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Ott, Katarina; Bajo, Anto

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# NEWSLETTER



Institute of Public Finance, HR-10000 Zagreb, Katančičeva 5 Croatia

P.O.Box 320, Phone: (385 1) 4819 363; Fax: 4819 365; e-mail: office@ijf.hr; www.ijf.hr

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Katarina Ott and Anto Bajo

## On the Amendments to the National Budget of the Republic of Croatia for 1999

This paper was prompted by the Amendments to the National Budget of the Republic of Croatia for 1999 (*Official Gazette* 70/99). Its objective is not to go into the soundness of the decisions of the government or the Parliament about the allocation of the revenue and expenditure of the Budget. E.g. whether it is necessary to buy fighter planes or not, or to increase or reduce salaries in the public sector. These things fall within the area of political decisions. It is up to the electorate to choose representatives that will make such decisions in line with their wishes. We shall attempt to ascertain in what conditions the amendments to the Budget are made, whether, as announced, it is really a reduction of the Budget that is at issue, what is actually being changed, and what the reasons for concern are. It is impossible to expect major changes in the Croatian Budget without correspondingly major changes in the entire political, social and economic situation of the country. For this reason we shall draw attention to some "technical" measures through which even in existing political circumstances, and with the application of existing regulations, the execution of the budget could be made more transparent and effective.

In the first part of the article we shall highlight some basic problems that show up during an evaluation of the Budget. In the second we shall

analyse the Budget and its amendments for 1999, in the third part we shall compare the amendments for 1999 and the outturn for 1998, in the fourth offer some conclusions, and in the fifth certain proposals.

### 1. Evaluation of the Budget

A budget is an instrument of economic policy through which it is possible to affect the level of employment and price stability, and encourage economic growth. While a decision is being made as to the size of a budget a large role is played by an estimate of the possible costs and the benefits that might appear, and that should be taken into consideration. The criterion should not be a proportional or across-the-board reduction of all expenses by a given percentage. The budget must not be an instrument through which large numbers will be peddled. Thus we could arrive at the level that still could be questionable.

A budget is proposed and passed on the basis of a good estimation of the key macroeconomic and also budgetary indicators. But for the budget to be able to work as an instrument of economic policy, it is necessary to pinpoint the exact state of affairs in public finances. Of particular importance, particularly in conditions of a decline in economic activity,

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are measures taken for the purpose of tightening financial discipline. A budget has to be based on transparent data about the financial activities of the state, which have to be provided at the same time as stepping up the fiscal discipline of budgetary and extra-budgetary users.

When the Budget was being passed, as when the amendments to it were made, some basic information essential for an estimate of the situation of the national finances was unfortunately neglected.

1. Neither in the Budget nor in the Budget Law (OG 92/94) was there any indication of the basic fiscal rules, such as the balancing of revenue and expenditure, restriction of the budgetary deficit or gross or net obligations of the state in terms of GDP, and so on.
2. There is a lack of analysis about the possible effects of a budgetary deficit on GDP, trends in the bank interest rate, the exchange rate, public sector salaries, number of beneficiaries of the welfare programme, financial restructuring (reconstruction of the banks and public corporations).
3. There is no information about the amount of contingent liabilities (arrears) and expenditure arrears.
4. Not even after these amendments is it clear how much taxpayers' money has been spent and how much still remains to be spent on bailing out the banks and public corporations.
5. The relationship between the Budget and the public enterprises still has not been properly defined or established, that is, how much of the profit of the public enterprises is transferred into the Budget.
6. The total amount of guarantees issued is not known, nor is there a plan according to which it could be ascertained the dynamics of the repayment plan relating to these guarantees. The guarantees can be an additional burden on budgetary expenditure and they are a potential threat of an increase in the public debt, which is usually manifested as an increase in the tax burden.
7. Not all the differences in the kuna and foreign currency Budget's accounts at commercial banks (Zagrebačka, Privredna) have been explained, nor are these amounts included into the single and unified account of the Budget in the CNB.

8. There are no plans for 2000, for example, whether the share of the state in GDP will go on increasing, what the total budget deficit will be, what the outlook for trends in GDP is, which capital projects will be financed and so on.
9. There is no projection of macroeconomic indicators and basic fiscal aggregates for any longer period.

### **2. Amendments to the Budget as against the original Budget for 1999<sup>1</sup>**

Amendments to the Budget for the current financial year are referred to as revision the Budget. Revision means a change in budgetary amounts, that is, their reduction or increase as compared with the originally planned Budget passed at the end of the previous for the current financial year. There is usually a revision of the Budget for some reasons of changes in the level of economic activity, on account of reduced revenues, or increased expenditure, and on account of unreal estimates of GDP. In the last five years in Croatia, this is the third budgetary revision (the earlier ones were in 1995 and 1998, see graph). The given with the revision of the Budget in 1999 claims that for the first time in a revision the items are reduced as compared with the Budget as originally planned.

The revenue of the revised Budget (Tab. 1) for 1999 is planned in the amount of 47.90 billion kuna. To this should be added revenue from the financing account in the amount of 5.09 billion kuna. The Budget account together with the financing account, then, comes to 53.00 billion kuna, to be distributed among individual budgetary beneficiaries. In the first part of this text we shall analyse the differences between the plan and the revision of the Budget for 1999.

#### *2.1 Analysis of revenue*

The revision of the Budget has reduced the total budgetary revenue (Tab. 1) by 2.3%, i.e. from 49.4 to 47.90 billion kuna.

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<sup>1</sup> The original National Budget of the Republic of Croatia was published in *Official Gazette (Narodne novine)* 167 of December 31, 1998, and the Amendments Act in *Official Gazette* 70, July 7, 1999.

