

GOVERNMENT OF THE REPUBLIC OF CROATIA

2005 PRE-ACCESSION ECONOMIC PROGRAMME

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INTRODUCTION

The Pre-accession Economic Programme (PEP), with the Fiscal notification is the most significant document prepared by EU candidate countries within the framework of multilateral fiscal surveillance. The objective of the PEP is twofold; on the one hand, to formulate an appropriate economic policy and structural reforms and on the other, to develop institutional and analytical capacities for participation in procedures involving multilateral Economic and Monetary Union surveillance. Therefore, PEP may be seen as a forerunner of the Convergence Program and National Reform Programme, prepared annually by the Member States. The Republic of Croatia submitted its first PEP to the European Commission in 2004, in which it presented the country's mid-term economic policy program for the period 2005 – 2007.

The 2005 PEP is an independent document which in a certain way follows up on the 2004 PEP, in terms of providing an assessment of the condition of the Croatian economy and the country's efficacy in the implementation of its measures in 2005. It provides a clear definition of the country's mid-term economic policy and priorities in the framework of structural reforms planned for the 2006-2008 period, which the Republic of Croatia undertakes to implement with a view to achieving more robust economic growth and approximation to the economy of the European Union. The 2005 PEP is the result of co-operation between various line ministries, government offices and institutions, the Croatian National Bank and unions' and employers' representatives.

Economic program shown in this document is based on the program of the Government of the Republic of Croatia covering the period of this Government's term of office. It is in line with a number of documents such as the Guidelines for Economic and Fiscal Policy 2006-2008 and programs adopted in the framework of co-operation of the Republic of Croatia with international institutions. It is also in line with the proclaimed objectives of the country's EU accession and represents a framework of all the activities associated with the process of negotiations with the Member States of the European Union.

The Government of the Republic of Croatia plans to prepare in mid-2006, in co-operation with its social partners, a National Development Plan, in which it will determine priority branches of the economy, the manner in which the government intends to use public policies to support growth and development of the private sector, the conditions for restructuring and rehabilitation of large industrial systems, the plan and the framework of construction of physical infrastructure (transport, energy, information) as well as the accompanying program of intensive investment in human capital. The National Development Plan will serve as a basis for elaborating a regional policy of the Republic of Croatia, further development of an active employment policy and programs of social services modernisation.

In accordance with the National Development Plan, the authorities plan to speed up the activities already underway with a view to drafting a uniform regional policy in mid-2006, in line with the legislation and practice of EU Member States and with the objective of developing a legislative framework, building institutional and administrative capacities required for the absorption of EU pre-accession funds and later on the Structural and Cohesion Funds of the European Union, establishing co-ordination between line ministries and links with the local governments in the area of planning and building developmental and infrastructural capacities, the ultimate objective being to lessen developmental characteristics

and reduce unequal development between various counties as well as to promote cross-border co-operation with EU Member States.

In terms of its contents, the 2005 PEP covers the main priorities of the Republic of Croatia. Chapter 1 presents current economic developments in the real, monetary, external and fiscal sectors. Chapter 2 presents the country's mid-term macroeconomic program divided into four parts, each monitoring closely development forecast for the real sector, inflation, the exchange rate and monetary policies as well as development forecast for the external sector indicators. Chapter 3 gives a detailed picture of the mid-term fiscal program for 2006-2008, according to the GFS 2001 methodology, and deficit financing as well as the public debt management plan. Risk scenarios for failures to achieve the planned deficit, or net lending/borrowing are also presented here. Chapter 4 outlines the main structural reforms undertaken by the Government of the Republic of Croatia in the area of competition and state aid, privatisation and restructuring of key economic sectors, small and medium size enterprises, the financial sector, the labour market, the agricultural sector, the health sector, public administration, education and science, judiciary, environmental protection and public procurement. Chapter 5 provides a matrix of implementing measures, elaborating structural reforms on the level of concrete measures that are planned to be undertaken in the following period. Annexes to the 2005 PEP, beside the Statistical Appendix, also comprise an assessment of the fiscal impact of the main measures of structural reforms planned for 2006-2008, as well as a matrix which evaluates efficacy in the implementation of the measures planned under the 2004 PEP (structural reform agenda and achievements).

The implementation of the 2005 PEP will ensure further and accelerated economic growth and development, help define the country's social welfare system, and consequently improve the standard of living of its citizens and ensure that significant and lasting reduction of the differences in the living standards is achieved between the citizens of the Republic of Croatia and the citizens of the developed EU countries.

1. RECENT ECONOMIC DEVELOPMENTS

Economic growth accelerated substantially to a rate of 5.1% year-on-year in the second quarter of 2005, after growing a modest 1.8% in the first quarter. An acceleration in growth had been expected after the unusually poor showing in the first quarter. It is now apparent that growth slowed not only in Croatia, but in many transition countries and in the eurozone as a whole in the first quarter. This temporary slowdown should not greatly affect the year as a whole.

Among the components of demand, investment made a notably strong positive contribution to economic growth, increasing 3.2% in the second quarter after three consecutive quarters of slow growth. While data provided by the Ministry of Finance indicate that real capital outlays of the consolidated general government fell in the second quarter of 2005 compared to the same period of last year, private investment activity seems to have filled the gap. Increased construction work on buildings, including both new structures and work on existing buildings, played the key role here.

Net exports of goods and services also made a positive contribution to economic growth in the second quarter. The pick-up in growth in Croatia's main markets certainly was helpful in this regard. Still, import growth was strong, in part due to rising prices of both energy and raw materials.

Consumption continued to be the main driver of growth, rising some 4.4% in the second quarter of 2005. Consumption financing conditions clearly strengthened in the second quarter. Retail sales also grew strongly, spurred by increases in motor vehicle sales in the second quarter. However, data on the growth of motor vehicle sales is in contradiction to both data on motor vehicle imports and data on new motor vehicles licensed, both of which grew slowly.

Evidence of stronger employment growth can be seen in increased employment of those registered in the unemployment register, and also in decreases in new unemployment registration. The number of the insured with the Croatian Institute for Pension Insurance also grew in the second quarter, with an especially large increase coming in June. Registered unemployment continued on a downward trend in the second quarter, and in fact fell further in July and August, reaching 16.9%.

Growing employment was accompanied by a mild acceleration in real gross wage growth from 1.4% in the first quarter to 1.8% in the second quarter, stimulating consumption. In addition, the growth rate of bank lending to households (excluding housing loans) rose from 13.3% year-on-year at the end of 2004 to 15.5% at the end of the first quarter and 17.3% at the end of the second quarter of 2005, creating further means for consumption growth.

These relatively benign developments on the labour market have supported consumption, but have not significantly increased inflationary pressures. Instead, inflation has been mainly determined by the behaviour of energy prices, and by some unfavourable developments in food prices. Consumer price inflation, which had been 2.7% at the end of December 2004, rose to 3.9% at the end of the first quarter of 2005, fell to 2.9% in June, and reached 3.1% in August. Crude oil prices on the world market rose some 58% in US dollar terms between December 2004 and August 2005, and they rose even more, 67.8%, in kuna terms due to the depreciation of the kuna against the US dollar in this period. However, the growth rate of petrol prices on the Croatian market has been more moderate, 13.8% year-on-year in August.

This resulted in a direct contribution of oil prices to CPI inflation of 0.7 percentage points in that month.

Food prices also contributed significantly to inflation. The growth of meat prices rose from 3.5% in December 2004 to 8.3% in August 2005, occasioned by continued repercussions of the 2003 drought on livestock herds. The growth of agricultural products prices accelerated from -0.2% to 5.5% in the same period. An unusually rainy summer coming after an unusually cold winter seems to have been the culprit for increases in agricultural products prices. Both of these price effects will continue to be felt in the coming months. Thus, even if oil prices stabilise, and other macroeconomic factors such as exchange rate stability and moderate wage growth remain in place, inflation may remain at or near current levels in the near future.

Regarding the exchange rate, the usual seasonal appreciation in the second quarter resulted in a fall in the exchange rate from HRK 7.44 /EUR at the end of March to HRK 7.31/EUR at the end of June. The exchange rate was then quite stable in July, but depreciated fairly steadily in August, reaching HRK 7.40/EUR at the end of the month. September, a month in which strong depreciation often occurs as tourism inflows dry up, registered some fluctuations but only a mild depreciation to HRK 7.44/EUR as of September 29.

During 2005, the kuna has not only been fairly stable on a nominal basis, but also in real terms. The real effective exchange rate, deflated by consumer prices, appreciated only 0.2% in the first seven months of the year. Deflated by producer prices, the real effective exchange rate depreciated 1.2% in the first seven months.

The summer months saw an important innovation in monetary policy – the first widespread use of the central bank’s reverse repurchase agreement (repo) facility. Starting with the auction held on June 8, the central bank has accepted banks' bids at a marginal interest rate of 3.5%. The quantity auctioned rose to a maximum of HRK 4.8bn on August 24, and the average amount of money created through the reverse repo facility was HRK 3.4bn in the third quarter.

The reverse repo facility provides a flexible means for banks to access liquidity. It also gives the central bank a means to manage banking system liquidity as a whole without intervening on the foreign exchange market. Thus, the widespread adoption of the reverse repo facility has provided the central bank with a new, interest-rate based instrument that can complement the exchange-rate based instruments emphasized in the past. Of course, exchange rate stability remains a key objective of the central bank, since a stable exchange rate helps dampen inflationary expectations and prevents shocks to the highly dollarised financial system. But the addition of the reverse repo instrument allows for temporary creation of liquidity within the framework of exchange rate stability, and provides some room for interest rate management.

In addition to the reverse repo facility, the Croatian National Bank (CNB) also offers an overnight deposit facility. This is another interest-rate based instrument. It allows banks to deposit excess funds with the central bank, and implicitly puts a floor on interest rates. While the “corridor” between the overnight deposit rate of 0.5% and the reverse repo rate of 3.5% is wide, it does provide some guidance for interest rates and should help the central bank manage the monetary system more efficiently in the future.

Use of the overnight deposit facility was limited during the summer months. With large inflows of foreign exchange and strong demand for kuna, banks did not have excess kuna to place in the deposit facility. Strong foreign exchange liquidity also allowed banks to somewhat reduce their marginal reserve requirements in the summer months, since there was no need for increased foreign borrowing.

Money (M1) grew strongly in the summer months, with year-on-year growth reaching 11.2% at the end of August. Currency in circulation reaches its peak during the tourist season; by the end of August it had fallen somewhat, to HRK 12.7bn, and was some 10.4% greater than in the same period last year. Demand deposits, the other component of M1, grew in both the second quarter and the first two months of the third quarter, with an annual growth rate of 6.2% as of end-August.

Looking at the broader monetary aggregate (M4), kuna quasi-money grew rapidly in the second quarter and the first two months of the third quarter. These deposits have grown rapidly in recent years, in part due to regulations that make them more favourable for banks than foreign exchange deposits. However, kuna quasi-money represents only a small fraction of total quasi-money.

Foreign exchange deposits of households, the largest item in M4, tend to grow fastest in the summer. At the end of August, household foreign exchange deposits were 7.9% larger than in August 2004, indicating solid growth during the main tourist season. Corporate foreign exchange deposits are much smaller and more volatile; they are often built up in anticipation of foreign obligations such as loan repayments or import bills. This may be the reason why corporate foreign exchange deposits fell by 7.1% in the second quarter. Usually, enterprises use excess kuna liquidity to purchase foreign exchange in the summer months when the kuna is the strongest, and thus it is no surprise that corporate foreign exchange deposits grew quite strongly in August.

Overall, M4 grew by 3.4% in the second quarter, and 6.0% in the first two months of the third quarter. As of end-August, M4 growth stood at 10.4% year-on-year.

Central bank interventions in April helped maintain strong banking sector liquidity in the second quarter. Consequently, interest rates were low; rates on overnight loans on the Zagreb Money Market fell from 2.04% in March to only 0.73% in May. However, the summer months brought increasing demand for kuna, and even with the reverse repo facility starting to function, overnight interest rates rose to 1.96% at the end of June, and reached 5.55% at the end of August. The volume of transactions among banks and at CNB auctions rose correspondingly.

Interest rates on Ministry of Finance T-bills also fell in the second quarter, and rose slightly in the summer months. Still, T-bill rates are much less volatile than overnight rates; rates on the 364-day T-bills fell from 5.54% in March to 5.19% in June, and then rose to 5.25% in August. Similarly, lending rates did not change too much; interest rates on short-term loans fell from 8.37% in March to 8.19% in June and 7.85% in August. Interest rates on long-term corporate loans with a currency clause rose from 4.97% in March to 5.47% in June, and ended at 5.40% in August, while interest rates on long-term loans to households fell from 8.31% in March to 7.22% in June, where they remained in August.

Another important characteristic of the second quarter was an increase in the current account deficit. The deficit was EUR 1.1bn in the second quarter, 65.8% more than in the second quarter of last year. The increased current account deficit was due to three elements, each of which has somewhat different economic implications. One element was an increase in factor income outflows, which resulted from substantial increases in retained earnings and dividend payments by foreign direct enterprises active in Croatia. Since retained earnings by definition do not create actual outflows of money from the country, but instead represent further investment, they are not at all detrimental to the economy, despite their negative sign in the current account.

Some of the year-on-year increase in retained earnings in the second quarter was due to the fact that almost all FDI companies announced their distribution of previous year profits during the second quarter this year, while last year many waited until the third quarter. Still, a significant increase in retained earnings is expected for the year as a whole, even if the growth rate of this item for the second and third quarters together will not be as high as the rate of growth for the second quarter only.

The second element in the increased current account deficit stems from increased goods imports. The main cause of this increase is rising energy prices. Croatia, like all energy importing countries, felt the effect of higher world oil prices. If oil imports are excluded, we find that the growth rate of imports, at constant exchange rates, actually fell from 12.3% in the second quarter of 2004 to 7.4% in the second quarter of 2005.

Finally, tourism revenues fell slightly in the second quarter of 2005 relative to the same period the year before. Methodological changes introduced by the central bank to increase the coverage of the survey on foreign tourists led to revisions of data for 2003 and 2004, leading to reductions in the estimates for the previous years. Tourism revenues for the second quarter of 2005 were lower, despite mild growth in the number of tourist nights, due to increases in the share of guests in non-paying accommodations and decreases in average tourist consumption.

In contrast to these negative developments, goods export growth was strong in the first seven months of the year. Goods exports grew by 15.8% at constant exchange rates in the first seven months, a 3.3 percentage point increase on the same period last year. However, some of this is due to increased prices for Croatia's exports of refined petroleum products. If refined petroleum products and ships, which display very volatile inter-year dynamics, are excluded, goods exports grew 14.5%, a 5 percentage point increase on the same period last year.

On the capital account, foreign direct investment amounted to some EUR 600m in the second quarter, almost twice as much as in the same period last year. Retained earnings explain part of this, as do capital increases in some foreign-owned banks, and investments in extraction of crude oil and natural gas, retail trade, and manufacture of agricultural and forestry machinery. Portfolio investment, by contrast, fell by EUR -200m after registering inflows of EUR 400m in the second quarter of 2004.

Croatia's external debt continued to rise in the first seven months of 2005, but at a slower rate than in preceding years. As of end-July, the gross external debt stood at EUR 24.1bn, 6.5% more than at the end of 2004. Foreign borrowing by banks and other domestic sectors was the main contributor to the external debt growth, while the government decreased its external debt stock by EUR 325m.

The foreign exchange market pressure index, a useful indicator of foreign exchange liquidity and a predictor of possible foreign exchange market disturbances, remained near its historical average levels in the first half of the year. These values are far removed from danger levels.

Shown on an accrual basis, total revenues of the consolidated general government stood at HRK 47.529bn in the first six months of 2005, which represents 45.9% of the planned amount for the year. Tax revenues, participating with 59.1% in the total revenues of the consolidated general government, amounted to HRK 28.083bn, 45.4% of the plan. The largest contributions to tax revenue developments were made by value-added tax (VAT) revenues and social contributions. Value-added tax revenues, accounting for 30.5% of total revenues, rose by 4.8% at the annual level, which can be ascribed to favourable macroeconomic developments, particularly in retail trade. In the observed period, social contributions, participating with about 31.9% in total revenues increased by 6.4% at the annual level. Excise revenues collected amounted to 44.3% of the plan for 2005, with the government budget and extrabudgetary funds (Croatian Motorways and Croatian Roads) participating with 74.6% and 25.4% respectively. At the same time, central government collected 36.9% and local and regional self-government units 63.1% of their total revenues from income tax which grew at an annual rate of 1.7%. Profit tax revenues rose at an annual rate of 33.6%. A positive impact on these movements was made by good performance of the corporate sector in 2004, as the profit tax payment is based on previous year's business results. The shares of the budgetary central government and of local and regional self-government units in total revenues from this tax were 70.9% and 29.1% respectively.

Total expenditures of the consolidated general government amounted to HRK 49,866bn in the first half of 2005, which represents 49.8% of the planned amount. The largest component of total expenditures (42.5%) were expenditures on social benefits which stood at 49.9% of the planned amount. The largest portion of the budgetary central government expenditures (97.6%) was spent on old-age pensions, pensions for disabled persons and family pensions, followed by sick-leave allowances, unemployment benefits, maternity leave allowances and pensions abroad. Compensation for employees accounted for about 26.0% of total expenditures of the consolidated general government and was realized at the level of 48.7% of the planned amount for 2005. Wages and salaries, which represent its largest component, were realized at the level of 48.5% of the planned amount. Interest expenditures accounted for 6.3% of total general government expenditures in the observed period, 64.1% of the amount planned for 2005. The largest portion of interest expenditures (89.4%) was realized at the budgetary central government level, while 8.9% and 1.7% related to extrabudgetary funds and local and regional self-government units respectively. Expenditures for subsidies, which account for 6.3% of total expenditures, were realized at the level of 52.1% of the annual plan, while expenditures for the use of goods and services, participating with 10.5% in total general government expenditures, represented 49.0% of their planned amount for 2005.

In the first half of this year, net acquisition of nonfinancial assets of the consolidated general government amounted to HRK 4.742bn, 48.1% of the planned amount for 2005. Thus, the acquisition of nonfinancial assets to the amount of HRK 5.172bn exceeded their disposal (HRK 430m). It should be noted that the largest share in the total value of nonfinancial assets (70.2%) related to extrabudgetary funds, followed by local and regional self-government units and government budget, which participated with 19.6% and 10.1% respectively.

In the observed period, net lending/borrowing, i.e. net borrowing of the general government amounted to HRK -70.078bn. Analysed by the level of fiscal authority, net borrowing of the

budgetary central government, extrabudgetary funds and local and regional self-government units stood at HRK -4.844bn, HRK -2.513bn and HRK 278.5m respectively.

The realised amount of net lending/borrowing is financed by the difference between transactions in liabilities and transactions in financial assets. In the observed period, financing at the general government level amounted to HRK 7.078bn. Observed individually, the financing at the budgetary central government level stood at HRK 4.844bn, while HRK 2.513bn and HRK -278.5m were spent on financing extra-budgetary funds and local and regional self-government units respectively.

Net acquisition of financial assets of the consolidated general government decreased by HRK 274.9m, as the result of a decline in domestic and foreign financial assets. It should be noted that the largest contribution to this was made by extrabudgetary funds that reduced their financial assets by HRK 1.109bn. The sharpest decrease was recorded in currency and deposits.

In the first half of 2005, total net incurrence of liabilities of the consolidated general government amounted to HRK 6.798bn. The largest portion related to domestic borrowings, resulting in net incurrence of liabilities to the amount of HRK 10.922bn, mostly owing to the budgetary central government borrowings. The general government's foreign repayments exceeded its new foreign borrowings. The largest amount was repaid by the budgetary central government. As a result, the balance of foreign liabilities stood at HRK -4.124bn.

