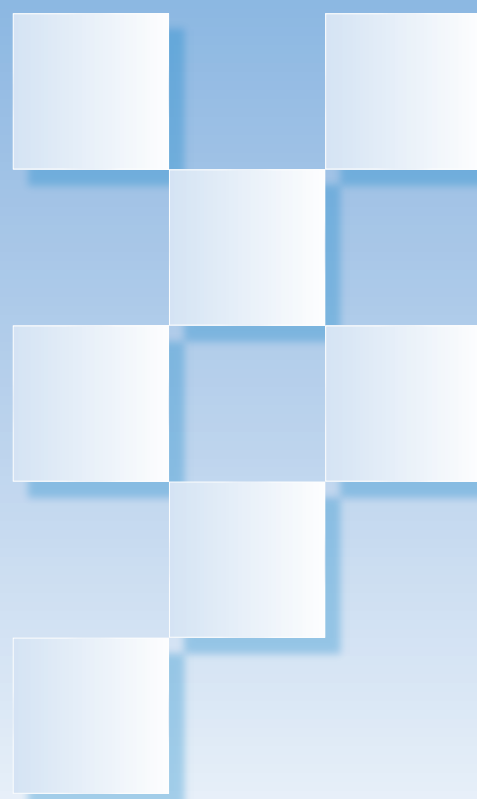
7.4.2 Other Bilateral and Multilateral Relations

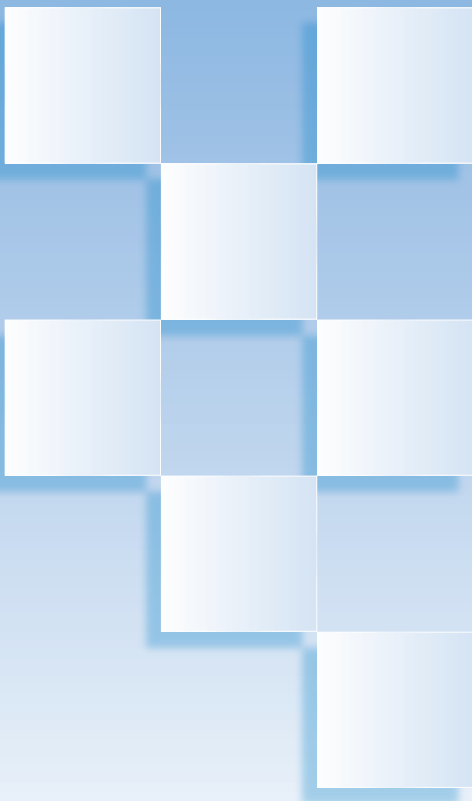
The Ministry of Finance of the Republic of Croatia takes part in the cooperation in negotiations and drafting of various bilateral and multilateral contracts and programs, in charge of which are other ministries in the Republic of Croatia and other bodies of public authority.

The Ministry of Finance of the Republic of Croatia is also active in the affairs concerning the process of succession of the former Socialist Federative Republic of Yugoslavia based on the Agreement on the Question of Succession that was signed in Vienna on 29 June 2001 and came into effect on 2 June 2004 (Official Gazette, No. 2/04 and 5/04). Based on this Agreement, the Committee for distribution of financial assets and liabilities (further in the text: The Committee), from the Annex C of the Agreement, was formed. It consists of the representatives of the successor countries and has regular meetings where the questions associated with the assets and liabilities of the former Socialist Federative Republic of Yugoslavia are examined. The Ministry of Finance of the Republic of Croatia cooperates with the Committee, Croatian National Bank and with the other competent bodies in the country and abroad on all the questions in the area of succession within its competence.

8

**REPORT ON THE ACTIVITIES
OF THE DIRECTORATE FOR
FINANCING EU ASSISTANCE
PROGRAMMES AND
PROJECTS IN 2007**





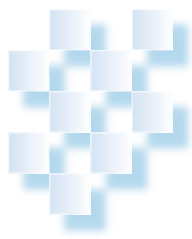


8.1 INTRODUCTION

The Directorate for Financing EU Assistance Programmes and Projects - the Central Financing and Contracting Unit (CFCU) is a Directorate within the Ministry of Finance which operates as the implementation body of CARDS, PHARE and ISPA programmes in accordance with the Memorandum of Understanding between the European Commission and the Government of the Republic of Croatia on the Establishment of a Central Financing and Contracting Unit (CFCU) and the Memorandum of Understanding on the Establishment of the National Fund. Pursuant to the aforementioned documents, the CFCU is in charge of the financing, tendering, payment, supervision and revision of all the decentralized EU assistance programmes and projects provided to the Republic of Croatia.

In 2007, the CFCU faced five demanding challenges: the contracting of the CARDS 2004 and Phare 2005 programme components, the preparation of tender documentation for Phare 2006 and ISPA programmes, and preparation activities for accreditation of the IPA programme.

We believe that the CFCU as an organizational model can serve as an exceptional source of insights for similar bodies which will be established within the IPA programme as it has proved through its performance that it is possible to achieve significant results even operating under conditions of objectively short deadlines. The overview of our activities in 2007 which follows illustrates this belief through the description of the main activities and the relevant statistical data as the key indicator of our work.



8.2 KEY ACTIVITIES OF THE DECENTRALIZED MANAGEMENT OF THE EU ASSISTANCE PROGRAMMES

In the course of 2007 the CFCU successfully completed two significant tasks - contracting of projects financed through the CARDS 2004 and Phare 2005 national programme. The CARDS 2004 contracting deadline was June 29, 2007 while the Phare 2005 national programme contracting deadline was November 30, 2007. The contracted funds were abundant in both cases: EUR 44 million for the CARDS 2004 programme and EUR 63.8 million for the Phare 2005 national programme (including national public funds). In what follows the overview of the contracted projects is given.

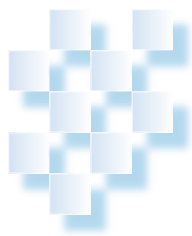
8.2.1 Registry on CARDS 2004 Contracts

Table 8.1 Overview of CARDS 2004 Projects

Number of contracts	Project title	Contracted amount (EUR)	Objectives
1	2	3	4
1	Sustainable Development in Areas of Special State Concern - Water supply system in Krasno	589,979.93	Construction of water supply system in Krasno.
1	Sustainable Development in Areas of Special State Concern - supervision of construction works in Krasno	63,745.00	Supervision of efficiency and quality of construction of water supply system in Krasno.
1	Sustainable Development in Areas of Special State Concern - construction works in Slavonski Brod and Požega	3,729,167.43	Construction works on buildings of five regional institutions in Slavonia that is Brodsko-Posavska County and Požeško-Slavonska County.
1	Sustainable Development in Areas of Special State Concern - supervision of construction works in Slavonski Brod and Požega	199,820.00	Supervision of efficiency and quality of construction of water supply system in Krasno.
1	Sustainable Development in Areas of Special State Concern - mine clearance in Sveto Brdo	1,000,000.00	Mine clearance in the area of Sveto Brdo.
4	Sustainable Development in Areas of Special State Concern - supply for all beneficiaries	909,068.58	Support to governmental and non-governmental institutions, as well as educational organizations through supply of educational and other equipment in the following sectors: agriculture and food production, mechanics and electro-engineering, wood processing and other support.
1	Sustainable Development in Areas of Special State Concern - technical assistance for mechatronics in Karlovac	439,260.00	Support in setting up the Centre of Excellence in Mechatronics in Karlovac.
1	Sustainable Development in Areas of Special State Concern - Preparation of technical documentation and a management set-up for the Regional Water Supply System Lička Jasenica - Plitvička Jezera - Slunj	929,000.00	Providing assistance to regional authorities with the production of technical documentation and the preparation of a management set-up for the water supply system.
1	Support to Maximise the Socio-economic Development Effects of "Sveto Brdo" Mountain Tourism Resort	599,955.00	Improvement of capacities and capabilities of farmers, businesses and potential employees, in order to make the Lika-Senj County (war affected and mountain rural area) and wider region benefit maximally from large-scale investment projects, such as the "Sveto Brdo" Mountain Tourism Resort and in particular through the use of public-private sector partnership measures.
1	Sustainable Development in Areas of Special State Concern - drafting master plan of tourism in Karlovac County and Lika-Senj County	194,325.00	Improvement of planning and implementation of development of tourism in Lika-Senj County through the adoption of joint strategy.



Number of contracts	Project title	Contracted amount (EUR)	Objectives
1	2	3	4
1	Support to Maximise the socio-economic Development Effects of "Sveto Brdo" Mountain Tourism Resort	199,430.00	Setting up of development planning and conditions for implementation of development strategy through measures which enhance socio-economic effects.
1	Sustainable Development in Areas of Special State Concern - mine clearance in the Republic of Croatia	2,319,788.67	Mine clearance in the area of four Croatian counties.
1	Technical Assistance for Grant Scheme Management Croatia	164,575.00	Providing of technical assistance to the CFCA, Office for Co-operation with NGOs, and non-governmental organizations at contracting and implementation of projects within two grant schemes in the field of environment protection and sustainable development, as well as provision of social services to the non-profit sector.
10	Support to Non-Profit Organizations which Deliver Social Services	1,978,926.38	Providing financial support to civil sector organizations which deliver social services.
3	Human Rights Improvement	597,350.00	Providing financial support to civil sector organizations which contribute to promotion of good governance and rule of law, as well as enhancement of democracy and civil society.
7	Support to Civil Society Organisations Active in the Field of Environment Protection and Sustainable Development	723,212.22	Providing financial support to civil sector organizations which deal with environmental protection and sustainable development.
1	Capacity Building in the Area of Agriculture, Live Animals and Food Products-twinning	1,500,000.00	Drafting of National strategy for safety of food, alignment of key legislation with the <i>acquis communautaire</i> and setting up of organisational and administrative structure under jurisdiction of national authorities.
1	Further Capacity Building in the Area of Consumer Protection	1,100,000.00	Further capacity building in the area of consumer protection in the framework of which non-governmental organizations for consumer protection are beneficiaries of technical assistance along with the Ministry of economy, labour and entrepreneurship and the State Inspectorate.
1	Further Capacity Building in the Area of Consumer Protection	128,150.00	The supply of equipment to reach a high level of consumer protection in Croatia, further strengthening of the legal, institutional and operational framework for effective implementation and enforcement of CP legislation at both central and regional level.
4	Development of National Standardisation, Conformity Assessment and Accreditation System	851,778.62	Improvement of performance of the national body for accreditation and standardisation as well as improvement of metrology and technical infrastructure with the aim of alignment with the EU system.
1	Improving Information to the Croatian Business Community	1,299,700.00	Strengthening of capacity for policy makers and business, and improvement of the awareness of the business community in key legislative fields such as: public procurement, environmental protection, competition policy, state aid etc.
1	Adult Learning	1,486,490.00	Fostering employment and flexibility of the work force through further strengthening of the modern concept of adult learning in line with labour market requirements and the life-long learning approach.
10	Local Partnership for Employment - phase 2	637,566.32	Decreasing of unemployment through strengthening of local participants in creation and implementation of education and active market measures.
1	Improving Court and Case Management at the High Misdemeanour Court and Selected Misdemeanour Courts	1,000,000.00	Improving performance of the High Misdemeanour Court and other misdemeanour courts.

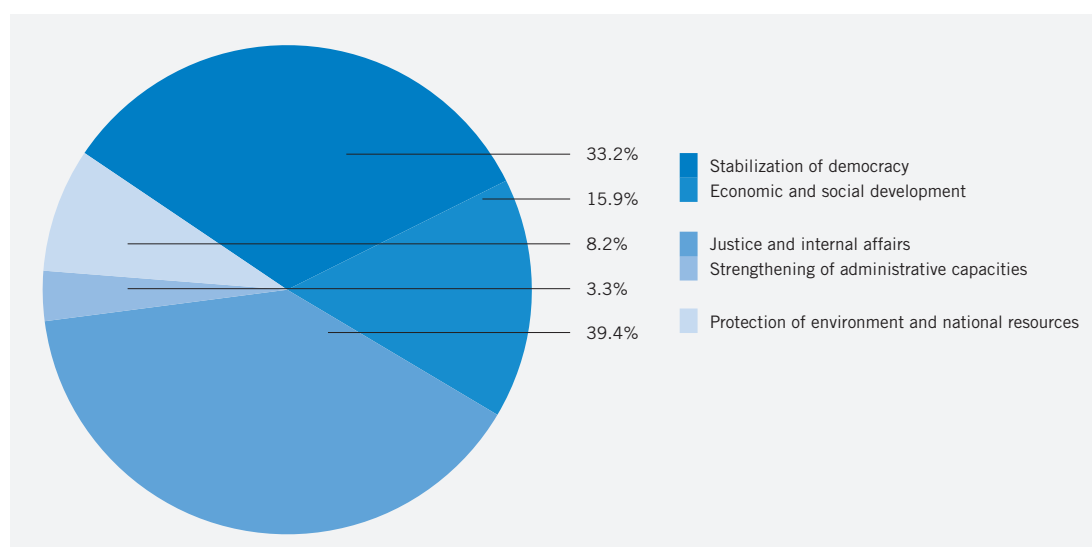


Number of contracts	Project title	Contracted amount (EUR)	Objectives
1	2	3	4
2	Improving Court and Case Management at the High Misdemeanour Court and Selected Misdemeanour Courts - provision of the equipment	1,443,989.00	Support to and improvement of performance of the High Misdemeanour Court and selected misdemeanour courts.
1	Support to More Efficient, Effective and Modern Operation and Functioning of the Administrative Court of the Republic of Croatia	149,389.00	Setting up of the CCMSAS programme at the Administrative Court with the aim of achieving improvement in its performance.
1	Support to More Efficient, Effective and Modern Operation and Functioning of the Administrative Court of the Republic of Croatia	850,000.00	Support to development of functioning of the Administrative Court of the Republic of Croatia.
1	Combating Trafficking of Human Beings	883,767.98	Strengthening the capacity of national institutions in combating trafficking in human beings and providing assistance and protection to the victims of trafficking in human beings.
2	Combating Trafficking of Human Beings, supply of equipment	31,481.00	Strengthening the capacity of national institutions in combating trafficking in human beings.
1	Strengthening Capacity to Combat Drugs Trafficking and Drugs Abuse	786,494.53	Enhancing combat against organized crime through the implementation of the national multi-disciplinary strategy in line with the <i>acquis communautaire</i> , and enabling Croatia's full participation in the European Monitoring Center for Drugs and Drug Addiction (EMCDDA) and its REITOX network.
1	Strengthening Capacity to Combat Drugs Trafficking and Drugs Abuse, supply of equipment	121,924.78	Purchasing of equipment for the Office for Combating Narcotic Drugs Abuse to prepare for participation in the European Monitoring Center for Drugs and Drug Addiction (EMCDDA) and its REITOX network.
1	Combating Trafficking in Firearms, Ammunition and Explosives	869,004.76	Prevention and combating organized crime and terrorism through the strengthening of institutions in combating trafficking in firearms, ammunition and explosives, and especially the Centre for Crime Investigation at the Ministry of Interior
1	Combating Trafficking in Firearms, Ammunition and Explosives, supply of equipment	498,759.00	Enhancement of capabilities of the Ministry of Interior and other institutions in prevention, combating and elimination of illegal production and trade in firearms, ammunition and explosives.
1	Reform of Asylum II	1,000,000.00	Enabling of thorough alignment with the <i>acquis communautaire</i> through the strengthening of administrative bodies which deal with asylum activities, and through the preparation of implementation of the regulations relating to "EURODAC" and "Dublin II" upon the accession of the Republic of Croatia to the European Union.
1	Supply of Equipment for Croatian Asylum services	127,640.00	Providing the appropriate equipment for Croatian asylum services in order to become ready for the full implementation of the regulations relating to "EURODAC" and "Dublin II" upon the accession of the Republic of Croatia to the European Union.
1	Capacity Strengthening of the Veterinary Border Inspection	599,400.00	Strengthening of capacity of the Veterinary Border Inspection in order to enable it to properly carry out its functions.
4	Supply of Equipment for the Veterinary Border Inspection Service	122,877.56	Providing of equipment to the Veterinary Border Inspection with the aim of helping it to properly carry out its functions.
5	Modernisation of State Border Surveillance - supply of equipment	7,871,531.00	Modernisation of state border surveillance through the supply of equipment for the Border Police with the aim of alignment with the EU standards in the field of border surveillance.

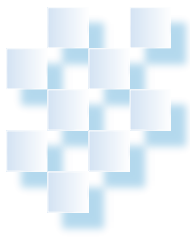
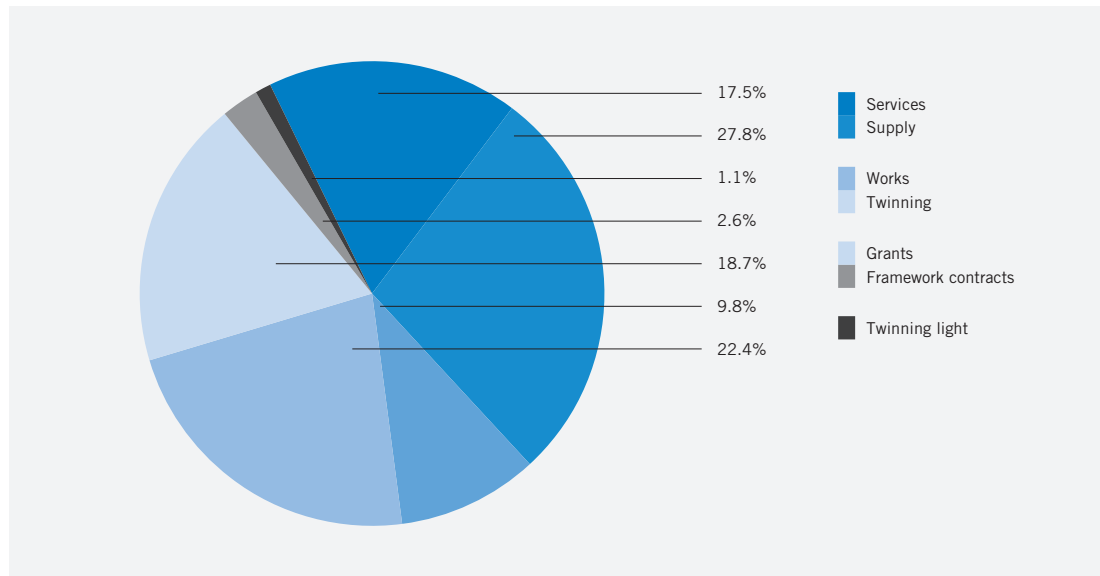


Number of contracts	Project title	Contracted amount (EUR)	Objectives
1	2	3	4
8	Cross Border Co-Operation Grant Scheme	976,515.11	Enabling relevant national and local institutions and organizations participation in cross border, trans-national and inter-regional programmes, and strengthening cross border, trans-national and inter-regional co-operation.
1	Assessment and Strategy Development based on Fiscal Blueprints	189,962.91	Strengthening the Croatian Tax Administration capacity.
1	Support the Development of a Probation System in Croatia	237,947.02	Supporting of development of a probation system and education on implementation thereof at the Prison System Directorate at the Ministry of Justice.
1	Further Capacity Building in the Area of Plant Protection Products-twinning	696,753.51	Further capacity building of the Croatian Service for Public Health in the area of plant protection products.
1	Support of the Croatian Postal Council	250,000.00	Strengthening capacities of the Croatian Postal Council in order to enable it to operate as independent entity for the sector of postal services in line with the <i>acquis communautaire</i> .
1	Strengthening Public Internal Financial Control Structure	80,025.00	Providing of software for internal audit management.
1	Support for the Further Approximation of Croatian Legislation with Environmental <i>Acquis</i>	1,854,680.00	Enabling adoption and implementation of the Croatian legislation related to the environmental protection in line with the <i>acquis communautaire</i> .
1	Supply of Equipment for the Establishment of a National Greenhouse Gas (GHG) Emissions Registry	70,039.55	Providing support to the establishment of a national registry of GHG emissions.
1	Capacity Building and Development of Guidelines for the Implementation of the Water Framework Directive	1,200,000.00	Improvement of standards of water quality and water management in the Republic of Croatia in line with the EU standards, as well as strengthening institutional and administrative capacities of Croatian water management, relevant state institutions, participants and non-governmental organizations.
1	Approximation of EU Renewable Energy Legislation and Energy Efficiency Labelling (RELEEL)	499,225.00	Strengthening of administrative capacity for adoption and implementation of legislation related to renewable energy sources and energy efficiency in line with the <i>acquis communautaire</i> .
TOTAL		44,065,284.94	

Source: Ministry of Finance

Figure 8.1 Funds of Decentralised CARDS 2004 Projects by Sector

Source: Ministry of Finance


Figure 8.2 CARDS 2004 Programme - Contracts by Type


Source: Ministry of Finance

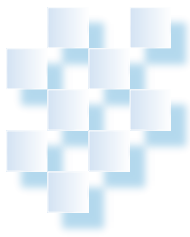
8.2.2 Registry on Phare 2005 Contracts

Table 8.2 Overview of Phare 2005 Projects

Number of contracts	Project title	Contracted amount (EUR)	Objectives
1	2	3	4
1	Enhancement of Mediation as an Alternative to Court-Based Dispute Settlement	963,250.00	Enhancement of mediation as an alternative to court-based dispute settlement and establishment of a viable structure and system for mediation in Croatia.
1	Enhancement of Mediation as an Alternative to Court-Based Dispute Settlement - provision of the equipment	85,242.00	Provision of equipment to support establishment of a viable structure and system for mediation in Croatia.
1	Support to the Judicial Academy of Croatia: Developing a Training System for Future Judges and Prosecutor	1,093,000.00	Improvement of training and selection of future judges and prosecutors, and strengthening the training networks.
1	Roma Support Project: Infrastructure Improvement in 1 Roma Settlement in Medimurje County	624,796.17	Improvement of infrastructure and general living conditions in Parag (the Roma settlement in Medimurje County).
1	Improving Access to Education and Employment Opportunities for the Roma National Minority in Croatia	745,700.00	Improvement of access for the Roma national minority to formal and non-formal education and training.
1	Technical Assistance for Integrated Land Administration System in Croatia	1,509,137.00	Strategic advice in the field of land registry reform, technical support to land management modernization, training, coordination and connecting municipal court land registry units and cadastral offices.
1	Croatian Positioning Service (CROPOS) Network Establishment	1,396,460.00	Establishment of a national Global Navigation Satellite System Service CROPOS.
1	Technical Assistance for Harmonisation Process between Land Registry and Cadastre Data in Selected Region	2,476,650.00	Direct availability of maps and land books in digital form and easier maintenance and transparency of land administration system.
1	Market Surveillance System in the Field of Technical Products	1,100,000.00	Further development of the market surveillance system in the Republic of Croatia.
1	Supply of Equipment for Market Surveillance System in the Field of Technical Products	269,110.00	Supply of IT equipment needed for further development of an efficient and sustainable capacity of State inspectorate to carry out market surveillance activities in the field and in the office.
1	Strengthening of the Implementation of Competition Policy and EU state aid	1.500.000,00	Strengthening of administrative capacity of the Croatian Competition Agency, civil servants and judiciary in order to improve market competition regulation, awareness on market competition, as well as control in state agencies, judiciary and business sector.



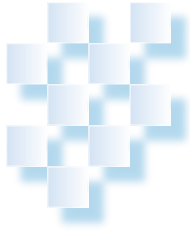
Number of contracts	Project title	Contracted amount (EUR)	Objectives
1	2	3	4
2	Equipment for Strengthening of Capacity to Manage and Enforce the EU Competition and State Aid Policies	339,868.48	Strengthening of the capacity of the Competition Authority staff and of other relevant institutions in implementation of market competition and state aid regulation, and drawing up a list of the state aid schemes.
1	VIES Effective Management and Business Support	1,000,000.00	Meeting preconditions for introduction and the effective management of the VIES (VAT Information Exchange System).
1	VIES Mandatory Developments	1,799,803.67	Development, implementation and provision of training for the effective management of the VIES (VAT Information Exchange System) which would be linked to the existing National VAT Information System.
1	Development of a Computerised TARIC Compatible IT System for the Croatian Customs Administration	992,107.85	Strengthening of the institutional capacity of the Croatian Customs Administration.
1	Support to the Customs Administration in the NCTS project management and implementation	993,981.04	Strengthening of the institutional capacity of the Croatian Customs Administration.
1	Support to the Customs Administration in the management of EMCS preparation and developments	951,352.77	Strengthening of the institutional capacity of the Croatian Customs Administration.
1	EMCS Phase 2 Software Development	2,649,441.64	Development of the necessary IT system functionality under EMCS Phase 2 as identified in the Feasibility Study of EMCS.
1	TARIC Development / Adaptations - Software development	1,476,200.00	Strengthening of the operability of the Croatian Customs Administration in line with the EU standards in the key customs areas.
1	Upgrade of the national customs transit IT system toward the NCTS compatibility	500,000.00	Upgrade of the national customs IT system.
1	Institutional Capacity Building and Support for Implementation of SAPARD/IPARD Programme	3,822,200.00	Building up of capacities of the Programme Management Authority for SAPARD / IPARD - Rural Development component
1	Institutional Capacity Building and Support to the Directorate of Fisheries in Administering and Control of Common Fisheries Policy (CFP)	926,898.72	Strengthening of the institutional capacity of Directorate of Fisheries in administering the EU acquis and strengthening of the fishing sector in the Republic of Croatia.
1	Support to the Republic of Croatia in the preparation and implementation of the strategy to develop the fisheries sector within the context of alignment and enforcement of the EU acquis comprising the common fisheries policy	576,200.00	Support to the Ministry of Agriculture, Fisheries and Rural Development in the alignment and implementation of the EU acquis comprising the common fisheries policy.
1	Support to the Republic of Croatia in the preparation and implementation of the strategy to develop the fisheries sector within the context of alignment and enforcement of the EU acquis comprising the common fisheries policy - demersal stock assessment	300,000.00	Assessment of demersal fish and shellfish stocks commercially exploited in Croatia
3	Supplying the IT equipment to the Directorate of Fisheries	136,156.93	Support to the Ministry of Agriculture, Fisheries and Rural Development - Directorate of Fisheries, through the strengthening of technical capacity crucial for administering the fishing sector.
2	Supply of vessels for fisheries inspection and system supporting SAT, GPRS and SMS data transmission for vessel monitoring purpose of Croatian fishing fleet	1,416,880.00	The assistance covered is aimed at strengthening the fishery inspection in terms of providing fishery patrol vessels for performing the surveillance and control of the Croatian territorial waters. The contract also foresees provision of system supporting SAT, GPRS and SMS data transmission for vessel monitoring purpose of Croatian fishing fleet.
4	Supplying fishery co-operative with freezing, product storage and primary processing equipment	398,412.15	Strengthening the fishery co-operative leading to establishment of first producer organization in line with the acquis.
1	Establishment of two fishing ports in Umag and Biograd n/m	1,399,706.35	Improvement of national fisheries infrastructure through meeting preconditions for construction of fishing piers.
1	Strengthening of human resources in the field of surveillance of maritime traffic	600,000.00	Establishment of the service for surveillance and management of maritime traffic supported by the adequate information system in line with recommendations of the International Maritime Organization (IMO) and Directive 2002/59/EC on the establishment of common Vessel Traffic Management and Information System (VTMIS).



Number of contracts	Project title	Contracted amount (EUR)	Objectives
1	2	3	4
1	Functional and Technical Study on Vessel Traffic Monitoring and Information System	386,000.00	Improvement of maritime traffic security through the strengthening of surveillance and management of vessels with the establishment of fully operative Vessel Traffic Management and Information System as the final result.
1	Evaluation, design of recommendations, capacity building and grant scheme management in the field of active employment measures in Croatia	1,239,300.00	Development of the capacity of labour market agents to carry out active labour market measures for groups threatened by social exclusion.
11	Active Employment Measures for Groups Threatened by Social Exclusion	999,961.95	Development and strengthening of the Croatian labour market policy.
1	Capacity building for the SME support structure and alignment of policy and actions to the SME charter and acquis communautaire.	1,795,125.00	Strengthening the Ministry of Economy, Labour and Entrepreneurship and the Croatian Agency for SMEs, to ensure they are able to develop policies and provide support to SMEs, in line with EU standards.
1	Technical Assistance to the Central Bureau of Statistics of the Republic of Croatia (CBS) in the Adoption of the acquis	1,700,000.00	Strengthening the institutional capacity of the Central Bureau of Statistics.
1	Technical Assistance to the Central Bureau of Statistics of the Republic of Croatia (CBS) in the Adoption of the acquis-Twinning-development component CBS	1.269.011,61	Providing assumptions for the establishment of new organisational structure in the Central Bureau of Statistics.
1	Technical Assistance to the Central Bureau of Statistics of the Republic of Croatia (CBS) in the Adoption of the acquis-upgrading of subject-matter statistics	1.120.576,90	Providing methodological framework for the establishment of new organisational structure in the Central Bureau of Statistics.
3	Equipment for Central Bureau of Statistics (CBS) of the Republic of Croatia	390,944.00	Strengthening the capacity of the Central Bureau of Statistics (CBS) in the adoption of the statistics acquis by procuring equipment that will facilitate business processes in the aforementioned institution.
1	Technical Assistance to Ministry of Environmental protection, Physical Planning and Construction of the Republic of Croatia for Enhanced environmental inspection for enforcement of new environmental legislation	1,468,400.00	Enhancement of the environmental inspection with the aim of enforcement of provisions stipulated by existing and new environmental laws as harmonized with EU legislation.
3	Supply of Equipment for Enhanced Environmental Inspection for Enforcement of New Environmental Legislation	576,625.12	Enhancement of capacity of the environmental inspection by installing appropriate equipment.
1	Institutional Building and Implementation of NATURA 2000 in Croatia	1,319,250.00	Reinforcement and further development of the NATURA 2000 in the Republic of Croatia and strengthening the capacity of the State Institute for Nature Protection to enable it to provide data on biodiversity to the European Environment Agency (EEA) through the Croatian Environment Agency.
3	Supply of Equipment for Institutional Building and Implementation of NATURA 2000 in Croatia	276,712.29	Supply of equipment needed for quality development and implementation of nature protection policy in Croatia, in accordance both with national and the EU environmental acquis.
1	Supply of Equipment for Development of Nature Protection Information System (NPIS) and Institutional Building for Monitoring of Biodiversity Indicators	15,787.95	Supply of field and office equipment needed for biodiversity monitoring and equipping the information - education centre for large carnivores.
1	Strengthening Human Resources Management, Education and Training at the Ministry of the Interior, technical assistance	105,121.00	Supply of human resource management information system.
1	Strengthening Human Resource Management, Education and Training at the Ministry of the Interior, Twinning	1,280,000.00	Strengthening human resource management, education and training at the Ministry of the Interior with the aim of increasing the overall efficiency and staff motivation.
4	Supply of equipment for the Police Academy	289,212.60	Strengthening human resource management, education and training at the Ministry of the Interior.
1	Implementation of the Schengen acquis-Twinning	1,000,000.00	Strengthening capacities of the Border Police in order to enhance implementation of measures under the Schengen acquis.
4	Supply of Equipment for the Implementation of the Schengen Acquis	2,640,430.00	Further development and strengthening of the Ministry of Interior in order to prepare it for implementation of measures under the Schengen acquis.



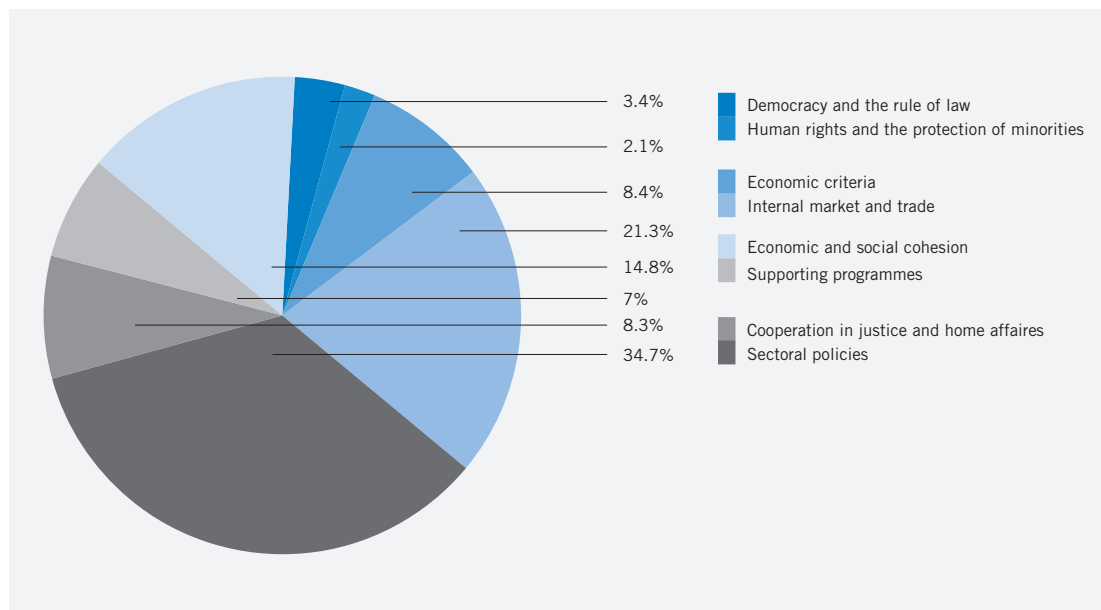
Number of contracts	Project title	Contracted amount (EUR)	Objectives
1	2	3	4
1	Capacity Building Facility	1,317,000.00	Improvement of planning and implementation of PHARE/IPA funds in Croatia to speed up the implementation of the acquis communautaire. The project includes technical assistance for feasibility studies, training in programming, project design and project management, and the preparation of projects, technical specification, procurement plans, tender dossiers and environmental impact assessments.
1	Strengthening and enhancement of Croatian Tax Administration in the field of audit	170,514.00	Preparation of Tax Administration officials for complex job of auditing large taxpayers and for implementation of acquis communautaire in taxation area.
1	Strengthening of Rail transport directorate-access to the rail infrastructure and establishment of paying, contracting and regulatory authority	180,780.10	Strengthening of Rail transport directorate-access to the rail infrastructure and establishment of paying, contracting and regulatory authority in line with the acquis communautaire.
1	Training of the police officers of the Ministry of the Interior of the Republic of Croatia in the field of bomb investigations and EOD/IED (Explosive Ordnance Disposal/Improvised Explosive Devices) Techniques and Tactics	230,590.15	Support to the Ministry of Interior in strengthening its capacity in the field of combating the terrorism.
1	Improvement of the Ministry of Interior System in the Fight against Corruption	149,983.00	Further strengthening of institutional capacities of the Ministry of Interior by undertaking best practices in the EU member states on important areas for fight against corruption.
1	Support to the Ministry of Economy, Labour and Entrepreneurship in the implementation of an SME Pilot Grant Scheme	198,750.00	Support to the project implementation unit in the Ministry of Economy, Labour and Entrepreneurship in the implementation of the Phare 2006 SME Pilot Grant Scheme and the enhanced programming and grant management capacity of the beneficiaries.
1	Integrative Supervision in the Education and Teacher Training Agency	167,890.00	Improvement of quality control in the education system in accordance with the EU standards.
1	Support to the Ministry of the Interior in preparing Project/Tender Documentation for Transit Aliens Reception Centre	85,477.00	Support to the Ministry of Interior in preparation of project/tender documentation for two transit aliens reception centres and special department for minors within them.
1	Capacity Building in the Veterinary Directorate - Improvement of Establishments for Food Production and Introduction of Food Safety Standards	195,326.43	Assistance to the competent bodies for efficient implementation of the EU legislation in the area of food safety in line with the EU standards.
1	Support to SAPARD/IPARD Agency for improvement of SAPARD/IPARD programme implementation	199,250.00	Support to the SAPARD/IPARD Paying Agency in improvement of SAPARD programme implementation.
1	Strengthening the capacities of the post and telecommunications directorate through support in drafting legislation in the field of consumer protection and enforcement of its best EU practices	164,015.00	Increasing transparency of telecommunication service tariff systems, increasing the standard of protection of consumers from third-party abuse via telecommunication services and networks, drafting a part of the sub legislation which will follow the adoption of the new Croatian Electronic Communications Act, all in line with the best practices of the EU.
1	INTRASTAT	145,253,26	Provision of a methodological framework for establishment of the INTRASTAT system in Croatia. It is necessary to align the statistics of exchange of goods with third countries, and to introduce to the Croatian statistics system the new research, INTRASTAT, which monitors the exchange of goods within the EU member countries.
1	Capacity Building of the Council for Civil Society Development and the Government Office for Cooperation with NGOs - Technical Assistance	39,300.00	Strengthening capacities of the Council for Development of Civil Society and the Government Office for Cooperation with NGOs for establishment of the strategic framework for programming of the pre-accession assistance programmes in the field of civil society organisations, with the aim of fostering cooperation between them.
1	Strengthening of the Public Procurement Office regarding the coordinative function and establishment of coherent framework for public procurement	185,481.00	Strengthening the role of the Public Procurement Office regarding establishment of the coherent framework for public procurement.



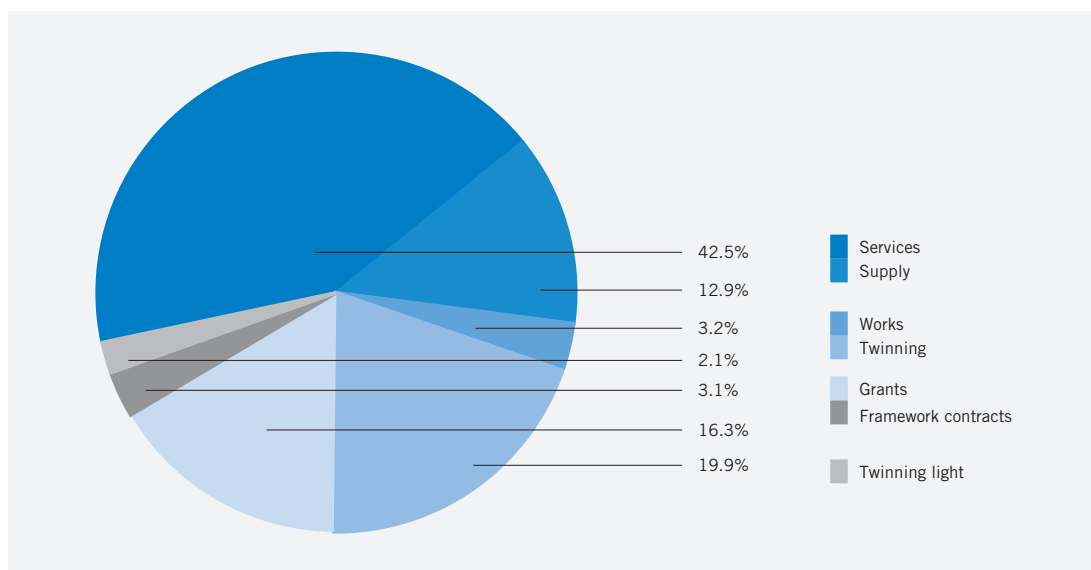
Number of contracts	Project title	Contracted amount (EUR)	Objectives
1	2	3	4
1	Support in development of Strategy for implementation of Digital Terrestrial Broadcasting Services in Croatia	141,990.00	Support to the working group in charge of development of strategy for implementation of digital terrestrial broadcasting services in Croatia. The aim is to develop the best strategy for introduction of digital television with regard to present conditions analysed within the SWOT analysis and opinion poll.
1	Strengthening of the Agriculture Inspection and further alignment of legislation with the acquis	249,999.00	Improvement of the agricultural inspection system to enforce the legislation aligned with the acquis and international standards.
1	Upgrading of long-term Veterinary and Phytosanitary Border Inspection Posts	198,268.00	Preparation for further activities of the IPA project in 2008 and 2009 which will include reconstruction of three long term phytosanitary and veterinary border inspection posts.
1	Support to Sanitary inspection in the preparation, implementation and maintenance of HACCP System	200,000.00	Training of sanitary inspection for implementation of the HACCP System.
1	Croatian Maritime Sector: Access to Market and State Aid	178,688.00	Creation of the explicit overview of legislation so far aligned with the acquis communautaire, related to market access, state aid and cabotage in the Croatian maritime sector.
1	Support in drafting the strategy for development of social tourism in Croatia	100,170.00	Drafting the development strategy of social tourism in Croatia, examining possibilities and discovering advantages thereof.
7	Business related infrastructure grant scheme under Phare 2005 Programme	9,422,923.33	Efficient absorption of the Phare programme related to economic and social cohesion for the period 2005-2006, the Instrument for Pre-Accession Aid (IPA) starting from 2007 and, upon accession, Cohesion and structural funds for mitigation of internal and external differences between regions.
TOTAL		63,836,661.46	

Source: Ministry of Finance

Figure 8.3 Funds of the Phare 2005 National Programme Projects by Sector



Source: Ministry of Finance

**Figure 8.4 Phare 2005 national programme- Contracts by type**

Source: Ministry of Finance

8.2.3 ISPA Measures Implementation

8.2.3.1 Establishment of the Implementation System

The instrument for Structural Policies in the Pre-accession Period (ISPA) provides⁴⁰ the financial support for investment in transport and environmental protection sectors with the purpose of speeding up the process of the harmonization of the candidate country legislation with the *acquis communautaire*. Pursuant to the Council Regulation⁴¹ of December 20, 2004 amending the Council Regulations No. 3906/89, 1267/1999, 1268/1999 and 2666/2000, and taking into account the status of the Republic of Croatia as a candidate country, the Republic of Croatia was given the opportunity to use the funds from the ISPA programme.

As according to articles no. 53 and 56 of the Financial Regulation⁴² of 2002, the decentralized implementation system had to be accredited prior to use of the EU pre-accession funds, the Croatian authorities established the implementation system which was officially granted accreditation on the basis of the Commission Decision⁴³ of February 13, 2006 on the conferring management of aid provided under ISPA. Thereby, the prerequisites for the use of ISPA funds were formally met.

According to the aforementioned Decision, the role of the implementation agency was given to the Central Financing and Contracting Unit at the Ministry of Finance, which will, based on the EC rules, administrate tender procedures and make payments under the terms of contracts signed.

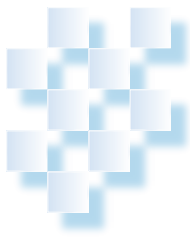
The European Commission Delegation (ECD) retains the control function (the so-called *ex-ante* control) within the decentralized implementation system, which means that, in the course of tender procedures and contracting its approval is necessary. The DEC, however, does not bear responsibility for the implementation of a particular tender procedure, for which the CFCU i.e. the beneficiary country is entirely in charge. While making payments under the terms of contracts signed with service providers, contractors and equipment suppliers, the ECD approval is not necessary and all the payments are carried out directly based on the established rules valid for a particular procurement type.

⁴⁰ Instrument for Structural Policies for Pre-Accession

⁴¹ Council Regulation (EC) No 2257/2004 of December 20, 2004 amending Regulations (EEC) No 3906/89, (EC) No 1267/1999, (EC) No 1268/1999 and (EC) No 2666/2000, to take into account of Croatia's candidate status

⁴² Council Regulation (EC, Euratom) No 1605/2002 of June 25, 2002 on the Financial Regulation applicable to the general budget of the European Communities, page 17-18; also see the article 35 of Commission Regulation (EC, Euratom) No 2342/2002 of December 23, 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities

⁴³ Commission Decision of February 13, 2006 conferring management of aid provided under the Instrument for Structural Policies for Pre-Accession to an Implementing Agency in Croatia on a decentralized basis



8.2.3.2 ISPA Measures (Projects) in the Republic of Croatia

On January 30, 2006 in Vinkovci, the Government of the Republic of Croatia and the European Commission signed two financing memoranda for the following measures: 'Karlovac Water and Waste Water Programme' and 'Vinkovci to Tovarnik to State Border Railway Rehabilitation'. On August 26, 2006 the Financing Memorandum for the measure 'Support to the Central Finance and Contracting Unit (CFCU) and National ISPA Coordinator (NIC)' was signed. On October 26, 2006 three further memoranda were signed concerning the following measures: 'Bikarac Regional Waste Management Centre - Šibenik', 'IPA Project Pipeline Preparation (transport)' and 'IPA Project Pipeline Preparation (environmental protection)'.

The Financing Memorandum for the measure 'Karlovac Water and Waste Water Programme' was signed in the total amount of EUR 36 million, of which the amount of EUR 22.5 million (62.5%) refers to the funds from ISPA, the amount of EUR 3.5 million (9.7%) refers to the national share (secured in the budget of the Republic of Croatia), while the remaining EUR 10 million (27.8%) refers to the EBRD loan secured by the final beneficiary (with the interest of 6% and the repayment period of 15 years with a grace period of 3 years). The final beneficiary of the funds is the Water Works and Sewage System Karlovac.

The measure 'Karlovac Water and Waste Water Programme' consists of three aspects of water management - water supply, collection of waste waters and purification of waste waters. The entire investment refers to five main elements (water supply system, main sewage collector and pumps, secondary and tertiary sewage system, new facility for purification of waste waters, technical and operational assistance). It is expected that the project will result in significant improvements in quality and purity of water in the Mrežnica, the Korana and the Kupa rivers. The project will also generate new employment, especially in the construction phase.

Taking into account the share of funds provided by ISPA and the relatively short implementation period, in cooperation with the EC, the EBRD and the CFCU, it has been decided that the EU implementation rules would be applied.

The Financing Memorandum for the abovementioned measure envisages 6 contracts as follows:

1. Service contract for technical assistance
2. Service contract for supervision of construction works
3. Works contract for construction of WWTP plant in Karlovac

In the course of 2007 activities of the abovementioned contracts were focused on finalization of the tender dossier. It is expected that after launching the tender, tender applications would be received and contract award procedure would be carried out resulting in the award of the tendered contract.

4. Works contract for construction and refurbishment of wastewater collectors, pumping stations and water pipes
5. Supply contract for sewer maintenance equipment
6. Supply contract for technical support equipment

The tender dossier will be finalised during 2008 since the need for equipment which is the object of procurement appears in the moment of finalization of works contracts.

The Financing Memorandum for the measure 'Vinkovci to Tovarnik to State Border Railway Rehabilitation' was signed in the amount of EUR 75.761 million. The European Commission will co-finance the project from ISPA in the amount of EUR 28.789 million (38%), while the remaining funds are secured in the state budget (EUR 46.972 million). The final beneficiary of the project is the Croatian Railways.

The measure 'Vinkovci to Tovarnik to State Border Railway Rehabilitation' involves six categories of construction and reconstruction work (Permanent Way, Electrification, Signalling, Level Crossings, Telecommunications and Stations).

The purpose of the work is the improvement of line speed from the present 40 km/h to 160 km/h (with the exception of two speed restrictions due to route geometry constraints). For that reason, the reconstruction and modernization of the signalling damaged during the war, and



the reconstruction and modernization of the existing equipment to achieve the abovementioned line speed was envisaged. The electrification will bring about re-positioning of Overhead Line Equipment (OLE) along the entire section to the Serbia-Montenegro border to be compatible with track improvements and alignments. The construction will involve six level crossings, ten stations and the restoration of the line-side telephone system infrastructure.

The Financing Memorandum for the abovementioned project envisages three contracts as follows:

1. Works contract for civil engineering, track and electrification works on the section Vinkovci - Tovarnik - state border
2. Works contract for signalling and telecommunication works
3. Service contract for supervision of the construction works

In the course of 2007 activities of the abovementioned contracts were focused on finalization of the details of main projects in line with instructions and suggestions of international experts who have contributed to the project before all in the area of harmonizing parts of the tender dossier with the most recent technical solutions that are being used in the field. Tender dossiers had been finalized and, after publication of tenders, the CFCU has started the contract award procedure applying tender and contracting procedure rules being applied by the European Commission.

The Financing Memorandum for the measure 'Bikarac Regional Waste Management Centre - Šibenik' was signed in the total amount of EUR 8,823 million, of which EUR 6 million (68%) is the funds from ISPA programme while the remainder was financed from national public funds (EUR 2,823 million).

The construction of the Regional Waste Management Centre located in Bikarac (12 km southeast of Šibenik) is a pilot project aimed at establishing the integrated waste collecting system at the regional level. Namely, the intention is to obtain an agreement regarding waste collection on the local level of municipalities and cities in the Šibenik-Knin region, even before the construction of the aforementioned center, so that the waste collected would be transported to the regional center for further sorting and possible recycling. Apart from the regional center in Bikarac which can be considered as the first phase, the project in its second phase plans the construction of local transfer stations in Pirovac and Oklaj as well as the introduction of waste processing technology with the purpose of obtaining industrial raw materials which would reduce waste disposal costs, especially of cumbersome waste, and, more importantly, protect natural resources.

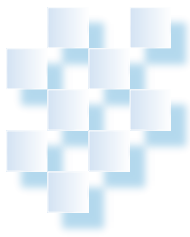
The Financing Memorandum for the abovementioned project envisages three contracts as follows:

1. Service contract for technical assistance
- After finalization of the tender dossier for this contract, in 2007 the contract award procedure was carried out. On the basis of proposal of the successful tenderer made by the CFCU, the ECD approved the procedure and on October 1, 2007 the contract was signed with the selected company in the amount of EUR 169,890.00.
2. Service contract for works supervision
3. Service contract for public relations
4. Supply contract for supply of equipment for the RWMC
5. Works contract for construction works - Bikarac (Stage I)
6. Works contract for construction works - Pirovac

In the course of 2007 activities of the abovementioned contracts were focused on finalization of the tender dossier and obtaining approval from the ECD which is a pre-condition for launching a tender and, afterwards, contract award procedure.

The Financing Memorandum for the measure 'IPA Project Pipeline Preparation in the Sector of Transport' was signed in the total amount of EUR 741,738, of which EUR 482,130 (65%) derives from ISPA funds while the remainder is secured in the state budget (EUR 259,608).

In accordance with the National strategy of railroad transport development in the Republic of Croatia, the priority is the modernization of the Transeuropean Railroad Network in the Corridor X which partly passes through our country. A smaller part of this traffic route will be modernized



using the funds from the ISPA fund of the European Commission. The future planning and expansion of the railroad will, however, require technical assistance in the preparation of tender dossier. This support will be the foundation for all the future contracts aimed at the realization of numerous infrastructural projects of modernization of the railroad network in the Republic of Croatia which will be co-financed by the European Commission funds or by the Instrument for Structural Policies for Pre-Accession (ISPA fund).

