

REPUBLIC OF CROATIA
MINISTRY OF FINANCE

ECONOMIC AND FISCAL POLICY GUIDELINES
FOR THE PERIOD 2009–2011

Zagreb, July 2008

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1. INTRODUCTION

The Government of the Republic of Croatia adopted the Economic and Fiscal Policy Guidelines for the period 2009–2011 with a view to defining fiscal policy trends for the forthcoming three-year period. The Guidelines represent the basis for budget planning process as it delivers the macroeconomic and fiscal assumptions necessary for the continued process of drawing up the budget.

Fiscal policy trends in the forthcoming period follow the path of achievements thus far. In this sense, in this year's Guidelines fiscal projections also rely on the following determinants:

- envisaged economic activity that will result in the level of budgetary central government revenues as projected;
- the level of expenses as projected must provide for rational use of funds, and as full as possible compliance with all requirements;
- the ratio of the budgetary central government revenue and expenditure must provide for further fiscal adjustment.

It is important to note that the Economic and Fiscal Policy Guidelines for the period 2009 – 2011 has, for the first time, been drawn up based on the national chart of accounts, meaning equal representation of budget categories pursuant to which the Croatian Parliament adopts the budget every year. The practice thus far included the drafting of the Guidelines using the GFS 2001 methodology and determining the deficit/surplus of general government according to the modified accrual principle. Such practice resulted from the fact that for a number of years, Croatia was bound by arrangements concluded with the International Monetary Fund, thus it accepted the calculation of the overall general government deficit/surplus according to the methodology defined for this purpose. However, in the European Union rapprochement process, Croatia accepts the European ESA 95 methodology for reporting on public finance statistics, under whose rules these Guidelines determine the overall general government deficit/surplus.

2. MEDIUM-TERM ECONOMIC AND FISCAL POLICY GOALS

The goal of the Croatian Government is to continue with the development of the Croatian economy and to create the conditions that will support Croatia's accession to the European Union and its equal participation on the unified European market. This implies fostering high economic growth rates that will be sustainable in the long-term period, while preserving macroeconomic stability, increasing the competitiveness of all parts of the economy, efficient institutions, consistent implementation of development projects, insistence on knowledge and education, as well as reducing unemployment and ensuring a higher standard of living of the Croatian citizens.

In this context, defining the economic and fiscal policy in the upcoming period rests on achieving the following goals:

- Fostering sustainable high economic growth rates;
- Creating new jobs and reducing unemployment;
- Reducing the overall general government deficit with a tendency towards balancing the budget;
- Further decrease of public debt and stabilisation of foreign debt.

Medium-term fiscal policy will form the backbone for the overall economic policy. Of course, fiscal policy trends will be supported through structural measures and reforms. As to date, the key determinant will continue to be the process of fiscal adjustment. In recent years, the overall general government deficit, in compliance with the ESA 95 methodology, was reduced from 4.3% of GDP in 2004 to 1.6% of GDP in 2007, while in 2011 a surplus of the overall revenues over expenses of 0.2% of GDP will be achieved.

It is important to underline that this year's Guidelines have been prepared under changing macroeconomic circumstances. Unfavourable economic trends worldwide, such as the accelerated growth of oil prices on the world market, inflation, crisis on the world financial markets and the decelerated economic growth of Croatian foreign trade partners, have all affected current trends in Croatia. Due to changed macroeconomic circumstances, somewhat slower economic growth is expected in 2009, though this will still be sufficient to support the growth of the standard of living of the Croatian citizens. Likewise, somewhat higher inflation is expected. However, an adequate combination of monetary and fiscal policy will provide for price stability in the forthcoming period.

Notwithstanding the changing macroeconomic conditions, strategic planning and careful direction of funds to strategically important areas, and monitoring the execution of expenditures will ensure further fiscal consolidation and reduction of the overall general government deficit. Rational expenditure execution and improvement of the components in the budgetary process will also be achieved by implementing the measures defined in the Strategy for Improvement and Modernisation of Processes in the State Treasury for 2007–2011, which is aimed at further development of an efficient and sustainable financial management system based on the highest contemporary standards.

Fiscal consolidation and continued reduction of the overall general government deficit will have an impact on the financial stability of the country. Reduction of the need for borrowing means reduction of public debt. In recent years, public debt was reduced from 48.9% of GDP in 2004 to 44.1% of GDP in 2007, and this trend will continue until 2011, when the expected

level of public debt will be 33.2% of GDP. This trend in fiscal policy will contribute to the stabilisation of foreign debt, which is corroborated by the fact that the state is the only sector which reduced its foreign debt in the period 2004–2007, by a total of EUR 535 million.

With a view to the further economic growth of Croatia, the government will continue to create the preconditions for the strengthening of the private sector. This implies continued restructuring and privatisation, creating a favourable business environment through reforms of the judiciary, public administration and combating corruption, as well as promoting small and medium enterprises (SMEs). The goal is to increase the competitiveness of the Croatian economy and to achieve a high level of readiness for the country's membership in the European Union.

In line with the above, the shipbuilding industry will be restructured and certain shipyards will be privatised under the National Shipbuilding Restructuring Programme. Also, further modernisation and restructuring of Croatian Railways (HŽ) will continue, so as to ensure its competitiveness on the market. Likewise, privatisation will continue for companies under majority or minority state ownership in the Croatian Privatisation Fund portfolio. This will contribute to the reduction of the state presence in the economy.

The state will continue with the promotion of the private sector and will, in particular, promote intensive development of small and medium-sized enterprises through concerted state policy in all areas, such as through various incentive programmes and setting up new business zones. Special attention will be paid to export-oriented companies by strengthening the competitiveness and export power of the Croatian economy. Further development of entrepreneurship will provide for long-term sustainable economic growth and new job creation.

Structural reforms in the economy, the promotion of economic growth and an active role of the state in promoting employment will impact the further reduction of unemployment to 7% by 2011. Additional training programmes, retraining programmes and relieves especially targeted at youth and long-time unemployed persons will be implemented. Lifelong learning will be encouraged so as to increase employment opportunities for the unemployed.

As regards the promotion of a positive business environment, further reform of the judiciary and combating corruption hold a significant place. The completion of the reform of the judiciary and consistent implementation of the National Anti-Corruption Programme will lead to full implementation of the rule of law, resulting in a more favourable business environment and a higher level of legal security for citizens and entrepreneurs.

One of the elements that will certainly contribute to combating corruption is the introduction of the personal identification number as of 2009. This mechanism will ensure the equality of citizens and will enable better distribution of budgetary funds to target groups of society.

For the purpose of reducing administrative barriers and increasing transparency of procedures, reform to the state administration will continue. This is aimed at bringing the state administration closer to citizens and entrepreneurs, i.e. to establish a quality state administration that will be of service to citizens and entrepreneurs. To that end, measures will be undertaken to increase efficiency and professionalism of the state administration which will also be fiscally sustainable in the long-term. With that objective and in line with the policy of retaining professional staff in the state administration system, the new Salaries Act will be adopted, and will introduce a motivational component to the system as a whole.

Economic policy measures and structural reforms will continue to attract new foreign direct investments (FDI) and encourage domestic investment. These will ensure the advancement of certain production industries to a new development phase and, in particular, certain dynamic

industries will be promoted, such as biotechnology, international financial and business services and the IT sector.

Regarding the financial system, legislative regulation of the financial system will continue. A series of acts have been passed to regulate the areas of insurance, investment funds, leasing and credit unions, the system of supervising the non-banking sector was unified through establishment of the Croatian Financial Services Supervisory Agency (HANFA), and the areas of financial insurance, accounting and takeover of joint stock companies have also been regulated. Furthermore, the Capital Market Act has been adopted to replace the Securities Market Act, thereby regulating the insurance of investors for the first time in the Croatian legislation in compliance with the EU *acquis*. By the end of 2008, the legislation will be aligned with the *acquis communautaire* in the area of deposit insurance, payment systems and financial conglomerates, while the area of the banking sector will be aligned through adoption of the Credit Institutions Act.

In the context of ensuring further development and competitiveness of Croatia, the state will promote the balanced development of all regions in Croatia, taking their specific economic and social needs into account. The systematic construction of infrastructure will continue so as to ensure uniform transport connection of all regions, access to natural gas, drinking water and the latest telecommunications connections in all Croatian regions. Sustainable development of villages and rural areas will be ensured by enabling continuing investments in the development projects in these areas. Competitiveness of Croatian agriculture will be promoted by encouraging production and through capital investments. Special attention will be paid to environmental protection in compliance with best European practices.

The development of Croatia as a knowledge-based society remains a priority aimed at further social and economic development of the country. Building a knowledge-based society is the key to Croatia's future position on the world market. Investments will be made in promoting and acquiring new knowledge, creation of information society while innovations will be encouraged as the greatest development potential in Croatia, with continued allocation of funds for science. Various measures will ensure that education is equally accessible to all.

Alongside development programmes, the state will continue with implementation of the social justice policy. The objective of this policy is to create the conditions for overall improvement of the quality of life for all Croatian citizens, and in particular for the most threatened groups of society, such as youth and families, the retired and Croatian war veterans. Health policy will focus on the reform of the system and legislation, providing a high quality health care infrastructure and health care prevention education, and achieving fiscal sustainability of the system as a whole. Moreover, following the introduction of the personal identification number, better distribution of aid to the most socially threatened citizens will be ensured within the framework of the social security system.

The overall economic policy will be implemented in parallel with the transposition of the EU *acquis*, whereby Croatia is adopting the standards in effect in developed countries. Croatia has secured a strong international and security position. The final destination of this journey is full membership in the European Union and NATO, with the primary objective of improving the quality of life and standard of living of all Croatian citizens. Indeed, the path towards Croatian membership in the European Union includes training for the management of resources that Croatia, as a Member State, will be entitled to withdraw from the European Union budget and which it is currently, as a candidate country, receiving thorough pre-accession assistance programmes.

The above economic and fiscal policy goals for the forthcoming period will set Croatia on a new development path. The implementation of reforms and structural measures along with the

continued process of Croatia's accession to the European Union will guarantee further economic growth up to 7% in 2011. Of course, economic growth will be accompanied by a reduction of unemployment as was the case in previous years.

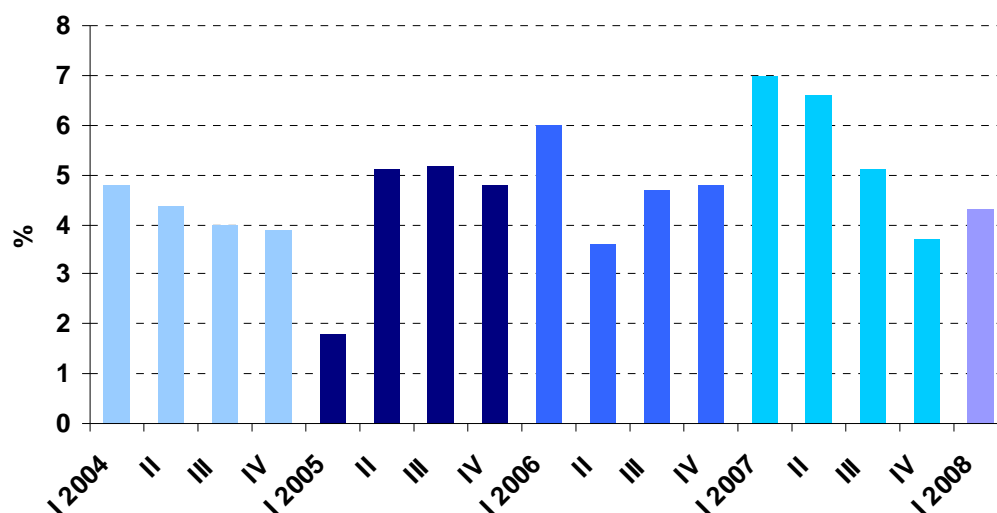
This document presents a detailed overview of the forecasts of macroeconomic and fiscal trends based on the described medium-term economic and fiscal policy in Croatia.

3. MEDIUM-TERM MACROECONOMIC TRENDS

3.1. Macroeconomic trends in 2007 and 2008

The year 2007 saw further acceleration of economic growth with a real growth rate of GDP amounting to 5.6%, which is an acceleration of 0.8 percentage points compared to 2006. In relation to individual components on the expenditure side of GDP, the highest real growth rate of 6.5% in 2007 was recorded in capital investments. In comparison to 2006, real growth of private consumption was accelerated to 6.2%, while public spending recorded real growth of 3.4%. Exports of goods and services recorded real growth of 5.7%, while the imports of goods and services recorded real growth of 5.8%. The largest positive contribution to growth in the amount of 3.7 percentage points came from private consumption, and the exports of goods and services in the amount of 2.9 percentage points. The contribution of capital investments amounted to 0.7 percentage points, while negative contribution of import to real GDP growth in 2007 amounted to -3.7 percentage points.

Chart 1: Real GDP growth of the Republic of Croatia

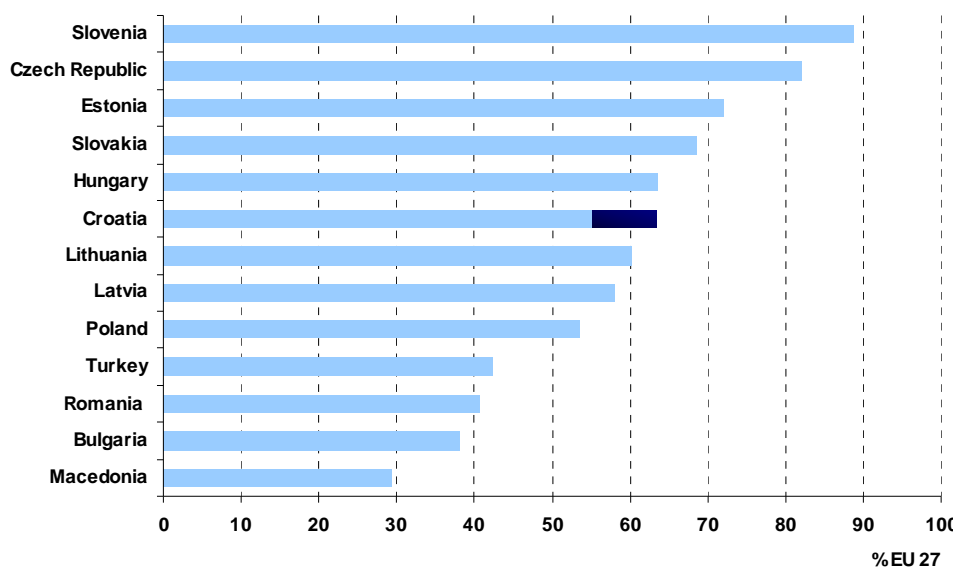


Source: Central Bureau of Statistics

Nominal GDP growth in 2007 amounted to 9.8%, reaching the nominal amount of HRK 275.1 billion or EUR 37.5 billion¹. The GDP per capita increased from around EUR 7,800 in 2006 to approximately EUR 8,500 in 2007. Expressed in purchasing power parity and including the grey economy, Croatia exceeded 60% of the average EU 27 GDP per capita. However, when drawing a comparison with new Member States, it should be noted that they include the unofficial economy in the calculation of their GDP.

¹ Excluding the estimated unofficial economy, which according to the European methodology ESA 95 should be included in the calculation of GDP.

Chart 2: Comparison of GDP per capita according to purchasing power parity per country (in 2007)



Note: Croatia with unofficial economy included

Source: Calculation based on Eurostat data

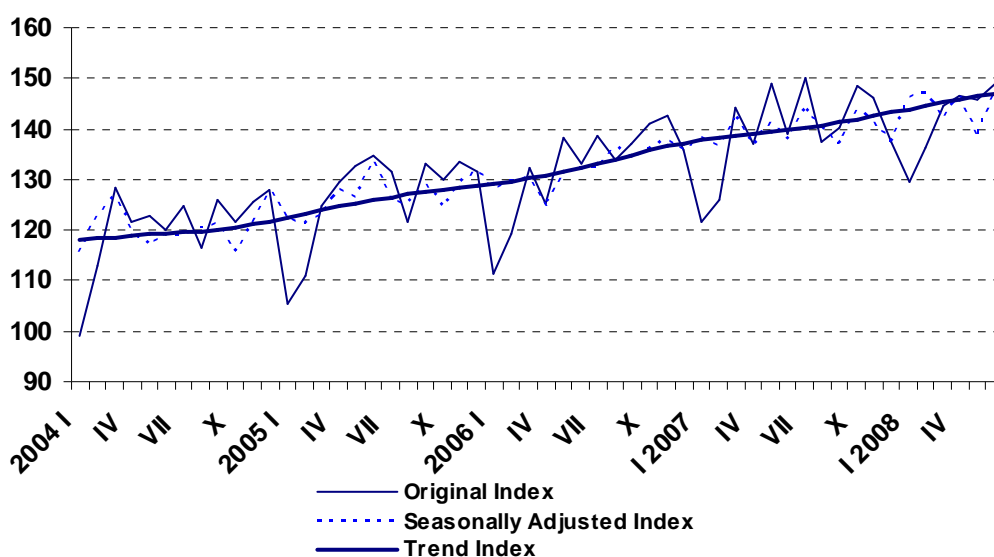
Real year-on-year GDP growth in the first quarter of 2008 amounted to 4.3% while GDP deflator growth amounted to 6.1%, bringing the nominal year-on-year GDP growth to 10.7%. As regards individual components on the GDP expenditure side, the highest growth in the first quarter was recorded in fixed capital investments, which recorded real growth amounting to 9.8%, and the import of goods and services which recorded real growth of 7.0%. In the first quarter at the year-on-year level, private consumption recorded real growth of 4.3%, the export of goods and services 3.8%, while real growth of public spending amounted to 0.5%. The highest positive contribution to GDP growth in the first quarter of 2008 came from capital investments in the amount of 3.0 percentage points, and private consumption which contributed in the amount of 2.7 percentage points. The contribution of export of goods and services amounted to 1.5 percentage points, while the negative contribution of the import of goods and services amounted to -4.3 percentage points, resulting in the negative contribution of net export in the amount of -2.8 percentage points. Changes of reserves contributed to GDP growth of 1.3 percentage points, and the contribution of public consumption contributed with 0.1 percentage points.

Livelier economic activity during 2007 was suggested by indicators from the real sector such as industrial production, retail trade, civil engineering, and tourist overnight stays. The highest year-on-year growth of industrial output in 2007 of more than 7% was recorded in the first and second quarters, which along with growth of 4.5% in the third and 3.2% in the last quarter respectively; this resulted in annual growth of industrial output in 2007 in the amount of 5.6%. Real turnover in retail trade recorded the highest growth of 7.7% in the first quarter, in the second and third quarter year-on-year growth was just over 5%, while the fourth quarter recorded deceleration to 2.4%. At the annual level for 2007, real growth of retail turnover amounted to just over 5.3%. Construction work index trends suggested the highest growth in the civil engineering sector which started in the first quarter, stagnation in the second, and renewed acceleration towards the close of the year resulting in year-on-year growth of the construction work index of 2.4% in 2007. Tourism indicators also recorded positive

achievements in 2007. Year-on-year growth of tourist arrivals in 2007 amounted to 7.5%, while tourist overnights increased by 5.6%. Such trends resulted in 2007 tourism revenues in the amount of EUR 6.7 billion, up 7.2% over 2006.

The trends from early 2008 indicate continued positive results. Industrial output increased in the first half of this year by 4.3% at the year-on-year level, and retail achieved real growth of 2.2%, while tourist overnight stays recorded an increase of 5.4% in the first five months. Construction work index recorded year-on-year growth of 11.6% in the first five months of 2008.

Chart 3: Industrial production index of the Republic of Croatia (indices 2000=100)

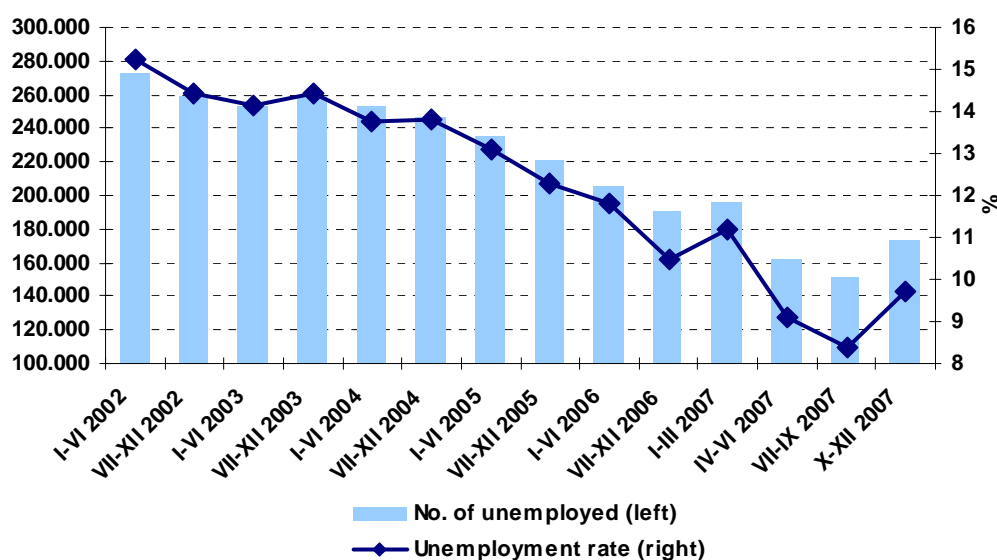


Source: Central Bureau of Statistics

As indicated by the Labour Force Survey, in 2007 working age population counted 3,657,250 persons. Of that number, 48.8% were people working or actively looking for work, i.e. they can be categorised as the workforce. In comparison to the 2006 survey, the working age population increased by 18,750 while the category of the workforce increased by 250. The total number of employed in 2007 amounted on average to 1,614,500, which is an increase of 28,500 in comparison to 2006, while the number of unemployed decreased by 27,500 to 171,000. These trends also determined the unemployment rate, which was at an average of 9.6% in 2007, down 1.6 percentage points in comparison to 2006 and the lowest recorded unemployment rate. The administrative unemployment rate, averaging 14.9% in 2007 also recorded a year-on-year decline by 1.8 percentage points.

According to Croatian Employment Service data, the number of registered unemployed persons in June 2008 amounted to 222,290, accounting for the lowest number of unemployed since 1991. Compared to May, the number of unemployed was reduced by 10,478 or 4.5%, while at the year-on-year level, the number of unemployed decreased by 27,258 or 10.9%.

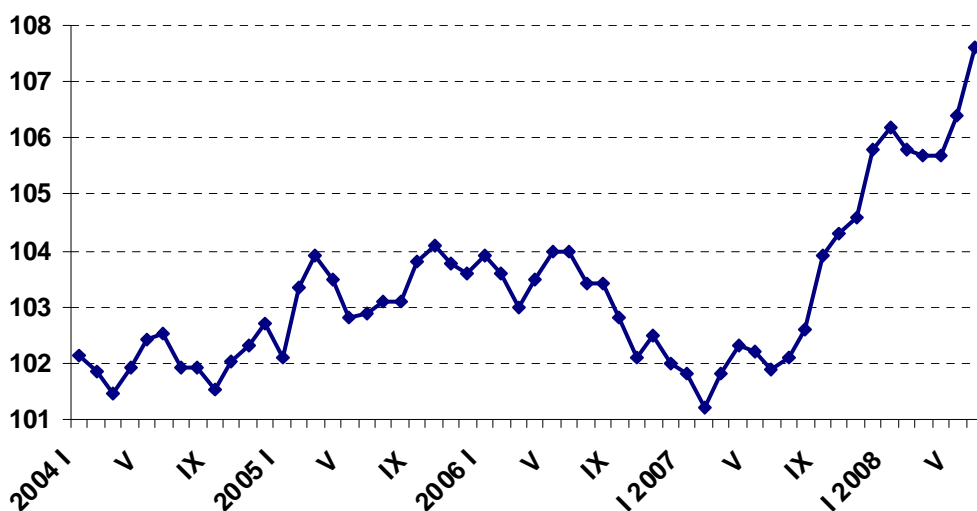
Chart 4: Labour force survey and unemployment rate in the Republic of Croatia



Source: Central Bureau of Statistics

The year-on-year growth of the consumer price index (CPI) in 2007 amounted to 2.9%, which in comparison to the previous year accounts for a deceleration of 0.3 percentage points. CPI growth was accelerated at the end of the year and amounted to 5.8% in December 2007. This period was marked by continued growth of crude oil prices on the world market, while the largest contribution to CPI growth came from growth in food prices, which accounted for the largest CPI share in the amount of 28%.