2. MACROECONOMIC PROGRAM

2.1. Real Sector

The projections of real developments in 2005 were based on Croatian Bureau of Statistics (CBS) quarterly GDP calculation estimates for the first and second quarter of 2005 and on the available monthly indicators of economic activity in the first eight months of this year. The effects of the July budget revision of the consolidated general government were taken into account. Mid-term projections of fiscal developments for the 2006-2008 period are in line with the developments foreseen in a document prepared by the Ministry of Finance entitled "*Guidelines for Economic and Fiscal Policy for the period 2006-2008*"¹ while the projection of foreign trade developments largely takes into account the dynamics of import and export in accordance with the balance of payments projection.

Table 1: Projection of Key Macroeconomic Indicators of the Republic of Croatia

	2004	2005p	2006p	2007p	2008p
<i>Gross domestic product, in million HRK</i>	207.082	222.688	239.257	256.838	276.074
<i>GDP per capita, in HRK</i>	46.619	50.132	53.862	57.820	62.151
<i>GDP per capita, in EUR</i>	6.220	6.765	7.230	7.761	8.342
<i>Gross domestic product, as % of annual change</i>	3,8	3,9	4,0	4,1	4,3
<i>Real growth of individual GDP components:</i>					
<i>Personal consumption</i>	3,9	3,5	3,9	4,0	3,7
<i>Government consumption</i>	-0,3	0,8	0,8	1,3	1,3
<i>Investment</i>	4,4	3,4	4,9	5,1	5,6
<i>Change in inventories (as % of GDP)</i>	2,7	3,3	3,1	3,0	2,9
<i>Exports</i>	5,4	4,2	5,7	4,7	5,4
<i>Imports</i>	3,5	3,4	4,4	3,9	4,2
<i>Consumer price index, as % of annual change</i>	2,1	3,3	3,2	2,8	2,6
<i>Current account balance, as share in GDP</i>	-5,2	-5,8	-5,3	-4,5	-3,8
<i>External debt, in million EUR, end of period</i>	22.675	24.924	26.699	28.684	30.906
<i>External debt, as share in GDP (%), end of period</i>	82,1	83,0	83,1	83,2	83,4
<i>General government deficit, as share in GDP</i>	-3,9	-3,1	-2,4	-2,2	-1,9
<i>Total public debt, as share in GDP</i>	50,7	51,3	49,0	48,4	47,7

Economic slowdown in the first quarter of the year attributable to domestic and foreign demand weakening was short-lived with economic growth accelerating again in the second quarter, reflecting developments such as rapid growth in personal consumption, recovery of investment activity and improved foreign trade. As suggested by available monthly indicators and positive developments which can be expected to continue towards the end of the year, the real growth of GDP can be expected to outstrip slightly the growth achieved in 2004, with the annual rate of change standing at 3.9%. With a 3.5% growth of the implicit GDP deflator, the projected nominal value of GDP in 2005 stands at HRK 222.7bn.

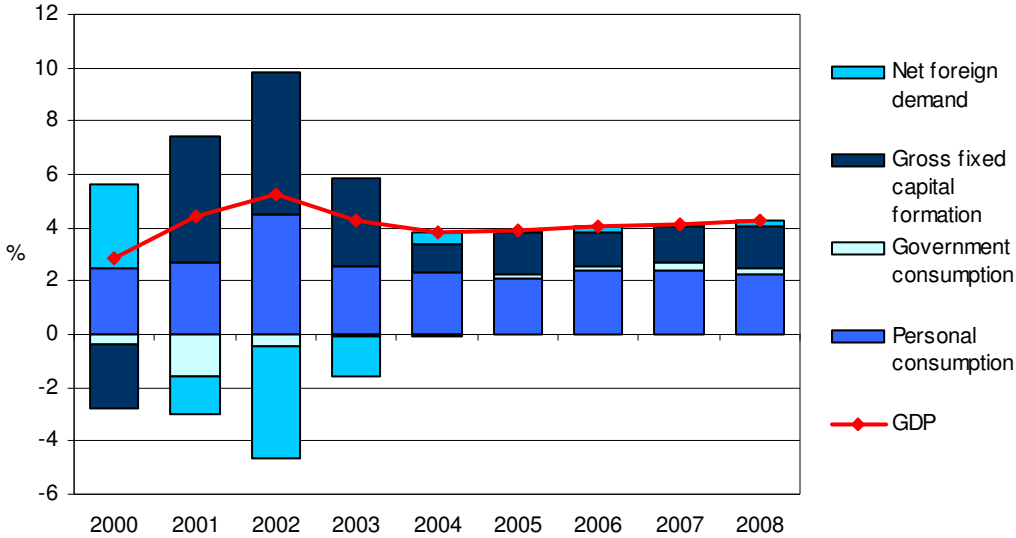
Economic growth is expected to accelerate slightly in the next few years, with the average growth rate of real GDP in 2006-2008 standing at 4.0%. Conversely, the growth of consumer prices is expected to slow down, especially after 2006, by which time the negative effects of the rising oil prices on domestic prices are expected to wear off. During the period covered by the projection, the dynamics of the implicit GDP deflator will remain above the level of inflation measured by CPI due to growth of government consumption deflator above the level

¹ The projection of fiscal developments, presented in the Pre-Accession Economic Programme, does not include the effects of the use of EU pre-accession funds and expected current expenditures in the forthcoming years. However, these effects have been taken into account at the time of compiling "*The Draft State Budget for the Year 2006 and the Budget Projection for 2007 and 2008*" (submitted by the Government to the Croatian Parliament on 17 November 2005). According to this document, government consumption is expected to grow strongly in 2006, mostly on account of increased expenditures for goods and services.

of change in consumer prices with a simultaneous faster growth of export prices compared with import prices. The forecasted average value of the implicit GDP deflator for the period 2006-2008 thus stands at 3.2%.

Personal consumption will continue to be the largest generator of economic growth in the period covered by the projection. Its contribution to real GDP growth is expected to range between 2.1 and 2.4 percentage points. Following slight deceleration in personal consumption noticeable between 2002 and 2005, in medium term we expect its somewhat more rapid growth. According to data for the first eight months and estimates of the trends in regular and irregular sources of financing personal consumption in the remaining part of the current year, the real disposable income of households should rise by over 3.5% in 2005. The growth of personal consumption this year, as well as in the next few years is expected to be fuelled by rising bank placements to the households. The effects of government transfers involving a pension debt repayment² will be particularly strong in 2006 and even somewhat stronger in 2007 and are expected to boost personal consumption and imports. Based on projected developments in government transfers (debt repayment included) and in bank placements to households which are expected to slow down in 2008, we can also expect to see a slowdown in personal consumption during that period. However, this slowdown will not be significant as the said developments will to a certain extent be compensated by accelerated growth of real wage bill. Therefore, the contribution of personal consumption to GDP growth is expected to remain stable throughout the period covered by the projection.

Figure 1: Contribution of Aggregate Demand Categories (in percentage points) to real GDP growth



Following stagnation in investment activity in the second half of the previous and the beginning of this year, the second quarter of 2005 saw a recovery in the dynamics of gross fixed capital formation. Positive mid-year developments in production and imports of investment goods point to continued recovery of investment consumption towards the end of

² Total repayments due to pensioners amount to HRK 13.8bn, of which HRK 11.5bn go to principal and HRK 2.3 to interest. The assumption behind the projection is that the majority of pensioners will opt for accelerated repayment of half of the amount to be executed in the following two years in 4 semi-annual instalments, with the first payment being scheduled for mid-2006, and the last in early 2008. The projection relies on the assumption that a major share of the funds thus repaid will be used for consumption.

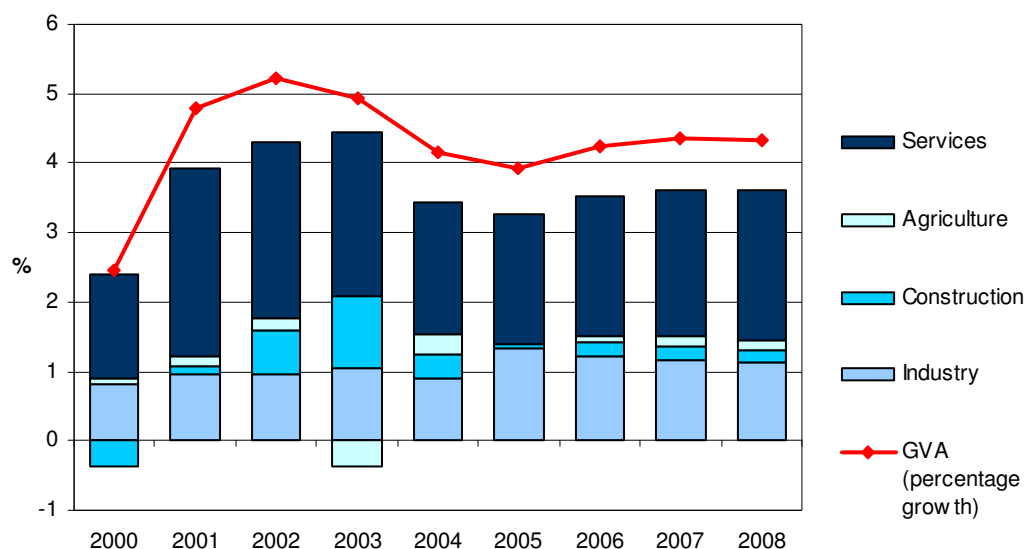
the year, despite the fact that its growth on an annual level will be somewhat lower than in 2004. However, investment growth is expected to pick up already in the medium term, (under the assumption that there are no real changes in inventories on an annual level in the period covered by the projection, we have approximated developments in total gross capital formation by gross fixed capital formation). Positive trends expected after 2005 will rely primarily on more robust growth of private investment supported by structural reforms that will, together with progress in the processes of Euro integration act towards improved business and investment climate. Conversely, public investment is expected to continue to decline steadily in real terms, and according to "The Draft State Budget for the Year 2006 and the Budget Projection for 2007 and 2008" this trend is expected to reverse in the second half of the projection period, which will contribute to a somewhat more rapid acceleration in total investment during that period.

Our expectations are that government consumption throughout the period covered by the projection will make a positive, however small, contribution to real growth which, in the medium term, is not likely to exceed 0.2 percentage points. The projection of the consolidated general government budget as envisaged in the above-mentioned document shows that the nominal growth of government consumption in 2006-2008 will range between 4.0% and 5.0% annually, with the consumption for goods and services growing faster than expenses for wages and salaries. In view of the projected stagnation in public sector employment and slowdown in the growth of consumer prices over a medium term, an assumption was made that the growth of real government consumption will accelerate slightly in the second part of the projected period, compared with 2005 and 2006 and that the growth of government consumption deflator will accelerate in the period between 2006-2008.

A somewhat more rapid real growth of exports of goods and services compared with imports is expected to take place during the observed period, under the assumption of slight economic growth acceleration in the Euro zone and rising popularity of domestic tourist destinations. The contribution of net foreign demand to GDP growth should be slightly positive this year, while its contribution in the following three years is expected to be 0.2 percentage points on average. Therefore, in the medium term, GDP growth will be almost fully determined by developments in domestic demand, while the impact of net foreign relations will be slightly positive.

Mid-term projection of gross value added (GVA) rests on full compliance of GDP calculation according to the production and the expenditure method, i.e. rests on the assumption that the period covered by the projection is free of statistical discrepancy. The projection has been aligned with the fiscal projection for the period 2005-2008 specified in the *"Guidelines for Economic and Fiscal Policy for the Period 2006-2008"* which envisages steady nominal growth of income from indirect taxes reduced by subsidies above the level of the nominal GDP growth, which implies faster nominal growth of total gross value added compared with the GDP. Our projections also rest on the assumption that the structure of the economy will not change considerably over a medium term.

Figure 2: Sectoral Contributions (in percentage points) to Real GDP Growth and GVA Growth



Based on the quarterly GDP and GVA calculations for the first half of the year, and volume indices and financial indicators of developments in added value available on a monthly level, it is estimated that the growth of GVA in 2005 will equal GDP growth (3.9%). The most significant contribution to this growth this year should come from industry, transport and trade. A fall in value added in construction towards the end of last year and early this year, following the completion of the investment cycle in road construction came to a halt in the second quarter with a slight increase of 0.7%. According to volume indices of construction works available for the first seven months of this year and leading indicators in construction activities, the value of net construction work orders and the number of building permits issued, this activity may well continue to see positive developments. The projected slight increase in value added in construction in 2005 notwithstanding, this activity's growth this year still represents a steady deceleration. Agriculture, on the other hand, (including hunting, forestry and fishing) has seen some negative developments this year which we expect will improve towards the end of the year so that this activity's contribution to GVA growth in 2005 will be neutral.

Medium term expectations include the convergence of dynamics of value added in the industry and services sector, with a larger contribution of the services sector's to real GVA growth (between 2.0 and 2.2 percentage points) largely due to dynamic growth in trade, transport and financial intermediation during that period. During the period covered by the projection, we expect to see recovery in construction generated primarily by private investment and a mild acceleration in the growth of value added in agriculture, the activity to benefit from the pre-accession SAPARD funds in 2006 and 2007.

2.2. Inflation

Consumer price inflation in Croatia slightly accelerated in 2004 compared with 2003, with the average year-on-year rate of change in the CPI rising from 1.8% in 2003 to 2.1% in 2004 and coming only slightly below the rate projected in September 2004, at the time of writing the 2004 PEP. However, the current projection for consumer price inflation in 2005 has been revised upwards from the previous PEP by a considerable 0.8 percentage points, to a large

extent owing to supply side shocks occurring in 2005, the greatest being the price growth of meat and agricultural products in the domestic market and of crude oil in the world market.³ In addition, with the strong price increase of agricultural products in November and December 2004 boosting monthly growth rates of consumer prices late in the year, the spillover effect of inflation in 2005 was stronger than expected. Due to the foreign trade liberalisation process being completed and the entry of new chain stores into the domestic market reduced, deflation pressures arising from these processes lessened in 2005.

Table 2: Comparison of the Projections for Croatia's Consumer Price Inflation (average year-on-year rates of change)

	2004	2005	2006	2007	2008
CPI, 2004 PEP	2,2	2,5	2,3	2,2	
CPI, 2005 PEP	2,1	3,3	3,2	2,8	2,6

Although accelerating from 2.7% in December 2004 to 3.1% in August 2005, Croatia's consumer price inflation remained low. The annual core inflation rate lifted from 2.3% in December 2004 to 2.7% in August 2005. The relative price stability in the domestic economy was in 2005, as in the previous years, aided by several factors, the most important being a relatively stable kuna/euro exchange rate⁴ and the resulting stabilisation of inflation expectations and eurozone import price trends. Labour productivity in Croatia's economy continued the growth trend from 2004 and nominal wages also increased somewhat further. Inflation pressures from domestic sources should be subdued in 2005, given that personal consumption is not expected to accelerate from the previous year and that government consumption is expected to rise only moderately.

The difference between the domestic and the eurozone consumer price inflation rate increased from a mere 0.3 percentage points in late 2004 to 0.9 percentage points in August 2005, with Croatia's rate standing at 3.1% and the eurozone rate at 2.2% in that month. This was mainly because, in the absence of disturbances in the eurozone food products market, the eurozone year-on-year rate of change of food prices stood at a low 0.7% in August, compared with Croatia's considerably higher rate of 5.5%. Additionally, food prices account for a much higher share in the CPI basket in Croatia (32.9%) than in the eurozone (15.5%). With the significant 9.7% weight in the CPI basket,⁵ meat belongs to the product group that has a strong impact on the overall domestic inflation so that its price fluctuations in a large degree translate into short-term inflation volatility. The contribution of meat to the year-on-year consumer price inflation rate, standing at 0.3 percentage points in December 2004, went up to 0.8 percentage points in August 2005, while the contribution of agricultural products⁶ increased from -0.2 to 0.4 percentage points. These shocks are likely to be transitory and are not expected to lead to a long-term increase in the inflation rate.

In addition, 2005 saw strong imported inflationary pressures, related primarily to the price increase of crude oil and some other raw materials (metals, food raw materials) in the world market and to a smaller extent to the kuna depreciation against the US dollar. The price of crude oil averaged 61.9 USD p/b in August, rising by 58.5% from December 2004 and

³ As core inflation is calculated by excluding agricultural products prices and administrative prices (e.g. of electricity and refined petroleum products) from the CPI goods and services basket, its rise was due only to the shock in the meat market.

⁴ The kuna/euro exchange rate appreciated by 3.8% in nominal terms in the first eight months in 2005 (31 August 2005 to 31 December 2004).

⁵ Meat's share in the core inflation basket is even higher (13.8%).

⁶ Agricultural products account for a 7.0% share in the overall CPI basket.

boosting refined petroleum products prices in the domestic market. Moderate in 2004 due to the kuna appreciation against the US dollar, crude oil price growth, expressed in kuna, was more pronounced this year (67.8%) as the kuna depreciated against the US dollar. In September 2005, the International Monetary Fund⁷ revised its projection of world market crude oil price trends, bringing it in line with price developments in forward crude oil markets, from USD 46.5 to USD 54.2 in 2005 and from USD 43.75 to USD 61.75 in 2006. These projections are considerably higher than the ones used as a basis for the inflation projection presented in the 2004 PEP, as shown in the table below:

Table 3: Comparison of the Projections for World Market Crude Oil Price Trends (USD/barrel)

	2004	2005	2006	2007	2008
IMF, GAS September 2004	37,3	37,3	35,3	34,5	33,8
IMF, GAS August 2005	37,8	54,2	61,8	60,0	58,0

The projection of inflation trends for the 2006 to 2008 period is based on several major assumptions, including those concerning the stability of the nominal kuna/euro exchange rate, weak pressures on inflation growth coming from domestic consumption, moderate wage growth in the domestic economy and continued productivity increase. The projected inflation rates are higher than in the previous PEP, primarily due to the continued high prices of oil, standing at about USD 60 p/b, and the delayed effects of this year's refined petroleum products price growth on the increase in prices of other goods and services. In addition, a strong carry-over effect from this year's inflation will occur in 2006. Inflation rate projections for the 2006 to 2008 period allowed some room for a possible increase in certain administrative prices and for revoking the zero VAT rate on some products, which needs to be implemented in order to comply with EU regulations. The risk underlying the realisation of these projections relates to the possible occurrence of second-round effects of the oil price increase on inflation. These effects, embedded in wage growth demands, are even more likely to occur considering concerns of market participants who, in contrast with the previous years, increasingly see the current oil shock as a temporary, rather than a permanent disturbance. This might have a lasting effect and increase the inflation rate in the medium term. The oil price increase can also boost prices of other energy sources, like gas and electricity.

2.3. Monetary and Exchange Rate Policy

In the past two years, the Croatian National Bank has again achieved price stability, its primary objective. Consumer prices rose by 2.7% in 2004, while the effect of the rising oil prices on inflation was relatively small in 2005 so that price growth year-on-year to August 2005 amounted to 3.1%. Stability of the exchange rate of the kuna against the euro was again a key factor in maintaining price stability. In addition to its impact on prices, the stability of the exchange rate also ensures stability of the entire financial system which is characterised by high exposure to the exchange rate risk, because of a high share of foreign currency savings in total savings in the Republic of Croatia.

The CNB can influence the exchange rate of the kuna which is freely determined in the foreign exchange market, by intervening in this market through foreign currency purchases from, and sales to, the banks and the government. Foreign exchange interventions waned in

⁷ World Economic Outlook (September 2005).