The Financing Memorandum for the abovementioned project envisages three contracts as follows:

1. Service contract for refinement of the National IPA⁴⁴ Transport Strategy

Since the national strategy drafted by the line ministry (Ministry of the Sea, Tourism, Transport and Development) during 2007 was positively appraised by the European Commission Services, it was resolved that there is no need for this type of technical assistance. Therefore, a decision on re-assignment of funds to other components within this Financing Memorandum was made.

2. Service contract for feasibility study, cost benefit analysis, financial analysis and environmental impact assessment along railway Corridor X

In the course of 2007 activities of the abovementioned contract were focused on finalization of the tender dossier and obtaining approval from the ECD as a pre-condition for launching a tender.

3. Service contract for preliminary design of the Zapresic-Savski Marof section of railway Corridor X

In 2007 the preparation of tender dossier did not occur since it depends on the precise location of the abovementioned railway section which will be known after adoption of the part of the Strategy of Transport Interconnectivity Development in the County of Zagreb which is expected to be adopted in 2008.

The Financing Memorandum for the measure 'IPA Project Pipeline Preparation in the Sector of Environmental Protection' was signed in the total amount of EUR 1.464 million, of which EUR 966,306 (66%) derives from the ISPA funds and the remainder will be secured from national public funds (EUR 497,694).

In the process of accession of the Republic of Croatia to the EU one of the priorities is the harmonization of national legislation with the *acquis communautaire* in the sector of environmental protection, with special emphasis on water management and waste disposal. The funds secured within this Memorandum will provide for expert technical assistance in the preparation of documentation for further projects in the aforementioned sectors. These projects entail significant investments in infrastructure and will also apply for financing from the European Commission budget within forthcoming funds.

The Financing Memorandum for the abovementioned project envisages four contracts as follows:

1. Service contract for the refinement of the IPA Environmental Strategy including preparation of a project pipeline

Since the national strategy drafted by the line ministry (Ministry of Environmental Protection, Physical Planning and Construction) during 2007 was positively appraised by the European Commission Services, it was resolved that there is no need for this type of technical assistance. Therefore, a decision on re-assignment of funds to other components within this Financing Memorandum was made.

2. Service contracts for the preparation of water supply projects (water/waste water)

3. Service contracts for the preparation of waste water projects (waste water/ water)

4. Service contracts for the preparation of waste projects.

In the course of 2007 activities of the abovementioned contracts were focused on finalization of the tender dossier and execution of the contract award procedure.

The Financing Memorandum for the measure 'Support to the Central Finance and Contracting Unit (CFCU) and National ISPA Coordinator (NIC)' was signed in the total amount of EUR 262,335, all of which are the funds from the ISPA programme.

⁴⁴ IPA (Instrument for Pre-Accession Assistance)



The aim of this measure is to provide active support to the ISPA implementation agency (the Central Financing and Contracting Unit) through the engagement of expert technical assistance as the process of development and control of tendering documentation occasionally requires special expertise. The excellent quality of tender documentation can be the decisive element in the process of selection of the best bid which satisfies all the technical parameters of a particular project, especially during the contract implementation, technical control of the implementation and the financial management of the project. This form of assistance from the European Commission enables the engagement of teams of experts with specialized professional expertise which can contribute to the development of projects when the need arises. Furthermore, a part of funds is intended for the development of the communication and visibility plan regarding the ISPA fund, the non-repayable funds given to the Republic of Croatia and the general raising of public awareness of benefits that the accession can bring.

The Financing Memorandum for the abovementioned project envisages four contracts as follows:

1. Service contract for support to the NIC

After finalization of the tender dossier for this contract, during 2007 the contract award procedure was carried out. On the basis of proposal of the successful tenderer made by the CFCU, the ECD approved the procedure and on June 6, 2007 the contract was signed with the selected company in the amount of EUR 49,300.00.

2. Service contract for support to the CFCU and NIC (Croatian Railways)

After finalization of the tender dossier for this contract, during 2007 the contract award procedure was carried out. On the basis of proposal of the successful tenderer made by the CFCU, the ECD approved the procedure and on March 14, 2007 the contract was signed with the selected company in the amount of EUR 70,900.00.

3. Service contract for support to the CFCU and NIC (Karlovac)

After finalization of the tender dossier for this contract, during 2007 the contract award procedure was carried out. On the basis of proposal of the successful tenderer made by the CFCU, the ECD approved the procedure and on October 15, 2007 the contract was signed with the selected company in the amount of EUR 70,860.00.

4. Service contract for support to the CFCU and NIC (Bikarac)

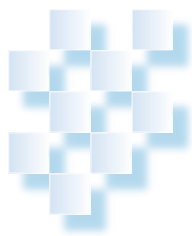
After finalization of the tender dossier for this contract, during 2007 the contract award procedure was carried out. On the basis of proposal of the successful tenderer made by the CFCU, the ECD approved the procedure and on October 11, 2007 the contract was signed with the selected company in the amount of EUR 70,900.00.

8.2.4 Instrument for Pre-Accession Assistance

At the meeting of the EU Council of Ministers in the formation of General Affairs and External Relations Council (GAERC) on July 17, 2006, the Regulation on the Instrument for Pre-Accession Assistance for the period from 2007 to 2013 was adopted.

Through the IPA programme EU pre-accession assistance will be allocated to candidate countries (Croatia, Turkey and Macedonia) and to potential candidate countries (Albania, Bosnia and Herzegovina, Montenegro and Serbia including Kosovo) for their convergence to the EU, with membership as the potential final objective. The funds for the entire period and for all user states amount to EUR 11.5 billion. With the Regulation on IPA, the existing EU pre-accession instruments - PHARE, ISPA and SAPARD, pre-accession instrument for Turkey and CARDS are being united and replaced. The regulation came into force on August 1, 2006 and the formal implementation thereof started on January 1, 2007.

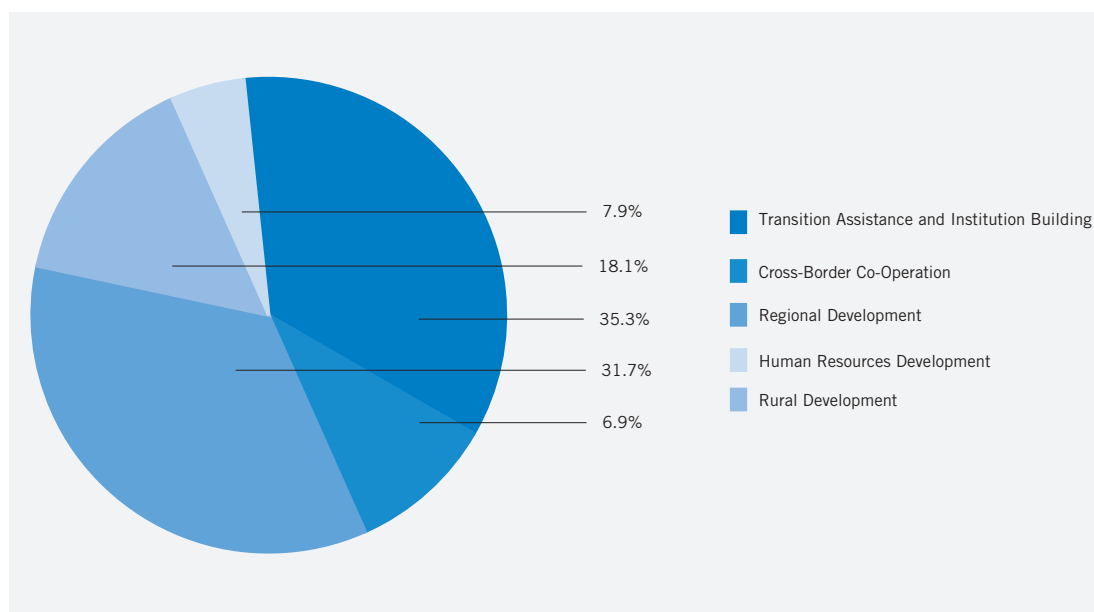
The IPA programme, as an integrated instrument replacing the CARDS programme and pre-accession programmes Phare, ISPA and SAPARD used by the Republic of Croatia during the previous period, becomes available to the Republic of Croatia as of 2007. For the implementation of the IPA programme in the period to 2010, the European Commission has secured the amount of EUR 5.7 billion. For the Republic of Croatia the amount secured for the said period is EUR 589.9 million, starting with EUR 140.5 million in 2007 with a planned annual growth, which would amount to EUR 154.2 million in 2010.



The IPA programme consists of the following five components according to which the EC has planned the allocation of funds in Croatia, as follows:

- Transition Assistance and Institution Building - EUR 49.6 million
- Cross-Border Co-Operation - EUR 9.7 million
- Regional Development - EUR 44.6 million
- Human Resources Development - EUR 11.1 million
- Rural Development - EUR 25.5 million

Figure 8.5 Financial Allocation for the IPA Programme in the Republic of Croatia in 2007



Source: Ministry of Finance

The European Commission approved Operational Programmes of all of the IPA components during the programming phase in 2007, which means that it has been arranged which measures to finance out of which programme component.

In the course of 2007 the Operating Structure in charge of management of the IPA programme was defined. Namely, bodies and individuals responsible for managing of the IPA programme in Croatia were appointed by the Government Regulation on the Scope and Contents of Responsibilities and the Authority of Bodies Responsible for Managing the Instrument for Pre-Accession Assistance ('Official Gazette', number 18/2007) and the Government Decision on the Appointment of Individuals Responsible for Managing the Instrument for Pre-Accession Assistance 7 ('Official Gazette', number 18/2007).

Organizational structure for managing and implementation of the IPA programme is based on those legal acts. All of the involved institutions intensively work on preparation activities for the accreditation of the system by the European Commission.

The Central Financing and Contracting Unit, which is, alongside the SAPARD Agency, the only body accredited by the EC for the implementation of the EU pre-accession programmes so far, is included in the operating structures of the decentralized implementation system for the IPA programme, especially as the implementation body for the first component (Transition Assistance and Institution Building) and as a part of the operating structure for the component II (Cross-Border Co-Operation) and component III (Regional Development).

The following activities are expected to be carried out in 2008: the finalization of the preparation for accreditation of the system as well as the accreditation of the system itself, signing of financing memoranda, commencement of activities related to tender dossier preparation and launching the tender procedures.



8.3 EX-ANTE STATISTICS

Decentralised Implementation System is based on the ex-ante approach. In essence, this system includes providing the formal approval by the Authority (the European Commission Delegation in the Republic of Croatia) before it becomes binding for the parties stipulated in the particular document (the document cannot have prejudicial effect on the EU budget until the authorised body provide its approval.) The ex-ante system within CARDS, Phare, ISPA and SAPARD programmes was based on the following modalities:

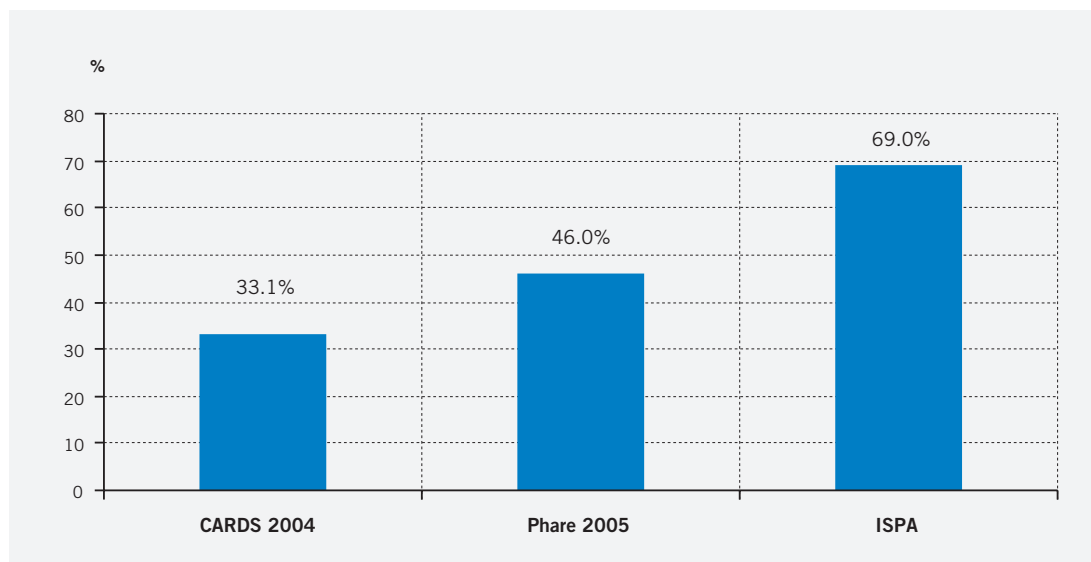
Positive Decision / Approval - the document submitted for approval is not subject to any condition; the document becomes formal and, in some cases, executive (contracts).

Conditional Decision (approval under conditions) - the documentation contains defaults of low significance; upon elimination of those defaults the document is considered to be approved (without obligation of repeated submission for approval).

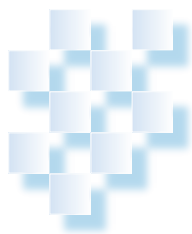
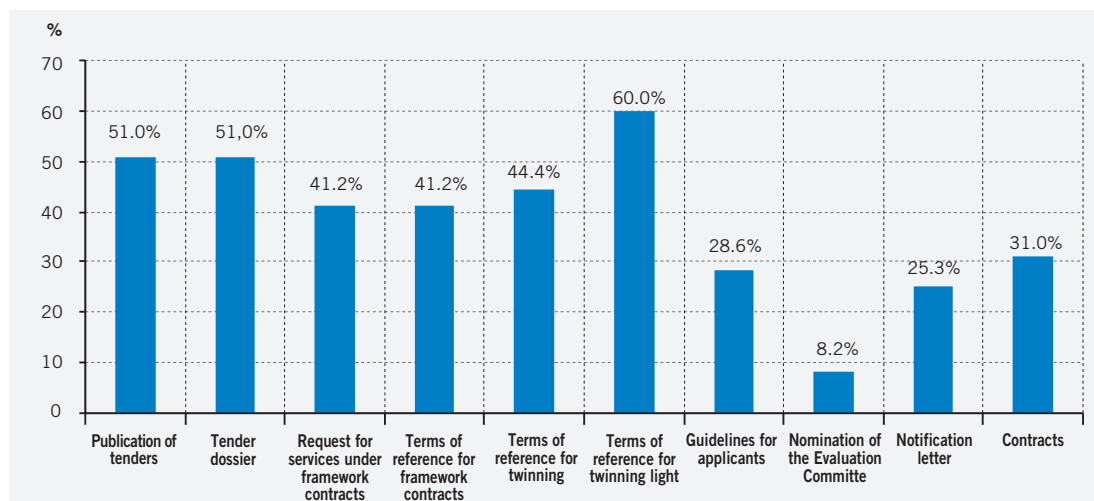
Negative Decision / Rejection - defaults contained in the submitted document are numerous and of significance for the functionality of the document; upon corrections it is necessary to resubmit the document for approval.

As a result, the CFCU has formed the statistics of transactions based on ex-ante system. The statistics has been the starting point for creation of so-called control lists - comments sent to the CFCU by the body authorised for providing ex-ante approvals have been thoroughly analysed and incorporated into the system of control. Statistics demonstrated in figures 8.2.-8.5. is based on the most frequent transactions. However, it is important to note that in the ex-ante practice there is a large number of other documents for which prior approval is assumed. For the purpose of presentation, the modalities 'conditioned approval' and 'approval' have been aggregated. The presentation is based on the coverage of 100% of all transactions (the stock as of December 31, 2007).

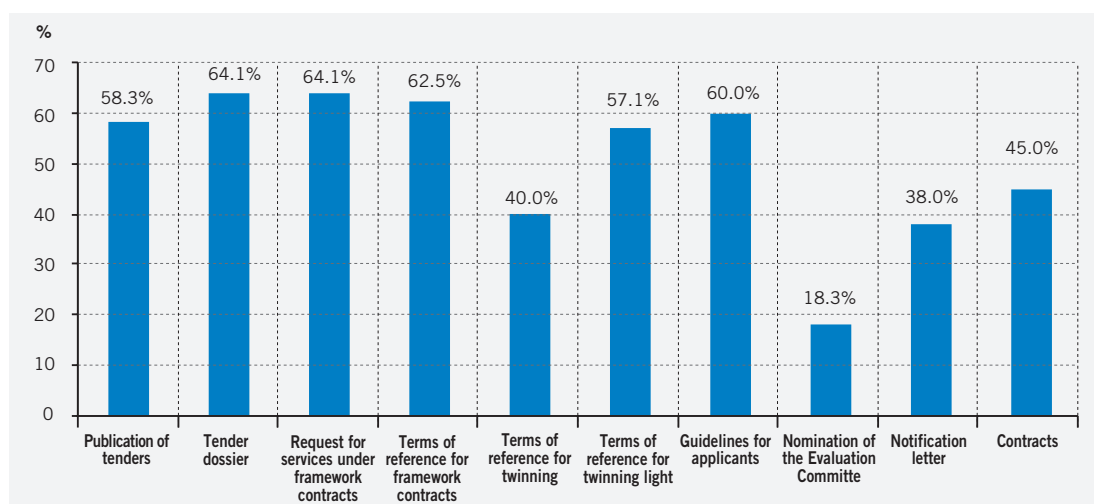
Figure 8.6 Total Amount of Rejections in 2007



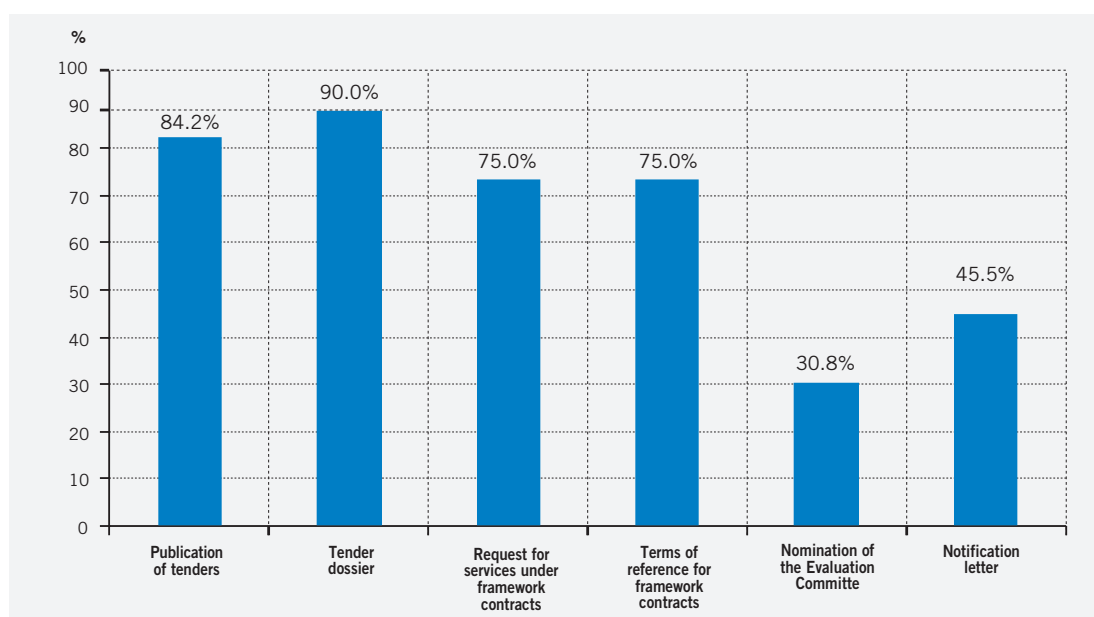
Source: Ministry of Finance


Figure 8.7 Percentage of Rejections by the Type of Documents for the CARDS 2004 Programme


Source: Ministry of Finance

Figure 8.8 Percentage of Rejections by the Type of Documents for the Phare 2005 Programme


Source: Ministry of Finance

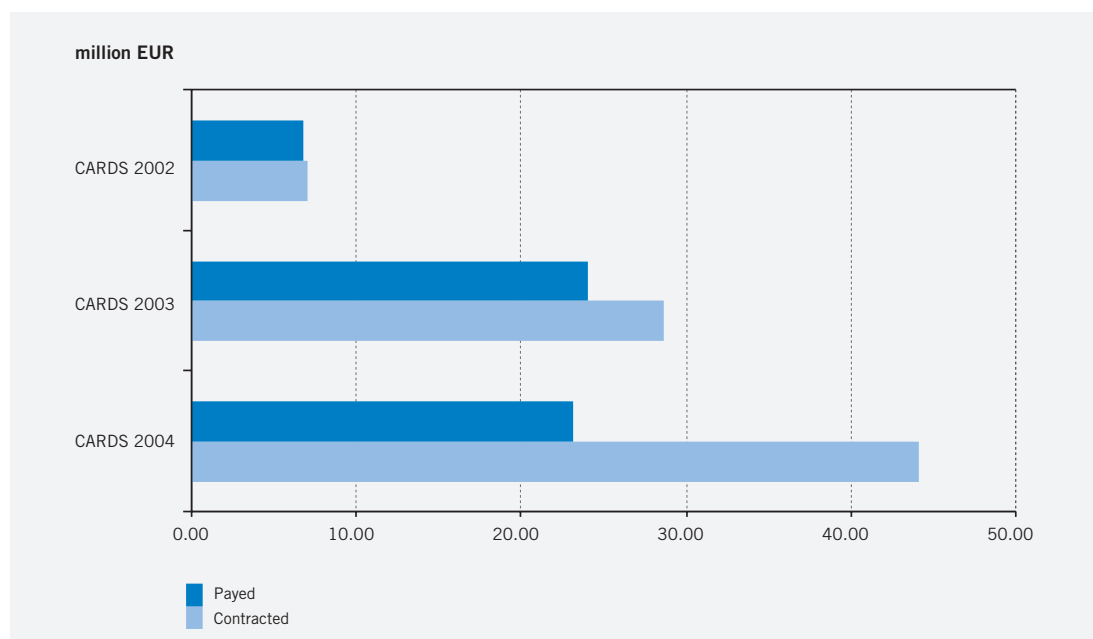
Figure 8.9 Percentage of Rejections by the Type of Documents for the ISPA Programme


Source: Ministry of Finance



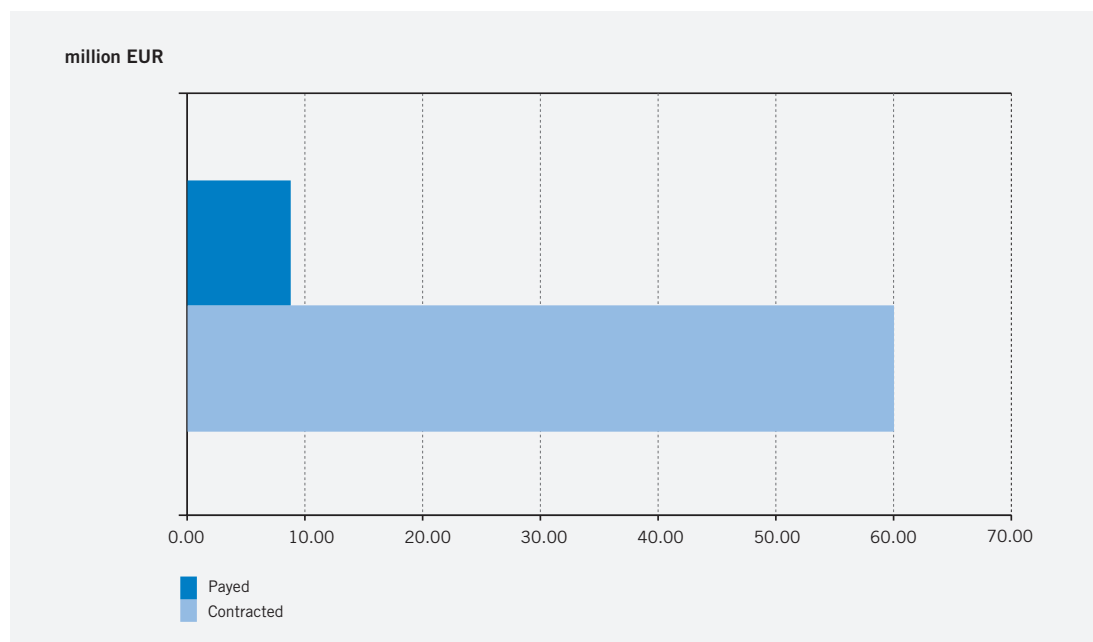
8.4 THE OVERVIEW OF CONTRACTING AND PAYMENTS FOR CARDS, PHARE, ISPA AND CBC

Figure 8.10 Overview of Payments for CARDS 2002, 2003 and 2004 Programmes

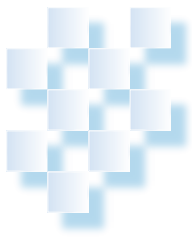
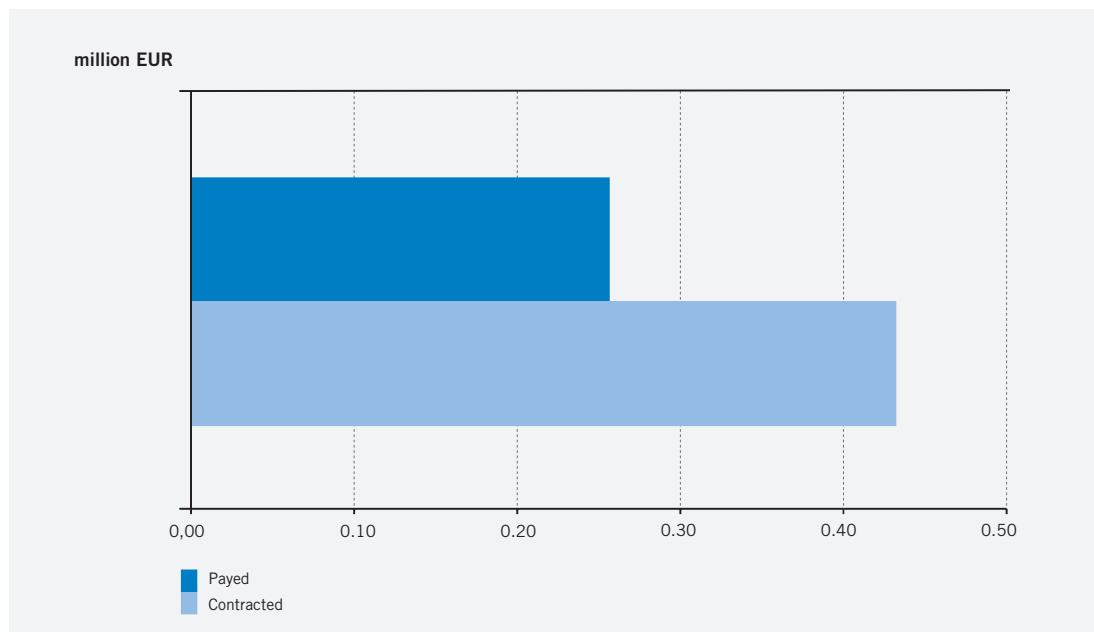


Source: Ministry of Finance

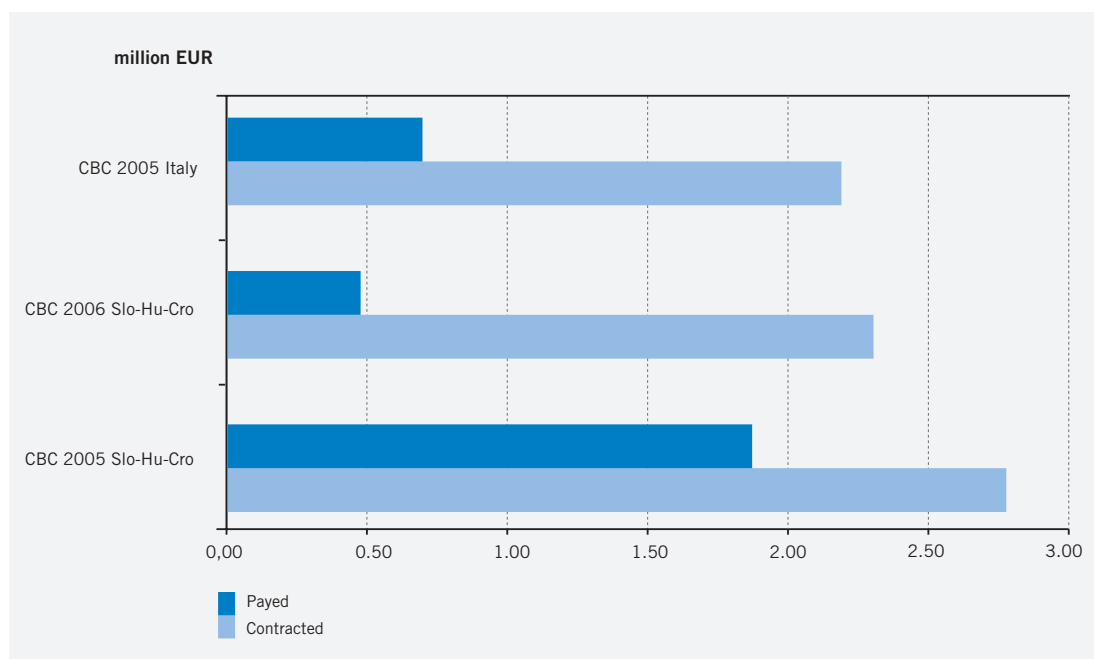
Figure 8.11 Overview of Payments for the Phare 2005 Programme



Source: Ministry of Finance

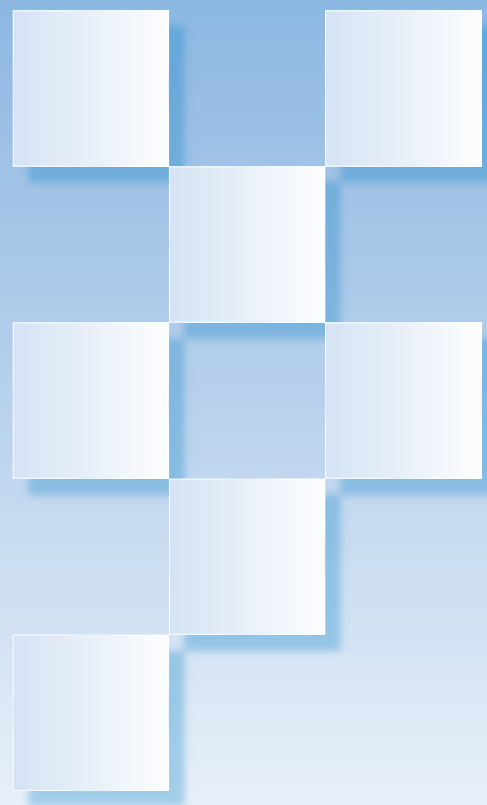
**Figure 8.12 Overview of Payments for the ISPA Programme**

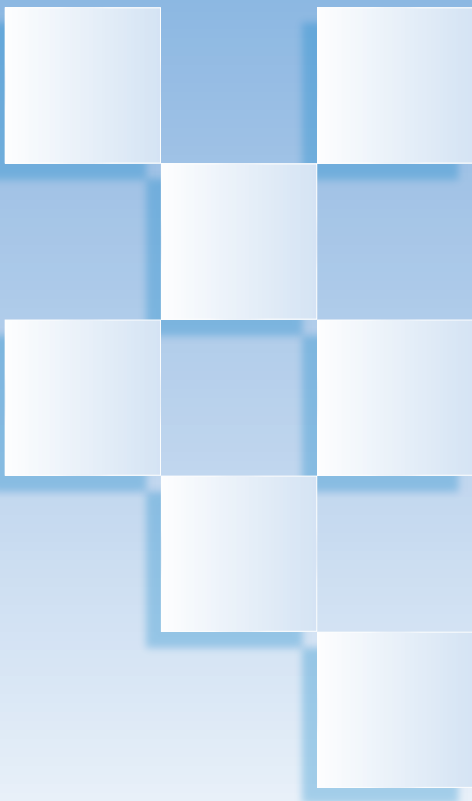
Source: Ministry of Finance

Figure 8.13 Overview of Payments for the CBC (Cross-Border Co-Operation)

Source: Ministry of Finance

9
**REPORT ON THE
ACTIVITIES OF THE
ECONOMY DIRECTORATE
IN 2007**



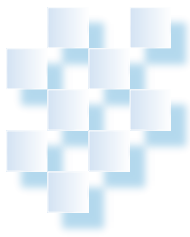




9.1 INTRODUCTION

As an organizational unit within the Ministry of Finance, in 2007 the Economy Directorate conducted a range of activities in different areas of its domain (public enterprises, state aid, natural disasters, concessions, public private partnership).

Activities and work of the Economy Directorate were oriented towards carrying out its obligations in the area of monitoring of public enterprises and enterprises of special state interest, meeting the obligations in the area of implementation of the state aid system, obligations related to negotiations with the European Union and alignment of national legislation with the *acquis communautaire*, preparing opinions on proposals of recovery and restructuring of enterprises with difficulties and other different economic entities, implementation of the Act on Protection from Natural Disasters, upgrading of the system and applying the register of concessions in practise and implementation of public-private partnership (PPP) system in the Republic of Croatia.



9.2 PUBLIC ENTERPRISES

9.2.1 Reports on Operations of Public Enterprises and Enterprises of Special State Interest

Economy Directorate prepared quarterly, semi-annual and annual reports on operations of state owned public enterprises and predominantly state owned public enterprises.

The Annual Report on Operations of Predominantly State Owned Public Enterprises is sent for adoption to the Government of the Republic of Croatia by the Ministry of Finance.

The mentioned Report for 2007 was prepared as a parallel overview of 2006 and 2007 accounting periods for chosen public enterprises.

The main characteristic of operations for twenty public enterprises in 2007 was an increase in total revenues by 5.8 percent and a parallel increase in expenditures by 5.5 percent in comparison with 2006.

Total profit in 2007 stood at HRK 1,420.9 million and increased by 15.9 percent in comparison with the previous year.

From the total of twenty state owned and predominantly state owned public enterprises, nineteen made profit in 2007.

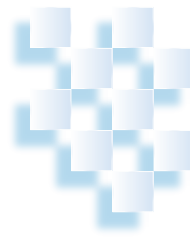
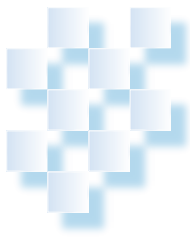


Table 9.1 Total Revenues, Total Expenditures, Profit/Loss for the Selected State Owned and Predominately State Owned Public Enterprises for 2006 and 2007

No.	PUBLIC ENTERPRISE	REVENUES 06	REVENUES 07	07/06	EXPENDITURES 06	EXPENDITURES 07	07/06	PROFIT 06	PROFIT 07	07/06	LOSS 06	LOSS 07	07/06
1	Hrvatske željeznice*	3,871,100	3,711,250	95.9	3,855,800	3,685,300	95.6	15,300	25,870	169			
2	Hrvatska elektroprivreda Grupa	10,351,651	10,913,428	105.4	10,033,531	10,806,436	107.7	241,878	26,006	11			
3	Hrvatske šume Ltd	2,381,485	2,236,255	93.9	2,352,121	2,164,997	92.0	29,364	64,915	221			
4	Jadrolinija	790,188	854,112	108.1	785,474	849,939	108.2	3,484	2,333	67			
5	Hrvatska pošta	1,573,817	1,678,395	106.6	1,572,148	1,677,152	106.7	1,669	1,243	74			
6	Narodne novine	482,787	426,186	88.3	460,073	397,774	86.5	16,205	21,262	131			
7	HRT	1,505,699	1,489,663	98.9	1,500,902	1,483,989	98.9	590	1,266	215			
8	INA - Industrija nafte	22,353,100	24,021,663	107.5	21,509,339	22,821,234	106.1	669,484	990,305	148			
9	Ploput Ltd	60,094	78,065	129.9	62,537	70,374	112.5		7,008		2,443		
10	Croatia Airlines Ltd	1,510,383	1,537,275	101.8	1,478,861	1,536,236	103.9	31,522	1,039	3			
11	Hrvatske ceste Ltd	136,622	183,642	134.4	136,622	183,642	134.4	0	0				
12	Hrvatske autoceste Ltd	1,199,359	1,278,263	106.6	1,199,359	1,278,263	106.6	0	0				
13	Autocesta Rijeka - Zagreb	446,701	480,401	107.5	439,553	544,652	123.9	7,148		0		64,251	
14	JANAF	342,252	360,107	105.2	305,610	310,001	101.4	36,642	39,427	108			
15	Vjesnik	236,919	255,533	107.9	253,804	246,278	97.0		9,255		16,885		
16	ACI	137,909	148,505	107.7	128,980	136,859	106.1	8,929	9,984	112			
17	Hrvatska Lutrija Ltd	411,995	469,904	114.1	355,524	411,473	115.7	44,904	46,169	103			
18	Hrvatske vode	2,042,560	2,511,963	123.0	2,032,096	2,454,574	120.8	10,465	57,389	548			
19	Croatia osiguranje	3,230,658	3,486,756	107.9	3,106,052	3,349,135	107.8	105,077	109,560	104			
20	Odašiljači i veze	260,619	272,979	104.7	256,443	262,133	102.2	2,952	7,896	267			
	Total:	53,325,898	56,394,345	105.8	51,824,829	54,670,441	105.5	1,225,613	1,420,927	115.9	19,328	64,251	332.4

Source: Financial reports of public enterprises

* HRVATSKE ŽELJEZNICE consolidated (5 enterprises - HŽ Infrastruktura d.o.o., HŽ Putnički prijevoz d.o.o., HŽ Cargo d.o.o., HŽ Vuča vlakova d.o.o., HŽ Holding d.o.o.)



An Annual Report on Operations of Public Enterprises of Special State Interest with a share of state ownership, set out by the Decision of the Government of the Republic of Croatia, was prepared for the Ministry of Finance.

Furthermore, the Economy Directorate prepared the Report on Business Plans of Predominantly State Owned Public Enterprises, with a purpose of estimating the expected amount of funds which will be paid into the State Budget of the Republic of Croatia and as a basis for the making of a parallel overview of semi-annual and annual operations reports (plan/realization).

With the aim of making a high quality and transparent report on public enterprises and enterprises of special state interest, the method of analytical reporting with an extended scope of evaluation and monitoring of financial indicators, data on the structure of ownership, distribution of profits and payments into the State Budget on the basis of dividends was improved.

Within the Statistical Report of the Ministry of Finance, the Economy Directorate published quarterly financial reports (Balance, Profit and Loss Account) and data on overdue trade payables and overdue trade receivables of chosen public enterprises (Hrvatske željeznice Ltd., Hrvatska elektroprivreda, Hrvatske šume Ltd., Hrvatska pošta, Narodne Novine, Jadrolinija, Ploput Ltd., Croatia osiguranje).

9.2.2 Recovery and Restructuring Programmes

As a part of activities related to restructuring and consolidation of business entities, in 2007 the Economy Directorate prepared a series of opinions on proposals for recovery and restructuring of enterprises with difficulties and other economic entities, based on legislative framework (the Law on State Aid, OG, 140/05 and Regulation on State Aid, OG, 50/06). Apart from the point of view of state aid, the Economy Directorate looked into certain topics from the point of view of detailed economic analyses with the purpose of preparing a final opinion i.e. proposal of the measure for rehabilitation and assistance to enterprises with difficulties, primarily having in mind any possible implications for the State Budget of the Republic of Croatia.

9.2.3 Other Activities

Regarding the assumed obligation from the last Stand-by Arrangement, the Economy Directorate has continued the monitoring of dynamics of repayments of liabilities (from long term and short term loans) of chosen public enterprises (Hrvatske željeznice Ltd., Hrvatska elektroprivreda, Hrvatske šume Ltd., Hrvatska pošta, Hrvatska radiotelevizija, Jadrolinija, Croatia Airlines Ltd.) and of new borrowing, with a purpose of continuous insight into their developments.

The monitoring of dynamics of repayments of liabilities is carried through at the monthly level by an overview in form of a table of the set categories (repayments and borrowings from domestic and foreign banks), individually and on aggregate level.

Within monitoring of the data on structure of ownership and share of state ownership in the base capital, the Economy Directorate prepared a Register which consists of 878 enterprises from the state portfolio which are included in the register of Croatian Privatization Fund (state on 31 December 2007). The updating of the mentioned register is carried out according to the changes made to the portfolio of Croatian Privatization Fund.

Within "Development and Alignment of Statistics System in the Area of National Accounts of General Government and Related Statistics" CARDS project, the Economy Directorate actively participated in collecting of the data and in activities with the aim of alignment of national statistics system with European legislation, based on European Statistics Code, as well as in establishing of statistics system with maximum efficiency in the area of national accounts of general government and related statistics.



9.3 STATE AID

9.3.1 Regulatory Framework

Regulatory framework for the supervision of state aid system of the Republic of Croatia consists of the State Aid Act (OG, 140/2005) and the Regulation on State Aid (OG, 50/2006) and, on the basis of the Regulation and NPPEU for 2008, decisions on publishing of the list of rules on state aid and decisions on publishing of the text of those rules in Croatian language in Official Gazette.

For the purpose of implementation of internationally assumed obligations of the Republic of Croatia, State Aid Act and Regulation on State Aid have been adopted.

By the State Aid Act (Official Gazette, No. 140/2005), the general conditions and rules of approving, implementation monitoring and refund of state aid are regulated, so that the general framework of the system is aligned with European *acquis communautaire*.

By the Regulation on State Aid (Official Gazette, No. 140/2005), the rules on state aid from European *acquis communautaire* are published in the Official Gazette in the original and translation into Croatian, with special provisions regarding appliance, and all in the form of decision of the Government of the Republic of Croatia.

This way, a complete transparency, a simpler possibility of interpretation and the preparation of beneficiaries and providers of the state aid for appliance of these rules after the accession to the European Union are achieved.

9.3.2 Activities of the Committee for Monitoring and Preparing of Announcement of the List of Rules and Rules on State Aid

Pursuant to Article 5 of the Regulation on State Aid, minister of finance appointed the Committee for Monitoring and Preparing of Announcement of the List of Rules and Rules on State Aid as an expert authority of five members, responsible exclusively for permanent monitoring and expert preparation of the drafts of decisions on announcement of the list of rules and rules on state aid.

In accordance with the accessibility of translation of rules on state aid, the Committee for Monitoring and Preparing of Announcement of the List of Rules and Rules on State Aid proposes decisions on rules to the Government of the Republic of Croatia, via the Ministry of Finance.

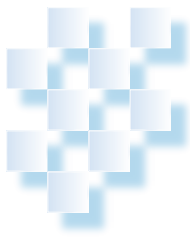
The Government of the Republic of Croatia adopted the Decision on Announcement of the List of Rules on State Aid at the end of 2006 (OG, No. 121/06).

In 2007, the Government of the Republic of Croatia adopted the Decision on Announcement of Rules on State Aid for Recovery and Restructuring (OG, No. 20/07), Decision on Announcement of Rules on State Aid of Small Value (OG, No. 45/07), Decision on Announcement of Rules on State Aid for Research, Development and Innovations (OG, No. 84/07), Decision on Announcement of Rules on State Aid for Environmental Protection (OG, No. 98/07) and Decision on amendments to the Decision on Announcement of the List of Rules on State Aid (OG, No. 45/07) and (OG, No. 13/08).

The remaining rules are planned for announcement during 2008.

The realization of announcements of rules in 2008, which is set out in the appendix to NPPEU for 2008, will depend on the announced translations of rules by the Ministry of Foreign Affairs and European Integration.

The decisions on announcements of rules are adopted and published within the planned deadlines. The rules that have not yet been published are practically already being applied in the Croatian legislation as an instrument of interpretation, considering the legal effect of regulations of SSP and the special status of the article 70 of SSP within that international agreement which is above the law regarding its legal effect. In accordance with that regulation, Croatia is obliged to apply the interpretation rules implied by the *acquis communautaire* in the area of market competition by the coming into force of the Temporary Agreement i.e. by 1 March 2002.



9.3.3 State Aid (Subsidies) - Implementation Activities in 2007

For many years, the state aid reform has been based on implementation activities of the Government of Croatia which primarily refer to implementation of the plan of reduction of state aid with the intention of a decrease of the amount of sectoral aid (subsidies) and its reorientation to horizontal objectives which maximizes economic effects and at the same time produces minimal negative effects on market competition.

Through the medium term plan of decrease in subsidies based on PAL program of the World Bank, and in accordance with medium term fiscal framework, positive developments regarding the decline in subsidies to enterprises, which is one of the primary objectives of the PAL program, have been recorded in the previous period.

Based on implementation obligations and activities of the Economy Directorate, the regular analyses of developments of subsidies for individual sectors of the economy was carried out and monthly, quarterly and annual reports were prepared for the World Bank and the Ministry of Finance.

In accordance with the mentioned implementation measures, the level of subsidies was reduced from 2.66 percent of GDP in 2005 to 1.99 percent of GDP in 2007 (according to the preliminary data of the Ministry of Finance).

In 2007 the total amount of subsidies stood at HRH 5.4 billion which is a 90 - percent realization of the plan for that period.

At the end of 2007 horizontal subsidies stood at HRK 989.5 million (18.6 percent of the total) and were mostly realized in the area of small and medium size enterprises and exports.

The intention of further horizontal subsidizing, like in the previous years, is based on an additional increase of their share in total subsidies and highest possible quality of allocation of resources with a purpose of speeding up of economic growth and convergence to the EU trends.

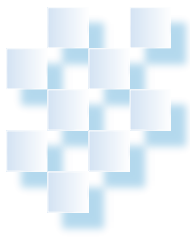
At the end of the observed period, the sectoral subsidies amounted to HRK 2.8 billion which is more than 50 percent of the total amount of subsidies. They were, like in the previous years, spent mostly in the areas of transport, shipbuilding and railways.

**Table 9.2 Overview of State Aid (Subsidies) for 2007**

DESCRIPTION	2007 Projection	I - XII 2007 Execution	Total I - XII in 2007 Projection
A	B	C	D
Research and development	150,000,000	49,939,609	33.29
Environment	49,185,000	32,590,320	66.26
SMEs	250,000,000	285,310,631	114.12
Energy savings	37,268,000	8,891,175	23.86
Employment	350,000,000	260,982,758	74.57
Export	339,400,000	301,216,759	88.75
Other	170,000,000	50,601,480	29.77
Total horizontal	1,345,853,000	989,532,732	73.52
Sectoral subsidies			
Ironworks	0	0	
Shipyards	382,200,000	386,100,000	101.02
Railways	1,308,708,000	1,655,699,841	126.51
SGEI railways	417,000,000	417,000,000	100.00
Transport	594,210,000	601,534,166	101.23
SGEI transport	493,960,000	517,894,721	104.85
Trade	0	0	
Other manufacturing	100,000,000	0	0.00
Tourism	300,000,000	136,418,165	45.47
Restructuring	0	0	
Culture	13,500,000	13,200,000	97.78
Other	100,000,000	24,121,072	24.12
Total sectoral	2,798,618,000	2,817,073,244	100.66
Total sectoral and horizontal	4,144,471,000	3,806,605,976	91.85
Of which <i>de minimis</i>	42,000,000	114,570,280	272.79
Total sectoral and horizontal (reduced by <i>de minimis</i>)	4,102,471,000	3,692,035,696	90.00
BDP	268,452,000,000	273,763,000,000	101.98
GDP share (sect. and horiz.)	1.53	1.35	88.25
Total private and restructured	2,500,000,000	2,280,000,000	91.20
Restructuring of enterprises	1,300,000,000	1,080,000,000	83.08
Guarantees and restructuring of shipyards	1,200,000,000	1,200,000,000	100.00
GDP share (privatization and restructuring)	0.93	0.83	89.43
Local	500,000,000		
Privatization revenues	1,200,000,000	523,849,211	43.65
Shipyards rest. before privatization			
Total subsidies (PAL)	5,902,471,000	5,448,186,485	92.30
Total share of GDP	2.20	1.99	90.51

Further step of the reform of state aid is expected to be the implementation of measures in the area of privatization of enterprises from the portfolio of Croatian Privatization Fund which are in the final phase of privatization, with the emphases on enterprises from the portfolio of tourism.

In that context, the started reform of state aid will be oriented, besides already mentioned activities, on activities which will provide the Republic of Croatia with new comparative advantages and, in general, generate general development and economic growth.



9.4 NATURAL DISASTERS

9.4.1 Natural Disasters

Protection from natural disasters in the Republic of Croatia is regulated by the Act on Protection from Natural Disasters (Official Gazette 73/97) and partially also by other acts like: Act on Protection and Rescue, Waters Act, Act on Hail Protection System, Fire Protection Act, Construction Act and number of accompanying subordinate regulations.

The system of providing assistance functions at local and regional self-government levels, as well as at the state level, usually for direct damages in agriculture which are not insured by insurance companies.

Natural persons (exceptionally, legal persons also) in the local self-government units have the right of assistance from the state budget, if the confirmed value of total direct damage is higher than 20 percent of the value of the local self-government unit's budget for the previous year, or if a disaster caused the reduction of the yield of individual agricultural crop or multi-year plantation by more than 30 percent per hectare compared to previous three-year's average in the county where natural disaster was declared.

9.4.2 Damages Notification

Each county has a County Committee for Evaluation of Damage from Natural Disasters which collects the data, brings it together and delivers it to the State Committee.

The State Committee for the Evaluation of Damage from Natural Disasters is an independent authority with the head office in the Ministry of Finance, and is made up of a president and ten members appointed by the Croatian Parliament. The assistance is granted in the form of non-refundable funds from the state budget. The Secretary of the State Committee is the head of the Economy Directorate at the Ministry of Finance.

The task of the Committee is providing financial and other assistance to natural and legal persons for the purpose of alleviation and elimination of the consequences of natural disasters.

9.4.3 Providing Assistance

Providing assistance to the damaged party is carried out by the criteria laid down by the Act on Protection from Natural Disasters (Official Gazette 73/97), depending on the funds in the state budget allocated for this purpose.

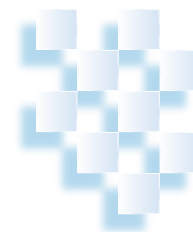
In 2007, the State Committee for the Evaluation of Damage from Natural Disasters received around 500 requests for financial assistance for alleviation of damages from hail, storm, drought, flood, voles and fire from 19 counties (all except the City of Zagreb and County of Karlovac), in the total amount of HRK 3.2 billion.

19 counties (all except the City of Zagreb and County of Karlovac) have declared the state of natural disaster during 2007 and some of them have declared it several times. First estimates of total damages were reported in the amount of HRK 2.8 billion while the final damages were reported in the amount of HRK 3.2 billion and confirmed in the amount of HRK 2.9 billion.