Chart 5: Year-on-year trend of the consumer price index in the Republic of Croatia

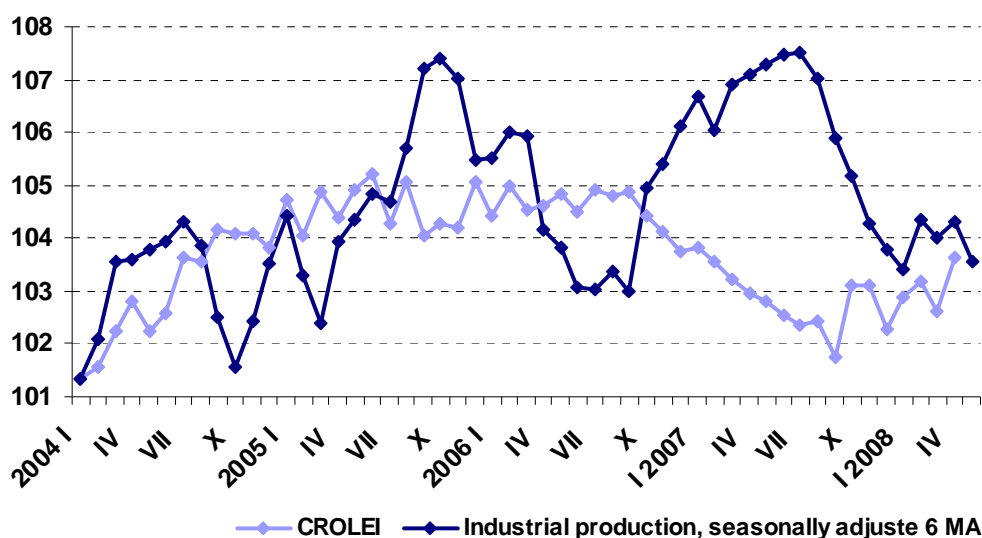


Source: Central Bureau of Statistics

The year-on-year growth of the CPI in June 2008 amounted to 7.6%, while in the first half of 2008 the CPI rose by 6.2%. The largest contribution to the year-on-year growth of prices in June came from food prices which increased by 14.0%. The highest growth was recorded by the prices of bread and cereals (18.8%), dairy, cheese and eggs (17.1%), and meat 8.5%. A large contribution to the growth in food prices came from the growth of prices of fuel and lubricants for personal vehicles, which compared to June 2007 increased by 22.5%. Further increase of oil prices on the world markets represents the main risk for the increase of other prices in the prospective period.

Using the leading indicators methodology, the Institute of Economics Zagreb (IEZ) and the Ministry of Finance draw up a composite CROLEI forecasting index. This index predicts industrial output trends and the overall economic activity in Croatia, where the industrial output index is used as the reference series. The index comprises the seven best leading predicting indicators with an average prediction time of the referent series of approximately 8 months. Trends in the CROLEI index in 2007 suggested a deceleration of economic activity at the end of 2007 and the first half of 2008, which proved correct. Positive CROLEI index trends in the first four months of 2008 and the value of the diffusion index suggest moderate growth of real economic activity in the second half of 2008, which could be somewhat more dynamic than in the first half of 2008.

Chart 6: CROLEI forecasting index, year-on-year change



Source: Institute of Economics Zagreb, Central Bureau of Statistics

3.2. The international environment

The data published in the European Commission's Economic Forecasts from spring 2008 indicate that achievements in the European Union and Eurozone in 2007 were in line with expectations. Real GDP growth in 2007 amounted to 2.9% in the European Union and 2.6% in the Eurozone. As for individual GDP components, the contribution of domestic demand to its growth weakened in 2007, while the contribution of the foreign component increased

despite appreciation of the euro. Meanwhile, significant corrections of the projected declining economic growth were made for 2008 and 2009. In the Eurozone, economic growth is expected to slow down to 1.7% in 2008 and 1.5% in 2009, while in the European Union, growth is expected to slow down to 2.0% in 2008 and 1.8% in 2009.

The second half of 2007 saw decelerated economic growth in the European Union due to a crisis on the financial markets, which led to slowed economic growth worldwide. Furthermore, increasing energy and food prices had negative impacts on both economic growth and inflation. Inflation in 2007 amounted to 2.4% in the European Union and 2.1% in the Eurozone. In 2008, inflation is expected to accelerate significantly to reach 3.6% in the European Union and 3.2% in the Eurozone, while in 2009 it is expected to slow to less than 2.5%. Taking into consideration the seriousness of the financial crisis and its impact on the economy in the USA, the projected economic growth for 2008 and 2009 has been reduced.

Table 1: International environment – macroeconomic indicators

	2006	2007	2008 projection	2009 projection
Real GDP growth				
World	4.9	4.6	3.8	3.6
European Union	3.1	2.9	2.0	1.8
Italy	1.8	1.5	0.5	0.8
Germany	2.9	2.5	1.8	1.5
Slovenia	5.7	6.1	4.2	3.8
Eurozone	2.8	2.6	1.7	1.5
CPI, annual change				
European Union	2.3	2.4	3.6	2.4
Eurozone	2.2	2.1	3.2	2.2
Oil price increase, in %	20.1	9.5	39.6	-1.2

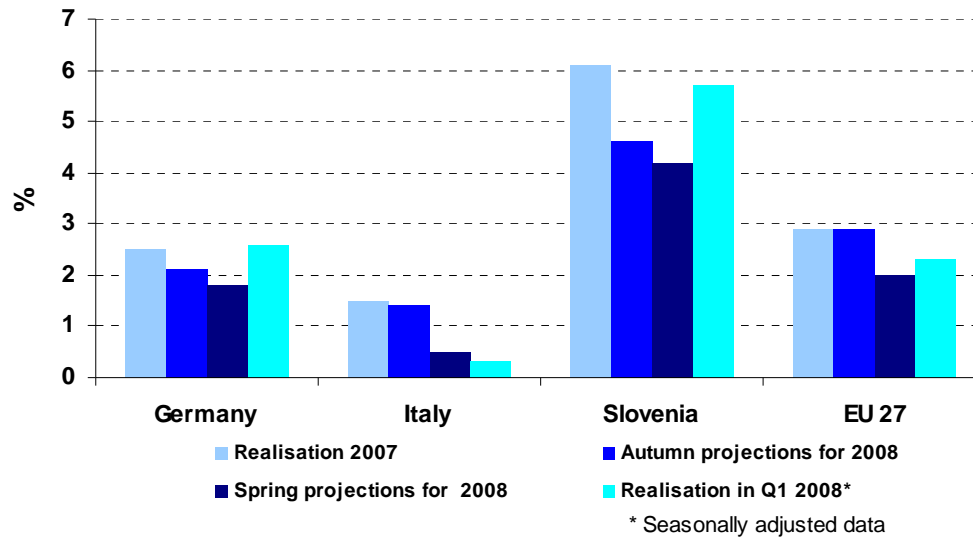
Source: European Commission

With regard to the fact that the Republic of Croatia carries out around 60% of its trade with EU Member States, the forecasted economic trends in the European Union have a significant influence on the expected economic trends in Croatia. Along with trade, economic trends in the European Union affect the Croatian economy via tourism, as almost 90% of foreign tourists come from EU Member States. In that context, forming projections of economic trends in Croatia to a large extent depends on the situation in Italy, Germany and Slovenia, since Croatia has its closest economic links with these states.

The deceleration of real GDP growth in Germany to 2.5% in 2007 is largely the result of a downturn in private consumption in the second half of the year. This trend is the result of a shift of the share of private consumption from 2007 to 2006, due to the announced increase of the VAT rate at the beginning of 2007. In the forthcoming period, further deceleration is expected to 1.8% in 2008 and 1.5% in 2009. A significant contribution from private consumption is expected while investments, although still a significant contributor, will slow down due to a downturn of economic activity in the foreign environment and appreciation of the euro. In the past period, economic growth in Germany was largely the result of net export, but in 2008 and 2009 its contribution is expected to be more neutral. With a downturn in

world demand and appreciation of the euro, export will be the main component of demand to be affected by the financial crisis.

Chart 7: Overview of projections and realised economic growth



Source: Eurostat, European Commission

Real GDP growth in Italy in 2007 amounted to 1.5%, with trends in industrial output suggesting a decline in the last quarter. Throughout the year, the main driver of economic growth was domestic demand, in particular private consumption. Net export had a mildly positive contribution, primarily as a result of commodity exports. The expected growth of GDP in 2008 amounts to 0.5%, representing a deceleration by one percentage point compared to 2007, which is the result of the expected downturn of all demand components. The projections for 2009 suggest slight acceleration of economic growth to 0.8%. Private consumption could recover as a result of alleviated pressure on price growth. Investments will remain weak on account of deferred impact of the downturn in demand. Net export could have a slightly negative contribution due to faster import over export as the result of the trend in domestic demand and the exchange rate.

Real GDP growth in Slovenia in 2007 of 6.1% suggests strong economic growth. The main driver of economic growth were investments which increased by 17.2% and private consumption supported by the increase of employment and net salaries. Net export recorded a slightly negative contribution, despite the high growth of export of goods and services amounting to 13.0%. Economic growth during 2008 is expected to slow to 4.2%, due mainly to a reduction of investments. Further slowdown to 3.8% is expected in 2009, again influenced by fewer investments. Private consumption will continue to make a significant contribution supported by the growth of real disposable income. Export is expected to see weaker growth as compared to previous years, as is import, due to weakening investments and consumption, which will give a positive contribution to economic growth of net export.

The perspective of global economic growth is rather uncertain due to several factors with a negative effect. First of all, it appears that the risk of recession of the USA economy is slowly materialising. Likewise, the financial crisis continues to affect numerous banks that are recording losses and writing off claims. Finally, extremely high growth of prices of raw

materials has been recorded, primarily oil, food and metals. Despite these factors, global economic activity has proven to be very resistant, due primarily to favourable achievements on emerging markets. Economic growth in the European Union also proved to be higher than expected in the first quarter of 2008.

3.3. Macroeconomic projections for the period 2009–2011

Medium-term macroeconomic projections suggest an acceleration of economic growth to 7.0% in 2011. The expected GDP real growth will amount to 4.4% in 2008 and 2009, and 6.0% in 2010. This economic growth would result in an increase of the nominal GDP per capita from approximately EUR 8,500 in 2007 to approximately EUR 12,600 in 2011. Intensive economic activity will be achieved along with a continued increase of employment, and it is expected that the unemployment rate will continue to decline during this entire period, to a level of 7.0% in 2011. In 2008, average inflation is expected to accelerate to 6.6%, after which time it will gradually slow down to approximately 3%.

Table 2: Projections of key macroeconomic indicators of the Republic of Croatia

	2006	2007	2008 projection	2009 projection	2010 projection	2011 projection
GDP, in HRK million	250,590	275,078	306,152	335,213	369,160	411,196
GDP per capita, in HRK	56,439	61,955	68,953	75,498	83,144	92,612
GDP per capita, in EUR	7,707	8,445	9,399	10,291	11,334	12,624
GDP, real growth	4.8	5.6	4.4	4.4	6.0	7.0
Real growth of individual GDP components:						
Private consumption	3.5	6.2	3.3	3.5	4.3	4.9
Public spending	2.2	3.4	3.0	2.4	3.1	1.9
Investments	10.9	6.5	5.8	6.3	7.0	8.5
Export of goods and services	6.9	5.7	5.8	6.3	9.6	10.9
Import of goods and services	7.3	5.8	5.5	5.2	6.6	7.6
CPI, % of annual change	3.2	2.9	6.6	4.5	3.1	3.1
Survey unemployment rate, annual average	11.1	9.6	9.0	8.5	7.7	7.0
Current account balance, as % of GDP	-7.9	-8.6	-9.2	-7.7	-6.4	-5.1
External debt, as % of GDP, end of period	85.5	89.1	91.5	91.5	91.0	90.0

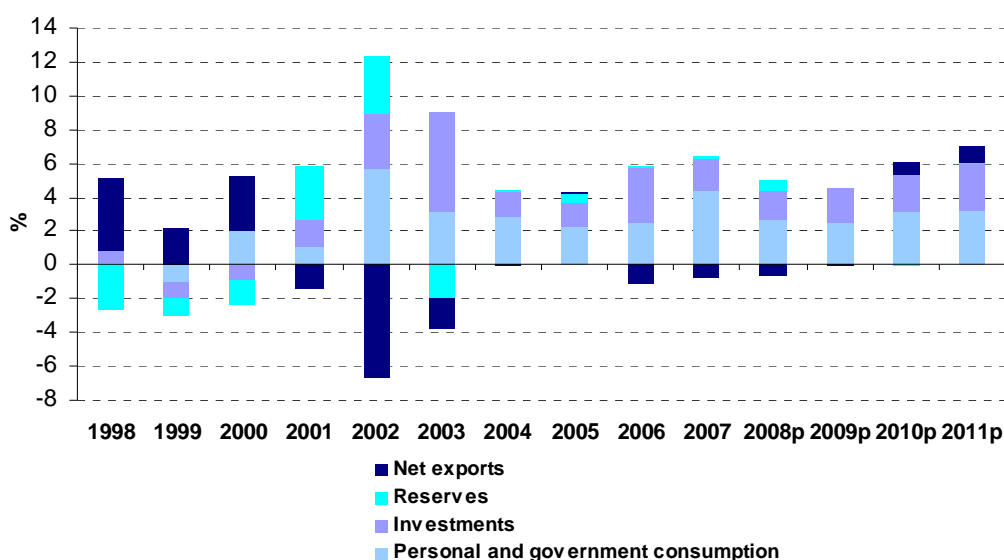
Source: Ministry of Finance, Central Bureau of Statistics, Croatian National Bank

The deceleration of economic growth to 4.4% in 2008 and 2009 is the result of unfavourable trends on the world financial markets related to the sub prime mortgage crisis in the USA, and also to the high growth of oil prices and prices of other raw materials. These factors will directly impact economic activity trends in Croatia in the way of lower foreign demand for Croatian exports, and also due to a slowdown of overall foreign consumption. As suggested by the projections of the European Commission, this will be due to slowed economic growth in the countries that are Croatia's most important trading partners and most important tourism markets. A stronger acceleration of economic growth is expected in 2010 and 2011, which corresponds to the date of accession to the European Union and to the expected calming of the situation in the international environment. Further structural reforms via further improvements to the business climate will also have a positive impact on the strengthening of the private sector. This will also be assisted by a reduction of the overall general government deficit, thus opening additional space for the private sector.

Projections indicate a deceleration of the real growth of private consumption in 2008 to 3.3% and its slight acceleration until the end of the projection period. Private consumption in 2008 will be slowed due to phasing out the repayment of the debt to pensioners, which contributed to its growth, and the effect of affluence as the result of current trends on the capital market. Restrictions imposed by the Central Bank on bank investments will also be directed at reducing private consumption. As regards the salary mass, a somewhat smaller contribution in comparison to 2007 is expected. It is expected that the nominal gross salary will increase as the result of enforcement of the Minimum Salary Act, and also due to the partial adjustment of salary growth with the growth of prices, which will ultimately result in a slowdown of the real growth of gross salaries in 2008. On the other hand, more rapid growth of net salaries owing to the increase of the private deduction and further growth of employment could positively impact more rapid growth of private consumption. It is expected that by 2011 private consumption will grow more rapidly, due for the most part to the renewed contribution of the wealth effect.

The real growth of public consumption is expected to slow to 3.0% in 2008 and to 2.4% in 2009, with slightly more intensive real growth of 3.1% in 2010, and its slowdown to 1.9% in 2011. Taking into account the somewhat more difficult conditions of financing abroad and the restrictions on bank placements in country, the expected real growth of investments in 2008 amounts to 5.8%. With the assumption of recovery of the world financial markets, it can be expected that the real growth of investments will accelerate and exceed 8% in 2011. A somewhat faster growth of reserves in 2008 is expected, which could contribute to around 0.5 percentage points to GDP real growth.

Chart 8: Contribution to GDP growth in the Republic of Croatia

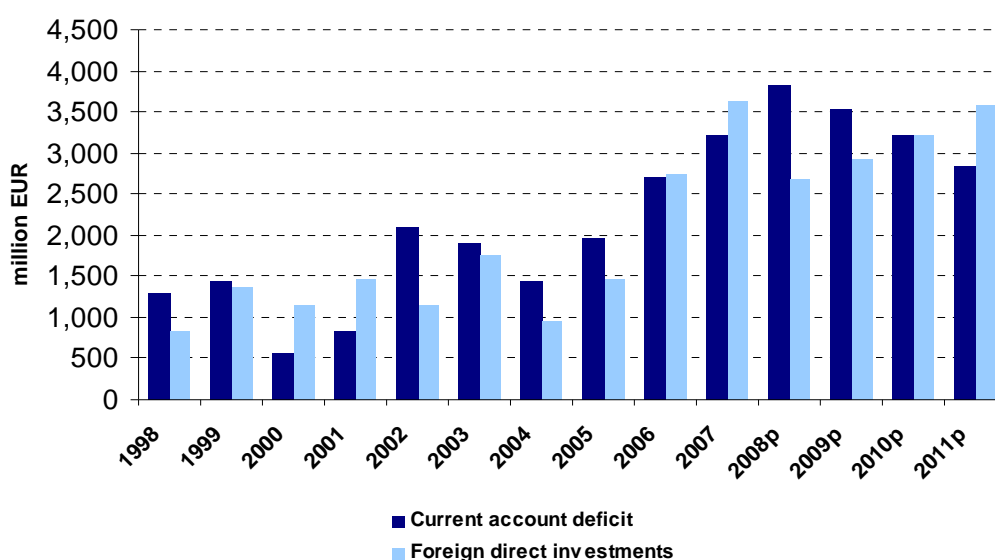


Source: Central Bureau of Statistics, Ministry of Finance

In 2008 and 2009, net export is expected to have a negative contribution to GDP growth, while in the follow-up period a slightly positive contribution can be expected. Import trends will be affected by weaker domestic demand in 2008 and 2009, which is expected to be strengthened in 2010 and 2011, and a more prominent appreciation of the real kuna exchange rate in 2008. Increasing import prices will have a significant impact on the nominal increase of import, primarily related to the increase in the price of energy products. In 2008, trading

will be influenced by decreasing foreign demand due to a downturn in economic growth in the region. Under the assumption of improvement of conditions in the foreign environment, a significant acceleration of export growth can be expected in 2010 and 2011. These trends in trading determine the projection of the current account deficit increase to 9.2% of GDP in 2008, and afterwards its expected decline to 5.1% of GDP in 2011. It is expected that the largest share of the current account deficit will continue to be covered by FDIs, and that the share of foreign debt in GDP will stabilise at the level of 91.5% in 2009, and eventually be reduced to the level of 90.0% of GDP in 2011.

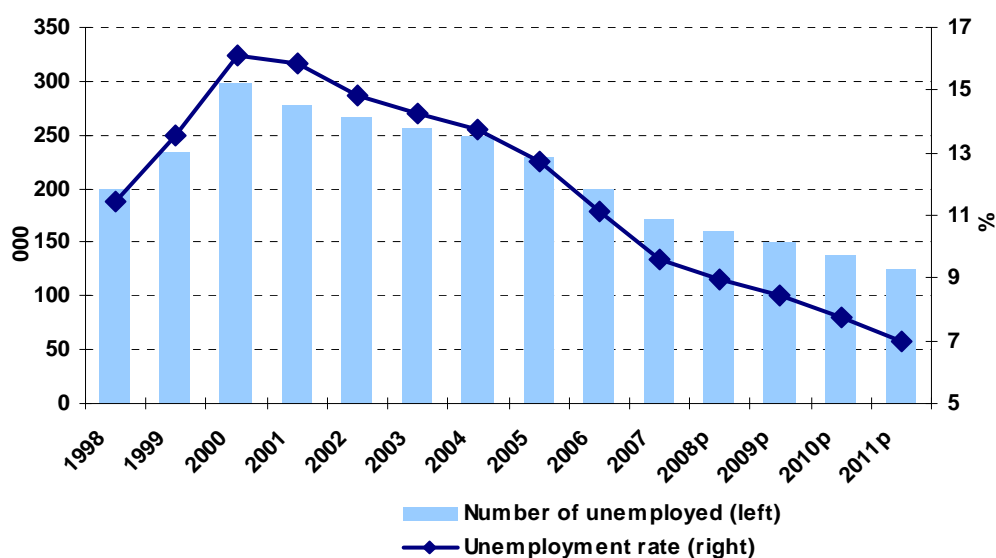
Chart 9: Current account deficit and foreign direct investments (FDIs) in the Republic of Croatia



Source: Central Bureau of Statistics, Ministry of Finance

The average year-on-year increase of the consumer price index (CPI) in 2007 amounted to 2.9%, recording accelerated growth at the end of 2007 and the beginning of 2008. The recorded faster growth of prices is primarily the result of accelerated growth of the prices of energy generating products and food products. The price per barrel of crude oil on the world market increased by approximately 10% in 2007, while the projections of the European Commission suggest an increase of around 40% in 2008 followed by a slight decrease of prices in 2009. In compliance with the described trends, it is expected that 2008 will see an average year-on-year CPI growth of 6.6% and a slowdown to 4.5% in 2009. With the assumption that oil prices will stabilise, the projected inflation amounts to 3.1% in 2010 and 2011.

Chart 10: Projections of trends on the labour market in the Republic of Croatia



Source: Central Bureau of Statistics, Ministry of Finance

The projected acceleration of economic activity is accompanied by a further increase in employment and reduction of unemployment. It is expected that in 2008 the survey unemployment rate will decrease to around 9.0% and further to 7.0% in 2011. The projected economic growth will not be fully reflected in the increase of employment, which will in turn result in a productivity increase in each year of the projection period. Despite a somewhat faster increase of the unit labour cost in 2008, its slowdown is expected towards the close of the projection horizon.

3.4. Risks of realisation of projections

Further growth of import prices in the form of energy generating products and prices of raw materials represents the main risk to the realisation of projections. Taking their significance in production into account, this would certainly act to increase the overall level of prices in the country. Under conditions of a stable nominal exchange rate of the domestic currency, appreciation risks to the real exchange rate occur. Any significant real appreciation would exert further pressure on a further increase of the current account deficit, and thereby to the requirements for larger foreign capital inflow, which in turn could result in an increase in the foreign debt.

This risk becomes even more pronounced when the current situation on the world financial markets is taken into account. An extended and more intensive duration of the financial crisis could have a direct impact on Croatia by rendering foreign financing more difficult, but also indirectly through the slowdown of economic growth in the countries that are its most significant trading partners. If this influence was to continue in combination with price increases, the real appreciation and decreased foreign demand could exert pressure on the increase of the current account deficit, while its financing would be rendered more difficult. Such circumstances could jeopardize the projected economic growth rates, as counterbalancing could be achieved by correcting domestic demand.