2005 compared with the previous years. On the one hand, this was due to a decline in capital inflows attributable to the orientation of the government towards the domestic market, unlike previous years when government financing relied mainly on foreign borrowing. On the other hand, changes in the operative framework of monetary policy created additional space for the conduct of monetary policy and reduced the need for interventions in the foreign exchange market. As a result, in the third quarter of 2005, the CNB did not intervene in the foreign exchange market to influence exchange rate developments.

In April 2005, significant changes were introduced in the operative framework of the monetary policy in the country, with indirect market instruments coming to the forefront of the policy. The changes involved the introduction of regular weekly reverse repo auctions for creating liquidity, similar to those used by the ECB, which have provided the CNB again, after a two-year break, with an instrument for managing liquidity and interest rates on the money market and the introduction of the standing facility, in addition to the Lombard loan, which provides the banks with overnight deposit facility of their surplus liquidity to a special account with the CNB. This set of measures, comprising reverse repo operations and the two standing facilities, should ensure heavier reliance on interest rate policy as an element in the conduct of overall monetary policy.

In view of the size and openness of the Croatian economy, the CNB has so far not been able to rely fully on interest rates in the conduct of its policy. Therefore, reserve requirements continue to be an important element in the conduct of monetary policy, particularly because of the capital inflows into the country due to persisting differences in interest rates between Croatia and the European Union, the need to sterilise surplus liquidity and to limit the credit multiplier. With a view to activating the above-mentioned repo operations, the CNB decided in June 2005 to increase the share of reserve requirements that is allocated in kuna, thus sterilizing kuna liquidity and fuelling demand for funds at the regular weekly reverse repo auctions. In addition, faced with a large inflow of capital into banks intended for financing domestic credit activity, the CNB increased its marginal reserve requirements rate on two occasions in 2005, the requirement calculated since July 2004 on any increase in foreign liabilities of banks. Since June this year, the banks have been required to allocate in a special account with the CNB, 40% of their increase in foreign liabilities compared with their June 2004 balance (instead of a 30% obligation until June). The CNB monitors closely any increase in foreign debt and its sustainability, and stands ready, if necessary, to introduce additional measures to rein in any temporary growth in foreign debt, if found inappropriate.

In the medium term and with the country's approximation to the EU, however, the CNB does plan to reduce such direct measures of monetary policy, particularly the reserve requirements rate, and thus add to domestic banking system efficacy and reduction of the price of capital in Croatia. The dynamics of this reduction will depend on economic conditions. In the past year, the CNB reduced reserve requirements on two occasions. In November 2004, the general reserve requirement rate was cut from 19% to 18%. In February 2005, the central bank slashed the rate of minimum required amount of foreign currency claims, representing the ratio between liquid foreign currency claims and total foreign currency liabilities, from 35% to 32%. Both reductions freed a part of the banks' funds, causing weaker demand for foreign funds and facilitating government financing on the domestic market.

We find the existing managed float regime, used by the CNB to keep the stability of the exchange rate of the kuna against the euro with the help of interventions in the foreign exchange market, sustainable over a medium term, and we also find it to be the most

appropriate regime during the process of Croatia's accession and later when the country joins the Economic and Monetary Union. The existing regime is also in line with the requirements set by the European Exchange Rate Mechanism 2 (ERM II) and should not be changed.

2.4. External Sector

According to the mid-term balance of payments projection of the Republic of Croatia, the negative current account balance could reach 5.8% of the estimated GDP in 2005, deteriorating by 0.5 percentage points compared to the previous year. Worsening of current account imbalance in 2005 is mainly a result of merchandise trade deficit growth and the expected growth in net factor income outflow. The negative balances of these items will be somewhat offset by the increase in net revenues from the rendered services, primarily in tourism, as well as by a continued growth in net inflow based on current transfers. The expected deficit reduction in the forthcoming years primarily reflects the assumption of favourable movements in trade in services between Croatia and other countries, i.e. the assumption of the growth in net inflows from services rendered in tourism.

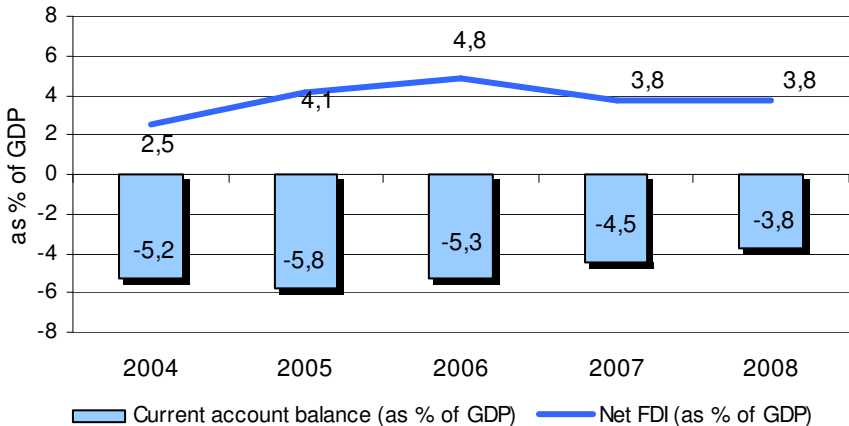
The recent developments in foreign trade of goods in the Republic of Croatia are particularly influenced by the growing prices of crude oil and refined petroleum products in the world markets, and the same may be expected in the forthcoming period as well. Therefore, in the projected period, imports of oil and refined petroleum products, currently accounting for one tenth of total goods imports, may be expected to contribute most to goods imports. Similarly, in view of their high prices, a significant contribution of iron and steel imports may be expected, particularly in 2005 and 2006. Taking into account the fact that high oil prices usually, with a certain time lag, effect the increase in other sources of energy, a strong growth in imports of other energy may be expected in the forthcoming years, which primarily refers to electricity and gas imports. On the other hand, a further slow-down in imports of capital goods and road vehicles is expected, in comparison with the previous year, when imports of these goods for the purpose of high-way construction contributed significantly to an increase in the value of total goods imports.

As regards goods exports, a continued growth is expected further this year, which could partly reflect a somewhat stronger ship exports, relative to the results for the first half of 2005. The assumption of a continued strengthening of the Croatian goods exports in the 2006 - 2008 period is primarily based on the expected strengthening of the EU accession processes, restructuring of the Croatian companies, increase in labour productivity and the expected increase in foreign demand, primarily conditional on the economic recovery in the EU Member States. A possible influence of the growing prices of crude oil on the Croatian goods exports should also be noted. Since refined petroleum products account for a significant portion of the Croatian total exports structure (about 8%), the oil price also contributes to the large value of exports of refined petroleum products, which somewhat mitigates the total effects on the balance of foreign trade in oil and refined petroleum products. Nevertheless, continued high prices of crude oil and refined petroleum products could, in time, result in weakening of the world demand, affecting the value of the Croatian total goods exports, which would threaten the realization of the projected values of goods exports. Under the assumption of a faster growth in goods exports relative to goods imports, merchandise trade deficit of the Republic of Croatia would gradually decrease, from 24% of GDP in 2005 to 21.4% of GDP in 2008.

Favourable balance of payments movements are also expected as regards net exports of services, which mainly refers to services rendered in tourism. A continued growth in revenues from tourism, incorporated in the mid-term current account projection, reflects, among other things, the expected continuation of significant investments in promotional activities and representation in the foreign markets, extension of the tourist season and increase in accommodation capacity. At the same time, an improvement of tourist supply is expected, as well as a continued privatisation of the tourist portfolio. Significant investments in large infrastructure projects in the previous years are also expected to reflect on the increase in services rendered in transportation. On the other hand, a continued net imports of other services is expected, where in view of net expenditures incurred, legal, accounting, consulting and public relation services predominate in the structure of other services, followed by royalties and license fees and services related to operating lease.

The projected changes in the factor income account in the 2005 - 2008 period take into account the latest projections of interest payment on the external debt, in accordance with the CNB's foreign credit relation register. A continuous mild annual growth in retained earnings is also expected, under the assumption that foreign owners of domestic enterprises will not significantly withdraw their funds from Croatia, but will rather invest them in further development of enterprises. In addition, a further moderate increase in net inflow of current transfers is also expected, which could, in the forthcoming years, significantly reflect an increase in funds withdrawn from the EU pre-accession funds.

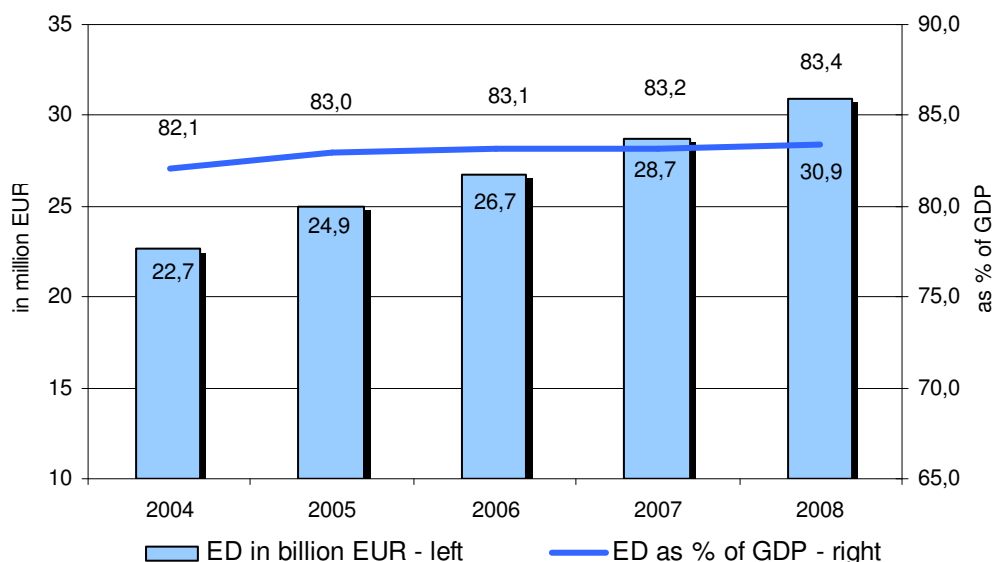
Figure 3: Current Account Balance and Net Foreign Direct Investment



The described assumptions on which the mid-term balance of payments projection of the Republic of Croatia is based in the 2005 - 2008 period, indicate that after a deterioration of the current account balance in 2005, relative to the previous year, it could be gradually reduced to 3.8% of GDP in 2008. A large portion of current account deficit could be covered by a net inflow of foreign direct investments. The expected growth in foreign direct investments inflow is a consequence, to a great extent, of the fact that in early 2005, the EU opened the accession negotiations with Croatia, as a result of which the harmonization with the *acquis* and implementation of the required reforms should attract more foreign investors to Croatia. A significantly larger inflow in 2006 is a consequence of a further privatization of the government portfolio (in accordance with the 2006 fiscal projection, further privatization of INA and T-HT is expected). Similarly, in the entire mid-term projection period, the previously mentioned increase in retained earnings is expected, which also represents a form

of foreign direct investments. At the same time, it should be noted that as a result of increasingly stronger Croatia's European integration and the privatization projects in the neighbouring countries, an increase in Croatia's foreign investments abroad is also expected, which is the reason for not anticipating a stronger growth in net inflow from direct investments.

Figure 4: External Debt of the Republic of Croatia



A part of the gap between domestic savings and investments will continue to be financed by foreign borrowing of the domestic sectors. A reduction in government external debt is expected, while external debt of banks, and enterprises in particular, including direct investments, will record an annual growth. In accordance with the fiscal projection of consolidated general government deficit financing, external debt of the general government could thus be reduced from EUR 5.9bn in 2005 to EUR 4.8bn in 2008, reflecting the Ministry of Finance intention to rely to a greater extent on the domestic financial market for the purpose of deficit financing and refinancing of the obligations falling due. In that context, by end-2005, the Ministry of Finance plans an additional bond issue, worth HRK 3bn, on the domestic market which could, in the conditions of insufficient domestic savings, cause a further increase in banks' external debt, i.e. total external debt. Despite the expected absolute growth in foreign debt, it should be noted that its significant slow-down is expected, as a result of which the external debt/GDP ratio could rise from 83% of GDP in 2005. to 83.4% in 2008. Regardless of the high level of external debt, no significant problems in international liquidity of the Republic of Croatia are expected, since international reserves are adequate to cover 4.9 to 5.1 months of imports of goods and services during the projected period.

Departure from the Previous Version of the Pre-Accession Economic Programme

The projections of the real GDP growth in the 2005 PEP are revised downwards in comparison with the 2004 PEP. Such a change, can, to a large extent, be accounted for by a deterioration of the economic climate in the neighbouring countries, relative to the previously expected one, which is mainly a result of a strong growth of oil prices. Differences in current account deficit have occurred, to a certain extent, due to a revision of the historic data, carried

out for 2003 and 2004. This years PEP will refer to the fiscal balance according to the GFS 2001 methodology, in other words fiscal balance represents net lending-borrowing of general government while according to the Stand-By arrangement fiscal balance is observed by modified accrual principle which is in more details described in chapter of public finances. The methodology for monitoring external debt has also changed, which resulted in its increase by the balance of interest arrears and accrual interest, in comparison with the previously applied methodology. The methodological changes have also occurred in reporting public debt, where debt of the Croatian Bank for Reconstruction and Development is excluded from the coverage of total public debt.

Comments on the Structural Deficit Estimate⁸

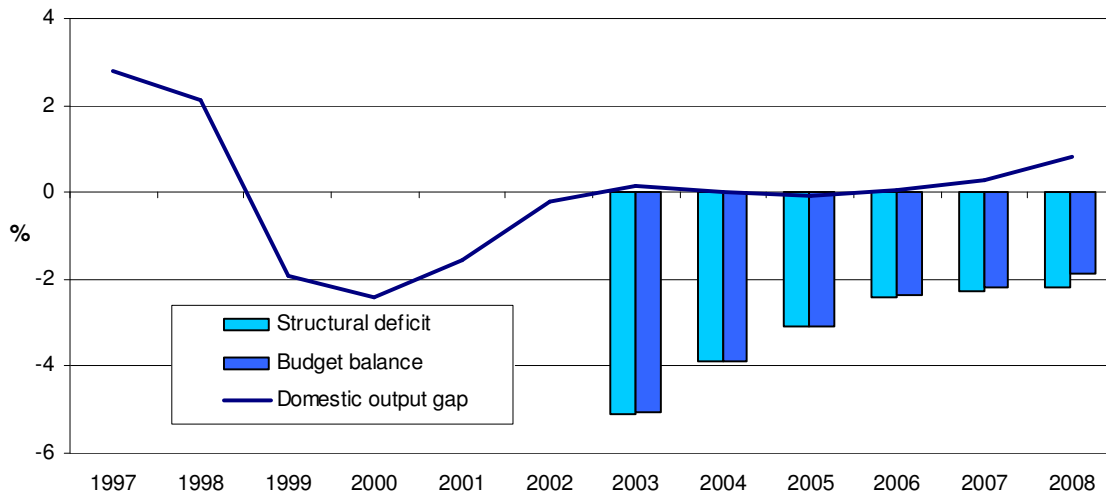
In estimating the structural deficit of consolidated general government, an assumption of real GDP growth acceleration in the 2005 - 2008 period was used, in accordance with the Ministry of Finance document "Guidelines for the Economic and Fiscal Policy for the period 2006 - 2008", as well as the assumption of the cyclical sensitivity of the budget, according to the results of the empiric study by Švaljek, S. "Impact of the Fiscal Condition on Pursuing Monetary Policy" (contribution to an unpublished study of the Croatian National Bank from 2003 "Analytical Basis for Pursuing Monetary Policy in the EU Accession Process").

The potential domestic output is estimated by applying the Hodrick-Prescott trend estimation method, where the trend value (y^*) is estimated by minimising the gap between the actual domestic output (y) and its trend and variability of domestic output trend for the entire observation sample (T): $Min \sum_{t=0}^T (y_t - y_t^*)^2 + \lambda \sum_{t=2}^{T-1} [(y_{t+1}^* - y_t^*) - (y_t^* - y_{t-1}^*)]^2$ where λ is a time series smoothing parameter. According to the previously mentioned study, it is assumed that the optimum value of λ parameter is 30.

Furthermore, it is assumed that the impact of the domestic output gap change, measured as a relative deviation from the trend, on the budget balance dynamics is approximately 0.36%. It should be noted here that the Hodrick-Prescott method for estimating the potential domestic output at the end of the time series (in this case, it particularly refers to 2008), produces a somewhat bias estimates of the potential domestic output values, i.e. of the domestic output gap. In other words, structural deficit for 2008 and also for 2007 could, taking into account other projection assumptions, be larger or smaller than the estimated 2,3% and 2,2%, which would depend on the projection of the overall economic activity dynamics in the period after 2008.

⁸ Structural deficit estimates for the 2005 - 2008 period are made in the 2005 PEP projections by applying the same methodological framework as in the previous 2004 PEP.

Figure 5: Domestic Output Gap and Budget Deficit (as % of GDP)



By applying the described methodology, the result has been obtained that domestic output gap will be positive in 2007 and 2008. In view of the positive domestic output gap in 2007 and 2008, the cyclical component of the budget in that period will also be positive, which implies that structural deficit will be higher than actual by 0.1% of GDP in 2007 and 0.3 percent of GDP in year 2008. The projections of net interest payments indicate stable share in GDP, meaning that a slow-down of their growth, in nominal terms, is expected. Such expectations are based on a further narrowing of the spread between the Croatian and benchmark foreign bonds, which, from the perspective of initiation of the EU accession negotiations, seems as a reasonable assumption. This is also supported by the movements in 2004, when the spread between the Croatian eurobonds and benchmark German bonds narrowed considerably and the Standards&Poor's credit rating improved to BBB. The described net interest payments will also be determined by the movements of the cyclically adjusted primary balance, which will after -0.8% of GDP in 2005 and -0.1% of GDP in 2006 and 2007 become positive and amount to 0.1% of GDP in year 2008.

3. PUBLIC FINANCE

3.1. Medium Term Fiscal Framework for 2006-2008

At the beginning of August 2005 the Government of the Republic of Croatia adopted the Economic and Fiscal Policy Guidelines for 2006-2008 which defines main fiscal policy goals and tasks for three-year period 2006-2008. The economic strategy laid down in the document is in line with the policy programs supported by the Stand-by Arrangement concluded with the International Monetary Fund. It should be noted that the structural reforms of the public and private sector are supported by the Programmatic Adjustment Loan (PAL) of the World Bank which has been signed in September 2005.

The key fiscal policy goals in the medium term are based on the stabilization of the share of the external debt in GDP at the level of around 83% and the structural reforms which will support the fiscal consolidation and foster the potential for the economic growth as well as contribute to the improvement of the investment climate through the privatization process, the financial discipline of public companies and strengthening of the judiciary sector.

Fiscal policy will be the key instrument for maintaining the level of public debt below the limit of 60% of GDP as defined by the Maastricht criteria. Reports on the execution of the budgetary central government, extrabudgetary funds and the general government are in line with the new methodology of the International Monetary Fund for the public finance statistics (GFS 2001) since June 2004. However, within the Stand-by Agreement, it is agreed that the deficit of consolidated general government would be expressed according to the modified accrual basis which includes the changes in the arrears and the transactions of the Croatian Motorways and the Croatian Roads on the accrual basis. In this sense, the deficit of the general government is estimated to decrease from 4.9% of GDP in 2004 to 2.8% of GDP in the year 2008. According to GFS 2001 methodology, used in this PEP and used for official reporting of the Ministry of Finance, a reduction of net lending/borrowing of consolidated general government from 3.9% of GDP in 2004 to 1.9% of GDP in 2008 is envisaged. At the same time, the public debt would reach 47.7% of GDP.