For the first time the final damages surpassed first estimates because the damages from hail were declared several times and damages from drought i.e. damages on autumn crops followed by damages on spring crops and ponds.

At the proposal of Ministry of Agriculture, Fisheries and Rural Development the assistance was provided to 314 damaged parties for partial compensation for direct damages in crop production as a result of drought on following crops: (mercantile corn, mercantile soybean, forage crops, mercantile oats and oil pumpkins) which were 30 to 100 percent damaged, and ponds - freshwater fishing (carp ponds) for all reported damages. The assistance was provided in the total amount of HRK 141,751,683.72.

Also, the assistance was provided for indirect damages in cattle production (incentives for cattle, pigs, horses and donkeys, sheep and goats, rabbits, poultry, breeding heifers and young female goats) and to non commercial agricultural industries users of income assistance. The assistance was provided in the total amount of HRK 308,470,632.00.

**Table 9.3 Overview of Reported and Confirmed Damages**

No.	COUNTY	Final reported damages	Confirmed damages	Amount of assistance for damages in agriculture
0	1	2	3	4
1	COUNTY OF ZAGREB	95,207,795.83	71,625,331.90	5,610,934.54
2	COUNTY OF KRAPINA-ZAGORJE	13,870,505.20	12,692,897.85	0.00
3	COUNTY OF SISAK-MOSLAVINA	97,526,084.81	95,228,826.62	8,795,360.93
4	COUNTY OF KARLOVAC	0.00	0.00	0.00
5	COUNTY OF VARAŽDIN	148,422,519.48	148,039,597.02	7,305,921.10
6	COUNTY OF KOPRIVNICA-KRIŽEVCI	136,844,028.92	134,240,513.60	12,006,792.34
7	COUNTY OF BJELOVAR-BILOGORA	218,493,076.71	217,538,171.73	22,792,154.48
8	COUNTY OF PRIMORJE-GORSKI KOTAR	8,025,644.57	3,608,190.30	0.00
9	COUNTY OF LIKA-SENJ	21,666,851.58	2,245,737.65	0.00
10	COUNTY OF VIROVITICA-PODRAVINA	524,850,193.31	520,292,725.38	12,447,448.71
11	COUNTY OF POŽEGA-SLAVONIJA	122,206,447.82	101,096,667.68	5,532,369.34
12	COUNTY OF SLAVONSKI BROD-POSAVINA	104,270,253.05	98,986,552.11	5,697,260.99
13	COUNTY OF ZADAR	3,106,101.35	2,781,656.51	0.00
14	COUNTY OF OSIJEK-BARANJA	716,757,095.40	690,619,790.27	36,072,486.83
15	COUNTY OF ŠIBENIK-KNIN	7,557,979.23	7,232,592.77	0.00
16	COUNTY OF VUKOVAR-SRIJEM	252,412,760.97	262,377,766.42	16,531,627.53
17	COUNTY OF SPLIT-DALMIJA	39,027,018.17	32,775,640.39	0.00
18	COUNTY OF ISTRA	244,990,628.89	200,324,394.41	1,835,918.45
19	COUNTY OF DUBROVNIK-NERETVA	272,358,415.91	206,675,504.41	0.00
20	COUNTY OF MEĐIMURJE	143,135,094.32	132,152,874.75	7,123,408.48
21	CITY OF ZAGREB	0.00	0.00	0.00
	TOTAL	3,170,728,495.52	2,940,535,431.77	141,751,683.72

Source: According to the final data of the County Committee confirmed by the Ministry of Agriculture, Fisheries and Rural Development

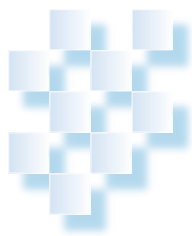
An overview of reported and confirmed damages in crop production of natural or legal persons, as a result of hail, storm, drought, flood, voles and fire in 2007, sorted by the reports of County Committees.

9.4.4 Spent Funds

For the activities A539025 of compensations for damages caused by natural disasters, HRK 38,000,000.00 was planned in 2007. HRK 10,441,000.00 was spent in the beginning of the year, HRK 10,000,000.00 was additionally ensured by the budget revision and the amount of HRK 381,441,000.00 was remitted after the reallocation of funds which altogether amounts to HRK 419,000,000.00.

Apart from the mentioned funds, due to amendments to Decisions, a further HRK 40,000,000.00 was transferred to the Ministry of Agriculture, Fisheries and Rural Development from the funds of the budget reserve of the Ministry of Finance.

The total of HRK 458,439,001.00 was spent for damages caused by droughts, direct or indirect.


Table 9.4 Spent Funds

No.	Planned in the State Budget for 2007	38.000.000,00
1	Spent by the Decision of the Government of the Republic of Croatia from 16 May 2007	-2,841,000.00
2	Payment of obligations of State Meteorological and hydrological Bureau for hail protection	-7,600,000.00
3	Ensured by Budget revision	10,000,000.00
4	Ensured by the Decision on funds reallocation	381,441,000.00
5	Total available	419,000,000.00
6	Transferred in the MA,F and RD for cattle	-280,017,499.00
7	Transferred in the MA,F and RD for agriculture	-138,421,501.21
8	TOTAL OF SPENT FUNDS	418,439,001.00
9	Budget reserve funds	40,000,000.00
10	TOTAL OF SPENT FUNDS	458,439,001.00
	Not spent funds	560,999.79

Source: Transferred funds from the State Budget for 2007 for Activity 539025 and spent funds according to the Governments' decisions and legal obligations

9.4.5 Structure of the Reported Damages in 2007

The structure of the value of total amount of reported damages amounted to HRK 3,170,728,495,525 in 2007.

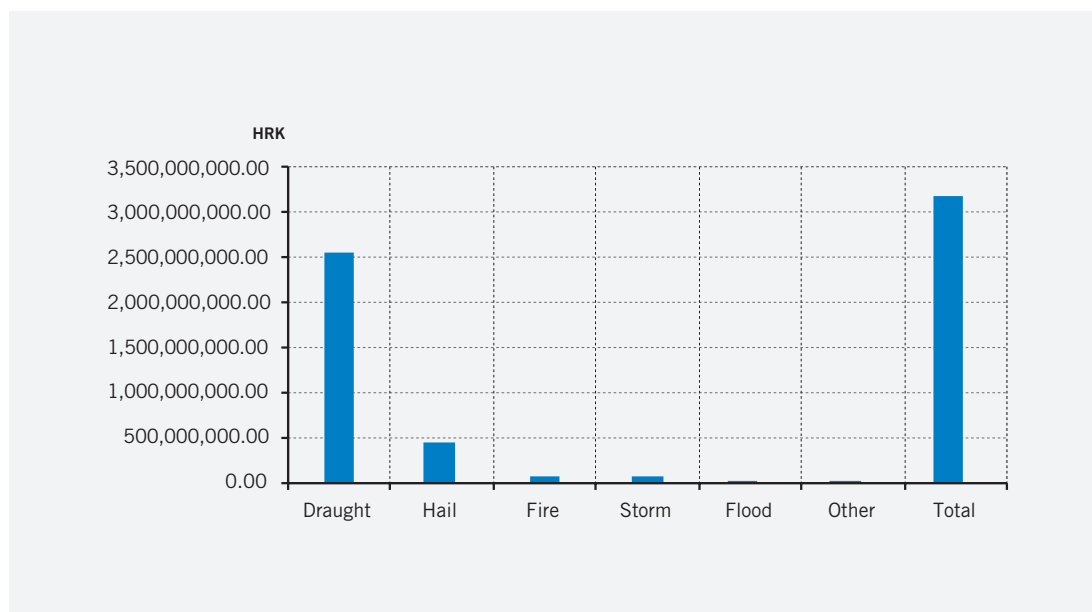
From the total amount of reported damages in 2007, the largest damages were caused by drought with 80.0 percent, hail with 14.3 percent, fire with 2.7 percent, storm with 2.1 percent, flood with 0.4 percent and other disasters (thunder, voles, rainfall and wind) with 0.4 percent.

Due to climate change and inadequate or no protection, the damages from different natural disasters are getting larger, and so is the number of local self-government units that are asking for assistance from the government.

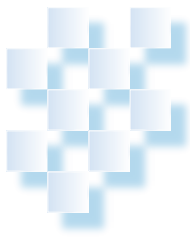
Table 9.5 Structure of the Values of Total Reported Damages in 2007 (in HRK)

No.	Type of natural disaster	Total damages	%
1	Draught	2,538,179,432.25	80.05
2	Hail	454,140,430.38	14.32
3	Fire	86,422,288.20	2.73
4	Storm	65,753,846.79	2.07
5	Flood	13,317,302.06	0.42
6	Other	12,915,195.84	0.41
7	Total	3,170,728,495.52	100.00

Source: According to the final data created and authorized by the County Committees

**Figure 9.1 Structure of the Values of Total Reported Damages in 2007**

Source: According to the final data created and authorized by the County Committees



9.5 CONCESSIONS

Operational functioning of the Register of Concessions started in June 2006 and with its establishment a significant improvement in transparency and the mode of functioning of the system of concessions in the Republic of Croatia was made. Special efforts were put in timely collection of the data on the number of granted concessions and on the record of collection of concession charge in the area of the Republic of Croatia. The procedure of quality improvement of the system will be conducted in the forthcoming periods as well.

9.5.1 Revenues from Concessions Charges in 2007

Revenues from concessions charges are recorded in the state budget as budgetary revenue from nonfinancial assets, apart from revenues from lease and rent of assets, other revenues from nonfinancial assets and road charges. Revenues from concessions charges have the largest share in the revenues from nonfinancial assets and largely influence the movement of this budgetary item.

Table 9.6 Budget Revenues from Concession Charges

	2006	2007	Index '07/'06
January	13,850,094.16	12,541,762.87	90.55
February	40,659,712.48	43,433,429.54	106.82
March	19,046,625.04	22,586,790.26	118.59
April	17,114,085.17	27,789,144.33	162.38
May	7,140,193.94	15,447,146.26	216.34
June	24,941,856.65	26,279,617.58	105.36
July	16,209,476.76	29,838,727.24	184.08
August	28,850,552.47	36,688,191.31	127.17
September	23,726,763.99	28,794,604.15	121.36
October	21,808,455.13	26,480,251.05	121.42
November	26,860,034.38	38,984,358.38	145.14
December	62,059,982.64	1,560,080,346.37	2513.83
TOTAL I-XII	302,267,832.81	1,987,954,645.00	657.68
Average I-VII	25,188,986.07	155,745,364.11	618.31

Source: Ministry of Finance

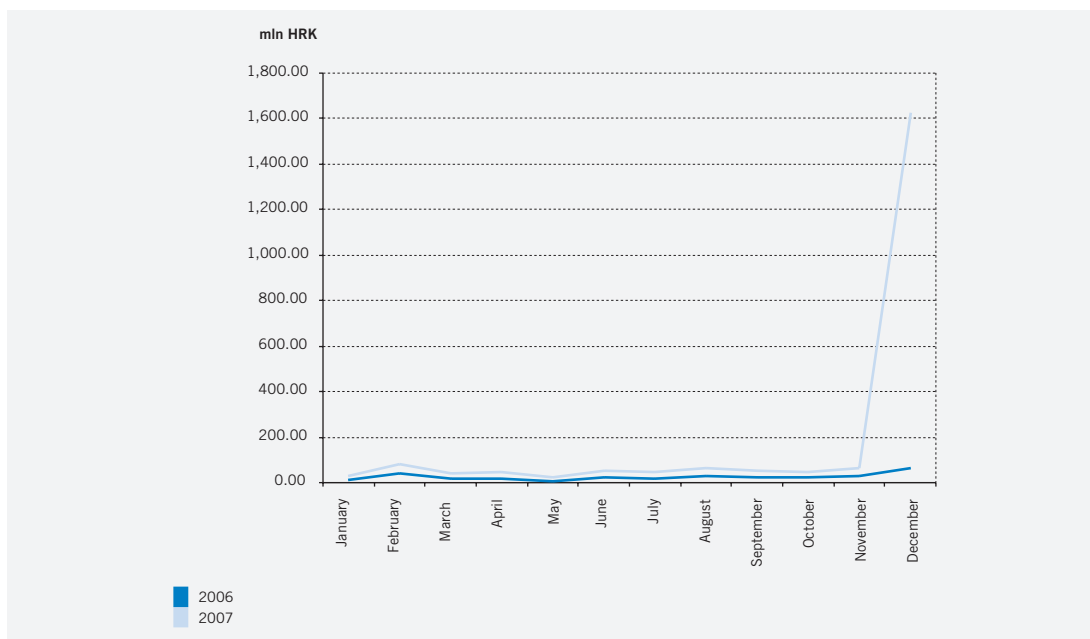
9.5.2 Budgetary Revenues from Concessions Charges

The total realized revenues from concessions charges in 2007 amounted to HRK 1,987.9 million which is six times more than in 2006, when HRK 302.3 million of revenues was recorded.

The average revenue from concessions charges amounted to HRK 155.7 million in 2007, while in 2006 it stood at HRK 25.2 million.

Fluctuations in the level of revenues at monthly level are significant in both observed years, but they shouldn't be considered as important factor for this analysis.

It is especially important to stress the positive effects of introducing of the Register of Concessions, the purpose of which is to improve the efficiency of the system of concessions in the Republic of Croatia, and its control, in charge of which is the Ministry of Finance.

**Figure 9.2 Budget Revenues from Concession Charges (by Months, 2006 -2007)**

Source: Ministry of Finance

9.5.3 Register of Concessions

It is important to point out the positive effects of establishment and updating of the Register of Concessions, whose purpose is improvement of efficiency of the whole system of concessions in the Republic of Croatia.

Ministry of Finance is continuously collecting and recording concessions' contracts from the area of the Republic of Croatia, which are then sent to analysis in the Financial Agency which enables the monitoring of payments of concessionaires according to their contracted obligation.

There are currently 5200 concession contracts in the Register of Concessions, and the data base of the Register is continuously updated by the Ministry of Finance.

In order to complete the overall work on establishment and updating of the Register of Concessions as soon as possible, the Government of the Republic of Croatia also adopted conclusions, which gave additional incentive and support to outstanding efforts of the Ministry of Finance on establishment updating of the Register.

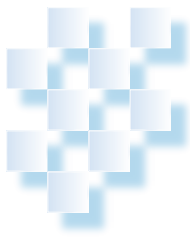
This way, a special significance is given to the Register of Concessions and to the Ministry of Finance, to persist on its establishment so that the overall system of concessions in the Republic of Croatia could promptly be monitored and supervised.

By the establishment of the Register of Concessions, the Ministry of Finance gained a clear insight into overall system of concessions and is currently setting up the control and monitoring of obligations' fulfilment in accordance with the concluded concessions contracts. The Ministry of Finance expects positive effects, primarily in regular monitoring of collection of concession charge, which is the revenue of the state budget, but also the of the budget of local and regional self-government units.

By the conducted activities a clear overview of all concessionaires in the area of the Republic of Croatia is enabled, concerning the data, which are public and prescribed by Ordinance on the Establishment and Management of the Register of Concessions (Official Gazette 164/04), which will help many interested parties (and investors) to understand which types of concessions exist and where and which concession can be granted in the Republic of Croatia.

9.5.4 Revenue from Concessions Charges (by months, 2006-2007)

From the analyses it can be concluded that the dynamics of revenues from concessions charges shows permanent rising trend in the observed period. In accordance with the expected positive effect of the Register of Concessions, a continuation of the mentioned trend can be expected in the future, as well as a higher share of revenues from concessions charges in total state budget revenues.



9.6 PUBLIC-PRIVATE PARTNERSHIP (PPP)

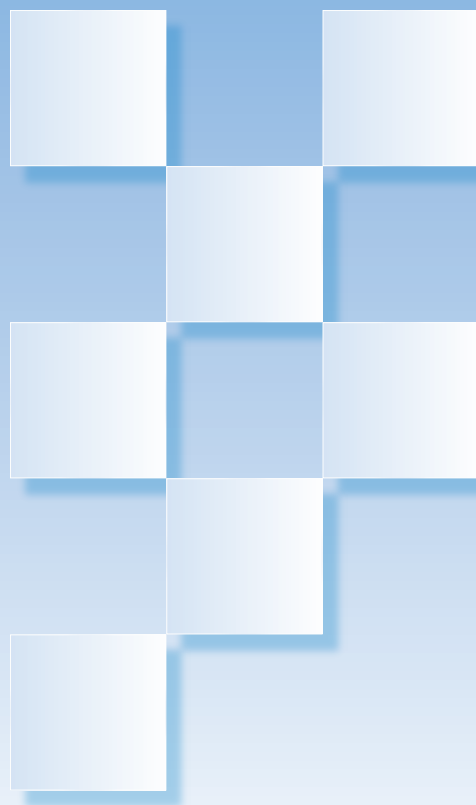
In 2007 the Economy Directorate carried out a series of activities within its domain oriented towards development and implementation of the System of Public-Private Partnership in the Republic of Croatia. These activities are closely related with the ones concerning the negotiations with the EU on Chapter 5 (Public Procurement), a part of which are concessions and public-private partnership. In that context, the Economy Directorate (in the name of the Ministry of Finance) cooperated with the Agency for Export and Investment Promotion, which is in charge of preparing of the Act on Public-Private Partnership, and regularly evaluated the delivered drafts of the Act and provided relevant opinions.

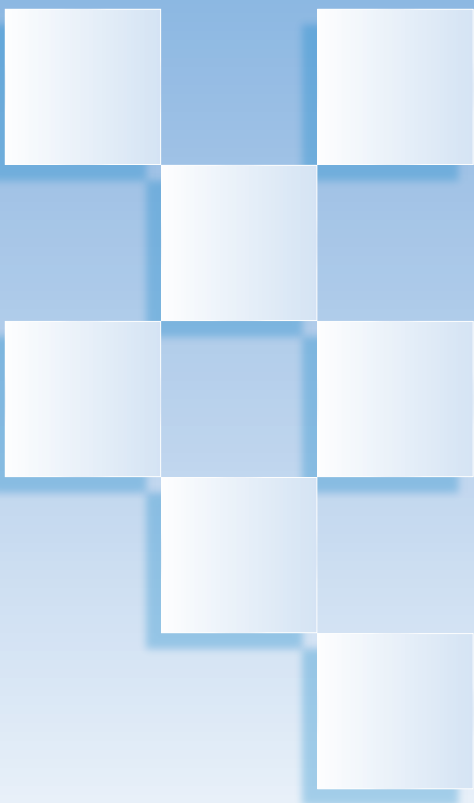
By the adoption of the Act on Concessions and Act on Public-Private Partnership, a transparent and efficient legislative framework for the application of the model of public-private partnership will be established in the Republic of Croatia. These acts will set the foundations of the new institutional framework for PPP with clearly divided powers and operation scopes of the 3 central bodies of the system of PPP: the Agency for PPP, Ministry of Finance and Ministry of Economy, Labor and Entrepreneurship. The Agency for PPP, as the central coordinating body for PPP, will evolve out of the Sector of PP within the Agency for Export and Investment Promotion. In implementation of the Act on PPP, it will closely cooperate with the Ministry of Finance which is in charge of the analyses of PPP project proposals, regarding the fiscal effects and risks and financial sustainability.

Having in mind the above-mentioned operation scope, during 2007 the Ministry of Finance has continuously conducted an intensive professional training of its employees in the area of PPP and carried out a series of activities with the aim of strengthening of administrative capacities for the implementation of the Act. At the same time, the reorganization of internal organizational units was carried out, in order to create additional conditions for professional and efficient implementation of the foreseen operational activities.

By the adoption of the Regulation on Amendments to the Regulation on Internal Organization of the Ministry of Finance in December 2007, the Section for Concessions and PPP is formed within the Economy Directorate and it represents the central internal organization unit of the Ministry of Finance in charge of PPP. By the description of activities of the Section, further activities of the Ministry of Finance regarding PPP were defined. They will primarily refer to activities of coordination related to the realization of projects of PPP regarding budget risks, making suggestions and opinions on proposals of PPP contracts from the point of view of budget risks, and providing of protection and insurance of public partner, conducting analyses, evaluations of projects and risk assessments in the area of implementation of PPP projects, analyzing and monitoring of PPP contract execution and making proposals of measures for improvement of the PPP system.

10
REPORT ON THE ACTIVITIES
OF THE DIRECTORATE FOR
HARMONIZATION OF
INTERNAL AUDIT
AND FINANCIAL CONTROL
IN 2007







10.1 INTRODUCTION

The process of accession to the EU and of alignment with *acquis communautaire* has, among other things, imposed a need to adjust the internal financial control systems of the budgetary users according to the demands for greater efficiency in financial management, controlling, auditing and reporting on the usage of public funds, where the public funds imply both national funds and EU funds.

One of the requirements within the pre-accession negotiations was to adjust and develop our internal financial control system according to the concept of internal financial control systems developed by the EU for that area, based on international standards and good practice of the European countries.

According to the mentioned concept, the internal financial control system or, in short, PIFC (Public Internal Financial Control) represents a conjoint system established by the users of budgetary funds with the purpose of controlling, auditing and reporting on the usage of national funds and the EU funds. It consists of two main components:

- financial management and controls
- internal audit

Financial management and controls is a comprehensive system of internal controls established by the heads of budget users, who are also held responsible for it. The heads of budget users, by means of risk management, ensure that, in the process of achieving goals, the budgetary and other resources are being used in a proper, ethical, economical, effective and efficient way. This means they will be used in accordance with the laws and other regulations, safeguarding the resources from loss, misuse and damage. This system encompasses all business transactions, especially ones related to revenues/receipts, expenditure/expenses, tendering procedures and contracting, refunds of amounts paid mistakenly, assets and liabilities. The system of internal controls is implemented by the heads and employees of budget users.

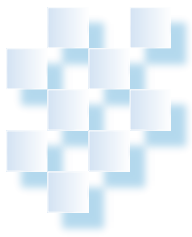
Internal audit is an independent activity which evaluates the systems of internal control, provides independent and objective professional opinion and advice for improvement of the business activity; supports the budgetary user to achieve its goals by means of introducing a methodical and disciplined approach as well as by evaluating and improving the efficiency of risk management, control and overall management processes. It serves the head of unit to achieve goals and gives recommendations in order to establish the managing and control systems in accordance with the rules, standards and principles of good financial management. At the same time it points out irregularities and inconsistencies with laws and other regulations.

According to provisions of Article 3 of the Law on the System of Public Internal Financial Controls⁴⁵ (further in the text: Law), the Ministry of Finance is responsible for the coordination of establishing and development of the system of internal financial controls in the public sector, and the Directorate for Harmonization of Internal Audit and Financial Control of the Ministry of Finance (further in the text: Central Harmonization Unit of the Ministry of Finance) is responsible for the implementation of that coordination.

Central Harmonization Unit of the Ministry of Finance is, among other things, responsible for:

- a) Drafting of laws and bylaws in the area of financial management and controls and internal audit;
- b) Development of methodology and financial management and controls and internal audit standards;
- c) Organization of education for persons responsible for and included in financial management and controls and internal audit;
- d) Coordination of the setting up and development of the internal financial controls system
- e) Keeping and managing of the register of the internal audit units, the register of the charters of internal auditors, the register of the certified internal auditors and the register of the persons included in financial management and controls;

⁴⁵ The Official Gazette, no. 141/06



- f) Managing and verification of the quality of the financial management and controls and internal audit system with the purpose of appropriate monitoring of the recommendations implementation and their compliance by the budget users subject to this Law, and with the aim to collect information for improvement of methodology and work standards.

The Central Harmonization Unit of the Ministry of Finance was established within the Ministry of Finance by the Decree on Internal Organization of the Ministry of Finance in April 2005. By the Decree on Amendments to the Decree on Internal Organization of the Ministry of Finance (The Official Gazette, no. 127/07), the reorganization of the Directorate for Harmonization of Internal Audit and Financial Control was carried out and two services were then formed within the Directorate:

1. Service for Methodology and Coordination of Internal Audit
2. Service for Methodology and Coordination of Financial Management and Control.

The activities carried out in 2007 included the participation of experts from the CARDS 2004 project "Strengthening of the Public Internal Financial Control Structure in the Republic of Croatia" (further in text: CARDS 2004). The Project began in April 2006 as a continuation of the CARDS 2002 Project "Development of Internal Financial Control in the Public Sector and Internal Audit", with a planned duration of two years. The CARDS 2004 Project is aimed at the improvement and further development of the achieved in the field of internal financial controls systems with special emphasis on setting up of the system on the local level.



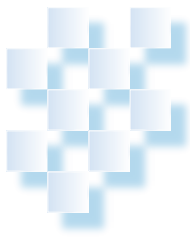
10.2 ACTIVITIES OF THE CENTRAL HARMONIZATION UNIT OF THE MINISTRY OF FINANCE

10.2.1 Joint Activities of Coordination and Development of Internal Audit and of Coordination and Development of Financial Management and Controls

Among the joint activities of the Central Harmonization Unit of the Ministry of Finance during 2007, the following should be emphasized:

- Action plan regarding the activities related to the system of internal financial control in the public sector for the period until the end of 2008, which was accepted by the Government of the Republic of Croatia with a conclusion on 5 April 2007, was made
- Strategy of Independent Development of Internal Financial Control in the Public Sector (PIFC) of the Republic of Croatia for the local and regional self-government units, which was accepted by the Government of the Republic of Croatia with a conclusion on 8 November 2007, was made. The Strategy was sent for acceptance to all the counties and county centers and several county have, during 2007, reached a decision on its acceptance.
- The Government of the Republic of Croatia appointed a president, members and a secretary of the Council for Internal Financial Control in the Public Sector⁴⁶ by a decision on 9 March 2007
- Instruction for the preparation of annual report on the system of public internal financial controls was made and was rendered by the Minister of finance on 15 January 2007.
- The integrated annual report on internal financial control in the public sector in the Republic of Croatia for 2006 was made. The report was discussed by the Internal Financial Control Council and was accepted by the Government of the Republic of Croatia. In May 2007 the Government also adopted conclusions on further activities concerning the setting up of this system.
- During 2007 activities in coordination of setting up and development of financial management and control and internal audit were conducted primarily through holding presentations for officials and top level budget users executives, giving opinions on regulations on internal organization of state administration bodies, answering various questions and other.
- The realization of a series of visits to public administration bodies on state and local level with the purpose of getting acquainted with internal audit and financial management and control (presentations) and with the importance of setting up of internal financial controls system for organization, development and improvement of the mentioned tasks in the stipulated bodies .40 presentations for the introduction to the new Law on the System of Public Internal Financial Controls were held.
- In cooperation with TAIEX, General administration for the budget of the European commission, seminar for the executives "Internal financial control in the public sector - managing responsibility", based on financial management and control and functional independent internal audit was organized in Vodice in September 2007.
- Activities according to the CARDS 2004 "Strengthening of the Public Internal Financial Control Structure in the Republic of Croatia" time plan were conducted, also the progress of CARDS 2004 project was monitored and project of the Delegation of the European Commission to the Republic of Croatia and the Central State Office for Development Strategy and Coordination of EU Funds was reported on.
- Activities concerning the harmonization with the EU *acquis communautaire* for Chapter 32 - Financial supervision were conducted. Chapter 32 was opened in June 2007 and the standard regarding this area, in connection with acceptance and implementation of internal financial controls and adoption of implementing regulations and intervention policy, as well as the building of institutional framework, is being implemented with continuity.

⁴⁶ Official Gazette, no. 27/07



- Activities in connection with reporting obligation of the structures of the Republic of Croatia responsible for carrying out negotiations (in the end of the Government of the Republic of Croatia and the European Commission, on the progress of the Republic of Croatia in the EU accession process in Chapter 32).
- Drafting of the National Program for the accession to the European Union for 2007
- Drafting of self - assessments for Chapter 32 necessary for the preparation of Regularly report of the European Commission on the progress of the Republic of Croatia in the EU accession process (Self-Assessment Report).
- Employees of the Central Harmonization Unit of the Ministry of Finance participated in various domestic and foreign seminars and conferences with the purpose of improving knowledge of internal financial controls and application of best practices in their own systems.
- Together with the Croatian Institute of Internal Auditors a seminar in Poreč was organized where, among other, topics regarding the system of internal financial controls were discussed.
- On the web pages of the Ministry of Finance the data on the activities of the Central Harmonization Unit of the Ministry of Finance regarding the system of internal financial controls were updated.

10.2.2 Activities of the Central Harmonization Unit of the Ministry of Finance Related to Financial Management and Controls

Out of the Central Harmonization Unit's activities regarding the coordination and development of financial management and controls during 2007, the following is mentioned:

- The Strategy of Education of Persons in Charge of the Establishment and Development of Financial Management and Controls was adopted in February 2007. The Strategy envisages organization of two types of seminars: seminars for strengthening awareness about financial management and controls and professional training for financial management and controls.
- In March 2007 the Minister of Finance adopted the Program of Professional Training for Financial Management and Controls according to which a professional training of persons in charge of the establishment, development and implementation of financial management and controls is conducted (further in text: Program). The Program of Training consists of four basic modules and the purpose of the Program is to introduce the participants to the system of financial management and control and to activities which are needed in order to establish and develop that system, with the aim of improving financial management and decision making to achieve the goals of the users.
- In June 2007 the Plan for Training of Persons in Charge for Financial Management and Controls for the period from 2007 to 2010 was adopted. The Plan envisages for the professional trainings for financial management and controls on state and local level to be held up to 2010, and in accordance with the Program of Professional Training. Professional training for financial management and controls is adjusted according to the deadlines for carrying out of specific activities which users on state and local level have pointed out in their plans. Thus the implementation of all training modules for the users on state level is expected to end in 2009 and for the larger users on local level by the end of 2010.
- In June 2007, in cooperation with the experts from CARDS 2004 Project, the Manual for Financial Management and Controls was adopted. In it the activities and procedures that are necessary to implement, in order to set up this complex and modern system in efficient way at a level of all budget users, were listed.
- In December 2007 a draft of the Ordinance on Implementation of Public Financial Management and Controls was prepared. In it the necessary activities for the implementation of this system were defined. After the received opinion and the acceptance of the proposal of the European Commission DG Budget the Minister of finance adopted the mentioned Ordinance in March 2008.
- During 2007 36 seminars for strengthening awareness of financial management and control were held on state and local level, where heads and other executives were introduced with the system of public internal financial controls, its meaning, elements and obligations arising from the Law.



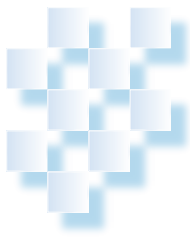
- In 2007 24 seminars for professional training for financial management and controls were held. They included managers and coordinators for financial management and controls and heads of organizational units in central state administration bodies, as well as managers for financial management and controls in other budgetary users (extra budgetary bureaus, health organizations).
- In cooperation with Croatian Community of Accountants and Financial Professionals eight one day seminars, regarding the drafting of the Plan for establishing and development of financial management and controls, were held in Zagreb, Split, Zadar, Pula, Rijeka, Čakovec, Varaždin and Osijek.
- Numerous meetings with the representatives of budget users about the setting up of this system on the central state level and local level were held and other measures were taken to get the public sector acquainted with financial management and controls and with activities necessary for the setting up of the system.
- Regarding the coordination of the setting up and development numerous meetings of the working group for financial management and controls in connection with coordination of opinions on the setting up of the system were held.
- Considering the legal obligation of adopting the Plan for establishing and development of financial management and controls, the Central Harmonization Unit of the Ministry of Finance prepared a proposal of the mentioned Plan in order to help budget users in high quality implementation of this legal obligation. Specimen example of the Plan is published on the web page of the Central Harmonization Unit of the Ministry of Finance (www.mfin.hr/str/128).
- During the year the register of the persons in charge for financial management and controls, as well as the register of the named persons in charge for irregularities was updated in continuity, what was the obligation of the Central Harmonization Unit by the end of 2007.

10.2.3 Activities of the Central Harmonization Unit of the Ministry of Finance Related to Internal Audit

Of the Central Harmonization Unit's activities during 2007 regarding the tasks of coordination and development of internal audit, and the execution of the Action Plan for the Establishing and Development of the Public Internal Financial Controls System by the end of 2008, the following should be mentioned:

- The new Professional Training Program for the profession of certified internal auditor in the public sector was prepared and was adopted by the Minister of finance on 30 March 2007.
- The new Instruction on knowledge and ability testing and taking an exam for the profession of certified internal auditor in the public sector was prepared and was adopted by the Minister of finance on 30 March 2007.
- The Program and the Instruction determine in detail the program and implementation of the training, knowledge and ability testing, taking an exam, practical education and additional professional improving of internal auditors.
- The Internal Auditors Training Plan for the period from 2008 to 2010 was prepared. The Plan foresees to educate the total of 240 internal auditors in the planned period.
- The Code of professional ethics of internal auditors in the public sector of the Republic of Croatia⁴⁷ was prepared. The Code consists of principles and rules for certified internal auditors, candidates for taking an exam for certified internal auditor and others who are in any way included in tasks of internal audit.

⁴⁷ Official Gazette, no. 18/08



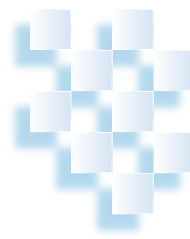
- A model of the Charter of Internal Auditors was prepared, a document which determines the role and the meaning of the unit of internal audit/internal auditor of the budget user and internal audit is given authorization for the access to documentation, personnel and material assets while auditing. On the basis of the model of the Charter of Internal Auditors heads of units for internal audit prepare the text of the Charter of Internal Auditors for a specific institution which is adopted by the executive of that institution. A model is delivered to all ministries and other budget users so that they could, on the basis of this model, prepare their own Charters.
- The proposal of Ordinance on internal audit of budget users was drafted. The Minister of finance adopted the Ordinance on internal audit of budget users in March 2008.
- The training of internal auditors in accordance with the Training Plan was organized. The organization of training for three groups of participants has been carried out and it included 60 participants in total.
- The carrying out of evaluations and tests of theoretical knowledge for internal auditors has been organized. Tests were held for 78 internal auditors on three occasions.
- Tutorship in conduction of first practical audits in ministries and other public government bodies was organized. In 2007 tutorship in conduction of the first two practical audits for 70 internal auditors that were in the process of training for acquiring professional authorizations of the Minister of finance was conducted. Tutorship was conducted by the officials from the Directorate for Harmonization of Internal Audit and Financial Control, experts form CARDS 2004 Project and two certified internal auditors from two state institutions.
- Internal auditors training material was prepared and improved according to the new established Training Plan. With the CARDS 2004 experts a module of practical audit which includes new changed, improved methodology for conducting internal audit was prepared.
- Meetings with heads of internal audit units of budget users were held, because of agreeing on regulations and documents that are being prepared by the Central Harmonization Unit of the Ministry of Finance and to resolve current problems regarding the tasks of internal audit.
- International cooperation through participating in seminars and workshops regarding the system of internal financial control:
 - Seminar about the conduction of testing of the quality of work of internal auditors organized by SIGMA (Paris, March 2007)
 - "PEM PAL second workshop of the Community practices of internal auditors" (Moldova, June 2007)
 - Professional standards and practical application (Warsaw, June 2007)
 - Second specialized conferences for Middle Europe internal auditors (Prague, October 2007)
- During 2007 the register of internal audit units, register of certified auditors and register of internal audit's charters have been updated in continuity

10.2.4 Cooperation of Central Harmonization Unit of the Ministry of Finance with other Institutions

The Central Harmonization Unit of the Ministry of Finance, while performing coordination tasks on the establishment and development of the system of internal financial controls, cooperates with numerous budget users, but also with other institutions, public trading companies and associations whose activities are linked to audit (commercial audit, state audit, and internal audit).

The Law on the System of Public Internal Financial Controls prescribes that the cooperation with the State Audit Office is necessary in order to establish a common approach to the most important audit issues, but keeping in mind the independence and autonomy of state and internal auditors.

As stipulated by the Law the head of the internal audit unit has to cooperate with the State Audit Office and provide them, at their request, with all the information related to the content of the terminated internal audits.



The cooperation with the State Audit Office can be related to the internal audit planning process as specific audit tasks would not be duplicated. Other forms of cooperation are carried out at the request of the State Audit Office.

In July 2007 a seminar for the exchange of experience of internal auditors from state and local level was organized in Brijuni in order to transfer experience and knowledge of more experienced auditors on those with a little less working experience.

In September 2007 representatives from the European Commission, DG Budget together with the Central Harmonization Unit organized in Vodice a seminar about managing responsibility and the strengthening of awareness of the need of establishing of the system of internal financial controls in the Republic of Croatia. The seminar was intended for the heads of budget users on state and local level.

At the beginning of November 2007 third joint seminar of internal auditors in public sector was organized in Rovinj. The seminar was orientated on the relation of internal audit and financial management and control. The representative of internal auditors of the Republic of Slovenia attended the seminar and the president of the Croatian Institute of Internal Auditors informed the present of the activities of the Institute.

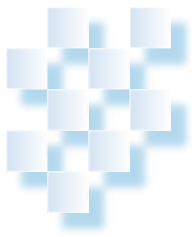
In cooperation with the Croatian Institute of internal auditors employees of the Central Harmonization Unit of the Ministry of Finance were included in the activities of the seminar for internal auditors that is being held in Poreč.

Cooperation has been established also with the Croatian Community of Accountants and Financial Professionals i.e. the Internal Audit Section which once a year convenes internal auditors from all the institutions for a joint seminar.

10.2.5 Other Activities in 2007

Of the Central Harmonization Unit's other activities during 2007 the following should be mentioned:

- Monitoring of progress of the CARD 2004 Project "Strengthening of the structure of Public Internal financial Control in the Republic of Croatia" and reporting on the aforementioned to the Delegation of the European Commission to the Republic of Croatia and the Central State Office for Development Strategy and Coordination of EU Funds.
- Report on the implementation of Mini programs for implementation of measures from the National Corruption Combating Program.
- The activities concerning the harmonization with the EU *acquis communautaire* for Chapter 6 - Company Law (all activities were implemented, that is the reports needed for the harmonization within Chapter 6 - Company Law were prepared, and what relates to commercial audit).
- Giving opinions regarding the application of the provisions of the Law on Audit (during the year answers were given, with previous agreement with the Croatian Audit Chamber, on questions regarding the application of the Law on Audit).
- Drafting of proposals of amendments to the Law on Audit (working group for the amendments to the Law was appointed, monitoring of amendments of the eighth directive)
- Participating in the activities connected to giving consent on the Croatian Audit Chamber regulations (the Ministry of Finance gave its consent on the Audit Service Tariff and on the Decision on the contribution rate and the amount of membership fee. Also the consent was given on the Report on the work of Croatian Audit Chamber that was, on the proposal of the Ministry of Finance, discussed and adopted by the Government of the Republic of Croatia on 8 November 2007).
- Giving opinion on proposals of laws and other regulations of budget users regarding the setting up of the system of internal financial controls.



10.3. CONCLUSION

During 2007 the Central Harmonization Unit of the Ministry of Finance undertook numerous activities related to the setting up and development of the system of internal financial controls for the budget users. First of all we would like to emphasize the activities regarding the drafting of normative framework (ordinances, instructions) and its coordinating role in establishment of organizational assumptions for the setting up and development of this system for the budget users.

The results achieved in this area are important for the fulfillment of the standards regarding Chapter 32 - Financial supervision, within which the harmonization regarding the system of internal financial controls is carried out.

Common position of the European Union regarding Chapter 32 - Financial supervision was adopted on 20 June 2007 in Bruxelles (document on accession). This document states that the European Commission is familiar with the taken activities regarding this chapter and standards that are necessary to fulfill in order to close this chapter are established. Among five standards, the one related to the system of internal financial controls includes the adoption and implementation of the Law and connected policies that are supported by adequate implementation ability. Considering that the Law on Public Internal Financial Controls (Official Gazette, 141/06) was adopted by the end of 2006, during 2007 intensive efforts were put into activities regarding its implementation.

During 2007 seminars for the budget user's executives regarding the meaning of establishment and development of the entire system of internal financial controls were held, professional trainings of persons in charge of financial management and controls and of internal auditors on state and local level were conducted.

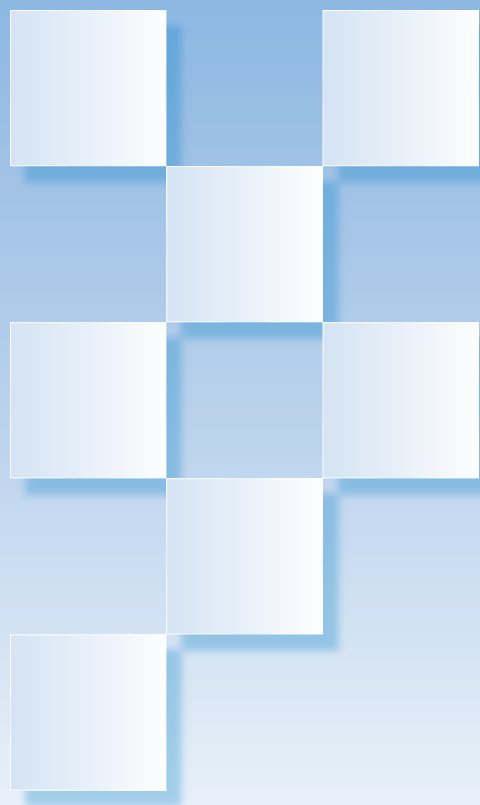
During 2007 in the area of financial management and controls budget users conducted organizational establishment by appointing the head and coordinator for financial management and controls and by organizing the units for financial management and controls. Budget users adopted the plans for the establishment and development of financial management and controls and begun with the implementation of planned activities.

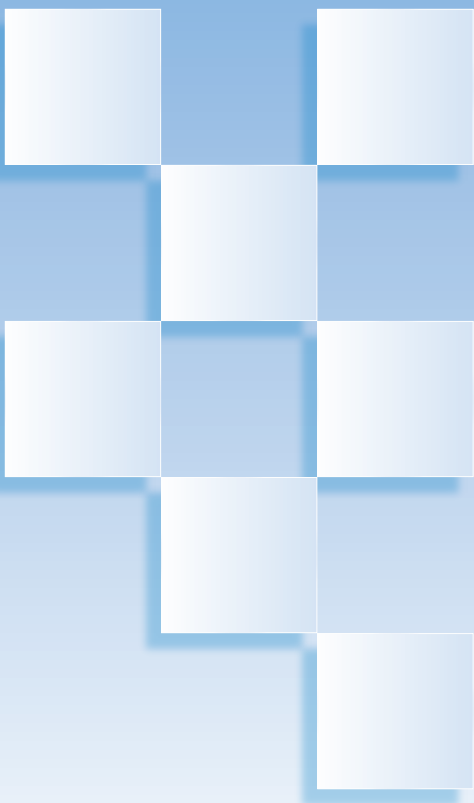
In the area of internal audit, during 2007, internal audits, in accordance with strategic and annual plans, were conducted and executives were reported on the findings and recommendations for the improvement of the budget users business. The internal auditors also monitored the implementation of the accepted recommendations.

The results of the activities taken so far indicate that a lot has been done regarding the establishment and development of the system of public internal financial controls.

However, in spite of that, further development of this system, that primarily has to serve as a tool for effective management in the public sector, requires further intensive activities especially in the strengthening of awareness of managing structure on the importance and usage that this system brings.

11
**REPORT ON THE ACTIVITIES
OF THE FINANCIAL SYSTEM
DIRECTORATE IN 2007**



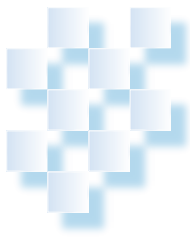




11.1 INTRODUCTION

The Financial System Directorate is the administrative organisation within the Ministry of Finance which has performed different activities within own domain, during 2007.

In accordance with the Decree on Internal Organisation of the Ministry of Finance, the Directorate works on putting into order the entire legislative framework of financial system and regulations related to business activities of the Croatian National Bank, the Croatian Financial Services Supervisory Agency, the Financial Agency, the State Agency for Deposit Insurance and Bank Rehabilitation and the Croatian Bank for Reconstruction and Development. The Directorate also prepares professional opinions and analyses on compatibility of draft proposals of regulations and other acts with Croatian and international law as well as with the *acquis communautaire* of the European Union considering the part falling within the scope of the Directorate, performs the view on estimation of regulations effects for regulations within the scope of the Directorate, prepares decisions, approvals and agreements for performing certain tasks in accordance with the regulations falling within the scope of the Directorate, performs tasks related to the disbursement of state incentive payments for housing savings and voluntary pension savings, performs the supervision of savings and loan associations in liquidation and supervision of the disbursement of state incentive payments for housing savings and voluntary pension savings.



11.2 ACTIVITIES OF THE DIRECTORATE IN 2007

11.2.1 Legislation

The proposals of new regulations are processed continuously to achieve the compatibility with acquis communautaire and the best practices of the European Union due to incentive the development of financial system and maintenance the stability of financial system.

With the purpose of planning these activities and monitoring of realized activities, the Directorate participated in the preparation of the National Programme for the Integration of the Republic of Croatia into the European Union for 2007, the Pre-Accession Economic Programme for the period 2008-2010 and the Guidelines of Economic and Fiscal Policy for the period 2009-2011.

In 2007, the Directorate participated in the preparation of the following acts:

11.2.1.1 Act on Amendments to the Act on Pensioners' Fund

Amendments to this Act were performed due to achieve the compatibility with Act on implementation of decision of Constitutional Court of the Republic of Croatia of 12 May 1998 which was amended at the beginning of 2007 and with these amendments, also users of the biggest pensions and users of family pensions obtained the right on damage compensation. Because of mentioned amendments to the Act on implementation of decision of Constitutional Court of the Republic of Croatia of 12 May 1998, it was also necessary to adjust the provisions of the Act on Pensioners' Fund.

11.2.1.2 Act on Financial Insurance

The Act regulates special rules for insurance of financial liabilities with financial instruments or with money assets, which the representatives of the financial market implements. The Act also removes formal obstacles for performing activities related to the insurance of financial liabilities with financial instruments or money, and ensures the increase of law security, the decrease of credit risks, relief of across-border transactions, strengthening of the capital market and the financial system as a whole, as well as it enables an enforcement of special mortgage which is not regulated by the Act on Ownership and other Real Rights.

11.2.1.3 Act on Accountancy

The Act regulates questions on accountancy in the sense of compilation of annual financial reports and consolidated annual financial reports. Entrepreneurs are divided into small, medium and large entrepreneurs in accordance with the European classification, and also the scope of implementation of International Standards on Financial Reporting and Croatian Standards on Financial Reporting is regulated. The Act regulates types of particular and consolidated annual financial reports which entrepreneurs have to fulfil in dependence of their size, and also regulates those entrepreneurs who are obligatory to perform the revision of annual financial reports. Also, it regulates the way and the obligatory entities for public publishing of annual financial reports and annual reports, and introduces a Register of Annual Financial Reports which will be conducted by Financial Agency in electronic form and it will be available at web pages.

11.2.1.4 Act on Stock Corporations Acquisition

The Act regulates conditions to issuing the offer for acquisition of the company, procedure of the acquisition, rights and obligations of participants in the process of acquisition as well as supervision of the process of acquisition of the corporation. The Act defines targeted corporation, offer for acquisition, persons who act together, rise of obligation to publishing the offer for acquisition, calculation of vote right, content of the offer for acquisition, goals and intentions of offerer, limitations in activities of management and supervisory board of targeted corporation, opinion of the management, penetration rule, right on transfer and sale of shares of minor shareholders, competence and competent right.



11.3 ACTIVITIES FROM THE COMPETENCE OF THE DIRECTORATE BY SPECIAL REGULATIONS

11.3.1 State Incentive Payments for Housing Savings

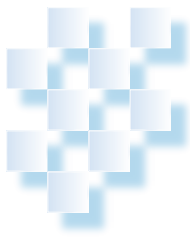
The Act on the Housing Savings and State Incentive to Housing Savings ("Official Gazette", No. 109/97, 117/97, 76/99, 10/01 and 92/05, hereinafter: Act) regulates that state incentive payments are paid on housing savings of savings depositors in housing savings banks. The state incentive payments (hereinafter: DPS) amount 15% of the available housing savings amount, but maximum amount of available housing savings in one year is HRK 5,000.00, or maximum amount of DPS which can be approved to the savings depositor in one year is HRK 750.00. In accordance with the Act, the available housing savings is defined as the amount which the savings depositor has paid during one calendar year reduced by the amount of compensations which housing savings bank charged in that year. During the calendar year, DPS are approved to the savings depositor only in one housing savings bank, that means that if housing savings depositor saves in more than one housing savings bank, then he has the right on DPS only for payments of housing savings in one housing savings bank, while the savings depositor has not the right on DPS for payments in other housing savings banks. The period after which the savings depositor has the right on disbursement of DPS, is also regulated by the Act. Namely, the Act regulates that the savings depositor has the right on disbursement of DPS when he realizes the right on housing credit and concludes the contract on housing credit in accordance with the Act, or if the contract on savings is called off in the period shorter than five years from the beginning of housing savings due to not fulfilling the obligations from the contract on housing savings from the side of housing savings bank. The whole time before the moment when the housing savings depositor obtains the right on the disbursement of DPS, DPS are kept on his housing savings account and the interest is calculated also on DPS in accordance with general conditions of housing savings bank. If the housing savings depositor calls off the contract in the term shorter than five years, the housing savings bank is obligatory to give back into Budgetary Central Government the whole earned DPS together with concerned interest, and the housing savings depositor obtains only the amount which he has paid and concerned interest.

On the basis of the Act, in 2007 the Directorate received and processed the requests of five housing savings banks for disbursement of state incentive payments for 2006 in total amount of HRK 213.3 million.

Table 11.1 Requests on Disbursement of State Incentive Payments for 2006 (Disbursement in 2007)

ordinal	data	total
1	2	3
1	number of housing savings depositors for who the request on disbursement of DPS is given	404,523
2	number of accounts of housing savings for which the request on disbursement of DPS is given	419,366
3	amount of available housing savings collected in 2006, in HRK	1,686,175,234.28
4	number of housing savings depositors who concluded contract on housing credit in 2006	6,049
5	total amount of contracts on housing credits concluded in 2006, in HRK	603,416,371.60
6	amount of contracts on housing credit for interfinancing concluded in 2006, in HRK	554,686,478
7	amount of state incentive payments for 2006, for disbursement in 2007, in HRK	213,279,868.26

In the cooperation with the Financial Agency, the data were kept monthly as well as control of returns of state incentive payments on the basis of interrupted contracts on those housing savings for which the term of savings regulated by the Act, has not passed, so in 2007, on this basis, housing savings banks performed the return of state incentive payments into Budgetary Central Government in the amount of HRK 19.9 million.