**Tax revenue.** In the structure of current revenues, the greatest changes have been experienced in taxation revenue, which have been reduced by 2.5 billion kuna, i.e., 5.93%. The greatest reduction comes in VAT, by 1.94 billion kuna; revenue from custom duties and profit tax are also down, by 5%. Income tax revenue and other taxes, fees and contributions stay at the same level. Looking at the structure of taxation revenue (Tab. 3) it can be seen that the relative relationships among taxes are not significantly changed. The bulk is still made up of consumption taxes (VAT and excise), amounting to 69.32% of total taxation revenue.

Neither have non-taxation revenues undergone any substantial changes, amounting to 4.37% of total budgetary revenues (Tab. 1). The only major change is in road charges, which the revision increased by 115%.

The greatest rise comes in capital revenues, which make up 12.09% of budgetary revenues, that is, they have increased by 1.38 billion kuna or 31.46%. The main reason for the increase in this item is the expected revenue from privatisation, which should amount to 11.45% of budgetary revenue. This is an increase from 4.1 to 5.5 billion kuna, or a rise of about 33.8%.

## 2.2 Analysis of expenditure

**Total expenditure** in the Budget has been increased from 49.04 to 49.33 billion kuna, or by 0.58%. **Current expenditure** has been reduced by 2.66% and amounts to 77.39% of total budgetary expenditure. There are no striking changes in the structure of current expenditure. Current expenditure has been reduced by 1.87%, but nevertheless amounts to 33.73% of all budgetary expenditure. The greatest expenditure is wage costs, which have been reduced by only 0.65%, and still come to a high 29.57% of all budgetary expenditure. Financial and other expenses have been reduced 4.61%. The greatest item (2.37 billion kuna) is still made up of financial expenses relating to repayment of principal and interest on foreign and domestic debts.

**Capital expenditure.** Unlike current expenditure, which has been reduced, capital expenditure has been increased by 25.03%, that is, from 8 to 10 billion kuna, and makes up 20.37% of budgetary expenditure.

This great increase is the result of the construction of major facilities (index 723), and comes to 4.22% of budgetary expenditure. The difference observable in the capital items is the consequence of the rechanneling of resources, but also of a different accounting practices in recording individual capital items. Special attention should be devoted to transfers to extra-budgetary beneficiaries and abroad (index 314), which have increased from 1.5 to 4.76 billion, now making up 9.66% of total expenditure. Most of these resources go to cover the deficits in the extra-budgetary funds and the payment of guaranteed personal savings brought about by the bankruptcy or reconstruction of banks.

## 2.3 The financing account

The revision of the Budget is very largely based on borrowing abroad. A proof of this is an increase of the borrowing position from 3.8 to 5.09 billion kuna. Repayments of domestic and foreign debt were reduced from 3.83 billion to 3.6 billion kuna. The resources it is intended to obtain via borrowing are greater than the repayments and amount to 1.42 billion kuna. With this amount (1.42 billion) the difference between revenue and expenditure in the Budget is to be made up. At the end we have a balanced budget with an increased foreign debt.

In the financing account, the item for borrowing abroad has been increased, 1.5 billion kuna coming from the World Bank, 2.7 billion from the issue of Eurobonds, and a loan of 605 million kuna for road construction (Bechtel).

## 2.4 Expenditure in terms of budgetary beneficiaries

The revision of the Budget has resulted in an increase in total expenditure. We should recall that the budget plan for 1999, together with the financing account, came to 52.88 billion kuna, and after revision came to 53 billion, shared out among individual budgetary beneficiaries.

The greatest beneficiary of budgetary resources (Tab. 2) is still the Finance Ministry, with 10.95 billion kuna. This amount mainly relates to financial expenditure. The greatest item is interest on foreign and domestic loans (2.2 billion kuna) and repayment of the principal of foreign and domestic loans (3.6 billion kuna).

Ministry of Defence expenditure comes to 5.79 billion kuna, which is a reduction of some 200 million kuna, but still makes up 10.94% of expenditure.

It is interesting that the Economics Ministry has increased its share in budgetary expenditure by 504 million to 2.6 billion kuna. However, the greatest item is the purchase of claims and shares from the portfolio of the Pension Fund amounting to 2.24 billion kuna, meant to cover the expenditures of health and retirement insurance.

The distribution of resources according to beneficiaries shows that about 35.6 billion kuna (or 67% of budgetary resources) is spent on general public services (army, police, judiciary, education and so on), on beneficiaries that have a welfare component, and the repayment of principal and interest.

It is interesting that about 50 billion kuna are allocated to just the 14 greatest beneficiaries, and that less than 3 billion is allocated to the other 28 or 30 users (during the year the Privatisation Ministry was joined with the Economics Ministry, and the Ministry of Return and Immigration with the Reconstruction Ministry).

### **3. The revision of the 1999 Budget as compared with the outturn of the Budget of 1998**

In this part of the article we shall analyse the differences between the revised Budget of 1999 and the outturn of the Budget in 1998.

#### *3.1 Analysis of revenue*

**Taxation revenue.** Most of the items of the revised budgetary revenues for 1999 stayed more or less at the level of the outturn of the Budget of 1998. Thus current revenue, for example, is at the level of the outturn of 1998 (42 billion kuna). Most important in current revenue is taxation. Taxation revenue makes up 83.5% of budgetary revenue and has in relative terms reduced its share in the Budget. However, in absolute terms tax revenue has increased by about 100 million kuna and amounts to 40 billion kuna.

In the structure of tax revenue (Tab. 3) still at the top is revenue derived from VAT (20.8 billion kuna), which amounts to 52.15% of taxation revenue. If we add to VAT the revenue from excise and

sales tax, indirect taxation makes up about 70% of tax revenue, as it did in 1998.