The direct goal will continue to be the reduction of the external borrowing or, in other words, redirection of the borrowing to domestic markets which, at the end, means a decrease in the external debt. Transfer to domestic financing will contribute to the lower exposure to the foreign currency risk, as well as to fostering the development of the domestic capital market and therefore to the absorption of the excess liquidity in domestic sector.

Regarding the expenditure side of the budget, the transparency of the expenditure and efficiency of its management will continue to be improved while the resolute fiscal consolidation will be conducted towards the targeted decrease in the share of total expenditure in GDP from 45.8% in 2004 to 42.3% in the year 2008. These developments are supported by the revenue estimates for all levels of the consolidated general government which are drawn on the basis of the stable macroeconomic assumptions (described in the previous chapter). The share of revenues in GDP is projected to decrease from 46.6% in 2004 to 44.2% in 2008. On the other hand, the share of nonfinancial assets in GDP will amount to 3.8% in 2008 which is in line with the Government construction plan for the period 2005-2008.

Beside these fiscal policy goals, the structural reforms will continue to be implemented in the forthcoming period which will place fiscal policy on the more stable ground in the medium term.

Budget Management

Efficient budget and public expenditure management is based on best practice planning methods and monitoring of the execution of the budgetary process. Currently, conversion tables are being developed, which will allow the budget reports to be issued according to the internationally accepted methodology ESA 95 as well. The legal obligation of the fiscal impact assessment of the proposed laws, for which a standard methodology was created, is planned to cover also the social and environmental assessment as well as the assessment of the impact on state aid and competitiveness. The establishment of the internal auditing units, some of which already exist in a number of the line ministries, will extend to all other line ministries as well as the extrabudgetary units which would lead to the improvement in the internal control process. Ministry of Finance will also prepare a strategy for the rationalization and integration of the financial system. Further improvements in the functioning of the State Treasury will be achieved by making its single account fully operational for all line ministries, which is especially related to the finalizing plan for adjusting their accounting and IT systems with the State Treasury. As of January 1st of 2006, Treasury Single Account will be expanded by the inclusion of road revenue of Croatian Motorways and Croatian Roads.

Tax Policy

Initiated process of the medium term tax reform, aimed at gradual convergence and direct connection to the EU directives, will continue in the forthcoming period. The process will focus on reducing relatively high tax burden. This will have a positive impact on the investment growth which represents a basis for intensifying the economic activity. In this sense strengthening of the tax administration is of great importance. Therefore, related measures, mostly targeted at legal entities, are being prepared which will enable more efficient tax collection as well as tax refund control. Special branches have been established for big taxpayers and special sections for VAT collection and VAT refund control. The period for the processing of the VAT refund requests has been extended from 15 to 30 days, in line with the EU standards, which would ensure sufficient time for the risk assessment related to the fulfillment of tax obligations. A program for the verification of VAT refund, based on the ranking of the refund seekers by the risk related to their fulfillment of tax obligation, will be drafted. The start of the work of the Financial Police is expected to contribute to the reduction of tax evasion in a large extent. As of January 1st, 2006 the VAT rate in tourism will be reduced from 22% to 10% for tourist overnights stays, bed and breakfast, half-board and full board while the zero rate for the organized tourist arrivals from abroad will be abolished.

Consolidated General Government Revenue

The general government revenue projections for the period 2006-2008 are based on the main macroeconomic assumptions. In the next three-year period total revenue (according to the GFS 2001 methodology) are expected at the level of 45.9% of GDP in 2006 to 44.2% of GDP in 2008. The abovementioned measures, targeted at strengthening the tax administration in order to ensure the positive impact on the reduction of the unofficial economy, will contribute the most to these revenue levels. At the same time, total revenue, compared to the previous year, will increase by 6.9% in 2006 and 5.8% in the year 2008. Significant increase in general

government revenue can be observed in 2006. Namely, in 2006, a significant increase in revenue of extrabudgetary funds and agencies can be observed, precisely in revenue of The Environment Protection Fund due to change of its financing. Hence, aside from environmental charges so far collected, Fund starts to collect new revenue from charges on packaging waste based on new Ordinance on packaging waste care. In the same time, already existing charges have been raised.

Furthermore, the share of the tax revenues in GDP is projected to gradually decrease from 26.8% in 2006 to 26.2% in 2008. The revenues from the VAT, which are projected at the level of 14.2% of GDP in 2006 and 14.1% of GDP in 2008, represent the leading component in the structure of the total tax revenues. Their average annual growth of 7% in the observed period is in line with the economic growth and with effects of the harsher tax control in the area of tax collection as well as the tax refund control.

Taking into account the level of excises in recent years and the GDP growth in the forthcoming period, the revenue from the excises is projected at the annual level of 4.9% of GDP in 2006 and 4.6% of GDP in 2008. These estimations are based on the levels of these revenues in recent years and the increase in revenues due to the reduction of the unofficial economy, as well as on the expectations of further tourism development and the increase in the economic activity. The revenues from the excises on cars will increase from 5.0% of GDP in 2006 to 4.5% of GDP in 2008. Revenues from the excises on petroleum products, which account for the largest share in the total excises, will be increasing in the forthcoming medium term by the annual rate of 6.0%. As of the beginning of 2006, in the effort of further development of Single Treasury Account operability, roads revenue (part of excise on petroleum), which are revenue of Croatian Motorways and Croatian Roads are no longer assigned directly to the accounts of abovementioned agencies but are recorded within Single Treasury Account and then transferred to those agencies. The assignment of part of the excises on petrol and petroleum products is associated with the process of the road and motorway construction which is defined by the Government Plan of Construction for the period 2005-2008. At the same time, the revenues from the excises on tobacco products will grow at the annual rate of 6.0% in 2006 in line with expected consumption and partly due to control measures that will be introduced by Financial police. Due to base effects, this revenue will report somewhat higher increase in 2006 as previously stated, while in 2007-2008 period will grow by 3% annually.

The income tax revenues are expected to increase in the observed period in line with the growth of the gross wage and the number of employees and there will be no new tax exemptions in the income tax system. In this sense, the income tax revenues will grow from 6.8% in 2006 as it is expected for year 2008 which represents a share of 3.6% in GDP in each of the observed years. It is worth mentioning that the budgetary central government will collect the income tax revenues at the level of 1.4% of GDP while the local government will collect 2.2% of GDP.

At the same time, the tax on corporate income revenue of the consolidated general government is estimated at the level of 2.3% of GDP in the period 2006-2008. In the years 2007 and 2008 it is expected that the corporate income tax revenues will grow by 6.0% which is in line with the increase in the economic activity and the activity of the banking sector as well as with the foreign capital inflow and the development of the entrepreneurship expected to occur as the result of the new Law on corporate income tax. Regarding the government levels, the corporate income tax revenue of the budgetary central government are expected at

the level of 1.7% of GDP while the profit tax revenues of the local government will record the level of 0.7% of GDP on annual basis.

The second most significant revenues of the consolidated general government are social contributions with a share of 31% in total revenues. The increase in the level of the social contributions is a result of the projections of the growth of the nominal gross wage and the increase in the number of employees in the medium term. Therefore, the revenues from the social contributions will annually grow by 6.8% in 2006 as it is expected in year 2008. In other words, social contributions are projected at the level of 14.1% of GDP in 2006 and 13.9% of GDP in 2008.

Consolidated General Government Expense

In line with the revenue projections of the consolidated general government which are based on the economic activity trend, further medium term fiscal consolidation on the expense side is planned to be continued, ultimately aiming at reaching the target general government deficits. Therefore, total expense of the consolidated general government is estimated to decrease from 44.4% of GDP in 2006 to 42.3% of GDP in 2008. This implies the necessity of efficient management of expense at the each of the government levels (budgetary central government, extrabudgetary funds and local government). At the annual level, expense will be increasing from 6.4% of GDP in 2006 to 5.1% of GDP in 2008 which represents a slower growth than the growth of the nominal GDP. These medium term projections of the expense take into account the costs of the major structural reforms. A significant increase of consolidated general government expense can be seen in 2006. Namely, a significant increase in expense of extrabudgetary funds and agencies can be observed in 2006, precisely in expense of the Environment Protection Fund due to its financing of new programs since the beginning of 2006, which are associated with packaging waste and car tires management.

Within the structure of the total expense of the consolidated general government, the largest share refers to the social benefits which account for roughly 42% of the total expense projected in the medium term. At the same time, their share in GDP should show a decreasing trend from 18.5% in 2006 to 17.4% in 2008. Pensions represent the largest component of the social benefits and they are estimated to grow by 5.8% in 2006. The nominal projection of the pension growth in the observed period is calculated on the basis of the future number of pensioners and the composite indexation formula 50%:50% (indexation based on growth of wages and costs of living). A shift from indexation based on wage increase to 50%:50% indexation aims at improvement of the long term financial sustainability of the pension system. It is worth mentioning that the Pensioners Fund has been established as an investment fund managed by the Fund Management Company which participates at the money and capital markets in its own name, but for the account of the Fund. The Pensioners Fund has been formed with an aim of fulfilling the Decision of the Constitutional Court from 1998 on the issue of "the repayment of the pensioners' debt" which is estimated in the amount of HRK 13.8 billion (including accrued interest). Repayment of the pensioner's debt will be secured through securities, shares and immovable property. All eligible pensioners can choose between two options of repayment: cash payment of half the amount over 2006 and 2007 or the payment of the full amount over eight years after two-year grace period.

It is estimated that the main health expenditures should decrease to 5.3% of GDP in 2008. This will certainly be realized as a result of the number of already implemented measures of financial discipline as well as of the far-reaching health sector reform which measures will be

included in the draft of the new law planned to be adopted by the end of the year 2005. Taking into account all of the abovementioned, savings are expected to occur and enable gradual reduction of these expenditures by around 0.3% of GDP on annual basis in the observed medium term. The introduced administrative fees will account for 0.2% of GDP while the remaining share refers to the combination of other measures: introduced system for determining the drug prices in line with the practices of other European countries, unified public procurement procedures for drugs and other medical products for hospitals from 1st January 2005, change in the basic package of health services, etc. With an objective of further resolving the structural problems in the health sector, the Supplementary Health Insurance Act, which will ensure the shift of the supplementary insurance scheme to the private sector, will be adopted.

The compensation of employees accounts for roughly 26.0% of the total expense of the consolidated general government in the medium term. This expense is projected at the level of 11.6% of GDP in 2006 and 10.9% of GDP in 2008. Therefore, the total volume of wages and salaries in the public sector is planned to decrease to 10% of GDP in 2008 at the consolidated central government level. The planned growth of wages and salaries by 3% in the observed medium term is in line with the predicted rise in the cost of living.

Third place in the total expense structure is reserved for the use of goods and services with an average share of around 12.2%. Projections for this category assume a decrease of its share in GDP from 5.4% in 2006 to 5.1% in 2008. In 2006, a significant increase in use of goods and services will occur. Compared to 2005, use of goods and services will increase 21%, which is primarily the result of increase of use of goods and services at the level of budgetary central government. The abovementioned increase arises from the fact that in 2006, significant portion of pre-accession funds of the European Union will be used for specific projects and the largest part of which will be used as use of goods and services. In 2007-2008 periods, use of goods and services on average will grow by 4.6% annually.

Other expense of the consolidated general government will record a share in GDP of 3.6% in 2006 to 3.5% of GDP in 2007 and 2008.

At the level of the extrabudgetary funds other expense records a share of 0.4% in GDP in the period 2006-2008 within which the largest contribution is made by expense related to the road and motorway construction process and the projects for the environmental protection, especially in the area of water management, water protection and care of solid waste. Other expense at the local government level, which amount to 0.9% of GDP, is mainly determined by the expenditures related to the construction projects and the investments in the local infrastructure.

Subsidies will decrease from 2.5% of GDP in 2006 to 2.2% of GDP in 2008. This projection represents the direct cash payments from the budget which differs from the methodology of OECD and the methodology used in the process of defining objectives of the PAL with the World Bank. Namely, subsidies agreed at the level of 2.1% of GDP in 2007 within PAL does not include agricultural sector, but include the indirect subsidies like issuing guarantees and writing-off the liabilities to the government. The restructuring plan of Croatian Railways, targeted at the separation of core from non-core business and the improvement in the asset management, will contribute to these developments. Three subsidiaries of Croatian Railways are planned to be privatized in 2006 and seven more in 2007. The measures for the fiscal consolidation are also planned and they will be aimed at the decrease in the share of

budgetary funds in the total revenues and a decrease in the working ratio from 190% in 2006 to 150%-170% in 2007. Accordingly, in 2006 budget, subsidies for Croatian Railways are decreased by 12.8% compared to supplementary budget of 2005, while the agricultural subsidies, are planned to grow by 5.4% compared to the 2005 supplementary budget. New State Aid Act coordinates procedures of granting state aid in compliance with the EU standards as well as strengthens the role of the Croatian Competition Agency.

Interests, which account for the share of 5.2% in total expense, will be determined by the dynamics of debt incurrence in the recent years. The interest payments will stay at the level of around 2.2% of GDP in the observed period.

Expense – war effects

In the Republic of Croatia, war has caused long term consequences, which are felt since the very beginning of the war to the present day, while number of direct and indirect consequences will be present in years to come. Fiscal effects of the war are unavoidable, whether they are directly associated with the war or are caused by it. Namely, during the war in Croatia, numerous housing facilities were destroyed, as well as numerous infrastructural objects, religious objects, cultural and other objects. During the war, a large part of inhabitants from war affected areas were forced to seek refuge. Also, war has mobilized large human resources, while a large number of persons lost their lives. All abovementioned influences public finances in the Republic of Croatia, or in other words causes significant and unavoidable costs. The following table demonstrates expenses for the period 2003-2008, which are directly or indirectly associated with the war.

Table 4: Direct and Indirect War Effects in Croatia

(HRK million)	2003	2004	Plan 2005	Plan 2006	Projection 2007	Projection 2008
	(1)	(2)	(3)	(4)		
Expense - direct war effects	921,7	1505,9	1395,6	1329,0	1064,3	602,0
- housing reconstruction I-III degree of damage	59,7	51,5	58,3	62,0	21,3	0,0
- reconstruction and development of Vukovar	67,9	46,5	41,3	40,0	43,0	45,0
- construction and reconstruction of schools and school objects (CEB II and V)	60,5	214,1	186,7	170,0	238,0	3,0
- construction and reconstruction of war damaged housing units and public objects	242,3	779,1	686,5	645,0	342,0	134,0
- property return (CEB V to 2005.)	316,8	308,7	180,0	180,0	225,0	225,0
- housing for returnees outside the special area of concern	0,0	0,0	44,4	35,0	45,0	45,0
- purchase of real estate in the name of the Republic of Croatia	174,7	106,0	198,3	197,0	150,0	150,0
Expense - indirect war effects	2.748,8	3.622,4	3.972,7	4.347,2	4.617,2	4.719,2
- pension of veterans	1954,7	2733,2	2929,0	3241,0	3437,0	3500,0
- orthopedic and other medical equipment	2,1	2,0	2,1	2,7	2,7	2,7
- rehabilitation of disabled military personnel	0,0	0,2	1,0	1,0	1,0	1,0
- permanent rights	622,6	654,8	763,0	835,0	880,0	941,0
- employment of veterans	33,0	31,7	30,0	35,0	35,0	35,0
- housing for persons disabled from the war	136,4	142,7	189,8	184,7	203,7	181,7
- veteran allowances	0,0	57,8	57,8	47,8	57,8	57,8
TOTAL EXPENSE	3.670,5	5.128,4	5.368,2	5.676,2	5.681,4	5.321,2

It can be observed from the table that expenses, which are caused by war, and which are incurred or are planned to be incurred are quite significant. In 2003, these expenses accounted to 1.9% of GDP, while their share to GDP increased in 2004 to 2.5%, primarily due to intensive reconstruction. In following years, these expenses associated with war will gradually

decrease to reach 1.9% of GDP in 2008. The main reason for this gradual reduction of share of these expenses in GDP comes from reduction in direct war expenses, primarily reconstruction, while indirect war expenses will continue to affect public finance for a long term period. According to Economic and Fiscal Policy Guidelines, consolidated general government deficit should be reduced to 2.8% of GDP by year 2008, which represents a significant fiscal adjustment. Having in mind the amount of expenses which are direct or indirect consequences of the war, the importance of planned fiscal adjustment is even more significant in terms of its successful pace in conditions which other economies are not facing.

Nonfinancial Assets of the Consolidated General Government

It is predicted that the nonfinancial assets of the general government will have a tendency of decreasing from 3.9% of GDP in 2006 to 3.8% of GDP in 2008. Taking into account the government levels, nonfinancial assets of the budgetary central government is planned at the level 0.8% of GDP in 2006 and 1.3% of GDP in 2008 which confirms the Government's commitment to continue with the investment activity. At the level of the extrabudgetary funds, nonfinancial assets are planned to decrease from 1.8% of GDP in 2006 to 1.3% of GDP in 2008 in line with the gradual slow-down in the road and motorway construction in the medium term as well as by the planned investments in the water management. Projects for construction and investments in the local infrastructure will determine the amount of nonfinancial assets of local governments which will be at the level of 1.2% of GDP in the medium term.

Table 5: Revenues, Expenditures, Nonfinancial Assets and Net Lending/Borrowing of the General Government, 2006-2008

(% of GDP)	2003	2004	2005	2006	2007	2008
REVENUE	46,4	46,6	46,1	45,9	44,9	44,2
Taxes	27,9	27,2	27,3	26,8	26,5	26,2
Taxes on income, profits, and capital gains	6,0	5,9	6,2	6,0	5,9	5,9
Payable by individuals	3,7	3,7	3,7	3,6	3,6	3,6
Payable by corporations and other enterprises	2,2	2,1	2,5	2,3	2,3	2,3
Taxes on property	0,3	0,4	0,3	0,3	0,3	0,3
Taxes on goods and services	20,5	20,1	19,8	19,6	19,4	19,2
General taxes on goods and services	14,7	14,5	14,7	14,6	14,6	14,5
Value-added taxes	14,6	14,4	14,3	14,2	14,1	14,1
Sales taxes	0,1	0,1	0,4	0,4	0,4	0,4
Excises	5,4	5,1	5,0	4,9	4,8	4,6
Taxes on international trade and transactions	0,9	0,8	0,7	0,6	0,6	0,5
Other taxes	0,2	0,2	0,2	0,3	0,3	0,2
Social contributions	14,2	14,2	14,1	14,1	14,0	13,9
Grants	0,0	0,0	0,0	0,2	0,3	0,1
Other revenue	4,3	5,1	4,7	4,8	4,1	4,0
EXPENSE	45,9	45,8	44,9	44,4	43,3	42,3
Compensation of employees	12,5	12,3	12,0	11,6	11,2	10,9
Use of goods and services	5,0	4,9	4,8	5,4	5,3	5,1
Interest	2,1	2,2	2,2	2,3	2,2	2,2
Subsidies	3,1	2,8	2,7	2,5	2,3	2,2
Grants	0,3	0,5	0,4	0,5	0,7	1,0
Social benefits	19,8	19,8	19,1	18,5	18,0	17,4
Other expense	3,1	3,4	3,6	3,6	3,5	3,5
NET ACQUISITION OF NONFINANCIAL ASSETS	5,5	4,7	4,4	3,9	3,8	3,8
Fixed assets	5,4	4,6	4,4	3,9	3,7	3,7
Inventories	0,0	0,0	0,0	-0,1	0,0	0,0
Valuables	0,0	0,0	0,0	0,0	0,0	0,0
Nonproduced assets	0,1	0,1	0,0	0,1	0,1	0,1
NET LENDING / BORROWING	-5,1	-3,9	-3,1	-2,4	-2,2	-1,9

Net Lending/Borrowing

In the period 2006-2008 a decrease in net lending/borrowing is projected. In other words, net borrowing at the level of the general government is planned to decrease from 2.4% of GDP in 2006 to 2.2% of GDP in 2007 and 1.9% of GDP in 2008. If the developments of this category are observed according to the government levels, it can be concluded that net borrowing of the budgetary central government is planned at the level of 1.4% of GDP in 2006, 1.5% of GDP in 2007 and 1.3% of GDP in 2008. Lower net borrowing in 2006 compared to 2007 is the result of larger disposal of nonfinancial assets. Net borrowing of the extrabudgetary funds and agencies will reduce its share in GDP from 0.9% in 2006 to 0.6% in 2007 and 0.5% in 2008. Furthermore, net borrowing of the local government will stay at the level of 0.1% of GDP in the observed period.