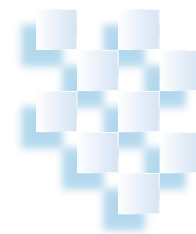


11.3.2 State Incentive Payments on Membership in Voluntary Pension Funds

The Act on Obligatory and Voluntary Pension Funds ("Official Gazette", No. 49/99, 63/00, 103/03, 177/04 and 71/07, hereinafter: Act on Pension Funds) regulates that the members of voluntary pension funds have the right on DPS on contributions paid in the calendar year. DPS amount 25% of contributions amount which the member of voluntary pension fund (hereinafter: DMF) has paid within the calendar year, but the maximum amount is HRK 5,000.00 as well as the maximum amount of DPS is HRK 1,250.00. As in the case of housing savings, also the members of DMF have the right on DPS only in one DMF.

On the basis of the Act on Pension Funds, in 2007 the Directorate received the requests of four voluntary pension companies for disbursement of state incentive payments for 2006. Therefore, totally HRK 40.3 million was paid for almost 59 thousands of members of voluntary pension funds.

The special basis was used in the processing of data on each member with the purpose of separation of persons who are members of more voluntary pension funds because of the fact that they can realize the incentives only in one fund.



11.4 SALE OF BILL FORMS

In accordance with the Act on Bill of Exchange ("Official Gazette", No. 76/94) and the Ordinance on Calculation Bureaus, Compensation for Mediation and Bill Form ("Official Gazette", No. 77/99, 146/99, 35/00, 22/03 and 39/08), the conduction of activities related to print of bill forms and its releasing into use, is in the competence of the Directorate.

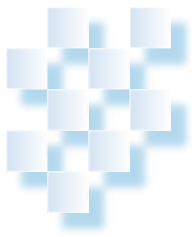
The Directorate monitors Budgetary Central Government revenues from the sell of bill forms according to monthly reports of the Croatian National Bank and records on payments of Financial Agency. In accordance with the Ordinance on Calculation Bureaus, Compensation for Mediation and Bill Form ("Official Gazette", No. 77/99, 146/99, 35/00, 22/03 and 39/08), the price of bill form amounts to HRK 20.00 and out of that amount, the Croatian National Bank and Financial Agency have the right on compensation of 2% of the price while retail sellers for activities of sale of bill forms get the fee in the amount of 6% of the price of forms purchased from Financial Agency.

Table 11.2 Revenues from Sell of Bill Forms in 2007, in HRK

MONTH	BUDGETARY CENTRAL GOVERNMENT REVENUES FROM SELL OF BILL FORMS IN 2006	SELL OF BILL FORMS IN 2007, IN HRK	CROATIAN NATIONAL BANK FEE, IN HRK	FINANCIAL AGENCY FEE, IN HRK	RETAIL SELLERS FEE, IN HRK	BUDGETARY CENTRAL GOVERNMENT REVENUES FROM SELL OF BILL FORMS IN 2007
1	2	3	4=(3*2%)	5=(3*2%)	6=(3*6%)	7=(3-4-5-6)
January	1,025,820.00	925,000.00	18,500.00	18,500.00	55,500.00	832,500.00
February	1,139,400.00	987,140.00	19,742.80	19,742.80	59,228.40	888,426.00
March	1,362,420.00	1,143,600.00	22,872.00	22,872.00	68,616.00	1,029,240.00
April	984,636.00	751,500.00	15,030.00	15,030.00	45,090.00	676,350.00
May	1,115,820.00	799,300.00	15,986.00	15,986.00	47,958.00	719,370.00
June	1,134,522.00	779,100.00	15,582.00	15,582.00	46,746.00	701,190.00
July	897,480.00	943,200.00	18,864.00	18,864.00	56,592.00	848,880.00
August	810,900.00	496,700.00	9,934.00	9,934.00	29,802.00	447,030.00
September	1,015,326.00	709,300.00	14,186.00	14,186.00	42,558.00	638,370.00
October	1,059,300.00	842,700.00	16,854.00	16,854.00	50,562.00	758,430.00
November	917,730.00	703,000.00	14,060.00	14,060.00	42,180.00	632,700.00
December	846,000.00	750,200.00	15,004.00	15,004.00	45,012.00	675,180.00
TOTAL	12,309,354.00	9,830,740.00	196,614.80	196,614.80	589,844.40	8,847,666.00

Source: Croatian National Bank and Financial Agency

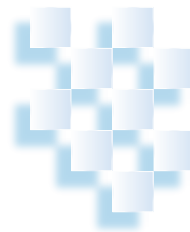
According to the data on sell of bill forms, shown in the table, the revenues of Budgetary Central Government were realized in the amount of HRK 8.8 million in 2007, and in comparison to 2006, when the Budgetary Central Government revenues from the sell of bill forms were realized in the amount of HRK 12.3 million, it is decrease of 29%.



11.5 STATEMENTS OF RELEASE

In 2007, the Directorate has processed the received requests on issuing of statements of release for burden removal from the land registers on the basis of Compensation for Property Expropriated during Communist Yugoslav Rule Act ("Official Gazette", No. 92/96 - 81/02), the Act on Land Registers ("Official Gazette", No. 91/96 - 107/07) and the Instruction on Way and Process of Revalorisation of Debt Amount and Terms of Debt Payment into Budgetary Central Government ("Official Gazette", No. 77/99).

The process of issuing of statements of release, by mentioned bases, implies giving the instructions on legal descendants, complete and control of documents as well as payment of revalorized amount into Budgetary Central Government, issuing of statements of release, delivery of statement to the party together with the instruction for data authentication of public notaries, and receiving the court decision on burden removal.

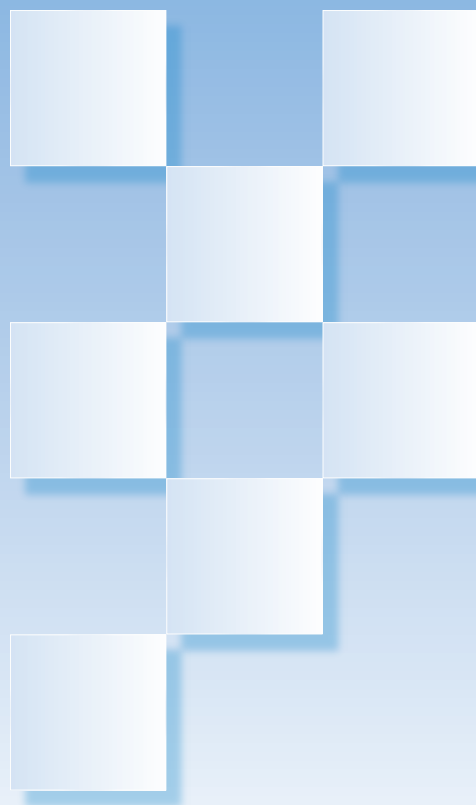


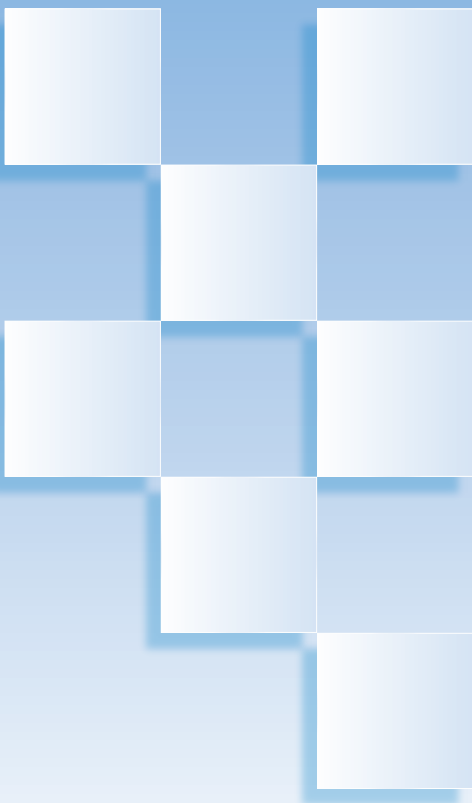
11.6 SUPERVISION

During 2007, the Directorate has performed the supervision on quarterly financial reports on business for 104 savings and loan associations which have done business on the basis of the Permission of the Ministry of Finance and which, according to the Act on Credit Unions ("Official Gazette", No. 141/06), had to issue the decision on continuation of business activities as credit union, or transformation into savings bank, or decision on liquidation, till 30 April 2007.

The Directorate performs the supervision of savings and loan associations in liquidation while the supervisory service of the Croatian National Bank performs the supervision on those savings and loan associations which have submitted to Croatian National Bank the request on continuation of business activities as credit union or transformation into savings bank.

12
REPORT ON THE
ACTIVITIES OF THE TAX
ADMINISTRATION
IN 2007







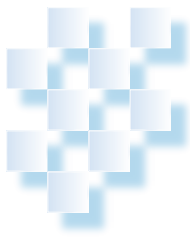
12.1 INTRODUCTION

The Tax Administration is the administrative organisation within the Ministry of Finance whose basic task is to implement tax regulations and regulations concerning the payment of obligatory contributions as well as fees and other public charges regulations. According to the Tax Administration Act ("Official Gazette", No. 67/01, 94/01 and 177/04), the Tax Administration performs activities related to collecting, recording and processing the data important to taxes and contributions slit and payments well as fees and other public charges, determines and records the tax obligations of natural persons and legal entities, records tax and contribution payments, collects taxes, contributions and other public charges under compulsion as well as performs the inspection supervision and distraint due to collection of taxes, contributions and other public charges.

Tax Administration performs in order to collect Budgetary Central Government revenues, regional and local Self-Government Units revenues for those units which delegated these activities on Tax Administration based on the Act on amendments to the Act on Financing Local Self-Government Units ("Official Gazette", No. 59/01 - 147/03) and the Permission of the Minister of Finance ("Official Gazette", No. 79/01), common taxes, tourist board membership fees, contributions to Croatian Chamber of Economy, contributions and membership fees for Croatian Chamber of Commerce and monuments rent which is paid by rate to a total revenue.

Main duties as well as the general organizational scheme and the way of performing activities of the Tax Administration are defined by Tax Administration Act and Decree on the Internal Organisation of the Ministry of Finance; therefore the Tax Administration performs activities from own scope through a Central Office, 20 Regional Offices set up according to the counties and 122 Local Offices belonging to the Regional Offices.

According to the Report on Tax Administration Activities in 2007, the Tax Administration of the Republic of Croatia completely follows other developed countries tax administrations concerning the issue of organisation, employment structure and goal achievement.



12.2 DEVELOPMENT OF COMMUNICATION BETWEEN TAX ADMINISTRATION AND TAXPAYERS IN 2007

The Tax Administration, as the administrative organisation aimed at implementation of tax and obligatory contributions regulations and collection of tax revenues, in 2007 has done some major steps in providing its services to taxpayers in order to help them achieve their rights as well as to fulfil their obligations.

These services can be divided in four different groups: Internet, publications, electronic entering of return forms and free phone (Contact Centre).

Through Tax Administration web page (www.porezna-uprava.hr) all taxpayers can, on daily basis obtain up-to-day information on the news concerning the taxes in general, Croatian tax system, tax calendar that can be used as a reminder to deadline for tax obligatory fulfilment, tax return, tax and other regulations (more than 900 reduced consolidated text on acts, ordinances, instructions, decisions, contracts, etc.), data concerning the double taxation as well as those concerning relevant tax forms. Tax Administration web page also contains Tax Administration - Central Office opinions which in addition explain certain legal regulations and cite official standings in certain issues. Web sites are also updated in English language. Through its links one can connect to various web sites of other ministries, foreign tax administrations and European Union web sites.

With the purpose of informing the taxpayers, the Tax Administration has cooperated on establishment of the web site of the Government of the Republic of Croatia www.mojauprava.hr and has delivered materials continuously to update the content related to tax area.

In 2007 the Tax Administration issued 17 brochures and 5 guides which, in a simple and understandable way, explain to taxpayers their rights and obligations, as well as CD containing 900 reduced consolidated text on regulations and CD "Croatian Tax System" printed in English. Publications mentioned above are distributed for free to taxpayers in local offices and branches.

Furthermore, in 2007 all preconditions for realization the eTaxAdministration project were fulfilled. This project enables taxpayers to file their tax return forms using the Internet.

The Project eTaxAdministration was presented in 2007 by a first electronic Value added tax return and during the year 5,131 forms were received and processed. In the last quarter of 2007, eTaxAdministration project was activated in the part of ID forms and in the same period (October/December) 692 ID forms were received and processed. In 2007 46,583 contacts between taxpayers and the Tax Administration through the eTaxAdministration system were realized.

It is important to stress out issues that eTaxAdministration includes:

- "ePKK" - access to a status of taxpayer's tax account through Internet;
- "ePDV" - filling in and committing VAT forms through Internet;
- "eID" - filling in and committing ID forms through Internet;
- "ePD" - filling in and committing annual profit tax return through Internet;
- "eIP" - filling in and committing tax card forms through Internet.

It was possible to deliver ID-1 and IP forms on the media (CD for example) as the year before.

The Tax Administration Contact Centre has also maintained its continuing development which provides free phone services to taxpayers from 9 to 15 concerning the issues on tax fraud, invoice non-issuing, moonlighting, violations on tax regulations and complaints on Tax Administration working staff as well as information on tax relieves and exemptions.



12.3 LEGISLATIVE ACTIVITIES OF THE TAX ADMINISTRATION IN 2007

The Ordinance on amendments to the Ordinance on Personal Income Tax ("Official Gazette", No. 68/07) has entered into force during 2007. With the Ordinance, the amounts of non-taxable compensations were changed, i.e. the amounts of receipts which employers can pay to their employees non-taxably, were increased, gift to a child up to 15 years of age were increased from HRK 400.00 on HRK 600.00 and occasional bonuses (Christmas, compensation for summer holiday and so on) were increased from HRK 2,000.00 on HRK 2,500.00 yearly. The Ordinance on amendments to the Ordinance on Personal Income Tax also regulates the non-taxable compensation which employers can pay to their employees and that is: aid for newborns up to one budgetary unit according to the special provision.

As the Act on amendments to the Act on Corporate Income Tax ("Official Gazette", No. 57/06) has entered into force during 2006, an Ordinance on amendments to the Ordinance on Corporate Income Tax was published in "Official Gazette", No. 133/07. With mentioned Ordinance, among other things, also corporate income tax return (Form PD) was changed to be compatible with special provisions which, beside Act on Corporate Income Tax ("Official Gazette", No. 177/04, 90/05 and 57/06), regulate tax relieves, exemptions and incentives.

In 2007, the project "Estimation of Taxpayers Economic Force: Collecting the Data on Taxpayers" started with the purpose of collecting and updating of taxpayers' data important to correct implementation of positive tax provisions. Also the selected local offices which belong to Regional Office Zagreb, Regional Office Split, Regional Office Rijeka and Regional Office Dubrovnik have participated in the process of testing the Project.

In 2007, with the Act on amendments to the Act on Value Added Tax ("Official Gazette", No. 76/07) and Ordinance on amendments to the Ordinance on Value Added Tax ("Official Gazette", No. 79/07), which have been in implementation from 1 August 2007, the taxation of newspapers and magazines which are published daily or periodically was introduced by smaller tax rate of 10%, but that provisions are not related to those newspapers and magazines which completely or mostly contain advertisements.

Related to the process of accession of the Republic of Croatia to the European Union, with mentioned amendments, the Croatian Act on Value Added Tax was harmonized partly with Directive EC 2006/112 which gives a possibility of introducing the smaller tax rate on newspapers and magazines beside those which are aimed to advertisements completely or mostly.

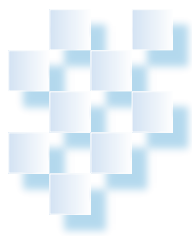
In 2007, the Programme "Strengthening of the Tax System in the VAT Area due to Preparation and Development of VIES Information Connection System" finished, and with the purpose of further alignment of Croatian Act on Value Added Tax with the *acquis communautaire* of the European Union, in 2007 the Project "Support to VIES Information Connection System" started within Programme PHARE 2005.

During 2007, the Instruction on Amount of Basis for Contributions Settlement for Obligatory Insurances was issued for 2008 and it was published in Official Gazette, No. 119/07.

In accordance with the obligation of the Minister of the Finance, which is regulated by article 37, paragraph 5 of the Act on amendments to the Navigational Code ("Official Gazette", No. 76/07), the Instruction on proceeding in activities related to harmonization of debt and criteria for determining the amount of monthly annuity to debt payment on the basis of contributions for obligatory insurances originated by the basis of seaman insurance, was drawn up. The Instruction was published in "Official Gazette", No. 126/07.

With the Decision of the Constitutional Court of the Republic of Croatia No. U-I-1559/2001 and U-I-2355/2002 of 21 February 2007, the procedure of evaluation of accordance with Constitution was started and the following articles were abolished: 30, paragraph 1, item 6, 38a, 38b, 38c, 38d, 38e, 38f, 38g, 38h, 38i, 38j, 38k, 38l, 38m and 38n, of the Act on Financing of Local and Regional Self-government Units ("Official Gazette", No. 117/93, 69/97, 33/00, 73/00, 127/00, 59/01, 107/01, 117/01, 150/02 and 147/03) on uncultivated agricultural land tax, unused enterprise real estate tax, unused construction land tax. The abolished provisions stopped to be valid on 12 March 2007 when the Decision of the Constitutional Court was published in Official Gazette.

In 2007, the first rounds of negotiations on Agreement of Avoiding the Double Taxation with Saudi Arabia and Libyan Arab Jamahiriya were concluded, while negotiations have been finalized with Armenia and Singapore. According to that, the activities of preparation related to the Act on conclusion and implementation of treaties, were done.



New Agreement on avoiding the double taxation and prevention of avoiding the income taxation was signed with Denmark on 14 September 2007 in Copenhagen, Denmark. After the ratification in Croatian Parliament, this agreement will exchange the previous Agreement taken over by former Yugoslavia (SFRJ).

The exchange of information with competent authorities was performed continuously according to the Agreements on avoiding the double taxation in the implementation, and also opinions on implementation of Agreement provisions were issued continuously to regional offices and to parties interested in.

Employees have participated in the expert education in OECD centres on taxation of non-residents and negotiation techniques, while on the Global Forum held in Paris in the organisation of OECD, on Agreements on avoiding the double taxation, they held a presentation on Croatian experiences in taxation of services in international tax surroundings.

At the area of monitoring the revenue of games of chance, amusements and prize games, the following contracts were concluded in 2007: 5 contracts on concession for organisation of games of chance in casinos and 61 contracts on concession for organisation of games of chance in coin operated machines in coin operated machine clubs, and also 2 annexes of contract on the concession. The data on 11 corporations which have concluded contracts on concessions based on the Decision of the Government of the Republic of Croatia, were delivered to the Economy Directorate of the Ministry of Finance and also continuous reporting on monthly payments for concession compensations were carried out. There were issued also 113 previous opinions on locations where concessionaires intend to organize the games of chance in casinos and coin operated machines clubs, 604 Permissions for the work of betting payment posts, 926 Agreements on prize games rules, 12 Agreements on business plans of Organizer, 23 Agreements on the rules of lotteries, 6 Decisions (Permissions) on the rules of games of chance for each type of game in casinos, 5 Permissions on issuing the advertising coins, 5 Permissions on the betting rules, 23 Permissions to non-profit legal entities for one-time organisations of lotteries. In addition, 949 procedures on determining of fulfilling conditions for taking in use the new coin operated machines and tables as well as for their removal and taking out of use were conducted. During the year, 53 opinions related to the implementation of provisions from the competence of games of chance and amusements were issued, as well as 4 categorizations of coin operated machines and 2 Permissions to legal entities on obtaining the authorize to performing the technical control of coin operated machines and tables for games of chance.

On 7 February 2007, the Decision on conducted public competition for assignment of 15 concessions to organisers of games of chance in coin operated machines clubs was adopted and also the public competition for assignment of 5 concessions to organisation of games of chance in coin operated machines clubs, was published and realized.

The annual congress of GREP (international legislative authority which deals with legislative regulations related to the area of games of chance) was organized in Dubrovnik in June 2007.

All actions taken have resulted in increased revenue index (120.3) in 2007 compared to 2006.

Table 12.1 Games of Chance and Amusements Revenues

(000 HRK)		
Total revenues in 2006	Total revenues in 2007	Growth index
472,790	568,670	120.28

Source: APIS



12.4 INSPECTION SUPERVISION OF TAX ADMINISTRATION IN 2007

With the plan of supervision for 2007, the clear aim for supervision deal was given and that is: focusing on legal entities, giving the biggest attention on value added tax and contributions, performing the certain number of supervisions on big tax payers, doing the continuous supervision on cash transactions due to prevention of underground economy.

Report on Tax Administration activities related to performing the inspection supervision is based on the data which are kept in information system at the level of Tax Administration in subsystem Activities of Inspection Supervision, as well as on certain additional data which are joined in the Central Office by particular request. In 2007, 644 authorised officers conducted supervision, that is 10 authorised officers less than in 2006. 8,553 inspection supervision orders were issued, where 57.3% referred to legal entities and 42.7% to natural persons.

In 2007, 69.4% of supervisions ended with detecting irregularities, while in 2006 irregularities were fortified in 65.0% of supervised tax payers. The most often illegalities and irregularities which were fortified in the supervision are following: tax payers don't fill own business books or fill it untimely and incorrectly, don't give out invoices for delivered goods and services, don't express the turnover by charging machine, don't calculate and don't pay value added tax and tax or profit, don't hold out monthly reports on calculated and paid value added tax, don't calculate and don't pay contributions for pension and health insurance and for employment, don't deposit money assets on account in banks or authorised organisations for payment system and other.

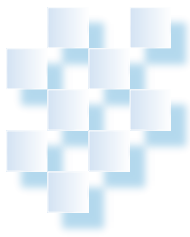
In 2007, 5,627 requests for offence procedure and 76 requests for criminal activities were submitted. New tax and contribution liabilities were determined in the account of HRK 1.6 billion.

In new determined liabilities, the biggest part had value added tax with HRK 842.2 million, income tax with HRK 358.8 million, tax on profit with HRK 254.3 million and contributions with HRK 111.8 million.

In order to repress underground economy, in 2007 Tax Administration conducted continuous supervision of invoice issuing and transactions evidence of those taxpayers who deal with cash where supervision covered the calculation and payments of value added tax. Out of totally 2,741 tax payers included in supervision, for 862 tax payers where irregularities were determined, new VAT liabilities in the amount of HRK 44.5 million were estimated out. In these inspection supervision activities, HRK 60 million of charged overdue tax debt was collected and 195 decisions on temporary prohibition of performing further work because of non-issuing invoices as well as non calculating and non-paying the value added tax, were issued.

The important area for the underground economy is the organisation of games of chance and amusements. In the supervision of this activity, 167 coin operated machines for the games of chance and 50 coin operated machines for amusements were temporary taken away.

It is important to mention the continual cooperation with the Ministry of the Sea, Tourism, Transport and Development concerning the supervision of those taxpayers who are involved in rent-a-boat business (charter companies) as well as good cooperation with the State Inspector's Office in data and miscellaneous information exchange.



12.5 DISTRAINT ACTIVITIES OF THE TAX ADMINISTRATION IN 2007

12.5.1 Charges of Taxes and Other Public Charges in Distraint Procedure

In line with its competences, the Tax Administration implements the distraint with the purpose of charges of taxes, contributions and other public charges from taxpayers, implementing General Tax Act ("Official Gazette", No. 127/00, 86/01 and 150/02), Act on Administrative Procedures ("Official Gazette", No. 53/91 and 103/96) and Distraint Act ("Official Gazette", No. 57/96, 29/99, 42/00, 173/03, 194/03, 151/04, 88/05 and 67/08). Distraint, as a special form of forcible repayment, is initiated by a Tax Administration when all other actions could not provide charge in a regular process. Distraint activities are conducted on a complete tax obligator's property, that is: money assets, movable property, claims which he has against his debtors and other property rights, while real-estate distraint are conducted by a court authorized under the Tax Administration request upon suggestion of State Attorney's Office.

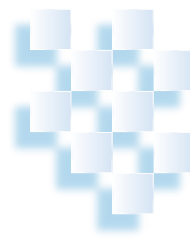
That distraint due to charge of taxes and other public charges becomes more and more important, it is shown by following view:

Table 12.2 View of Distraint Charges according to Distraint Measures

DISTRRAINT MEASURE	CHARGES IN 2006	CHARGES IN 2007	INDEX
			2007/2006
Decision on distraint by cash assets seizure	1,445,261,913.60	1,589,116,364.66	109.95
Decision on distraint by execution debtor's claims seizure	115,964,426.75	113,387,774.19	97.78
Decision on distraint by seizure of claims on the grounds of portion in capital	97,711,111.77	25,565,746.36	26.16
Decision on distraint by movable property seizure	484,557,429.85	633,981,855.27	130.84
Real-estate distraints	54,282,571.00	59,345,062.28	109.33
1. Total amount charged through distraint proceedings	2,197,777,452.97	2,421,396,802.76	110.17
2. Amount charged on the grounds of other Government bodies requests	21,095,087.38	33,053,099.40	156.69
3. TOTAL AMOUNT CHARGED (1+2)	2,218,872,540.35	2,454,449,902.16	110.62

Source: Statistics reports of regional offices which are submitted to the Tax Administration - Central Office, quarterly

It results from the Table 12.2 that in the period from 1 January to 31 December 2007 totally HRK 2.5 billion was collected while, in the same period in 2006, it amounted HRK 2.2 billion. Therefore, in 2007 distraint activities charge was higher by 10.6% or HRK 236 million than in the previous year.



12.5.2 Ensuring the Payment of the Tax Debt by Enforcement of the Real Estate Mortgage

Due to securing the payment of tax, the Tax Administration undertakes the measures for ensuring the charge of debt by enforcement of the real estate mortgage upon the property of debtor. The number of claims which the Tax Administration delivers to the State Attorney's Office, regarding proposals to impose the enforcement of the real estate mortgage upon the property of the debtor, is growing and it is visible from the following view:

Table 12.3 Real-estate Distraint Claims Submitted to State Attorney's Office

DESCRIPTION	2005	2006	INDEX	2007	INDEX	
			2006/2005		2007/2006	2007/2005
Legal entities	148	204	137.84	249	122.06	168.24
Natural persons	1,457	1,894	129.99	2,553	134.79	175.22
TOTAL	1,605	2,098	130.72	2,802	133.56	174.58

Source: Statistics reports of regional offices which are delivered to the Tax Administration - Central Office quarterly

As it can be seen from Table 12.3 the number of real-estate distraint claims in 2007 increased by 704 or by 33.6% compared to 2006, out of which 45 or 22.1% related to claims for distraint on legal entities and 659 or 34.8% related to claims for distraint on natural persons.

Total number of claims submitted in 2007 compared to 2005 increased by 1,197 or 74.60% out of which 101 or 68.2% related to claims for distraint on legal entities and 1,096 or 75.2% related to claims for distraint on natural persons.

With regards to activities of insolvency and liquidation it is important to stress out:

In 2005 Tax Administration reported claims for bankruptcy in the amount of HRK 320.2 million. At the same time, total amount of HRK 103.5 million was charged. During the same period, Tax Administration reported liquidation claims in the amount of HRK 11.1 million. HRK 1.4 million was charged.

In 2006 Tax Administration reported claims for bankruptcy in the amount of HRK 277.1 million. At the same time, total amount of HRK 91.5 million was charged. During the same period, Tax Administration reported liquidation claims in the amount of HRK 22.4 million. HRK 15.1 million was charged.

In 2007 Tax Administration reported claims for bankruptcy in the amount of HRK 235.2 million. At the same time, total amount of HRK 136.5 million was charged. During the same period, Tax Administration reported liquidation claims in the amount of HRK 8.5 million. HRK 798.1 thousand was charged.

Therefore, in 2006 compared to 2005 9.6% less claims based on tax and other public charges in an insolvency and liquidation activities were reported and 1.5% more were charged.

In 2007 compared to 2005 26.4% less claims based on tax and other public charges in an insolvency and liquidation activities were reported and 30.8% more were charged.

Table 12.4 Analysis of Claims Reported and Charged on Basis of Taxes and other Public Charges in Insolvency and Liquidation Procedures for a Period from 2005 to 2007

Ordinal	Year	CLAIMS REPORTED ON BASIS OF TAX AND OTHER PUBLIC CHARGES				CHARGES OF CLAIMS BASED ON TAXES AND PUBLIC CHARGES			
		Insolvency procedure	Liquidation procedure	Total	Index 2005 = 100	Insolvency procedure	Liquidation procedure	Total	Index 2005 = 100
1	2	3	4	5=3+4	6	7	8	9=7+8	10
1	2005	320,152,078.04	11,094,015.12	331,246,093.16		103,537,810.87	1,433,524.12	104,971,334.99	
2	2006	277,091,409.89	22,418,269.09	299,509,678.98	90.42	91,484,201.45	15,050,408.41	106,534,609.86	101.49
3	2007	235,230,068.15	8,462,181.37	243,692,249.20	73.57	136,485,546.88	798,064.21	137,283,611.09	130.78

Source: Statistics reports of regional offices which are submitted to the Tax Administration - Central Office quarterly





In the Department for Collection, administrative and other professional activities are performing continuously. Out of totally 11 employees systematized in Department, 8 employees were filled out in the first half of 2007 and 10 in the second half of the year.

Administrative activities are performed in line with:

- Article 17, paragraph 3 of the Act on Administrative Disputes ("Official Gazette", No. 59/91, 9/92 and 77/92), drawing up of the Decision of approved/rejected postponement of liabilities payment till the conclusion of administrative disputes, i.e. till the effective judgment of court - 69 decisions and 2 conclusions has been brought, which compared with 50 decisions and 3 conclusions in 2006, makes increase of 33%;
- the Instruction on the procedure by determining statute of limitation on tax collection rights, obligatory contributions and other public revenues of which Tax Administration keeps analytical evidence and their write-off due to impossibility of collection, (Class: 410-01/05-01/605, Ref. No.: 513-07-21-06/05-1, from 20 April 2005), and the adoption of decisions per written debtors' claims whose debts are over HRK 500,000.00 resulting from writing-off of overdue liabilities due to statute of limitation - 46 decisions were adopted which compared to 18 decisions in 2006, makes increase of 155.6%;
- Article 135 of the General Tax Act ("Official Gazette", No. 127/00, 86/01 and 150/02), resolving on the grounds of write-off of the tax debt, partially or entirely, if the fulfilment of the debt payment brings into question basic life needs of debtor and the members of his household. For the same reason, it is resolved also the submitted claims for write-off of overdue contributions for obligatory insurances, according to articles 86 and 86 a of The Act on Obligatory Contributions (Official Gazette, No. 147/02 and 177/04) - 545 decisions and 13 conclusions were adopted, which represents an annual increase of 28.5% compared to 424 decisions and 12 conclusions adopted in 2006.

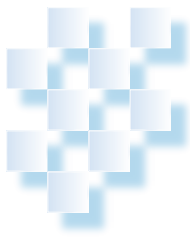
All mentioned activities are performed in administrative procedures, where the appeal is allowed, so that in the case of giving up the appeal, the subject with concerned document is delivered to the Ministry of Finance, to independent Service for Second Instance Administrative Procedure on proceeding.

Regarding mentioned activities, the evidence on the total received claims, debtors whose overdue liabilities has been written off and in the case of delay of charge till the completion of administrative procedures and on all decisions which are in force, are kept and related to the evidence, the charge are monitored.

In the period from 1 January to 31 December 2007, 1249 cases were in procedure out of which 1016 cases from 2007 and 233 cases from previous period. Total resolved cases amounted 806 and reached 64.5% of all cases. The number of agents for these activities were changed during the year, from 6 agents in the first half of 2007 to 10 agents at the end of the year so the average number of cases per agent was 80.6. The smaller number of agents in the first half of 2007 compared with enlarged number of cases had an influence on percentage of ended cases.

Professional activities in the Department for Collection are related to:

- conducting of professional activities associated with the financial consolidation of tax payers by a Decision of the Government of the Republic of Croatia, that is preparation of proposals of Decisions related to write-off-books out the obligations, based on decisions of the Government of the Republic of Croatia etc.
- the preparation of the monthly reviews on the largest debtors of tax, contributions and other public payments in line with the Instructions of the Central Office, Class: 410-01/04-01/244, Ref. No.: 513-07-21-06/05-4 from 1 March 2005;
- the preparation of the monthly reviews regarding the number of staff and claims on legal entities which are of regional matters.



12.6 PROCESSING AND DETERMINATION OF THE PARTICULAR TYPES OF TAX AND OTHER LIABILITIES

Beside collecting, recording and processing of data which are important to slit and payment of tax, contributions, fees and other public charges, the Tax Administration determines and records tax obligations for legal entities and natural persons, records tax and contributions payments. Mentioned activities are supported by information system for the most, and for the performing of these activities, agents use different applicative solutions, by which, after processing of entered data, the amount of particular type of tax and other liability, is determined, and also the item for booking the liability in a booking card of obliged entity and the items for different statistics overviews are given.

In continuation, the overview of quantitative and financial data on processing and determination of particular types of tax and other liabilities is given.

12.6.1 Financial and Quantitative Indicators

12.6.1.1 Structure of Tax and Contributions Revenues Collected at the State Level for 2006 and 2007

Tax revenues (Budgetary Central Government, county, city/municipal budgets and joint taxes) in the period from 1 January to 31 December 2007 were collected in a total amount of HRK 72.9 billion, which is 10.7% more than amount in the same period of the previous year.

Collecting of value added tax, as the most important tax revenue, which in the structure of total tax revenue participates with 34.3%, increased in the period from 1 January to 31 December 2007 by 8.1% compared to the same period in 2006. From the table, there is also obviously that other revenues, which Tax Administration determines and collects, show an increase of charge in 2007 compared to 2006 (e.g. profit tax 18.3%, income tax and surtax on income tax 18.9%, real estate transfer tax 19.9% and contributions for obligatory insurance 9.9%).

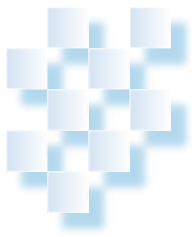
**Table 12.5 Structure of Tax Revenues and Contributions Collected at the State Level for the Period I-XII 2006 and I-XII 2007**

in HRK

No.	Name of revenue - budget	Realized charge I-XII 2006	Share %	Realized charge I-XII 2007	Share %	Index 5:3
1	2	3	4	5	6	7
I	Budgetary Central Government tax revenues (1-8)	46,235,724,324	46.37	49,669,667,934	45.12	107.43
1	Value added tax	34,931,749,502	35.03	37,747,987,242	34.29	108.06
2	Corporate income tax		0.00			
3	Tax on transfer	159,631,018	0.16	168,521,668	0.15	105.57
4	Tax on car responsibility insurance premiums	362,842,676	0.36	400,804,195	0.36	110.46
4a	Tax on motor hull insurance premiums	95,779,355	0.10	108,831,936	0.10	113.63
5	Tax and levies on the organisation of games of chance and amusements	431,510,995	0.43	505,119,184	0.46	117.06
6	Special taxes	8,665,754,808	8.69	9,096,925,755	8.26	104.98
7	Other tax revenues	0	0.00	0	0.00	
8	Customs and customs fees	1,588,455,969	1.59	1,641,477,953	1.49	103.34
II	County taxes (a-e)	227,566,938	0.23	265,383,853	0.24	116.62
	a) Inheritance and gifts tax	1,992,763	0.00	2,203,077	0.00	110.55
	b) Tax on road motor vehicles	210,657,255	0.21	247,334,904	0.22	117.41
	c) Tax on vessels	2,032,424	0.00	1,969,495	0.00	96.90
	d) Tax on preparation of entertaining and sport shows	63,445	0.00	0	0.00	0.00
	e) Tax on coin operated machines for amusement	12,821,051	0.01	13,876,377	0.01	108.23
III	City/municipal taxes (a-h)	319,918,159	0.32	325,142,928	0.30	101.63
	a) Consumption tax	87,838,499	0.09	94,409,749	0.09	107.48
	b) Tax on holiday houses	66,485,270	0.07	68,284,534	0.06	102.71
	c) Tax on advertisement	697,241	0.00	304,676	0.00	43.70
	d) Tax on trade name	112,769,041	0.11	118,633,678	0.11	105.20
	e) Tax on the use of public land	45,471,612	0.05	42,285,929	0.04	92.99
	f) Uncultivated agricultural land tax	9,528	0.00	3,397	0.00	35.66
	g) Unused enterprise real estate tax	1,874,462	0.00	1,019,952	0.00	54.41
	h) Unused construction land tax	4,772,505	0.00	201,012	0.00	4.21
IV	Total-own tax revenues of Budgetary Central Government, county and city/municipal budgets (I+II+III)	46,783,209,421	46.92	50,260,194,714	45.65	107.43
V	Joint tax revenues (1-3)	19,056,582,342	19.11	22,626,595,857	20.55	118.73
1	Corporate income tax	7,454,613,492	7.48	8,816,375,273	8.01	118.27
2	Income tax and surtax	10,413,961,265	10.44	12,385,046,239	11.25	118.93
3	Real estate transfer tax	1,188,007,585	1.19	1,425,174,346	1.29	119.96
VI	Total tax revenues (IV+V)	65,839,791,762	66.03	72,886,790,572	66.21	110.70
VII	Total contributions (1-3)	33,877,147,572	33.97	37,203,485,795	33.79	109.82
1	Health insurance	15,399,658,286	15.44	16,940,153,497	15.39	110.00
2	Pension insurance	16,919,255,009	16.97	18,543,082,518	16.84	109.60
3	Employment	1,558,234,278	1.56	1,720,249,780	1.56	110.40
TOTAL TAX REVENUES AND CONTRIBUTIONS (VI+VII)		99,716,939,335	100.00	110,090,276,367	100.00	110.40

Source: Forms P-1 and P-2

Note: Corporate income tax collected in 2007 is the revenue of the Budgetary Central Government, but due to comparability it is shown as the joint revenue



12.6.1.2 Overview of Total Liabilities and Charge of Tax, Contributions and Other Public Charges which the Tax Administration Monitors

Total liabilities on tax, contributions to obligatory insurances and other public charges on which the Tax Administration keeps analytical records, amounted to HRK 80.5 billion in 2007 and that is 12.1% more than in 2006. The total charge of mentioned revenues in 2007 amounted to HRK 77.7 billion and increased by 12.3 % in comparison to the year before.

Table 12.6 Overview of Total Liabilities and Charge of Tax, Contributions and other Public Charges which the Tax Administration Monitors

in thousands of HRK

Ordinal	DESCRIPTION	2006	2007	Index (4:3)
1	2	3	4	5
1	total liabilities	71,745,132	80,452,439	112.14
2	total charge	69,181,565	77,693,722	112.30
	% of charge	96.43	96.57	100.15

Source: Tax Administration booking data

12.6.1.3 Value Added Tax

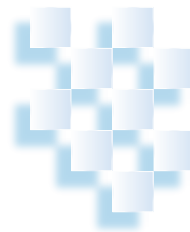
In 2006 for 2005, 153,149 PDV-K forms were processed and in 2007 for 2006 the number of processed forms was 161,782 or 5.6% more than the year before. Also, there were processed 1,388,863 monthly and quarterly VAT forms for 2006 and 1,464,676 monthly and quarterly forms for 2007 and that is increase of 5.5%.

Table 12.7 Annual Value Added Tax Return (PDV-K Forms)

in HRK

Ordinal	DESCRIPTION	IN YEAR		INDEX (4:3)
		in 2006 for 2005	in 2007 for 2006	
1	2	3	4	5
1	Number of processed forms	153,149	161,782	105.64
2	Total tax calculated by taxable deliveries	99,652,133,597	112,349,433,598	112.74
3	Total pre-tax calculated by received deliveries	91,176,392,710	103,853,621,919	113.90
4	Total liability for tax period	8,475,740,887	8,495,811,678	100.24

Source: Tax Administration



12.6.1.4 Personal Income Tax

12.6.1.4.1 Personal Annual Income Tax Return

In 2006 for 2005 totally 912,424 annual income tax return were processed and in 2007 for 2006 that amount was 960,644 or increase of 5.3%. We remark that these data don't include all obligatory persons of income tax, than only those who have submitted the income tax return.

Table 12.8 Personal Annual Income Tax Return

in HRK

No.	DESCRIPTION	IN YEAR		INDEX (4:3)
		in 2006 (for 2005)	in 2007 (for 2006)	
1	2	3	4	5
1	Number of processed forms	912,424	960,644	105.28
2	Annual obligation on tax and surtax	5,096,280,522	5,650,692,884	110.88
3	Difference for payment	420,977,855	388,714,057	92.34
4	Difference for return	1,427,689,379	1,509,656,936	105.74

Source: Tax Administration

12.6.1.4.2 Number of Processed Forms and Decisions by which Income Tax and Surtax Liabilities as well as Contributions Liabilities during the Year are Determined

The number of forms (ID, IDD and IDD-1) entered into information System of the Tax Administration and number of issued decisions on advances of tax and surtax on property income in 2007 show an increase in comparison to 2006. Therefore, in 2007 compared to 2006 the number of ID forms entered into system was 3.6% greater, the number of IDD forms 6.7% greater and IDD-1 forms 2.1% greater. Also in 2007 compared to 2006, the number of decisions issued on advances on property income tax and surtax was 17.0% greater.

Due to fact that decisions issued on tax and surtax of income from renting of flats, rooms and beds which is the case of lump-sum taxation, are valid till the change, the number of issued decisions was decreasing by years, because in 2006 and 2007 new decisions were issued only to new taxpayers, i.e. to those taxpayers who had the change in their facts-data important to taxation (change in the number of beds, buildings, change of home, change of class of tourist place, etc.).

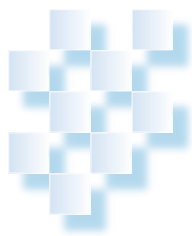


Table 12.9 Number of Forms and Decisions by which the Liability of Income Tax and Surtax and the Liability of Contributions during the Year are Determined

in HRK

Ordinal	DESCRIPTION	Number of forms and decisions		INDEX
		2006	2007	(4:3)
1	2	3	4	5
1	ID forms	1,485,301	1,538,080	103.55
2	IDD forms	109,788	117,056	106.62
3	IDD-1 forms	3,113	3,180	102.15
4	Decisions on advances of tax and surtax on property income	99,409	116,316	117.01
5	Decisions on tax and surtax on income, lump-sum taxation-rentiers	21,996	9,973	45.34
6	Decisions on contributions for obligatory insurances - independent obligatory entities (first and second pillar of pension insurance, health insurance)	236,629	219,691	92.84
	TOTAL	1,956,236	2,004,296	102.46

Source: Tax Administration

12.6.1.5 Processing of Annual Profit Tax Return

In 2006 for 2005 totally 82,614 annual profit tax return were processed, and in 2007 for 2006 that amounted to 92,034 and that is increase of 11.4%.

Table 12.10 Processing of Annual Profit Tax Return

in HRK

Ordinal	DESCRIPTION	IN YEAR		INDEX
		in 2006 (for 2005)	in 2007 (for 2006)	(4:3)
1	2	3	4	5
1	Number of processed forms	82,614	92,034	111.40
2	Annual obligation of tax and surtax	6,178,393,979	7,543,731,471	122.10
3	Difference for payment	2,210,216,920	2,706,543,197	122.46
4	Difference for return	496,246,327	854,179,681	172.13
5	Advances for following period	517,020,466	633,543,993	122.54

Source: Tax Administration



12.6.1.6 City and Municipal Taxes

Table 12.11 City and Municipal Taxes

in HRK

No.	NAME	YEAR				INDEX	
		2006		2007		(5:3)	(6:4)
		Number of decisions/forms	Amount of tax	Number of decisions/forms	Amount of tax		
1	2	3	4	5	6	7	8
1	TAX ON HOLIDAY HOUSES	68,597	38,840,581	66,982	37,948,869	97.65	97.70
2	TAX ON TRADE NAME	138,637	69,945,140	139,195	68,921,775	100.40	98.54
3	TAX ON THE USE OF PUBLIC LAND	2,215	4,009,916	1,983	3,996,041	89.53	99.65
4	CONSUMPTION TAX (forms)	148,668	67,046,040	147,203	70,202,476	99.01	104.71
	TOTAL (decisions and forms)	358,117	179,841,677	355,363	181,069,161	99.23	100.68

Source: Tax Administration

Note:

The data are related only to those cities and municipalities for which the Tax Administration performs activities on determination, recording and charge of city/municipal taxes, and which have, on the basis of Agreement of the Minister of Finance, by own decisions, transferred these activities to the Tax Administration, to all own taxes or to particular taxes only.

In 2006 and 2007, the Tax Administration was performing these activities for about 50% of cities and municipalities.

12.6.1.7 County Taxes

Table 12.12 County Taxes

in HRK

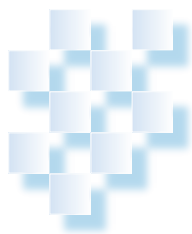
No.	NAME	YEAR				INDEX	
		2006		2007		(5:3)	(6:4)
		Number of decisions/forms	Amount of tax	Number of decisions/forms	Amount of tax		
1	2	3	4	5	6	7	8
1	TAX ON ROAD MOTOR VEHICLES	657,741	199,772,936	693,644	224,401,820	105.46	112.33
2	TAX ON VESSELS	5,173	1,693,900	5,325	1,781,800	102.94	105.19
	TOTAL	662,914	201,466,836	698,969	226,183,620	105.44	112.27

Source: Tax Administration

Note:

The data are related only to those counties for which the Tax Administration performs activities on determination, recording and charge of county taxes, and which have, on the basis of Agreement of the Minister of Finance, by own decisions, transferred these activities to the Tax Administration, to all own taxes or to particular taxes only.

In 2006 and 2007, the Tax Administration was performing mentioned activities to all counties excluding the County of Istria and the County of Koprivnica-Križevci.



12.6.1.8 Real Estate Transfer Tax and Special Tax on Transfer of Used Cars

Table 12.13 Real Estate Transfer Tax and Special Tax on Transfer of Used Cars

in HRK

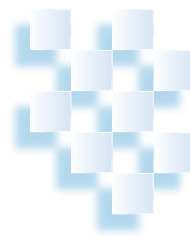
Ord. num.	DESCRIPTION	YEAR				INDEX	
		2006		2007		(5:3)	(6:4)
		Number of taxpayers	Amount of tax	Number of taxpayers	Amount of tax		
1	2	3	4	5	6	7	8
1	REAL ESTATE TRANSFER TAX	218,586	1,389,091,938	222,188	1,687,210,894	101.65	121.46
2	SPECIAL TAX ON TRANSFER OF USED CARS	176,184	151,214,403	194,964	170,869,895	110.66	113.00

Source: Tax Administration

Note:

The data on real estate transfer tax are related to the transfer of used immovable properties only because the new ones have the VAT obligation.

The data on special tax on transfer of used cars are related also to used ones only.



12.7 INTERNATIONAL COOPERATION

The International Cooperation and European Integration Office was performing administrative and other professional activities related to the preparation of Croatian accession to European Union, international cooperation and coordination of EU Pre-accession Aid Programs, in 2007.

12.7.1 Preparation of the EU Accession Negotiations

Within the activities of preparation of EU Accession Negotiations, substantial active cooperation with the European Commission (DG TAXUD) has continued during 2007. With this cooperation, technical consultations were continuously conducted. Tax Administration representatives were present at Subcommittee for Trade, Customs and Taxes, Committee for Stabilization and Accession as well as at the regular yearly FISCALIS committee. Within the TAIEX, due to entire preparation to complete negotiations, and better understanding of *acquis communautaire* of the European Union, technical consultations with the European Commission on the Savings Directive, were held. The European Commission has invited the Tax Administration on participation in EU forum on transfer prices.

Preparations for negotiation positions drawing up, i.e. previous analyses on which basis the ground for negotiation positions was made, were conducted.

In December 2007, the Draft of National Programme for Accession of the Republic of Croatia to EU (NPPEU) for tax area, was drawn up.

In 2007, the reports on realization of Agreement on Stabilization and Accession were drawn up with the purpose of monitoring the liabilities fulfillment which results from the Agreement.

During 2007, the employees of Tax Administration have participated actively in Programme FISCALIS; seminars and working visits with the purpose of better understanding the *acquis communautaire* of the European Union and development of the stronger and more complete cooperation with tax administrations of countries which are members.

In organisation of the European Commission and the Tax Administration, within the Programme FISCALIS, a seminar on new programme "Fiscalis 2013" was held. The purpose of the seminar was introductory presentation of Programme to all countries-members with special stress on news which new "Fiscalis 2013" brings in comparison with old "Fiscalis 2007".

12.7.2 International Cooperation

Within the bilateral cooperation, a successful cooperation with Netherlands, France, Slovenia and Macedonia was continued in 2007.

Within the multilateral cooperation, the closer cooperation with the Organisation for Economic Cooperation and Development (OECD) related to technical aid of OECD for transfer prices area, has started during 2007. Seminar on Transfer prices in the organisation of OECD and the Tax Administration was held.

The continual cooperation with the Intra-European Organisation of Tax Administrations (IOTA) was continued.

12.7.3 Programmes and Projects

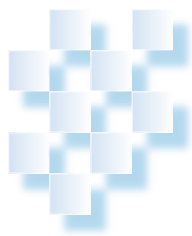
Within the framework of the CARDS 2004, the activities related to the twinning project "Strengthening of the tax system in VAT area due to preparation of development of VIES information system of mutual cooperation" have finished, and the activities on the project "Fiscal Blueprint" have also finished. At the end of 2007, the project "Analysis of the Risks Aimed at Selection of Tax Payers for Supervision" - MATRA (technical aid of the Kingdom of Netherlands) was ended.

Within the Programme PHARE 2005, the following projects have started:

1. the realization of twinning project
2. the preparation and start of the activities on service contract related to the project on VIES System development
3. the preparation of twinning light project "Strengthening and Modernization of the Tax Administration in the Supervision Area".

During the year, the project documentation for twinning project and the project documentation for the Agreement on giving the services to development of functions for improvement of VIES and development of VES (PHARE 2006), were done.

The Contract on Loan with the World Bank for the "Revenue Administration Modernization Project" (RAMP) was concluded and it became effective on 21 December 2007 by fulfilment of all given conditions.