The macroeconomic projections used are based on the assumption that the inflation increase will not completely reflect on salary increases. In the event this is not the case, there is the risk of higher inflation. Salary increases would impact the faster growth of the unit labour cost, which would increase production costs and thus have a back effect on price increases. These projections are also based on the fiscal policy direction determined by the reduction in the overall general government deficit. The increase in the general government deficit would imply the risk of an increase of foreign debt, impact the growth of inflation and, under certain conditions, could cause decline in economic growth rates.

When drawing up macroeconomic projections, the accelerated rate of accession to membership of the European Union and the assumption that unfavourable circumstances in the international environment will subside in 2010 and 2011 were taken into account. If these conditions are not met, a wide range of risks to fulfilling the macroeconomic framework could arise.

4. MEDIUM-TERM FISCAL POLICY

4.1. Fiscal policy in 2007

Fiscal policy results achieved in 2007 indicate the successful continuation of the fiscal consolidation process that commenced in 2004. The total general government deficit in 2007 was further reduced relative to the annual plan and recorded a level of 1.6% of GDP. This achievement of the total deficit is 3.9 percentage points lower than the total deficit achieved in 2003, i.e. the total deficit for the period 2004–2007 was reduced almost threefold by fiscal adjustment.

Table 3: The total general government deficit/surplus for the period 2004–2007

(000 HRK)	2004	2005	2006	2007
TOTAL DEFICIT/SURPLUS	-9,275,615	-9,195,921	-6,079,401	-4,357,275
% of GDP	-4.3	-4.0	-2.4	-1.6

Note: The data are shown in compliance with the rules of ESA 95 methodology

Source: Ministry of Finance

Positive effects of the reduction of general government deficit are manifold, and one of the most significant effects to be underlined is the impact on public debt due to the reduction of the need for financing. As such, positive effects are transferred to the financial system at the state level and ultimately to the economy as a whole. In addition to a reduced need for government financing, its orientation on the domestic financial market for the purpose of financing the general government deficit has to be taken into account. This practice has also contributed to the development of the financial market in Croatia.

At the end of 2007, the total public debt reached the level of HRK 121.3 billion or 44.1% of GDP, which is 2.3 percentage points less than at the end of December 2006. The total general government debt accounted for 85.7% of the total public debt of the Republic of Croatia, or HRK 104 billion, while issued government guarantees amounted to HRK 17.3 billion or 14.3%. Therefore, the reduction in the share of public debt in GDP compared to the preceding year is primarily the result of a reduction of the total share of general government debt which at the end of 2007 amounted to 37.8% of GDP, down almost 3 percentage points from the previous year. Meanwhile, the general government debt nominally increased by HRK 1.8 billion. Privatisation revenues contributed to this trend in public debt, which amounted to HRK 3.0 billion at the general government level.

By dividing the total general government debt into foreign and domestic components, it can be noted that the share of domestic debt of general government in the total debt on 31 December 2007 amounted to 61.9%, accounting for a 2.7 percentage point increase as compared to the previous year. Meanwhile, the foreign debt of general government recorded 38.1% in the overall debt of general government, which is a decrease of 2.7 percentage points.

As regards the tax system, the Act on Amendments to the Act on Financing Local and Regional Self-Government Units came into effect on 1 January 2007. The purpose of these amendments is to achieve more uniform and fairer distribution of taxes in all regions of the Republic of Croatia, especially related to areas of special state concern. Profit tax has in its

entirety become state budget revenue, while income tax has been ceded to the units of local and regional self-government, in part directly and in part through equalisation fund. In addition to these changes to the tax system introduced in 2007, as of 1 August a differentiated value-added tax of 10% applies to all newspapers and daily and periodical magazines, apart from those which mainly or completely consist of advertisements and are used for advertising. Finally, strong growth of overall state revenues in 2007 indicates the significance of the stricter revenue collection control measures.

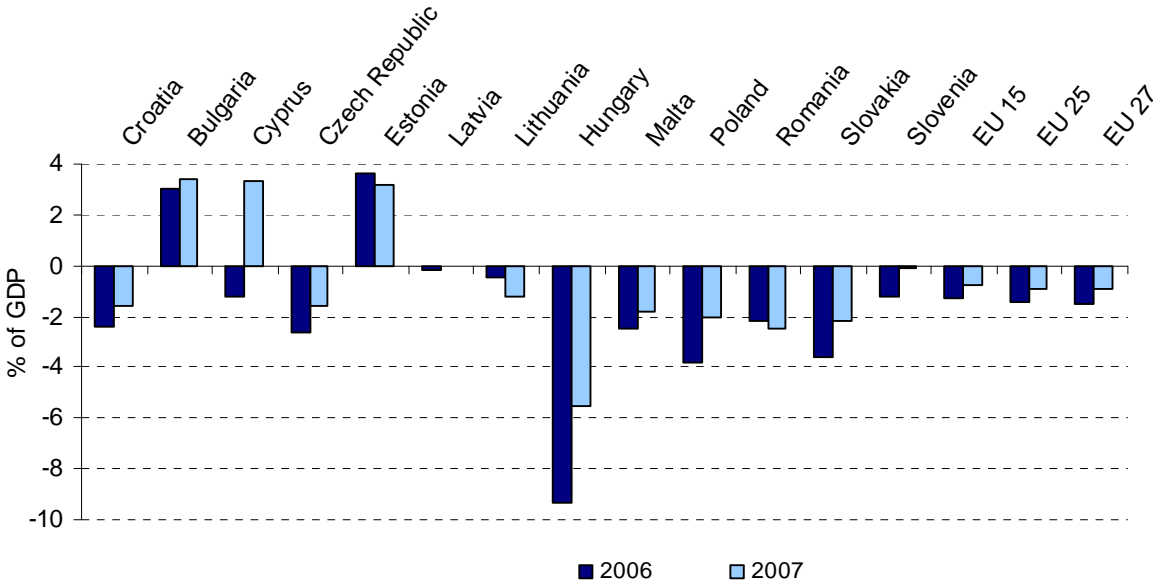
These positive trends represent a strong foundation for the successful fulfilment of the fiscal goals set for the medium-term period until 2011.

4.2. The Republic of Croatia and the international environment

With a view to obtaining a realistic overview of the fiscal policy of the Republic of Croatia, it is of great importance to conduct an analysis of fiscal policy in the context of its environment, i.e. the EU Member States.

Accordingly, presented below is a comparison of key fiscal categories of the Republic of Croatia with each of the new EU Member States, including the average of the old EU Member States and all 27 members. It should be noted that the data are expressed according to the European ESA 95 methodology on public finance statistics.

Chart 11: Total deficit/surplus of the budget of the Republic of Croatia and EU Member States in 2006 and 2007



Source: Eurostat, Ministry of Finance

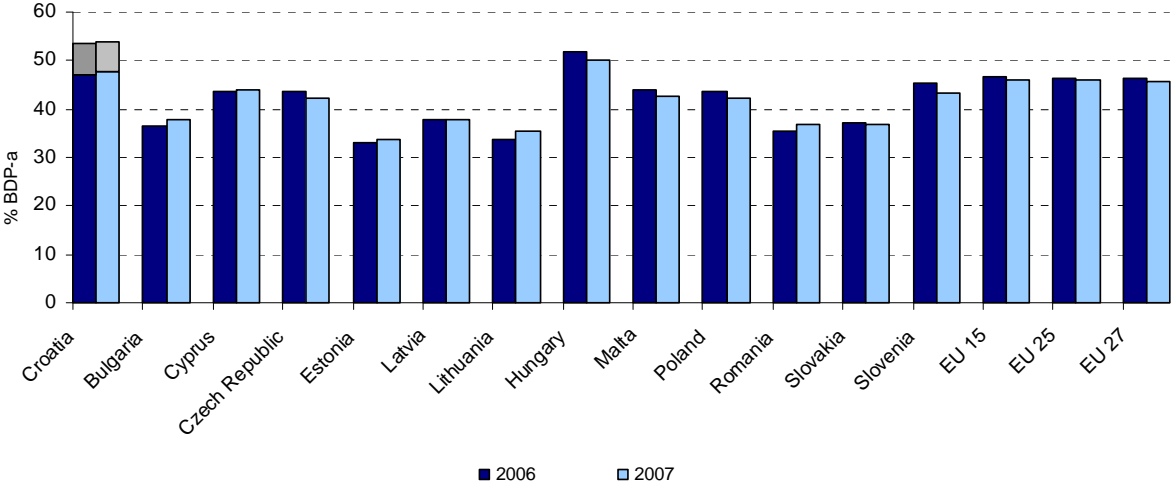
In previous years, the fiscal policy of the Republic of Croatia was marked by the implementation of intensive fiscal adjustment which had an impact on the reduction of the total general government deficit. Under the ESA 95 methodology, Croatia reduced its total general government deficit from 2.4% of GDP in 2006 to 1.6% of GDP in 2007. Thus Croatia

in 2007, in comparison to the other states, falls among those countries with a higher level of general government deficit than the EU 27 average, while simultaneously recording a lower total deficit than many of the new EU Member States.

Taking into account the trend of deficit reduction and its commitment to implementing further fiscal adjustments and necessary structural policy measures, in the forthcoming period Croatia will continue to achieve lower levels of general government deficit with a view to approaching the European Union average.

Through the analysis of the revenue side of the consolidated general government budget, it is possible to see the level of the tax burden on citizens and companies which comprises the sum of collected revenues from taxes and contributions. In terms of collected revenues from taxes and contributions in the percentage of GDP, in 2007 Croatia achieved the same level as the EU Member States (EU 27).

Chart 12: Expenditure of consolidated general government of the Republic of Croatia and EU Member States in 2006 and 2007



Note: Croatia with and without grey economy included

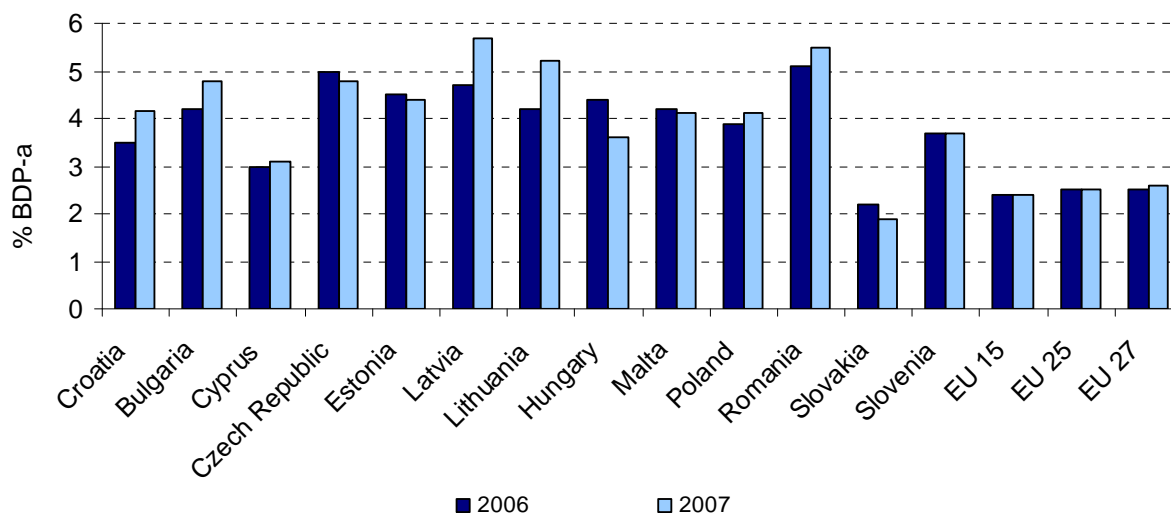
Source: Eurostat, Ministry of Finance

If the share of the consolidated general government expenditure in GDP is taken into account, the conclusion may be reached that in 2007, Croatia (if the estimated grey economy is included in the calculation of GDP) was slightly above the EU 27 average. The highest level of public spending was recorded by Hungary, Cyprus and Slovenia, while the lowest share in GDP expenditure was recorded by the Baltic States.

Another important feature of public spending which is useful to consider is the share of public investments in GDP. In comparison to the EU Member States, the Republic of Croatia recorded a high share of public investments, particularly for the purpose of financing the projects of transport infrastructure development to link the regions within Croatia, as well as to link them with neighbouring countries. In 2006, Croatia allocated 3.5% of GDP for investment projects, while in 2007 it allocated 4.2% of GDP. On the other hand, the level of public investment in the most developed EU Member States, EU 15, was at the level of approximately 2.4% of GDP, while the average of all Member States amounted to 2.6% of

GDP. The highest level of investment in 2007 was recorded in Latvia in the amount of 5.7% of GDP.

Chart 13: Public investments in the Republic of Croatia and EU Member States in 2006 and 2007



Source: Eurostat, Ministry of Finance

The conclusion to be drawn from the above comparison of key fiscal variables in the Republic of Croatia with those in the EU Member States is that Croatia is following fiscal trends in its environment. However, it is necessary to continue with the implementation of public finance adjustment aimed at reducing the total general government deficit, taxation and presence of government in the economy. Moreover, the achievement of the foregoing objectives must be accompanied through parallel reductions of public expenditure, implying further implementation of fiscal adjustments and the implementation of key structural measures referred to in these Guidelines and other strategic documents of the Government of the Republic of Croatia.

4.3. Revenue trends for the period 2009–2011

4.3.1. Determinants of budgetary central government revenue for the period 2009–2011

Total revenue

The total budgetary central government revenues for 2009 have been projected in the amount of HRK 124.9 billion, accounting for an increase of 5.5% and nominal growth of HRK 6.5 billion compared to the revenues planned for 2008. The planned year-on-year increase in the revenues for 2009 is lower than the projected revenue growth until the end of the medium-term period primarily due to the base effect.

In 2010, total revenues are projected in the amount of HRK 133.5 billion, i.e. a year-on-year growth of 6.9%, while for 2011, the total revenues projected are in the amount HRK 143.5 billion, representing a year-on-year growth of 7.5%.

The total budget revenues comprise operating revenues, of which the majority share consists of tax revenues and revenues from the sale of nonfinancial assets.

Table 4: Trends in budgetary central government revenue 2007–2011

(000 HRK)	2007	2008 plan	08/07 index	2009 projection	09/08 index	2010 projection	10/09 index	2011 projection	11/10 index
TOTAL REVENUE (6+7)	108,819,280	118,408,500	108.8	124,924,074	105.5	133,504,219	106.9	143,523,534	107.5
6 Operating revenue	108,320,595	118,051,097	109.0	124,579,456	105.5	133,255,319	107.0	143,257,211	107.5
Tax revenues	60,837,371	67,626,328	111.2	71,631,613	105.9	76,889,754	107.3	83,043,726	108.0
Income tax	1,772,708	1,873,796	105.7	1,877,708	100.2	2,003,658	106.7	2,139,197	106.8
Profit tax	8,816,375	10,021,475	113.7	11,219,642	112.0	12,249,009	109.2	13,495,935	110.2
Taxes on property	578,621	621,400	107.4	645,993	104.0	681,433	105.5	724,028	106.3
Taxes on goods and services	48,028,190	53,290,764	111.0	56,024,112	105.1	60,044,818	107.2	64,725,456	107.8
Value-added tax	37,747,987	42,751,585	113.3	45,079,042	105.4	48,508,637	107.6	52,476,877	108.2
Sales tax	168,522	176,298	104.6	187,445	106.3	199,166	106.3	211,621	106.3
Excises	9,096,926	9,234,726	101.5	9,526,517	103.2	9,981,192	104.8	10,526,748	105.5
Taxes and duties from games of chance and gambling	505,119	581,632	115.1	634,711	109.1	699,008	110.1	778,604	111.4
Other taxes on goods and services	509,636	546,523	107.2	596,398	109.1	656,815	110.1	731,606	111.4
Taxes on international trade and transactions	1,641,478	1,818,893	110.8	1,864,158	102.5	1,910,836	102.5	1,959,110	102.5
Contributions	37,203,486	41,370,661	111.2	44,127,843	106.7	47,452,810	107.5	50,761,869	107.0
Grants	477,045	987,207	206.9	956,930	96.9	680,747	71.1	758,264	111.4
Property income	6,681,140	4,684,886	70.1	4,374,522	93.4	4,599,919	105.2	4,892,070	106.4
Revenues from financial assets	1,476,870	816,684	55.3	306,229	37.5	269,219	87.9	235,300	87.4
Revenues from nonfinancial assets	5,204,270	3,868,201	74.3	4,068,293	105.2	4,330,700	106.5	4,656,770	107.5
Revenues from administrative fees and revenues under special regulations	2,574,424	2,839,841	110.3	2,917,634	102.7	3,022,692	103.6	3,144,280	104.0
Other revenue	547,129	542,175	99.1	570,913	105.3	609,397	106.7	657,002	107.8
7 Revenues from the sale of nonfinancial assets	498,685	357,403	71.7	344,618	96.4	248,900	72.2	266,323	107.0
Revenues from the sale of unproduced assets	19,557	70,000	357.9	20,000	28.6	20,000	100.0	21,400	107.0
Revenues from the sale of produced assets	281,171	282,603	100.5	324,618	114.9	228,900	70.5	245	107.0
Revenues from the sale of produced current assets	197,957	4,800	2.4	0	0.0	0	0	0	

Source: Ministry of Finance

Tax revenue

For the period 2009–2011, budgetary central government revenues have been planned primarily based on projections of macroeconomic variables and expected economic trends, taking into account the trends of certain revenues in previous years. Therefore, tax revenues for 2009 have been projected in the amount of HRK 71.6 billion marking year-on-year growth of 5.9%.

Revenue projections for 2010 and 2011 are based on the same assumptions, so tax revenues for 2010 amount to HRK 76.9 billion, and for 2011 HRK 83.0 billion.

Income tax

For 2009, the amount of revenue from income tax has been projected in the amount of HRK 1.9 billion, which is close to the amount planned for 2008. This revenue is planned in line with the expectations regarding gross salary and employment trends, and taking into account legislative amendments. The amendments to the Income Tax Act, whereby the base personal deduction was increased from HRK 1,600 to HRK 1,800 reduced the overall income tax revenues. In order to mitigate the consequences this measure has on the revenues of units of local and regional self-government, the Act on the Financing of Units of Local and Regional Self-Government was also amended, thereby enforcing additional distribution of income tax to the local units so as to enable them to execute their functions. The former distribution of income tax has been amended whereby the share of income tax has been increased by 3 percentage points for towns and municipalities and by 0.5 percentage points for counties. Having regard to the fact that in 2009 these amendments will affect the budget during the entire year, this was included in the preparation of the projections.

Revenue from income tax will increase at the rate of 6.7% in 2010 and by 6.8% in 2011.

Profit tax

Revenue from profit tax for the medium-term period 2009–2011 was planned on the basis of the growth of the overall economic activity in that period. Projected profit tax revenue for 2009 is set in the amount of HRK 11.2 billion, marking a year-on-year growth of 12.0%. As profit tax is paid based on operations of companies in the preceding year, profit tax for 2009 has been planned in accordance with the expected economic activities and trends in the operation of companies in 2008.

Planned profit tax revenues amount to HRK 12.2 billion in 2010 (year-on-year growth of 9.2%), and HRK 13.5 billion in 2011 (growth amounting to 10.2%).

Taxes on property

Revenues from taxes on property for the period 2009–2010 have been projected in accordance with the expected trends in the overall economic activity, taking into account the expected trends on the real-estate market. Even though real-estate prices and real-estate demand are continually growing, a slight deceleration is expected in the forthcoming period. In 2009, this tax is projected to increase by 4.0%, amounting to HRK 646.0 million. Revenues from taxes on property in 2010 may be expected to amount to HRK 681.4 million (an increase of 5.5%), while for 2011 the projected amount is HRK 724.0 million (6.3% more than in the preceding year).

Value-added tax

Projections of revenues from value-added tax (VAT) for 2009 are based on the expected growth of nominal private consumption, taking into account the results of trends in VAT revenues in the previous year. Thus, in 2009 the planned VAT amounts to HRK 45.1 billion, i.e. with year-on-year growth of 5.4%.

Revenues from VAT for the period 2010–2011 are also projected based on the expected growth of nominal private consumption. The expected revenue from VAT in 2010 amounts to HRK 48.5 billion (year-on-year growth of 7.6%), and in 2011 HRK 52.5 billion is expected on the same basis (an increase of 8.2%).

Excise duties

Revenues from excise duties for the period 2009–2011 are planned in accordance with real economic growth, taking into consideration the trends of these revenues in previous years and the expected trends for certain goods subject to excise duties in this period. Accordingly, projections of revenues from excise duties for 2009 amount to HRK 9.5 billion, which represents an increase of 3.2% in comparison to the preceding year.

In 2010, it is predicted that revenues from excise duties will generate HRK 10.0 billion, or 4.8% more than in 2009, while the projected revenues from excise duties for 2011 amount to HRK 10.5 billion, or with year-on-year growth of 5.5%.

The most important excise duties are those on petroleum products, excise duties on tobacco products, and excise duties on cars. Revenues from excise duties on petroleum products are planned in accordance with real GDP growth, taking into account the projections of fuel consumption in this period. The projections of excise duties on tobacco for the period 2009–2011 are based on economic growth and expectations related to the consumption of tobacco

products. The planned growth of revenue from excise duties on cars in the period 2009–2011 is in accordance with the real growth of the economy.

Table 5: Trends in revenue from excise duties in the period 2007–2011

<i>(000 HRK)</i>	2007	2008 plan	08/07 index	2009 projection	09/08 index	2010 projection	10/09 index	2011 projection	1/10 index
Excise duties	9,096,926	9,234,726	101.5	9,526,517	103.2	9,981,192	104.8	10,526,748	105.5
Excises on cars, other motor vehicles, boats and planes	1,433,427	1,523,771	106.3	1,592,341	104.5	1,687,881	106.0	1,806,033	107.0
Excises on petroleum products	3,413,076	3,363,274	98.5	3,456,552	102.8	3,577,531	103.5	3,738,520	104.5
Excises on alcohol	231,342	234,918	101.5	245,489	104.5	260,219	106.0	278,434	107.0
Excises on beer	743,000	738,324	99.4	771,549	104.5	817,841	106.0	875,090	107.0
Excises on non-alcoholic beverages	142,462	143,657	100.8	150,121	104.5	159,128	106.0	170,267	107.0
Excises on tobacco products	2,943,649	3,030,682	103.0	3,091,720	102.0	3,237,614	104.7	3,390,392	104.7
Excises on coffee	161,936	168,342	104.0	183,704	109.1	202,314	110.1	225,351	111.4
Excises on luxury goods	28,033	31,758	113.3	35,041	110.3	38,664	110.3	42,661	110.3

Source: Ministry of Finance

Taxes on international trade

Revenues from taxes on international trade have slightly increased. The majority of procedures for foreign trade liberalisation have been implemented, and projections of taxes on international trade for the period 2009–2011 are based on trends from preceding years and the expected import trends in forthcoming years. Therefore, the revenue from taxes on international trade for the period 2009–2011 is projected to increase by 2.5% per annum.

Contributions

In past years revenues from contributions have demonstrated a significant level of correlation with the growth of nominal gross salaries and growth of employment, so the expected development of these variables has been used for the projections of these revenues for the medium-term period 2009–2011.