Table 6: Revenues, Expenditures, Nonfinancial Assets and Net Lending/Borrowing by the Level of the Government, 2006-2008

(% of GDP)	2003	2004	2005	2006	2007	2008
Budgetary central government						
Revenue	38,7	38,9	38,4	39,3	38,6	38,0
Expense	40,6	40,2	39,3	39,9	38,9	38,0
Net acquisition of nonfinancial assets	0,9	0,7	0,8	0,8	1,1	1,3
Net lending/borrowing	-2,8	-2,0	-1,7	-1,4	-1,5	-1,3
Extrabudgetary funds and agencies						
Revenue	4,6	3,8	3,7	3,9	3,8	3,6
Expense	3,2	2,6	2,6	3,0	2,9	2,8
Net acquisition of nonfinancial assets	3,7	3,0	2,3	1,8	1,5	1,3
Net lending/borrowing	-2,4	-1,8	-1,3	-0,9	-0,6	-0,5
Local governments						
Revenue	5,2	5,2	5,4	5,2	5,2	5,1
Expense	4,2	4,2	4,3	4,1	4,1	4,0
Net acquisition of nonfinancial assets	0,9	1,0	1,2	1,2	1,2	1,2
Net lending/borrowing	0,1	0,0	-0,2	-0,1	-0,1	-0,1
Consolidated general government						
Revenue	46,4	46,6	46,1	45,9	44,9	44,2
Expense	45,9	45,8	44,9	44,4	43,3	42,3
Net acquisition of nonfinancial assets	5,5	4,7	4,4	3,9	3,8	3,8
Net lending/borrowing	-5,1	-3,9	-3,1	-2,4	-2,2	-1,9

Long Term Sustainability of Public Finance

Estimates on the sustainability of public finance of the Republic of Croatia for the period 2005-2050 are based on the general assumptions of the labour productivity growth, real GDP growth and unemployment rate (Statistical Appendix, table 9). Also, the projections take into account predictions on the developments of the most important categories of revenues and expenses and other assumptions such as long term projections on tax revenues, long term social expenditure guidelines, financial expenditures, expectations on the labour market developments, number of beneficiaries of the social system, etc.

Total expenditure projections for the period 2005-2050 assume a 5.2% annual increase in total expenditures up to the year 2010 and an annual increase ranging from 5.4% to 5.5% in the period 2010-2050. Implementation of the policy based on the fiscal consolidation is the main reason for the slower total expenditure growth in the period up to the year 2010. Projections of the old age pension expenditures take into account expectations on the increase in the number of pensioners in the observed period and an average annual growth based on the use of the *Swiss formula* of pension indexation (50:50% principle) and the effects of the structural change in the financing of the pensions with regard to the contribution of the second pillar of

the pension insurance. There is a significant difference between the projections of the total old age pension expense in 2005 PEP and 2004 PEP which is primarily the result of the change in the calculation of the pension expenditures due to the use of different models of indexation, as previously stated. According to the projections, healthcare expenditures will be increasing by the average annual rate of 5.5% in the period 2005-2050 which implies a significant decrease of their share in GDP due to the improvements in the healthcare system. Interest payment projections are based on the assumption of the continuous average annual increase of these expenditures of 6% in the observed period. This would lead to the slow decrease of their share in GDP in the observed period, primarily due to the decrease in the cost of new debt incurrence and refinancing. With regard to the start of the negotiation process with an ultimate result of the full membership of the Republic of Croatia in the European Union, these assumptions are justified.

Total revenue projections for the observed period indicate possible significant decrease of total revenues as a percentage of GDP in the period 2005-2050. Projections show an average annual growth of around 6% in the observed period. Reduction in tax burden will contribute to the developments in total revenues.

3.2. Management of Public Debt

Institutional Framework for Public Debt Management

The legal framework for borrowing and management of public debt is defined by the Budget Law (Official Gazette NN 96/2003). The Budget Law defines the objectives of public debt management, the conditions and authorities for borrowing as well as the reporting obligations. According to the Budget Law, public debt is defined as the debt of the Consolidated Budget of the Republic of Croatia, i.e. the General Government, plus the amount of issued guarantees. The primary objective of public debt management is to ensure that the financial needs of the government, including the settlement of due obligations, are met with minimum costs and a prudent level of risk. The Budget Law also defines that the level of public debt cannot exceed 60% of GDP.

The Parliament decides upon the maximum level of government debt and government guarantees based on a proposal of the Government, while the Government (based on a proposal of the Ministry of Finance) brings the main decisions upon public debt management, the types of borrowings and types of collaterals for repayments. The Government also decides upon the issuance of government guarantees, except for those which are in the responsibility of the Parliament.

The responsibility for public debt management lies within the Ministry of Finance. According to the Budget Law, the Ministry of Finance recommends the most suitable forms of borrowing (type of loan, types of repayment collateral), keeps records of the debt, issued guarantees and loans, while the Minister of Finance issues government securities and other forms of borrowing, signs the contracts of central budgetary borrowing and issuance of guarantees and prepares the annual and semi-annual report on government debt.

The function of public debt management and the public debt register are in the responsibility of the Sector for Public Debt Management within the Ministry of Finance. The activities of the Sector for Public Debt Management include contracting of loan borrowings as well as

operations concerning the issuance of government securities on foreign and domestic markets. Besides the Sector for Public Debt Management, public debt management activities are also carried out by the Department for European Integrations and International Financial Relations, which is responsible for the preparation of negotiations and the activities related to contracting, disbursement and repayment of loans of international financial institutions and banks, as well as by the Sector for Budget Execution which is responsible for short-term borrowing on the domestic market and for monitoring of local government units' borrowing.

In order to further improve the management of public debt there is a need for additional reforms. The implementation of those reforms will be realised, among other, with the technical and financial assistance of the European Union within the CARDS programme. The planned activities include the development of a strategy for public debt management, the improvement of the legal framework for public debt management, the reorganisation of the Sector for Public Debt Management based upon the recommendations of the joint World Bank and IMF study, the education and training of employees in the fields of public debt recording, public debt management and risk management, and the development of risk management model.

Current Level and Future Public Debt Projections

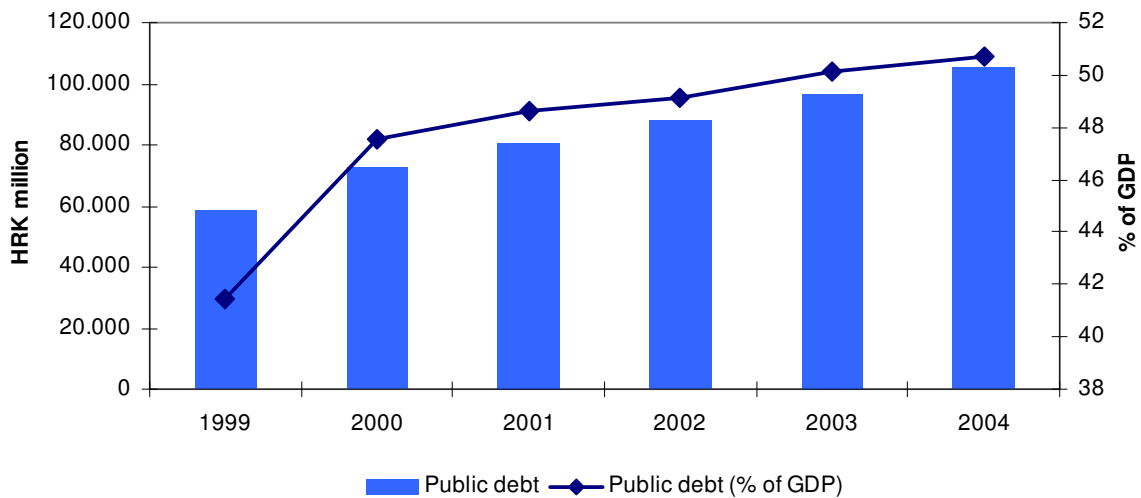
In 2005 the Ministry of Finance adopted the new international standard for external debt reporting which is based on the recommendations outlined in the *External Debt Statistics – Guide for Compilers and Users*. Data on public debt since 2002 were adjusted according to the new methodology and now differ from data published in the Guidelines for Economic and Fiscal Policy 2006-2008.

Table 7: Public Debt Adjusted According to New Methodology

<i>HRK million</i>	2002	2003	2004
Foreign debt	40,367	45,861	50,117
Domestic debt	32,214	35,545	42,554
General government debt	72,581	81,406	92,671
Foreign guarantees	8,155	8,530	7,732
Domestic guarantees	7,424	6,797	4,542
Total guarantees	15,579	15,327	12,275
Public debt	88,160	96,733	104,946

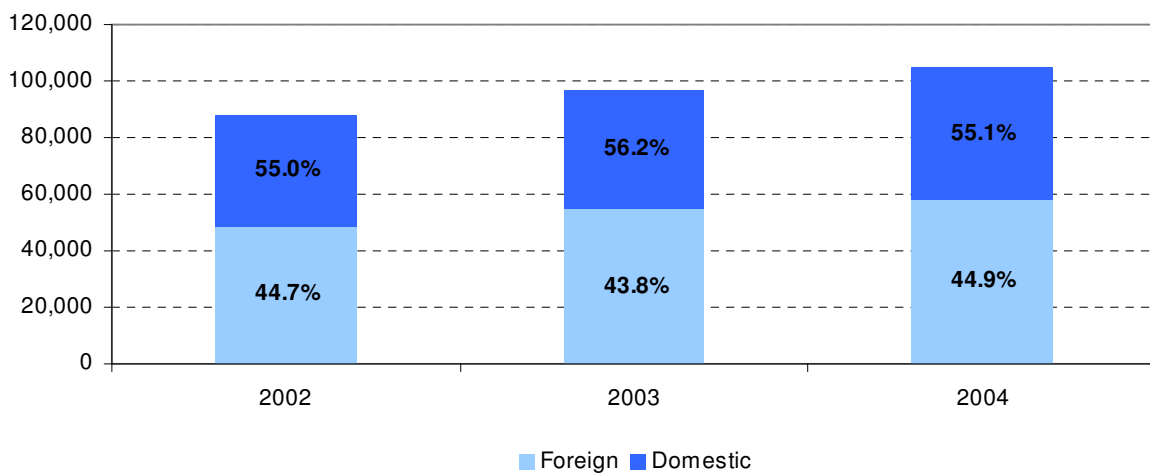
General government debt amounted by the end of 2004 to HRK 92,671.2 millions or to 44.8% of GDP. Issued guarantees amounted to HRK 12,274.6 million in the same period so the public debt amounted to HRK 104,945.8 million or equivalently to 50.7% of GDP, out of which 55.1% related to foreign public debt. Although the debt-to-GDP ratio of 50.7% is below the ceiling defined by the Budget Law and the Maastricht criteria, the public debt growth in the last couple of years is generally seen as unfavourable. Additional concern raises the growth of the foreign component of the public which has to a larger extent contributed to the growth of Croatia's external debt in the previous period. Due to such developments, measures aimed to slow-down the public debt growth and to restrict the growth of its foreign component were introduced in 2004 and 2005, most important being strong fiscal consolidation and changed focus to domestic sources of financing.

Figure 6: Public Debt Developments



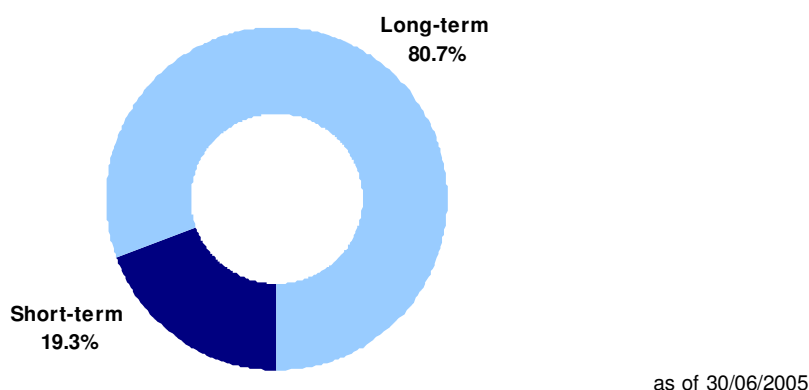
As a result of fiscal consolidation and change in borrowing policy, public debt growth slowed down from 9.7% in 2003 to 8.5% in 2004 within which foreign financing growth decreased from 12.1% to 6.4%. That has decreased the share of foreign public debt from 56.2% to 55.1% of total public debt. It has also contributed to decrease the share of government in Croatia's external debt from 33.3% to 31.9%.

Figure 7: Structure of Public Debt by Residence (HRK million, % of public debt)



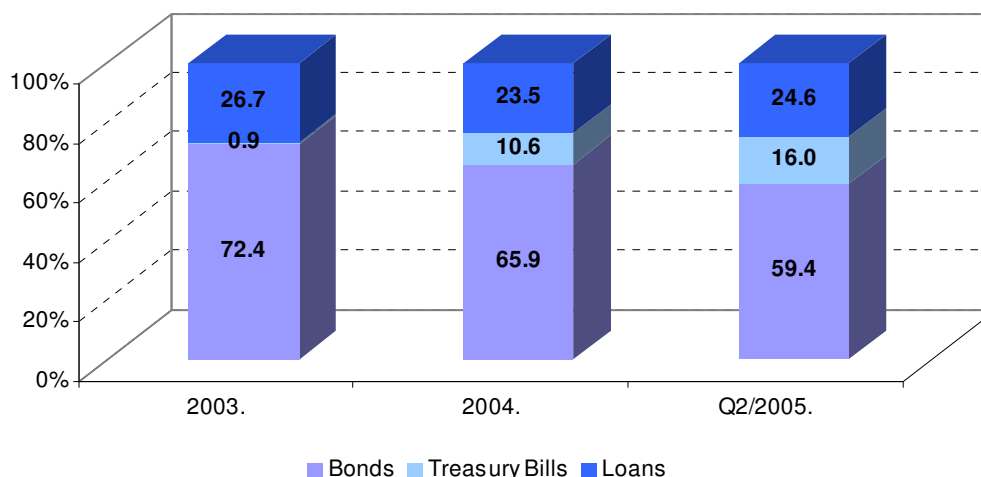
As large as 20% out of total debt of the consolidated central government refers to short-term debt which includes issued Treasury Bills and short-term bank loans. Short-term borrowing is mainly performed through the issuance of Treasury Bills (a total of HRK 4.7 billion in Treasury Bills has been issued in the first six months of 2005) in order to meet the current needs for liquidity.

Figure 8: Structure of Consolidated Central Government Debt by Maturity (as of 30/06/2005)



Central government debt is by a major extent created by issuing bonds (almost 60%) and Treasury Bills, while loans take up to a quarter of general government debt. The evident emphasis on securities as main borrowing instruments enables more transparent and longer-term borrowing and contributes to the deepening of financial markets.

Figure 9: Structure of Consolidated Central Government Debt by Instruments



Regarding the currency composition, most of the debt is denominated in euros (60%), while kuna denominated debt amounts to 24% of total consolidated central government debt. The share of foreign currency denominated debt is decreasing and for the future period the share of kuna denominated debt is expected to increase due to the shift towards domestic financing and maturing of liabilities in US dollars and yens. The high share of debt with fixed interest rate (63%) is something lower than at the end of 2004. In order to achieve stability of repayment costs and lower the interest rate risk, the debt management strategy envisages a shift towards fixed interest rate instruments. As a result, in the period 2006-2008 it is planned to increase the share of debt with fixed interest rate to 70-75%. The share of debt with floating interest rate will additionally decrease in 2006 due to the maturing of the London Club Series B bonds.

Figure 10: Currency Composition of Consolidated Central Government Debt

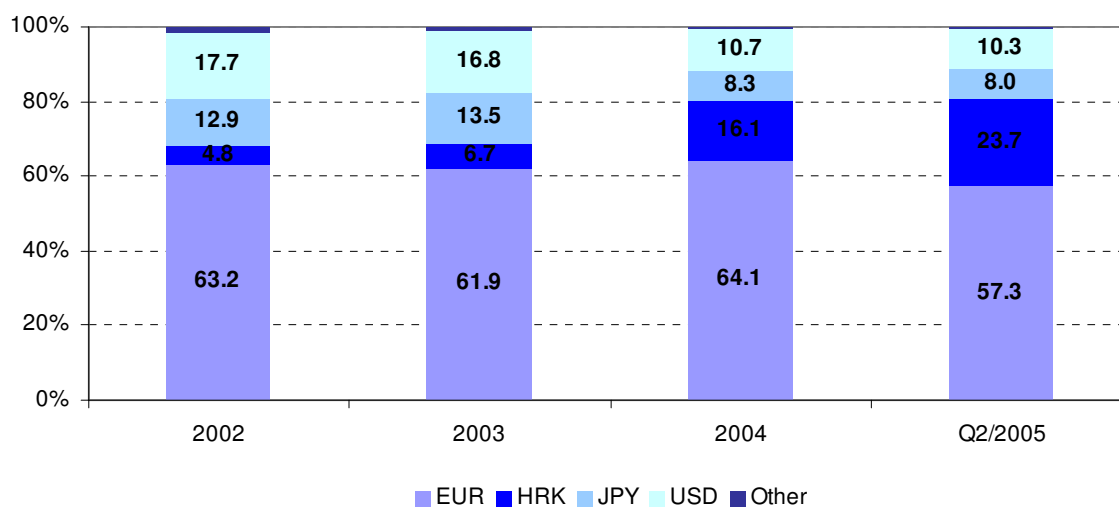
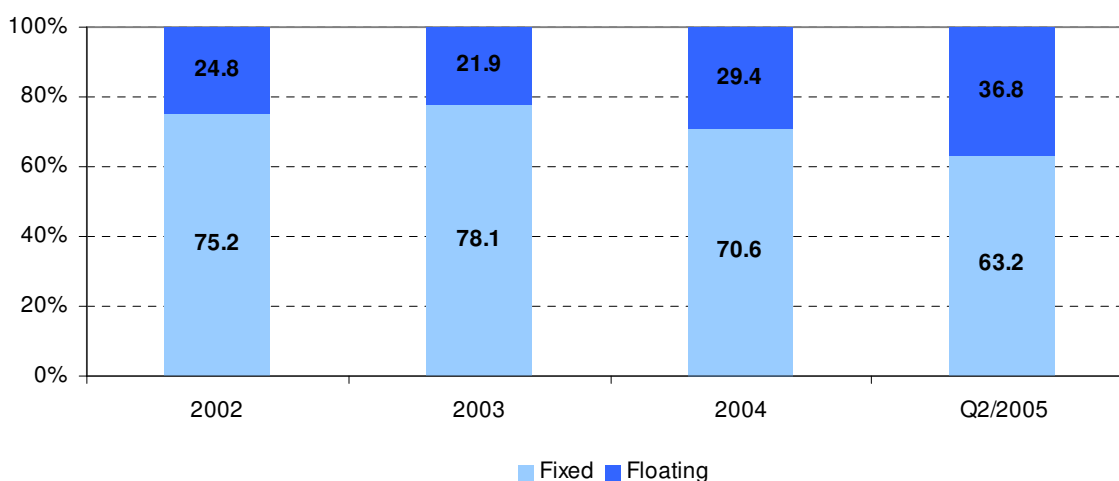


Figure 11: Structure of Consolidated Central Government Debt by Type of Interest Rate



One of the reasons of relatively high level of public debt in Croatia is the high initial level of debt at the time Croatia got independent. Large part of domestic debt has initially been created by the issuance of bonds for the blocked foreign currency deposits and of so-called “Big Bonds” aimed for the restructuring of enterprises that has resulted in over DEM 6.5 billion of domestic debt in 1991. The assumption of part of the ex-Yugoslavia’s debt and the regulation of due obligations towards the London and Paris Club has enabled the access to international capital markets, causing a surge of the external debt which reached EUR 3.3 billion by 1998. Borrowing on international markets increased even more after getting the first credit rating in 1997 and it was used to finance the lack of domestic savings and increasing fiscal deficits.