**Non-taxation revenue** (Tab. 1) is planned in the revision of the budget in the amount of 2.09 billion kuna, and constitutes 4.37% of budgetary revenue. Of particular interest is the increase of non-taxation revenue that relates to revenue from financial and non-financial public enterprises. On the whole this revenue was obtained on the basis of the operating profits of the public enterprises, in the amount of 1.07 billion kuna, which is transferred to the Budget. This item amounts to 2.3% of budgetary revenue, and has increased its share in the Budget by 63%.

For the first time in the Budget, **capital revenue** is greater than non-taxation revenue. Capital revenue constitutes as much as 12.09% of budgetary revenue, that is, have risen 186%. Optimism is based on anticipated revenue from the privatisation of the public enterprises in the amount of 5.48 billion kuna. It is unclear what will be offered for sale apart from Croatian Telecommunications. It is expected that, via the Economics Ministry (which has incorporated the Privatisation Ministry) there will be an endeavour to acquire additional resources from the privatisation of some public enterprises and banks from the portfolio of the Pension Fund, in the amount of 2.2 billion kuna. This amount will very likely be used to make up the deficit in the Pension Fund. If, however, these optimistic effects of privatisation fail to materialise, it could easily happen that by the end of the year we will be looking at another revision.

#### *3.2 Revenue in terms of GDP*

It is necessary to mention the relation between taxation revenue and GDP. In the justification of the revision of the Budget it says that "the revision of the budget departs from the assumption that in 1999 there will be no real economic growth – 0% rate of growth in conditions of borrowing and price stability". It is a question to what extent the anticipated amounts will actually be collected if GDP is at a still lower level. Let us have a look at data about GDP and taxation revenue in the 1995-1999 period.

Taxation revenue as a share of GDP has increased from 26.9% in 1995 to 28.8% in 1998. We should recall that in 1998 the greatest rise in GDP in the period under observation occurred. It is clear that taxation revenue as a share in GDP has reached

its peak. In order to carry on increasing the tax revenue share in total revenue, economic activity (and the level of employment) would have to rise, with private capital being the driving force. This cannot be done in the context of a Budget, being the main source of the solvency / insolvency of the Croatian economy, directed towards the solution of the deficits of the extra-budgetary funds and the public enterprises and to bailing out not only state-owned but also private banks.

In conditions of a reducing GDP, the burden of the financing of expenditure could be transferred still more to the taxpayer. We recall that the Finance Ministry in its explanation of the Budget started from the premise of zero rate economic growth in 1999. But it is also necessary to pay very serious attention to the estimates of the IMF (notes to World Economic Outlook) in which it is stressed that a fall of economic activity of 2% is expected in Croatia in 1999. This means a GDP at a level lower than that used for calculations while the budget was being revised. Just how serious the situation is was confirmed by the Finance Ministry in the August monthly statistical review, in which it says that the physical volume of production in the first six months was 1.9% lower than in the same period for the preceding year.

### 3.3 Analysis of expenditure

**Current expenditure.** Total budgetary expenditure comes to 49.3 billion kuna, exceeding the outturn of the 1998 Budget by 15.94%. The lion's share in current expenditure is accounted for by salaries and other remunerations, which are 3.3 billion kuna, or 12%, greater.

Financial and other kinds of expenditure has been reduced by 1.95 billion kuna (index 74.48), but it still amounts to 11.54% of budgetary expenditure. The most important part of the financial expenditure is accounted for by payment of interest, 1.22 billion on foreign loans and 984 million on domestic loans.

The share of current transfers to budgets and budgetary beneficiaries is reduced. This is actually a matter of a change in accounting practices with respect to this position in the plans and execution of the budget. For this reason it is essential to look also at the transfers and grants to extra-budgetary beneficiaries and abroad. The biggest items are

transfers to households and non-financial organisations. On the whole this is to do with welfare transfers in the amount of 3.3 billion kuna, or 6.75% of budgetary expenditure. Mostly, the extrabudgetary funds are financed from the Budget, which is shown by the increase in the transfers to these funds, in the amount of 6.3 billion kuna, or 12.82% of budgetary expenditure. Some 1.08 billion kuna or 2.19% of budgetary expenditure has been set aside for agriculture.

Other increased current transfers in the amount of 2.07 billion kuna (2.4% of expenditure) certainly deserve close attention. This amount is spent on the salaries, deficit financing and restructuring of Croatian Railways.

As far as current expenditure is concerned, it can be summed as the paying of salaries, the repayment of debts and patching up the deficits of the extra-budgetary funds and the public corporations.

**Capital expenditure** amounts to 20.37% of budgetary expenditure, and has increased by 54%. In the structure of capital expenditure, prominence is given to expenditure for state owned buildings (955 million kuna, a reduction of 26%) and office furnishing and equipment (224 million kuna, or 14% more). Although there is a relative fall in the share taken in the total budgetary expenditure, the construction of capital facilities has actually absolutely increased from 1.9 to 2.08 billion kuna.

Capital transfers to budgets and budgetary beneficiaries come to 1.2 billion kuna, and relate to health, universities and public order and security. Capital transfers abroad and to extra-budgetary beneficiaries come to 4.76 billion kuna. The lion's share goes to the Pension Fund, health care, child supplements and employment supplements. As much as 1.79 billion kuna goes on payments under the savings security scheme. It is unclear what "other capital transfers" of some 725 million kuna are used for.

### 3.4 The financing account

The main difference in the financing account in 1998 and 1999 is in the levels of borrowing and repayment. In 1998 repayments amounted to 4.29 billion kuna, and borrowing, largely abroad, was at the level of 2.8 billion kuna. The difference, of 1.49 billion, was financed thanks to an increased inflow of resources following the introduction of VAT.