12.8 INTERNAL SUPERVISION AND CONTROL OF THE TAX ADMINISTRATION

With the Ordinance on the Internal Organisation of the Ministry of Finance, in Tax Administration, as organizational unit of the Ministry of Finance, the Independent Department for Financial Management and Control is established.

Independent Department for Financial Management and Control performs administrative and other professional activities related to a comprehensive set of financial and other internal controls, organizational structure, methods and operations with the purpose of legal, economic and effective use of funds, effectiveness in providing state revenues, establishing system of responsibility, reducing of risks in accomplishing goals in any part of the system, compatibility with acts and regulations; discovering and punishing irregularities and deceptions, conducting of inspections or investigations on the ground of claims or law suits.

a) During 2007, the Independent Department for Financial Management and Control was coordinating establishment and development of internal financial controls system in the Tax Administration.

Due to support the realization of development and overview of the process of internal control, the Working group for establishment of the system of financial management and control was founded in the Ministry of Finance and a representative of Tax Administration, Independent Department for Financial Management and Control has participated in this working group.

In view of that the activities on business processes list by organisational units of the Tax Administration were performed during 2006, in 2007 a Plan of drawing up the descriptions of business processes was adopted and also all business processes of the Central Office of the Tax Administration were described including descriptions of activities, responsibilities for realization of activities and diagrams.

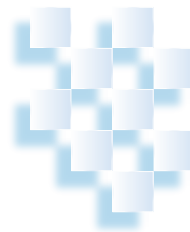
b) On the basis of Article 6 of Tax Administration Act, authorization which are related to the Ordinance on the Internal Organisation of the Ministry of Finance and annual plan and programme of work, Independent Department for Financial Management and Control in Tax administration provides the monitoring activities of regularity, timeliness and legality of work of civil servants and employees in organizational units of Central Office, regional offices and branches of regional offices with over 4,000 of employees.

Article 11 of Tax Administration Act regulates that if natural person or legal entity submits petition assuming that his/her rights have been violated by illegal acts of Tax Administration Officer, authorized organizational unit obligatory has to conduct control on the basis of determined facts and to undertake prescribed measures and accordingly report it to the Minister of Finance, Tax Administration Director and petition submitter.

Table 12.14 Control of Tax Administration Employees based on Complaints Received

Ordinal	Description	Number	Submitted petitions against civil			Petition submitters		
			Central Office	Regional Office	Branches	Anonymous	Citizens	Taxpayers
1	Petitions on unkindliness and arrogance of Tax Administration's employees	18		2	16	22	2	14
2	Petitions on unprompt problem solving	39	-	11	28	2	1	36
3	Petitions related to annual tax return	16	-		16			16
4	Petitions against inspector's work during the supervision	7	-	7		3		4
5	Petitions against bribe and corruption	1	-		1			1
6	Activities which are opposite to activities of the work	13	1	5	7	8	4	1
7	TOTAL	94	1	25	68	15	7	72
8	Proceeding by cases	94	1	25	68	15	7	72
9	Anomalities determined on basis of petitions by control	3						

Source: Lists of received subjects



During 2007, the Independent Department for Financial Management and Control has received 94 complaints on Tax Administration staff work regarding the unkind and arrogant approach of Tax Administration's Officers, unprompt problem solving, inspector's work during the supervision, bribe and corruption, unauthorized access to Tax Administration's Information system, conduction of financial records by Tax Administration's working staff, threats and intimidation.

If, during the inspection supervision of Tax Administrations staff work, the inspector defines that there are assumption for existence of light and heavy official responsibility damages defined by the Law on State Servants, or existence of criminal activity defined by the Criminal Act, the Tax Administration director submits a written proposal per severe offence or official responsibility to the responsible servants court, or criminal report to the State Attorney's Office.

By control of civil servants practice legitimacy in 2007, 6 Proposals to responsible servants' court and 2 Proposals for criminal activity to the State Attorney's Office were submitted, due to severe offence of official responsibility.

Severe offences of official responsibilities under the Act on State Servants involve: unknowingly performance of official duties, irregularities in work, providing incorrect information, malpractice, performing activities that are opposite to activities of the work and improper behaviour.

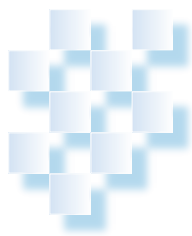
Independent Department for Financial Management and Control continuously performs control of anonymous and non-anonymous statements and runs a record, official note or report of determined facts.

In 2007, besides solving of anonymous and non-anonymous statements, the Department executed 866 controls of promptness of activities performance and implementation of the Act, Regulations, Instructions and other acts by the Tax Administration Officers due to protection of misuse, mistakes, irregularities and deceptions.

Table 12.15 Control of Tax Activities Performance

Ordinal	DESCRIPTION	Number	Annual plan	Upon leader's order	Requests	Government of the Republic of Croatia	State Attorney's Office	Ministry of Interior	Rest
1	Control of activities in the process of tax collection	866	866	866					
2	Control of activities based on reports	4						1	3
5	TOTAL	870	866	866				1	3

Source: Plan of activities and Proposal of the Director



12.9 DETECTION OF TAX CRIMINAL ACTIVITIES

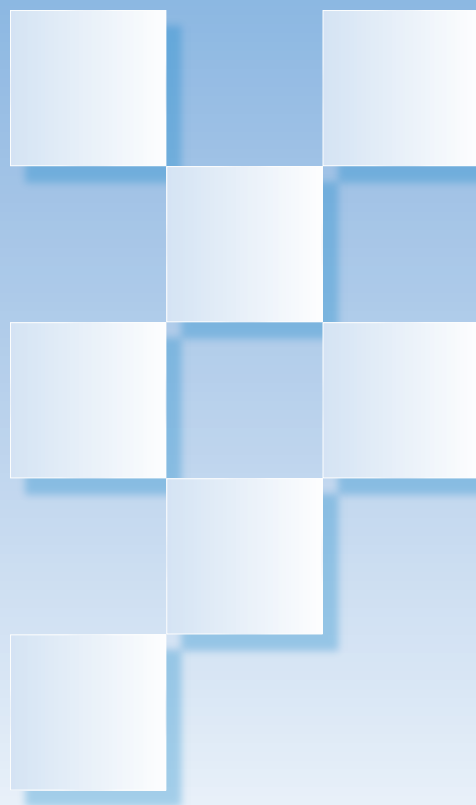
In 2007, 56 authorized agents were performing the activities related to the supervision and detection of tax criminal activities. Therefore, totally 761 orders for detection of tax criminal activities and investigating activities, were issued in 2007. Because of the specific work, in this service, orders are issued by requests of other state authorities for the most, in the sense of detection and processing of tax criminal activities. Therefore, the most orders were opened by requests of the Ministry of Interior - 80 requests, the Anti-Money Laundering Office had 68 requests, the State Attorney's Office 2 requests, county state attorney's offices 21 requests, municipal state attorney's offices 70 requests, the Office of the Suppression of Corruption and Organized Crime 21 requests, State Inspector's Office 14 requests and 22 requests of citizens. Concerning the mentioned requests, 88 orders had a sign Secret or Official secret or Very secret or Military secret. Also, by requests of regional offices, with well-grounded suspicion on doing the tax criminal activities of taxpayers, 273 supervisions were carried out. Out of all opened orders in 2007, 576 cases were finished and 185 were transferred in 2008. Related to finished orders, 166 tax decisions were issued and in these decisions, HRK 93.2 million of new non-reported tax liabilities was fortified. The liabilities due to statute of limitation which have caused a damage in the Budgetary Central Government in the amount of HRK 26.4 million were determined in supervisions. At the same time, 264 offence reports against taxpayers were submitted. After finishing cases, there were submitted totally 65 criminal reports in which 125 natural persons and legal entities were reported to 133 criminal activities. Total damage due to tax fraud and other public charges by mentioned criminal reports amounted to HRK 117.5 million.

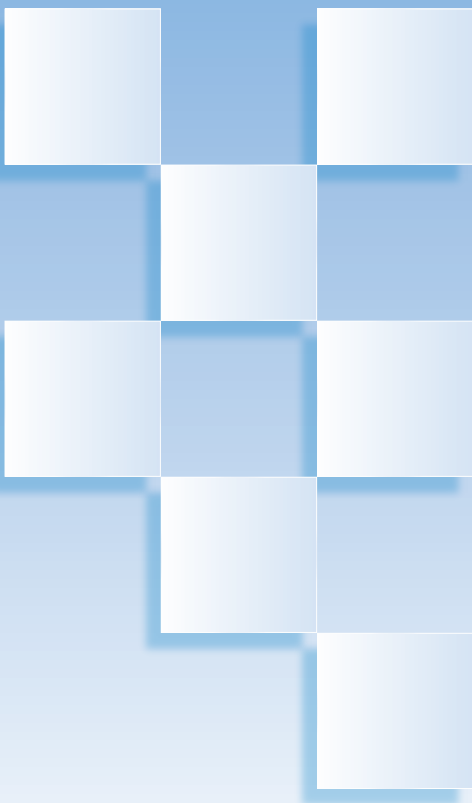
Table 12.16 Overview of Activities Results in 2007

Ordinal	DESCRIPTION	TAX CRIMINAL ACTIVITIES OSIJEK	TAX CRIMINAL ACTIVITIES RIJEKA	TAX CRIMINAL ACTIVITIES SPLIT	TAX CRIMINAL ACTIVITIES ZAGREB	TOTAL
1	Finished cases	137	67	197	175	576
2	Cases in processing	63	25	54	43	185
	TOTAL CASES	200	92	251	218	761
3	Issued decisions	68	40	42	16	166
4	Submitted misdemeanor reports	91	38	119	16	264
5	Submitted criminal reports	1	2	11	51	65
6	Amount of damage by criminal reports	2,616,656.00	12,908,127.16	19,839,176.15	82,136,049.01	117,500,008.32
7	Liabilities which run into debt	16,055,792.00	32,802,052.68	38,626,285.67	5,670,183.56	93,154,313.91
	TOTAL LIABILITIES DETERMINED IN SUPERVISION	16,055,792.00	32,802,052.68	38,626,285.67	5,670,183.56	93,154,313.91
	NOT RUN INTO DEBT					
8	Liabilities due to statute of limitation		19,819,957.88	5,884,045.87	666,264.59	26,370,268.34
9	Decrease of loss	5,444,122.40	6,510,663.59	24,806,925.55	2,286,846.16	39,048,557.70
10	Increase of income	2,721,476.30	9,098,036.90	4,024,416.44		20,107,758.91
11	Compensation for mineral raw material	799,602.79				799,602.79
12	Money laundering				449,682.37	449,682.37
13	Total which not run into debt	8,965,201.49	35,428,658.37	34,715,387.86	3,402,793.12	82,512,040.84
14	Charged liabilities		878,638.02	15,984,464.71	335,138.07	17,198,240.8

Source: Statistics reports of regional offices which are delivered to the Central Office of the Tax Administration, to Department for Detection of Tax criminal Activities, quarterly

13
**REPORT ON THE ACTIVITIES
OF THE CUSTOMS
ADMINISTRATION
IN 2007**







13.1 STRUCTURE AND ORGANISATION OF THE CUSTOMS ADMINISTRATION

The Ministry of Finance, Customs Administration is the administrative organization within the Ministry of Finance of the Republic of Croatia.

The Customs Administration is made of the Customs Headquarters based in Zagreb, A. von Humboldt 4a and of 17 customs offices as internal organisational units within the Customs Administration.

Within the Customs Headquarters one independent department and nine services are established, as follows:

1. Department for protocol, public relations and coordination of the activities of the Customs Administration
2. Service for internal supervision and control
3. Service for organization, legal affairs, development and training of personnel and general affairs
4. Service for financial-accounting affairs and affairs of building and maintenance of customs facilities
5. Service for customs system and procedures
6. Service for international cooperation and European integration
7. Service for special taxes
8. Service for customs tariff, value, origin and customs laboratory
9. Service for supervision
10. Service for information system, statistics and analysis.

The Customs Administration established seventeen customs offices:

1. Customs office Zagreb
2. Customs office Krapina
3. Customs office Osijek
4. Customs office Varaždin
5. Customs office Pula
6. Customs office Rijeka
7. Customs office Split
8. Customs office Koprivnica
9. Customs office Šibenik
10. Customs office Zadar
11. Customs office Ploče
12. Customs office Dubrovnik
13. Customs office Slavonski Brod

14. Customs office Vukovar

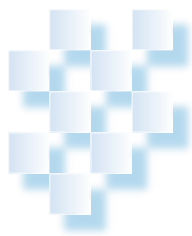
15. Customs office Virovitica

16. Customs office Karlovac

17. Customs office Otočac.

Supporting the initiative of the economic structures, the Government of the Republic of Croatia adopted a Conclusion on the establishment of the customs office Otočac, Vukovar, Virovitica and Karlovac, and the Decision on the beginning of work for the customs office Otočac on October 23, 2007, for the customs office Vukovar on October 24, 2007, for the customs office Virovitica on October 26, 2007 and for the customs office Karlovac on October 29, 2007, all for the purpose of more complete and effective meeting of the regional economy needs and saving of costs that businessmen pay in the customs procedures implementation.

By establishing new customs offices, the territorial organisation of the customs service is aligned with the actual goods cross-border traffic, by which the customs service approaches to business entities and serves as their service, which represents a significant shift of the state administration in regarding the interests of the economy.



The new organisation of each customs office fully meets the needs of the county with respect to size, population and economic potentials of that county.

Within the customs office **Otočac** the work of four customs branch offices is organized: Otočac (goods), Gospić (goods), Senj (goods-border) and Ličko Petrovo Selo (border) with the customs unit Užljebić.

Within the customs office **Vukovar** the work of ten customs branch offices is organized: Bajakovo (border-goods), Tovarnik - road (border), Tovarnik - railway station (border), Županja - bridge (border), Županja - terminal (goods), Ilok with customs units (border), Vinkovci (goods), Gunja with customs units (border), Vukovar (border-goods) and the Free Zone Vukovar (goods).

Within the customs office **Virovitica** the work of two customs branch offices is organized: Virovitica (goods) and Terezino Polje (border), and the customs unit Slatina (goods).

Within the customs office **Karlovac** the work of three customs branch offices with units is organized: Customs branch office Karlovac (goods) with a unit Pribanjci (border), Customs branch office Maljevac with 6 customs units (border), and the Customs branch office Jurovski Brod with 6 customs units (border).

The establishment of new customs offices enabled more effective and easier implementation of customs procedures, and, by this, the further development of the economy in the counties.

In 2007, the amendments to the Regulation on Internal Organization of the Ministry of Finance, Customs Administration, were brought, so the Department for protocol, public relations and coordination of the activities of the Customs Administration was established at Customs Headquarters in 2007, in order to better informing of the public about the work of the customs service.

By the same amendment, the Department for internal supervision and control was established as a Service for internal supervision and control, with increased number of employees, and with a goal of strengthening the control of the legality of all procedures carried out in the Customs Administration.

Customs Administration of the Republic of Croatia has brought, with the prior approval by the minister of finance, the Business Strategy of the Ministry of Finance, Customs Administration, the strategic document of development for the period 2007-2009, with the objective of harmonizing the work of the Customs Administration with the acquis and best practices of the customs services of EU member states.

The Strategy indicates the strategic goals which refer to legislation, human resources, collection of public revenues, informatization, protection of society and security, international cooperation, trade facilitation, cooperation with business and public relations.

Customs service of the Republic of Croatia celebrates two customs jubilees: International Customs Day, on January 26, the day when the World Customs Organization with headquarters in Brussels was founded, back in 1953, and the Day of the Customs Service of the Republic of Croatia, which is celebrated on September 21, on the day of St. Matthew.

The Customs Administration has three unions, as follows:

- Customs union of Croatia
- Union of civil servants and civil service and local government employees of the Republic of Croatia
- Independent union of the customs officers of Croatia

The Customs Administration had a total of 3,174 employees on December 31, 2007.

Table 13.1 The structure of employees in the Customs Administration on December 31, 2007

Employed persons, as on 31 December	Number
Number of employed - University degree	570
Number of employed - Non-university college degree	554
Number of employed - Secondary school education	2,050
TOTAL	3,174

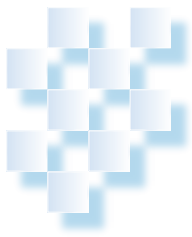
Source: Ministry of Finance, Customs Administration

**Table 13.2 Employment by gender in the Customs Administration on December 31, 2007**

CUSTOMS ADMINISTRATION	men		women		TOTAL
TOTAL	2,044	64%	1,130	36%	3,174

Source: Ministry of Finance, Customs Administration

In the period from January 2004 until the end of 2007 the Customs Administration employed a total of 301 servants, while 292 servants left the service, from which it is clearly that the Customs Administration continued to perform successfully given tasks with relatively the same number of servants considering the increased volume of operations and activities.

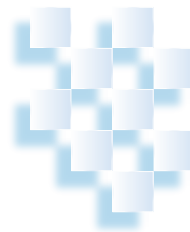


13.2 CUSTOMS TRAINING CENTER - CENTER OF NEW OPPORTUNITIES

Customs training center, that is, the Department for training of personnel and professional development, as an internal organizational unit within the Service for organization, legal affairs, development and training of personnel and general affairs recorded in 2007 the second year of the Center's work and the first year of work in the new accommodation units, which resulted in the increase in work intensity and number of participants in educational programs.

Expressed in numbers, from January 1 to December 31, 2007, there were 142 different training activities, i.e., seminars, workshops and expert meetings held, which included 2,378 participants.

Training was conducted according to the Annual education plan for the officials of the Ministry of Finance, Customs Administration of the Republic of Croatia, which referred to specialist training, and includes all specialist areas: Customs system and procedures, Intellectual property rights protection, Trade and foreign exchange system, Special taxes and other taxes, Customs tariff and knowledge of the goods, Customs value of goods, Origin of goods, Customs supervision, Subsequent verifications, Prevention of smuggling and frauds, the Implementation of CITES, the Dual-purpose goods, Risk assessment, NCTS, Integrated Border Management - interagency cooperation and Prevention of corruption.



13.3 REVENUES OF CUSTOMS ADMINISTRATION

Regarding the revenues collected by the Ministry of Finance, Customs Administration, we must point out that they increased by **9%** in comparison to the same period of the previous year.

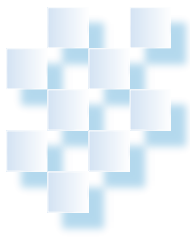
In the structure of Customs Administration revenues: special taxes (excises) form **23.88%**.

In the structure of Customs Administration revenues: customs duties make **4.39%**.

In the structure of Customs Administration revenues: VAT on imports constitutes **71.60%**.

In the structure of the Customs Administration revenues: other revenues constitute **0.13%** (fines, customs duties in cash, handling charges, etc.)

(Data refer to the period January - December 2007)



13.4. INTERNAL SUPERVISION AND CONTROL

Implementation of the internal supervision and control - during 2007, until the December 31, 2007, there were totally **61** supervisions of the work of organizational units of the Customs Administration of the Republic of Croatia carried out.

Thereof was executed:

- 14 supervisions of the internal (goods) customs branch offices
- 47 supervisions of border customs branch offices.

Customs office	ZG	KR	ST	SB	OS	KC	VŽ	ŠI	DU	PL	ZD
Number of controls	17	9	1	5	14	2	1	1	5	5	1

Treatment of petitions - there were 46 complaints or petitions received and treated.

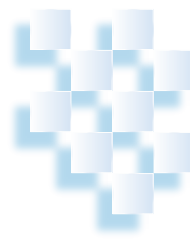
The complainants:

- Legal persons (9)
- Natural persons (37) - of this number, 13 complaints were submitted anonymously.

The activation and establishment of the project of raising the awareness about the hazard of corruption.

Logo of the project is STOP CORRUPTION, and the goals of such campaign are the following:

- raising the awareness about the hazard of corruption of customs officials and the public
- collecting data (hot-line and e-mail) - the possibility of reporting cases of corruption according to the form with a precisely selected (required) data
- self-assessment of the integrity of the customs service.



13.5 LEGISLATIVE ACTIVITIES

During 2007 the Customs Administration conducted a series of activities aimed to more complete alignment with the European customs regulations, particularly focused on fulfilling the obligations taken within the Chapter 29: Customs Union. Namely, the Croatian customs system, whose basic provisions are: Customs Act (Official Gazette 78/99 to 60/08), Regulation on the Implementation of the Customs Act (Official Gazette 161/03 to 70/08), Regulation on the Conditions and Procedures for Achieving the Exemption from the Payment of Customs Duty (Official Gazette 5/07) and Ordinance on the Use of Forms in the Implementation of the Customs Act (Official Gazette 176/03), reached a high level of alignment with the European customs system, since its establishment in 2000, where the minor discrepancies remained, for which the obligation of adjustment was taken in the Negotiating position for the mentioned chapter.

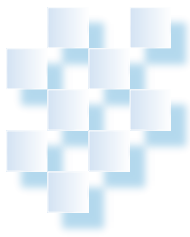
Further alignment of legislation realized in 2007 includes the adoption of the Regulation on Amendments to the Regulation on the Implementation of the Customs Act (Official Gazette 5/07) and the new Regulation on the Conditions and Procedures for Achieving the Exemption from the Payment of Customs Duty (Official Gazette 5/07).

Following the amendments to the Customs Act, implemented by the Act on Amendments to the Customs Act (Official Gazette 138/06), by carried out amendments to the Regulation on the Implementation of the Customs Act the following major changes were made:

- a) deleting of the provisions on the single rate of customs duty, given that they entered into the Regulation on the Customs Tariff for year 2007,
- b) the establishment of possibility of annulment of customs declarations only in special cases (the valid provisions stipulated the possibility of annulment), in accordance with the explicitly taken obligation during the negotiations and in Negotiating position for the Chapter 29: Customs Union,
- c) the establishment of the provisions which regulate the management of tariff quotas which are approved by chronological order of the customs declarations dates (first come - first served) and the system of reporting in the supervision of goods for which the privileged treatment under the tariff quota is granted, whose application is conditioned by the regulation of the respective distribution system in special Regulations,
- d) the harmonization of provisions on transit procedure and modification of certain existing forms and introduction of new forms, mostly for the chapter "Transit procedure", which are an integral part of the proposed regulation.

Following the implemented modifications of Article 187 of the Customs Act, which regulates the exemptions from the payment of customs duty, but also with the goal of further alignment with the regulation of customs exemptions in the EU customs system (Council Regulation EEC No. 918/83), the new Regulation on the Conditions and Procedures for Achieving the Exemption from the Payment of Customs Duty included the following amendments:

- a) regarding the exemption from the payment of customs duty when bringing in tobacco products and alcoholic beverages - reducing age limit of passengers from 18 to 17 years;
- b) regarding the exemption from the payment of customs duty for humanitarian organizations, the expansion of possibility of the exemption also on the equipment essential to these organizations to operate their core business, concerning that the exemptions do not include alcohol and alcoholic beverages, tobacco and tobacco products, or when it comes to equipment, motor vehicles, except for ambulance vehicles;
- c) regarding the exemption of the import of equipment for handicapped persons, the expansion of possibility of the exemption also on the cases when persons import directly the necessary items;
- d) the largest number of amendments included the exemptions from the payment of customs duty in move of natural persons from other countries in the Republic of Croatia, where the following changes were made:
 - the ability of repeatedly use of the exemption was established,
 - the conditions regarding household objects have been mitigated - the required period of prior residence abroad has been reduced from three to one year and the previous possession



- and use of household items from 12 to 6 months, but, at the same time, the conditions for exemption from payment of customs duties regarding economic inventory have been tightened
- an obligation of conducting business in the country of prior residence for at least 12 months has been introduced, and thus also the only possibility to import second-hand equipment,
 - the ability to extend the deadline for the import has been established,
 - the value of gifts received for the wedding has been increased to the individual value of EUR 1,000,
 - the possibility of the exemption from the payment of customs duty on import of personal cars, regardless of the origin of the vehicle and the state of previous residence of the importer - user of the exemption, has been introduced;
- e) regarding the imports of donation shipments the possibility of using has been limited, concerning the fact that the alcohol and alcoholic beverages, tobacco and tobacco products and motor vehicles (except ambulance vehicles) are excluded from the exemption;
- f) terms and procedures of the exemptions from the payment of customs duty on import of items that are used for cultural, scientific, educational and medical purposes have been arranged in more detail.

In the continuation of the process of alignment of Croatian legislation with the EU acquis, the activities with the aim of more consistent alignment of the Regulation on the implementation of customs measures in connection with goods for which it is suspected that violate certain intellectual property rights were undertaken in the Customs Administration, based on which the Regulation on Amendments to the Regulation on the implementation of customs measures in connection with goods for which it is suspected that violate certain intellectual property rights (Official Gazette 82/2007) was adopted. The amendments to the Regulation refer to two very important areas, that is institutes in the implementation of customs measures for the protection of intellectual property rights, and on the area of the exceptions from the application of customs measures for the protection of intellectual property rights, which, in its essential content implies a different mode of application of customs measures for the protection of intellectual property rights on goods in postal traffic, and the institute of so-called simplified procedure for the destruction of goods that violate the intellectual property right. It is important to emphasize that carried out amendments enabled that the customs measures for the protection of intellectual property rights can be fully applied to all postal shipments regardless of the value and the quantity of goods. They also enable the implementation of so-called simplified procedure for destruction of goods that violate the intellectual property right.

The Regulation on customs tariff for year 2008 (Official Gazette, 124/2007) was also adopted, where it is important to emphasize the harmonization with the modifications of Combined nomenclature, that is with the Combined nomenclature for year 2007, according to the Stabilisation and Association Agreement. The harmonization of customs duty rates for seven tariff codes which relate to pharmaceutical products, in a way that the existing rate of customs duty reduces to zero, as provided by the Combined nomenclature.



13.6 INTERNATIONAL COOPERATION AND EUROPEAN INTEGRATIONS

Within the accession negotiations, after the Government of the Republic of Croatia has adopted a Negotiating position for Chapter 29: Customs Union, and it was delivered to the EU Council, on the Intergovernmental Conference on the accession on the level of Chief negotiators, the negotiations on this chapter were opened.

Also, as a part of the accession negotiations activities, the European Commission has conducted two observation missions in the Republic of Croatia in order to assess the administrative capacities of Customs Administration required for complete and uniform implementation of the EU acquis for Chapter 29: Customs Union.

As a result of the second mission, the European Commission reported to have noticed the necessary improvements, that is, that the necessary and consistent measures have been taken, which have resulted in visible effects, particularly in the areas of customs officers education, services provided to economic subjects, and in the area of internal supervision and control.

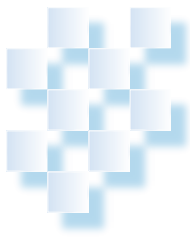
In 2007 the following CARDS twinning projects have been successfully ended:

- CARDS 2003 "Support to the Customs Administration in the Field of Special Taxes"
- CARDS 2004 "Modernization of Customs Administration in order to prepare for implementation of the Management System of Tariff of the Community"
- CARDS 2003 Twinning light "Strengthening of the Customs Laboratories System in Croatia".

Tendering procedure was also conducted and all six projects under Phare 2005 were contracted. These are the projects focused on setting up the customs information systems that are essential for the establishment of interconnectivity with the EU customs information systems in order to, immediately upon the accession to the full membership of the EU, the exchange of information with the European Commission and the member states would be allowed.

The agreement on mutual assistance in customs issues between the Government of the Republic of Croatia and the Cabinet of Ministers of Ukraine was concluded.

In October 2007 the Customs Administration has been the host to the 16th meeting of the customs services for prevention of smuggling and fraud, which was held in Cavtat and attended by the representatives of almost all European countries and the representatives of the World Customs Organization, INTERPOL, EUROPOL, OLAF, SECI Centre and the representatives of Bosnia and Herzegovina as an observer country.



13.7 INTERNATIONAL PROJECTS

After successfully completed explanatory and bilateral screening in 2006 for the Chapter 16 - Taxation, which also includes the excise duties as indirect tax in the jurisdiction of the Customs Administration, the European Commission Screening Report for this chapter was received at the beginning of 2007, claiming that the Customs Administration is prepared for opening the negotiations and the delivery of Negotiation Positions, without any additional criteria for opening.

The twinning project of the European Union CARDS 2003 "Support to the Customs Administration in the Field of Excises" which began in 2006, carried out by plan and finished on July 19, 2007. As a result of successfully conducted project and 42 professional workshops and 5 study trips, the Excise Strategy was made, which has become a part of the Strategy of Customs Administration, the expert bases for making the first draft legislations harmonized with EU Directives have been prepared, training of 14 trainers has been conducted, the quality management system has been processed and the analysis of business processes due to a better organization and management of the excise system has been carried out. The closing ceremony of the project was held on September 11, 2007.

In accordance with the agreement with the European Commission, the Customs Administration produced the SEED application, by using state budget funds. The application was done in consultation with the Austrian twinning partner and developed by the strategic partner of the Customs Administration, APIS IT. Employees of the Services for special taxes were involved in making application as members of the Commission for making SEED application.

At the end of 2007 Phare 2005 project "EMCS Management Development and Support" began, as a continuation of the CARDS project, with the aim of providing support to the Customs Administration in the management of the development of Excise Movement and Control System (EMCS), which should enable the movement of excise goods between authorized economic entities without completing the written documents and thus ensure better supervision of competent authorities in the collection of excise duties.

According to the education program of the Center for training of customs officials, the employees of the Service for special taxes participated in the training of trainees and new employees and held a workshop in which the customs officers who have completed the training for trainers got familiar with the EU legislation in the area of excise duties.

On the basis of the Act on Amendments to the Act on Excise Duty on Petroleum Products (Official Gazette, 57/06), the Draft Regulation on the Amount of Excise Duty on Petroleum Products was made, based on which the Government of the Republic of Croatia adopted the Regulation on the Amount of Excise Duty on Petroleum Products, which was published in Official Gazette, No. 44/07.

Proposal of an Act on Amendments to the Act on Excise Duty on Alcohol was made, by which it was added that a special tax in the amount of "0" kuna on the alcohol contained in wine is paid in the same amount on the alcohol contained in fruit wine. The Croatian Parliament passed the Act on Amendments to the Act on Excise Duty on Alcohol at its session on October 5, 2007, which was published in the Official Gazette No. 107/07.

During 2007 the employees of the Service for special taxes participated, within the Fiscalis programme, in seminars held in Slovenia, Hungary, Ireland and Latvia.

The Customs Administration began in 2007 with the implementation of the following projects under the PHARE 2005:

NCTS - New Computerized Transit System

ITMS - Integrated Tariff Management System

EMCS - Excise Movement and Control System - the system of control of movement of excise goods in which officials of Service for information system, statistics and analysis actively participate

Each of the above projects consists of two components: the development of software and twinning.

The aim of the projects is the development and implementation of the national system of the Customs Administration for connecting to IT systems of the European Union (interoperability and interconnectivity).

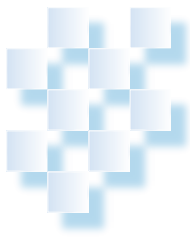


During 2007 the national application SEED (System for Exchange of Excise Data) was developed - national register of excise taxpayers in the system of postponement in payment of excise duties. The application will continue to upgrade in accordance with EU requirements and new specifications.

The implementation of risk management was completed within the project Risk Management, which will continue to develop.

The implementation of data exchange with the Republic of Slovenia was conducted, and the service is available at all border crossings with the Republic of Slovenia.

The service has continuously developed, expanded the existing business applications, monitored and improved the work of IT system of Customs Administration during the entire year.



13.8 RESULTS IN COMBATING FRAUD - SMUGGLING

Within the international cooperation (SECI centre, OLAF, WCO, EUROPOL and customs administrations of European countries), the officials of Customs Administration of the Republic of Croatia participated in 2007 in implementation and coordination of several customs operations, as follows:

“SECURE ARK” - focused on monitoring the container maritime and road traffic and prevention of smuggling of goods that can be used in terrorist purposes;

“LOGO” - aimed at the suppression and detection of smuggling of synthetic drugs;

“CONTAINMENT VI” - HARMONY - focused on combating illegal trafficking of drugs, primarily heroin on the so-called Balkan route;

“SHADOW” - focused on monitoring the legal movements of cigarettes shipments and combating the smuggling of tobacco products;

“ADRIA” - focused on the monitoring of legal shipments of cigarettes and raw materials for the production, prevention of their smuggling, as well as the smuggling of other high-tariff goods;

“MATTHEW” - directed at combating the smuggling of tobacco products and alcohol

“REMBRANDT” - bilateral operative action with Bosnia and Herzegovina.

Customs officials also participated in the exercise of controlled delivery of drugs “BALKANS 2007”.

We coordinated and organized targeted operative actions of mobile units of customs and the Ministry of the Interior in the customs territory of the Republic of Croatia: action “VELJAČA”, action “TRAVANJ”, action “SRPANJ” and action “STUDEN”.

We participated in joint actions with the Mobile unit for monitoring the state border of the Ministry of the Interior of the Republic of Croatia, which were totally 42 in 2007, for the purpose of detecting illegal traffic of goods, illegal entry to the territory of the Republic of Croatia of people and vehicles on the entire territory of the Republic of Croatia.

During 2007 the excellent cooperation with the U.S. Embassy in Zagreb in the EXBS (Export Control and Related Border Security Assistance) Program has been realized, through which the equipment was donated to the Customs Administration of the Republic of Croatia in the value of approximately USD 400 thousands.

In year 2007 there were over **1,600 subsequent controls** carried out, in accordance with Article 90 of the Customs Act.

Of this number, the largest number - 902 controls, relates to the control of excise goods. Also, over **400 requests for initiation of misdemeanor proceeding** were compiled.

By systematic control over the traffic of goods, which was carried out by the Customs Administration officials, in 2007 over 14,000 controls of intended use and the use of heating oil and eurodizel fuel colored blue were conducted.

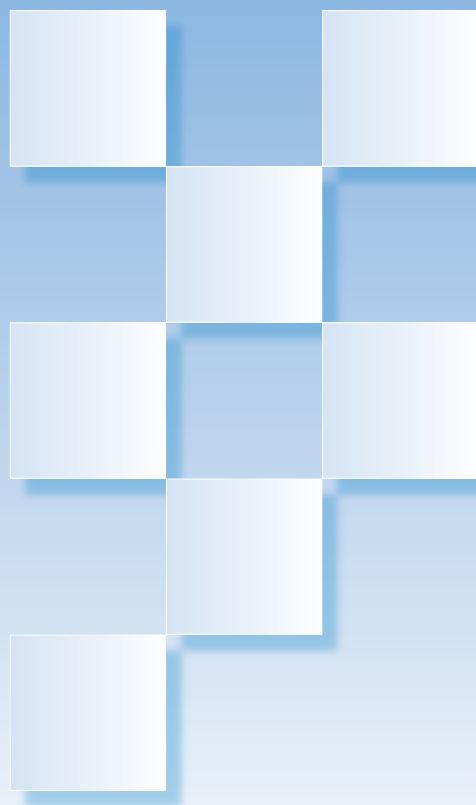
Special activities were aimed at control of gray charter and temporary import of vessels, so over 450 controls were carried out in 2007.

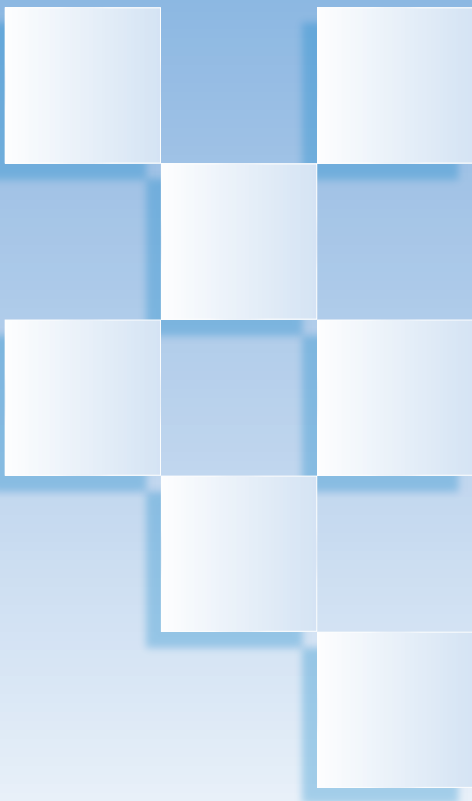
During 2007 the Customs service totally seized more than 16,212,057 pieces of different types of cigarettes intended for the black market of the Republic of Croatia and Europe. Also, in 2007 the customs officials have totally seized more than 66 kilograms of different types of drugs, mostly heroin and marijuana.

In year 2007 the significant achievements regarding the implementation of the Convention on International Trade in Endangered Species of Protected Plants and Animals were accomplished, where it should especially point out the confiscation of 10 pieces of tortoises *Geochelone radiata*, strictly protected by the Nature Protection Act, in the value of EUR 20,000, 35 pieces of chameleons *Calumma globifer*, worth EUR 17,500 and 140 pieces of chameleons *Calumma parsonii*, worth EUR 112,000 thousands.

During 2007, through cooperation with the European Union and the United States, the Customs Administration has received donations of modern equipment for the implementation of customs supervision in the value of over EUR 500,000.00.

14
**REPORT ON THE ACTIVITIES
OF THE FOREIGN EXCHANGE
INSPECTORATE IN 2007**







14.1 INTRODUCTION

Organisation, scope of activities and authorities of the Foreign Exchange Inspectorate are stipulated by the Act on the Foreign Exchange Inspectorate, Foreign Exchange Act and Regulation on Internal Organization of the Ministry of Finance.

According to the mentioned acts, the Foreign Exchange Inspectorate is organised as the administrative organisation within the Ministry of Finance, whose main task is supervision of prescribed capital regime application. Regarding the entrusted jobs, Foreign Exchange Inspectorate performs inspectional supervision and conducts misdemeanour proceeding of the first instance in the area of foreign exchange operations and credit transactions with foreign countries, concerning residents, as well as non-residents performing their business or other activity in the territory of the Republic of Croatia. The Foreign Exchange Inspectorate also researches and monitors the actual issues and phenomena from the foreign exchange system and participates in preparing drafts of acts and implementing regulations from the foreign exchange and associated regulation.

Under controls from its main jurisdiction, the Foreign Exchange Inspectorate also monitors the application of measures and activities stipulated by Money Laundering Prevention Act, and also performs direct supervision by this Act upon the request of the Anti-Money Laundering Office, police and State Attorney's Office. As a supervisory authority of a wide range of obliged persons, and as an active participant in defining guidelines and indicators for recognizing suspicious transactions, the Foreign Exchange Inspectorate became an important link in the Croatian system of the money laundering prevention. Supervisory activities in this area become more and more significant as the process of liberalization of foreign exchange operations and removal of capital flow restrictions is applied intensively in Croatia since the year 2003. This processes increase the need for strengthening supervisory mechanisms, in order to prevent and disclose abuses of free movement of capital and freedom to provide financial services for money laundering and other illegal activities. Tasks and priorities in the foreign exchange supervision are thereby redirected in the area of monitoring and disclosure of different forms of illegal payments, especially in cross-border operations.

According to mentioned, the preparations in drafting new legislative and institutional framework, which has to ensure the functional restructuring of the Foreign Exchange Inspectorate, as well as the strengthening of its capacity for the implementation of new tasks and activities, started in 2007. Thereby, the internal organisation of the Foreign Exchange Inspectorate has been changed at the end of 2007 by introducing new specialist organisational units, as follows:

- Department for financial investigations, which will supervise the application of regulations and implement measures and activities relating to disclosure, prevention and penalty of crimes in the area of money laundering and terrorism financing, current and capital operations and payment transactions with foreign countries, and
- Department for international cooperation, which will perform expert jobs which refer to international cooperation and communication with international organisations from the Foreign Exchange Inspectorate's scope of activities.

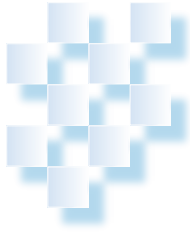
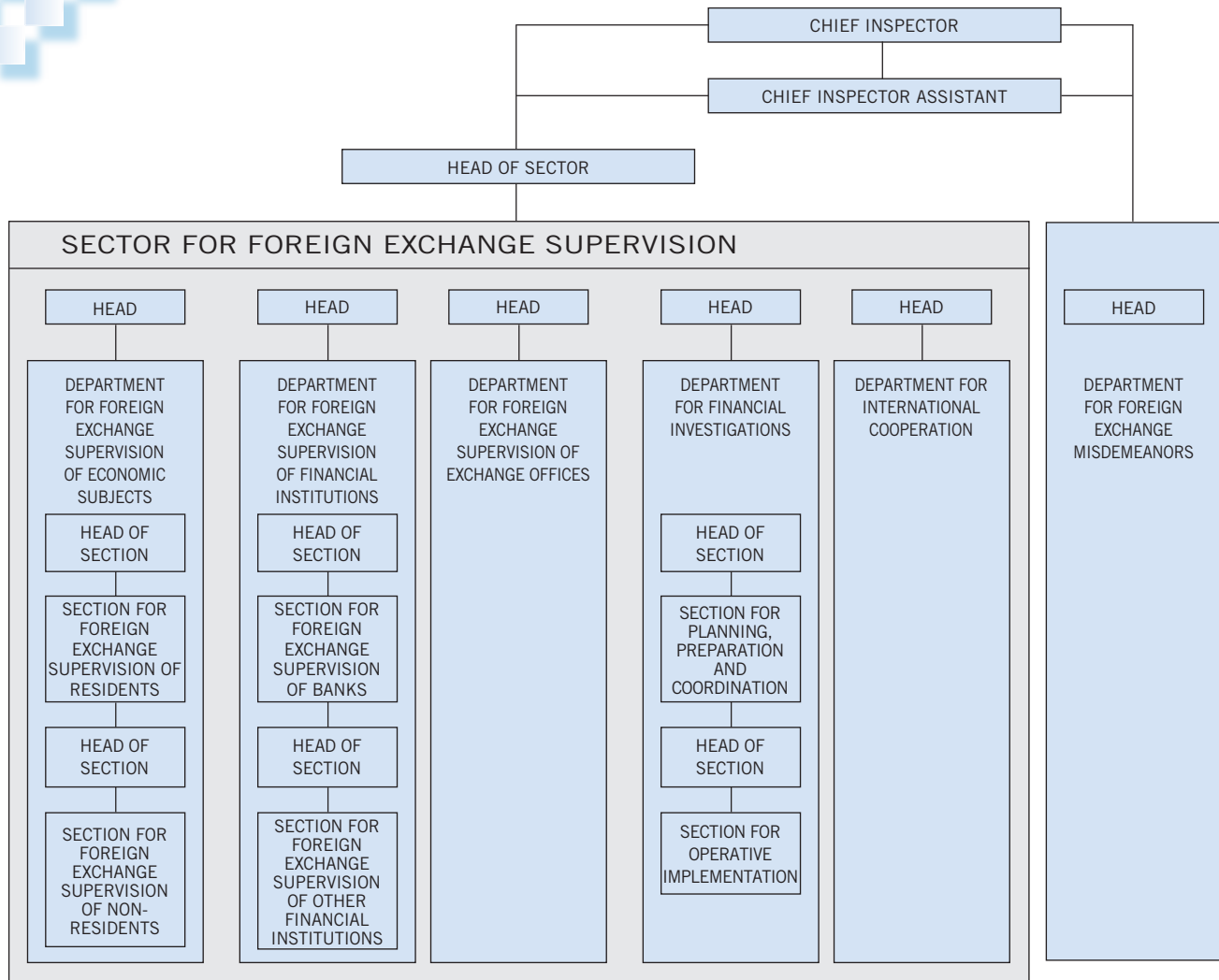


Table 14.1 Organisation of the Foreign Exchange Inspectorate of the Republic of Croatia





14.2 INSPECTIONAL SUPERVISION IN 2007

Supervision in 2007 was performed by authorized persons of the Foreign Exchange Inspectorate, totally 18 inspectors and 2 heads of department, which is one inspector less than in 2006 and four inspectors less than in 2005. Such an outflow of competent persons complicates the execution of planned activities, because, at the same time, there is an increase in the number of requests for complex supervisions by other supervisory authorities and criminal prosecution bodies.

However, also in the circumstances of decreased capacities for inspectional supervision, by increased engagement of all inspectors, totally 457 direct supervisions were carried out in 2007. By the structure of entities, in the total number of realized supervisions of the Foreign Exchange Inspectorate participated:

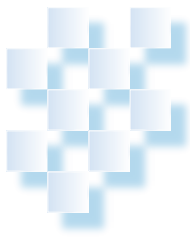
- authorised exchange offices (300)
- banks and other financial institutions (13)
- non-financial sector entities - companies and craftsmen (110)
- natural persons - citizens (34).

In the segment of exchange transactions, where the Foreign Exchange Inspectorate is main supervisor of the application of foreign exchange regulations and regulations on the money laundering prevention, controls again covered around 30% of total number of contractual exchange offices, although the number of inspectors was lower than the previous year. With the purpose of more efficient planning of supervision of entities of this sector, the Foreign Exchange Inspectorate conducts up-to-date register on conducted, amended and annulled bank agreements with authorised exchange offices and the licences for its work issued or seized by the Croatian National Bank.

By using statistical data of the Croatian National Bank and acting by notifications from the Anti-Money Laundering Office, the Foreign Exchange Inspectorate has focused the supervision of legal and natural persons to those participants of the payment transactions with non-residents which realize significant transfers on various non-goods basis: consulting services, market research services, licenses, direct investment etc. The adequacy of payments toward ownership-related and off shore companies abroad was especially examined, for instance, are the paid services really done and charged in line with transfer prices principle or it is about payments on the basis of fictitious contracts and invoices, i.e. unfounded transfer of the capital abroad.

The majority of activities regarding bank controls focused on the identification of irregularities related to disposal of money on the accounts opened for collection of funds for the reconstruction and defense of the sovereignty of the Republic of Croatia in the 90's. All activities in this area were coordinated by the State Attorney's Office.

For the purpose of planning and quality supervision of non-residents' deposit operations (foreign companies, representative offices, associations and other foreign organizations and foreign natural persons), the Foreign Exchange Inspectorate updates at annual level the register of non-resident accounts of the foreign persons opened in domestic banks with the following information: the owner of the account, the name of the bank that keeps the account, identification number of the non-resident, the number of account, and balance and transactions on the account. Data from mentioned register are used in the supervision procedures of the Foreign Exchange Inspectorate, and also serve to needs of other supervisory authorities in the Republic of Croatia.



14.3 THE MOST IMPORTANT RESULTS IN IMPLEMENTATION OF INSPECTIONAL SUPERVISION

Supervising the legitimacy of conclusion and realization of the current and capital transactions with foreign countries and the implementation of the prescribed conditions and methods of payment operations with foreign countries, the Foreign Exchange Inspectorate took the following supervision measures in 2007:

- there were 191 criminative proposals submitted, with 361 determined misdemeanors and 4 criminal charges;
- rulings ordered correction of irregularities in operations with foreign means of payment in the country and/or reimbursement of unfounded capital transfer abroad in the equivalent of nearly HRK 3.7 million;
- pursuant to Article 96 of the General Tax Act, 33 initiatives for control and accounting of tax payments related to disputed payments abroad have been addressed to the Tax Administration, in the equivalent of nearly HRK 228 million. At the same time, by Foreign Exchange Inspectorate previous years' initiatives, Tax Administration identified in 2007 nearly HRK 8 million of unpaid tax liabilities in additional supervision;
- an initiative for additional calculation of custom duties on the part of expenses that weren't included in the basis for customs and VAT calculation has been addressed to the Customs Administration, in the amount of HRK 30.5 million, while, according to the Foreign Exchange Inspectorate previous years' records, Customs Administration calculated in 2007 nearly HRK 1.1 million of unpaid customs duties in additional supervision;
- 19 pieces of information has been addressed to the Anti-Money Laundering Office, Ministry of the Interior, State Attorney's Office and the Croatian National Bank for activities from the area of their competence.



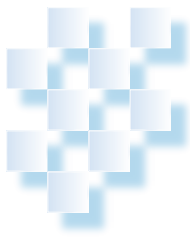
14.4 THE RESULTS OF MISDEMEANOR PROCEEDING CONDUCTION

Foreign Exchange Inspectorate conducts misdemeanor proceeding of the first instance for the misdemeanors stipulated by the Foreign Exchange Act and Act on the Foreign Exchange Inspectorate of the Republic of Croatia. The misdemeanor proceeding initiates based on the requests for misdemeanor proceeding initiation submitted by authorized persons of the Foreign Exchange Inspectorate, Croatian National Bank, police, Customs Administration, Tax Administration and other statutory authorized bodies.

In the second instance on appeals against the decisions of the Council for misdemeanor proceeding of the Foreign Exchange Inspectorate decides High Court of Minor Offences of the Republic of Croatia.

The Foreign Exchange Inspectorate achieved the following most important results in the conduction of misdemeanor proceedings in 2007:

- there were 345 cases finished in the misdemeanor proceedings, where HRK 18.7 million of fines was declared, and HRK 5.6 million of fines and proceeding expenses were charged in favor of the state budget;
- by decisions on misdemeanor due to the illegal transfers of the cash when crossing the state border, there were declared safety measures of taking away the subject of misdemeanor in the value of EUR 346 thousands.



14.5 LEGISLATIVE ACTIVITIES IN 2007

According to the plan of fulfillment of taken obligations of the Government of the Republic of Croatia concerning the complete capital account liberalization by the end of 2008, the liberalization of capital transactions and cash payments continued also in 2007. For this purpose, the Croatian National Bank changed two subordinate regulations in the fourth quarter of 2007: The Decision on manner and conditions under which residents operating with non-residents may receive or execute payment in domestic cash, foreign cash and checks and the Decision on collection of data for the purposes of compiling the balance of payments, foreign debt and international investments. By amendments to the above mentioned decisions, the restrictions on payments and collections in kuna cash between residents and non-residents for current and capital transactions have been completely abolished, and for residents the obligation of foreign credit transaction registration with the Croatian National Bank, as the condition for its realization through commercial bank, has been abolished.

The most important activities of the Foreign Exchange Inspectorate concerning the changes of the legislative framework from its jurisdiction referred to the participation of its representatives in the work of the working groups in charge of preparation of two acts: the Proposal of an Act on Financial Inspectorate and the Proposal of an Act on Money Laundering Prevention and Terrorism Financing, by which it is planned to replace entirely the former Act on the Foreign Exchange Inspectorate and the Money Laundering Prevention Act.