The expected revenue from contributions in 2009 will amount to HRK 44.1 billion, which represents an increase of 6.7% in comparison to 2008. The projected revenue from contributions for 2010 amounts to HRK 47.5 billion (growth of 7.5%), and HRK 50.8 billion for 2011 representing a year-on-year growth of 7.0%.

Grants

Revenues from grants are largely based on the expected funds for the projects proposed under the pre-accession programmes of the European Union, which have been made accessible to the Republic of Croatia after the adoption of the pre-accession strategy. It should be noted that the Guidelines do not include the funds from the structural and cohesion funds which will be at Croatia's disposal after accession to the EU as the negotiation process is underway and thus the total amount of these funds is not known.

Property income

Revenues from property income consist of revenues from financial assets and revenues from nonfinancial assets. The structure of revenues from financial assets comprises the income from interest, dividends, and profit generated by the companies and banks in state ownership

with a one-off character. Revenues from financial assets are projected in the amount of HRK 306.2 million for 2009, in the amount of HRK 269.2 million for 2010, and in the amount of HRK 235.3 million for 2011.

The most important item in the revenues from nonfinancial assets is the revenues from road charges which are planned based on the real growth of the economy. Accordingly, in 2009 the expected amount of revenues from road charges is HRK 3.3 billion, HRK 3.5 billion in 2010, and HRK 3.7 billion in 2011. Along with these charges, the group of revenues from nonfinancial assets consists of concession revenues, lease and rental of assets, and other revenues from nonfinancial assets. These revenues are projected based on the trends of the expected economic activity in the forthcoming period, thus in 2009 revenues from nonfinancial assets amount to HRK 4.1 billion, HRK 4.3 billion in 2010, and HRK 4.7 billion in 2011.

Revenues from administrative fees and revenues under special regulations

Projections of revenues from administrative fees and revenues under special regulations are based on expected economic activity, taking into account the scope of transactions resulting in the collection of these revenues. Projections of these revenues for 2009 amount to HRK 2.9 billion, HRK 3.0 billion in 2010, and HRK 3.1 billion in 2011.

Other revenues

Other budget revenues consist of own revenues from performing basic core activities, revenues from fines and revenues from donations. Projections of own revenues of budgetary users and revenues from donations comply with the nominal growth of the economy. Following the trends in the previous periods, projections of revenues from fines are based on the real growth of the economy.

Accordingly, other revenues for 2009 amount to HRK 570.9 million, HRK 609.4 million for 2010, and HRK 657.0 million for 2011.

Revenues from the sale of nonfinancial assets

Revenues from the sale of nonfinancial assets consist of revenues from the sale of land, buildings, machinery and equipment and transportation equipment. In accordance with the expectations regarding the sale of these objects, revenues collected from the sale of nonfinancial assets is projected in the amount of HRK 344.6 million in 2009, HRK 248.9 million in 2010, and HRK 266.3 million in 2011.

4.3.2. Determinants of revenue of extra-budgetary users for the period 2009–2011

Projections of revenues of extra-budgetary users for the period 2009–2011 are based on the projections of trends of macroeconomic indicators and the expectations of certain users regarding the trends in the revenues they collect. What is notable in this period is the reduction of total revenues of extra-budgetary users as a share in GDP from 1.8% of GDP in 2009 to 1.6% of GDP in 2011.

The most significant revenue of extra-budgetary users are grants from other general government units projected at the level of 0.6% of GDP. The most important item paid from the position of grants is road charges included in the price of fuel and collected by Croatian

Roads (Hrvatske ceste). The next most important revenue of extra-budgetary users is revenue from water management with the share of 0.5% of GDP and the environmental protection fees with the share of 0.4% of GDP.

Table 6: Key items of revenue of extra-budgetary users

(% of GDP)	2007	2008 plan	2009 projection	2010 projection	2011 projection
Total revenue	3.8	2.1	1.8	1.7	1.5
grants from other general government units	2.0	0.7	0.6	0.6	0.6
other grants	0.0	0.0	0.0	0.0	0.0
revenues from water management	0.7	0.6	0.5	0.5	0.4
environmental protection fees	0.4	0.4	0.4	0.4	0.4
revenues from the sale of nonfinancial assets	0.0	0.0	0.0	0.0	0.0
other	0.7	0.3	0.2	0.2	0.2

Source: Ministry of Finance

4.3.3. Determinants of revenue of local and regional self-government units for the period 2009–2011

Projections of revenues of the local and regional self-government units were based on the same assumptions as the budgetary central government revenues, i.e. based on the previously described macroeconomic indicators. Projections of total revenues of the local and regional self-government units indicate a relatively stable share of GDP with a tendency of a slight decline from 5.8% in 2009 to 5.6% in 2011.

Approximately half of the total revenues of the local and regional self-government units are collected from income tax. The projections of the growth of revenues from income tax are in accordance with the growth of gross salaries and employment, corrected by the legal amendments to the Income Tax Act and the Act on the Financing of Units of Local and Regional Self-Government, as previously described. The share of income tax in GDP in 2009 amounts to 2.8% and is slowly declining to 2.6% in 2011.

Following in terms of significance are revenues from the sale of goods and services that will in this period stand at the level of 1.2% to 1.3% GDP. Revenues from grants will stand at the level of 0.7% to 0.8% of GDP, and revenues from property income at the level of approximately 0.4% of GDP, while the remaining revenues collected by the local units are less significant.

Table 7: Key items of revenue of local and regional self-government units

(% of GDP)	2007	2008 plan	2009 projection	2010 projection	2011 projection
Total revenue	5.9	5.7	5.8	5.7	5.6
taxes on income	3.0	2.9	2.8	2.7	2.6
taxes on property	0.2	0.2	0.2	0.2	0.2
grants from other general government units	0.8	0.8	0.8	0.8	0.7
property income	0.4	0.4	0.4	0.4	0.4
revenues from the sale goods and services	1.1	1.1	1.2	1.2	1.3
revenues from the sale of nonfinancial assets	0.3	0.2	0.3	0.3	0.2
other	0.2	0.2	0.2	0.2	0.2

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

Source: Ministry of Finance

4.4. Expenditure trends for the period 2009–2011

4.4.1. Determinants of budgetary central government expenditure for the period 2009–2011

As of 2004, a significant feature of fiscal policy in Croatia has been the implementation of fiscal consolidation. Fiscal consolidation has been secured by establishing control over the process of state revenue collection on the one hand, and establishing control mechanisms on the expenditure side and rationalising public spending on the other. This has contributed to more efficient directing of budgetary funds to development oriented areas and also to the reduction of the total general government deficit and presence of the state in the economy.

For the purpose of further successful implementation of fiscal consolidation, which supports the achievement of the fundamental economic policy goals, it is essential to fulfil the following measures and policies:

- fulfilling the prerequisites for full membership to the European Union;
- promoting an increase of competitiveness of the Croatian economy;
- ensuring a uniform development of all regions in Croatia;
- directing the funds to the development of a knowledge-based society where education is equally accessible to all;
- promoting the development of a more favourable business environment;
- promoting employment and job creation;
- ensuring social justice;
- continuation of the key structural reforms.

Total expenditure

The total expenditure of the budgetary central government for 2009 is projected in the amount of HRK 126.6 billion, comprised of HRK 122.6 billion in operating expense and HRK 4 billion expense for the acquisition of nonfinancial assets. In comparison to the planned budgetary central government expenditure for 2008, the total expenditure in 2009 is higher by HRK 5.4 billion, or 4.5%.

Table 8: Trends in the budgetary central government expenditure for the period 2007–2011

	Execution 2007		Plan 2008		2009 projection		2010 projection		2011 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
TOTAL EXPENSE (3+4)	111,262,794	40.4	121,214,438	39.6	126,626,380	37.8	133,463,229	36.2	141,530,935	34.4
3 Operating expense	108,218,889	39.3	117,326,523	38.3	122,654,890	36.6	129,842,543	35.2	138,256,237	33.6
31 Compensation of employees	19,941,486	7.2	21,635,459	7.1	23,812,737	7.1	25,920,643	7.0	27,807,153	6.8
32 Material expense	7,724,689	2.8	9,173,890	3.0	10,298,808	3.1	12,032,814	3.3	13,021,919	3.2
34 Financial expense	5,066,148	1.8	5,540,793	1.8	5,412,192	1.6	4,853,764	1.3	4,404,696	1.1
35 Subsidies	6,492,010	2.4	7,552,872	2.5	7,001,849	2.1	7,013,656	1.9	7,293,693	1.8
36 Grants	8,312,098	3.0	6,033,560	2.0	6,338,655	1.9	6,561,509	1.8	6,940,026	1.7
37 Compensations to citizens and households based on insurance and other compensations	55,122,125	20.0	59,717,980	19.5	62,183,324	18.6	65,638,922	17.8	69,580,612	16.9
38 Other expense	5,560,333	2.0	7,671,970	2.5	7,607,323	2.3	7,821,235	2.1	9,208,139	2.2
4 Expense for the acquisition of nonfinancial assets	3,043,906	1.1	3,887,915	1.3	3,971,491	1.2	3,620,686	1.0	3,274,697	0.8

Source: Ministry of Finance

In the forthcoming period, the envisaged annual growth of the budgetary central government expenditure amounts to 5.4% in 2010 and 6% in 2011. The same period foresees a constant reduction of the share of the budgetary central government expenditure in GDP, from 39.6% in 2008 to 34.4% in 2011.

Compensations to citizens and households based on insurance and other compensations

Compensations to citizens and households based on insurance and other compensations represent the largest item in the structure of the budgetary central government expenditure, accounting for approximately 49.1% of total expenditure in the period 2009–2011. These trends are set by assumptions of development of the most important components, such as pension expenses, healthcare expenses, child allowances, maternity benefits, unemployment benefits and war veteran benefits. The share of compensations to citizens and households based on insurance and other compensations, expressed as the share of GDP, will fluctuate from 18.6% in 2009 to 16.9% in 2011.

Pensions

Important determinants in the medium-term period development of pensions will be the fairness criterion and the fiscal sustainability of the pension system. In other words, development of pensions depends on applying pension adjustment in accordance with the expected gross salary and CPI growth, and also securing additional funds for the purpose of equalisation of the status of “old” and “new” pensioners.

In accordance with the above, projections of expenditures for pensions amount to HRK 34.8 billion in 2009, representing a year-on-year increase of 5.3% or HRK 1.7 billion. In the forthcoming period, pensions will grow at a rate of 5.9% in 2010 and 2.8% in 2011. The total expenditure on pensions also includes pensions of war veterans that will amount to HRK 4.9 billion in 2009, HRK 5.2 billion in 2010, and HRK 5.5 billion in 2011.

Healthcare

Healthcare expenditure is determined by the continued implementation of the reform of the healthcare system. As this reform is one of the top priorities, healthcare expenditure in the medium-term constitutes an important share of the compensations to citizens and households on the basis of insurance and other compensations. Projections of expenditure on healthcare in 2009 amount to HRK 22 billion or 6.6% of GDP. The increase of healthcare expenditure in 2010 will amount to HRK 1.1 billion or 5.0%, accounting for the total healthcare expenditure in the amount of HRK 23.1 billion, and in 2011 healthcare expenditure will increase by HRK 1.6 billion or 6.9%, amounting to HRK 24.7 billion. The structure of the total expenditure on health consists mainly of expenses for compensations to citizens and households on the basis of insurance under the Croatian Institute for Health Insurance that will amount to HRK 20 billion in 2009, or HRK 717.4 million more than in 2008. The remainder pertains to social welfare under the Ministry of Health and Social Welfare.

Other compensations to citizens and households based on insurance and other compensations

Among other compensations to citizens and households based on insurance and other compensations, the most significant position is taken by expenses for the demographic policy, in particular child allowance and maternity benefits. Thus, expenditure on child allowance in

2009 will be secured in the amount of HRK 1.9 billion, meaning an extra HRK 20 million. In 2010 and 2011, expenditure on child allowance will amount to HRK 2.1 billion and HRK 2.2 billion, respectively.

Meanwhile, maternity benefits will increase by HRK 318.5 million in 2009 and will amount to more than HRK 2 billion. Maternity benefits will grow by an additional HRK 121.5 million in 2010, and by HRK 160 million in 2011. This expenditure on maternity benefits pertains to the benefits for regular maternity leave and benefits for additional maternity leave and equipment for the newborn baby. In 2009, HRK 918.5 million will be earmarked for regular maternity leave benefits, while the remaining HRK 1.1 billion will be provided for additional maternity leave and equipment for the newborn baby.

Likewise, other significant social welfare expenses, which determine the overall trends of expenditure on compensations to citizens and households based on insurance and other compensations, include the expenditure on the permanent rights of Croatian war veterans, support grants, the rights of parents of children with severe disabilities and others.

Compensation of employees

In the period 2009–2011, compensation of employees will reach the level of approximately 7% of GDP. Compensation of employees, which includes salaries, other expenses for employees and contributions on salaries, will amount to HRK 23.8 billion in 2009, HRK 25.9 billion in 2010, and HRK 27.8 billion in 2011. If nominal growth of compensation of employees is observed during these years, it will amount to HRK 2.2 billion in 2009, HRK 2.1 billion in 2010, and HRK 1.9 billion in 2011. Until the end of this period, meaning until the end of 2011, expenditure on employees will reduce its share in GDP to the level of 6.8%. Projections have been prepared taking into account currently valid collective agreements and the impacts of legal proposals for salaries in the civil and public services.

Material expenditure

Material expenditure includes reimbursements of costs to employees, expenses for material and energy, expenses for services and other operating expenses not mentioned elsewhere. The projections of material expenses for the forthcoming period take into account the effects of aid from EU pre-accession programmes, the effects of strategic development of the Ministry of Defence, and effects of the growth of prices.

In accordance with these determinants, material expenditure in 2009 will amount to HRK 10.3 billion, representing a year-on-year growth of HRK 1.1 billion or 12.3%. In the following two years, material expenditure will amount to HRK 12 billion and HRK 13 billion respectively.

Financial expenditure

Financial expenditure consists of interest on issued securities, interest on received loans and other financial expenditure. Thus, projections of financial expenditure are based on future payment obligations falling due, which will amount to HRK 5.4 billion in 2009. In the forthcoming period, financial expenditure is predicted to decline, related directly to the reduction of expenditure on interest. Thus the share of financial expenditure in GDP will range from 1.6% in 2009 to 1.1% in 2011. These trends are the outcome of successful fiscal

consolidation which resulted in a significant reduction of the overall general government deficit and the need for government borrowing.

Subsidies

In the previous period, the policy of state aid in the Republic of Croatia was mainly oriented towards the process of Croatia's rapid integration into the European Union, and the approximation of state aid policy to comply with the objectives and guidelines arising from the *acquis communautaire*.

Common determinants of state aid policy primarily relate to the state's ongoing efforts to reduce the share of sector aid/subsidies, and the redirection to horizontal objectives, thereby maximising economic effects and minimising the negative effect on market competition.

With a defined policy of subsidies for the forthcoming period, the requirements of the Republic of Croatia are primarily directed towards activities and production that will lead to the development of a new comparative advantage in Croatia, which will promote overall development and growth of the economy.

In this process, state aid/subsidies as a form of incentives, whereby Croatia plans to develop sustainable competitiveness, will in the future put the main emphasis on attracting investments, different forms of innovation and increasing export, with the highest possible level of compliance with the principles of competition and implementation of an efficient allocation of resources.

The medium-term period shows a decreasing trend of expenditure on subsidies from 2.1% of GDP in 2009 to 1.8% of GDP in 2011. In the absolute amount, subsidies will reach HRK 7 billion in 2009, down by HRK 551 million from 2008. In 2010, subsidies will stand at the level of HRK 7 billion, while in 2011 they will reach HRK 7.3 billion.

These trends of expenditure on subsidies are determined by the trends in the most important categories of subsidies. Subsidies for agriculture in 2009, in the amount of HRK 3.6 billion, represent the largest item in the total subsidies. The largest portion of subsidies for agriculture and their growth in the medium-term period is related to the promotion of agricultural production in accordance with the preparations of the agricultural sector, aimed at increasing its competitiveness before entering the highly developed agricultural produce market of the European Union.

Subsidies for Croatian Railways (HŽ) are the second most important category of the total subsidies. In 2009, HRK 1.6 billion will be spent on subsidies for HŽ, which is HRK 141.6 million less than in the preceding year. The reduction of subsidies for HŽ is the result of the continued process to restructure its operations.

Shipbuilding will also be restructured in the forthcoming period and subsidies for this sector will stand at the level of HRK 420 million during the following three years. Subsidies for road, air and water transport in the medium-term period will range from HRK 574 million in 2009 to HRK 611.8 million in 2011.

Grants abroad and within general government

Expenditure on grants allocated abroad and within general government consists of grants to foreign governments, grants to international organisations and grants to other general government units, and they are to a largest extent determined by the trends in grants to other general government units. In 2009, total grants will amount to HRK 6.3 billion, of which

HRK 6.2 billion pertains to the grants to other general government units. In the following two years, the total grants will increase by HRK 222.9 million and HRK 378.5 million respectively, while their share in GDP will drop by 0.1 percentage point per annum. Such a nominal increase of total grants arises from approximately equal growth of grants to other general government units that will record a growth of HRK 219.9 million in 2010, and HRK 374.6 million in 2011. Grants to foreign governments will increase from HRK 107.4 million in 2009 to HRK 112.9 million in 2011, while grants to international organisations in the same period will increase from HRK 23.7 million to HRK 25 million.

Other expenditure

Other expenditure in the medium-term period will stand in accordance with the projections for other current and capital expenses. Namely, other expenditure includes both current and capital donations, fines, penalties and forfeits, extraordinary expenditure and capital grants, where current and capital donations account for the most significant share of the total other expenditure.

Other capital expenditure in 2009 will remain at approximately the same amount as in 2008, while in the following two years it will increase by HRK 213.9 million and HRK 1.4 billion respectively. In this sense, other expenditure in 2009 will reach the level of HRK 7.6 billion, HRK 7.8 billion in 2010, and HRK 9.2 billion in 2011. Regarding the share of other expenditure in terms of the share in GDP, it is evident that in the medium-term period they will stand at the average level of 2.2% of GDP.

Projections of the budgetary central government expenditure under the Economic and Fiscal Policy Guidelines for the period 2009–2011 do not take into account the estimates of liabilities of the Republic of Croatia regarding the budget of the European Union, as these are subject to accession negotiations.

Table 9: Distribution of total expenditure of the budgetary central government in 2008

<i>(000 HRK)</i>	2008 plan	2009 projection	Share in total expenditure	Difference 2009 - 2008
TOTAL EXPENSE (3+4)	121,214,438	126,626,380	100.0	5,411,942
Operating expense (3)	117,326,523	122,654,890	96.9	5,328,366
Compensation of employees	21,635,459	23,812,737	18.8	2,177,278
Material expense	9,173,890	10,298,808	8.1	1,124,918
Financial expense	5,540,793	5,412,192	4.3	-128,600
of which: interest	4,963,288	4,876,809	3.9	-86,480
Subsidies	7,552,872	7,001,849	5.5	-551,022
of which:	0	0		0
subsidies for agriculture	3,535,084	3,579,790	2.8	44,706
subsidies for Croatian Railways (HŽ)	1,701,172	1,559,572	1.2	-141,600
Grants	6,033,560	6,338,655	5.0	305,096
Compensations to citizens and households	59,717,980	62,183,324	49.1	2,465,344
of which:	0	0		0
pensions	33,040,000	34,765,000	27.5	1,725,000
healthcare	21,335,704	21,997,066	17.4	661,361
of which: HZZO (Croatian Institute for Pension Insurance)	19,241,529	19,958,894	15.8	717,365
maternity benefits	1,730,000	2,048,500	1.6	318,500
unemployment	795,000	860,000	0.7	65,000
child allowance	1,900,000	1,920,000	1.5	20,000
Other expense	7,671,970	7,607,323	6.0	-64,647
Expense for the acquisition of nonfinancial assets (4)	3,887,915	3,971,491	3.1	83,576

Note: Includes all sources of funding from the group of accounts 3 and 4 of economic classification

Source: Ministry of Finance

Expenditure for the acquisition of nonfinancial assets

In the medium-term period, expenditure for the acquisition of nonfinancial assets will gradually decline from HRK 4 billion in 2009 to HRK 3.6 billion in 2010 and HRK 3.3 billion in 2011. With regard to expenditure for the acquisition of nonfinancial assets in terms of the share in GDP, it will record a decline of 0.2 percentage points per annum.

4.4.2. Expenditure of the budgetary central government by divisions

Table 10 gives an estimate of the ceiling of the financial plan for the period 2009–2011, broken down by budgetary central government divisions. This estimate includes expenditure that are, in accordance with the economic classification, categorised into the following classes:

- 3 - operating expenditure;
- 4 - expenditure on the acquisition of nonfinancial assets;
- groups of the account 51 – expenditure on loans granted;
- groups of the account 53 – expenditure on shares and other equity.

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

Sources of financing in the category “general revenue and receipts” comprise the following elements: revenues from taxes (largest share), revenues from financial assets, revenues from administrative fees, state administration revenues, revenues from fines, income from financial assets and borrowings and other.

For revenues classified as the source of financing “general revenue and receipts”, their intended use is determined within the budget itself.

Expenditure planned in the budget of a budget beneficiary from the source of financing “general revenue and receipts” is settled up to the amount of the planned expenses, irrespective of the revenues collected.

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

For the purpose of developing fiscally and socially sustainable budgets in the coming three-year period that will reflect further fiscal adjustment on the expenditure side, the Ministry of Finance proposes that the ministries, central government offices and agencies should follow the proposal of the Ministry of Finance pertaining to established limits by budgetary central government divisions for all sources of finance that affect the level of general government deficit.