We might recall that this “surplus” (which was used for pay rises in the civil service and to cover the deficits of the extra-budgetary funds) because of which we are having this revision of the budget today amounted in 1998 to 7 billion kuna. Revision of the budget in 1999 has increased the financing account, in the part relating to borrowing, by 81% as compared with 1998. Borrowing at 5.09 billion kuna is 1.42 billion kuna greater than repayments (3.66 billion kuna). This difference will be used to bridge the gap between the revenue and the expenditure of the Budget. The Budget was balanced in both 1998 and 1999, with the proviso that in 1998 it showed a surplus (revenue was greater than expenditure). In 1999, there is a budgetary deficit of 1.4 billion kuna, which has to be supplied by borrowing from foreign financial institutions.

### *3.5 Expenditure in terms of GDP*

Unlike tax revenue, which can be said to be falling slightly, its share in GDP decreasing, budgetary expenditure's share in GDP is increasing. Budgetary expenditures, 30.41% in 1995, rose to 33.84% of GDP in 1998. Particularly interesting is the fact that in spite of the zero rate of growth of GDP in 1999, budgetary expenditure increased its share in GDP by 1.2%. This is the largest share taken by budgetary expenditure in GDP recorded in the recent five-year period. Assuming a 2% fall in GDP (to a level of 135.6 billion kuna) and an unchanged level of expenditure, the share of budgetary expenditure could well climb by 1.2%, viz. to 36.24% of GDP:

## **4. Conclusions**

The Budget was revised during a time in which economic activity was in decline, which is reflected in a fall in GDP. Now it can with certainty be stated that there will be no rise in GDP, and that in fact a fall that might amount to as much as 2% can be expected. In such conditions it is to be expected that there will be an increase in the level of unemployment, which currently stands at 19%.

In the revision, budgetary revenue was cut to 47.90 billion kuna. Expenditure, however, is planned in the amount of 49.33 billion kuna. When the financing account is taken into consideration, and when the available resources are spread out among the users, this is a Budget that amounts in

total to 53 billion kuna. In other words, the Budget has been increased from 52.8 to 53 billion kuna.

It is expected that budgetary expenditure will take up a full 35% of GDP. This is the highest share to date. If there is a largish reduction in GDP, the share might be even greater, coming to 36.2%.

Aware of the difficulties of the economic environment, the proposer of the Budget has not made any direct statement about the amount of foreign borrowing. It is still an open question how much debt will be entered from abroad in order to solve the accumulated problems of the extrabudgetary funds. A large portion of the Budget, that is, is channelled in the direction of the deficits of the pension and healthcare funds. To this, one certainly has to add the payment of personal savings (via the Agency for the Security of Savings and the Reconstruction of the Banks) and the reconstruction of the public enterprises. Since there is a shortage of funds to cover this expenditure, revenue from privatisation is eagerly looked forward to as the main source. To date, however, it has not been made at all clear which public enterprises and banks (save for Croatian Telecom) will be sold, and under what conditions. It is also unclear how the revenue obtained from privatisation will be used. It is not clear how much of the revenue will be used for current, and how much for capital expenditure. Considering the severity of the economic situation, it is expected that some of the revenue from privatisation will be used to finance current expenditure, that is, to pay salaries in the public sector, to pay off foreign loans and to finance the deficits of the extrabudgetary funds. Increased need to finance such expenditure has forced the government and the Finance Ministry to increase the share of Croatian Telecom to be sold to a foreign strategic investor from 25 to 35%.

What is particularly worrying is that apart from financing through the Budget, very considerable amounts have been committed by para-fiscal instruments, guarantees. Companies obtain government guarantees for foreign loans, mainly for financing exports. The problem is that there are more and more such guarantees, and with the increase in their number and the amounts for which they are given, the likelihood of redemption being made on time is reduced. In a given moment this could become a serious threat to an increase in the public debt. Another problem is that an increasing num-

ber of these guarantees are actually directed towards the payment of wages.

Increased borrowing abroad is probably linked with the expectation that the effects of privatisation in the public enterprises will make up the difference that is expected through the taking of foreign loans. If this does not work out, this Budget too could very well turn out to be more of a pious hope than a realistic possibility.

## 5. Proposals

To close with, we propose some measures that might contribute to a strengthening of the budgetary process, and, with a clear division of roles and responsibilities, ensure a more transparent system of public finances. In this manner the business of the government in carrying out fiscal policy measures and the role of the Parliament in keeping an eye on this policy would be made easier. The creation of a more transparent and open system that could be more easily controlled and supervised would assist in the construction of a more effective defence mechanism against abuse and corruption. Concrete measures are as follows:

1. Budgetary resources to be committed to users only on the basis of presentation of agendas with a detailed elaboration of the purpose for which the funds will be spent, and with the effects of the resources stated, with the expected rates of return and so on.
2. Consistent implementation of the provisions of the Budget Law, especially the part of it that relates to planning the Budget, and the provisions of the Regulations about Budgetary Control and Internal Control (*OG* 92/96).
3. Reactivation of the Decision about the procedures for the organisation and implementation of the national treasury system plan (*OG* 26/96), which entails the appointment of a Control Commission for the implementation of the national treasury system. Also needing to be put into action is the Decree about the composition of the treasury book, and the manner in which

the single account of the treasury is to be run (*OG* 97/95).