The strategic characteristics of the borrowing policy in the medium term period until 2008 are closely related to the aims of the fiscal policy which encompass the maintaining of macroeconomic stability and fostering economic development. The trend of accelerated growth of external and public debt could jeopardise the macroeconomic stability since it

increases the vulnerability to external shocks and it increases the risk of default. Such developments could have negative impact on economic growth.

Keeping the public debt below 60% of GDP as defined in the Maastricht criteria represents one of the strategic goals of fiscal policy. Although public debt has not reached the critical level and its growth trend has been slowed down to a certain extent in 2004, there is still need for further measures aimed at the stabilisation of public debt that include:

- reducing the general government deficit
- continuation and acceleration of the privatisation process
- restricted issuance of government guarantees

In accordance with the policy of reducing external debt, in the forthcoming period more emphasis will be given to borrowing on domestic capital markets. That will, to a certain extent, contribute to reduce the exposure to foreign exchange risk and, at the same time, foster the development of domestic capital markets. The choice of instruments for the financing of the deficit will depend upon macroeconomic conditions, types of investors and their preferences as well as upon monetary policy. Aiming at an increase in transparency, the Ministry of Finance intends to give more emphasis on borrowing through money market and capital market instruments. Treasury bills will be issued for the purpose of fulfilment of short-term liquidity requirements, while bond issuance is foreseen for the settlements of medium- and long-term obligations. Foreign borrowing is foreseen for the refinancing of foreign obligations and it will be in the form of loans of international financial institutions.

According the mentioned measures, the next table depicts the projected developments of general government debt and public debt. The projection is generated under the assumption of gradual reduction of issuance of new guarantees without the activation of existing guarantees.

Table 8: Projection of Net Lending/Borrowing, General Government Debt and Public Debt

	2005	2006	2007	2008
Net lending/borrowing (% of GDP)	-3,1	-2,4	-2,2	-2,0
General government debt (% of GDP)	45,1	42,7	42,0	41,4
Public debt (% GDP)	51,3	49,0	48,4	47,7

One of the objectives of public debt management in the next three-year period is to decrease the foreign borrowing of the general government in order to stabilize the level of external debt. Repayment and refinancing of foreign obligations on the domestic market will reduce the share of the foreign component of public debt as well as the share of government in the external debt of the Republic of Croatia. In such a way, the exposure to foreign exchange risk and foreign interest risk would decrease and the share of foreign debt in total public debt would fall from 55.1% in 2004 to about 39% by the end of the observed period.

Table 9: Projection of the Structure of Public Debt

	2005		2006		2007		2008	
	HRK million	% GDP	HRK million	% GDP	HRK million	% GDP	HRK million	% GDP
Public debt	114.165,5	51,3	117.343,4	49,0	124.250,5	48,4	131.675,9	47,7
Foreign	56.353,1	25,3	54.045,5	22,6	52.239,1	20,3	50.953,6	18,5
Domestic	57.812,3	26,0	63.297,8	26,5	72.011,4	28,0	80.722,3	29,2

Public Debt Sensitivity to Risks

The most important risks that could affect the development of public debt are those related to economic growth, fiscal consolidation and privatisation as well as to the changes in the external environment. Lower GDP growth has negative impact on budget revenues and increases the risk of achieving a fiscal deficit that is larger than planned. In other words, lower GDP growth reflects weaker performance of economic entities that realize profits lower than expected and that can cause lower effectuation of budget revenues. Larger deficit demands additional financing which, with privatisation proceeds being the same, has to be accomplished by new borrowing.

Fiscal consolidation represents the second factor that influences the possible public debt development path and it is directly linked to the achievement of planned deficits. This, in the first place, relates to how successful is the process of cutting budget expenses and keeping them within the planned levels. Unplanned growth of budget expenses leads to excess deficits and generates additional borrowing pressures. The main sources of possible pressures towards the increase in expenses are pension and social spending due to the unfavourable developments of the demographic structure in Croatia.

Furthermore, the way fiscal deficits are financed influences the level and structure of public debt as well as the possibility of further borrowing. Lower than planned privatisation proceeds will cause, with deficits being equal, additional borrowing. Depending whether the government will borrow on domestic market or abroad, the risks linked to public debt will change. Borrowing abroad would cause a rise in the level of external debt of the Republic of Croatia, which has in 2004 reached the level of 82% of GDP and further growth would increase the exposure of Croatia to external risks, in particular to foreign exchange risks. In such a situation of increased external vulnerability investors' expectations could change with investors demanding additional risk premium which would lead to less favourable borrowing terms for Croatia. On the other hand, borrowing on the domestic financial market could increase to a certain extent the level of external debt of banks due to the lack of private savings with the effect of decreasing the Croatia's external debt being reduced.

As for the external environment, Croatia is by its economic activity primarily linked to the countries of the European Union and a possible slowdown in growth in those countries would affect the Croatian economy. Slower growth in EU countries would cause weaker absorption of Croatian exports and, likely, lower tourist flow from those countries to Croatia which would cause a slowdown in economic growth in Croatia. Other risks linked to the external environment include the rise in interest rates as well as the appreciation of the euro and US dollar which in both cases increases the debt servicing costs and makes additional borrowing more expensive.

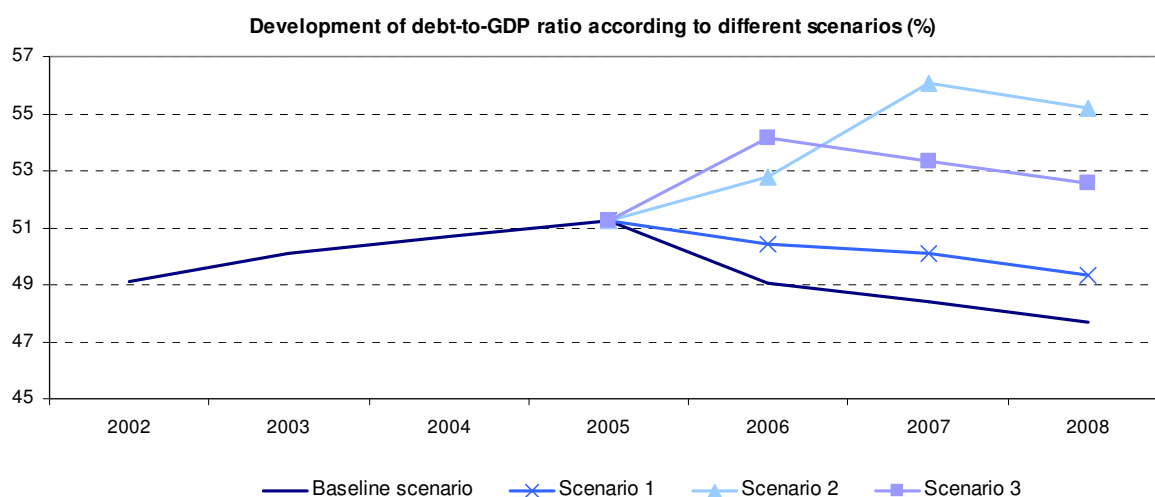
The remainder of the text elaborates a sensitivity analysis of public debt on some of the mentioned risks. The test consists of a baseline scenario of public debt development from 2005 to 2008, which is based on a central medium term projection of macroeconomic indicators, and of three alternative scenarios which test the sensitivity of public debt to the change in macroeconomic and fiscal variables.

The scenarios are as follows:

- Scenario 1: Real GDP growth and growth of primary balance as share of GDP in 2006 and 2007 at historical average level diminished by one standard deviation;
- Scenario 2: Share of primary balance in GDP in 2006 and 2007 at historical average level diminished by one standard deviation;
- Scenario 3: 10% depreciation of the kuna in 2006

The results of the performed tests are shown by the following figure. The strongest long-term effect on public debt growth has the second scenario, i.e. the increase in primary deficit. This confirms the strong relationship between fiscal deficits and public debt level and points out the need of stronger fiscal consolidation. However, due to the large share of public debt denominated in euros, the strongest short-term effect is present in the depreciation test.

Figure 12: Public Debt Sensitivity Test



The next table shows the baseline medium-term projection of public debt with the main macroeconomic indicators. According to that projection, the share of public debt in GDP will fall from 50.7% in 2004 to 47.7% in 2008.

Table 10: Baseline Medium-Term Projection

	2004	2005	2006	2007	2008
Baseline medium term projection					
Public debt	50,7	51,3	49,0	48,4	47,7
of which: debt denominated in foreign currency	33,8	34,2	32,7	32,3	31,8
Change in public debt	0,6	0,6	-2,2	-0,7	-0,7
Debt-incurring flows	1,4	-0,7	-2,8	-1,1	-1,0
Primary deficit	2,7	2,0	1,1	0,7	0,5
Income and grants	46,5	46,1	45,8	43,8	43,1
Primary expense (minus interest expense)	49,2	48,1	46,9	44,5	43,7
Automatic debt flow	-1,1	-2,0	-1,3	-1,1	-1,1
Contribution of the interest rate and GDP growth rate differential	-1,2	-1,3	-1,3	-1,1	-1,1
of which: contribution of real interest rate	0,6	0,5	0,6	0,7	0,8
of which: contribution of real GDP growth rate	-1,8	-1,8	-1,9	-1,9	-1,9
Contribution of exchange rate depreciation	0,1	-0,6	0,0	0,0	0,0
Other identified debt-incurring flows	-0,2	-0,7	-2,6	-0,7	-0,4
Revenue from privatization (minus)	-0,2	-0,7	-2,6	-0,7	-0,4
Acknowledged implicit or conditional obligations	0,0	0,0	0,0	0,0	0,0
Other (e.g. capital increase in banks)	0,0	0,0	0,0	0,0	0,0
Residual, including change in assets	-0,8	1,3	0,6	0,4	0,4
Key macroeconomic and fiscal assumptions					
Real GDP growth rate (%)	3,8	3,9	4,0	4,1	4,3
Average nominal interest rate on public debt (%)	4,7	4,7	4,6	4,9	4,9
Average real interest rate (nominal rate minus change of GDP deflator, %)	1,4	1,2	1,4	1,8	1,8
Nominal appreciation (rise of the euro-value of the domestic caurrency, in %)	-0,3	2,0	0,0	0,0	0,0
Inflation rate (GDP deflator, in %)	3,3	3,5	3,3	3,1	3,1
Growth of real primary consumption (deflated by the GDP deflator, in %)	3,0	1,6	1,3	-1,1	2,3
Historical value of key variables (in the last 9 years)		Historical average		Standard deviation	
Primary deficit		2,0		2,8	
Real GDP growth rate (in %)		4,2		2,3	
Nominal interest rate (in %) /6		4,8		0,2	
Real interest rate (in %)		1,2		0,6	
Inflation rate (GDP deflator, in %)		4,7		1,9	
% of public revenue in GDP		48,9		2,5	

In the first scenario it is assumed that in 2006 and 2007 GDP growth equals 1.9% and the share of revenues in GDP is 46.4%. As a consequence, the share of public debt in GDP remains approximately on the same level and then falls to 49.4% in 2008. Such public debt development despite the assumed shock is primarily a result of higher budget revenues than in the baseline scenario which leads to lower primary deficits and lower borrowing requirements. The assumed budget revenues are higher due to a high historical average of 48.9% GDP.

Table 11: Scenario 1

	2004	2005	2006	2007	2008
Scenario 1: Real GDP growth and share of revenue in GDP at the level of the historical average, minus one standard deviation					
Public debt	50,7	51,3	50,4	50,1	49,4
of which: debt denominated in foreign currency	33,8	34,2	33,6	33,4	32,9
Change in public debt	0,6	0,6	-0,8	-0,4	-0,7
Debt-incurring flows	1,4	-0,7	-1,5	-0,7	-1,1
Primary deficit	2,7	2,0	1,5	0,0	0,5
Revenue and grants	46,5	46,1	46,4	46,4	45,0
Primary expense (minus interest expense)	49,2	48,1	47,9	46,4	45,6
Automatic debt dynamics	-1,1	-2,0	-0,3	-0,1	-1,2
Contribution of the interest rate and GDP growth rate differential	-1,2	-1,3	-0,3	-0,1	-1,2
Contribution of exchange rate depreciation	0,1	-0,6	0,0	0,0	0,0
Other identified debt-incurring flows	-0,2	-0,7	-2,6	-0,7	-0,4
Residual, including change in assets	-0,8	1,3	0,6	0,4	0,4
Baseline projection	50,7	51,3	49,0	48,4	47,7
Scenario 1	50,7	51,3	50,4	50,1	49,4

The second scenario assumes a primary deficit shock caused by an increase in budget expenses. Expenses in 2006 and 2007 grow to above 49% of GDP, which is almost 3 percentage point higher than in the baseline scenario. Such developments in budget expenses lead to a share of public debt to GDP of 55.2% by 2008.

Table 12: Scenario 2

	2004	2005	2006	2007	2008
Scenario 2: Primary deficit at the level of historical average, minus one standard deviation					
Public debt	50,7	51,3	52,8	56,1	55,2
of which: debt denominated in foreign currency	33,8	34,2	35,2	37,4	36,8
Change in public debt	0,6	0,6	1,5	3,3	-0,9
Debt-incurring flows	1,4	-0,7	0,9	2,9	-1,2
Primary deficit	2,7	2,0	4,8	4,8	0,5
Revenue and grants	46,5	46,1	45,8	43,8	43,1
Primary expense (minus interest expense)	49,2	48,1	50,6	48,6	43,7
Automatic debt dynamics	-1,1	-2,0	-1,3	-1,2	-1,3
Contribution of the interest rate and GDP growth rate differential	-1,2	-1,3	-1,3	-1,2	-1,3
Contribution of exchange rate depreciation	0,1	-0,6	0,0	0,0	0,0
Other identified debt-incurring flows	-0,2	-0,7	-2,6	-0,7	-0,4
Residual, including change in assets	-0,8	1,3	0,6	0,4	0,4
Baseline projection	50,7	51,3	49,0	48,4	47,7
Scenario 2	50,7	51,3	52,8	56,1	55,2

The third scenario assumes a depreciation of the kuna against the euro in the amount of 10% in 2006 which is equivalent to a foreign exchange level of 8.3 kunas per euro. According to this scenario public debt rises to 54.1% of GDP already in the first year due to the high share of euro denominated public debt. By the end of the observed period public debt will decrease to 52.6% of GDP.

Table 13: Scenario 3

	2004	2005	2006	2007	2008
Scenario 3: 10% depreciation shock					
Public debt	50,7	51,3	54,1	53,4	52,6
of which: debt denominated in foreign currency	33,8	34,2	36,1	35,6	35,0
Change in public debt	0,6	0,6	2,9	-0,8	-0,8
Debt-incurring flows	1,4	-0,7	2,3	-1,2	-1,2
Primary deficit	2,7	2,0	1,1	0,7	0,5
Revenue and grants	46,5	46,1	45,8	43,8	43,1
Primary expense (minus interest expense)	49,2	48,1	46,9	44,5	43,7
Automatic debt dynamics	-1,1	-2,0	3,8	-1,2	-1,3
Contribution of the interest rate and GDP growth rate differential	-1,2	-1,3	-1,3	-1,2	-1,3
Contribution of exchange rate depreciation	0,1	-0,6	5,1	0,0	0,0
Other identified debt-incurring flows	-0,2	-0,7	-2,6	-0,7	-0,4
Residual, including change in assets	-0,8	1,3	0,6	0,4	0,4
Baseline projection	50,7	51,3	49,0	48,4	47,7
Scenario 3	50,7	51,3	54,1	53,4	52,6

All three scenarios show the major impact of the deficit upon the level and developments of debt in the forthcoming periods and point out the risk of government overspending and the need for firm fiscal discipline. In addition, the analysis draws attention to the significant sensitivity of public debt to foreign exchange developments as in the future more attentions should be paid to the optimal currency composition of the public debt.

3.3. Deficit Financing

Financing in the period 2006-2008 is to a major extent defined by the development of net lending/borrowing, privatisation proceeds and the maturity of several bonds. The fiscal adjustment, along with the planned decrease of fiscal deficits, will reduce the borrowing needs. Moreover, the continued privatisation process will contribute to the reduction of the debt burden.

Table 14: Financing of the Consolidated General Government Deficit

<i>HRK million</i>	2005	2006	2007	2008
Net lending/borrowing	-6.884,1	-5.701,4	-5.700,0	-5.524,0
Total financing	6.884,1	5.701,4	5.700,0	5.524,0
Foreign liabilities	-4.825,7	-3.154,5	-1.969,3	-2.585,4
Incurrence	1.788,4	3.354,4	2.999,0	1.826,6
Repayment	6.614,1	6.508,8	4.968,3	4.412,1
Domestic liabilities	13.388,5	5.500,8	8.219,8	9.378,6
Incurrence	17.583,2	10.872,8	13.465,4	13.654,8
Repayment	4.194,7	5.371,9	5.245,7	4.276,3
Net acquisition of financial assets	1.678,7	-3.355,0	550,4	1.269,1
of which: disposal of shares and other equity (privatisation)	659,7	5.060,5	968,7	455,7

In line with the objective of slowing down public debt growth and in particular of its foreign component, the planned borrowing on international markets by means of IFI's loans will be used for the repayment of part of maturing foreign liabilities resulting in a negative foreign financing in the observed period. The share of foreign borrowing in total borrowing should decrease from 16% in 2005 to about 12% in 2008. Due to the fact that part of the foreign obligations will be refinanced on domestic markets there is a need for further fiscal consolidation and acceleration of the privatisation process in order to avoid rapid increase of domestic borrowing. The largest amount of capital revenue (revenue from the disposal of nonfinancial assets and privatisation) are expected in 2006 and 2007 in line with the planned privatisation of several larger state-owned enterprises.

In the period 2006-2008 a total of seven bonds fall due. Three of them were issued on domestic market: a EUR 400 million (HRK 2.9 billion) bond matures in July 2007 and in 2008 a HRK 1 billion and a EUR 200 million bond (HRK 1.5 billion) fall due in May and December respectively. Among bonds issued on international markets, a Eurobond of EUR 300 million (HRK 2.2 billion) matures in March 2006 as well as Samurai bonds of JPY 25 billion (HRK 1.3 billion) in February 2006 and June 2008 and a JPY 40 billion (HRK 2.1 billion) in July 2007. Moreover, the usual January and July repayments of the London and Paris Club fall due: in 2006 a total of USD 115.2 million (HRK 720 million) matures, while a total of USD 55.4 million (HRK 346.1) falls due in each of the following years since in July 2006 the London Club Series B bond will be fully repaid.