Table 10: Total expenditure limits by divisions of the budgetary central government for these sources of financing: general revenue and receipts, contributions and special purpose income from borrowing for the period 2009–2011

	(000 HRK)	2008 plan	2009 projection	09/08 index	2010 projection	10/09 index	2011 projection	11/10 index
TOTAL		116,699,622	122,165,928	104.7	128,740,702	105.4	136,340,043	105.9
10	CROATIAN PARLIAMENT	184,546	291,037	157.7	253,126	87.0	438,767	173.3
15	PRESIDENT OF THE REPUBLIC OF CROATIA	55,056	57,587	104.6	59,087	102.6	64,194	108.6
17	CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	39,451	44,531	112.9	46,557	104.6	48,059	103.2
18	AGENCY FOR THE PROTECTION OF MARKET COMPETITION	12,386	12,510	101.0	13,289	106.2	14,089	106.0
20	GOVERNMENT OF THE REPUBLIC OF CROATIA	203,134	214,743	105.7	224,149	104.4	236,900	105.7
21	CENTRAL STATE OFFICE FOR ADMINISTRATION	492,531	532,579	108.1	564,721	106.0	598,455	106.0
22	CENTRAL STATE OFFICE FOR E-CROATIA	45,630	54,584	119.6	55,211	101.1	58,572	106.1
23	CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND COORDINATION OF EU FUNDS	13,199	16,590	125.7	18,513	111.6	19,919	107.6
24	CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT	60,719	40,626	66.9	47,532	117.0	53,252	112.0
25	MINISTRY OF FINANCE	12,204,185	12,139,340	99.5	11,805,853	97.3	11,803,019	100.0
27	RC – SECURITY AND INTELLIGENCE AGENCY	321,249	345,647	107.6	370,103	107.1	392,739	106.1
30	MINISTRY OF DEFENCE	5,372,784	6,204,763	115.5	7,388,528	119.1	8,061,662	109.1
40	MINISTRY OF THE INTERIOR	4,144,410	4,597,139	110.9	5,012,639	109.0	5,362,375	107.0
46	MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND INTERGENERATIONAL SOLIDARITY	4,124,089	4,387,828	106.4	4,700,232	107.1	4,892,987	104.1
48	MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	722,888	774,215	107.1	827,253	106.9	877,251	106.0
50	MINISTRY OF THE ECONOMY, LABOUR AND ENTREPRENEURSHIP	36,375,718	37,962,801	104.4	40,139,770	105.7	42,423,444	105.7
55	MINISTRY OF CULTURE	1,005,502	1,044,529	103.9	1,101,064	105.4	1,145,427	104.0
60	MINISTRY OF AGRICULTURE, FISHERIES AND RURAL DEVELOPMENT	4,329,727	4,438,521	102.5	4,497,814	101.3	4,571,744	101.6
62	MINISTRY OF REGIONAL DEVELOPMENT, FORESTRY AND WATER MANAGEMENT	2,007,618	2,079,975	103.6	2,037,133	97.9	2,102,689	103.2
65	MINISTRY OF THE SEA, TRANSPORT AND INFRASTRUCTURE	4,966,840	4,548,844	91.6	4,560,006	100.2	5,699,813	125.0
75	MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING AND CONSTRUCTION	796,735	693,813	87.1	596,508	86.0	561,311	94.1
80	MINISTRY OF SCIENCE, EDUCATION AND SPORTS	11,788,298	13,014,688	110.4	14,255,432	109.5	14,895,015	104.5
90	MINISTRY OF TOURISM	259,265	272,426	105.1	272,449	100.0	288,348	105.8
100	MINISTRY OF HEALTH AND SOCIAL WELFARE	23,019,325	23,882,509	103.7	24,981,514	104.6	26,489,808	106.0
106	CROATIAN ACADEMY OF SCIENCE AND ARTS	65,101	72,698	111.7	79,879	109.9	84,643	106.0
110	MINISTRY OF JUSTICE	2,587,849	2,822,315	109.1	3,105,461	110.0	3,318,909	106.9
115	DEVELOPMENT AND EMPLOYMENT FUND	261,469	257,542	98.5	272,902	106.0	295,917	108.4
116	REGIONAL DEVELOPMENT FUND	170,011	180,777	106.3	185,943	102.9	190,752	102.6
120	OMBUDSMAN'S OFFICE	6,976	7,181	102.9	7,608	105.9	8,121	106.8
121	OMBUDSMAN FOR CHILDREN	5,573	6,170	110.7	6,130	99.4	6,532	106.6
122	OMBUDSMAN FOR GENDER EQUALITY	2,854	3,102	108.7	3,290	106.1	3,501	106.4
123	OMBUDSMAN FOR PERSONS WITH DISABILITIES	2,233	1,694	75.9	1,710	101.0	1,813	106.0
140	METEOROLOGICAL AND HYDROLOGICAL SERVICE	93,967	102,675	109.3	107,928	105.1	114,552	106.1
150	STATE OFFICE FOR METROLOGY	27,295	29,103	106.6	30,661	105.4	32,933	107.4
151	CROATIAN STANDARDS INSTITUTE	11,678	12,768	109.3	13,664	107.0	14,406	105.4
152	CROATIAN ACCREDITATION AGENCY	6,751	7,337	108.7	7,876	107.4	8,296	105.3
156	STATE INTELLECTUAL PROPERTY OFFICE	19,571	21,808	111.4	23,231	106.5	24,545	105.7
160	CENTRAL BUREAU OF STATISTICS	81,277	88,827	109.3	96,481	108.6	103,222	107.0
175	CROATIAN HYDROGRAPHIC INSTITUTE	16,822	16,162	96.1	15,916	98.5	16,854	105.9
180	STATE GEODETIC DIRECTORATE	245,604	276,861	112.7	284,198	102.7	301,578	106.1
185	STATE AUDIT OFFICE	54,723	61,160	111.8	64,890	106.1	69,291	106.8
196	STATE COMMISSION FOR THE SUPERVISION OF PUBLIC PROCUREMENT PROCEDURES	6,012	6,884	114.5	7,303	106.1	7,780	106.5
220	CROATIAN MINE ACTION CENTRE	265,136	286,638	108.1	334,263	116.6	356,673	106.7
225	STATE INSPECTOR'S OFFICE	150,333	169,847	113.0	180,081	106.0	192,060	106.7
230	COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	690	763	110.6	809	105.9	858	106.1
235	CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	6,163	6,542	106.1	6,677	102.1	7,387	110.6
240	OFFICE OF THE NATIONAL SECURITY COUNCIL	15,335	16,879	110.1	17,874	105.9	19,057	106.6
241	OPERATIONAL AND TECHNICAL CENTRE FOR THE SUPERVISION OF TELECOMMUNICATIONS	20,000	22,067	110.3	23,033	104.4	24,078	104.5
242	INSTITUTE FOR INFORMATION SYSTEMS SECURITY	10,000	10,970	109.7	11,487	104.7	12,105	105.4
250	PERSONAL DATA PROTECTION AGENCY	7,170	7,992	111.5	8,643	108.1	9,183	106.2
255	CROATIAN INSTITUTE FOR RADIATION PROTECTION	4,448	7,504	168.7	4,849	64.6	5,112	105.4
260	STATE INSTITUTE FOR NUCLEAR SAFETY	9,297	9,835	105.8	9,430	95.9	10,048	106.5

Source: Ministry of Finance

Table 11: Limits on expenditure on employees by divisions of the budgetary central government for these sources of financing: general revenue and receipts, contributions and special purpose income from borrowing for the period 2009–2011

	(000 HRK)	2008 plan	2009 projection	09/08 index	2010 projection	10/09 index	2011 projection	11/10 index
TOTAL		21,592,080	23,764,557	110.1	25,860,812	108.8	27,745,658	107.3
10	CROATIAN PARLIAMENT	126,691	133,680	105.5	141,705	106.0	151,555	107.0
15	PRESIDENT OF THE REPUBLIC OF CROATIA	30,234	32,085	106.1	33,995	106.0	36,363	107.0
17	CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	23,849	24,940	104.6	26,422	105.9	28,264	107.0
18	AGENCY FOR THE PROTECTION OF MARKET COMPETITION	8,884	9,254	104.2	9,805	106.0	10,485	106.9
20	GOVERNMENT OF THE REPUBLIC OF CROATIA	66,663	71,197	106.8	75,494	106.0	80,762	107.0
21	CENTRAL STATE OFFICE FOR ADMINISTRATION	365,658	396,366	108.4	419,887	105.9	448,737	106.9
22	CENTRAL STATE OFFICE FOR E-CROATIA	3,787	4,008	105.8	4,248	106.0	4,545	107.0
23	CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND COORDINATION OF EU FUNDS	6,633	6,739	101.6	7,138	105.9	7,635	107.0
24	CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT	8,323	8,575	103.0	9,078	105.9	9,702	106.9
25	MINISTRY OF FINANCE	994,917	1,103,218	110.9	1,200,144	108.8	1,280,904	106.7
27	RC – SECURITY AND INTELLIGENCE AGENCY	219,390	244,839	111.6	265,398	108.4	283,706	106.9
30	MINISTRY OF DEFENCE	2,904,301	3,161,100	108.8	3,366,566	106.5	3,605,926	107.1
40	MINISTRY OF THE INTERIOR	3,035,919	3,414,107	112.5	3,713,091	108.8	3,967,455	106.9
46	MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND INTERGENERATIONAL SOLIDARITY	43,051	45,620	106.0	48,328	105.9	51,661	106.9
48	MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	394,650	434,050	110.0	463,570	106.8	495,839	107.0
50	MINISTRY OF THE ECONOMY, LABOUR AND ENTREPRENEURSHIP	612,957	653,715	106.6	685,066	104.8	732,361	106.9
55	MINISTRY OF CULTURE	267,799	294,572	110.0	332,555	112.9	354,697	106.7
60	MINISTRY OF AGRICULTURE, FISHERIES AND RURAL DEVELOPMENT	146,547	161,160	110.0	172,268	106.9	184,227	106.9
62	MINISTRY OF REGIONAL DEVELOPMENT, FORESTRY AND WATER MANAGEMENT	56,776	64,450	113.5	68,191	105.8	72,917	106.9
65	MINISTRY OF THE SEA, TRANSPORT AND INFRASTRUCTURE	100,137	109,158	109.0	116,666	106.9	124,689	106.9
75	MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING AND CONSTRUCTION	106,282	117,048	110.1	126,168	107.8	134,903	106.9
80	MINISTRY OF SCIENCE, EDUCATION AND SPORTS	8,785,155	9,668,494	110.1	10,626,941	109.9	11,454,696	107.8
90	MINISTRY OF TOURISM	11,056	11,660	105.5	12,355	106.0	13,215	107.0
100	MINISTRY OF HEALTH AND SOCIAL WELFARE	980,985	1,061,070	108.2	1,164,100	109.7	1,242,487	106.7
106	CROATIAN ACADEMY OF SCIENCE AND ARTS	46,005	51,450	111.8	56,523	109.9	60,912	107.8
110	MINISTRY OF JUSTICE	1,759,188	1,940,329	110.3	2,140,786	110.3	2,293,361	107.1
115	DEVELOPMENT AND EMPLOYMENT FUND	2,722	2,864	105.2	3,035	106.0	3,244	106.9
116	REGIONAL DEVELOPMENT FUND	2,040	2,160	105.9	2,288	105.9	2,446	106.9
120	OMBUDSMAN'S OFFICE	5,964	6,070	101.8	6,432	106.0	6,879	107.0
121	OMBUDSMAN FOR CHILDREN	3,617	3,822	105.7	4,049	105.9	4,330	106.9
122	OMBUDSMAN FOR GENDER EQUALITY	1,815	1,963	108.2	2,078	105.9	2,222	106.9
123	OMBUDSMAN FOR PEOPLE WITH DISABILITIES	610	685	112.3	725	105.9	774	106.8
140	METEOROLOGICAL AND HYDROLOGICAL SERVICE	43,700	47,584	108.9	50,039	105.2	53,620	107.2
150	STATE OFFICE FOR METROLOGY	13,358	14,430	108.0	15,311	106.1	16,285	106.4
151	CROATIAN STANDARDS INSTITUTE	7,454	7,780	104.4	8,241	105.9	8,803	106.8
152	CROATIAN ACCREDITATION AGENCY	3,218	3,466	107.7	3,663	105.7	3,849	105.1
156	STATE INTELLECTUAL PROPERTY OFFICE	13,145	14,420	109.7	15,188	105.3	16,159	106.4
160	CENTRAL BUREAU OF STATISTICS	45,825	50,810	110.9	54,000	106.3	57,500	106.5
175	CROATIAN HYDROGRAPHIC INSTITUTE	8,975	9,645	107.5	10,375	107.6	10,925	105.3
180	STATE GEODETIC DIRECTORATE	105,676	120,780	114.3	127,837	105.8	136,616	106.9
185	STATE AUDIT OFFICE	44,800	50,302	112.3	53,300	106.0	56,951	106.9
196	STATE COMMISSION FOR THE SUPERVISION OF PUBLIC PROCUREMENT PROCEDURES	4,352	4,822	110.8	5,109	106.0	5,464	106.9
220	CROATIAN MINE ACTION CENTRE	30,170	32,900	109.0	35,920	109.2	38,420	107.0
225	STATE INSPECTOR'S OFFICE	113,469	127,600	112.5	135,122	105.9	144,381	106.9
230	COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	423	472	111.6	500	105.9	534	106.8
235	CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	4,575	4,774	104.3	4,753	99.6	5,381	113.2
240	OFFICE OF THE NATIONAL SECURITY COUNCIL	11,482	12,970	113.0	13,742	106.0	14,694	106.9
241	OPERATIONAL AND TECHNICAL CENTRE FOR THE SUPERVISION OF TELECOMMUNICATIONS	5,900	6,640	112.5	7,035	106.0	7,522	106.9
242	INSTITUTE FOR INFORMATION SYSTEMS SECURITY	4,352	4,902	112.6	5,190	105.9	5,546	106.9
250	PERSONAL DATA PROTECTION AGENCY	4,133	4,585	111.0	4,854	105.9	5,189	106.9
255	CROATIAN INSTITUTE FOR RADIATION PROTECTION	1,904	2,257	118.5	2,391	105.9	2,557	107.0
260	STATE INSTITUTE FOR NUCLEAR SAFETY	2,567	2,969	115.7	3,145	105.9	3,362	106.9

Source: Ministry of Finance

Table 12: Limits of material expenditure by divisions of the budgetary central government for these sources of financing: general revenue and receipts, contributions and special purpose income from borrowing for the period 2009–2011

	(000 HRK)	2008 plan	2009 projection	09/08 index	2010 projection	10/09 index	2011 projection	11/10 index
TOTAL		8,487,934	9,574,768	112.8	11,329,868	118.3	12,258,962	108.2
10	CROATIAN PARLIAMENT	48,664	69,405	142.6	55,100	79.4	130,890	237.5
15	PRESIDENT OF THE REPUBLIC OF CROATIA	21,629	22,170	102.5	21,750	98.1	24,450	112.4
17	CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	9,409	11,200	119.0	11,500	102.7	11,800	102.6
18	AGENCY FOR THE PROTECTION OF MARKET COMPETITION	2,745	3,074	112.0	3,300	107.4	3,420	103.6
20	GOVERNMENT OF THE REPUBLIC OF CROATIA	74,156	78,650	106.1	80,280	102.1	82,360	102.6
21	CENTRAL STATE OFFICE FOR ADMINISTRATION	122,404	131,600	107.5	140,350	106.6	145,200	103.5
22	CENTRAL STATE OFFICE FOR E-CROATIA	30,715	37,800	123.1	39,122	103.5	42,157	107.8
23	CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND COORDINATION OF EU FUNDS	5,909	9,331	157.9	10,820	116.0	11,713	108.3
	CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT	19,300	25,385	131.5	33,692	132.7	38,748	115.0
24	MINISTRY OF FINANCE	1,039,989	1,111,460	106.9	1,222,519	110.0	1,301,000	106.4
27	RC – SECURITY AND INTELLIGENCE AGENCY	72,440	78,091	107.8	84,012	107.6	88,190	105.0
30	MINISTRY OF DEFENCE	2,229,697	2,790,500	125.2	3,946,400	141.4	4,377,900	110.9
40	MINISTRY OF THE INTERIOR	768,513	859,900	111.9	944,800	109.9	1,029,800	109.0
46	MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND INTERGENERATIONAL SOLIDARITY	74,847	79,074	105.6	82,740	104.6	87,860	106.2
48	MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	286,563	302,200	105.5	324,333	107.3	341,430	105.3
50	MINISTRY OF THE ECONOMY, LABOUR AND ENTREPRENEURSHIP	400,734	425,900	106.3	472,955	111.0	495,674	104.8
55	MINISTRY OF CULTURE	104,984	113,600	108.2	125,610	110.6	133,180	106.0
60	MINISTRY OF AGRICULTURE, FISHERIES AND RURAL DEVELOPMENT	310,409	332,690	107.2	365,900	110.0	385,240	105.3
62	MINISTRY OF REGIONAL DEVELOPMENT, FORESTRY AND WATER MANAGEMENT	90,611	100,380	110.8	108,250	107.8	113,800	105.1
65	MINISTRY OF THE SEA, TRANSPORT AND INFRASTRUCTURE	139,238	148,740	106.8	158,441	106.5	166,300	105.0
75	MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING AND CONSTRUCTION	121,845	130,630	107.2	139,050	106.4	144,750	104.1
80	MINISTRY OF SCIENCE, EDUCATION AND SPORTS	863,634	933,800	108.1	1,018,600	109.1	1,050,450	103.1
90	MINISTRY OF TOURISM	13,099	15,100	115.3	17,236	114.1	17,000	98.6
100	MINISTRY OF HEALTH AND SOCIAL WELFARE	441,251	468,438	106.2	497,000	106.1	520,400	104.7
106	CROATIAN ACADEMY OF SCIENCE AND ARTS	8,788	9,600	109.2	10,185	106.1	10,560	103.7
110	MINISTRY OF JUSTICE	654,888	703,500	107.4	765,800	108.9	813,400	106.2
115	DEVELOPMENT AND EMPLOYMENT FUND	3,216	3,390	105.4	3,536	104.3	3,671	103.8
116	REGIONAL DEVELOPMENT FUND	2,076	2,408	116.0	2,575	106.9	2,732	106.1
120	OMBUDSMAN'S OFFICE	877	952	108.5	1,016	106.8	1,082	106.5
121	OMBUDSMAN FOR CHILDREN	1,551	1,997	128.8	2,002	100.3	2,121	106.0
122	OMBUDSMAN FOR GENDER EQUALITY	945	1,039	109.9	1,112	107.0	1,179	106.0
123	OMBUDSMAN FOR PEOPLE WITH DISABILITIES	570	696	122.1	757	108.8	811	107.1
140	METEOROLOGICAL AND HYDROLOGICAL SERVICE	46,238	50,713	109.7	53,968	106.4	56,880	105.4
150	STATE OFFICE FOR METROLOGY	10,419	11,284	108.3	12,026	106.6	12,731	105.9
151	CROATIAN STANDARDS INSTITUTE	3,087	3,800	123.1	4,100	107.9	4,400	107.3
152	CROATIAN ACCREDITATION AGENCY	2,847	3,171	111.4	3,488	110.0	3,716	106.5
156	STATE INTELLECTUAL PROPERTY OFFICE	5,765	6,361	110.3	6,926	108.9	7,269	105.0
160	CENTRAL BUREAU OF STATISTICS	31,567	32,515	103.0	36,557	112.4	39,388	107.7
175	CROATIAN HYDROGRAPHIC INSTITUTE	7,502	6,000	80.0	5,000	83.3	5,387	107.7
180	STATE GEODETIC DIRECTORATE	116,408	131,850	113.3	138,700	105.2	146,400	105.6
185	STATE AUDIT OFFICE	8,643	9,660	111.8	10,360	107.2	11,090	107.0
196	STATE COMMISSION FOR THE SUPERVISION OF PUBLIC PROCUREMENT PROCEDURES	1,487	1,881	126.5	2,002	106.4	2,120	105.9
220	CROATIAN MINE ACTION CENTRE	230,423	249,225	108.2	295,830	118.7	315,640	106.7
225	STATE INSPECTOR'S OFFICE	33,606	38,786	115.4	41,480	106.9	44,180	106.5
230	COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	247	270	109.4	288	106.6	303	105.3
	CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	1,279	1,440	112.6	1,571	109.1	1,668	106.2
240	OFFICE OF THE NATIONAL SECURITY COUNCIL	2,838	3,155	111.1	3,377	107.1	3,607	106.8
241	OPERATIONAL AND TECHNICAL CENTRE FOR THE SUPERVISION OF TELECOMMUNICATIONS	7,437	8,589	115.5	9,160	106.6	9,718	106.1
242	INSTITUTE FOR INFORMATION SYSTEMS SECURITY	3,032	3,452	113.9	3,681	106.6	3,943	107.1
250	PERSONAL DATA PROTECTION AGENCY	2,725	3,031	111.2	3,250	107.2	3,448	106.1
255	CROATIAN INSTITUTE FOR RADIATION PROTECTION	2,151	2,245	104.4	2,364	105.3	2,460	104.1
260	STATE INSTITUTE FOR NUCLEAR SAFETY	4,537	4,640	102.3	4,997	107.7	5,347	107.0

Source: Ministry of Finance

Table 13: Limits of financial expenditure by divisions of the budgetary central government for the following sources of financing: general revenue and receipts, contributions and special purpose income from borrowing for the period 2009–2011

	(000 HRK)	2008 plan	2009 projection	09/08 index	2010 projection	10/09 index	2011 projection	11/10 index
TOTAL		5,532,812	5,403,569	97.7	4,843,749	89.6	4,394,554	90.7
10	CROATIAN PARLIAMENT	259	262	101.2	262	100.0	262	100.0
15	PRESIDENT OF THE REPUBLIC OF CROATIA	991	951	96.0	951	100.0	951	100.0
17	CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	5	5	100.0	5	100.0	5	100.0
18	AGENCY FOR THE PROTECTION OF MARKET COMPETITION	8	8	104.0	8	102.0	9	100.2
20	GOVERNMENT OF THE REPUBLIC OF CROATIA	322	243	75.2	243	100.0	243	100.0
21	CENTRAL STATE OFFICE FOR ADMINISTRATION	569	398	69.9	398	100.0	400	100.4
22	CENTRAL STATE OFFICE FOR E-CROATIA	27	35	129.6	35	100.0	35	100.0
23	CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND COORDINATION OF EU FUNDS	4	4	100.0	4	100.0	4	100.0
	CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT	23	23	100.0	23	100.0	23	100.0
24	MINISTRY OF FINANCE	5,068,487	4,912,493	96.9	4,359,486	88.7	3,907,167	89.6
27	RC – SECURITY AND INTELLIGENCE AGENCY	275	270	98.2	270	100.0	270	100.0
30	MINISTRY OF DEFENCE	56,799	55,295	97.4	55,760	100.8	55,765	100.0
40	MINISTRY OF THE INTERIOR	7,978	27,001	338.5	26,975	99.9	26,900	99.7
46	MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND INTERGENERATIONAL SOLIDARITY	1,361	1,363	100.1	1,363	100.0	1,363	100.0
48	MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	1,860	1,908	102.6	1,909	100.1	1,910	100.1
50	MINISTRY OF THE ECONOMY, LABOUR AND ENTREPRENEURSHIP	164,857	176,804	107.2	166,765	94.3	166,945	100.1
55	MINISTRY OF CULTURE	4,468	401	9.0	401	100.2	401	100.1
60	MINISTRY OF AGRICULTURE, FISHERIES AND RURAL DEVELOPMENT	4,527	4,900	108.2	4,800	98.0	4,900	102.1
62	MINISTRY OF REGIONAL DEVELOPMENT, FORESTRY AND WATER MANAGEMENT	4,865	2,280	46.9	2,300	100.9	2,320	100.9
65	MINISTRY OF THE SEA, TRANSPORT AND INFRASTRUCTURE	770	1,472	191.2	1,473	100.1	1,474	100.1
75	MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING AND CONSTRUCTION	672	589	87.7	589	100.0	590	100.1
80	MINISTRY OF SCIENCE, EDUCATION AND SPORTS	112,662	117,000	103.9	118,400	101.2	119,100	100.6
90	MINISTRY OF TOURISM	35	50	142.9	50	100.0	50	100.0
100	MINISTRY OF HEALTH AND SOCIAL WELFARE	82,516	79,650	96.5	79,855	100.3	81,033	101.5
106	CROATIAN ACADEMY OF SCIENCE AND ARTS	27	27	100.0	27	100.0	27	100.0
110	MINISTRY OF JUSTICE	11,528	12,676	110.0	13,842	109.2	14,700	106.2
115	DEVELOPMENT AND EMPLOYMENT FUND	5,536	5,936	107.2	5,986	100.8	6,076	101.5
116	REGIONAL DEVELOPMENT FUND	662	662	100.0	662	99.9	700	105.8
120	OMBUDSMAN'S OFFICE	3	3	100.0	3	100.0	3	100.0
121	OMBUDSMAN FOR CHILDREN	4	5	125.0	5	100.0	5	100.0
122	OMBUDSMAN FOR GENDER EQUALITY	1	1	100.0	1	100.0	1	100.0
123	OMBUDSMAN FOR PEOPLE WITH DISABILITIES	3	3	100.0	3	100.0	3	100.0
140	METEOROLOGICAL AND HYDROLOGICAL SERVICE	250	316	126.5	316	100.1	319	100.9
150	STATE OFFICE FOR METROLOGY	19	63	331.6	65	103.2	67	103.1
151	CROATIAN STANDARDS INSTITUTE	21	38	181.0	48	126.3	53	110.4
152	CROATIAN ACCREDITATION AGENCY	19	22	116.9	44	200.5	46	104.6
156	STATE INTELLECTUAL PROPERTY OFFICE	7	7	100.0	7	100.0	7	100.0
160	CENTRAL BUREAU OF STATISTICS	100	82	82.0	90	109.8	100	111.1
175	CROATIAN HYDROGRAPHIC INSTITUTE	0	67	x	69	102.5	70	101.7
180	STATE GEODETIC DIRECTORATE	86	35	40.7	35	100.0	35	100.0
185	STATE AUDIT OFFICE	0	0	x	0	x	0	x
196	STATE COMMISSION FOR THE SUPERVISION OF PUBLIC PROCUREMENT PROCEDURES	1	1	104.0	1	105.8	1	90.9
220	CROATIAN MINE ACTION CENTRE	65	65	100.0	65	100.0	65	100.0
225	STATE INSPECTOR'S OFFICE	83	83	100.0	83	100.0	83	100.0
230	COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	1	1	100.0	1	100.0	1	100.0
235	CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	3	3	109.6	3	100.0	3	100.0
240	OFFICE OF THE NATIONAL SECURITY COUNCIL	20	35	172.5	35	100.0	37	105.8
241	OPERATIONAL AND TECHNICAL CENTRE FOR THE SUPERVISION OF TELECOMMUNICATIONS	11	11	100.0	11	100.0	11	100.0
242	INSTITUTE FOR INFORMATION SYSTEMS SECURITY	8	8	100.0	8	100.0	8	100.0
250	PERSONAL DATA PROTECTION AGENCY	4	4	104.2	4	104.1	5	106.0
255	CROATIAN INSTITUTE FOR RADIATION PROTECTION	2	2	100.0	2	100.0	2	100.0
260	STATE INSTITUTE FOR NUCLEAR SAFETY	10	10	100.0	10	100.0	10	100.0