4. Coordination of accounting practice in monitoring the Budget, that is, coordinating the plans of the Budget with all the positions of the Budget as executed. Otherwise it is very difficult to establish how great the capital transfers abroad and to extrabudgetary beneficiaries are, or transfers to budgets and budgetary users.
5. Frequent revision of the Budget indicates that it is necessary to improve the work and procedures in planning the Budget, with a particular accent on a more realistic estimation of key budgetary indicators (revenue and expenditure), which have to be brought into line with GDP changes.
6. An estimate and an analysis have to be made of the risks of bank and public enterprises reconstruction on the outturn of the Budget.
7. Setting up a mechanism for the analysis and control of the public debt, borrowings and guarantees issued, and passing a law on the public debt.
8. The establishment of how much is spent on the basis of borrowing on capital projects, and how much on current expenditure. To increase fiscal discipline, it should certainly be stated in the Budget what the fiscal rules restrict, in terms of percentages of GDP, government borrowing, and even stipulated that funds obtained from borrowing abroad should be used exclusively for financing capital expenditure.
9. All the differences of the kuna and foreign currency accounts of the Budget (and of the extra-budgetary funds) in commercial banks should be clarified and they should be included in the single unified account of the budget at the CNB. It should be ensured that all payments are made through and recorded in the single unified Budget account at the CNB.
10. The evaluations of the State Auditing Office have to be accepted, and prompt reactions made in line with the instructions of this office.



Table 1

BUDGET REVENUES	1998		1999		1999		Index	
	Outturn (kn)	%	Plan (kn)	%	Revisions (kn)	%	R '99 / '98	R '99 / P'99
<b>TOTAL REVENUE (I+II)</b>	<b>44.043.313.204</b>	<b>100,00</b>	<b>49.047.850.000</b>	<b>100,00</b>	<b>47.908.567.466</b>	<b>100,00</b>	<b>108,78</b>	<b>97,68</b>
<b>I. Current revenue (A + B)</b>	<b>42.019.401.091</b>	<b>95,40</b>	<b>44.642.150.000</b>	<b>91,02</b>	<b>42.117.050.000</b>	<b>87,91</b>	<b>100,23</b>	<b>94,34</b>
<b>A. Tax revenue:</b>	<b>39.899.693.641</b>	<b>90,59</b>	<b>42.547.792.400</b>	<b>86,75</b>	<b>40.022.692.400</b>	<b>83,54</b>	<b>100,31</b>	<b>94,07</b>
a) Income tax and surtax	4.914.825.345	11,16	4.603.535.000	9,39	4.603.535.000	9,61	93,67	100,00
b) Tax on profits	2.461.148.873	5,59	2.936.380.000	5,99	2.768.833.000	5,78	112,50	94,29
c) Real estate tax	270.924.769	0,62	349.715.000	0,71	260.060.000	0,54	95,99	74,36
d) General sales, turnover, or value added taxes	27.968.251.390	63,50	29.791.316.700	60,74	27.742.070.700	57,91	99,19	93,12
1. Value added tax	20.228.226.337	45,93	22.521.719.671	45,92	20.871.004.671	43,56	103,18	92,67
2. Excise	5.767.980.481	13,10	6.619.597.029	13,50	6.573.628.029	13,72	113,97	99,31
3. General sales tax	1.972.044.571	4,48	650.000.000	1,33	297.438.000	0,62	15,08	45,76
e) Customs duties and fees	4.256.328.996	9,66	4.333.565.000	8,84	4.114.913.000	8,59	96,68	94,95
f) Other taxes	28.214.265	0,06	533.280.700	1,09	533.280.700	1,11	1.890,11	100,00
<b>B. Nontax revenue</b>	<b>2.119.707.450</b>	<b>4,81</b>	<b>2.094.357.600</b>	<b>4,27</b>	<b>2.094.357.600</b>	<b>4,37</b>	<b>98,80</b>	<b>100,00</b>
a) Entrepreneurial and property income	855.958.063	1,94	1.325.866.000	2,70	1.325.866.000	2,77	154,90	100,00
1. Concession charges		0,00	232.512.000	0,47	232.512.000	0,49		100,00
2. From NFPE and public financial institutions	654.706.595	1,49	1.070.000.000	2,18	1.070.000.000	2,23	163,43	100,00
3. Revenue from interest and exchange rate differences	2.160.605	0,00	2.420.000	0,00	2.420.000	0,01	112,01	100,00
4. Other revenue from entrepreneur and property income	199.090.861	0,45	20.934.000	0,04	20.934.000	0,04	10,51	100,00
b) Administrative fees and charges	532.697.188	1,21	119.237.600	0,24	119.237.600	0,25	22,38	100,00
c) Fines and forfeits	308.146.676	0,70	642.604.000	1,31	391.270.000	0,82	126,98	60,89
1. Fines	422.905.520	0,96	391.270.000	0,80	251.334.000	0,52	59,43	64,24
2. State administration bodies revenue	155.994.198	0,35	190.618.000	0,39	120.618.000	0,25	77,32	63,28
3. Roads charges	271.762.433	0,62	60.716.000	0,12	130.716.000	0,27	48,10	215,29
d) Other revenue	35.148.888	0,08		0,00		0,00	-	
e) Income from government operations (paid into the budget)			6.650.000	0,01	6.650.000	0,01		100,00
<b>II. Capital revenue</b>	<b>2.023.912.112</b>	<b>4,60</b>	<b>4.405.700.000</b>	<b>8,98</b>	<b>5.791.517.466</b>	<b>12,09</b>	<b>286,15</b>	<b>131,46</b>
a) Sales of land	591.546.194	1,34	200.000	0,00	200.000	0,00	0,03	100,00
1. Revenue from sales of state owned buildings	591.337.692	1,34	300.500.000	0,61	300.500.000	0,63	50,82	100,00
2. Other revenue from sales of property	208.501	0,00	5.000.000	0,01	5.000.000	0,01	2.398,07	100,00
b) Revenue from privatisation/sales enterprises	1.432.365.918	3,25	4.100.000.000	8,36	5.485.817.466	11,45	382,99	133,80

  