Table 15: Projected Repayments and Estimated Interest Payments

<i>HRK million</i>	2006	2007	2008	2009	2010	2011
Foreign repayments	5.955,1	4.226,4	3.421,9	6.945,5	5.025,6	6.415,1
Bonds	3.650,0	2.240,0	1.400,0	5.045,0	3.654,4	5.481,6
London Club	720,0	346,1	346,1	358,8	358,8	0,0
Paris Club	386,8	373,4	423,1	451,6	0,0	0,0
World Bank	399,4	473,2	481,8	544,2	540,9	499,2
EBRD	43,3	43,3	43,3	42,0	20,0	20,0
EIB	56,5	62,2	68,1	11,2	7,0	7,5
Other loans	699,2	688,3	659,6	492,7	444,5	406,8
Domestic repayments	3.268,4	4.495,7	3.546,3	2.180,1	5.126,0	2.129,5
Bonds	565,8	3.603,8	2.979,0	272,0	3.290,6	2.121,3
Loans	2.702,6	891,8	567,3	1.908,1	1.835,4	8,2
TOTAL REPAYMENTS	9.223,5	8.722,0	6.968,2	9.125,6	10.151,6	8.544,6
Estimated interest payments	5.306,0	5.732,0	6.135,7	5.028,4	4.514,9	4.122,1

Note: exchange rate as of 21/10/2005

3.4. Fiscal risks

The fiscal risks that influence the developments of revenues, expenses and, thus, of operating balance and net lending/borrowing depend to a major extent on domestic macroeconomic, social and political conditions, but also on the development of those conditions in the surrounding countries. The most important risks in the medium-term period which could to a major extent affect the development of net lending/borrowing include deviations from

expected macroeconomic projections, lower execution of budget revenues, higher budget expenses due to increased social security spending or subsidies and changes in the external environment. The impact of the most important risks is represented by a model of sensitivity of net lending/borrowing to changes of different variables. The baseline scenario, which is based on the central medium-term macroeconomic projections, is compared to different alternative scenarios in which the given variables are altered, in this case being the real GDP growth, budget revenues and budget expenses.

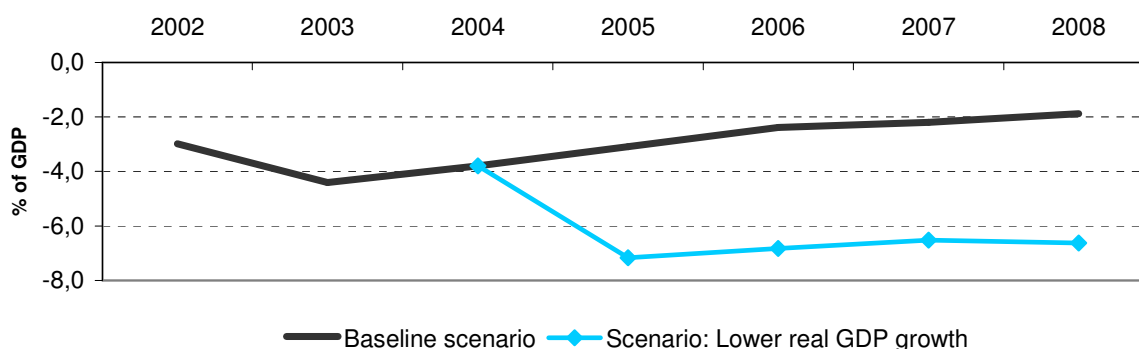
Table 16: Baseline Scenario Assumptions and Sensitivity Test Results

	2004	2005	2006	2007	2008
Assumptions in the baseline scenario					
Real GDP, growth rate (%)	3,8	3,9	4,0	4,1	4,3
Inflation rate (%)	3,3	3,5	3,3	3,1	3,1
Revenue, growth rate (%)	7,6	6,8	6,8	4,9	5,8
Expense, growth rate (%)	8,1	6,1	6,0	4,5	5,1
Net lending (+) / borrowing (-)					
Baseline scenario (% BDP-a)	-3,8	-3,1	-2,4	-2,2	-1,9
Scenario: Lower real GDP growth (% GDP)	-3,8	-7,2	-6,8	-6,5	-6,6
Scenario: Lower realisation of revenue (% GDP)	-3,8	-4,4	-4,1	-4,9	-5,8
Scenario: One-off rise in social security spending (% GDP)	-3,8	-3,1	-3,2	-2,6	-2,4

The deviation from expected macroeconomic projections primarily means the risk of lower economic growth which in turn results in lower realisation of budget revenues due to weak economic activity and lower tax base. A slow-down of economic activity is also possible as consequence of an economic growth slow-down in the EU countries and Croatia's main trade partners which would cause a decrease in tourist revenues and lower merchandise trade. It is important to mention possible further increases in oil prices which would, through increased input costs, have negative impact on production. Among domestic factors, lagging behind in implementation of structural reforms would surely have a negative impact on growth by maintaining a high share of the government sector in GDP and preventing the accelerated growth of the private sector.

In the sensitivity analysis to changes in real GDP growth rate, it is assumed that the growth rate in each year of the alternative scenario is twice lower than in the baseline scenario. It is obvious that lower growth causes an increase in net borrowing in 2005 and a gradual increase of the deviation up to 4.7 percentage points above the projected values in 2008. Possible short-term "fire-fighting" measures in the case of growth slow-down include cutting of expenses, while medium-term measures comprise the reduction of the fiscal burden and share of government in GDP as well as rapid implementation of structural reforms.

Figure 13: Lower Real GDP Growth Scenario

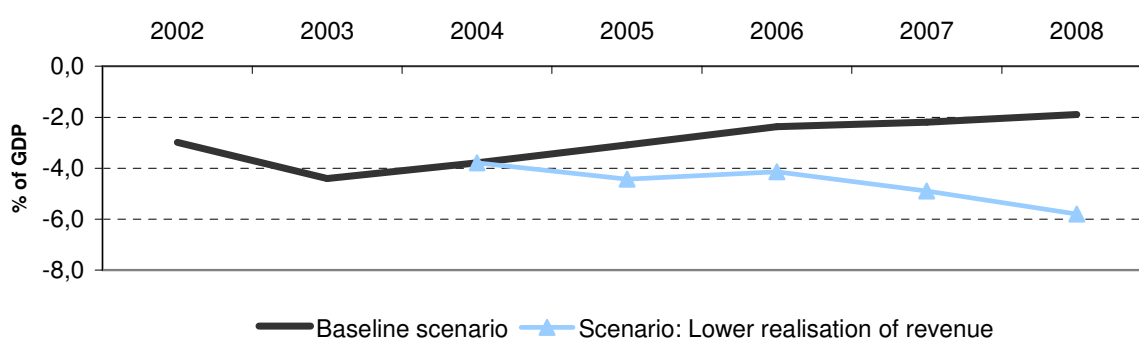


Scenario assumptions

	2004	2005	2006	2007	2008
Real GDP, growth rate (%)	3,8	1,9	2,0	2,0	2,1
Revenue, growth rate (%)	7,6	-2,6	3,6	5,3	5,3
Expense, growth rate (%)	8,1	5,5	3,4	5,1	5,6

Twice as lower growth rate of revenues compared to the baseline scenario, as a result of assumed difficulties in the collection of tax revenues, leads to the highest rise in net borrowing. Difficulties in the collection of tax revenues relate primarily to tax evasion and the existence of unofficial economy. In this case, with other assumption at levels equal to the baseline scenario, net borrowing shows constant growth and reaches 5.8% of GDP in 2008. Possible countermeasures in the case of lower realisation of revenues include reinforcement of tax discipline by means of financial police and improvement of the tax collection system as well as cutting of budget expenses as a complementary measure. On the other hand, possible increase in taxes as one of the measures is quite unlikely.

Figure 14: Lower Realisation of Revenue Scenario



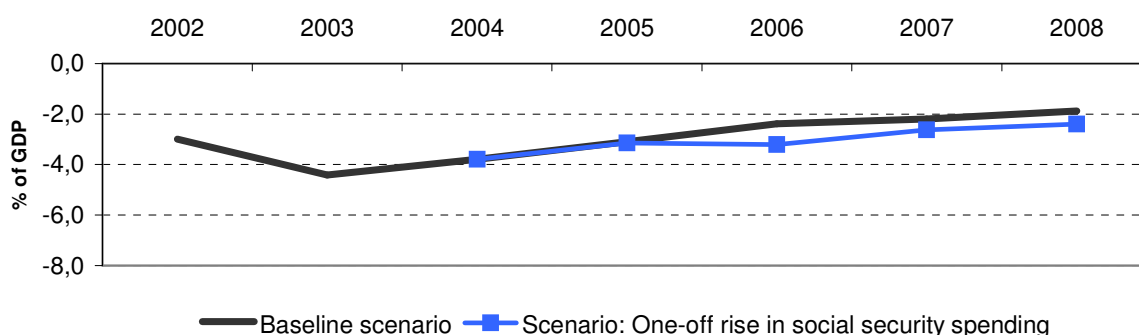
Scenario assumptions

	2004	2005	2006	2007	2008
Real GDP, growth rate (%)	3,8	3,7	4,0	4,1	4,3
Revenue, growth rate (%)	7,6	3,4	3,4	2,5	2,9
Expense, growth rate (%)	8,1	5,5	3,4	5,1	5,6

The risk of accelerated expense growth primarily emerges from the rapid growth of social security spending or subsidies. Failing to implement the planned reforms in the health and pension system, which in great part refer to health care cost controls and pension indexation, could cause an increase in social security spending. On the other hand, the failure in restructuring and privatisation of public enterprises and other users of subsidies could lead, along with certain social pressures, to increased subsidies to the mentioned enterprises.

In the sensitivity analysis upon expense developments, the alternative scenario assumes a one-off increase in spending in 2006 on social security or subsidies in the amount of HRK 1 billion. The shock is then propagated to the next periods by assuming an unchanged fiscal policy causing the spending for the mentioned categories to grow by the same rates as in the baseline scenario, only with a higher basis in 2006. Despite the differences in the projected growth rates for social security spending and subsidies, the total effect of the initial shock, measured by the share of net lending/borrowing in GDP, is the same in both the cases. Measures for eliminating the mentioned risks include the introduction of participation payments for services in primary health insurance and the transfer of supplementary insurance to the private sector as well as the revision of the pension indexation formula based on a composite calculation of wage and cost-of-living growth. For the elimination of the risk of increasing subsidies it is necessary to continue the rapid restructuring and privatisation of subsidised enterprises, primarily in the shipbuilding and steel industries.

Figure 15: Rise in Social Security Spending Scenario



Scenario assumptions

	2004	2005	2006	2007	2008
Real GDP, growth rate (%)	3,8	3,7	4,0	4,1	4,3
Revenue, growth rate (%)	7,6	6,4	3,7	5,8	5,9
Expense, growth rate (%)	8,1	5,5	4,4	5,1	5,6

4. STRUCTURAL REFORMS

4.1. COMPETITION POLICY AND STATE AID

Present Status

The completion of legislative harmonisation in the area of competition with the *acquis* in 2004 and in early 2005 involved the adoption of all subordinate legislation prescribed by the Competition Act, within the time limits specified under the 2004 PEP. Under regulations adopted on the basis of the Competition Act, more detailed requirements have been determined that each agreement between parties has to fulfil, the restrictions or requirements that such agreements may not impose and the time limits within which the existing agreements have to be harmonised with the new regulations, thus contributing to legal security and providing the necessary preconditions for effective competition.

To ensure more efficient implementation of the competition regulations, the Croatian Competition Agency has increased the number of its expert staff, and has engaged in a process of permanent training and education of its employees. In addition, the Agency has established co-operation with other regulatory bodies in the implementation of the Competition Act in different sectors such as, for instance, the Croatian National Bank as the regulator in the area of banking and the Energy Regulatory Council, with both of whom the Agency has signed agreements on co-operation. The Agency is also expected to sign shortly an agreement on co-operation with the Croatian Telecommunications Agency.

Legislative amendments, notably those of the Energy Regulation Act and the Telecommunications Act have given jurisdiction for matters involving competition in these sectors to the Croatian Competition Agency. The provisions of the Energy Regulation Act stipulate that the Croatian Competition Agency is the sole body responsible for the protection of competition in this sector, while the Telecommunications Act provides for a division of responsibility in such a way that the Croatian Telecommunications Agency is responsible for the prevention of misuse of the dominant position in the telecommunications market, while the Croatian Competition Agency is responsible for agreements and concentrations evaluations. Therefore, the Croatian Competition Agency, as an umbrella organisation in the area of competition, shares the jurisdiction with other institutions in individual areas, notably the Croatian Telecommunications Agency in the area of misuse of dominant positions in the telecommunications market and the Croatian National Bank, as a sole institution competent to implement competition rules in the banking sector, which leaves the banking sector outside the scope of competence of the Croatian Competition Agency.

With a view to promoting competition rights and competition policy, educational events and seminars were organized with the aim of familiarizing the public with the mechanisms of competition. In this context, a translation of the entire *acquis* has been made available on the Croatian Competition Agency's web site. In addition, the Agency has increased its professional and administrative capabilities with the help of the funds provided under the CARDS programme and has continued its co-operation with competition authorities outside the country.

Implementing Measures

In addition to monitoring on an on-going basis any further changes in the *acquis* and their appropriate transposition in the Croatian legislation, in the medium term the authorities plan

to consider, in co-operation with the Ministry of Justice, amendments to the existing Competition Act. Minor offence courts are currently responsible for pronouncing punishments based on decisions of the Croatian Competition Agency, while the Constitutional Court of the Republic of Croatia is responsible for controlling the legitimacy of the Agency's enactments. To ensure more efficient implementation of the Competition Act, efforts will be made to find solutions which ensure a higher level of protection of competition in two important areas. One of them is to enable simplification in pronouncing punishments stipulated by the Act and the other involves the procedure of resolving charges brought against the Agency's decisions. The issue of punishments may be resolved by means of the Agency's involvement in the procedure of pronouncing punishments. The issue of real competence in deciding on the legitimacy of the Agency's enactments, including pronounced punishments is primarily an issue of education and specialised training of judges in deciding on matters in this relatively new branch of law. In this context, it will be necessary to determine which court in Croatia is best suited to decide on matters of this type and efforts will be made to find a solution that would make it possible for the same court to decide on the legitimacy of the Agency's decisions and to pronounce punishments. Solutions to these and other associated issues will be sought in co-operation with the Ministry of Justice since they also imply certain amendments to the Courts Act.

Fiscal Impact Assessment

The preconditions for efficient implementation of the measures outlined in this PEP include adequate financial resources needed for the operation of the Agency, sufficient number of experts on the staff and their permanent education and training. All this implies appropriate budget increase over the planned period. According to the budget, an increase in the Agency's funding has been planned, notably of 39% in 2006 compared with 2005, and 37% in 2007, compared with 2006.

State Aid

Present Status

Since 2003, the system of approval, monitoring the implementation and repayment of general and individual state aid in the Republic of Croatia had been governed by the State Aid Act and State Aid Decree as well as general state aid legislation. In accordance with the planned activities (2004 PEP) and priorities involving harmonisation of state aid regulations with EU regulations (the Opinion on the Application of Croatia for Membership of the European Union and the Council Decision on the Principles, Priorities and Conditions Contained in the European Partnership with Croatia), in November 2005 new State Aid Act was adopted, while the adoption of the State Aid Decree is planned in the first quarter of 2006. As provided by last year's PEP, activities were also planned involving the adoption of special implementing regulations for state aid that would govern the process of application, approval, monitoring and registering state aid and the drafting of a guide for horizontal and sector-specific aid as well as the determination of the complaints procedure. In this context, the authorities adopted the Ordinance on the Form and Content of the Notification and the Method of Data Collection and Keeping the State Aid Register, while work on the remaining activities planned is underway and continues into 2006.

The completion of a comprehensive list of the existing general state aid schemes and further work on their harmonisation will ensure the realisation of the Alignment Programme of the Existing State Aid Schemes to the Criteria Stipulated in Article 70 (2) of the SAA. In this context, priority has been given to harmonisation of the fiscal provisions governing state aid

schemes in a number of different legislative documents (the Profit Tax Act, the Investment Promotion Act, the Free Zones Act, the Act on Hilly and Mountainous Areas, the Act on Areas of Special State Concern, the Act on the Reconstruction and Development of the City of Vukovar) with relevant EU regulations in the area of state aid schemes, an effort whose completion is scheduled for end-2005.

In 2005, the Croatian Competition Agency submitted to the Croatian Parliament its second report on state aid schemes which presents, using the adopted EU methodology, data on state aid schemes for 2002, 2003 and 2004. As shown in the Report, a major share of aid continues to be focused on sector-specific financing. An increase in aid schemes for horizontal measures is also noticeable as is a certain increase in the regional-character aid which indicates positive developments in accordance with current trends in state aid granting in the EU.

Implementing Measures

In addition to increasing the number of Agency staff and ensuring their on-going education and training, present experience in the implementation of the Act and the SAA has shown that it is also necessary to increase the number of staff, or at least provide specialised training of the existing staff, in bodies of government administration as well as in the units of local government and regional self-government, responsible for making proposals for state aid and processing applications of state aid users and their supplementary education and training. This implies continued efforts in terms of activities already underway and which involve familiarizing competent bodies with their legislative obligations such as registration of proposals for new state aid, harmonisation of the existing state aid schemes or their obligation to keep appropriate registers of the state aid granted, such as, for instance, small value aid. Further strengthening of the monitoring system and applications of proposals for state aid can also be achieved through timely co-operation between the provider of state aid and the Agency, or through consultations with the Agency's expert services early on in the stage of preparation and drafting of new proposals for state aid. The expectations are that such practice will cause a reduction in the number of individual state aid schemes to the benefit of general state aid schemes, and thus add to transparency of economic objectives supported by the government and simplification for the users of the procedure for using such earmarked funds.

In the forthcoming period, efforts will be focused on activities aimed at developing an integral state aid computer database and drawing up a map of regional state aid. The development of a state aid computer data base, a project financed from the CARDS programme, will ensure, provided a more efficient implementation of the system of state aid schemes is achieved, timely and simpler recording of the state aid granted and monitoring of its implementation, and thus provide a more solid basis for drafting annual reports on state aid, and will ultimately contribute to improved accuracy of data and transparency of the system of state aid in the Republic of Croatia. The drafting of a map of regional state aid in accordance with the previously determined data on NUTS II level, will ensure promotion of regional development and long-term planning of Croatia's regional policy in line with EU standards and guidelines, as well as contribute to an expected rising share of regional-character aid in total state aid granted in Croatia.

Fiscal Impact Assessment

The preconditions for efficient implementation of the measures outlined in this PEP include adequate financial resources needed for the operation of the Agency, sufficient number of experts on the Agency staff and on the staff of the provider of state aid and their permanent education and training.

The implementation of the system of state aid helps in better selection of the economic objectives to be supported by government incentives and contributes to a positive trend in terms of reduction of the total amount of state aid as a share in Croatia's GDP from 3.3% in 2003 to 2.9% in 2004 (the Annual Report on State Aid 2004). This trend is in line with the obligations assumed under the World Bank's PAL program to reduce the relative amounts of state aid until 2007. Under PAL, the Republic of Croatia has undertaken to prepare and implement a mid-term plan of subsidy reduction and total subsidy limit, which is scheduled to decrease gradually with each new year in accordance with a mid-term fiscal framework. Under the program's basic guidelines and in accordance with the fiscal projections of the Government of the Republic of Croatia for the period 2005-2007 which are incorporated in the first Croatian PEP, a reduction in the share of subsidies to 2.2% of GDP is planned until end-2007. Based on mid-term projections, the Ministry of Finance has drafted a program (plan) of gradual reduction of subsidies to the economy in the period 2005-2007. The Government of the Republic of Croatia enacted a decision at its session held on 4 August 2005, adopting a Subsidy Reduction Plan under which subsidies are slated for reduction to 2.14% of GDP in 2007, in accordance with the World Bank PAL.