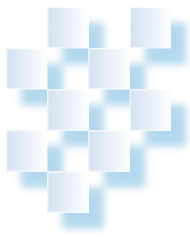
By the first act it is intended to ensure the functional and institutional reorganisation of the Foreign Exchange Inspectorate into supervisory authority with authorities for supervision of several financial acts, so is understandably also planned the change of his name into the Financial Inspectorate. On the other hand, the new act that would regulate the area of money laundering prevention represents a necessary adjustment of the Croatian legislative and implementation framework with the EU acquis in this area.



14.6 COOPERATION WITH OTHER SUPERVISORY AND REGULATORY AUTHORITIES AND INSTITUTIONS

In accordance with the provisions of Article 56 of the Foreign Exchange Act, which prescribe the obligation of supervisory authorities on the exchange of information needed in the process of foreign exchange supervision and informing each other on irregularities established in the course of supervision, provided such findings are relevant for the work of the other supervisory authority, the Foreign Exchange Inspectorate has continued the earlier practice of developing cooperation with other regulatory authorities:

- Based on the Agreement on cooperation and exchange of information in the field of foreign exchange supervision, which was signed in April 2007 by the Ministry of Finance - Foreign Exchange Inspectorate and Customs Administration and the Croatian National Bank, and which regulates the content and manner of mutual notification and other forms of cooperation, the better flow of information and coordination of mutual activities was achieved, as well as on legislative and implementation plan
- At the beginning of 2007 the Protocol on cooperation and establishment of interinstitutional working group for the prevention of money laundering and terrorism financing has been signed by 11 government institutions and agencies: the Ministry of Justice, State Attorney's Office, the Ministry of the Interior - Police Directorate, the Ministry of Finance (Anti-Money Laundering Office, Foreign Exchange Inspectorate, Customs Administration, Tax Administration, Financial Police), the Croatian National Bank, HANFA, the Security Intelligence Agency. The Protocol is an expression of willingness for strengthening cooperation in the field of prevention of money laundering and terrorism financing and raising the efficiency of all the relevant supervisory authorities in this area
- Representatives of the Foreign Exchange Inspectorate participated in the preparation of a Protocol on cooperation and exchange of information between the Ministry of Finance and the Ministry of Interior, aimed at enhancing the implementation framework for the exchange of information and data and operative activity of both institutions. The Protocol was concluded in 2007 and it shall apply in 2008
- Representatives of the Foreign Exchange Inspectorate participated in the work of Interdepartmental Working Body of the Government of the Republic of Croatia for the suppression of terrorism, which is coordinated by the Ministry of Foreign Affairs and European Integration, as well as in the work of the Working Group of the Government of the Republic of Croatia for preparation of the National Strategy for the Prevention and Suppression of Terrorism, which is coordinated by the Ministry of Interior
- In 2007 the representatives of the Foreign Exchange Inspectorate participated in numerous preparatory activities for the justification of the final report of the Committee of the Council of Europe on the Evaluation of Anti-Money Laundering Measures (Moneyval), together with the representatives of other authorities involved in the combat against money laundering / terrorism financing in the Republic of Croatia.



14.7 OTHER ACTIVITIES

14.7.1 Educational Programs

During 2007 the representatives of the Foreign Exchange Inspectorate participated in a series of workshops relating to the prevention of money laundering and terrorism financing, which were, within the CARDS 2003 twinning project, organized for the obliged persons, supervisory and criminal prosecution authorities (attorney's office, police and judiciary). Twinning partner on the project was the Republic of Austria.

In May 2007 the representative of the Foreign Exchange Inspectorate participated in educational program for the evaluator of the Committee of the Council of Europe on the Evaluation of Anti-Money Laundering Measures - *Moneyval*, which was held in Strasbourg, France. After the acquired education for performing the evaluation of the Moneyval member states, the representative of the Foreign Exchange Inspectorate participated in evaluation of Romania as financial evaluator.

As lecturers, the representatives of the Foreign Exchange Inspectorate were also the active participants in seminar organized in cooperation with TAIEX and the Anti-Money Laundering Office in Zagreb in December 2007, on the topic of the implementation of the money laundering prevention measures at banks and exchange offices, with a focus on examples of non-implementation of measures in practice and their punishment.

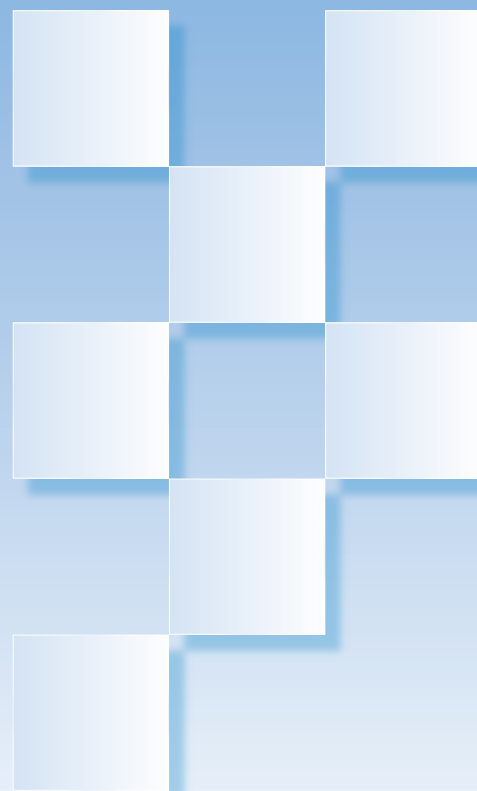
Within the project of providing the technical assistance to the Central Bank of Armenia, related to the regulation and supervision of exchange offices operation, and in cooperation with the Croatian National Bank, several presentations were organized in December 2007. The Foreign Exchange Inspectorate also provided technical assistance subsequently, in a correspondence with the representatives of the Central Bank of Armenia.

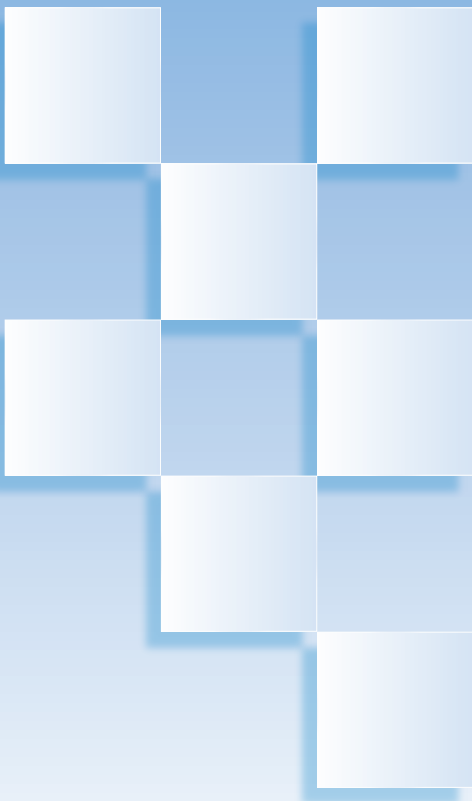
14.7.2 Upgrading the IT System

After the preparatory activities concerning the procurement of the appropriate equipment and software solution, financed by the funds from World Bank TAL in 2006, the View Wise system for managing business processes began to operate on January 1, 2007 and the informatization of the Sector for Foreign Exchange Supervision was implemented. In analytical monitoring of processes and working results, the system provides a high level of data security by disabling unauthorized access to data, secure delivery of confidential information and obtaining information from various sources - databases, as well as their comparison and analysis by a different criteria.

For the purpose of reducing paperwork and faster exchange of data from the jurisdiction, on line connecting of the Foreign Exchange Inspectorate and the Anti-Money Laundering Office was realized in 2007.

15
REPORT ON THE ACTIVITIES
OF THE FINANCIAL POLICE
IN 2007





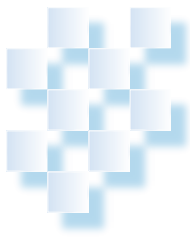


15.1 INTRODUCTION

Financial Police is the administrative organisation within the Ministry of Finance. Its main task is financial control for the purpose of strengthening financial discipline of budget payers, combating unofficial economy and preventing the evasion of budgetary obligations with an aim of realizing budget revenue.

Organisation, activities and scope of competences of the Financial Police, as well as practice, authorization, rights and duties of the Financial Police employees are prescribed by the Financial Police Act and the Regulation on Internal Organisation of the Ministry of Finance.

Financial Police is performing the tasks within its scope of competences in the Central office in Zagreb and in five stations (Zagreb, Split, Rijeka, Osijek, and Zadar).



15.2 THE SCOPE OF COMPETENCES

Financial police is performing financial control of validity, regularity and timeliness of calculation, entry and payments of budgetary revenues and fees prescribed by special acts. It especially controls:

- production and transport of oil derivatives, tobacco products, beer, alcohol, coffee and non-alcoholic beverages with an aim of ascertaining of calculation regularity and timeliness of excise payment,
- fulfilment of the obligation of calculation and payments of contributions for compulsory insurance,
- fulfilment of the obligation towards the budget taken over by the concession contract or leasing contract.

Within its prescribed scope of competences Financial Police is cooperating with other state administration control bodies and provides professional assistance in determining facts and collecting or insuring evidences.

Financial Police is conducting financial control procedure according to the provisions of the General Tax Act and specific acts which prescribe specific categories of budget revenues, unless specified otherwise by the Financial Police Act. With a purpose of detecting and processing criminal offences directed to the budget, the authorised officials act according to the provisions of the Financial Police Act, Criminal Procedure Act, Act on the Liability of Legal Persons for Criminal Offences and Misdemeanour Act if committed acts have the characteristics of misdemeanour.



15.3 FINANCIAL POLICE CONTROL IN 2007

The financial control activities in 2007 were performed by 85 authorised officials of the Financial Police or 8 authorised officials more in relation to 2006.

Thorough and systematic approach towards the financial monitoring, especially towards the control of calculation and special and other indirect taxes payment, also towards the fulfilment of the state budget obligation taken over by the concession contracts, has resulted in the significant improvement of financial indicators.

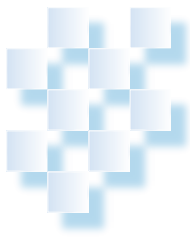
In line with the Plan for financial control in 2007, a total of 425 orders for financial control were issued, of which 397 were completed and 28 controls continued into 2008. Total obligations determined on all budget revenues amounted to HRK 142,407,985.1, of which excises amounted HRK 6,501,798.4, value-added tax HRK 56,652,993.4, personal income tax HRK 13,013,911.8, corporate income tax HRK 24,695,009.8, concession fee HRK 39,819,212.2, while public roads construction and maintenance fee amounted HRK 1,725,119.3.

During this period 158 decisions on determined obligations were issued, of which 116 decisions were, after completion, assigned to customs and tax administration, or to concession provider where concession fees were determined.

Based on the facts determined in conducted financial control, in accordance with the provisions of the Financial Police Act, the Misdemeanour Act and Criminal Procedure Act, Financial police inspectors filed 171 misdemeanour notifications to competent misdemeanour bodies, and 13 criminal notifications.

The biggest number of misdemeanours is related to violations of provisions which regulate excises. Irregularities are mostly related to avoidance of calculation or inaccurate calculation of excises, non-payment of taxes in the period defined by law, non-possession of documentation on the goods origin and absence of prescribed registers or incomplete keeping of registers. Irregularities determined during control activities in the system of value-added tax, corporate income tax and personal income tax are mostly related to avoidance of calculation or inaccurate calculation of taxes, or non-payment of calculated taxes in the period defined by law.

The most common irregularities determined during financial control activities in the system of concession fees are related to avoidance of calculation or inaccurate calculation of concession fees, non-payment of calculated concession fees in period defined by law, and transfer of mining concession to other physical or legal entities without concession providers' consent.



15.4 COOPERATION WITH OTHER BODIES OF STATE ADMINISTRATION

Financial Police, in conducting activities within its scope of competences, defined by the Financial Police Act, cooperates with other control bodies of the state administration and provides professional assistance in determining facts and collecting or insuring evidences.

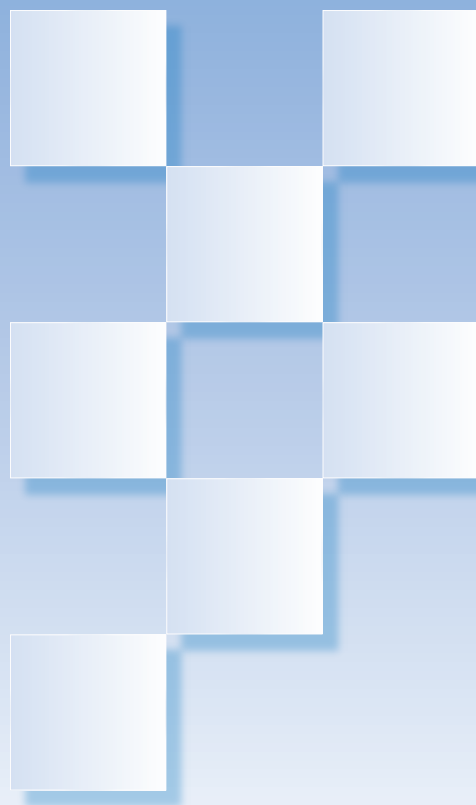
Cooperation with other bodies and institutions is necessary for improving financial control system and budget revenues charges.

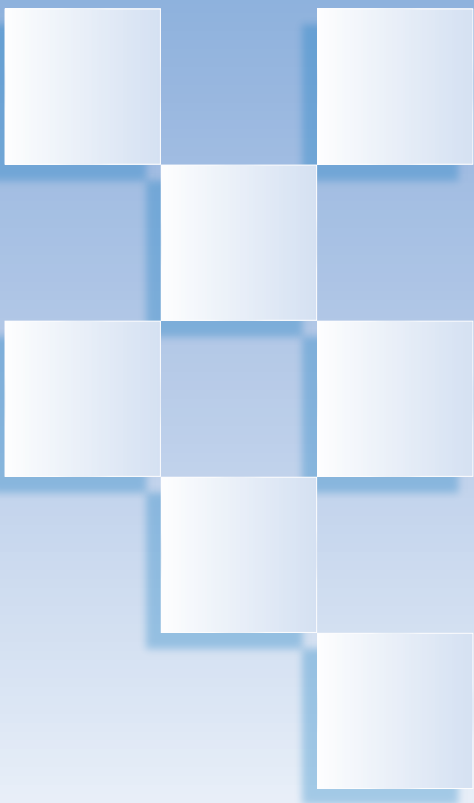
The Financial Police activities in 2007 were focused on cooperation with control departments of the Ministry of Finance (the Customs Administration, the Tax Administration, the Foreign Exchange Inspectorate and the Anti-Money Laundering Office), the State Inspector's Office, the Ministry of Interior, the State Attorney's Office, the Office for the Suppression of Corruption and Organized Crime (USKOK) and other state administration bodies.

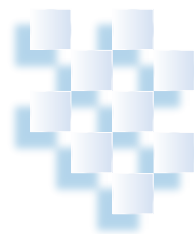
A significant cooperation with Economy Directorate of the Ministry of Finance, Central State Administrative Office for State Property Management and Ministry of Economy was established, the aim of which was to create an effective system of controlling and collecting concession fees.

The Financial Police activities in 2007 were focused also on participation in the implementation of the National Strategy for Corruption Combating in line with the Government Program 2006-2008; participation in the CARDS project 2004 - strengthening the structure of the internal financial controls in the public sector; cooperation in the AFCOS network, and cooperation in implementation of the Protocol on Cooperation and Establishment of the Interinstitutional Working Group for the Prevention of Money Laundering and Terrorist Financing.

16
**REPORT ON THE
ACTIVITIES OF THE
ANTI-MONEY
LAUNDERING OFFICE
IN 2007**







16.1 THE PURPOSE OF THE MONEY LAUNDERING PREVENTION ACT

16.1.1 System of Money Laundering Prevention and Terrorism Financing

Money laundering is the activity in banking, monetary and other operation aimed at hiding the real source of money, assets or rights received by money for which is known that is acquired illegally. Prevention of money laundering is not in the competence of only one institution, than it is a system where the role of each participant and their mutual interaction and cooperation are defined by the Act and it consists of: **prevention authorities** - obliged entities (banks, housing savings banks, exchange offices, insurance companies, stockbrokers, attorneys, public notaries, tax consultants etc.), **Anty-Money Laundering Office** (as central analytic service), **supervisory authorities** (Croatian National Bank, Croatian Financial Services Supervisory Agency, **supervisory services of the Ministry of Finance**: Tax Administration, Customs Administration and Foreign Exchange Inspectorate), **and prosecution authorities**: police, state attorney and judiciary.

It means that the Office, as central authority for prevention, acts as intermediate between financial and non-financial sector on the side, and prosecution authorities, police and State Attorney's Office on other side.

The Republic of Croatia, among the first countries in the Central and East Europe, has started with legislative and institutional establishment in money laundering prevention area, it has started with systematic creating the strategy for detection and prevention of money laundering. That confirm all relevant international organisations and institutions (Council of Europe, United Nations, European Union, International Monetary Fund, Group for Financial Action against the Money Laundering (FATF), World Bank) which evaluate the Croatian model and preventive system as modern and mainly compatible with international standards. The establishment of legislative institutional system in money laundering prevention, as modern and internationally confirmed system, is shown by following data:

- The Croatian Office is one of 108 members of the International Working group EGMONT which represents an international association of offices (financial and intelligence units) from the whole world;
- The entire system of the Republic of Croatia in the area of money laundering prevention and terrorism financing was evaluated for several times by experts of relevant international institutions: Council of Europe (Moneyval - three times), Group of States against corruption (GRECO), International Monetary Fund, European Commission, World Bank, and in reports which are delivered, the efforts of the Republic of Croatia in the area of money laundering prevention and terrorism financing, are evaluated as positive.

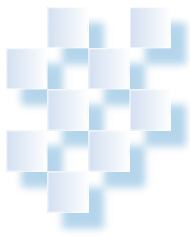
16.1.2 Preventive Character and Scope of the Act

Money Laundering Prevention Act (hereinafter: the Act) has preventive character because it regulates measures and actions in the banking, monetary and other management that are undertaken due to prevention of using financial, especially banking and non-banking sector and other non-financial sectors with the purpose of money laundering or terrorism financing.

The Act regulates the tasks of the Anty-Money Laundering Office (hereinafter: the Office) and certain obliged entities that are bound to undertake measures and actions for the purpose of detection and prevention of money laundering: banks, FINA, exchange offices, attorneys, accountants, tax consultants, public notaries, stockbrokers, etc.

Key element of the system is the obligation of banks and other obliged entities defined by the Act, to inform the Office on cash and suspicious transactions, which include:

- cash transactions, if the transaction value is equal to or exceeds HRK 200,000.00, related cash transactions which totally reach the value of HRK 200,000.00 or more;
- transactions on life insurance activities, if the annual sum of the life insurance premiums exceeds HRK 40,000.00;
- all other cash and non-cash transactions, if there is a suspicion on money laundering (the Suspicious Transactions Regime - STR), irrespective of transaction size;



- the Customs Administration of the Republic of Croatia informs the Office on the legal or the attempt of illegal transfer of the cash or cheques in the domestic or foreign currency across the state border, in the value of HRK 40,000.00 or more.

16.1.3 Confidentiality of the Procedure and Collected Data

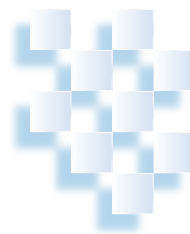
All data collected pursuant to this Act have confidential and secret character and can be used only for the prescribed purposes, that is, for analytic intelligence work of the Office in relation to the detection and prevention of money laundering (Article 15 of the Act). The Office and the obliged entity don't inform the person on collected data concerning this person, neither on procedure pursuant to this Act. The Office gives data only on the request of the court (Article 17 of the Act). The data received through international cooperation can also be used only for detection and prevention of money laundering (analytic intelligence work of the Office). In order to use the data for police and judicial procedures, the approval from the international office that delivered the data must be given, and vice versa, Croatian Office has to give approval for the delivered data to the international offices, so that this data could be used for police and judicial procedures in the foreign countries.

Due to the fact that notifications on transactions which the Office receives contain data on transactions which are banking secrecy, as well as personal data related to the suspicion on money laundering, which can also turn out to be unfounded, one of the main determinants in the Office's practice is data protection and procedure confidentiality. Therefore, the Office cannot give the data on particular cases which are in procedure or those which were delivered to other authorities.

16.1.4 Supervision of the Obligated Entities in Act Implementation

Pursuant to Article 21a of the Act, for supervision on obliged entities bound to adhere to the Act competent are:

- Croatian National Bank - supervises banks and housing savings banks;
- Croatian Financial Services Supervisory Agency - supervises investment funds, stock exchanges and brokerage houses, insurance companies and pension funds;
- supervisory services of the Ministry of Finance (Tax Administration, Customs Administration, Foreign Exchange Inspectorate) - supervise all obliged entities in the scope of its competence;
- Anty-Money Laundering Office - conducts administrative supervision of obliged entities (off-site).



16.2 DUTIES OF THE OFFICE AS FINANCIAL INTELLIGENCE UNIT

16.2.1 The Office as Financial Intelligence Unit

Anti-Money Laundering Office is an independent internal organisational unit within the Ministry of Finance established based on Money Laundering Prevention Act and according to the UN model Act and international standards. The duty of the Office as analytical service and financial intelligence unit is to collect and analyze data on cash, related and suspicious transactions received from banks and other obliged entities for the purpose of detection and prevention of money laundering and terrorism financing. After the analytical processing of suspicious transactions and when the suspicion on money laundering confirms, the Office submits the cases ("Notifications on Suspicious Transactions") for further processing to the competent state authorities: primarily to State Attorney's Office of the Republic of Croatia and/or Ministry of the Interior, as well as to supervisory services of the Ministry of Finance and foreign offices.

The Office has legal authorisation to postpone temporary the execution of suspicious transaction for the maximum of 72 hours and is obliged to inform the competent State Attorney's Office of the Republic of Croatia (DORH) immediately.

Directly and under the condition of reciprocity, the Office exchanges data on suspicious transactions internationally, with the respective authorities and services of particular countries that deal with the money laundering prevention.

The Office, as central authority for prevention, is neither by Act, neither by international standards competent for police, financial or other investigations related to the crime of money laundering.

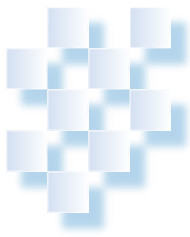
The Office cannot influence on the pace and number of ended investigations, issued indictments and passed sentences for the crime of money laundering. Other authorities in the money laundering prevention system are competent for these procedures. The number of sentences and withdrawal of illegally acquired profits are the most important elements for the assessment of efficiency of the entire system in the money laundering prevention.

16.2.2 Preventive, Analytical and Educational Role of the Office

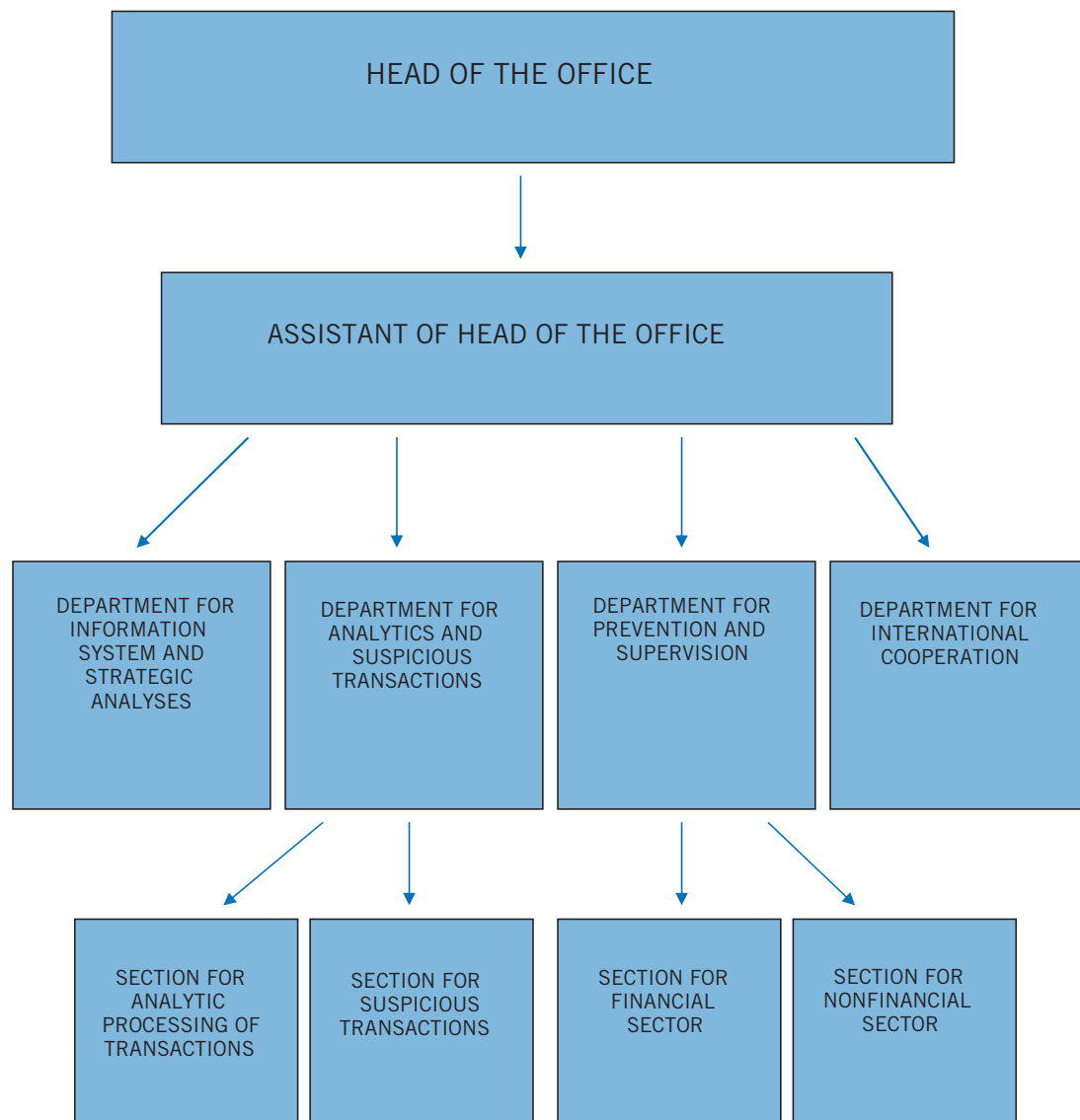
Preventive role of the Office: legal obligation of the financial and non-financial sector (obliged entity) is to identify customer and inform the Office on financial transactions regulated by the Act and, this way, prevent infiltration of illegal money into the financial system of the Republic of Croatia.

Analytical role of the Office: The Office analyses certain suspicious transactions and determines possible economic and financial non-logicity of the transactions and possible connection with typologies of money laundering and/or criminal activity, and informs the State Attorney's Office and/or the Ministry of the Interior and foreign offices on the results, and together with them takes measures for the detection and prevention of money laundering.

Educational role of the Office: The Office permanently educates obliged entities (banks, etc.) in the Act application that is, in measures that they take with a purpose of money laundering prevention and terrorism financing, conducts education of its employees and participates actively in the education of competent state authorities' employees.



16.2.3 The Office Organisation



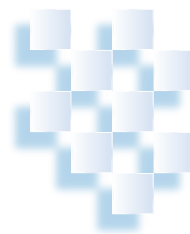
16.2.4 Interinstitutional Cooperation

The Office interactively cooperates in detection and prevention of money laundering cases with the State Attorney's Office, Office for the Suppression of Corruption and Organized Crime (USKOK), Ministry of the Interior, Security and Intelligence Agency and with supervisory services of the Ministry of Finance (Customs Administration, Tax Administration, Foreign Exchange Inspectorate), as well as with other supervisory authorities (Croatian National Bank and Croatian Financial Services Supervisory Agency) that supervise the implementation of the Act. These authorities also deliver to the Office data on unusual and suspicious transactions that they identify by performing activities in the scope of their competence.

In March 2007, heads of 11 state institutions and agencies which are competent for money laundering prevention and terrorism financing signed the Protocol on cooperation and establishment of interinstitutional working group for prevention of money laundering and terrorism financing.

Protocol promotes and stimulates the cooperation between all included institutions as well as regulates a mechanism of cooperation with the purpose of achieving strategic and operative goals in money laundering prevention and terrorism financing area.

Protocol signers are: Ministry of Justice, State Attorney's Office of the Republic of Croatia, Ministry of Interior - Police Directorate, Ministry of Finance: Anti-Money Laundering Office, Customs Administration, Tax Administration, Foreign Exchange Inspectorate, Financial Police as well as Croatian Financial Services Supervisory Agency, Croatian National Bank and Security and Intelligence Agency.



16.3 KEY INDICATORS ON THE ACTIVITIES OF THE OFFICE

16.3.1 Statistical Indicators for 2007

Indicators that refer on the type and range of the Office's activities concern statistical indicators on the number of received notifications on transactions from banks and other obliged entities, the number of open cases with a suspicion of money laundering, the number of cases (notifications on suspicious transactions) submitted to competent authorities and foreign offices for further processing. However, except from the statistical indicators, the best evidence on the Office's work gives comparison of these indicators with equivalent indicators of the foreign offices and evaluation of the Office's work from relevant international authorities.

16.3.2 Notifications on Suspicious Transactions Submitted by Obligated Entities

The key element of the system is the obligation of banks and other entities regulated by the Act to inform the Office on suspicious transactions. When reporting suspicious transactions to the Office, it is necessary that banks and other obliged entities also indicate reasons that refer to suspicion of money laundering.

It is important to have in mind that cases often refer to complex financial transactions that are realized within a short period of time, while their analysis sometimes lasts for months. Namely, it is well-known that persons that deal with money laundering use the services of top-level banking experts, stock-brokers, accountants, consulting firms and attorneys.

Furthermore, one should have in mind that most cases of money laundering are connected with foreign countries, which complicates to the competent authorities the detection and proving of money laundering cases, as well as that most of these cases must be solved with assistance from foreign competent authorities, which is inherently long. It is important to emphasize that, in the reporting period, also the data on suspicious transactions of the Croatian Office helped foreign offices in the processes of money laundering and in blockage of illegal funds in their countries.

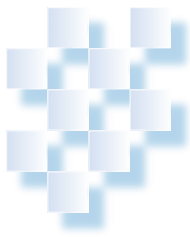


Table 16.1 Notifications on Suspicious Transactions from Obligated Entities, Including the Notifications of other Authorities, by Sectors

RECEIVED SUSPICIOUS TRANSACTIONS BY SECTORS		
DENUNCIATORS	2006	2007
1. OBLIGED ENTITIES FROM THE ARTICLE 2 OF THE MONEY LAUNDERING PREVENTION ACT	2,741	2,687
Banks and savings banks	2,602	2,541
Savings and loan associations	30	
Investment Funds and Investment Fund Management Undertakings	4	
Financial Agency and Croatian Postal Service	4	
Insurance Companies	9	142
Stockbrokers	11	2
Authorised Exchange Offices	17	1
Organizers of lottery games, casino games, betting and games of chances at coin operated machines	18	
Other obliged entities from Article 2, Paragraph 3: real estate transactions, leasing and other	46	1
2. OBLIGED ENTITIES FROM THE ARTICLE 9a OF THE MONEY LAUNDERING PREVENTION ACT	2	1
Attorneys	1	1
Public notaries	1	
3. STATE AUTHORITIES	100	118
Ministry of Interior of the Republic of Croatia / Interpol	58	53
Municipal State Attorney's Office		4
County State Attorney's Office		3
State Attorney's Office of the Republic of Croatia	5	
Office for the Suppression of Corruption and Organized Crime (USKOK)	2	9
Ministry of Finance, Tax Administration	10	9
Ministry of Finance, Customs Administration	4	1
Ministry of Finance, Foreign Exchange Inspectorate	7	27
Municipal court	-	2
Security and Intelligence Agency	2	1
Croatian Financial Services Supervisory Agency	6	6
State Inspector's Office	1	
County court	1	
Open sources	4	3
4. OFFICES OF OTHER COUNTRIES (FIU)	48	52
TOTAL	2,891	2,858



Table 16.2 Notifications from Customs Administration of the Republic of Croatia on Transfer of Cash and Cheques across the State Border

TYPE OF TRANSFER	2006	2007
DECLARATIONS OF THE ATTEMPT OF LEGAL TRANSFER ACROSS THE STATE BORDER	1,748	1,361
DECLARATIONS OF THE ATTEMPT OF ILLEGAL TRANSFER ACROSS THE STATE BORDER	34	34
TOTAL	1,782	1,395

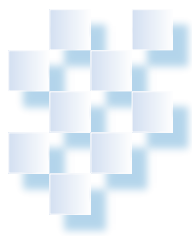
Table 16.3 Cases (Subjects) Opened by the Office due to Suspicion on Money Laundering

	2006	2007
NUMBER OF OPEN CASES WITH A SUSPICION ON MONEY LAUNDERING	281	322
NUMBER OF SOLVED CASES OF SUSPICIOUS TRANSACTIONS IN OPEN SUBJECTS	2,669	3,385
NUMBER OF PARTICIPANTS IN SUSPICIOUS TRANSACTIONS	1,366	1,240
TOTAL AMOUNT IN SUSPICIOUS TRANSACTIONS IN OPEN CASES (HRK)	1,102,341,316	2,850,647,211
NUMBER OF CASES WITH A SUSPICION OF MONEY LAUNDERING SUBMITTED TO COMPETENT AUTHORITIES AND FOREIGN OFFICES FOR FURTHER PROCESSING	87	120
TOTAL AMOUNT IN CASES WITH A SUSPICION ON MONEY LAUNDERING SUBMITTED TO COMPETENT AUTHORITIES FOR FURTHER PROCESSING (HRK)	961,552,928	921,037,015
NUMBER OF ORDERS FOR POSTPONEMENT OF EXECUTION OF SUSPICIOUS TRANSACTIONS FOR 72 HOURS (ARTICLE 10, PARAGRAPH 2 OF THE ACT)	5	4
TOTAL AMOUNT OF FUNDS IN SUSPICIOUS TRANSACTIONS WHICH WERE POSTPONED BY THE OFFICE'S ORDER (HRK)	4,435,042	36,794,347

Table 16.4 Office's Proceeding upon the Authority for Postponement of Execution of Suspicious Transaction (Article 10, Paragraph 2 of the Act)

	2005	2006	2007
ORDERS	1	5	4
BANKS	1	5	3
PERSONS	1	8	3
ACCOUNTS	5	16	11
VALUE			
(000 HRK)	4,260,068	4,435,042	36,794,347

Based on statutory authorization, in 2007 the Office issued 4 orders to banks for temporary postponement of execution of suspicious transactions, in total amount of HRK 36,794,347.00. Orders were submitted to three banks, they concerned three persons with 11 blocked accounts all together. The Office has informed the State Attorney's Office of the Republic of Croatia on issued orders and all blockages were further confirmed and extended by decisions of competent investigating court.



16.3.3 Cases Submitted to Competent Authorities for Further Processing

Table 16.5 Cases Submitted to Competent Authorities and Foreign Offices

COMPETENT AUTHORITIES	2006	2007
STATE ATTORNEY'S OFFICE OF THE REPUBLIC OF CROATIA	27	33
OFFICE FOR SUPPRESSION OF CORRUPTION AND ORGANIZED CRIME (USKOK)	3	6
MINISTRY OF INTERIOR	18	31
FOREIGN EXCHANGE INSPECTORATE	4	7
TAX ADMINISTRATION	25	42
CUSTOMS ADMINISTRATION		
CROATIAN NATIONAL BANK	1	
FINANCIAL POLICE		
SECURITY AND INTELLIGENCE AGENCY	4	
FOREIGN OFFICES	5	1
TOTAL	87	120*
AMOUNTS OF FUNDS (000 HRK)	961,552,928	921,037,015

In 2007, besides 120 subjects the Office also submitted to competent authorities 67 subject supplements and 25 piece of information on transactions that imply on other illegal activities.

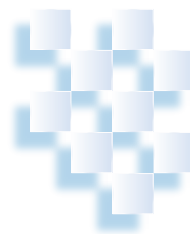
16.3.4 Data on Criminal Procedures for Crime of Money Laundering in 2007

Due to overview of the successfulness of complete system of detection and prevention of money laundering, where the Office makes only the first link, it is important to indicate that in 2007 police by conducted investigations determined the existence of reasonable suspicion that 27 crimes of "money laundering" have been committed (Hiding of illegally gained money from Article 279 of the Criminal Code), and the results of criminal procedure phases for mentioned crime are the following:

Table 16.6 Results of Criminal Procedure by Phases

Year	Investigation requests	Indictments	Sentences
2004	3	5	/
2005	2	3	/
2006/2007	35	25	8

number refers to offenders



16.3.5 Comparison of Key Indicators on the Activities of the Croatian Office with Foreign Offices

Starting from assessments in the Council of Europe (Moneyval) reports on evaluation in the Republic of Croatia and by comparison of key indicators on the work of our office with equivalent indicators on the work of certain foreign offices (e.g. offices in Croatian surroundings and even wider), one can say that by effectiveness Croatian Office can measure with other foreign offices.

However, the Office is only one link in the chain in the money laundering prevention, which can completely give its full contribution in further development of the strategy in the money laundering prevention in the Republic of Croatia only in interactive cooperation with other competent authorities and foreign offices.

16.3.6 The Activities of Verifying Received Lists of Natural Persons and Entities Suspected for Terrorism

The Office is ahead of permanent coordination in the Ministry of Finance for the implementation of UN Resolution 1373 and is a member of Interdepartmental Working Group for prevention of terrorism within the Ministry of Foreign Affairs and European Integration.

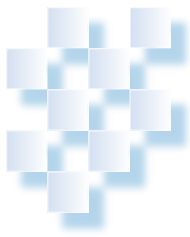
Due to terrorist happenings in the United States on 11 September 2001, the Office joined in international cooperation, by participating in international meetings regarding coordination of combat against financing of terrorist activities, while at home, the representatives of the Office act in Interministerial authority within the Ministry of Foreign Affairs and European Integration, as a coordinator of the activities of the Republic of Croatia in implementing UN Resolution in combat against terrorism financing.

According to its competence, with a goal of prevention of terrorism financing, the Office engages in following activities:

1. activities of verifying transactions recorded in databases of the Office and financial system of the Republic of Croatia;
2. activities of improving international cooperation.

In mentioned period, the Office received totally five lists as well as five amendments to the Consolidated List. On the basis of these lists where totally 308 natural persons and three entities were included, the Office conducted controls in own databases and via the banking system for these natural persons and entities.

Concerning the UN Consolidated List of natural persons and entities suspected for terrorism, on 24 August 2007, the Office issued the Instruction to banks on processing with abovementioned List. Namely, the obligation of continual control of all changes on Consolidated List was ordered to banks. It includes the control of all clients of the bank, i.e. the comparison of names of natural persons and entities from the List with those names from registry of each bank. Therefore, the possibility of undisturbed doing business in banking system of the Republic of Croatia for any natural person/legal entity from the Consolidated List is based on the minimum. Banks are obligatory to inform the Office on mentioned controls, quarterly.



16.4 EVALUATION OF THE ACTIVITIES OF THE OFFICE FROM INTERNATIONAL AUTHORITIES

Activities of the Office, as well as the entire money laundering prevention system in the Republic of Croatia is constantly and periodically evaluated by:

- the Council of Europe, Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval): in three occasions (in 1999, 2002 and 2006);
- International Monetary Fund;
- The Financial Action Task Force (FATF - OECD);
- World Bank;
- GRECO (the Group of States against Corruption).

The evaluators from international authorities in the evaluation of entire money laundering prevention system in the Republic of Croatia do not prejudice the efficiency of the Office's work, neither think of the Office as the bottleneck of the system, but positively evaluate the efforts of the Croatian Office, for which they say that is absolutely operative and one of the more efficient offices in the region, as well as competent authority for prevention office in the entire region, and evaluate Croatian preventive system as modern and efficient (data on evaluations are available in the Moneyval reports from years 1999, 2002 and 2006).

International monitoring authorities also require more active role of other authorities in the system. They indicate that implementation of the provisions in combat against money laundering from the authorities responsible for prosecution for criminal offences remains the open issue in the Republic of Croatia, with low level of condemned judgments.

16.4.1 Evaluation of the Activities of the Croatian Office from the Council of Europe (Moneyval)

After the second round of evaluation (June 2002), the Republic of Croatia has undertaken some steps for improvement of our system of measures against money laundering and terrorism financing;

System is compatible to a large extent, in implementation of measures for detection and prevention of money laundering from the Anti-Money Laundering Office which is absolutely operative;

The Office is the active member of the Egmont Group and it seems that, in general, it provides timely and useful assistance to other foreign offices. Also, it has the ability to exchange data with all types of financial intelligence authorities. It seems that the Office is entirely operative. In view of Office's role in Croatian system of measures against money laundering and terrorism financing, one can draw a conclusion that the Office performs the obligations in satisfactory way. It performs own basic tasks with conduction, coordination and evaluation of the denunciation system, as well as received denunciations, in efficient way. State attorneys and police representatives, on the meeting with evaluators, have expressed their satisfaction with the Office's work and denunciations which have good quality for the further processing.



16.4.2 The Money Laundering Prevention within the Process of the Accession of the Republic of Croatia to the European Union: Activities of the Office

Money laundering prevention in the Republic of Croatia, related to the process of the Accession of the Republic of Croatia to the European Union, has been examined in Chapter 4 - Free Movement of Capital. The Office employees continued in 2007 participating in the activities of preparation of EU accession negotiations for the Chapter 4 - Free Movement of Capital, as competent authority for the money laundering prevention area. As the result of screening and work meetings with European Commission's experts, the criteria has been defined for the area of money laundering and the Republic of Croatia has to fulfill this criteria for opening the chapter:

"The Republic of Croatia has to bring action plan that comprises activities and deadlines, with given special measures for the purpose of alignment of Croatian legislation in the area of money laundering prevention with *acquis communautaire* and strengthening the implementation, beside other things, by increasing conscious of reporting authorities and strengthening supervision on reporting authorities, police, State Attorney's Office, judiciary and efficient cooperation between authorities in the implementation chain."

The Office has started with preparation the working version of draft of common Action plan, whose adoption is planned for the beginning of 2008 and which will contain measures of alignment and improvement in legislative, institutional and implementation framework related to the Office and all other institutions in the Republic of Croatia that participate in common system of prevention of money laundering and terrorism financing.

The Action plan is made with consultations with European Commission, in the course of which final content of the Action plan will be defined, where guidelines and recommendations for fulfilling necessary international standards are followed.

The activities which are planned will be involved in the Action plan and they are the quality basis for the permanent improvement of entire money laundering prevention system.

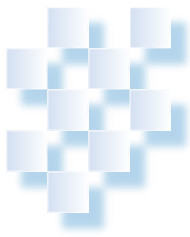
16.4.3 CARDS 2003 - "Preventing and Combating against the Money Laundering": Activities of the Office

The project CARDS 2003 "Preventing and Combating against the Money Laundering" which started in June 2006, finished in December 2007.

Twinning partners of this project with 18 months duration were the Agency for European Integrations and Economic Development (AEI) within Austrian Federal Ministry of Finance in Vienna, Ministry of Justice of the Republic of Croatia and State Attorney's Office of the Republic of Croatia. The project took place within the State Attorney's Office of the Republic of Croatia in cooperation with the Ministry of Justice.

The entire goal of the Project organized in four components was to support the institutional strengthening process with the purpose of prevention of money laundering, terrorism financing sources, organized crime and especially heavy financial crime activities. The project gave the institutional support to authorities involved in prevention of money laundering in the Republic of Croatia, among other things, by structural consultations among involved institutions, improvement the process of operating in money laundering cases, overview of regulation framework, improvement of international cooperation as well as overview and strategy of information network for prevention of money laundering.

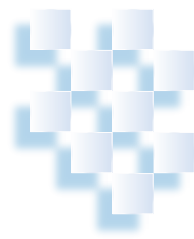
Activities of the Project, where also employees from the Anti-Money Laundering Office have participated, were performed through 4 components which included 46 workshops and 3 study visits: Brussels, Den Haag (OLAF, Europol, Eurojust and Belgian FIU), Lyon (Interpol), and Vienna (Criminal Intelligence Service within State Ministry of Interior of the Republic of Austria, the Customs Administration, State Ministry of Justice, Financial Supervisory Agency, United Nations, Central Bank of Austria). One of indicators of the Project efficiency and very important result achieved within the Project was the signing of the Protocol on cooperation and establishment of interinstitutional working group for prevention of money laundering and terrorism financing from heads of 11 state institutions and agencies competent for prevention of money laundering and terrorism financing.



16.4.4 Other Activities of the Office in 2007

In the reporting period authorised employees of the Office had active role outside the Office, as lectures on seminars and in many occasions as organizers of working meetings with representatives from obliged entities and competent state authorities' employees and also as representatives of expert working groups:

- In cooperation with TAIEX, the Office organized seminars for separate groups of obliged entities, related to implementation of the EC directive 2005/60 on prevention of using the financial system for money laundering and terrorism financing
- Seminar in the organization of TEB, education for banking sector on Office's role and tasks as well as on relevant legislation
- Seminar in the organization of the Croatian Financial Services Supervisory Agency (HANFA), Education for Stockbrokers on Money Laundering
- Seminar in the organization of HIBO, Education for banking sector on the Act on Money Laundering Prevention and reporting of suspicious transactions
- Participation of Office's representatives in preparation of the National Strategy for the Prevention of Organized Crime
- Participation of Office's representatives in preparation of the National Strategy on the Prevention of Terrorism
- Participation of Office's representatives in preparation of the National Strategy on the Prevention of Corruption in accordance with the Programme of the Government of the Republic of Croatia for 2006-2008
- Participation of Office's representatives in activities of Government's Working Group for Prevention of Terrorism
- Participation of Office's representatives in activities of Interinstitutional Working Group for the Prevention of Money Laundering and Terrorism Financing
- Participation in preparation of the Protocol on Cooperation between the Ministry of Interior and the Ministry of Finance
- Preparation of the Government's Action Plan for Combating against the Money Laundering and Terrorism Financing
- Making the draft of new Act on Prevention of Money Laundering and Terrorism Financing
- Making the proposal of the new internal organisation and the systematization of working staff in the Office
- Participation in "twinning" project CARDS 2003, Prevention and Combating against the Money Laundering
- Participation of Office's representatives in Croatian Conference of Oracle Users
- Participation of Office's representatives in the project CARPO through the education of prosecutors, police and judges in financial investigations.



16.5 INTERNATIONAL COOPERATION OF THE OFFICE

International cooperation of the Office is regulated by Article 14 of the Act, which stipulates that the Office can deliver data received based on Act to certain authorities and organisations of each countries, as well as to international organisations that deal with money laundering prevention, spontaneously and by their request, under the condition of reciprocity, irrespective of office type.

16.5.1 International Authorities and Organisations

Due to more efficient international cooperation in combat against money laundering the Croatian Office became full member of the Egmont group in June 1998:

Egmont group is a global organisation of national Anti-money laundering offices which comprises 108 national financial intelligence units (FIU) that deal with detection and prevention of money laundering. Beside other things, the status of full member of the Egmont group enables the Croatian Office the following:

- faster and simpler exchange of data between respective authorities and organisations of particular countries;
- participation in decision-making on the Egmont group policy;
- possibility of work within the working groups of the Egmont group (legal, technical and sponsored working group);
- access to the computer system Egmont Secure Web, installed by experts from the American Office (FinCEN) in January 1999.

In the previous period, Office's representative was chosen for the president of Sponsored working group and for the member of Presidency of the Egmont group.

16.5.2 Committee of the Council of Europe MONEYVAL (Committee of Experts on the Evaluation of Anti-Money Laundering and Terrorism Financing Measures)

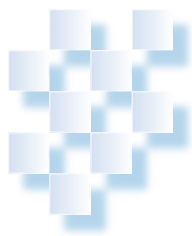
The Republic of Croatia is a permanent member of a Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering Measures (Moneyval, formerly PC-R-EV). Within the Committee work, members of delegation of the Republic of Croatia within Moneyval participate in on-site evaluations of member states and quarterly meetings, when they evaluate the measures for money laundering prevention in European countries that aren't the members of FATF. Moneyval's work is recognised and equal to the work of FATF, IMF and World Bank in evaluation of measures for prevention of money laundering and terrorism financing. Office's representative is a member of permanent delegation of the Republic of Croatia within the mentioned Committee, together with representatives from the Ministry of Interior and the State Attorney's Office of the Republic of Croatia.

16.5.3 Regional Cooperation

Regional cooperation is a necessity and need, due to geographical closeness and intense economic activity associated with money and capital flows. However, it is also the fact that economic flows are inevitably associated with criminal flows. The Office fully cooperates and exchanges data with similar offices in Slovenia, Albania, Bosnia and Herzegovina, Montenegro, Macedonia and Serbia, and there are no problems or delays in this cooperation. Working meetings, and, if necessary, also meetings concerning specific cases are held. It is agreed that regular regional meetings would be held where a specific cases and open issues would be discussed. It is important to mention that the Office has been a sponsor of the accession of offices from Albania, Macedonia and Bosnia and Herzegovina to the Egmont group.

16.5.4 International Exchange of Data

In the reporting period, the Office asked other foreign offices for 174 requests on data necessary for the detection of money laundering in 39 countries. In the same period, the Office received 100 requests from foreign offices, necessary for money laundering prevention in 37 countries.


Table 16.7 Overview of International Data Exchange with Foreign Offices in 2007

REQUESTS	REQUESTS FOR DATA PROVIDING	COUNTRIES
SENT	174	39
RECEIVED	100	37

16.5.5 Memorandums of Understanding

Table 16.8 Overview of Signed Memorandums of Understanding

	COUNTRY
2007	MOLDAVIA
	NETHERLANDS ANTILLES
	ARUBA

Negotiation and signing of bilateral Memorandums of Understanding between the Croatian Office and offices of other countries (FIU) aim at easing the exchange of all kinds of data related to money laundering and enabling immediate acting on each request. Individual countries, depending on their legislation, demand signing the Memorandum of Understanding (MoU) as precondition for exchange of notifications, which is not the case with the Republic of Croatia. However, because of improvement of mutual cooperation and formalization of the relationship, the Office also acceded to their signing.

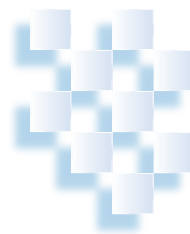
16.5.6 International Conferences, Seminars and Meetings in 2007

The Office's representatives were present and participated actively on specialized international meetings, conferences and seminars in the organisation of the Council of Europe, Egmont group and other international organisations or countries.