BUDGETARY EXPENDITURE	1998		1999		1999		Index	
	Outturn (kn)	%	Plan (kn)	%	Revisions (kn)	%	R '99 / '98	R '99 / P'99
<b>TOTAL EXPENDITURE</b>	<b>42.551.916.354</b>	<b>100,00</b>	<b>49.047.850.000</b>	<b>100,00</b>	<b>49.334.031.813</b>	<b>100,00</b>	<b>115,94</b>	<b>100,58</b>
<b>I. Current expenditure (a+b+c+d+e+f)</b>	<b>34.881.059.868</b>	<b>81,97</b>	<b>39.220.268.398</b>	<b>79,96</b>	<b>38.177.553.711</b>	<b>77,39</b>	<b>109,45</b>	<b>97,34</b>
a) Expenditure on goods and services	14.813.235.469	34,81	16.956.683.015	34,57	16.639.786.024	33,73	112,33	98,13
Personnel expenditures (Wages and salaries, employee contribution)	13.030.296.368	30,62	14.685.627.476	29,94	14.589.929.739	29,57	111,97	99,35
Expenses for materials, energy, utilities and other services	1.200.961.683	2,82	1.555.941.592	3,17	1.376.335.669	2,79	114,60	88,46
Expenses for current maintenance	581.977.417	1,37	706.313.947	1,44	665.600.616	1,35	114,37	94,24
Expenditures for materials and services to carry out own production and services		0,00	8.800.000	0,02	7.920.000	0,02		90,00
b) Financial and other external expenses	7.644.517.290	17,97	5.968.979.527	12,17	5.693.732.001	11,54	74,48	95,39
Agriculture and forestry	17.889.655	0,04	40.835.148	0,08	38.794.944	0,08	216,86	95,00
Education affairs and services	47.173.045	0,11	62.899.051	0,13	59.372.267	0,12	125,86	94,39
Expenditures for geodetic survey			29.507.000	0,06	26.432.800	0,05		89,58
Environment protection	16.580.089	0,04	25.001.682	0,05	22.049.709	0,04	132,99	88,19
Financial expenses	2.064.233.503	4,85	2.369.847.928	4,83	2.370.451.290	4,80	114,83	100,03
Expenses for statistical research	9.317.774	0,02	15.720.859	0,03	10.242.100	0,02	109,92	65,15
Health affairs and services	4.470.112	0,01	14.769.593	0,03	12.867.164	0,03	287,85	87,12
Defence affairs and services	3.838.530.810	9,02	2.534.083.363	5,17	2.315.104.063	4,69	60,31	91,36
Public order and safety affairs	572.426.949	1,35	251.000.000	0,51	243.454.000	0,49	42,53	96,99
Expenses for transport safety	5.016.989	0,02	6.800.000	0,01	6.120.000	0,01	121,99	90,00
Other expenses	1.068.878.362	2,51	618.514.903	1,26	588.843.664	1,19	55,09	95,20

Table 1 - continued	1998		1999		1999		Index	
	Outturn (kn)	%	Plan (kn)	%	Revision (kn)	%	R 1999	R'99/
<b>e) Current transfers to budgets and budgetary beneficiaries</b>	6.624.125.190	15,57	1.805.351.026	3,68	1.690.589.532	3,43	25,52	93,64
Current transfer to state institutions	6.091.520.187	14,32	1.306.914.748	2,66	1.207.305.704	2,45	19,82	92,38
Current transfers to other levels of of national government	530.025.003	1,25	160.500.000	0,33	446.911.278	0,91	84,32	278,45
Current transfer among budget beneficiaries inside ministries			7.930.000	0,02	7.261.550	0,01		91,57
Current transfer to the same level of government	2.580.000	0,01	3.220.000	0,01	5.716.000	0,01	221,55	177,52
Other current transfers			21.550.000	0,04	23.395.000	0,05		108,56
<b>d) Current transfers and subsidies to extrabudgetary beneficiaries and beneficiaries abroad</b>	2.521.050.540	5,92	11.287.855.382	23,01	11.001.762.640	22,30	436,40	97,47
Current transfers to citizens, household and nonfinanc.institutions	2.493.400.154	5,86	3.340.351.670	6,81	3.329.380.259	6,75	133,53	99,67
Transfers to nonprofit institutions			714.127.579	1,46	684.205.831	1,39		95,81
Current transfers to finan. instit and monetary authority	727.735	0,00	1.130.900	0,00	1.017.810	0,00	139,86	90,00
Current transfers to extrabudgetary funds			6.492.937.297	13,24	6.323.637.297	12,82		97,39
Current transfers abroad	26.922.651	0,06	721.717.936	1,47	649.331.443	1,32	2411,84	89,97
Other subsidies and transfers to nonbudgetary beneficiaries			17.590.000	0,04	14.190.000	0,03		80,67
<b>e) Subsidies</b>	1.044.812.256	2,46	1.085.590.000	2,21	1.080.510.000	2,19	103,42	99,53
<b>f) Other current transfers</b>	2.233.319.121	5,25	2.115.809.448	4,31	2.071.173.514	4,20	92,74	97,89
<b>II Capital expenditure</b>	6.511.984.900	15,30	8.037.585.886	16,39	10.049.735.075	20,37	154,33	125,03
Acquisition of fixed capital assets and investment maintenance								
Acquisition of fixed capital assets	4.053.591.476	9,53	4.712.560.534	9,61	4.076.819.469	8,26	100,57	86,51
State owned land and forest	126.229.895	0,30	315.120.000	0,64	231.050.000	0,47	183,04	73,32
Acquisition of state owned buildings	1.283.925.968	3,02	1.106.501.620	2,26	955.294.370	1,94	74,40	86,33
Acquisition of office furniture and equipment	195.746.478	0,46	270.732.243	0,55	224.296.512	0,45	114,59	82,85
State owned vehicles	18.986.935	0,04	19.254.000	0,04	13.864.000	0,03	73,02	72,01
Equipment, plant	15.000.000	0,04	7.000.000	0,01	5.215.000	0,01	34,77	74,50
Other fixed assets	47.403.899	0,11	23.123.000	0,05	16.489.162	0,03	34,78	71,31
Intangible assets in state property	161.511.400	0,38	202.816.030	0,41	170.779.247	0,35	105,74	84,20
Purchases of stocks	1.967.102	0,00	3.267.000	0,01	2.036.377	0,00	103,52	62,33
Construction of capital facilities	1.949.125.618	4,58	287.392.707	0,59	2.080.521.144	4,22	106,74	723,93
Investment maintenance	253.694.177	0,60	477.353.934	0,97	377.273.657	0,76	148,71	79,03
Capital transfers to budg. and budget beneficiaries	2.458.393.424	5,78	1.811.514.423	3,69	1.207.093.973	2,45	49,10	66,63
Capital transfers to extrabudgetary beneficiaries and beneficiaries abroad			1.513.510.929	3,09	4.765.821.633	9,66		314,89
<b>III. State loans given and share in principal</b>	1.876.222.143	4,41	2.039.995.716	4,16	1.356.743.027	2,75	72,31	66,51
<b>IV. Repayment (of state loans)</b>	-28.350.557	-0,07	-250.000.000	-0,51	-250.000.000	-0,51	881,82	100,00
<b>FINANCING ACCOUNT</b>								
<b>Debt of RC (borrowing minus repayments)</b>	-1.491.396.850				1.425.464.347			
<b>I. Lending</b>	2.803.139.752	100,00	3.831.017.329		5.094.886.796		181,76	132,99
Domestic debt of RC (from monet.authority, NBC) - change in deposits of state budget	112.392.322	4,01					0,00	
Foreign debt of RC	2.690.747.430	95,99			5.094.886.796		189,35	
<b>II. Repayments</b>	4.294.536.603	100,00	3.831.017.329	100,00	3.669.422.449	100,00	85,44	95,78
Domestic debt of RC	2.266.777.818	54,10	2.325.661.329	60,71	2.396.011.397	60,71	105,7	103,02
Foreign debt of RC	2.027.758.784	45,90	1.505.356.000	39,29	1.273.411.052	39,29	62,8	84,59