Source: Ministry of Finance

Table 14: Limits of expenditure on subsidies by divisions of the budgetary central government for the sources of financing: general revenue and receipts, contributions and special purpose income from borrowing for the period 2009–2011

	(000 HRK)	2008 plan	2009 projection	09/08 index	2010 projection	10/09 index	2011 projection	11/10 index
TOTAL		7,435,835	6,889,354	92.7	6,885,308	99.9	7,144,193	103.8
10	CROATIAN PARLIAMENT	0	0	x	0	x	0	x
15	PRESIDENT OF THE REPUBLIC OF CROATIA	0	0	x	0	x	0	x
17	CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	0	0	x	0	x	0	x
18	AGENCY FOR THE PROTECTION OF MARKET COMPETITION	0	0	x	0	x	0	x
20	GOVERNMENT OF THE REPUBLIC OF CROATIA	0	0	x	0	x	0	x
21	CENTRAL STATE OFFICE FOR ADMINISTRATION	0	0	x	0	x	0	x
22	CENTRAL STATE OFFICE FOR E-CROATIA	0	0	x	0	x	0	x
23	CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND COORDINATION OF EU FUNDS	0	0	x	0	x	0	x
24	CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT	0	0	x	0	x	0	x
25	MINISTRY OF FINANCE	591,775	340,000	57.5	360,000	105.9	380,000	105.6
27	RC – SECURITY AND INTELLIGENCE AGENCY	2,000	1,300	65.0	1,300	100.0	1,300	100.0
30	MINISTRY OF DEFENCE	0	0	x	0	x	0	x
40	MINISTRY OF THE INTERIOR	0	0	x	0	x	0	x
46	MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND INTERGENERATIONAL SOLIDARITY	8,000	8,320	104.0	8,819	106.0	9,200	104.3
48	MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	0	0	x	0	x	0	x
50	MINISTRY OF THE ECONOMY, LABOUR AND ENTREPRENEURSHIP	818,238	690,000	84.3	694,000	100.6	744,060	107.2
55	MINISTRY OF CULTURE	13,200	12,355	93.6	12,096	97.9	12,096	100.0
60	MINISTRY OF AGRICULTURE, FISHERIES AND RURAL DEVELOPMENT	3,421,881	3,470,790	101.4	3,488,825	100.5	3,531,325	101.2
62	MINISTRY OF REGIONAL DEVELOPMENT, FORESTRY AND WATER MANAGEMENT	120	650	541.7	650	100.0	1,150	176.9
65	MINISTRY OF THE SEA, TRANSPORT AND INFRASTRUCTURE	2,470,623	2,232,762	90.4	2,189,162	98.0	2,326,962	106.3
75	MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING AND CONSTRUCTION	0	0	x	0	x	0	x
80	MINISTRY OF SCIENCE, EDUCATION AND SPORTS	38,079	37,228	97.8	39,462	106.0	42,300	107.2
90	MINISTRY OF TOURISM	71,200	84,200	118.3	90,200	107.1	95,000	105.3
100	MINISTRY OF HEALTH AND SOCIAL WELFARE	0	11,000	x	0	0.0	0	x
106	CROATIAN ACADEMY OF SCIENCE AND ARTS	0	0	x	0	x	0	x
110	MINISTRY OF JUSTICE	0	0	x	0	x	0	x
115	DEVELOPMENT AND EMPLOYMENT FUND	720	749	104.0	794	106.0	800	100.8
116	REGIONAL DEVELOPMENT FUND	0	0	x	0	x	0	x
120	OMBUDSMAN'S OFFICE	0	0	x	0	x	0	x
121	OMBUDSMAN FOR CHILDREN	0	0	x	0	x	0	x
122	OMBUDSMAN FOR GENDER EQUALITY	0	0	x	0	x	0	x
123	OMBUDSMAN FOR PEOPLE WITH DISABILITIES	0	0	x	0	x	0	x
140	METEOROLOGICAL AND HYDROLOGICAL SERVICE	0	0	x	0	x	0	x
150	STATE OFFICE FOR METROLOGY	0	0	x	0	x	0	x
151	CROATIAN STANDARDS INSTITUTE	0	0	x	0	x	0	x
152	CROATIAN ACCREDITATION AGENCY	0	0	x	0	x	0	x
156	STATE INTELLECTUAL PROPERTY OFFICE	0	0	x	0	x	0	x
160	CENTRAL BUREAU OF STATISTICS	0	0	x	0	x	0	x
175	CROATIAN HYDROGRAPHIC INSTITUTE	0	0	x	0	x	0	x
180	STATE GEODETIC DIRECTORATE	0	0	x	0	x	0	x
185	STATE AUDIT OFFICE	0	0	x	0	x	0	x
196	STATE COMMISSION FOR THE SUPERVISION OF PUBLIC PROCUREMENT PROCEDURES	0	0	x	0	x	0	x
220	CROATIAN MINE ACTION CENTRE	0	0	x	0	x	0	x
225	STATE INSPECTOR'S OFFICE	0	0	x	0	x	0	x
230	COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	0	0	x	0	x	0	x
235	CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	0	0	x	0	x	0	x
240	OFFICE OF THE NATIONAL SECURITY COUNCIL	0	0	x	0	x	0	x
241	OPERATIONAL AND TECHNICAL CENTRE FOR THE SUPERVISION OF TELECOMMUNICATIONS	0	0	x	0	x	0	x
242	INSTITUTE FOR INFORMATION SYSTEMS SECURITY	0	0	x	0	x	0	x
250	PERSONAL DATA PROTECTION AGENCY	0	0	x	0	x	0	x
255	CROATIAN INSTITUTE FOR RADIATION PROTECTION	0	0	x	0	x	0	x
260	STATE INSTITUTE FOR NUCLEAR SAFETY	0	0	x	0	x	0	x

Source: Ministry of Finance

Table 15: Limits of expenditure on compensations to citizens and households by divisions of the budgetary central government for the following sources of financing: general revenue and receipts, contributions and special purpose income from borrowing for the period 2009–2011

	(000 HRK)	2008 plan	2009 projection	09/08 index	2010 projection	10/09 index	2011 projection	11/10 index
TOTAL		59,123,930	61,626,732	104.2	64,981,172	105.4	68,773,562	105.8
10	CROATIAN PARLIAMENT	200	120	60.0	120	100.0	120	100.0
15	PRESIDENT OF THE REPUBLIC OF CROATIA	20	21	105.0	22	104.8	23	104.5
17	CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	0	0	x	0	x	0	x
18	AGENCY FOR THE PROTECTION OF MARKET COMPETITION	0	0	x	0	x	0	x
20	GOVERNMENT OF THE REPUBLIC OF CROATIA	8,978	10,885	121.3	13,339	122.5	15,942	119.5
21	CENTRAL STATE OFFICE FOR ADMINISTRATION	0	0	x	0	x	0	x
22	CENTRAL STATE OFFICE FOR E-CROATIA	45	45	100.0	45	100.0	45	100.0
23	CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND COORDINATION OF EU FUNDS	90	0	0.0	0	x	0	x
24	CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT	0	0	x	0	x	0	x
25	MINISTRY OF FINANCE	350,000	50	0.0	50	100.0	50	100.0
27	RC – SECURITY AND INTELLIGENCE AGENCY	750	800	106.7	800	100.0	850	106.3
30	MINISTRY OF DEFENCE	11,033	12,481	113.1	14,148	113.4	16,071	113.6
40	MINISTRY OF THE INTERIOR	4,385	4,385	100.0	4,400	100.3	4,420	100.5
46	MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND INTERGENERATIONAL SOLIDARITY	3,761,403	4,013,046	106.7	4,309,344	107.4	4,482,769	104.0
48	MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	12,500	12,200	97.6	12,061	98.9	11,799	97.8
50	MINISTRY OF THE ECONOMY, LABOUR AND ENTREPRENEURSHIP	33,948,928	35,736,831	105.3	37,789,117	105.7	39,958,957	105.7
55	MINISTRY OF CULTURE	52,019	52,710	101.3	53,710	101.9	54,710	101.9
60	MINISTRY OF AGRICULTURE, FISHERIES AND RURAL DEVELOPMENT	128	128	100.0	128	100.0	128	100.0
62	MINISTRY OF REGIONAL DEVELOPMENT, FORESTRY AND WATER MANAGEMENT	63,137	78,590	124.5	78,590	100.0	78,590	100.0
65	MINISTRY OF THE SEA, TRANSPORT AND INFRASTRUCTURE	8,372	6,078	72.6	6,079	100.0	6,080	100.0
75	MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING AND CONSTRUCTION	0	0	x	0	x	0	x
80	MINISTRY OF SCIENCE, EDUCATION AND SPORTS	136,413	228,217	167.3	239,850	105.1	251,686	104.9
90	MINISTRY OF TOURISM	0	0	x	0	x	0	x
100	MINISTRY OF HEALTH AND SOCIAL WELFARE	20,749,106	21,447,066	103.4	22,436,292	104.6	23,868,217	106.4
106	CROATIAN ACADEMY OF SCIENCE AND ARTS	0	0	x	0	x	0	x
110	MINISTRY OF JUSTICE	5,062	4,653	91.9	4,653	100.0	4,654	100.0
115	DEVELOPMENT AND EMPLOYMENT FUND	9,783	16,783	171.6	16,783	100.0	16,783	100.0
116	REGIONAL DEVELOPMENT FUND	0	0	x	0	x	0	x
120	OMBUDSMAN'S OFFICE	0	0	x	0	x	0	x
121	OMBUDSMAN FOR CHILDREN	0	0	x	0	x	0	x
122	OMBUDSMAN FOR GENDER EQUALITY	0	0	x	0	x	0	x
123	OMBUDSMAN FOR PEOPLE WITH DISABILITIES	0	0	x	0	x	0	x
140	METEOROLOGICAL AND HYDROLOGICAL SERVICE	140	141	100.7	151	107.1	159	105.3
150	STATE OFFICE FOR METROLOGY	0	0	x	0	x	0	x
151	CROATIAN STANDARDS INSTITUTE	0	0	x	0	x	0	x
152	CROATIAN ACCREDITATION AGENCY	0	0	x	0	x	0	x
156	STATE INTELLECTUAL PROPERTY OFFICE	0	0	x	0	x	0	x
160	CENTRAL BUREAU OF STATISTICS	670	670	100.0	625	93.3	625	100.0
175	CROATIAN HYDROGRAPHIC INSTITUTE	0	0	x	0	x	0	x
180	STATE GEODETIC DIRECTORATE	0	0	x	0	x	0	x
185	STATE AUDIT OFFICE	400	418	104.5	450	107.7	470	104.4
196	STATE COMMISSION FOR THE SUPERVISION OF PUBLIC PROCUREMENT PROCEDURES	0	0	x	0	x	0	x
220	CROATIAN MINE ACTION CENTRE	103	103	100.0	103	100.0	103	100.0
225	STATE INSPECTOR'S OFFICE	0	0	x	0	x	0	x
230	COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	0	0	x	0	x	0	x
235	CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	75	75	100.0	75	100.0	75	100.0
240	OFFICE OF THE NATIONAL SECURITY COUNCIL	75	120	159.9	120	100.0	120	100.0
241	OPERATIONAL AND TECHNICAL CENTRE FOR THE SUPERVISION OF TELECOMMUNICATIONS	0	0	x	0	x	0	x
242	INSTITUTE FOR INFORMATION SYSTEMS SECURITY	117	117	100.0	117	100.0	117	100.0
250	PERSONAL DATA PROTECTION AGENCY	0	0	x	0	x	0	x
255	CROATIAN INSTITUTE FOR RADIATION PROTECTION	0	0	x	0	x	0	x
260	STATE INSTITUTE FOR NUCLEAR SAFETY	0	0	x	0	x	0	x

Source: Ministry of Finance

Table 16: Limits of other expenditure by divisions of the budgetary central government for the sources of finance: general revenue and receipts, contributions and special purpose income from borrowing for the period 2009–2011

	(000 HRK)	2008 plan	2009 projection	09/08 index	2010 projection	10/09 index	2011 projection	11/10 index
TOTAL		14,527,030	14,906,947	102.6	14,839,794	99.5	16,023,114	108.0
10	CROATIAN PARLIAMENT	8,732	87,570	1002.9	55,940	63.9	155,940	278.8
15	PRESIDENT OF THE REPUBLIC OF CROATIA	2,182	2,360	108.2	2,369	100.4	2,407	101.6
17	CONSTITUTIONAL COURT OF THE REPUBLIC OF CROATIA	6,188	8,386	135.5	8,630	102.9	7,990	92.6
18	AGENCY FOR THE PROTECTION OF MARKET COMPETITION	749	174	23.2	175	100.8	175	100.2
20	GOVERNMENT OF THE REPUBLIC OF CROATIA	53,015	53,768	101.4	54,794	101.9	57,594	105.1
21	CENTRAL STATE OFFICE FOR ADMINISTRATION	3,899	4,215	108.1	4,086	96.9	4,118	100.8
22	CENTRAL STATE OFFICE FOR E-CROATIA	11,056	12,696	114.8	11,761	92.6	11,789	100.2
23	CENTRAL STATE OFFICE FOR DEVELOPMENT STRATEGY AND COORDINATION OF EU FUNDS	564	516	91.6	551	106.8	567	102.9
24	CENTRAL STATE OFFICE FOR STATE PROPERTY MANAGEMENT	33,073	6,643	20.1	4,739	71.3	4,779	100.8
25	MINISTRY OF FINANCE	4,159,017	4,672,119	112.3	4,663,654	99.8	4,933,898	105.8
27	RC – SECURITY AND INTELLIGENCE AGENCY	26,394	20,347	77.1	18,323	90.1	18,423	100.5
30	MINISTRY OF DEFENCE	170,955	185,387	108.4	5,654	3.0	6,000	106.1
40	MINISTRY OF THE INTERIOR	327,616	291,747	89.1	323,373	110.8	333,800	103.2
46	MINISTRY OF THE FAMILY, VETERANS' AFFAIRS AND INTERGENERATIONAL SOLIDARITY	235,427	240,406	102.1	249,638	103.8	260,135	104.2
48	MINISTRY OF FOREIGN AFFAIRS AND EUROPEAN INTEGRATION	27,315	23,857	87.3	25,380	106.4	26,273	103.5
50	MINISTRY OF THE ECONOMY, LABOUR AND ENTREPRENEURSHIP	430,004	279,551	65.0	331,868	118.7	325,448	98.1
55	MINISTRY OF CULTURE	563,033	570,891	101.4	576,692	101.0	590,343	102.4
60	MINISTRY OF AGRICULTURE, FISHERIES AND RURAL DEVELOPMENT	446,236	468,854	105.1	465,893	99.4	465,924	100.0
62	MINISTRY OF REGIONAL DEVELOPMENT, FORESTRY AND WATER MANAGEMENT	1,792,109	1,833,625	102.3	1,779,152	97.0	1,833,912	103.1
65	MINISTRY OF THE SEA, TRANSPORT AND INFRASTRUCTURE	2,247,700	2,050,635	91.2	2,088,185	101.8	3,074,308	147.2
75	MINISTRY OF ENVIRONMENTAL PROTECTION, PHYSICAL PLANNING AND CONSTRUCTION	567,937	445,546	78.4	330,701	74.2	281,068	85.0
80	MINISTRY OF SCIENCE, EDUCATION AND SPORTS	1,852,354	2,029,949	109.6	2,212,179	109.0	1,976,783	89.4
90	MINISTRY OF TOURISM	163,875	161,416	98.5	152,608	94.5	163,082	106.9
100	MINISTRY OF HEALTH AND SOCIAL WELFARE	765,466	815,284	106.5	804,267	98.6	777,671	96.7
106	CROATIAN ACADEMY OF SCIENCE AND ARTS	10,281	11,621	113.0	13,144	113.1	13,144	100.0
110	MINISTRY OF JUSTICE	157,183	161,158	102.5	180,379	111.9	192,793	106.9
115	DEVELOPMENT AND EMPLOYMENT FUND	239,492	227,820	95.1	242,768	106.6	265,343	109.3
116	REGIONAL DEVELOPMENT FUND	165,233	175,547	106.2	180,419	102.8	184,874	102.5
120	OMBUDSMAN'S OFFICE	132	156	118.2	157	100.6	158	100.5
121	OMBUDSMAN FOR CHILDREN	401	346	86.3	74	21.4	76	102.7
122	OMBUDSMAN FOR GENDER EQUALITY	93	99	106.5	99	100.0	99	100.0
123	OMBUDSMAN FOR PEOPLE WITH DISABILITIES	1,050	310	29.5	225	72.6	225	100.0
140	METEOROLOGICAL AND HYDROLOGICAL SERVICE	3,640	3,922	107.7	3,454	88.1	3,575	103.5
150	STATE OFFICE FOR METROLOGY	3,499	3,326	95.1	3,259	98.0	3,850	118.1
151	CROATIAN STANDARDS INSTITUTE	1,116	1,150	103.0	1,275	110.9	1,150	90.2
152	CROATIAN ACCREDITATION AGENCY	667	678	101.6	682	100.6	686	100.5
156	STATE INTELLECTUAL PROPERTY OFFICE	654	1,020	156.0	1,110	108.8	1,110	100.0
160	CENTRAL BUREAU OF STATISTICS	3,115	4,750	152.5	5,209	109.7	5,609	107.7
175	CROATIAN HYDROGRAPHIC INSTITUTE	345	450	130.4	472	104.9	472	100.0
180	STATE GEODETIC DIRECTORATE	23,434	24,196	103.2	17,626	72.8	18,527	105.1
185	STATE AUDIT OFFICE	880	780	88.6	780	100.0	780	100.0
196	STATE COMMISSION FOR THE SUPERVISION OF PUBLIC PROCUREMENT PROCEDURES	172	180	104.6	191	106.0	195	102.1
220	CROATIAN MINE ACTION CENTRE	4,375	4,345	99.3	2,345	54.0	2,445	104.3
225	STATE INSPECTOR'S OFFICE	3,175	3,378	106.4	3,396	100.5	3,416	100.6
230	COMMISSION ON RELATIONS WITH RELIGIOUS COMMUNITIES	19	20	105.3	20	100.0	20	100.0
235	CROATIAN INFORMATION AND DOCUMENTATION REFERRAL AGENCY	232	250	107.8	275	110.0	260	94.5
240	OFFICE OF THE NATIONAL SECURITY COUNCIL	920	600	65.2	600	100.0	600	100.0
241	OPERATIONAL AND TECHNICAL CENTRE FOR THE SUPERVISION OF TELECOMMUNICATIONS	6,652	6,827	102.6	6,827	100.0	6,827	100.0
242	INSTITUTE FOR INFORMATION SYSTEMS SECURITY	2,491	2,491	100.0	2,491	100.0	2,491	100.0
250	PERSONAL DATA PROTECTION AGENCY	308	371	120.4	534	144.0	541	101.4
255	CROATIAN INSTITUTE FOR RADIATION PROTECTION	391	3,000	766.6	92	3.1	92	100.0
260	STATE INSTITUTE FOR NUCLEAR SAFETY	2,183	2,216	101.5	1,279	57.7	1,329	103.9

Source: Ministry of Finance

4.4.3. Determinants of expenditure of extra-budgetary users for the period 2009–2011

Total expenditure of extra-budgetary users in the medium-term period will gradually reduce their share in GDP from 2.1% of GDP in 2009 to 1.8% of GDP in 2011. The most significant categories in the total expenditure of extra-budgetary users are material expenditure that will on average amount to 0.9% of GDP, and expenditure on the acquisition of nonfinancial assets with an average share in GDP of 0.6% in the following period. Compensation of employees and financial expense in the medium-term will stand at the level of 0.1% of GDP. Capital grants and other expense will on average amount to 0.2% of GDP respectively.

Table 17: Key items of expenditure of extra-budgetary users

(% of GDP)	2007	2008 plan	2009 projection	2010 projection	2011 projection
Total expense	4.6	2.4	2.1	2.0	1.8
compensation of employees	0.2	0.1	0.1	0.1	0.1
material expense	1.2	1.1	0.9	0.9	0.8
financial expense	0.4	0.1	0.1	0.1	0.1
capital grants	0.2	0.2	0.2	0.2	0.1
expense for the acquisition of nonfinancial assets	2.2	0.6	0.6	0.6	0.5
other	0.4	0.3	0.3	0.2	0.2

Source: Ministry of Finance

4.4.4. Determinants of expenditure of local and regional self-government units for the period 2009–2011

Total expenditure of local and regional self-government units will remain at the level of 5.8% of GDP in 2009, while in 2010 and 2011 it will decrease by 0.1 percentage points per annum. In the medium-term, the key item of local and regional self-government units, material expenditure, will stand at the level of 1.7% of GDP. Compensation of employees will remain at the level of 1.0% of GDP, and subsidies and other expenses at the level of 0.4% of GDP. Current donations will remain at the average level of 0.5% of GDP, while expense on the acquisition of nonfinancial assets will increase from 1.8% in 2009 to 2.2% in 2011. Compensations to citizens and households will record a share in GDP of 0.2%, and financial expense and grants of 0.1%.