The Office prepares report for the Minister of Finance on all international activities and submits a copy of the report to the Ministry of Foreign Affairs and European Integration.

Table 16.9 Overview of International Activities in 2007

MONTH	ACTIVITY	PLACE
January	1. CARPO - education of prosecutors, judges and police in financial investigations	Sarajevo (Bosnia and Herzegovina)
February	2. working meeting with the Office of Slovenia	Ljubljana (Slovenia)
	3. 22nd plenary session of MONEYVAL and the first common session MONEYVAL/FATF	Strasbourg (France)
March	4. EC - Presentation of the Action plan	Brussels (Belgium)
	5. CARDS - study visit to EU authorities for the combat against money laundering and participation in course of Interpol on money laundering	Lyon (France)
April	6. MONEYVAL - participation in evaluation of Anti-Money Laundering Measures of Bulgaria	Sofia (Bulgaria)
May	7. CARDS - study visit to twinning partner's authorities competent for combat against money laundering	Vienna (Austria)
	8. MONEYVAL - training seminar for evaluators	Strasbourg (France)
June	9. 23th plenary session of MONEYVAL	Strasbourg (France)
September	10. OSC conference	Bečići (Montenegro)
	11. 24th plenary session of MONEYVAL	Strasbourg (France)
	12. EC - subcommittee for internal market	Brussels (Belgium)
October	13. EGMONT group meeting	Kiev (Ukraine)
December	14. 25th plenary session of MONEYVAL	Strasbourg (France)



16.6 ESTIMATIONS OF CURRENT AND FUTURE RISKS DUE TO MONEY LAUNDERING

16.6.1 Operations with Off-shore and Non-cooperative Jurisdictions

The issue of the off-shore operation is the problem of the first class meaning for international community. In that sense act almost all international institutions dealing with money laundering prevention and financial institutions' supervision: World Bank, International Monetary Fund, European Commission, FATF Group, Council of Europe, Egmont Group and others. On the basis of common efforts, list (so called black list) of countries that don't cooperate internationally in data exchange was made.

Since the off-shore issue is also present in the Republic of Croatia or related to hiding illegal profits or tax evasions, we consider that this problem should be approached interdisciplinary and by interactive cooperation between more competent institutions. The Office monitors and analyses all off-shore transactions (operation with off-shore is one of the main indicators for recognition of suspicious transactions) and delivers notifications on suspicious transactions to the Foreign Exchange Inspectorate and/or State Attorney's Office of the Republic of Croatia for further processing.

16.6.2 New Paying Techniques

Challenges imposed by new paying techniques (Internet) - namely, along with fast expansion of Internet techniques and technologies, internet banking, internet securities trade and other e-banking services are developing as well.

Computer money, so called cyber-money, is the term already common in the world, but without adequate answer on its monitoring, large space for hiding illegal profits is opening.

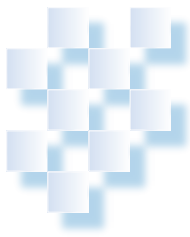
16.6.3 International Investment Activities

By inclusion in international financial flows, the Republic of Croatia is exposed, beside investments from regular, legal operations, also to the investments that have source in off-shore zones, from funds that are very hard to identify, because of valid regulations in their jurisdictions, and for which the source or real owner of the company or assets is unknown. This also refers to investments by which non-resident acquires ownership on real estates.

Therefore, international standards should be applied and legal obligation of identifying of all participants in the investment chain should be introduced: from final consumer, shareholders, foreign banks and funds, and clear transparency in operating with them. Otherwise, the Republic of Croatia will be exposed to the sale of own resources also to this type of buyers and funds, that are, unfortunately, respectable only by their size, but also by unknown money origin, which is classic modus of money laundering and which can violate the credibility of the entire country.

16.6.4 Cash transactions

Cash assets, because of the form and transfer possibility as well as the (im)possibility of monitoring of (legal/illegal) money origin, are still one of main generators to illegally acquired money. Therefore, although the cash operation, in generally doesn't represent the suspicion on illegal activities, it is certainly the susceptible part of hiding the real source of money when illegal money has a possibility to entry into legal financial system for the first time.



16.7 DESCRIPTION OF THE CASE SUBMITTED BY THE OFFICE TO COMPETENT STATE AUTHORITIES FOR FURTHER PROCESSING

16.7.1 Case Initialization: Suspicious Transactions Related to Fictitious Placing on Time Deposit

Case Initialization

At the beginning of 2007, the Anti-Money Laundering Office received information from obligatory entity Croatian bank A-Bank on intention to performing the suspicious transactions on foreign exchange account in the ownership of Zitta S. in total amount of EUR 2 million. Money was transferred to foreign exchange deposit and placed on time deposit on the time of one year. One week after, Zitta S. has interrupted this time deposit with intention to investment in securities in one bank in Slovenia and that has taken place at the same time as order to arrest was issued to her husband Raymond S., son Pavao S. and relative Boris R.

The Office Proceeding

The Office has opened the case and in own bases it has checked the data related to the natural person Zitta S. and members of her family, so they have founded 50 savings payments transactions related to Zitta S. and members of her family.

The Office also had an information that Zitta S. has transferred EUR 2.44 million from own account in Croatian bank Z-Bank to the account in A-Bank with intention to transfer it to the foreign exchange non-resident account in one Slovenian bank. All these transactions of interruption the foreign exchange time deposit and transfers of money from one account to another account, have taken place at the same time as order to arrest was issued for Raymond S., Pavao S. and Boris S. who have been in escape.

The order to arrest was issued to members of her family due to suspicion on criminal activities "abuse of position and authority", i.e. suspicion on placing on time deposit for fictitious deposits, for own names or for the names of members of family. The mentioned family has taken the interest of fictitious deposits, continuously.

The Results of the Office Proceeding

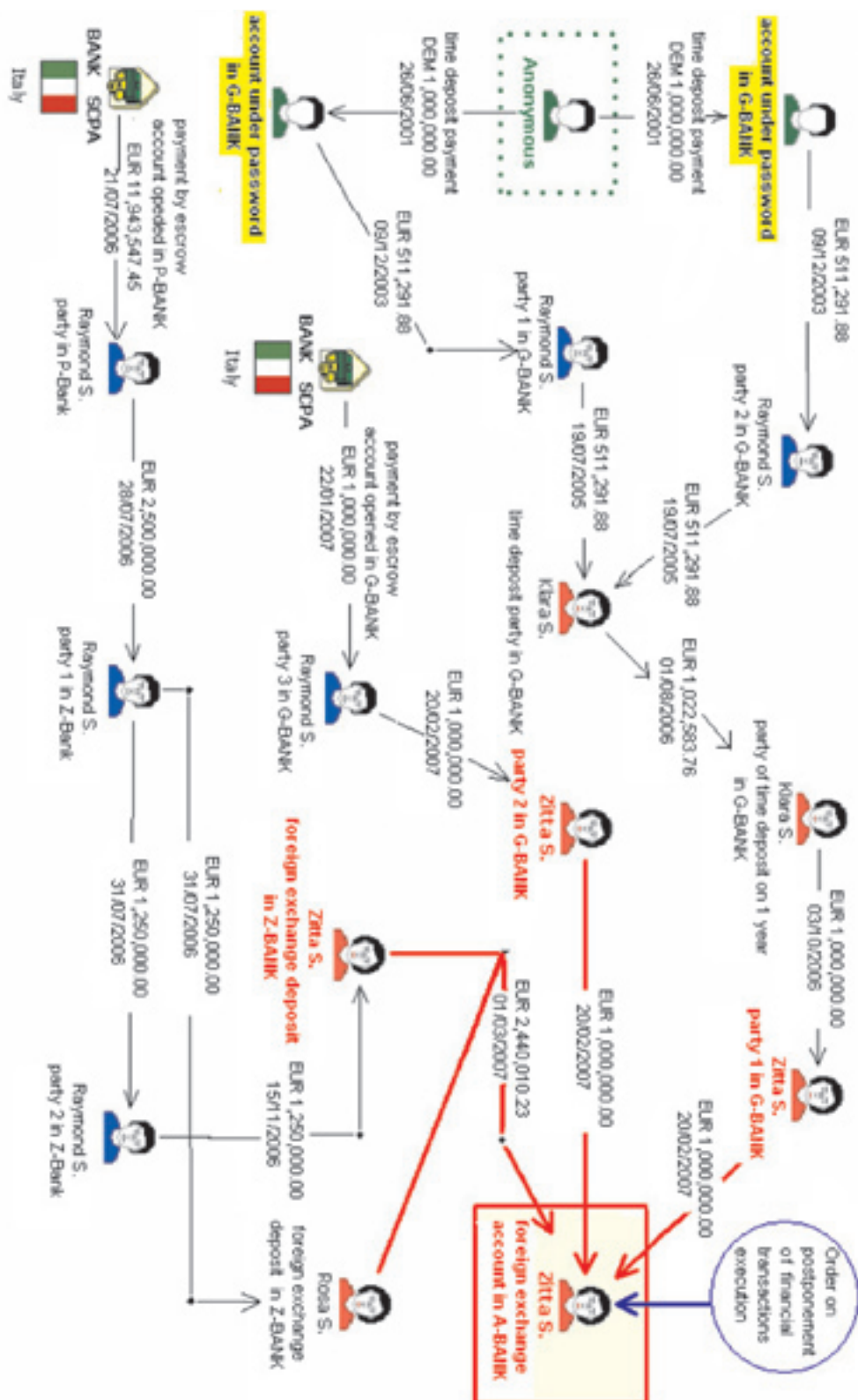
In accordance with the Money Laundering Prevention Act, the Office has ordered to A-bank the temporary postponement of performing transactions on foreign exchange account, foreign exchange deposit and guaranteed deposit in ownership of Zitta S., at the term of 72 hours. The total amount of transactions, which under order of the Office, had to be temporary discontinued, was EUR 4.2 million.

In accordance with information on suspicious transactions, which the Office has submitted to the State Attorney's Office and the Ministry of Interior, the County Court has issued two decisions which ordered the temporary suspension of financial transactions by banking accounts for 9 natural persons of the family of Zitta S., in 5 banks.

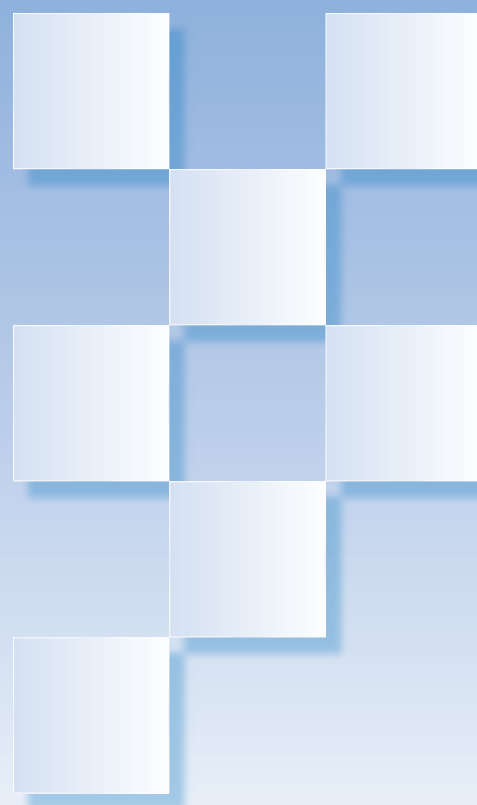
On the basis of mentioned decisions, 96 accounts for abovementioned persons in a total amount of HRK 89.8 million were blocked up.

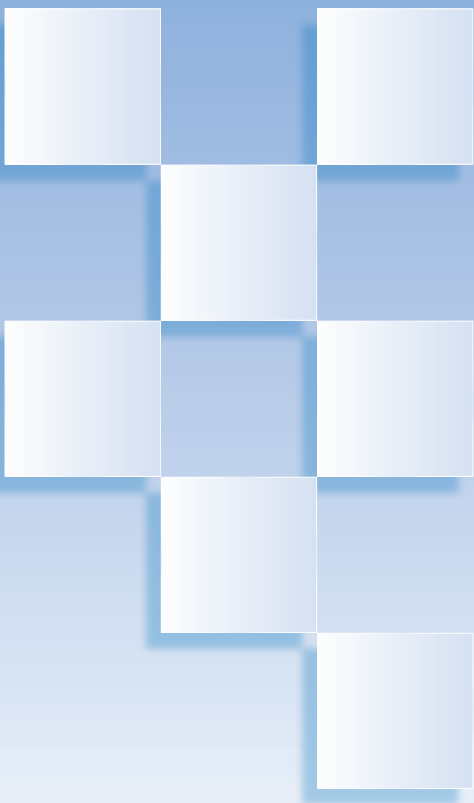
The Office has also made an analytical processing of blocked money sources and this information, together with the map of connections, the Office has delivered to competent authorities. In this analysis, it was determined that amount of DEM 2.0 million, placed on time deposit in 2001, has originated from account under password for which, it is not possible to determine who has opened the account and who has paid in.

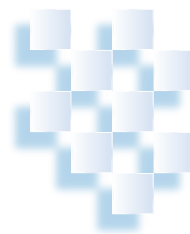
MAP OF CONNECTIONS IN THE CASE OF BLACKAGE OF ZITTA S.'S FUNDS



17
INTERNAL
ORGANIZATION OF THE
MINISTRY OF FINANCE
IN 2007







17.1 INTERNAL ORGANIZATION IN THE MINISTRY OF FINANCE IN 2007

THE DECREE ON THE INTERNAL ORGANIZATION OF THE MINISTRY OF FINANCE - OFFICIAL GAZETTE 43/05, 114/05, 14/6 138/06 AND 127/07

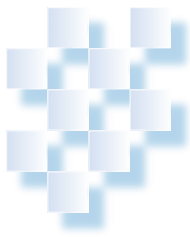
The internal organizational structure of the Ministry of Finance was regulated by the Decree on the Internal Organization of the Ministry of Finance ("The Official Gazette", No. 43/05, 114/05, 14/06, 138/06 and 127/07).

According to the Decree on the Internal Organization of the Ministry of Finance, the following administrative organizations and other internal organizational units had been set up:

1. Cabinet of the Ministry of Finance
2. Independent Department for Public Relations and Communications
3. Independent Internal Audit Service
4. Independent Department of Financial Management, Internal Monitoring and Control
5. Ministry Secretariat
6. Bureau for Macroeconomic Analyses and Planning
7. State Treasury
- 7a. Projects and Legislation Directorate
8. Economy Directorate
9. Financial System Directorate
10. Directorate for European Integration and International Financial Institutions
11. Directorate for EU Assistance Programs and Projects Financing - Central Finance and Contracting Unit
12. Directorate for Harmonization of Internal Audit and Financial Control
13. Independent Service for Second-Instance Administrative Procedure
14. Independent Service for Information System
15. The Independent Service for Construction and Maintenance of Border Crossing
16. Independent Service for IPA Programme Audit and Verification of SAPARD Implementation

The administrative organizations of the Ministry and the organizational units established by a special act are following:

1. Tax Administration
2. Customs Administration
3. Financial Police
4. Foreign Exchange Inspectorate
5. Anti-Money Laundering Office



17.2 THE SCOPE OF THE INTERNAL ORGANIZATIONAL UNITS OF THE MINISTRY OF FINANCE

The Cabinet of the Minister of Finance performs protocol-related activities for the purpose of the Minister and State Secretary; collects documentation and materials from internal organizations in the Ministry; provides timely delivery of materials for the Government of the Republic of Croatia and the Croatian Parliament; performs translations and editorial activities; performs also other professional and administrative activities for the official purposes of Minister and State Secretary.

The Independent Department for Public Relations and Communications performs the activities related to media communication and presentation of activities of the Ministry; activities of planning, directing, auditing and implementing the communication strategy and public relations; prepares the public action of the Minister, State Secretary and other officials of the Ministry of Finance; cooperates with the Government Public Relations Department and other entities; responds on citizens' complaints; performs also other tasks requested by the Minister of Finance.

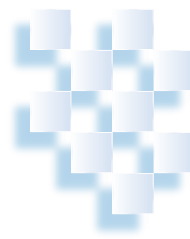
The Independent Internal Audit Service performs internal audit for the Ministry in general; gives professional opinions and advice for the purpose of improving economy, operates risks and internal control system and also performs the Ministry of Finance's mission, estimates internal control system on the basis of risk assessment, produces internal audit strategy and annual plans, analyses, tests and evaluates internal control system, produces reports on the internal audit performed, estimates and monitors the implementation of the recommendations obtained from the State Audit Office and other external auditors.

The Independent Department of Financial Management, Internal Monitoring and Control coordinates the establishment and development of financial management methodology and internal control system in the Ministry, primary related to previous and subsequent financial controls, accounting functions and financial reporting; participates and helps the organizational unit's heads in their activities, establishment and development procedures and processes related to preparing, editing, progress and storage of financial and other documents; works on establishment of the internal controls and risk analyses, particularly in the area of revenues and receipts monitoring, expenditures and expenses execution; provides the monitoring activities of regularity, timeliness and legality of the work in administrative organizations and organizational units in the Ministry of Finance; implements the inspectorate control in certain subjects according to supervisory power; implements the procedure for estimation of official responsibility damage; coordinates the internal monitoring activities of appropriate authorities in Tax and Customs Administration; cooperates with Directorate for Harmonization of Internal Audit and Financial Control.

The Ministry Secretariat performs the activities related to the working harmonization of internal organizational units and administrative organizations in the Ministry, preparation activities and monitoring of Ministry's plan achievement; participates in draft proposals of laws and regulations in the scope of competence of the Ministry; manages personnel policy; performs professional activities in the area of official relations; develops the proposal of the plan of professional improvement and training of civil servants and employees; operates with human resources; takes care of regular and timely use of assets and materials for labour and performs accounting, general, technical and auxiliary activities, as well as other tasks requested by the Minister.

The Bureau for Macroeconomic Analysis and Planning performs the activities of macroeconomic trends and forecasts, particularly analysis and plans fiscal policy of the budgetary central government, extrabudgetary funds as well as local government and self-government units; analyses monetary policy and exchange rate policy; participates in the activities of the state cooperation with international institutions and activities related to the appearance of the Republic of Croatia on the international financial market and agencies providing rating of the Republic of Croatia; prepares the Monthly Statistical Review and Annual Report of the Ministry of Finance and performs other tasks requested by the Minister.

The State Treasury performs the activities related to budget preparation and consolidation, budget execution, state accounting and public debt management as well as the affairs of financial management of European Union aid funds through the National fund.



The following are organized in the State Treasury: Budget Preparation Sector, Budget Execution Sector, Public Debt Management Sector, Treasury System Development and Support Sector, Budget Supervision Sector and National Fund Activity Sector.

The Budget Preparation Sector performs the activities regarding planning, preparation and adoption of state budget and consolidated state budget due to improvement of public finance management system, monitoring and analyzing revenues and receipts and expenditure and expense by areas of public spending which is financed from state budget, also deals with budget preparation activities, development and follow-up by programs. This Sector participates in drafting legal and by-law regulation proposals which provide for rights and define state budget duties and it also performs other tasks requested by the Minister and the State Treasurer.

The Budget Execution Sector performs the payments in domestic and foreign currency based on budgetary beneficiaries' requests; estimates the cash flow quantity and dynamics on the state budget account as well as all budgetary beneficiaries accounts. It makes the Proposal draft of the Budget Execution Law and drafts of regulations; gives opinions and proposals related to advance payments, performs the activities of normative regulation and development of the accounting; consolidates and analyses financial reports; prepares the reports for internal and external beneficiaries and also performs other tasks requested by the Minister and the State Treasurer.

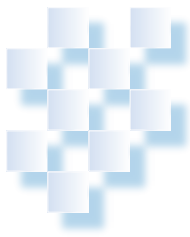
The Public Debt Management Sector manages the public debt portfolio according to sources, maturity, currency and interest structure based on public debt management strategy as well as measures and instruments of risks and repayment costs minimization; prepares contracts of borrowing; performs the activities related to the issuance of securities in the domestic and foreign markets; makes three-year strategy of debt management; keeps on register debt, the issuance of guarantees and loans; implements bonito analysis of state guarantees seeker; monitors the decision implementation of guarantees and performs other tasks requested by the Minister and the State Treasurer.

The Treasury System Development and Support Sector performs the activities of projecting, optimizations, analyses, improvements and business process standardization within the State Treasury System; the activities of setting up the technical union and full integration of the State Treasury informatics' system with financial information systems of all State Administration entities; the activities of application and operational support to the business processes of State Treasury System and provides support to the State Treasury System users.

The Budget Supervision Sector performs inspection supervision of using budget resources by central bodies of authorities, budget funds, institutions and other budget users whose employees expense and/or material expense are ensured in budget, performs budget supervision on extrabudgetary funds, companies and other legal entities where state has crucial impact on management, coordinates legal, administrative and operative activities to achieve protection of European Union financial interests, cooperates with European Anti-Fraud Office, participates in their direct inspections and investigations, receives, controls and consolidates the reports about discontinuities, manages register of discontinuity.

The National Fund Activity Sector performs the financial management activities both in the European Union precession programmes and structural and cohesion funds, when they become achievable to Republic of Croatia, establishes and implements the system of management and funds control in the area of their responsibility, receives the reports from agencies who implement these activities, prepares the proposals of legal acts in the area of their responsibility, cooperates with other institutions which are included in management of precession funds, pursues the European Commission regulation related to precession programmes that are achievable to Republic of Croatia and legal provisions of Republic of Croatia.

Projects and Legislation Directorate cooperates in preparation and coordinates drafting of project proposals and analyses, coordinates drafting of strategic and projects documentation and projects implementation in the area of Ministry, prepares technical opinions and analyses compatibility of drafts of proposal provisions and other acts with Croatian and international law and *acquis communautaire* of European Union in the area of Ministry, coordinates the preparation of act proposals legislated or suggested by Ministry, prepares opinions related to law enforcements and other proposals.



The Economy Directorate analyses the financial statement of public enterprises and state own enterprises, performs activities related to restructuring and consolidation of business subjects; participates in activities related to the issuance of state guaranties; keeps on and monitors the register of concessions; improves the non-tax revenues collection system; monitors and analyses the state aid policy; analyses property damage and rights caused by natural disasters; participates in drafting laws and other regulations in its' own scope and other tasks requested by the Minister.

The Financial System Directorate participates in drafting of legal regulation in the areas of banking and foreign-exchange system, insurance system and payment operations, money market and capital market; analysis and recommends measures for the improvement of those systems; performs inspection supervision of specific financial institutions and other tasks requested by the Minister.

The Directorate for European Integration and International Financial Relations prepares legal regulations related to the financial relations with international financial institutions; performs activities in the area of bilateral and multilateral financial relations of the Republic of Croatia in the scope of the Ministry of Finance. It is also developing and implementing the cooperation with international financial institutions related to solving the structural and development problems as well as sustainable growth achievement; makes financial obligations arising from the membership of the Republic of Croatia in international financial institutions based on concluded contracts of loans and donations and technical grants received by those institutions; performs the activities in the scope of the Ministry of Finance related to cooperation, preparation and negotiations for membership of the Republic of Croatia in the European Union and performs other tasks requested by the Minister.

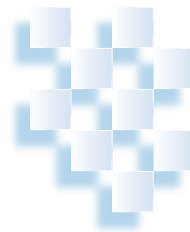
The Directorate for EU Assistance Programs and Projects Financing - Central Finance and Contracting Unit performs the activities related to financing, procurement, payment, supervision and audit implementation of all programs and projects of assistance of the European Union to the Republic of Croatia. It proposes annual and multi-year plans of the programs and projects financing, implementing bidding procedure and concludes contracts on the procurement services, goods and works; manages the system of financial monitoring of the implementation of the projects and financial fund flows as well as performs other tasks requested by the Minister.

The Directorate for Harmonization of Internal Audit and Financial Control as central harmonization unit is in charge for coordination of establishment and development of the comprehensive internal financial control system in public sector of Republic of Croatia related to internal audit as well as financial management and controls.

The Independent Service for Second - Instance Administrative Procedure decides on the complaints of the administrative act, Tax Administration, Customs Administration and Finance Police in the area of tax operation, customs operation and financial supervision operation over the legitimacy of accounts and budget revenues payments and fees prescribed by other special laws; implements the procedure due to extraordinary legal remedies in its own scope of competence, brings the settlements in the implementation of administrative supervision over the legitimacy of first-instance acts of Tax Administration, Customs Administration and Finance Police; cooperates in the preparation of the draft proposals of laws and international agreements in the area of taxes and customs duties.

The Independent Service for Information System organizes and implements the unique information system of all organizational units of the Ministry; plans and implements the informatization of the Ministry as well as system maintenance of information services in the Ministry. It takes care of public and internal information service regulation and also concerns about Ministry promotion in electronic and other media; plans the procurement of computer and network equipment; concerns about official informatics' education and also about continuous maintenance of all informatics' resources.

The Independent Service for Construction and Maintenance of Border Crossing is in charge in the preparation, construction, reconstruction and approval for use of the new border crossing, as well as investment and current maintaince of the newly built and existing border crossing and other customs facilities. It implements bidding procedures in line with the public procurement regulations; harmonizes the needs of other ministries and state administration bodies which perform civil service activities on the border crossing, participates in the work of joint committees and working groups with representatives from the neighbouring countries. It also performs other tasks related to the management of state assets on border crossing.



The Independent Service for IPA Programme Audit and Verification of SAPARD Implementation checks efficiency and validity of the functioning of the managing system and control assistance of the European Union inside the structure for implementation of the IPA programme and SAPARD, determines working plan and signs audit reports, performs audit of appropriate type of operations or transactions and analyses procedure, prepares manuals and other directives for audit performance, manages data base from the own scope of competences, coordinates drafting and preparation of proposals in the area of auditing and coordinates with domestic and external entities and institutions. It is responsible for establishment and implementation of the system of quality control in line with internationally accepted audit standards.

The Tax Administration organizes, coordinates, monitors and controls tax collection, collection of fees and other budget revenues, carries out inspection supervision, implements executions for purpose of tax collection; monitors and analyses the application of tax regulations and the functioning of tax system and proposes the solutions in the area of tax policy.

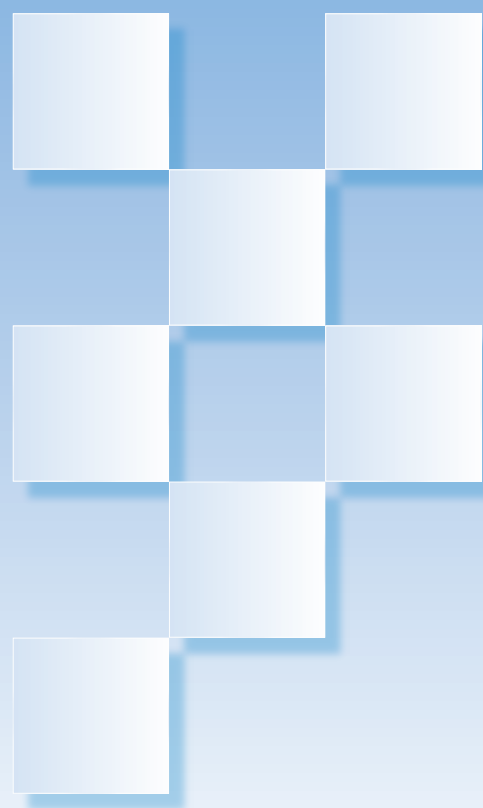
The Customs Administration prepares and proposes systemic solutions and current economic policy measures in the area of customs system, tariff and non-tariff protection systems and free zones, organizes and supervises the work of customs service, performs custom supervision in commodity trade and passenger traffic with foreign countries, performs supervision and control of assessment and collection of customs duties, excise taxes and other duties which are assessed in determining customs duties on goods; is in charge of the administrative and customs-offence procedure and procedure related to the offences in excise taxes and performs other tasks requested by the Minister.

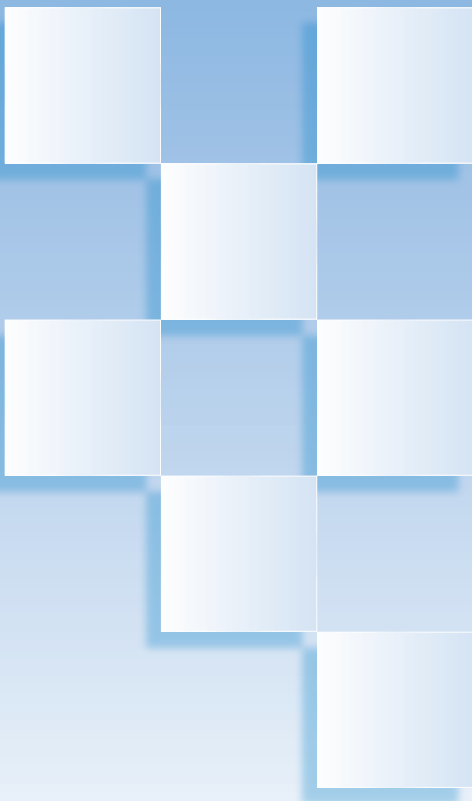
Financial Police performs financial supervision activities on legality, regularity and calculation timeliness, budget revenues accounting and payments and fees prescribed by the law.

The Foreign Exchange Inspectorate performs inspection supervision and is in charge of first-instance offence procedure in the area of foreign exchange and foreign trade operations, as well as foreign credit operations and also other tasks requested by the Minister.

The Anti-Money Laundering Office collects, analyses, performs-analytical processing and stores transaction data prescribed by the Anti-Money Laundering Act; performs direct supervision of those obliged to implement the Act, cooperates with the corresponding bodies and services of specific countries engaged in anti-money laundering; it submits notices on dubious transactions to competent state bodies for further procedure; in cooperation with competent bodies undertakes measures aimed at money laundering suppression and discovering, and performs other tasks requested by the Minister.

18 APPENDIX



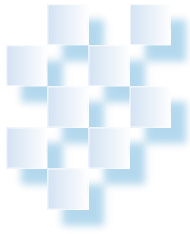




Appendix 1: Basic Macroeconomic Indicators of Croatian Economy

	2000	2001	2002	2003	2004	2005	2006	2007
GDP, current prices (mill. HRK)	152,519	165,639	181,231	198,422	214,983	231,349	250,590	275,078
Growth rate of GDP (%)	2.9	4.4	5.6	5.3	4.3	4.3	4.8	5.6
GDP, current prices (mill. EUR)	19,976	22,170	24,467	26,230	28,677	31,260	34,220	37,496
GDP, per capita (EUR)	4,560	4,998	5,507	5,906	6,462	7,038	7,707	8,452
Consumer prices, average (%)	4.6	3.8	1.7	1.8	2.1	3.3	3.2	2.9
Producers prices, average (%)	9.7	3.6	-0.4	1.9	3.5	3.0	2.9	3.4
Unemployed persons, average	357,872	380,195	389,740	329,799	309,875	308,739	291,616	264,446
Unemployment rate, average	21.1	22.0	22.3	19.1	18.0	17.9	16.6	14.8
Unemployment rate - ILO, average (%)	16.1	15.8	14.8	14.3	13.8	12.7	11.2	9.6
Average monthly gross wage, growth rate (%)	7.0	3.9	6.0	4.8	6.4	4.4	6.2	6.2
Average monthly gross wage, HRK	4,869	5,061	5,366	5,623	5,985	6,248	6,634	7,047
Average monthly net wage, growth rate (%)	8.9	6.5	5.0	5.9	5.9	4.9	5.2	5.2
Average monthly net wage, HRK	3,326	3,541	3,720	3,940	4,173	4,376	4,603	4,841
Total volume of industrial production, growth rate (%)	1.7	6.0	5.4	4.1	3.7	5.1	4.5	5.6
Retail sales turnover, real growth rate (%)	14.4	10.0	12.5	3.7	2.6	2.8	2.1	5.3
Total tourist bed-nights, growth rate (%)	47.0	11.0	3.0	4.0	2.0	7.6	3.1	5.6
Total volume of construction projects, growth rate (%)	-9.1	3.6	12.8	22.8	2.0	-0.8	9.3	2.4
Exchange rate HRK/USD, average	8.29	8.34	7.87	6.70	6.03	5.95	5.84	5.37
Exchange rate HRK/USD, end of period	8.16	8.36	7.15	6.12	5.64	6.23	5.58	4.99
Exchange rate HRK/EUR, average	7.63	7.47	7.41	7.56	7.50	7.40	7.32	7.34
Exchange rate HRK/EUR, end of period	7.60	7.37	7.44	7.65	7.67	7.38	7.35	7.33
Trade balance (mill. USD)	-3,455	-4,481	-5,818	-8,022	-8,565	-9,788	-11,126	-13,475
Exports (mill. USD)	4,432	4,666	4,904	6,187	8,024	8,773	10,377	12,364
Imports (mill. USD)	7,887	9,147	10,722	14,209	16,589	18,560	21,502	25,839
Current account balance (mill. EUR)	-568	-821	-2,099	-1,889	-1,434	-1,976	-2,696	-3,226
Current account balance (% GDP)	-2.8	-3.7	-8.6	-7.2	-5.0	-6.3	-7.9	-8.6
Total outstanding external debt, end of period (mill. USD)	11,426	12,003	15,772	24,851	31,209	30,465	38,545	48,805
Total outstanding external debt, end of period (mill. EUR)	12,264	13,609	15,143	19,884	22,933	25,748	29,274	33,216
International reserves of CNB, end of period (mill. EUR)	3,783	5,334	5,651	6,554	6,436	7,438	8,725	9,307
Interest rates on treasury bills of 91 days maturity, end of period	7.50%	4.00%	2.00%	4.00%	3.80%	3.70%	3.00%	3.60%
ZIBOR (3 m), average	11.10%	7.90%	4.60%	5.50%	7.35%	6.19%	4.46%	5.59%

Source: CBS, CNB, Ministry of Finance



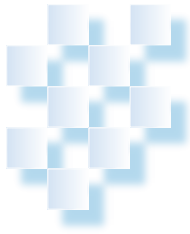
Appendix 2: Budgetary Central Government Revenue 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
1	REVENUE	74,677,473.7	80,463,518.2	85,653,010.2	95,235,557.3	111.2	108,320,594.6	113.7
11	Taxes	45,281,076.4	47,149,861.9	50,687,564.0	58,469,090.7	115.4	64,234,529.5	109.9
111	Taxes on income, profits, and capital gains	6,189,047.2	6,259,713.1	7,057,112.3	8,515,615.0	120.7	10,589,083.0	124.3
1111	Payable by individuals	3,114,580.8	3,128,273.0	3,106,476.4	3,459,649.3	111.4	1,772,707.7	51.2
1112	Payable by corporations and other enterprises	3,074,466.4	3,131,440.1	3,950,635.9	5,055,965.7	128.0	8,816,375.3	174.4
113	Taxes on property	289,926.0	355,823.3	375,500.5	482,330.9	128.5	578,620.5	120.0
1134	Taxes on financial and capital transactions	289,926.0	355,823.3	375,500.5	482,330.9	128.5	578,620.5	120.0
114	Taxes on goods and services	36,651,147.6	38,602,220.8	41,323,002.4	47,546,222.5	115.1	51,099,930.0	107.5
1141	General taxes on goods and services	28,260,009.3	30,013,661.2	32,399,951.5	35,091,380.5	108.3	37,916,508.9	108.1
11411	Value-added taxes	28,129,299.9	29,864,904.7	32,243,371.6	34,931,749.5	108.3	37,747,987.2	108.1
11412	Sales taxes	130,709.4	148,756.5	156,579.9	159,631.0	101.9	168,521.7	105.6
1142	Excises	7,850,993.1	7,941,553.7	8,177,659.1	11,564,709.0	141.4	12,168,665.8	105.2
1144	Taxes on specific services	7,903.3	26,216.5	20,000.0	22,000.0	110.0	24,500.0	111.4
1145	Taxes on use of goods, permission to use goods	182,348.1	226,812.5	299,562.6	409,511.0	136.7	480,619.2	117.4
11452	Other	182,348.1	226,812.5	299,562.6	409,511.0	136.7	480,619.2	117.4
1146	Other taxes on goods and services	349,893.8	393,976.9	425,829.2	458,622.0	107.7	509,636.1	111.1
115	Taxes on international trade and transactions	1,810,866.2	1,590,727.3	1,562,930.2	1,588,456.0	101.6	1,641,478.0	103.3
1151	Customs and other import duties	1,810,866.2	1,590,727.3	1,562,930.2	1,588,456.0	101.6	1,641,478.0	103.3
116	Other taxes	340,089.4	341,377.4	369,018.6	336,466.3	91.2	325,418.0	96.7
12	Social contributions	27,416,930.5	29,477,597.2	31,301,339.6	33,877,147.6	108.2	37,203,485.8	109.8
121	Social security contributions	27,416,930.5	29,477,597.2	31,301,339.6	33,877,147.6	108.2	37,203,485.8	109.8
1211	Employee contributions	12,334,662.0	13,139,274.1	13,857,359.8	15,084,348.6	108.9	16,531,305.3	109.6
1212	Employer contributions	14,323,245.2	15,737,707.0	16,695,492.4	18,051,381.5	108.1	19,845,488.2	109.9
1213	Self-employed or nonemployed contributions	759,023.3	600,616.1	748,487.4	741,417.5	99.1	826,692.3	111.5
1214	Unallocable contributions	0.0	0.0	0.0	0.0	-	0.0	-
13	Grants	10,406.5	10,121.5	27,505.2	195,984.2	712.5	428,038.4	218.4
131	From foreign governments	0.0	684.1	107.3	2,098.8	1,956.0	8,579.5	408.8
1311	Current	0.0	571.0	107.3	1,712.1	1,595.6	5,043.9	294.6
1312	Capital	0.0	113.1	0.0	386.7	-	3,535.6	914.3
132	From international organizations	10,406.5	9,437.4	27,397.9	192,385.4	702.2	395,827.3	205.7
1321	Current	10,406.5	9,437.4	18,873.3	115,907.8	614.1	262,101.4	226.1
1322	Capital	0.0	0.0	8,524.6	76,477.6	897.1	133,725.9	174.9
133	From other general government units	0.0	0.0	0.0	1,500.0	-	23,631.6	1,575.4
14	Other revenue	1,969,060.3	3,825,937.6	3,636,601.4	2,693,334.8	74.1	6,454,540.9	239.6
141	Property income	417,485.5	2,667,701.0	2,226,646.8	832,400.3	37.4	3,526,539.8	423.7
1411	Interest	19,433.0	35,752.0	62,784.1	108,232.2	172.4	164,557.7	152.0
1412	Dividends	108,122.9	1,868,840.6	1,123,345.8	17,835.1	1.6	1,194,582.2	6,697.9
1413	Withdrawals from income of quasi-corporations	5.1	146,819.9	192,515.7	288,113.3	149.7	117,730.3	40.9
1414	Property income attrib. to insurance policyholders	0.0	0.0	0.0	0.0	-	0.0	-
1415	Rent	289,924.5	616,288.5	848,001.2	418,219.7	49.3	2,049,669.6	490.1
142	Sales of goods and services	749,462.7	676,950.9	782,428.0	1,209,295.5	154.6	1,526,645.8	126.2
1421	Sales of market establishments	0.0	0.0	0.0	0.0	-	0.0	-
1422	Administrative fees	305,448.1	312,994.2	397,066.4	821,740.6	207.0	1,318,050.2	160.4
1423	Incidental sales by nonmarket establishments	444,014.6	363,956.7	385,361.6	387,554.9	100.6	208,595.6	53.8
1424	Imputed sales of goods and services	0.0	0.0	0.0	0.0	-	0.0	-
143	Fines, penalties, and forfeits	307,167.5	342,370.6	360,707.4	391,615.6	108.6	429,033.6	109.6
144	Voluntary transfers other than grants	1,522.6	248.5	5,653.1	6,737.3	119.2	11,241.3	166.9
1441	Current	1,522.6	248.5	5,653.1	5,727.4	101.3	8,619.7	150.5
1442	Capital	0.0	0.0	0.0	1,009.9	-	2,621.6	259.6
145	Miscellaneous and unidentified revenue	493,422.0	138,666.6	261,166.1	253,286.1	97.0	961,080.4	379.4



Appendix 3: Budgetary Central Government Expense 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
2	EXPENSE	77,075,487.4	83,131,114.4	87,857,464.9	95,949,950.9	109.2	108,007,604.7	112.6
21	Compensation of employees	21,225,816.1	22,268,286.7	23,182,585.9	24,313,867.4	104.9	27,545,141.2	113.3
211	Wages and salaries	18,037,101.2	18,888,605.2	19,699,216.4	20,663,890.0	104.9	23,237,088.2	112.5
212	Social contributions	3,188,714.9	3,379,681.5	3,483,369.5	3,649,977.4	104.8	4,308,053.0	118.0
2121	Actual social contributions	3,188,714.9	3,379,681.5	3,483,369.5	3,649,977.4	104.8	4,308,053.0	118.0
2122	Imputed social contributions	0.0	0.0	0.0	0.0	-	0.0	-
22	Use of goods and services	4,170,610.6	4,358,720.5	4,951,917.4	6,069,116.2	122.6	7,162,402.2	118.0
23	Consumption of fixed capital	0.0	0.0	0.0	0.0	-	0.0	-
24	Interest	3,587,328.9	3,972,466.3	4,387,009.7	4,713,615.3	107.4	4,535,007.5	96.2
241	To nonresidents	1,879,419.9	1,976,502.3	2,053,587.9	1,863,999.2	90.8	1,672,563.1	89.7
242	To residents other than general government	1,707,909.0	1,995,964.0	2,333,421.8	2,849,616.1	122.1	2,862,444.4	100.5
243	To other general government units	0.0	0.0	0.0	0.0	-	0.0	-
25	Subsidies	4,292,712.4	4,968,068.5	5,248,743.7	5,670,788.5	108.0	6,492,010.1	114.5
251	To public corporations	1,942,931.7	2,783,462.4	2,784,825.0	2,692,784.7	96.7	3,007,098.6	111.7
252	To private enterprises	2,349,780.7	2,184,606.1	2,463,918.7	2,978,003.8	120.9	3,484,911.5	117.0
26	Grants	3,746,958.2	3,420,326.9	3,796,846.7	6,652,993.9	175.2	8,363,201.9	125.7
261	To foreign governments	43,918.0	76,464.4	73,639.3	64,794.9	88.0	103,409.7	159.6
2611	Current	43,918.0	46,500.0	49,174.0	37,760.4	76.8	75,261.1	199.3
2612	Capital	0.0	29,964.4	24,465.3	27,034.5	110.5	28,148.6	104.1
262	To international organizations	41,239.1	83,433.8	93,831.7	89,618.5	95.5	73,940.6	82.5
2621	Current	41,239.1	83,433.8	93,831.7	89,618.5	95.5	73,940.6	82.5
2622	Capital	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	3,661,801.1	3,260,428.7	3,629,375.7	6,498,580.5	179.1	8,185,851.6	126.0
2631	Current	3,198,504.5	2,498,597.5	2,623,246.2	2,663,155.5	101.5	2,305,125.2	86.6
2632	Capital	463,296.6	761,831.2	1,006,129.5	3,835,425.0	381.2	5,880,726.4	153.3
27	Social benefits	36,204,270.1	39,730,886.6	41,358,454.8	43,444,589.3	105.0	48,175,988.9	110.9
271	Social security benefits	28,917,771.5	28,189,471.6	29,308,716.4	30,535,396.3	104.2	34,167,893.8	111.9
272	Social assistance benefits	6,731,909.7	11,177,314.8	11,792,075.3	12,786,632.4	108.4	13,815,777.0	108.0
273	Employer social benefits	554,588.9	364,100.2	257,663.1	122,560.6	47.6	192,318.1	156.9
28	Other expense	3,847,791.1	4,412,358.9	4,931,906.7	5,084,980.3	103.1	5,733,852.9	112.8
281	Property expense other than interest	6,766.9	3,954.6	4,919.8	7,599.8	154.5	1,132.4	14.9
282	Miscellaneous other expense	3,841,024.2	4,408,404.3	4,926,986.9	5,077,380.5	103.1	5,732,720.5	112.9
2821	Current	2,325,646.4	1,842,516.4	2,154,806.2	2,304,213.5	106.9	2,837,556.6	123.1
2822	Capital	1,515,377.8	2,565,887.9	2,772,180.7	2,773,167.0	100.0	2,895,163.9	104.4



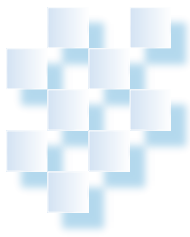
Appendix 4: Transactions in Nonfinancial Assets of the Budgetary Central Government 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
31	Net acquisition of nonfinancial assets	1,812,403.6	1,419,466.9	1,553,668.4	1,555,792.1	100.1	2,545,220.3	163.6
311	Fixed assets	1,795,345.4	1,384,608.6	1,516,968.2	1,595,120.5	105.2	2,625,692.0	164.6
311,1	Acquisitions: fixed assets	2,019,172.2	1,624,050.5	1,781,346.8	1,844,783.1	103.6	2,906,863.2	157.6
311,2	Disposals: fixed assets	223,826.8	239,441.9	264,378.6	249,662.6	94.4	281,171.2	112.6
3111	Buildings and structures	1,199,770.2	811,476.8	867,662.5	831,376.5	95.8	1,154,131.7	138.8
3111,1	Acquisitions: buildings and structures	1,423,367.0	1,050,314.9	1,131,301.5	1,080,074.4	95.5	1,423,339.9	131.8
3111,2	Disposals: buildings and structures	223,596.8	238,838.1	263,639.0	248,697.9	94.3	269,208.2	108.2
3112	Machinery and equipment	516,597.8	518,941.0	557,319.9	656,732.6	117.8	1,338,275.3	203.8
3112,1	Acquisitions: machinery and equipment	516,827.8	519,544.8	558,059.5	657,696.4	117.9	1,350,238.1	205.3
3112,2	Disposals: machinery and equipment	230.0	603.8	739.6	963.8	130.3	11,962.8	1,241.2
3113	Other fixed assets	78,977.4	54,190.8	91,985.8	107,011.4	116.3	133,285.0	124.6
3113,1	Acquisitions: other fixed assets	78,977.4	54,190.8	91,985.8	107,012.3	116.3	133,285.2	124.6
3113,2	Disposals: other fixed assets	0.0	0.0	0.0	0.9	-	0.2	22.2
312	Inventories	0.0	0.0	0.0	-80,226.0	-	-161,382.8	-
312,1	Acquisitions: inventories	0.0	0.0	0.0	1,047.9	-	36,574.2	3,490.2
312,2	Disposals: inventories	0.0	0.0	0.0	81,273.9	-	197,957.0	243.6
313	Valuables	5,303.3	7,518.2	7,220.0	7,825.8	108.4	9,620.4	122.9
313,1	Acquisitions: valuables	5,303.3	7,518.2	7,220.0	7,825.8	108.4	9,620.4	122.9
314	Nonproduced assets	11,754.9	27,340.1	29,480.2	33,071.8	112.2	71,290.7	215.6
314,1	Acquisitions: nonproduced assets	30,513.9	32,299.2	40,251.0	54,825.6	136.2	90,847.9	165.7
314,2	Disposals: nonproduced assets	18,759.0	4,959.1	10,770.8	21,753.8	202.0	19,557.2	89.9
3141	Land	-18,361.1	7,062.3	-10,282.1	-21,650.4	-	-19,491.6	-
3141,1	Acquisitions: land	397.9	12,021.4	488.7	81.3	16.6	57.5	70.7
3141,2	Disposals: land	18,759.0	4,959.1	10,770.8	21,731.7	201.8	19,549.1	90.0
3142	Subsoil assets	0.0	0.0	0.0	-22.1	-	0.0	-
3142,2	Disposals: subsoil assets	0.0	0.0	0.0	22.1	-	0.0	-
3143	Other naturally occurring assets	0.0	0.0	0.0	0.0	-	0.0	-
3144	Intangible nonproduced assets	30,116.0	20,277.8	39,762.3	54,744.3	137.7	90,782.3	165.8
3144,1	Acquisitions: intangible nonproduced assets	30,116.0	20,277.8	39,762.3	54,744.3	137.7	90,790.4	165.8
3144,2	Disposals: intangible nonproduced assets	0.0	0.0	0.0	0.0	-	8.1	-



Appendix 5: Transactions in Financial Assets of the Budgetary Central Government 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
32	Net acquisition of financial assets	-1,320,128.6	221,977.3	1,752,824.5	-3,047,174.0	-	-3,734,781.0	-
321	Domestic	-1,330,054.7	212,191.5	1,757,681.4	-3,063,854.6	-	-3,752,816.6	-
3212	Currency and deposits	1,146,530.3	-1,114,263.8	688,185.0	-1,449,670.1	-	-1,721,590.7	-
3213	Securities other than shares	0.0	0.0	0.0	0.0	-	0.0	-
3214	Loans	393,362.8	1,002,955.3	847,590.4	832,320.5	98.2	674,349.6	81.0
3214,1	Acquisitions: Loans	1,576,177.4	1,328,793.9	1,026,366.5	1,037,700.7	101.1	837,699.1	80.7
3214,2	Disposals: Loans	1,182,814.6	325,838.6	178,776.1	205,380.2	114.9	163,349.5	79.5
3215	Shares and other equity	-2,869,947.8	323,500.0	221,906.0	-2,446,505.0	-	-2,705,575.5	-
3215,1	Acquisitions: Shares and other equity	485,020.0	448,500.0	235,065.1	231,357.0	98.4	226,005.0	97.7
3215,2	Disposals: Shares and other equity	3,354,967.8	125,000.0	13,159.1	2,677,862.0	20,349.9	2,931,580.5	109.5
3216	Insurance technical reserves	0.0	0.0	0.0	0.0	-	0.0	-
3217	Financial derivatives	0.0	0.0	0.0	0.0	-	0.0	-
3218	Other accounts receivable	0.0	0.0	0.0	0.0	-	0.0	-
322	Foreign	9,926.1	9,785.8	-4,856.9	16,680.6	-	18,035.6	108.1
3222	Currency and deposits	0.0	0.0	0.0	0.0	-	0.0	-
3223	Securities other than shares	0.0	0.0	0.0	0.0	-	0.0	-
3224	Loans	0.0	0.0	0.0	0.0	-	0.0	-
3225	Shares and other equity	9,926.1	9,785.8	-4,856.9	16,680.6	-	18,035.6	108.1
3225,1	Acquisitions: Shares and other equity	9,926.1	9,785.8	2,699.3	16,680.6	618.0	18,035.6	108.1
3225,2	Disposals: Shares and other equity	0.0	0.0	7,556.2	0.0	-	0.0	-
3226	Insurance technical reserves	0.0	0.0	0.0	0.0	-	0.0	-
3227	Financial derivatives	0.0	0.0	0.0	0.0	-	0.0	-
3228	Other accounts receivable	0.0	0.0	0.0	0.0	-	0.0	-
323	Monetary gold and SDRs	0.0	0.0	0.0	0.0	-	0.0	-