Legend: R - revisions; P - plan

Source: State Budget of Republic of Croatia for 1999, *Official Gazette No. 167/98*, Revisions of State Budget for 1998 and 1999, *Official Gazette No. 90/98 and 70/99*.

Table 2

### BUDGET EXPENDITURES 1999 - PLAN AND REVISION

	Plan 1999	%	Cummulative Kn	Cumm ul. %	Revision 1999	%	Cummulative Kn	Cumm ul. %
Ministry of Finance	10.640.315.418	20,12	10.640.315.418	20,12	10.957.201.568	20,67	10.957.201.568	20,67
Ministry of Defence	6.083.996.665	11,51	16.724.312.083	31,63	5.798.458.328	10,94	16.755.659.896	31,61
Ministry of Maritime Affairs, Transportation and Communication	5.633.750.996	10,65	22.358.063.079	42,28	4.755.676.628	8,97	21.511.336.524	40,58
Ministry of Labor and Social Affairs	5.329.300.000	10,08	27.687.363.079	52,63	5.292.938.771	9,99	26.804.275.295	50,57
Ministry of Education and Sports	4.684.405.694	8,86	32.371.768.773	61,22	4.519.567.890	8,53	31.323.843.185	59,10
Ministry of Internal Affairs	3.302.649.000	6,25	35.674.417.773	67,46	3.187.376.429	6,01	34.511.219.614	65,11
Ministry of Development and Reconstruction	2.577.060.000	4,87	38.251.477.773	0,00	2.435.383.966	4,59	36.946.603.580	69,71
Ministry of Croatian Homeland War Veterans	2.611.600.000	4,94	40.863.077.773	4,94	2.382.149.225	4,49	39.328.752.805	74,20
State Agency for Family Maternity and Youth Protection	2.091.112.226	3,95	42.954.189.999	8,89	2.090.531.619	3,94	41.419.284.424	78,14
Ministry of Science and Technology	1.974.681.869	3,73	44.928.871.868	12,63	1.875.604.001	3,54	43.294.888.425	81,68
Ministry of Agriculture and Forestry	1.554.912.000	2,94	46.483.783.868	15,57	1.444.189.655	2,72	44.739.078.080	84,41
Ministry of Health	1.369.900.000	2,59	47.853.683.868	18,16	1.341.935.974	2,53	46.081.014.054	86,94
Ministry of Justice	1.086.652.490	2,05	48.940.336.358	20,21	1.037.495.478	1,96	47.118.509.532	88,90
Ministry of Legal Affairs	573.946.945	1,09	49.514.283.303	21,30	554.663.841	1,05	47.673.173.373	89,94
Ministry of Culture	549.415.513	1,04	50.063.698.816	22,34	480.000.411	0,91	48.153.173.784	90,85
Water - Supply State Agency	541.298.798	1,02	50.604.997.614	23,36	480.498.303	0,91	48.633.672.087	91,76
Ministry of Economy	504.652.383	0,95	51.109.649.997	24,32	2.657.352.160	5,01	51.291.024.247	96,77
Ministry of Foreign Affairs	349.359.102	0,66	51.459.009.099	24,98	332.310.538	0,63	51.623.334.785	97,40
Ministry of Tourism	286.843.800	0,54	51.745.852.899	25,52	350.561.346	0,66	51.973.896.131	98,06
Government of the Republic of Croatia	210.708.457	0,40	51.956.561.356	25,92	192.675.167	0,36	52.166.571.298	98,42
Croatian Center for Demining	203.196.386	0,38	52.159.757.742	26,30	191.907.442	0,36	52.358.478.740	98,78
Other budget beneficiaries (23)	719.109.587	0,00	52.878.867.329	100,00	644.975.522	0,00	53.003.454.262	100,00
<b>TOTAL EXPENDITURE</b>	<b>52.878.867.329</b>	<b>100,00</b>			<b>53.003.454.262</b>	<b>100,00</b>		

Table 3.