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

(% of GDP)	2007	2008 plan	2009 projection	2010 projection	2011 projection
Total expense	5.8	5.8	5.8	5.7	5.6
compensation of employees	1.0	1.0	1.0	1.0	1.0
material expense	1.8	1.7	1.7	1.7	1.7
financial expense	0.1	0.1	0.1	0.1	0.1
subsidies	0.4	0.4	0.4	0.4	0.3
grants	0.1	0.1	0.1	0.1	0.1
compensations to citizens and households	0.2	0.2	0.2	0.2	0.2
current donations	0.5	0.5	0.5	0.5	0.6
expense for the acquisition of nonfinancial assets	1.5	1.6	1.8	2.0	2.2
other	0.3	0.4	0.4	0.4	0.4

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

Source: Ministry of Finance

4.5. Consolidated general government in the period 2009–2011

In the period from 2004, fiscal policy has been characterised by continued and successful fiscal adjustment. The result of such a policy is not only directly visible in the reduction of the total general government deficit, but is also evident in other developments achieved in this period which contributed to the transparency and effectiveness in the implementation of the overall fiscal policy in the Republic of Croatia. In the forthcoming medium-term period, fiscal policy will remain on the path of further fiscal adjustment, the direct result of which in this period will be further reduction in the level of general government deficit, whereby the state will directly achieve and continue to achieve positive impacts on overall macroeconomic stability and create more space for other economic factors. In the medium-term period, the total general government deficit will come to a turning point as the result of the above fiscal policy, i.e. by the end of this period it will turn into a slight surplus. Thus, fiscal adjustment will reduce the total deficit from 1.6% of GDP in 2007 and turn it into surplus in the amount of 0.2% of GDP in 2011. In 2008, the total deficit is planned in the amount of 1.3% of GDP, while it will be reduced by a further 0.5 percentage points in each consecutive year until the end of the medium-term period.

Table 19: Consolidated general government budget 2007–2011

(000 HRK)	2007	2008 plan	2009 projection	2010 projection	2011 projection
TOTAL REVENUES (6+7)	127,912,071	137,936,953	145,644,331	155,813,183	167,594,690
6 Operating revenues	126,621,570	136,767,255	144,333,588	154,553,158	166,382,242
7 Revenues from the sale of nonfinancial assets	1,290,501	1,169,698	1,310,743	1,260,025	1,212,448
TOTAL EXPENSE (3+4)	132,269,346	141,779,289	148,456,933	156,906,233	166,707,401
3 Operating expense	119,229,851	131,410,261	137,465,739	145,700,106	155,252,230
4 Expense for the acquisition of nonfinancial assets	13,039,495	10,369,028	10,991,194	11,206,127	11,455,171
TOTAL DEFICIT/SURPLUS	-4,357,275	-3,842,337	-2,812,602	-1,093,050	887,289
% of GDP	-1.6	-1.3	-0.8	-0.3	0.2
FINANCING	4,357,275	3,842,337	2,812,602	1,093,050	-887,289
8 Income from financial assets and borrowings	15,612,498	14,782,372	15,425,086	14,619,975	11,868,223
5 Expenses for financial assets and loan repayments	13,188,587	10,461,325	11,873,558	13,045,206	12,245,512
Change in currency and deposits	-1,933,364	478,711	738,927	481,719	509,999

Source: Ministry of Finance

Regarding the trends in the total deficit/surplus of general government budget in this medium-term period according to the level of state authority, it can be noted that further fiscal consolidation will be based on further consolidation of the budgetary central government that will be fully balanced as early as 2010. Afterwards, it will generate a surplus from total revenues over total expenditure.

Table 20: Revenue, expenditure and total deficit/surplus of general government in the medium-term period

(000 HRK)	2007	2008 plan	2009 projection	2010 projection	2011 projection
STATE BUDGET					
Total revenues	108,819,280	118,408,500	124,924,074	133,504,219	143,523,534
% of GDP	39.6	38.7	37.3	36.2	34.9
Total expense	111,262,794	121,214,438	126,626,380	133,463,229	141,530,935
% of GDP	40.4	39.6	37.8	36.2	34.4
Total deficit/surplus	-2,443,514	-2,805,938	-1,702,307	40,990	1,992,600
% of GDP	-0.9	-0.9	-0.5	0.0	0.5
EXTRA-BUDGETARY USERS					
Total revenues	10,520,161	6,509,404	5,998,461	6,155,762	6,368,286
% of GDP	3.8	2.1	1.8	1.7	1.5
Total expense	12,581,420	7,394,323	7,122,699	7,280,987	7,463,368
% of GDP	4.6	2.4	2.1	2.0	1.8
Total deficit/surplus	-2,061,259	-884,918	-1,124,238	-1,125,225	-1,095,083
% of GDP	-0.7	-0.3	-0.3	-0.3	-0.3
LOCAL GOVERNMENT					
Total revenues	16,239,383	17,581,818	19,386,283	21,137,474	23,034,274
% of GDP	5.9	5.7	5.8	5.7	5.6
Total expense	16,091,885	17,733,299	19,372,340	21,146,289	23,044,502
% of GDP	5.8	5.8	5.8	5.7	5.6
Total deficit/surplus	147,498	-151,480	13,943	-8,816	-10,228
% of GDP	0.1	0.0	0.0	0.0	0.0
CONSOLIDATED GENERAL GOVERNMENT					
Total revenues	127,912,071	137,936,953	145,644,331	155,813,183	167,594,690
% of GDP	46.5	45.1	43.4	42.2	40.8
Total expense	132,269,346	141,779,289	148,456,933	156,906,233	166,707,401
% of GDP	48.1	46.3	44.3	42.5	40.5
Total deficit/surplus	-4,357,275	-3,842,337	-2,812,602	-1,093,050	887,289
% of GDP	-1.6	-1.3	-0.8	-0.3	0.2

Source: Ministry of Finance

5. PUBLIC DEBT IN THE MEDIUM-TERM PERIOD

5.1. Public debt in the period 2009–2011

This section describes the institutional framework for public debt management and presents the major features of borrowing policy and public debt management of the Republic of Croatia in the period included in these Guidelines. To this end, it presents the structure of financing the general government debt, projections of the development and structure of general government debt and public debt and, finally, gives an overview of the results of public debt sensitivity tests regarding changes in several key macroeconomic and fiscal indicators as one of the models of quantifying risks of public debt management.

The institutional framework of borrowing and public debt management is laid down in the Budget Act, whose main goal in public debt management is to secure meeting the financial requirements of the state budget by achieving the lowest possible medium-term and long-term costs of financing while assuming a prudent level of risk.

Public debt management strategy in the forthcoming three-year period has retained important features of the public debt management policy from preceding years; thus the key determinant for public debt trends in the medium-term period continues to be the continued reduction of its share in GDP. The process of fiscal consolidation which started in 2004 and was successfully implemented in the years that followed had a positive effect on public debt development.

The planned continuation of fiscal adjustment in the medium-term period will lead to further decline of public debt in the share of GDP, while settling liabilities from the previous periods in terms of their maturity.

Table 21: Financing the total general government deficit in the period 2007–2011

(000 HRK)	2007	2008 plan	2009 projection	2010 projection	2011 projection
FINANCING	4,357,275	3,842,337	2,812,602	1,093,050	-887,289
Domestic	2,147,511	5,391,029	3,753,481	2,023,405	342,939
Loans	-1,019,146	5,463,573	-1,490,665	-1,078,772	835,800
borrowing	1,438,626	7,081,093	1,479,155	1,750,603	1,894,073
repayments	2,457,773	1,617,520	2,969,820	2,829,375	1,058,273
Bonds	3,166,657	-72,543	5,244,146	3,102,177	-492,862
borrowing	7,219,218	2,889,336	5,528,804	6,405,534	1,795,566
repayments	4,052,560	2,961,880	284,658	3,303,356	2,288,428
Foreign	-1,481,154	-914,584	575,483	522,023	257,064
Loans	276,569	335,416	-674,517	-577,977	-392,936
borrowing	2,896,416	2,596,436	1,548,267	1,204,757	1,140,460
repayments	2,619,847	2,261,020	2,222,784	1,782,734	1,533,396
Bonds	-1,757,723	-1,250,000	1,250,000	1,100,000	650,000
borrowing	0	0	6,200,000	4,800,000	6,200,000
repayments	1,757,723	1,250,000	4,950,000	3,700,000	5,550,000
Loan acquisition	1,316,458	1,066,781	1,013,473	1,002,840	1,033,582
Loan disposals	339,859	471,394	247,910	300,931	325,440
Shares and other equity acquisition	314,552	473,461	432,823	426,900	427,400
Shares and other equity disposals	3,048,706	913,449	420,950	158,150	158,250
Change in currency and deposits	-1,933,364	478,711	738,927	481,719	509,999

Source: Ministry of Finance

The financing plan shows that the financing will, for the most part, continue to be oriented towards domestic sources. However, taking into account the stability of the Kuna and the medium-term prospect of joining the European Union, part of the borrowing through treasury securities until 2011 will be realised in Euros on the international financial market.

Borrowing will be directed at instruments with a longer payment term, primarily at bonds with a 5 and/or 10-year payment term. Efforts will be made to adjust due date of new borrowings in order to level off the dynamics of maturity and uniformly allocate the refinancing burden.

In the 2008–2011 period 3 issues of domestic bonds in the total amount of HRK 4 billion and EUR 200 million fall due.

In the same period, 5 issues of international bonds in the total amount of JPY 50 billion and EUR 1.75 million fall due.

Table 22: Overview of the bonds of the Republic of Croatia falling due in the period 2008–2011

Bond	Date of issue	Currency	Amount (in million)	Interest rate	Date of maturity
DOMESTIC BONDS					
Series 04 D-08	28.5.2003	HRK	1,000	6.13%	28.5.2008
Series 02 D-08	14.12.2001	EUR	200	6.88%	14.12.2008
Series 08 D-10	8.3.2005	HRK	3,000	6.75%	8.3.2010
FOREIGN BONDS					
Samurai IV 2008	26.6.2002	JPY	25,000	2.15%	26.6.2008
Euro - EUR IV 2009	11.2.2002	EUR	500	6.25%	11.2.2009
Samuraj V 2009	26.6.2003	JPY	25,000	1.23%	26.6.2009
Euro - EUR V 2010	24.2.2003	EUR	500	4.63%	24.2.2010
Euro - EUR III 2011	6.3.2001	EUR	750	6.75%	14.3.2011

Source: Ministry of Finance

Due to the developments in fiscal deficit/surplus in the medium-term period, a further decline of the general government debt in GDP will occur. Apart from the general government debt trends, public debt will be determined by the development in issued government guarantees. Thus, general government debt will reduce its share in GDP from 37.8% in 2007 to 27.7% of GDP in 2011. In the same period, public debt will be reduced from 44.1% of GDP in 2007 to 33.1% of GDP in 2011.

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

(% of GDP)	2007	2008 plan	2009 projection	2010 projection	2011 projection
Total deficit/surplus	-1.6	-1.3	-0.8	-0.3	0.2
General government debt	37.8	35.3	33.3	30.8	27.7
Foreign	14.4	12.6	11.7	10.8	9.7
Domestic	23.4	22.6	21.6	20.0	17.9
Public debt	44.1	41.4	39.2	36.5	33.1
Foreign	18.0	16.1	15.1	14.0	12.8
Domestic	26.1	25.2	24.1	22.4	20.2

Source: Ministry of Finance

5.2. Testing public debt sensitivity

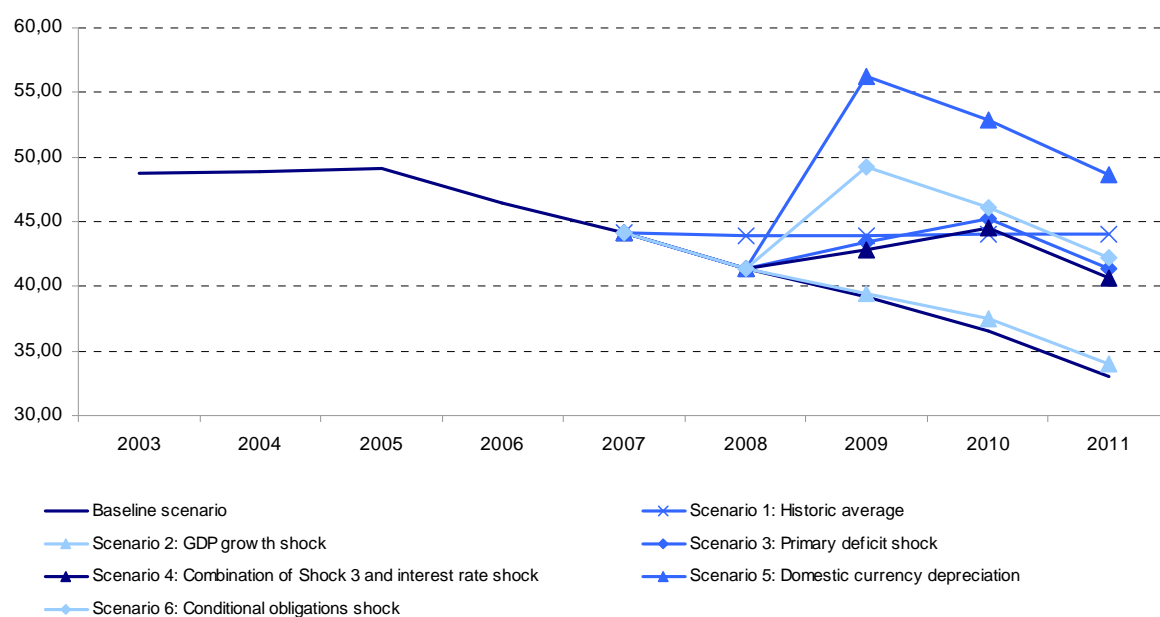
As the trends related to public debt are directly related to macroeconomic conditions and the conditions and assumptions of fiscal policy, it is highly important to continuously carry out public debt sensitivity tests on different factors of these conditions and assumptions. By carrying out sensitivity tests, it is possible to identify the factors whose changed assumptions generate the most significant changes to public debt trends and which therefore represent the highest risk, and to ensure the conditions for their evasion or alleviation of their effects. The test is carried out by setting a baseline scenario on the basis of medium-term macroeconomic projections. Afterwards, a series of alternative scenarios is carried out, where assumed variables are kept at a certain (historic) level or subjected to various shocks. The shocks are usually linked to historic values of the observed variables and their variability, but they can also be arbitrary.

The public debt sensitivity tests carried out show that depreciation of domestic currency, primarily to the Euro, had the greatest influence on public debt development, i.e. growth. The reason for this is the fact that a large share of debt is denominated in foreign currency. This test shows that the depreciation of Kuna in the amount of 30% increases the amount of public debt to over 56% of GDP.

Public debt also demonstrates greater sensitivity to changes in conditional obligations (guarantees), which indicates that there is a need to contain their growth and eliminate the need to issue such guarantees, i.e. restructuring certain sectors of the economy. In addition, public debt demonstrates a highly unfavourable medium-term development in respect of changes to primary general government deficit since it is the main generator of debt, even more so as the impact of the initial shock subsides slowly and extends until the end of the period concerned.

The tests examining possible impacts on public debt trends where the assumptions are maintained at existing or historic (average) levels indicate change in debt development. In the above conditions, there is a mild increase of the share of public debt in GDP, which leads to the conclusion that in the case of absence of further positive developments in economic and fiscal policy compared to the “average policies” in recent years; this could lead to further growth of debt. This result indicates the importance of continuing the process of fiscal adjustment in the medium-term period that will result in the reduction of total general government deficit, meaning less need for borrowing. With the continued process of fiscal consolidation, it is imperative that the implementation of key structural reforms be continued.

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



Source: Ministry of Finance

Table 24: Results of public debt sensitivity testing

	2007	2008	2009	2010	2011
I. Baseline medium-term projection					
Public debt	44.1	41.4	39.2	36.5	33.1
Of which: debt denominated in foreign currency	35.3	33.1	31.4	29.2	26.5
Change of public debt	-2.3	-2.8	-2.2	-2.7	-3.4
Identified debt-creating flows	-3.2	-2.9	-2.2	-2.7	-3.4
Primary deficit	0.3	0.1	-0.2	-0.8	-1.2
Revenue and grants	46.0	44.7	43.1	41.9	40.5
Primary (non-interest) expenditure	46.3	44.8	42.9	41.1	39.2
Automatic debt dynamics	-1.9	-2.3	-1.5	-1.6	-1.8
Contribution from interest rate and growth differential	-1.8	-2.3	-1.5	-1.6	-1.8
of which: contribution from real interest rate	0.5	-0.6	0.2	0.5	0.5
of which: contribution from real GDP growth rate	-2.4	-1.7	-1.7	-2.1	-2.3
Contribution from exchange rate depreciation	-0.1	0.0	0.0	0.0	0.0
Other debt-creating deficit flows	-1.6	-0.7	-0.5	-0.4	-0.3
Privatisation revenue (negative)	-1.6	-0.7	-0.5	-0.4	-0.3
Recognized implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0
Other (e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0
Residual, including change in assets	0.9	0.1	0.1	0.0	0.0
Key macroeconomic and fiscal assumptions					
Real GDP growth rate (%)	5.6	4.4	4.4	6.0	7.0
Average nominal interest rate on public debt (%)	5.5	5.5	5.5	5.6	5.8
Average real interest rate (nominal rate minus change of GDP deflator, in %)	1.5	-1.1	0.6	1.7	1.7
Nominal appreciation (increase in the value of domestic currency expressed in Euro, in %)	0.3	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in %)	4.0	6.6	4.9	3.9	4.1
Growth of real primary consumption (deflated by the GDP deflator, in %)	7.8	0.9	-0.1	1.7	2.1
II. Analysis of sensitivity of public debt share in GDP					
1. Real GDP growth rate, real interest rate and primary deficit in the period 2009–2011 at the level of the historical average	44.1	43.9	43.9	44.0	44.0
2. Real GDP growth rate in 2009 and 2010 at the level of the historical average reduced by two standard deviations	44.1	41.4	39.5	37.5	34.0
3. Primary deficit in 2009 and 2010 at the level of historical average reduced by two standard deviations	44.1	41.4	43.4	45.2	41.3
4. Combination of Scenario 3 and real interest rate shock of one standard deviation in 2009 and 2010	44.1	41.4	42.9	44.5	40.6
5. One-off depreciation of 30% in 2009	44.1	41.4	56.3	52.9	48.6
6. Increase of other flows causing debt increase (guarantees) in the amount of 10% of GDP in 2009	44.1	41.4	49.2	46.1	42.2
Historical values of key variables (last 6 years)					
	Historical average	Standard deviation			
Primary deficit	1.7	1.1			
Real GDP growth rate (in %)	5.0	0.6			
Nominal interest rate (in %)	5.5	0.1			
Real interest rate (in %)	1.9	0.3			
Inflation rate (GDP deflator, in %)	3.6	0.3			
Share of public revenue in GDP	45.2	0.6			

Source: Ministry of Finance

ANNEXES

Annex 1: Budgetary central government 2007–2011

	Execution 2007		2008 plan		2009 projection		2010 projection		2011 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
TOTAL REVENUES (6+7)	108,819,280	39.6	118,408,500	38.7	124,924,074	37.3	133,504,219	36.2	143,523,534	34.9
6 Operating revenues	108,320,595	39.4	118,051,097	38.6	124,579,456	37.2	133,255,319	36.1	143,257,211	34.8
61 Revenues from taxes	60,837,371	22.1	67,626,328	22.1	71,631,613	21.4	76,889,754	20.8	83,043,726	20.2
62 Contributions	37,203,486	13.5	41,370,661	13.5	44,127,843	13.2	47,452,810	12.9	50,761,869	12.3
63 Grants	477,045	0.2	987,207	0.3	956,930	0.3	680,747	0.2	758,264	0.2
64 Property income	6,681,140	2.4	4,684,886	1.5	4,374,522	1.3	4,599,919	1.2	4,892,070	1.2
65 Revenues from sale of goods and services	2,574,424	0.9	2,839,841	0.9	2,917,634	0.9	3,022,692	0.8	3,144,280	0.8
66 Other revenue	547,129	0.2	542,175	0.2	570,913	0.2	609,397	0.2	657,002	0.2
7 Revenues from the sale of nonfinancial assets	498,685	0.2	357,403	0.1	344,618	0.1	248,900	0.1	266,323	0.1
71 Revenues from the sale of non-produced assets	19,557	0.0	70,000	0.0	20,000	0.0	20,000	0.0	21,400	0.0
72 Revenues from the sale of produced assets	281,171	0.1	282,603	0.1	324,618	0.1	228,900	0.1	244,923	0.1
74 Revenues from the sale of produced current assets	197,957	0.1	4,800	0.0	0	0.0	0	0.0	0	0.0
TOTAL EXPENSE (3+4)	111,262,794	40.4	121,214,438	39.6	126,626,380	37.8	133,463,229	36.2	141,530,935	34.4
3 Operating expense	108,218,889	39.3	117,326,523	38.3	122,654,890	36.6	129,842,543	35.2	138,256,237	33.6
31 Compensation of employees	19,941,486	7.2	21,635,459	7.1	23,812,737	7.1	25,920,643	7.0	27,807,153	6.8
32 Material expense	7,724,689	2.8	9,173,890	3.0	10,298,808	3.1	12,032,814	3.3	13,021,919	3.2
34 Financial expense	5,066,148	1.8	5,540,793	1.8	5,412,192	1.6	4,853,764	1.3	4,404,696	1.1
35 Subsidies	6,492,010	2.4	7,552,872	2.5	7,001,849	2.1	7,013,656	1.9	7,293,693	1.8
36 Grants	8,312,098	3.0	6,033,560	2.0	6,338,655	1.9	6,561,509	1.8	6,940,026	1.7
37 Compensations to citizens and households based on insurance and other compensations	55,122,125	20.0	59,717,980	19.5	62,183,324	18.6	65,638,922	17.8	69,580,612	16.9
38 Other expense	5,560,333	2.0	7,671,970	2.5	7,607,323	2.3	7,821,235	2.1	9,208,139	2.2
4 Expense for the acquisition of nonfinancial assets	3,043,906	1.1	3,887,915	1.3	3,971,491	1.2	3,620,686	1.0	3,274,697	0.8
41 Expense on the acquisition of non-produced assets	90,848	0.0	213,732	0.1	213,296	0.1	142,430	0.0	148,014	0.0
42 Expense on the acquisition of produced fixed assets	2,633,288	1.0	3,253,883	1.1	3,469,274	1.0	3,142,710	0.9	2,781,776	0.7
43 Expense on the acquisition of precious metals and other deposited valuables	9,620	0.0	6,158	0.0	6,220	0.0	6,270	0.0	6,320	0.0
44 Strategic inventories	36,574	0.0	124,000	0.0	10,000	0.0	10,000	0.0	10,000	0.0
45 Expense on additional investments in nonfinancial assets	273,575	0.1	290,141	0.1	272,701	0.1	319,276	0.1	328,588	0.1
TOTAL DEFICIT(-) / SURPLUS(+)	-2,443,514	-0.9	-2,805,938	-0.9	-1,702,307	-0.5	40,990	0.0	1,992,600	0.5
NET FINANCING	2,443,514	0.9	2,805,938	0.9	1,702,307	0.5	-40,990	0.0	-1,992,600	-0.5
CHANGES TO DEPOSIT BALANCE	-1,932,875	-0.7	0	0.0	0	0.0	0	0.0	0	0.0
8 Income from financial assets and borrowings	11,546,709	4.2	12,168,825	4.0	12,615,770	3.8	11,960,147	3.2	9,090,168	2.2
81 Loan disposals	163,349	0.1	368,961	0.1	168,960	0.1	220,000	0.1	240,168	0.1
82 Securities (other than shares) disposals	7,702,981	2.8	3,500,000	1.1	11,578,804	3.5	11,055,534	3.0	8,200,000	2.0
83 Shares and other equity disposals	2,931,580	1.1	652,699	0.2	0	0.0	0	0.0	0	0.0
84 Loan incurrences	748,798	0.3	7,647,166	2.5	868,005	0.3	684,613	0.2	650,000	0.2
5 Expenses for financial assets and loan repayments	11,036,069	4.0	9,362,887	3.1	10,913,463	3.3	12,001,137	3.3	11,082,768	2.7
51 Loan acquisition	837,699	0.3	698,221	0.2	731,435	0.2	712,882	0.2	739,757	0.2
53 Shares and other equity acquisition	244,041	0.1	437,961	0.1	384,423	0.1	378,000	0.1	378,000	0.1
54 Loan repayments	4,013,761	1.5	3,193,480	1.0	4,572,264	1.4	3,916,217	1.1	1,781,467	0.4
55 Repayments of securities (other than shares)	5,940,569	2.2	5,033,226	1.6	5,225,341	1.6	6,994,039	1.9	8,183,544	2.0