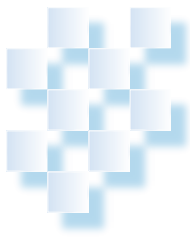
Appendix 6: Transactions in Liabilities of the Budgetary Central Government 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
33	Net incurrence of liabilities	2,890,288.7	4,309,040.4	5,510,947.6	-776,988.3	-	-1,502,550.6	-
33,1	Total repayments	6,520,770.5	13,717,081.5	10,253,489.1	10,056,696.6	98.1	8,333,536.5	82.9
33,2	Total incurrence	9,411,059.2	18,026,121.9	15,764,436.7	9,279,708.3	58.9	6,830,985.9	73.6
331	Domestic	-159,690.2	4,038,705.1	10,591,559.7	3,166,260.0	29.9	1,477,615.0	46.7
331,1	Repayments	4,146,435.2	9,009,705.0	4,389,322.6	4,250,184.1	96.8	4,604,573.2	108.3
331,2	Incurrence	3,986,745.0	13,048,410.1	14,980,882.3	7,416,444.1	49.5	6,082,188.2	82.0
3312	Currency and deposits	0.0	0.0	0.0	0.0	-	0.0	-
3313	Securities other than shares	635,810.6	6,357,475.7	9,636,343.1	5,648,934.2	58.6	3,520,136.0	62.3
3313,1	Repayments: Securities other than shares	2,305,093.0	5,025,194.2	2,844,600.8	550,859.1	19.4	3,513,171.5	637.8
3313,2	Incurrences: Securities other than shares	2,940,903.6	11,382,669.9	12,480,943.9	6,199,793.3	49.7	7,033,307.5	113.4
3314	Loans	-795,500.8	-2,318,770.6	955,216.6	-2,482,674.2	-	-2,042,521.0	-
3314,1	Repayments: Loans	1,841,342.2	3,984,510.8	1,544,721.8	3,699,325.0	239.5	1,091,401.7	29.5
3314,2	Incurrences: Loans	1,045,841.4	1,665,740.2	2,499,938.4	1,216,650.8	48.7	-951,119.3	-
3316	Insurance technical reserves	0.0	0.0	0.0	0.0	-	0.0	-
3317	Financial derivatives	0.0	0.0	0.0	0.0	-	0.0	-
3318	Other accounts payable	0.0	0.0	0.0	0.0	-	0.0	-
332	Foreign	3,049,978.9	270,335.3	-5,080,612.1	-3,943,248.3	-	-2,980,165.6	-
332,1	Repayments	2,374,335.3	4,707,376.5	5,864,166.5	5,806,512.5	99.0	3,728,963.3	64.2
332,2	Incurrence	5,424,314.2	4,977,711.8	783,554.4	1,863,264.2	237.8	748,797.7	40.2
3322	Currency and deposits	0.0	0.0	0.0	0.0	-	0.0	-
3323	Securities other than shares	4,051,109.1	1,215,439.1	-3,713,935.0	-3,480,780.5	-	-1,757,723.2	-
3323,1	Repayments: Securities other than shares	0.0	2,526,875.9	3,713,935.0	3,480,780.5	93.7	1,757,723.2	50.5
3323,2	Incurrences: Securities other than shares	4,051,109.1	3,742,315.0	0.0	0.0	-	0.0	-
3324	Loans	-1,001,130.2	-945,103.8	-1,366,677.1	-462,467.8	-	-1,222,442.4	-
3324,1	Repayments: Loans	2,374,335.3	2,180,500.6	2,150,231.5	2,325,732.0	108.2	1,971,240.1	84.8
3324,2	Incurrences: Loans	1,373,205.1	1,235,396.8	783,554.4	1,863,264.2	237.8	748,797.7	40.2
3326	Insurance technical reserves	0.0	0.0	0.0	0.0	-	0.0	-
3327	Financial derivatives	0.0	0.0	0.0	0.0	-	0.0	-
3328	Other accounts payable	0.0	0.0	0.0	0.0	-	0.0	-



Appendix 7: Budgetary Central Government Expense by Function 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	2007
7	Total expense	79,130,476.7	84,794,982.3	89,686,282.7	97,858,433.4	111,051,510.5
701	General public services	8,202,368.2	8,958,022.6	10,221,538.1	10,902,902.9	11,912,164.0
702	Defense	4,087,773.8	3,700,636.3	3,593,298.4	4,041,052.7	4,509,048.2
703	Public order and safety	5,176,019.6	5,488,422.3	5,828,251.1	6,244,380.1	7,297,691.7
704	Economic affairs	6,631,930.1	7,866,261.5	8,392,346.9	12,149,713.8	15,452,384.1
705	Environment protection	310,793.9	234,334.6	205,605.1	261,827.3	311,388.8
706	Housing and community amenity affairs	1,829,917.5	2,528,730.7	2,848,426.5	2,453,667.4	2,480,523.8
707	Health	11,609,418.9	12,719,750.1	12,912,308.2	14,098,367.3	16,875,900.6
708	Recreation, culture and religion	1,085,002.2	1,242,363.0	1,322,381.5	1,477,987.9	1,738,689.2
709	Education	6,806,802.9	7,244,729.9	7,642,395.0	8,213,730.2	9,293,916.9
710	Social protection	33,390,449.7	34,811,731.4	36,719,731.9	38,014,803.7	41,179,803.1



Appendix 8: Transactions of Extrabudgetary Users 2003 - 2007

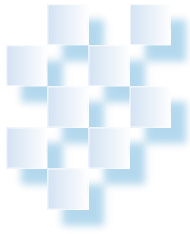
	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007*	Index 2007/2006
1	REVENUE	8,604,825.0	7,830,258.0	8,134,940.0	9,429,083.0	115.9	10,561,624.0	112.0
11	Taxes	2,631,104.0	2,683,804.0	2,761,485.0	0.0	-	0.0	-
1142	Excises	2,631,104.0	2,683,804.0	2,761,485.0	0.0	-	0.0	-
12	Social contributions	7,677.0	0.0	0.0	0.0	-	0.0	-
13	Grants	2,497,178.0	1,274,492.0	1,145,477.0	4,270,535.0	372.8	5,549,188.0	129.9
131	From foreign governments	1,434.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	18,197.0	-
133	From other general government units	2,495,744.0	1,274,492.0	1,145,477.0	4,270,535.0	372.8	5,530,991.0	129.5
1331	Current	2,256,669.0	926,267.0	834,991.0	690,117.0	82.6	3,643.0	0.5
1332	Capital	239,075.0	348,225.0	310,486.0	3,580,418.0	1,153.2	5,527,348.0	154.4
14	Other revenue	3,468,866.0	3,871,962.0	4,227,978.0	5,158,548.0	122.0	5,012,436.0	97.2
2	EXPENSE	6,135,543.0	5,084,815.0	5,620,152.0	7,073,492.0	125.9	6,563,438.0	92.8
21	Compensation of employees	842,647.0	997,437.0	1,117,529.0	1,199,095.0	107.3	609,484.0	50.8
211	Wages and salaries	725,796.0	862,263.0	966,616.0	1,035,834.0	107.2	524,596.0	50.6
212	Social contributions	116,851.0	135,174.0	150,913.0	163,261.0	108.2	84,888.0	52.0
22	Use of goods and services	2,132,441.0	1,969,020.0	2,148,315.0	3,124,365.0	145.4	3,354,913.0	107.4
24	Interest	368,637.0	371,214.0	617,640.0	683,431.0	110.7	926,232.0	135.5
241	To nonresidents	147,425.0	184,282.0	305,417.0	522,924.0	171.2	561,616.0	107.4
242	To residents other than general government	221,212.0	186,932.0	312,223.0	160,507.0	51.4	364,616.0	227.2
25	Subsidies	0.0	0.0	5,189.0	13,803.0	266.0	18,553.0	134.4
251	To public corporations	0.0	0.0	5,189.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	13,803.0	-	18,553.0	134.4
26	Grants	0.0	4,542.0	153,390.0	457,883.0	298.5	672,734.0	146.9
263	To other general government units	0.0	4,542.0	153,390.0	457,883.0	298.5	672,734.0	146.9
2631	Current	0.0	0.0	0.0	0.0	-	1,500.0	-
2632	Capital	0.0	4,542.0	153,390.0	457,883.0	298.5	671,234.0	-
27	Social benefits	2,029,198.0	914,907.0	571,777.0	748,262.0	130.9	523.0	0.1
271	Social security benefits	2,015,288.0	911,499.0	571,107.0	741,298.0	129.8	523.0	0.1
272	Social assistance benefits	13,910.0	3,408.0	670.0	6,964.0	1,039.4	0.0	-
28	Other expense	762,620.0	827,695.0	1,006,312.0	846,653.0	84.1	980,999.0	115.9
3	CHANGE IN NET WORTH: TRANSACTIONS	2,469,282.0	2,745,443.0	2,514,788.0	2,355,591.0	93.7	3,998,186.0	169.7
31	Net acquisition of nonfinancial assets	6,183,610.0	6,953,996.0	5,145,748.0	4,552,835.0	88.5	5,265,736.0	115.7
31,1	Acquisition of nonfinancial assets	6,216,526.0	6,984,515.0	5,195,362.0	4,927,889.0	94.9	5,334,740.0	108.3
31,2	Disposal of nonfinancial assets	32,916.0	30,519.0	49,614.0	375,054.0	755.9	69,004.0	18.4
32	Net acquisition of financial assets	409,057.0	-119,979.0	-133,065.0	470,485.0	-	795,625.0	169.1
321	Domestic	409,057.0	-119,979.0	-133,065.0	470,485.0	-	795,625.0	169.1
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	4,123,385.0	4,088,574.0	2,497,895.0	2,667,729.0	106.8	2,063,175.0	77.3
331	Domestic	1,160,730.0	142,589.0	1,460,118.0	2,116,532.0	145.0	539,480.0	25.5
332	Foreign	2,962,655.0	3,945,985.0	1,037,777.0	551,197.0	53.1	1,523,695.0	276.4

*In 2007 transactions of HZMO, HZZO and HZZ are completely included in the State Treasury system



Appendix 9: Transactions of Croatian Waters 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
1	REVENUE	1,544,421.0	1,658,435.0	1,715,607.0	1,971,613.0	114.9	2,507,327.0	127.2
11	Taxes	0.0	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	0.0	-	0.0	-
13	Grants	395,522.0	434,004.0	487,813.0	444,762.0	91.2	542,884.0	122.1
131	From foreign governments	1,434.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	18,197.0	-
133	From other general government units	394,088.0	434,004.0	487,813.0	444,762.0	91.2	524,687.0	118.0
1331	Current	182,000.0	105,340.0	203,499.0	89,259.0	43.9	3,643.0	4.1
1332	Capital	212,088.0	328,664.0	284,314.0	355,503.0	125.0	521,044.0	146.6
14	Other revenue	1,148,899.0	1,224,431.0	1,227,794.0	1,526,851.0	124.4	1,964,443.0	128.7
2	EXPENSE	1,427,067.0	1,426,283.0	1,489,465.0	1,779,088.0	119.4	2,108,778.0	118.5
21	Compensation of employees	87,792.0	93,675.0	99,418.0	111,293.0	111.9	121,767.0	109.4
211	Wages and salaries	75,924.0	80,618.0	85,524.0	96,298.0	112.6	104,720.0	108.7
212	Social contributions	11,868.0	13,057.0	13,894.0	14,995.0	107.9	17,047.0	113.7
22	Use of goods and services	826,878.0	743,383.0	790,683.0	1,072,478.0	135.6	1,208,936.0	112.7
24	Interest	37,057.0	37,907.0	33,734.0	31,692.0	93.9	34,639.0	109.3
241	To nonresidents	28,015.0	10,812.0	8,652.0	7,073.0	81.7	5,852.0	82.7
242	To residents other than general government	9,042.0	27,095.0	25,082.0	24,619.0	98.2	28,787.0	116.9
243	To other general government units	0.0	0.0	0.0	0.0	-	0.0	-
25	Subsidies	0.0	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	53,751.0	-	82,301.0	153.1
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	53,751.0	-	82,301.0	153.1
2631	Current	0.0	0.0	0.0	0.0	-	1,500.0	-
2632	Capital	0.0	0.0	0.0	53,751.0	-	80,801.0	150.3
27	Social benefits	0.0	0.0	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	0.0	0.0	-	0.0	-
28	Other expense	475,340.0	551,318.0	565,630.0	509,874.0	90.1	661,135.0	129.7
3	CHANGE IN NET WORTH: TRANSACTIONS	117,354.0	232,152.0	226,142.0	192,525.0	85.1	398,549.0	207.0
31	Net acquisition of nonfinancial assets	290,709.0	282,527.0	230,292.0	223,123.0	96.9	315,004.0	141.2
31,1	Acquisition of nonfinancial assets	291,043.0	282,797.0	230,588.0	224,983.0	97.6	318,780.0	141.7
31,2	Disposal of nonfinancial assets	334.0	270.0	296.0	1,860.0	628.4	3,776.0	203.0
32	Net acquisition of financial assets	-146,776.0	-11,385.0	5,284.0	-32,316.0	-	116,100.0	-
321	Domestic	-146,776.0	-11,385.0	5,284.0	-32,316.0	-	116,100.0	-
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	26,579.0	38,990.0	9,434.0	-1,718.0	-	32,555.0	-
331	Domestic	30,289.0	42,859.0	-26,179.0	12,778.0	-	-2,259.0	-
332	Foreign	-3,710.0	-3,869.0	35,613.0	-14,496.0	-	34,814.0	-



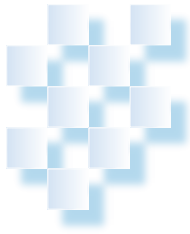
Appendix 10: Transactions of Environment Protection Fund 2004 - 2007

	(000 HRK)	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
1	REVENUE	172,273.0	214,737.0	660,190.0	307.4	1,102,946.0	513.6
11	Taxes	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	-	0.0	-
13	Grants	1,525.0	0.0	350.0	-	0.0	-
131	From foreign governments	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	-	0.0	-
133	From other general government units	1,525.0	0.0	350.0	-	0.0	-
1331	Current	1,525.0	0.0	350.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	-	0.0	-
14	Other revenue	170,748.0	214,737.0	659,840.0	307.3	1,102,946.0	513.6
2	EXPENSE	32,443.0	172,045.0	734,764.0	427.1	1,092,568.0	635.0
21	Compensation of employees	1,905.0	3,966.0	6,843.0	172.5	12,939.0	326.2
211	Wages and salaries	1,633.0	3,407.0	5,864.0	172.1	11,071.0	324.9
212	Social contributions	272.0	559.0	979.0	175.1	1,868.0	334.2
22	Use of goods and services	2,734.0	12,162.0	608,913.0	5,006.7	945,697.0	7,775.8
24	Interest	0.0	0.0	0.0	-	0.0	-
241	To nonresidents	0.0	0.0	0.0	-	0.0	-
242	To residents other than general government	0.0	0.0	0.0	-	0.0	-
25	Subsidies	0.0	5,189.0	13,803.0	266.0	18,553.0	357.5
251	To public corporations	0.0	5,189.0	0.0	0.0	0.0	0.0
252	To private enterprises	0.0	0.0	13,803.0	-	18,553.0	134.4
26	Grants	0.0	149,780.0	102,355.0	68.3	108,582.0	72.5
261	To foreign governments	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	149,780.0	102,355.0	68.3	108,582.0	72.5
2631	Current	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	149,780.0	102,355.0	68.3	108,582.0	72.5
27	Social benefits	0.0	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	0.0	-	0.0	-
28	Other expense	27,804.0	948.0	2,850.0	300.6	6,797.0	717.0
3	CHANGE IN NET WORTH: TRANSACTIONS	139,830.0	42,692.0	-74,574.0	-	10,378.0	-
31	Net acquisition of nonfinancial assets	1,786.0	12,917.0	14,151.0	109.6	20,189.0	156.3
31,1	Acquisition of nonfinancial assets	1,786.0	12,917.0	14,287.0	110.6	20,256.0	156.8
31,2	Disposal of nonfinancial assets	0.0	0.0	136.0	-	67.0	-
32	Net acquisition of financial assets	138,044.0	29,775.0	-88,725.0	-	-9,811.0	-
321	Domestic	138,044.0	29,775.0	-88,725.0	-	-9,811.0	-
322	Foreign	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	0.0	0.0	0.0	-	0.0	-
331	Domestic	0.0	0.0	0.0	-	0.0	-
332	Foreign	0.0	0.0	0.0	-	0.0	-



Appendix 11: Transactions of Croatian Motorways 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
1	REVENUE	1,927,787.0	2,295,423.0	2,547,003.0	2,721,483.0	106.9	4,391,205.0	161.4
11	Taxes	1,313,743.0	1,341,683.0	1,380,753.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	0.0	1,450,358.0	-	3,015,869.0	207.9
131	From foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	1,450,358.0	-	3,015,869.0	207.9
1331	Current	0.0	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	1,450,358.0	-	3,015,869.0	207.9
14	Other revenue	614,044.0	953,740.0	1,166,250.0	1,271,125.0	109.0	1,375,336.0	108.2
2	EXPENSE	692,490.0	756,796.0	1,088,687.0	1,574,490.0	144.6	1,982,632.0	125.9
21	Compensation of employees	162,982.0	236,353.0	289,866.0	320,097.0	110.4	354,412.0	110.7
211	Wages and salaries	140,867.0	203,955.0	250,374.0	276,180.0	110.3	305,329.0	110.6
212	Social contributions	22,115.0	32,398.0	39,492.0	43,917.0	111.2	49,083.0	111.8
22	Use of goods and services	406,858.0	258,509.0	314,534.0	301,452.0	95.8	326,437.0	108.3
24	Interest	122,650.0	191,132.0	445,185.0	589,173.0	132.3	787,824.0	133.7
241	To nonresidents	118,482.0	170,942.0	288,497.0	496,864.0	172.2	528,463.0	106.4
242	To residents other than general government	4,168.0	20,190.0	156,688.0	92,309.0	58.9	259,361.0	281.0
25	Subsidies	0.0	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	4,542.0	3,610.0	301,777.0	8,359.5	474,244.0	157.2
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	4,542.0	3,610.0	301,777.0	8,359.5	474,244.0	157.2
2631	Current	0.0	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	4,542.0	3,610.0	301,777.0	8,359.5	474,244.0	157.2
27	Social benefits	0.0	0.0	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	0.0	0.0	-	0.0	-
28	Other expense	0.0	66,260.0	35,492.0	61,991.0	174.7	39,715.0	64.1
3	CHANGE IN NET WORTH: TRANSACTIONS	1,235,297.0	1,538,627.0	1,458,316.0	1,146,993.0	78.7	2,408,573.0	210.0
31	Net acquisition of nonfinancial assets	5,113,679.0	5,778,694.0	3,942,727.0	2,949,761.0	74.8	3,369,269.0	114.2
31,1	Acquisition of nonfinancial assets	5,113,679.0	5,778,694.0	3,942,727.0	3,249,761.0	82.4	3,386,216.0	104.2
31,2	Disposal of nonfinancial assets	0.0	0.0	0.0	300,000.0	-	16,947.0	-
32	Net acquisition of financial assets	-412,302.0	-162,274.0	-42,758.0	248,366.0	-	289,126.0	116.4
321	Domestic	-412,302.0	-162,274.0	-42,758.0	248,366.0	-	289,126.0	116.4
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	3,466,080.0	4,077,793.0	2,441,653.0	2,051,134.0	84.0	1,249,822.0	60.9
331	Domestic	530,000.0	379,709.0	1,698,272.0	1,758,422.0	103.5	-87,997.0	-
332	Foreign	2,936,080.0	3,698,084.0	743,381.0	292,712.0	39.4	1,337,819.0	457.0



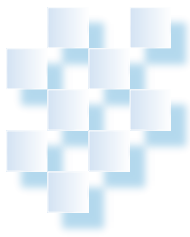
Appendix 12: Transactions of Croatian Roads 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
1	REVENUE	1,379,782.0	1,417,787.0	1,474,714.0	1,804,019.0	122.3	2,110,381.0	117.0
11	Taxes	1,317,361.0	1,342,121.0	1,380,732.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	0.0	1,739,270.0	-	1,990,435.0	114.4
131	From foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	1,739,270.0	-	1,990,435.0	114.4
1331	Current	0.0	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	1,739,270.0	-	1,990,435.0	114.4
14	Other revenue	62,421.0	75,666.0	93,982.0	64,749.0	68.9	119,946.0	185.2
2	EXPENSE	840,372.0	934,630.0	1,062,405.0	1,226,934.0	115.5	1,243,399.0	101.3
21	Compensation of employees	45,037.0	51,590.0	61,054.0	70,786.0	115.9	78,005.0	110.2
211	Wages and salaries	38,733.0	44,349.0	52,452.0	60,787.0	115.9	67,035.0	110.3
212	Social contributions	6,304.0	7,241.0	8,602.0	9,999.0	116.2	10,970.0	109.7
22	Use of goods and services	592,492.0	696,421.0	726,456.0	850,772.0	117.1	819,311.0	96.3
24	Interest	928.0	4,306.0	16,060.0	43,374.0	270.1	85,641.0	197.4
241	To nonresidents	928.0	2,528.0	8,268.0	11,834.0	143.1	17,185.0	145.2
242	To residents other than general government	0.0	1,778.0	7,792.0	31,540.0	404.8	68,456.0	217.0
25	Subsidies	0.0	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	0.0	-	7,607.0	-
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	0.0	-	7,607.0	-
2631	Current	0.0	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	0.0	0.0	-	7,607.0	-
27	Social benefits	0.0	0.0	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	0.0	0.0	-	0.0	-
28	Other expense	201,915.0	182,313.0	258,835.0	262,002.0	101.2	252,835.0	96.5
3	CHANGE IN NET WORTH: TRANSACTIONS	539,410.0	483,157.0	412,309.0	577,085.0	140.0	866,982.0	150.2
31	Net acquisition of nonfinancial assets	736,943.0	834,631.0	923,171.0	1,350,834.0	146.3	1,603,747.0	118.7
31,1	Acquisition of nonfinancial assets	738,092.0	835,907.0	926,359.0	1,351,622.0	145.9	1,604,733.0	118.7
31,2	Disposal of nonfinancial assets	1,149.0	1,276.0	3,188.0	788.0	24.7	986.0	125.1
32	Net acquisition of financial assets	-167,248.0	296.0	50,297.0	-29,083.0	-	-45,061.0	-
321	Domestic	-167,248.0	296.0	50,297.0	-29,083.0	-	-45,061.0	-
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	30,285.0	351,770.0	561,159.0	744,666.0	132.7	691,704.0	92.9
331	Domestic	0.0	100,000.0	302,376.0	471,685.0	156.0	523,681.0	111.0
332	Foreign	30,285.0	251,770.0	258,783.0	272,981.0	105.5	168,023.0	61.6



Appendix 13: Transactions of State Agency for Deposit Insurance and Bank Rehabilitation 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
1	REVENUE	581,931.0	575,893.0	367,438.0	409,581.0	111.5	391,441.0	95.6
11	Taxes	0.0	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	0.0	-	0.0	-
1331	Current	0.0	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	0.0	-	0.0	-
14	Other revenue	581,931.0	575,893.0	367,438.0	409,581.0	111.5	391,441.0	95.6
2	EXPENSE	251,360.0	314,474.0	182,993.0	27,354.0	14.9	47,820.0	174.8
21	Compensation of employees	4,110.0	4,678.0	5,621.0	5,713.0	101.6	6,076.0	106.4
211	Wages and salaries	3,507.0	4,010.0	4,821.0	4,896.0	101.6	5,208.0	106.4
212	Social contributions	603.0	668.0	800.0	817.0	102.1	868.0	106.2
22	Use of goods and services	7,915.0	10,664.0	21,092.0	12,472.0	59.1	20,359.0	163.2
24	Interest	187,360.0	136,971.0	121,940.0	239.0	0.2	345.0	144.4
241	To nonresidents	0.0	0.0	0.0	0.0	-	0.0	-
242	To residents other than general government	187,360.0	136,971.0	121,940.0	239.0	0.2	345.0	144.4
25	Subsidies	0.0	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	0.0	0.0	-	0.0	-
27	Social benefits	51,975.0	162,161.0	1,511.0	1,357.0	89.8	523.0	38.5
271	Social security benefits	51,975.0	162,161.0	1,511.0	1,357.0	89.8	523.0	38.5
272	Social assistance benefits	0.0	0.0	0.0	0.0	-	0.0	-
28	Other expense	0.0	0.0	32,829.0	7,573.0	23.1	20,517.0	270.9
3	CHANGE IN NET WORTH: TRANSACTIONS	330,571.0	261,419.0	184,445.0	382,227.0	207.2	343,621.0	89.9
31	Net acquisition of nonfinancial assets	-94.0	27,624.0	14,131.0	493.0	3.5	-18,959.0	-
31,1	Acquisition of nonfinancial assets	2,464.0	27,624.0	14,232.0	565.0	4.0	1,202.0	212.7
31,2	Disposal of nonfinancial assets	2,558.0	0.0	101.0	72.0	71.3	20,161.0	28,001.4
32	Net acquisition of financial assets	330,665.0	-134,228.0	-349,252.0	381,734.0	-	362,580.0	95.0
321	Domestic	330,665.0	-134,228.0	-349,252.0	381,734.0	-	362,580.0	95.0
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	0.0	-368,023.0	-519,566.0	0.0	-	0.0	-
331	Domestic	0.0	-368,023.0	-519,566.0	0.0	-	0.0	-
332	Foreign	0.0	0.0	0.0	0.0	-	0.0	-



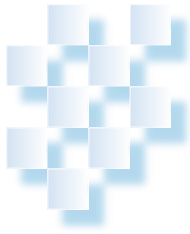
Appendix 14: Transactions of the Croatian Privatization Fund 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
1	REVENUE	125,991.0	62,946.0	237,044.0	65,871.0	27.8	58,324.0	88.5
11	Taxes	0.0	0.0	0.0	0.0	-	0.0	-
12	Social contributions	0.0	0.0	0.0	0.0	-	0.0	-
13	Grants	0.0	0.0	0.0	0.0	-	0.0	-
131	From foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
132	From international organizations	0.0	0.0	0.0	0.0	-	0.0	-
133	From other general government units	0.0	0.0	0.0	0.0	-	0.0	-
1331	Current	0.0	0.0	0.0	0.0	-	0.0	-
1332	Capital	0.0	0.0	0.0	0.0	-	0.0	-
14	Other revenue	125,991.0	62,946.0	237,044.0	65,871.0	27.8	58,324.0	88.5
2	EXPENSE	51,685.0	60,141.0	182,119.0	78,375.0	43.0	88,241.0	112.6
21	Compensation of employees	28,942.0	31,044.0	35,996.0	31,920.0	88.7	36,285.0	113.7
211	Wages and salaries	24,794.0	26,721.0	31,273.0	27,508.0	88.0	31,233.0	113.5
212	Social contributions	4,148.0	4,323.0	4,723.0	4,412.0	93.4	5,052.0	114.5
22	Use of goods and services	22,655.0	29,097.0	33,545.0	30,039.0	89.5	34,173.0	113.8
24	Interest	88.0	0.0	0.0	16,416.0	-	17,783.0	108.3
241	To nonresidents	0.0	0.0	0.0	7,153.0	-	10,116.0	141.4
242	To residents other than general government	88.0	0.0	0.0	9,263.0	-	7,667.0	82.8
25	Subsidies	0.0	0.0	0.0	0.0	-	0.0	-
251	To public corporations	0.0	0.0	0.0	0.0	-	0.0	-
252	To private enterprises	0.0	0.0	0.0	0.0	-	0.0	-
26	Grants	0.0	0.0	0.0	0.0	-	0.0	-
261	To foreign governments	0.0	0.0	0.0	0.0	-	0.0	-
262	To international organizations	0.0	0.0	0.0	0.0	-	0.0	-
263	To other general government units	0.0	0.0	0.0	0.0	-	0.0	-
2631	Current	0.0	0.0	0.0	0.0	-	0.0	-
2632	Capital	0.0	0.0	0.0	0.0	-	0.0	-
27	Social benefits	0.0	0.0	0.0	0.0	-	0.0	-
271	Social security benefits	0.0	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	0.0	0.0	0.0	0.0	-	0.0	-
28	Other expense	0.0	0.0	112,578.0	0.0	-	0.0	-
3	CHANGE IN NET WORTH: TRANSACTIONS	74,306.0	2,805.0	54,925.0	-12,504.0	-	-29,917.0	-
31	Net acquisition of nonfinancial assets	-15,603.0	-24,444.0	-40,272.0	-51,175.0	-	-23,514.0	-
31,1	Acquisition of nonfinancial assets	3,778.0	725.0	2,061.0	2,907.0	141.0	3,553.0	122.2
31,2	Disposal of nonfinancial assets	19,381.0	25,169.0	42,333.0	54,082.0	127.8	27,067.0	50.0
32	Net acquisition of financial assets	280,272.0	15,293.0	100,403.0	-87,682.0	-	82,691.0	-
321	Domestic	280,272.0	15,293.0	100,403.0	-87,682.0	-	82,691.0	-
322	Foreign	0.0	0.0	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	190,363.0	-11,956.0	5,206.0	-126,353.0	-	89,094.0	-
331	Domestic	190,363.0	-11,956.0	5,206.0	-126,353.0	-	106,055.0	-
332	Foreign	0.0	0.0	0.0	0.0	-	-16,961.0	-



Appendix 15: Consolidated Central Government 2003-2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
1	REVENUE	80,786,554.7	87,019,284.2	92,642,473.2	100,392,605.3	108.4	113,386,165.0	112.9
11	Taxes	47,912,180.4	49,833,665.9	53,449,049.0	58,469,090.7	109.4	64,234,529.5	109.9
111	Taxes on income, profits, and capital gains	6,189,047.2	6,259,713.1	7,057,112.3	8,515,615.0	120.7	10,589,083.0	124.3
1111	Payable by individuals	3,114,580.8	3,128,273.0	3,106,476.4	3,459,649.3	111.4	1,772,707.7	51.2
1112	Payable by corporations and other enterprises	3,074,466.4	3,131,440.1	3,950,635.9	5,055,965.7	128.0	8,816,375.3	174.4
113	Taxes on property	289,926.0	355,823.3	375,500.5	482,330.9	128.5	578,620.5	120.0
114	Taxes on goods and services	39,282,251.6	41,286,024.8	44,084,487.4	47,546,222.5	107.9	51,099,930.0	107.5
1141	General taxes on goods and services	28,260,009.3	30,013,661.2	32,399,951.5	35,091,380.5	108.3	37,916,508.9	108.1
11411	Value-added taxes	28,129,299.9	29,864,904.7	32,243,371.6	34,931,749.5	108.3	37,747,987.2	108.1
11412	Sales taxes	130,709.4	148,756.5	156,579.9	159,631.0	101.9	168,521.7	105.6
1142	Excises	10,482,097.1	10,625,357.7	10,939,144.1	11,564,709.0	105.7	12,168,665.8	105.2
115	Taxes on international trade and transactions	1,810,866.2	1,590,727.3	1,562,930.2	1,588,456.0	101.6	1,641,478.0	103.3
116	Other taxes	340,089.4	341,377.4	369,018.6	336,466.3	91.2	325,418.0	96.7
12	Social contributions	27,424,607.5	29,477,597.2	31,301,339.6	33,877,147.6	108.2	37,203,485.8	109.8
13	Grants	11,840.5	10,121.5	27,505.2	194,484.2	707.1	481,172.8	247.4
14	Other revenue	5,437,926.3	7,697,899.6	7,864,579.4	7,851,882.8	99.8	11,466,976.9	146.0
2	EXPENSE	80,715,286.4	86,941,437.4	92,332,139.9	98,751,407.9	107.0	109,074,989.1	110.5
21	Compensation of employees	22,068,463.1	23,265,723.7	24,300,114.9	25,512,962.4	105.0	28,154,625.2	110.4
211	Wages and salaries	18,762,897.2	19,750,868.2	20,665,832.4	21,699,724.0	105.0	23,761,684.2	109.5
212	Social contributions	3,305,565.9	3,514,855.5	3,634,282.5	3,813,238.4	104.9	4,392,941.0	115.2
22	Use of goods and services	6,291,713.6	6,327,740.5	7,100,232.4	9,193,481.2	129.5	10,517,315.2	114.4
24	Interest	3,955,965.9	4,343,680.3	5,004,649.7	5,397,046.3	107.8	5,461,239.5	101.2
241	To nonresidents	2,026,844.9	2,160,784.3	2,359,004.9	2,386,923.2	101.2	2,234,179.1	93.6
242	To residents other than general government	1,929,121.0	2,182,896.0	2,645,644.8	3,010,123.1	113.8	3,227,060.4	107.2
25	Subsidies	4,292,712.4	4,968,068.5	5,253,932.7	5,684,591.5	108.2	6,510,563.1	114.5
251	To public corporations	1,942,931.7	2,783,462.4	2,790,014.0	2,692,784.7	96.5	3,007,098.6	111.7
252	To private enterprises	2,349,780.7	2,184,606.1	2,463,918.7	2,991,806.8	121.4	3,503,464.5	117.1
26	Grants	1,737,217.2	2,162,992.9	2,804,759.7	2,838,841.9	101.2	3,539,882.3	124.7
261	To foreign governments	43,918.0	76,464.4	73,639.3	64,794.9	88.0	103,409.7	159.6
262	To international organizations	41,239.1	83,433.8	93,831.7	89,618.5	95.5	73,940.6	82.5
263	To other general government units	1,652,060.1	2,003,094.7	2,637,288.7	2,684,428.5	101.8	3,362,532.0	125.3
27	Social benefits	37,939,553.1	40,645,793.6	41,930,231.8	44,192,851.3	105.4	48,176,511.9	109.0
271	Social security benefits	30,639,144.5	29,100,970.6	29,879,823.4	31,276,694.3	104.7	34,168,416.8	109.2
272	Social assistance benefits	6,745,819.7	11,180,722.8	11,792,745.3	12,793,596.4	108.5	13,815,777.0	108.0
273	Employer social benefits	554,588.9	364,100.2	257,663.1	122,560.6	47.6	192,318.1	156.9
28	Other expense	4,429,661.1	5,227,437.9	5,938,218.7	5,931,633.3	99.9	6,714,851.9	113.2
281	Property expense other than interest	6,766.9	3,954.6	4,919.8	7,599.8	154.5	1,132.4	14.9
282	Miscellaneous other expense	3,660,274.2	5,223,483.3	5,933,298.9	5,924,033.5	99.8	6,713,719.5	113.3
2821	Current	2,310,437.4	1,870,320.4	2,301,161.2	2,337,524.5	101.6	2,890,114.6	123.6
2822	Capital	1,349,836.8	3,353,162.9	3,632,137.7	3,586,509.0	98.7	3,823,604.9	106.6
3	CHANGE IN NET WORTH: TRANSACTIONS	71,268.3	77,846.8	310,333.3	1,641,197.4	528.8	4,311,175.9	262.7
31	Net acquisition of nonfinancial assets	7,996,013.6	8,373,462.9	6,699,416.4	6,108,627.1	91.2	7,810,956.3	127.9
311	Fixed assets	7,867,051.4	8,158,063.6	6,439,709.2	5,788,653.5	89.9	7,526,800.0	130.0
312	Inventories	0.0	0.0	0.0	-80,226.0	-	-161,382.8	-
313	Valuables	5,303.3	7,518.2	7,220.0	7,825.8	108.4	9,620.4	122.9
314	Nonproduced assets	123,658.9	207,881.1	252,487.2	392,373.8	155.4	435,918.7	111.1
32	Net acquisition of financial assets	-963,227.6	28,384.3	1,609,759.5	-2,576,689.0	-	-2,939,156.0	-
321	Domestic	-973,153.7	18,598.5	1,614,616.4	-2,593,369.6	-	-2,957,191.6	-
322	Foreign	9,926.1	9,785.8	-4,856.9	16,680.6	-	18,035.6	108.1
33	Net incurrence of liabilities	6,961,517.7	8,324,000.4	7,998,842.6	1,890,740.7	23.6	560,624.4	29.7
331	Domestic	948,883.8	4,107,680.1	12,041,677.7	5,282,792.0	43.9	2,017,095.0	38.2
332	Foreign	6,012,633.9	4,216,320.3	-4,042,835.1	-3,392,051.3	-	-1,456,470.6	-



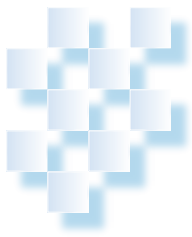
Appendix 16: Local Governments (53 units, 32 cities, counties and the city of Zagreb) 2003 - 2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
1	REVENUE	10,074,567.5	10,828,868.4	12,162,401.0	13,560,211.1	111.5	15,502,588.2	114.3
11	Taxes	5,922,472.9	6,592,062.2	7,072,350.0	8,299,154.8	117.3	9,157,896.7	110.3
111	Taxes on income, profits, and capital gains	5,327,376.0	5,900,998.9	6,339,797.5	7,456,675.5	117.6	8,173,412.8	109.6
1111	Payable by individuals	4,083,336.2	4,636,341.8	4,718,191.7	5,353,205.4	113.5	8,165,275.2	152.5
1112	Payable by corporations and other enterprises	1,244,039.8	1,264,657.1	1,621,605.8	2,103,470.1	129.7	8,137.6	0.4
113	Taxes on property	315,914.0	375,089.5	388,134.7	479,492.4	123.5	576,591.4	120.3
114	Taxes on goods and services	264,917.2	301,941.4	330,015.1	348,258.8	105.5	391,510.8	112.4
1141	General taxes on goods and services	42,806.3	43,613.3	46,901.4	52,058.8	111.0	55,552.5	106.7
11411	Value-added taxes	0.0	0.0	0.0	0.0	-	0.0	-
11412	Sales taxes	42,806.3	43,613.3	46,901.4	52,058.8	111.0	55,552.5	106.7
1142	Excises	0.0	0.0	0.0	0.0	-	0.0	-
115	Taxes on international trade and transactions	0.0	0.0	0.0	0.0	-	0.0	-
116	Other taxes	14,265.7	14,032.4	14,402.7	14,728.1	102.3	16,381.7	111.2
12	Social contributions	0.0	0.0	0.0	0.0	-	0.0	-
13	Grants	1,546,815.0	1,425,055.7	1,704,577.3	1,664,688.1	97.7	2,137,646.2	128.4
131	From foreign governments	178.9	3,870.2	206.9	2,356.3	1,138.9	9,630.6	408.7
132	From international organizations	14.7	0.0	437.1	3,292.4	753.2	4,446.6	135.1
133	From other general government units	1,546,621.4	1,421,185.5	1,703,933.3	1,659,039.4	97.4	2,123,569.0	128.0
14	Other revenue	2,605,279.6	2,811,750.5	3,385,473.7	3,596,368.2	106.2	4,207,045.3	117.0
2	EXPENSE	8,127,197.7	8,766,249.2	9,882,541.6	10,629,312.5	107.6	11,868,230.6	111.7
21	Compensation of employees	1,996,994.2	2,239,472.3	2,379,584.8	2,695,250.3	113.3	2,957,744.8	109.7
211	Wages and salaries	1,732,909.5	1,972,800.2	2,065,604.6	2,335,942.5	113.1	2,572,575.4	110.1
212	Social contributions	264,084.7	266,672.1	313,980.2	359,307.8	114.4	385,169.4	107.2
22	Use of goods and services	3,202,470.5	3,351,575.2	3,775,863.0	4,108,887.9	108.8	4,678,872.6	113.9
24	Interest	83,216.2	79,558.6	98,046.8	71,548.4	73.0	93,249.5	130.3
241	To nonresidents	44,655.5	41,105.5	43,218.2	6,816.6	15.8	4,391.3	64.4
242	To residents other than general government	38,560.7	38,453.1	54,694.2	64,559.8	118.0	88,781.0	137.5
25	Subsidies	623,122.6	726,356.3	746,131.5	877,360.8	117.6	993,791.0	113.3
251	To public corporations	570,717.9	637,156.2	648,729.6	714,296.0	110.1	777,981.8	108.9
252	To private enterprises	52,404.7	89,200.1	97,401.9	163,064.8	167.4	215,809.2	132.3
26	Grants	366,701.1	267,077.0	289,637.6	286,226.4	98.8	334,732.2	116.9
261	To foreign governments	0.0	0.0	0.0	118.3	-	0.0	-
262	To international organizations	0.0	0.0	0.0	101.8	-	7,248.5	7,120.3
263	To other general government units	366,701.1	267,077.0	289,637.6	286,006.3	98.7	327,483.7	114.5
2631	Current	136,022.0	91,219.7	123,769.6	116,216.2	93.9	125,322.0	107.8
2632	Capital	230,679.1	175,857.3	165,868.0	169,790.1	102.4	202,161.7	119.1
27	Social benefits	314,946.5	376,014.0	538,720.2	635,151.5	117.9	554,175.1	87.3
271	Social security benefits	0.0	0.0	0.0	0.0	-	0.0	-
272	Social assistance benefits	310,386.5	371,699.7	525,627.8	617,448.5	117.5	534,276.0	86.5
273	Employer social benefits	4,560.0	4,314.3	13,092.4	17,703.0	135.2	19,899.1	112.4
28	Other expense	1,539,746.6	1,726,195.8	2,054,557.7	1,954,887.2	95.1	2,255,665.4	115.4
281	Property expense other than interest	0.0	0.0	0.0	0.0	-	0.0	-
282	Miscellaneous other expense	1,539,746.6	1,726,195.8	2,054,557.7	1,954,887.2	95.1	2,255,665.4	115.4
2821	Current	1,260,826.0	1,274,170.8	1,450,780.6	1,294,902.7	89.3	1,424,156.6	110.0
2822	Capital	278,920.6	452,025.0	603,777.1	659,984.5	109.3	831,508.8	126.0
31	Net acquisition of nonfinancial assets	1,668,400.3	2,121,355.0	2,360,290.0	2,974,314.3	126.0	3,204,000.4	107.7
311	Fixed assets	1,675,953.4	2,213,163.1	2,460,333.6	2,963,174.7	120.4	3,381,738.4	114.1
312	Inventories	0.0	0.0	0.0	0.0	-	0.0	-
313	Valuables	1,581.3	164.3	209.4	435.9	208.2	196.5	45.1
314	Nonproduced assets	-9,134.4	-91,972.4	-100,253.0	10,703.7	-	-177,934.5	-
32	Net acquisition of financial assets	197,223.8	76,344.6	-303,883.4	-53,130.0	-	536,089.5	-
321	Domestic	203,921.8	78,038.8	-303,883.4	-53,130.0	-	536,089.5	-
322	Foreign	-6,698.0	-1,694.2	0.0	0.0	-	0.0	-
33	Net incurrence of liabilities	-81,745.7	135,080.4	-223,452.8	-9,714.3	-	105,732.3	-
331	Domestic	7,415.1	232,026.2	-130,446.8	80,882.2	-	130,416.4	-
332	Foreign	-89,160.8	-96,945.8	-93,006.0	-90,596.5	-	-24,684.1	-



Appendix 17: Consolidated General Government 2003-2007

	(000 HRK)	2003	2004	2005	2006	Index 2006/2005	2007	Index 2007/2006
1	REVENUE	89,314,500.8	96,426,967.1	103,100,940.9	112,293,777.0	108.9	126,716,000.1	112.8
11	Taxes	53,834,653.3	56,425,728.1	60,521,399.0	66,768,245.5	110.3	73,392,426.2	109.9
111	Taxes on income, profits, and capital gains	11,516,423.2	12,160,712.0	13,396,909.8	15,972,290.5	119.2	18,762,495.8	117.5
1111	Payable by individuals	7,197,917.0	7,764,614.8	7,824,668.1	8,812,854.7	112.6	9,937,982.9	112.8
1112	Payable by corporations and other enterprises	4,318,506.2	4,396,097.2	5,572,241.7	7,159,435.8	128.5	8,824,512.9	123.3
113	Taxes on property	605,840.0	730,912.8	763,635.2	961,823.3	126.0	1,155,211.9	120.1
114	Taxes on goods and services	39,547,168.8	41,587,966.2	44,414,502.5	47,894,481.3	107.8	51,491,440.8	107.5
1141	General taxes on goods and services	28,302,815.6	30,057,274.5	32,446,852.9	35,143,439.3	108.3	37,972,061.4	108.0
11411	Value-added taxes	28,129,299.9	29,864,904.7	32,243,371.6	34,931,749.5	108.3	37,747,987.2	108.1
11412	Sales taxes	173,515.7	192,369.8	203,481.3	211,689.8	104.0	224,074.2	105.9
1142	Excises	10,482,097.1	10,625,357.7	10,939,144.1	11,564,709.0	105.7	12,168,665.8	105.2
115	Taxes on international trade and transactions	1,810,866.2	1,590,727.3	1,562,930.2	1,588,456.0	101.6	1,641,478.0	103.3
116	Other taxes	354,355.1	355,409.8	383,421.3	351,194.4	91.6	341,799.7	97.3
12	Social contributions	27,424,607.5	29,477,597.2	31,301,339.6	33,877,147.6	108.2	37,203,485.8	109.8
121	Social security contributions	27,424,607.5	29,477,597.2	31,301,339.6	33,877,147.6	108.2	37,203,485.8	109.8
13	Grants	12,034.1	13,991.7	28,149.2	200,132.9	711.0	446,065.9	222.9
14	Other revenue	8,043,205.9	10,509,650.1	11,250,053.1	11,448,251.0	101.8	15,674,022.2	136.9
2	EXPENSE	87,295,862.7	94,286,501.1	100,510,748.2	107,721,681.0	107.2	118,770,466.6	110.3
21	Compensation of employees	24,065,457.3	25,505,196.0	26,679,699.7	28,208,212.7	105.7	31,112,370.0	110.3
211	Wages and salaries	20,495,806.7	21,723,668.4	22,731,437.0	24,035,666.5	105.7	26,334,259.6	109.6
212	Social contributions	3,569,650.6	3,781,527.6	3,948,262.7	4,172,546.2	105.7	4,778,110.4	114.5
22	Use of goods and services	9,494,184.1	9,679,315.7	10,876,095.4	13,302,369.1	122.3	15,196,187.8	114.2
24	Interest	4,039,182.1	4,423,238.9	5,102,696.5	5,468,594.7	107.2	5,554,489.0	101.6
241	To nonresidents	2,071,500.4	2,201,889.8	2,402,223.1	2,393,739.8	99.6	2,238,570.4	93.5
242	To residents other than general government	1,967,681.7	2,221,349.1	2,700,339.0	3,074,682.9	113.9	3,315,841.4	107.8
25	Subsidies	4,915,835.0	5,694,424.8	6,000,064.2	6,561,952.3	109.4	7,504,354.1	114.4
251	To public corporations	2,513,649.6	3,420,618.6	3,438,743.6	3,407,080.7	99.1	3,785,080.4	111.1
252	To private enterprises	2,402,185.4	2,273,806.2	2,561,320.6	3,154,871.6	123.2	3,719,273.7	117.9
26	Grants	557,296.9	1,008,884.4	1,390,464.0	1,466,028.9	105.4	1,701,861.4	116.1
261	To foreign governments	43,918.0	76,464.4	73,639.3	64,913.2	88.2	103,409.7	159.3
262	To international organizations	41,239.1	83,433.8	93,831.7	89,720.3	95.6	81,189.1	90.5
263	To other general government units	472,139.8	848,986.2	1,222,993.0	1,311,395.4	107.2	1,517,262.6	115.7
27	Social benefits	38,254,499.6	41,021,807.6	42,468,952.0	44,828,002.8	105.6	48,730,687.0	108.7
271	Social security benefits	30,639,144.5	29,100,970.6	29,879,823.4	31,276,694.3	104.7	34,168,416.8	109.2
272	Social assistance benefits	7,056,206.2	11,552,422.5	12,318,373.1	13,411,044.9	108.9	14,350,053.0	107.0
273	Employer social benefits	559,148.9	368,414.5	270,755.5	140,263.6	51.8	212,217.2	151.3
28	Other expense	5,969,407.7	6,953,633.7	7,992,776.4	7,886,520.5	98.7	8,970,517.3	113.7
281	Property expense other than interest	6,766.9	3,954.6	4,919.8	7,599.8	154.5	1,132.4	14.9
282	Miscellaneous other expense	5,200,020.8	6,949,679.1	7,987,856.6	7,878,920.7	98.6	8,969,384.9	113.8
2821	Current	3,571,263.4	3,144,491.2	3,751,941.8	3,632,427.2	96.8	4,314,271.2	118.8
2822	Capital	1,628,757.4	3,805,187.9	4,235,914.8	4,246,493.5	100.2	4,655,113.7	109.6
31	Net acquisition of nonfinancial assets	9,664,413.9	10,494,817.9	9,059,706.4	9,082,941.4	100.3	11,014,956.7	121.3
311	Fixed assets	9,543,004.8	10,371,226.7	8,900,042.8	8,751,828.2	98.3	10,908,538.4	124.6
312	Inventories	0.0	0.0	0.0	-80,226.0	-	-161,382.8	-
313	Valuables	6,884.6	7,682.5	7,429.4	8,261.7	111.2	9,816.9	118.8
314	Nonproduced assets	114,524.5	115,908.7	152,234.2	403,077.5	264.8	257,984.2	64.0
32	Net acquisition of financial assets	-767,908.2	104,241.8	1,305,876.1	-2,629,878.3	-	-2,403,066.5	-
321	Domestic	-771,136.3	96,150.2	1,310,733.0	-2,646,558.9	-	-2,421,102.1	-
322	Foreign	3,228.1	8,091.6	-4,856.9	16,680.6	-	18,035.6	108.1
33	Net incurrence of liabilities	6,877,867.6	8,458,593.7	7,775,389.8	1,880,967.1	24.2	666,356.7	35.4
331	Domestic	954,394.5	4,339,219.2	11,911,230.9	5,363,614.9	45.0	2,147,511.4	40.0
332	Foreign	5,923,473.1	4,119,374.5	-4,135,841.1	-3,482,647.8	-	-1,481,154.7	-



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