### THE MAIN CENTRAL GOVERNMENT TAXES AS PERCENTAGE OF TOTAL TAX REVENUES OF CENTRAL GOVERNMENT

	Outtutm 1998	%	Plan 1999	%	Revision 1999	%	R '99/ '98	R '99 / P '99
<b>Tax revenues - Total</b>	<b>39.899.693.641</b>	<b>100,00</b>	<b>42.547.792.400</b>	<b>100,00</b>	<b>40.022.692.400</b>	<b>100,00</b>	<b>100,31</b>	<b>94,07</b>
<b>1. Income tax and surtax</b>	<b>4.914.825.345</b>	<b>11,54</b>	<b>4.603.535.000</b>	<b>10,82</b>	<b>4.603.535.000</b>	<b>11,50</b>	<b>93,67</b>	<b>100,00</b>
<b>2. Tax on profits</b>	<b>2.461.148.873</b>	<b>4,72</b>	<b>2.936.380.000</b>	<b>6,90</b>	<b>2.768.833.000</b>	<b>6,92</b>	<b>112,50</b>	<b>94,29</b>
<b>3. Real estate tax</b>	<b>270.924.769</b>	<b>0,58</b>	<b>349.715.000</b>	<b>0,82</b>	<b>260.060.000</b>	<b>0,65</b>	<b>95,99</b>	<b>74,36</b>
<b>4. General sales, turnover, or value added taxes</b>	<b>27.968.251.390</b>	<b>70,07</b>	<b>29.791.316.700</b>	<b>70,02</b>	<b>27.742.070.700</b>	<b>69,32</b>	<b>99,19</b>	<b>93,12</b>
<b>a) Value added tax</b>	<b>20.228.226.337</b>	<b>49,61</b>	<b>22.521.719.671</b>	<b>52,93</b>	<b>20.871.004.671</b>	<b>52,15</b>	<b>103,18</b>	<b>92,67</b>
<b>b) Excise</b>	<b>5.767.980.481</b>	<b>15,79</b>	<b>6.619.597.029</b>	<b>15,56</b>	<b>6.573.628.029</b>	<b>16,42</b>	<b>113,97</b>	<b>99,31</b>
<b>c) General sales tax</b>	<b>1.972.044.571</b>	<b>4,66</b>	<b>650.000.000</b>	<b>1,53</b>	<b>297.438.000</b>	<b>0,74</b>	<b>15,08</b>	<b>45,76</b>
<b>5. Customs duties and fees</b>	<b>4.256.328.996</b>	<b>11,83</b>	<b>4.333.565.000</b>	<b>10,19</b>	<b>4.114.913.000</b>	<b>10,28</b>	<b>96,68</b>	<b>94,95</b>
<b>6. Other taxes</b>	<b>28.214.265</b>	<b>1,25</b>	<b>533.280.700</b>	<b>1,25</b>	<b>533.280.700</b>	<b>1,33</b>	<b>1890,11</b>	<b>100,00</b>

Legend: R- revision, P - plan

Source: Ministry of finance of Croatia, 1999

**Table 4**

**TAXATION REVENUE AS A PERCENTAGE OF GDP (IN THOUSANDS OF KUNA)**

	1995	1996	1997	1998	Estimate 1999	Estimate 1999
<b>GDP</b>	<b>98,382,000</b>	<b>107,980,600</b>	<b>124,881,000</b>	<b>138,392,000</b>	<b>140,393,800*</b>	<b>135,625,000**</b>
<b>Taxation revenue</b>	<b>26,505.353</b>	<b>28,530,426</b>	<b>31,338,172</b>	<b>39,899,694</b>	<b>40,002,692</b>	<b>40,002,692</b>
<b>Tax revenue as % of GDP</b>	<b>26.94%</b>	<b>26.42%</b>	<b>25.09%</b>	<b>28.83%</b>	<b>28.49%</b>	<b>29.49%</b>

\* GDP estimate for 1999 from the IMF

Source: GDP 1995-1998: National Statistics Office; GDP for 1999 and taxation revenue Finance Ministry

**Table 5**

**BUDGETARY EXPENDITURE AS PERCENTAGE OF GDP (IN THOUSANDS OF KUNA)**

	1995	1996	1997	1998	Plan 1999	Estimate 1999
<b>Gross Domestic Product</b>	<b>98,382,000</b>	<b>107,980,600</b>	<b>124,881,000</b>	<b>138,392,000</b>	<b>140,393,800*</b>	<b>135,625,000**</b>
<b>Total expenditure</b>	<b>29,917,614</b>	<b>34,104,088</b>	<b>38,196,971</b>	<b>46,836,433</b>	<b>49,000,000</b>	<b>49,000,000</b>
<b>Expenditure as % of GDP</b>	<b>30.41%</b>	<b>31.58%</b>	<b>30.59%</b>	<b>33.84%</b>	<b>35%</b>	<b>36.24%</b>

\* GDP for 1999: estimate of the Finance Ministry.

\*\* GDP for 1999: estimate of the IMF.

Source: GDP for 1995-1999, National Statistics Office; Budgetary expenditure 1995-1999, Ministry of Finance, RC