Source: Ministry of Finance

Annex 2: Extra-budgetary users 2007–2011

	Execution 2007		2008 plan		2009 projection		2010 projection		2011 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
TOTAL REVENUES (6+7)	10,520,161	3.8	6,509,404	2.1	5,998,461	1.8	6,155,762	1.7	6,368,286	1.5
6 Operating revenues	10,465,140	3.8	6,428,134	2.1	5,948,361	1.8	6,105,662	1.7	6,318,186	1.5
61 Revenues from taxes	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
62 Contributions	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
63 Grants	5,547,133	2.0	2,272,350	0.7	2,108,608	0.6	2,206,146	0.6	2,328,027	0.6
64 Property income	1,797,762	0.7	528,539	0.2	508,307	0.2	560,060	0.2	595,063	0.1
65 Revenues from the sale of goods and services	3,068,093	1.1	3,592,516	1.2	3,308,906	1.0	3,316,916	0.9	3,372,556	0.8
66 Other revenue	52,152	0.0	34,729	0.0	22,540	0.0	22,540	0.0	22,540	0.0
7 Revenues from the sale of nonfinancial assets	55,021	0.0	81,270	0.0	50,100	0.0	50,100	0.0	50,100	0.0
71 Revenues from the sale of non-produced assets	0	0.0	21,800	0.0	0	0.0	0	0.0	0	0.0
72 Revenues from the sale of produced assets	55,021	0.0	59,470	0.0	50,100	0.0	50,100	0.0	50,100	0.0
74 Revenues from the sale of produced current assets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
TOTAL EXPENSE (3+4)	12,581,420	4.6	7,394,323	2.4	7,122,699	2.1	7,280,987	2.0	7,463,368	1.8
3 Operating expense	6,609,484	2.4	5,432,357	1.8	5,125,826	1.5	5,244,698	1.4	5,412,684	1.3
31 Compensation of employees	591,799	0.2	301,424	0.1	331,142	0.1	357,592	0.1	381,262	0.1
32 Material expense	3,308,703	1.2	3,273,187	1.1	3,137,166	0.9	3,260,954	0.9	3,416,521	0.8
34 Financial expense	1,035,071	0.4	217,403	0.1	213,206	0.1	257,776	0.1	302,416	0.1
35 Subsidies	18,553	0.0	23,318	0.0	26,450	0.0	32,082	0.0	38,506	0.0
36 Grants	680,220	0.2	416,557	0.1	526,266	0.2	431,978	0.1	353,882	0.1
37 Compensations to citizens and households based on insurance and other compensations	523	0.0	2,000	0.0	30,000	0.0	30,000	0.0	30,000	0.0
38 Other expense	974,615	0.4	1,198,468	0.4	861,595	0.3	874,316	0.2	890,097	0.2
4 Expense for the acquisition of nonfinancial assets	5,971,936	2.2	1,961,966	0.6	1,996,873	0.6	2,036,288	0.6	2,050,684	0.5
41 Expense on the acquisition of non-produced assets	496,327	0.2	267,800	0.1	230,515	0.1	221,530	0.1	213,131	0.1
42 Expense on the acquisition of produced fixed assets	5,265,714	1.9	1,577,166	0.5	1,681,358	0.5	1,719,758	0.5	1,731,377	0.4
43 Expense on the acquisition of precious metals and other deposited valuables	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
44 Strategic inventories	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
45 Expense on additional investments in nonfinancial assets	209,895	0.1	117,000	0.0	85,000	0.0	95,000	0.0	106,176	0.0
TOTAL DEFICIT(-)/ SURPLUS(+)	-2,061,259	-0.7	-884,918	-0.3	-1,124,238	-0.3	-1,125,225	-0.3	-1,095,083	-0.3
NET FINANCING	2,061,259	0.7	884,918	0.3	1,124,238	0.3	1,125,225	0.3	1,095,083	0.3
CHANGES TO DEPOSIT BALANCE	-141,648	-0.1	478,711	0.2	738,927	0.2	481,719	0.1	509,999	0.1
8 Income from financial assets and borrowings	3,548,268	1.3	2,022,354	0.7	2,315,646	0.7	2,142,899	0.6	2,259,214	0.5
81 Loan disposals	96,262	0.0	12,534	0.0	8,550	0.0	11,050	0.0	14,050	0.0
82 Securities (other than shares) disposals	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
83 Shares and other equity disposals	91,801	0.0	232,750	0.1	392,950	0.1	130,150	0.0	130,250	0.0
84 Loan incurrences	3,360,205	1.2	1,777,070	0.6	1,914,146	0.6	2,001,699	0.5	2,114,914	0.5
5 Expenses for financial assets and loan repayments	1,628,657	0.6	658,725	0.2	452,481	0.1	535,955	0.1	654,132	0.2
51 Loan acquisition	305,522	0.1	251,040	0.1	129,518	0.0	137,438	0.0	141,305	0.0
53 Shares and other equity acquisition	26,105	0.0	0	0.0	0	0.0	0	0.0	0	0.0
54 Loan repayments	767,030	0.3	407,685	0.1	322,963	0.1	398,517	0.1	512,827	0.1
55 Repayments of securities (other than shares)	530,000	0.2	0	0.0	0	0.0	0	0.0	0	0.0

Source: Ministry of Finance

Annex 3: Consolidated central government 2007–2011

	Execution 2007		2008 plan		2009 projection		2010 projection		2011 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
TOTAL REVENUES (6+7)	113,845,441	41.4	122,665,554	40.1	128,813,927	38.4	137,453,835	37.2	147,563,793	35.9
6 Operating revenues	113,291,735	41.2	122,226,881	39.9	128,419,209	38.3	137,154,835	37.2	147,247,370	35.8
61 Revenues from taxes	60,837,371	22.1	67,626,328	22.1	71,631,613	21.4	76,889,754	20.8	83,043,726	20.2
62 Contributions	37,203,486	13.5	41,370,661	13.5	44,127,843	13.2	47,452,810	12.9	50,761,869	12.3
63 Grants	530,178	0.2	1,007,207	0.3	956,930	0.3	680,747	0.2	758,264	0.2
64 Property income	8,478,902	3.1	5,213,424	1.7	4,882,829	1.5	5,159,979	1.4	5,487,133	1.3
65 Revenues from the sale of goods and services	5,642,517	2.1	6,432,358	2.1	6,226,540	1.9	6,339,608	1.7	6,516,836	1.6
66 Other revenue	599,281	0.2	576,904	0.2	593,453	0.2	631,937	0.2	679,542	0.2
7 Revenues from the sale of nonfinancial assets	553,706	0.2	438,673	0.1	394,718	0.1	299,000	0.1	316,423	0.1
71 Revenues from the sale of non-produced assets	19,557	0.0	91,800	0.0	20,000	0.0	20,000	0.0	21,400	0.0
72 Revenues from the sale of produced assets	336,192	0.1	342,073	0.1	374,718	0.1	279,000	0.1	295,023	0.1
74 Revenues from the sale of produced current assets	197,957	0.1	4,800	0.0	0	0.0	0	0.0	0	0.0
TOTAL EXPENSE (3+4)	118,350,214	43.0	126,356,411	41.3	131,640,471	39.3	138,538,070	37.5	146,666,276	35.7
3 Operating expense	109,334,373	39.7	120,506,530	39.4	125,672,107	37.5	132,881,095	36.0	141,340,895	34.4
31 Compensation of employees	20,533,285	7.5	21,936,882	7.2	24,143,879	7.2	26,278,235	7.1	28,188,414	6.9
32 Material expense	11,033,392	4.0	12,447,078	4.1	13,435,974	4.0	15,293,768	4.1	16,438,441	4.0
34 Financial expense	6,101,219	2.2	5,758,196	1.9	5,625,399	1.7	5,111,540	1.4	4,707,112	1.1
35 Subsidies	6,510,563	2.4	7,576,190	2.5	7,028,299	2.1	7,045,738	1.9	7,332,199	1.8
36 Grants	3,498,317	1.3	4,197,766	1.4	4,756,313	1.4	4,787,342	1.3	4,965,882	1.2
37 Compensations to citizens and households based on insurance and other compensations	55,122,649	20.0	59,719,980	19.5	62,213,324	18.6	65,668,922	17.8	69,610,612	16.9
38 Other expense	6,534,948	2.4	8,870,438	2.9	8,468,919	2.5	8,695,551	2.4	10,098,236	2.5
4 Expense for the acquisition of nonfinancial assets	9,015,841	3.3	5,849,881	1.9	5,968,364	1.8	5,656,974	1.5	5,325,381	1.3
41 Expense on the acquisition of non-produced assets	587,175	0.2	481,532	0.2	443,811	0.1	363,960	0.1	361,145	0.1
42 Expense on the acquisition of produced fixed assets	7,899,001	2.9	4,831,049	1.6	5,150,632	1.5	4,862,469	1.3	4,513,152	1.1
43 Expense on the acquisition of precious metals and other deposited valuables	9,620	0.0	6,158	0.0	6,220	0.0	6,270	0.0	6,320	0.0
44 Strategic inventories	36,574	0.0	124,000	0.0	10,000	0.0	10,000	0.0	10,000	0.0
45 Expense on additional investments in nonfinancial assets	483,470	0.2	407,141	0.1	357,701	0.1	414,276	0.1	434,764	0.1
TOTAL DEFICIT(-) / SURPLUS(+)	-4,504,773	-1.6	-3,690,856	-1.2	-2,826,545	-0.8	-1,084,235	-0.3	897,517	0.2
NET FINANCING	4,504,773	1.6	3,690,856	1.2	2,826,545	0.8	1,084,235	0.3	-897,517	-0.2
CHANGES TO DEPOSIT BALANCE	-2,074,523	-0.8	478,711	0.2	738,927	0.2	481,719	0.1	509,999	0.1
8 Income from financial assets and borrowings	15,094,977	5.5	14,191,179	4.6	14,931,416	4.5	14,103,046	3.8	11,349,382	2.8
81 Loan disposals	259,611	0.1	381,494	0.1	177,510	0.1	231,050	0.1	254,218	0.1
82 Securities (other than shares) disposals	7,702,981	2.8	3,500,000	1.1	11,578,804	3.5	11,055,534	3.0	8,200,000	2.0
83 Shares and other equity disposals	3,023,381	1.1	885,449	0.3	392,950	0.1	130,150	0.0	130,250	0.0
84 Loan incurrences	4,109,002	1.5	9,424,236	3.1	2,782,152	0.8	2,686,312	0.7	2,764,914	0.7
5 Expenses for financial assets and loan repayments	12,664,726	4.6	10,021,612	3.3	11,365,945	3.4	12,537,093	3.4	11,736,899	2.9
51 Loan acquisition	1,143,221	0.4	949,261	0.3	860,953	0.3	850,320	0.2	881,062	0.2
53 Shares and other equity acquisition	270,146	0.1	437,961	0.1	384,423	0.1	378,000	0.1	378,000	0.1
54 Loan repayments	4,780,791	1.7	3,601,164	1.2	4,895,228	1.5	4,314,734	1.2	2,294,293	0.6
55 Repayments of securities (other than shares)	6,470,569	2.4	5,033,226	1.6	5,225,341	1.6	6,994,039	1.9	8,183,544	2.0

Source: Ministry of Finance

Annex 4: Units of local and regional self-government 2007–2011

	Execution 2007		2008 plan		2009 projection		2010 projection		2011 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
TOTAL REVENUES (6+7)	16,239,383	5.9	17,581,818	5.7	19,386,283	5.8	21,137,474	5.7	23,034,274	5.6
6 Operating revenues	15,502,588	5.6	16,850,793	5.5	18,470,258	5.5	20,176,449	5.5	22,138,249	5.4
61 Revenues from taxes	9,138,417	3.3	9,967,245	3.3	10,665,429	3.2	11,441,525	3.1	12,295,850	3.0
62 Contributions	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
63 Grants	2,136,105	0.8	2,327,188	0.8	2,574,312	0.8	2,798,428	0.8	3,025,991	0.7
64 Property income	1,047,565	0.4	1,151,459	0.4	1,249,813	0.4	1,370,421	0.4	1,519,390	0.4
65 Revenues from the sale of goods and services	3,096,583	1.1	3,315,155	1.1	3,885,195	1.2	4,463,184	1.2	5,185,024	1.3
66 Other revenue	83,918	0.0	89,746	0.0	95,509	0.0	102,891	0.0	111,995	0.0
7 Revenues from the sale of nonfinancial assets	736,795	0.3	731,025	0.2	916,025	0.3	961,025	0.3	896,025	0.2
71 Revenues from the sale of non-produced assets	464,168	0.2	450,000	0.1	630,000	0.2	670,000	0.2	595,000	0.1
72 Revenues from the sale of produced assets	272,627	0.1	281,025	0.1	286,025	0.1	291,025	0.1	301,025	0.1
74 Revenues from the sale of produced current assets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
TOTAL EXPENSE (3+4)	16,091,885	5.8	17,733,299	5.8	19,372,340	5.8	21,146,289	5.7	23,044,502	5.6
3 Operating expense	12,068,231	4.4	13,214,152	4.3	14,349,509	4.3	15,597,137	4.2	16,914,712	4.1
31 Compensation of employees	2,818,919	1.0	3,127,756	1.0	3,406,651	1.0	3,719,362	1.0	4,050,058	1.0
32 Material expense	4,936,422	1.8	5,311,044	1.7	5,819,891	1.7	6,354,133	1.7	6,883,350	1.7
34 Financial expense	205,511	0.1	235,567	0.1	260,745	0.1	289,056	0.1	325,050	0.1
35 Subsidies	993,791	0.4	1,129,431	0.4	1,212,879	0.4	1,298,061	0.4	1,394,379	0.3
36 Grants	334,732	0.1	365,232	0.1	397,852	0.1	429,620	0.1	461,779	0.1
37 Compensations to citizens and households based on insurance and other compensations	593,351	0.2	637,852	0.2	637,852	0.2	640,000	0.2	650,000	0.2
38 Other expense	2,185,504	0.8	2,407,269	0.8	2,613,640	0.8	2,866,906	0.8	3,150,097	0.8
4 Expense for the acquisition of nonfinancial assets	4,023,654	1.5	4,519,147	1.5	5,022,830	1.5	5,549,152	1.5	6,129,790	1.5
41 Expense on the acquisition of non-produced assets	286,233	0.1	290,000	0.1	305,000	0.1	280,000	0.1	335,000	0.1
42 Expense on the acquisition of produced long-term assets	3,242,151	1.2	3,683,006	1.2	4,124,392	1.2	4,629,345	1.3	5,101,584	1.2
43 Expense on the acquisition of precious metals and other deposited valuables	196	0.0	200	0.0	220	0.0	240	0.0	250	0.0
44 Strategic inventories	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
45 Expense on additional investments in nonfinancial assets	495,073	0.2	545,941	0.2	593,218	0.2	639,568	0.2	692,956	0.2
TOTAL DEFICIT(-) / SURPLUS(+)	147,498	0.1	-151,480	0.0	13,943	0.0	-8,816	0.0	-10,228	0.0
NET FINANCING	-147,498	-0.1	151,480	0.0	-13,943	0.0	8,816	0.0	10,228	0.0
CHANGES TO DEPOSIT BALANCE	141,159	0.1	0	0.0	0	0.0	0	0.0	0	0.0
8 Income from financial assets and borrowings	517,522	0.2	591,193	0.2	493,670	0.1	516,929	0.1	518,841	0.1
81 Loan disposals	80,247	0.0	89,900	0.0	70,400	0.0	69,881	0.0	71,222	0.0
82 Securities (other than shares) disposals	185,910	0.1	220,000	0.1	150,000	0.0	150,000	0.0	150,000	0.0
822 Securities	185,910	0.1	220,000	0.1	150,000	0.0	150,000	0.0	150,000	0.0
83 Shares and other equity disposals	25,324	0.0	28,000	0.0	28,000	0.0	28,000	0.0	28,000	0.0
84 Loan incurrences	226,040	0.1	253,293	0.1	245,270	0.1	269,048	0.1	269,619	0.1
5 Expenses for financial assets and loan repayments	523,861	0.2	439,713	0.1	507,613	0.2	508,113	0.1	508,613	0.1
51 Loan acquisition	173,237	0.1	117,520	0.0	152,520	0.0	152,520	0.0	152,520	0.0
53 Shares and other equity acquisition	44,407	0.0	35,500	0.0	48,400	0.0	48,900	0.0	49,400	0.0
54 Loan repayments	296,829	0.1	277,376	0.1	297,376	0.1	297,376	0.1	297,376	0.1
55 Repayments of securities (other than shares)	9,389	0.0	9,317	0.0	9,317	0.0	9,317	0.0	9,317	0.0

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

Source: Ministry of Finance

Annex 5: Consolidated general government 2007–2011

	Execution 2007		2008 plan		2009 projection		2010 projection		2011 projection	
	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP	000 HRK	% of GDP
TOTAL REVENUES (6+7)	127,912,071	46.5	137,936,953	45.1	145,644,331	43.4	155,813,183	42.2	167,594,690	40.8
6 Operating revenues	126,621,570	46.0	136,767,255	44.7	144,333,588	43.1	154,553,158	41.9	166,382,242	40.5
61 Revenues from taxes	69,975,788	25.4	77,593,573	25.3	82,297,042	24.6	88,331,279	23.9	95,339,576	23.2
62 Contributions	37,203,486	13.5	41,370,661	13.5	44,127,843	13.2	47,452,810	12.9	50,761,869	12.3
63 Grants	493,529	0.2	1,023,974	0.3	975,365	0.3	701,049	0.2	780,878	0.2
64 Property income	9,526,467	3.5	6,364,884	2.1	6,132,642	1.8	6,530,399	1.8	7,006,523	1.7
65 Revenues from the sale of goods and services	8,739,100	3.2	9,747,512	3.2	10,111,735	3.0	10,802,792	2.9	11,701,860	2.8
66 Other revenue	683,199	0.2	666,650	0.2	688,962	0.2	734,828	0.2	791,537	0.2
7 Revenues from the sale of nonfinancial assets	1,290,501	0.5	1,169,698	0.4	1,310,743	0.4	1,260,025	0.3	1,212,448	0.3
71 Revenues from the sale of non-produced assets	483,725	0.2	541,800	0.2	650,000	0.2	690,000	0.2	616,400	0.1
72 Revenues from the sale of produced assets	608,819	0.2	623,098	0.2	660,743	0.2	570,025	0.2	596,048	0.1
74 Revenues from the sale of produced current assets	197,957	0.1	4,800	0.0	0	0.0	0	0.0	0	0.0
TOTAL EXPENSE (3+4)	132,269,346	48.1	141,779,289	46.3	148,456,933	44.3	156,906,233	42.5	166,707,401	40.5
3 Operating expense	119,229,851	43.3	131,410,261	42.9	137,465,739	41.0	145,700,106	39.5	155,252,230	37.8
31 Compensation of employees	23,352,205	8.5	25,064,639	8.2	27,550,530	8.2	29,997,597	8.1	32,238,472	7.8
32 Material expense	15,969,814	5.8	17,758,121	5.8	19,255,865	5.7	21,647,901	5.9	23,321,791	5.7
34 Financial expense	6,306,730	2.3	5,993,763	2.0	5,886,144	1.8	5,400,596	1.5	5,032,162	1.2
35 Subsidies	7,504,354	2.7	8,705,621	2.8	8,241,178	2.5	8,343,799	2.3	8,726,577	2.1
36 Grants	1,660,296	0.6	2,252,578	0.7	2,598,287	0.8	2,438,835	0.7	2,424,283	0.6
37 Compensations to citizens and households based on insurance and other compensations	55,715,999	20.3	60,357,832	19.7	62,851,176	18.7	66,308,922	18.0	70,260,612	17.1
38 Other expense	8,720,452	3.2	11,277,706	3.7	11,082,558	3.3	11,562,457	3.1	13,248,333	3.2
4 Expense for the acquisition of nonfinancial assets	13,039,495	4.7	10,369,028	3.4	10,991,194	3.3	11,206,127	3.0	11,455,171	2.8
41 Expense on the acquisition of non-produced assets	873,408	0.3	771,532	0.3	748,811	0.2	643,960	0.2	696,145	0.2
42 Expense on the acquisition of produced long-term assets	11,141,152	4.1	8,514,055	2.8	9,275,024	2.8	9,491,813	2.6	9,614,736	2.3
43 Expense on the acquisition of precious metals and other deposited valuables	9,817	0.0	6,358	0.0	6,440	0.0	6,510	0.0	6,570	0.0
44 Strategic inventories	36,574	0.0	124,000	0.0	10,000	0.0	10,000	0.0	10,000	0.0
45 Expense on additional investments in nonfinancial assets	978,544	0.4	953,082	0.3	950,919	0.3	1,053,843	0.3	1,127,720	0.3
TOTAL DEFICIT(-) / SURPLUS(+)	-4,357,275	-1.6	-3,842,337	-1.3	-2,812,602	-0.8	-1,093,050	-0.3	887,289	0.2
NET FINANCING	4,357,275	1.6	3,842,337	1.3	2,812,602	0.8	1,093,050	0.3	-887,289	-0.2
CHANGES TO DEPOSIT BALANCE	-1,933,364	-0.7	478,711	0.2	738,927	0.2	481,719	0.1	509,999	0.1
8 Income from financial assets and borrowings	15,612,498	5.7	14,782,372	4.8	15,425,086	4.6	14,619,975	4.0	11,868,223	2.9
81 Loan disposals	339,859	0.1	471,394	0.2	247,910	0.1	300,931	0.1	325,440	0.1
82 Securities (other than shares) disposals	7,888,892	2.9	3,720,000	1.2	11,728,804	3.5	11,205,534	3.0	8,350,000	2.0
83 Shares and other equity disposals	3,048,706	1.1	913,449	0.3	420,950	0.1	158,150	0.0	158,250	0.0
84 Loan incurrences	4,335,042	1.6	9,677,529	3.2	3,027,422	0.9	2,955,360	0.8	3,034,533	0.7
5 Expenses for financial assets and loan repayments	13,188,587	4.8	10,461,325	3.4	11,873,558	3.5	13,045,206	3.5	12,245,512	3.0
51 Loan acquisition	1,316,458	0.5	1,066,781	0.3	1,013,473	0.3	1,002,840	0.3	1,033,582	0.3
53 Shares and other equity acquisition	314,552	0.1	473,461	0.2	432,823	0.1	426,900	0.1	427,400	0.1
54 Loan repayments	5,077,619	1.8	3,878,540	1.3	5,192,603	1.5	4,612,109	1.2	2,591,669	0.6
55 Repayments of securities (other than shares)	6,479,957	2.4	5,042,543	1.6	5,234,658	1.6	7,003,356	1.9	8,192,862	2.0

Source: Ministry of Finance