4.2. ENTERPRISE SECTOR AND RESTRUCTURING

4.2.1. Privatisation

Portfolio status as at 1 September 2005

The table below shows total government portfolio of companies held with the Croatian Privatisation Fund with particular emphasis on those available for privatisation.

Table 17: Total Government Portfolio of Companies Held with the Croatian Privatisation Fund

State-owned companies shown by government equity stakes and availability for sale	
From 0 – 24.99%	786 companies
Available for sale	595 companies
From 25.00 – 49.99%	108 companies
Available for sale	66 companies
From 50.00 – 100.00%	116 companies
Available for sale	73 companies
Total companies in government portfolio	1,010 companies
Available for sale	734 companies

Privatisation Report for 2004 and the First Half of 2005

During this period a total of 386 companies were privatised, of which 366 involved minority stakes in companies (less than 25% of equity capital) sold at public auctions at the Zagreb and Varaždin capital markets. The Croatian Privatisation Fund also executed a sale of 21 companies in which the combined government portfolio exceeded 50% plus one share of the company's equity capital. These sales were executed by means of public invitation for bids. The first public-private partnership was established with estimated duration of 5 years.

Table 18: Privatisation of Companies (2004-2005)

Privatization 2004 - 2005	No. of companies sold	Nominal value of stakes sold, in HRK	Price achieved, in HRK
Stock exchanges	364	1,116,440,765	287,265,922
Invitations for bids	21	2,510,812,690	582,083,518
Total	385	3,627,253,455	869,349,440

Reasons for Departing from the Operative Privatisation Plan

Despite maximum efforts exerted by the Croatian Privatisation Fund to prepare companies held in government portfolio for privatisation, it will not be possible to execute fully the operative privatisation plan adopted at the beginning of this Government's term of office involving the privatisation of most of the companies in majority state ownership until end-2005, because of the following reasons:

- a substantial number of shares and stakes of companies managed by the Croatian Privatisation Fund was reserved based on the Denationalization Act and numerous administrative disputes;
- absence of timely restructuring left a great many number of companies with a load of unstructured balance sheets and unresolved property issues, making the preparation of these companies for privatisation more difficult and demanding.

Despite the intentions of the authorities, in the context of restructuring and improved competitiveness of the country's economy, to transfer successfully as large a number of companies as possible into the private sector, in situations where it is estimated that privatisation is not likely, bankruptcy or liquidation procedures will be initiated.

In view of the above-mentioned circumstances, privatisation of the entire government portfolio is likely to continue into 2006 and in some more complex cases, even into 2007.

Further Privatisation Strategy

The process of privatisation in the Republic of Croatia is a long-lasting process which started in 1995, produced very modest results and has as yet not been completed. Company privatisation or liquidation has thus become an issue of high urgency which needs to be resolved to create room for the private sector and to release significant assets held in such companies that can be put to more productive use. In light of such circumstances, the Government of the Republic of Croatia has decided to initiate the procedures for the amendments to the Privatisation Act as well as other laws directly associated with this Act and with a view to introducing new models of privatisation (such as MBO, ESOP, PPP, settlement etc.) and accelerating privatisation.

The use of the above mentioned privatisation schemes and the efforts to reduce red tape in the process of privatisation might help clean up the remaining government portfolio until end-2007 (shipbuilding industry excluded).

Privatisation of Large Companies

Towards the end of September this year, the Government selected Merrill Lynch and Raiffeisen Bank, through initial public offer, as advisers in the second phase of privatisation of 15% of the national oil company INA. The privatisation of the 15% stake will take place in 2006 and so will the privatisation of the remaining government stakes in Croatian telecommunications firm and the country's largest insurance company in state ownership, Croatia osiguranje d.d. The privatisation of the Croatia banka has been postponed due to charges filed by former small shareholders, so privatisation of this bank will be continued after a court resolution is reached in respect of these charges and after the bank's merger with the Hrvatska poštanska banka (HPB).

Fiscal Impact Assessment

In view of a still large number of companies in government portfolio managed by the Croatian Privatisation Fund it is not possible to make a credible evaluation of the value of shares and stakes in these companies nor of the potential receipts from their privatisation.

The value of government portfolio is measured exclusively in the framework of the nominal value of portfolio shares, while a thorough assessment of their value in terms of an internationally accepted methodology is made only in the context of and immediately prior to announcements of invitations for bids.

If we use the ratio of the nominal value of shares in state ownership and of their price achieved during their privatisation in the last two years, then we can estimate that the sale of the remaining disposable government portfolio which consists mainly of loss-making companies with large debts and technically and technologically outdated companies with excess workforce will generate between HRK 0.75 – 1bn.

4.2.2. Railway Restructuring

Present Status

The railway sector in the Republic of Croatia is dominated by a single national operator, HŽ – Hrvatske željeznice d.o.o. It is a company in 100% state ownership and it operates the railway infrastructure and activities of passenger and goods transport on the entire 2,974km long railway network. In addition to the parent HŽ company, there are 17 dependent companies (subsidiaries) in 100% and/or majority ownership of the parent (HŽ). The company has a total staff of around 21,000 (around 14,000 employed by the parent and around 7,000 by the dependent companies). The company's performance at end-2004 and in the first half of 2005 showed a trend of growth of 11.9% in the natural indicators of work (36,747,051 passengers carried and 13,707,109 tons of goods carried, data for 2004) with continued large participation of the state budget of over 60% in its total income.

Restructuring activities started in 1998 with the Croatian Railways Modernisation and Restructuring project launched with the financial support of the IBRD and the EBRD loans. In addition to activities aimed at achieving the main objective which lies in establishing a national company capable of meeting the requirements of the transport market and in reducing the financial burden for the government, other activities were undertaken with the aim of further separating the railway infrastructure from the transport activity, spinning off non-core activities and their setting up into separate subsidiary companies slated for privatisation, finding solution to the problem of highly unprofitable local railway lines, reducing the number of employees, etc.

The year 2005 was marked by greater structural reform efforts in the railway sector in line with the recommendations given by the EC and the World Bank in the context of PAL requirements. The activities undertaken include in particular the implementation of preparatory activities and the fulfilment of the essential requirements for entry into force of a new Railway Act (Official Gazette 123/03, 194/03 and 30/04) planned to be applied as of 1 January 2006 as well as the adoption of a new Act on the division of HŽ (transformation) which is currently being drafted. Drafting of the associated subordinate legislation and regulations will soon be completed whose adoption is also essential for the application of the new laws.

Within the Ministry of the Sea, Tourism, Transport and Development, the competent administrative body is the Directorate for Railway Traffic which is responsible for the implementation of laws and subordinate legislation, adoption of strategic and financial documents and plans and development policy in the railway sector.

Objectives and Implementing Measures

- Legislative Harmonisation

In accordance with the obligations assumed under the Stabilisation and Association Agreement (SAA) and Protocol 6, concluded between the Republic of Croatia and the European Union, in 2003 the authorities adopted the Railway Act which came into force in the same year and whose application is planned as of 1 June 2006. The application of this Act presupposes the adoption of a new act on the division (reorganisation) of HŽ into several companies for different business areas and drafting and adoption of new subordinate legislation and regulations, the work on which is underway. In the fourth quarter of 2005 the following ordinances have been adopted and published (Official Gazette 127/05):

1. Ordinance on the conditions and the manner of issuing decisions regarding safety issues in the provision of railway transport services;
2. Ordinance on the conditions and the manner of issuing permits for the provision of railway transport services and permits for managing the railway infrastructure;
3. Ordinance on the conditions and the manner of issuing decisions regarding safety issues in managing the railway infrastructure;
4. The railway infrastructure ordinance.

The amendments to the Railway Safety Act planned for adoption in 2006 would bring this Act in line with the “second package” of EU directives, as well as interoperability directives.

- Liberalisation of the Railway Transport Market

Unpreparedness of the railway system, resulting from the absence of the planned restructuring effects during 2000-2003, has postponed the implementation of complex but inevitable reform efforts. The system's reform implies the introduction of a range of changes in the railway services market.

The most important by far is the opening, or liberalisation of the railway services market. This approach requires independent supervision of railway lines allocation. In this context, new bodies need to be set up in the railway traffic system in the area of supervision of carrier safety as well as a regulatory body that would provide independent supervision of the allocation of infrastructural capacities.

The first step in preparing the national railway carrier for the forthcoming competition lies in its restructuring which implies staff reductions, or improved operating ratio and separating core from non-core activities of the company and privatising dependent companies, with efforts in this direction already being intensified by this Government in the context of PAL program.

The authorities plan to complete setting up in 2006 the legislative framework needed for the liberalisation of the railway transport market and are making great efforts to prepare adequately the national railway operator for challenges posed by the liberalised transport market.

- Restructuring and Modernisation of the National Railway Company

Government efforts aimed at intensifying structural reforms of the national railway company and achieving the set objectives of HŽ restructuring and modernisation, the achievement of which failed to materialise in the period 2000-2003, received their acknowledgment and verification in the context of co-operation with the World Bank and the signing of the first

tranche of the PAL amounting to USD 150m. Obligations assumed in the framework of PAL 1 loan were fulfilled, in particular those related to achieving the planned financial efficacy of HŽ operations measured by a reduction in the operating ratio (the target for 2005 was set at 220% while the operating ratio in August stood at 212%). The planned slashing of the workforce by net 600 workers until end-2005 is also being successfully implemented exclusively by means of termination of employment by consent and voluntary termination of employment on the part of the employees while ideas in connection with the privatisation of dependent companies, until then inarticulate, were organised into a clear privatisation dynamics framework and preparation for privatisation of each individual company, while Government decision adopted in June this year provided a legislative framework and the main outlines of the process. Until end-year, the Government plans to revise, and verify the revision, of the existing Local Lines Management and Financing Program and demand heavy engagement on the part of the county and local authorities, given the fact the said Program failed to give the planned results.

A departure was made from common practice in an effort to achieve the planned restructuring effects simultaneously with the achievement of parallel trends of growth in operating (own) income of HŽ (increase in transport) and reduction in operating expenses.

Transformation of the present situation in the railway transport system implies a reorganisation of the existing national monopolistic company and its “breakdown” into new, independent legal entities. In this context, a new internal organisation needs to be set up, whose implementation is the responsibility of HŽ – Hrvatske željeznice. The drafting of mid-term railway system development plans scheduled for completion until end-2005 and in early 2006 includes the HŽ restructuring plan, detailed time schedule of dependent companies’ privatisation, cost-benefit investment plan, and workforce restructuring (reduction) plan.

- Adoption of the National Railway Infrastructure Program

As an elaborating measure for the adoption of the new Railway Act, The Croatian Parliament plans to prepare and adopt a National Railway Infrastructure Program in 2006. This program, envisaged to serve as an umbrella document in determining the concept of developing, modernising and maintaining the railway infrastructure, will be used as a basis for the business function of a future Railway Infrastructure Administrator, the function planned to be set up before the adoption of the National Railway Infrastructure Program (2006).

The adoption of a government decision on the classification (division) of railway lines planned for the last quarter of 2005, is an essential precondition that needs to be fulfilled in order for the work on the drafting of the National Railway Infrastructure Program to commence.

Fiscal Impact Assessment

Given the complexity of HŽ restructuring, it is not possible for us to fully meet the requirements of the form, which should provide a financial assessment of the burden for the State Budget of each reform measure.

As the restructuring of HŽ affects budget expenses, data can be provided for the total amount of funds proposed (on an annual level) and reported to the Ministry of Finance for the Budget 2006-2008 Proposal. Total budget expenses in 2006-2008 (earmarked for HŽ) are on the increase, while subsidies in terms of total annual amounts are on the decrease. Subsidies include funds for infrastructure maintenance, incentives to passenger and combined traffic and funds for severance pays. In view of different interpretations of subsidies and state aid

schemes, it has been agreed, in co-operation with the Croatian Competition Agency, that the term state aid, in accordance with the State Aid Act, shall imply two budget items only, incentives to passenger and combined traffic and subsidies for severance pays.

It should be noted that in accordance with PAL requirements, the privatisation of non-core HŽ businesses is scheduled to commence in 2006, with, as provided by the Government decision of 9 June 2005, full proceeds from this privatisation going to HŽ. However, it is expected that the proceeds from the privatisation of the core business, planned for after 2008 (not relevant for this PEP), will constitute the State Budget.

4.2.3. Restructuring of the Shipbuilding Industry

Present Status

The Croatian shipbuilding industry makes ships for the global market in which it manages to keep its steady share of 1.5-2.3% of the total, mainly due to its “tailor made” concept and relative high quality of its products.

As at 1 July 2005, the book of orders contained orders for 70 ships, valued at USD 2.275bn, and scheduled for delivery until mid-2009. Such a number of orders ensures satisfactory employment of production capacities, which is one of the basic preconditions for the restructuring of Croatia’s shipbuilding industry.

Accounting for 12 – 15% of the total country’s exports, this industry makes a great contribution to foreign trade balance and the country’s balance of payments and has a significant multiplier effect on the economy of the Republic of Croatia.

Present unfavourable condition of the country’s shipbuilding industry can largely be attributed to (1) the effects of the war and the post-war period, (2) the fact that rehabilitation of this industry has never quite been completed, and (3) the conditions on the global markets where tough competition systematically slashes prices of new ships to levels below the level of cost, while at the same time the prices of basic shipbuilding materials have gone up sharply and so have the costs of production.

Given the circumstances, the technological reconstruction of the shipbuilding industry was slow, leaving Croatian shipbuilding production capabilities behind, particularly when compared with the competition from the countries in the Far East.

Implementing Measures

The Government of the Republic of Croatia, based on present analyses of the conditions and the impact of the national shipbuilding industry on the entire economy and development of the country, considers this activity as one of the three pillars of the national economy.

A framework rehabilitation and restructuring program entitled: “Croatian Shipbuilding Industry – Present Status and Perspectives” has been submitted for examination to the Government of the Republic of Croatia and the Government is expected to respond shortly with relevant decisions and conclusions on this issue, by defining *a high quality and comprehensive restructuring and rehabilitation program* with a view to improving the condition of this industry and making its business operations sustainable on the market and aligned with the requirements of the *acquis*.

Croatia intends to accede the European Union with full available physical shipbuilding and ship repair capacities of the country's five largest shipyards in majority state ownership, which can be expressed in terms of the number and the size of slipways and floating docks, lifting capacity, possibility to work steel, etc. (see the Croatian Shipbuilding Evaluation Capacity – CSC, Year 2005). No increase or decrease in the existing physical capacity is envisaged under this program in the near future; plans in this context will be the subject of the planned privatisation.

Programs of individual shipyards restructuring are based on increased productivity, rationalisation of operating costs, business reorganisation, use of the effects of the synergy created through business centralisation and specialisation, improved technology and associated economic policy measures. Proper analysis and formulation of the main strategic guidelines is a necessary precondition that will serve as a basis for a Government decision that would examine and adopt a development strategy for this activity with the ultimate objective of strengthening competitive capabilities of the country's shipyards in accordance with market principles and fair competition.

In this context, the main objective for the future is to ensure that new business deals are concluded which do not generate losses, that subsidies can be reduced and, with the completion of restructuring, ultimately aligned with the levels common in the EU.

The objectives of shipyards' rehabilitation involve the formulation of key business policy guidelines. These focus on the building of ships, as a complete product and a complete technological process and a clear definition of the production program where, in addition to the choice of ships to be built, a largely qualitative determination of the relevant market niche is made, with increasing orientation towards the construction of more complex ships with larger added value. Such an approach brings larger financial benefits for the shipyards but it has also a great multiplier effect on sub-contractors, or the Croatian economy as a whole.

The ultimate objective of the reconstruction and rehabilitation of the country's shipbuilding industry is to achieve its sustainability on the market without large government interventions in the form of direct and indirect subsidies (to reach EU level of subsidies in this sector) and without generation of losses which have been present in the industry up to now. The orientation of the shipyards, apart from identification of their market niches and production programs, should be based on an on-going process of business processes advancement, and a policy of finished products innovation, in line with the EU shipbuilding industry rules.

The privatisation of the national shipyards continues to be one of the strategic objectives of the Government of the Republic of Croatia. Its detailed implementation and dynamics will be determined in more detail in a program of national shipyards' restructuring and rehabilitation.

The implementation of the process of privatisation will be transparent and conducted by means of public tenders with defined terms of reference.

The expectations are that the change of ownership, from state to private, coupled with associated government policy measures (compatible with EU measures) would create the conditions for sustainable business viability of the country's shipyards.

Shipyard Uljanik, a company in majority state ownership which has been achieving acceptable business results for more than several years now, with the assistance of a USAID

consultant, has suggested a model of privatisation to be carried out between 2006 and 2008 which is based on finding a strategic partner, introducing employee stock option plan (ESOP) and maintaining a government stake of 25% plus one share. Under this model, a strategic partner can, in co-operation with employees and their stakes (maximum 15-17%), depending on his interest, ensure majority ownership of the shipyard.

As mentioned previously, under the program of the national shipyards rehabilitation and restructuring, the level of government subsidies must ultimately be brought down to the level of subsidies common in the EU, which is also significant in terms of the implications for competition, a significant chapter in the context of negotiations between the Republic of Croatia and the European Union.

4.2.4. Restructuring of the Metallurgy Sector

Program of Ferrous Metallurgy Restructuring in the Republic of Croatia

As provided by the Interim Stabilisation and Association Agreement between the Republic of Croatia and the European Union and Protocol 2 of the Stabilisation and Association Agreement, which came into force on 1 March 2002, the Republic of Croatia has assumed the obligation to draft a “National Steel Industry Restructuring Program”.

Ministry of the Economy, Labour and Entrepreneurship has drafted the “Program of Ferrous Metallurgy Restructuring in the Republic of Croatia”. The economic part of the Program was drafted by the Institute of Economics, Zagreb, on the basis of technical and technological analysis made by the independent foreign consultant “Badische Stahl – Engineering GmbH, Germany” which was recommended by the European Commission.

The Program was submitted to the European Commission in June 2005 for the informal review. Technical consultations with the European Commission in Bruxelles –Enterprise and Industry DG and DG Competition, were held on 7 October 2005 with an aim of agreeing upon the final text of the Program. According to the conclusions from this meeting, a next technical meeting was scheduled for not later than 10 November 2005 with an aim of agreeing on the Program. After the completion of this process the Government of the Republic of Croatia will formally adopt the Program.

Program Objectives and Background

The proposed restructuring program defines the following key objectives:

- Restructuring and modernization of ferrous metallurgy
- Privatisation

Implementation Measures of the Program

- Writing off the direct liabilities to the state acting as the creditor and writing off a part of the indirect liabilities to the state acting as the guarantor for loans granted to the steel companies, with an aim of successful implementation of restructuring and privatisation
- Issuing new state guarantees for new long-term loans granted to the steel companies by the commercial banks, for the insurance of the working capital, for financing investment in fixed assets and for financing catering for redundant employees
- Inevitable fast modernization of the most important segments of the production
- Reaching the projected production capacities

- Abolishing the state aid to the steel sector
- Preparing the privatisation process of the two steel companies in Split and Sisak

4.2.5. Business Environment of Small and Medium Size Enterprises

Present Status

The Republic of Croatia conducts the policy of the development of small businesses in line with the principles of the EU Charter for Small Business. A Questionnaire related to this Charter is being completed every year, since 2003. The Questionnaire for the year 2005 was presented at the bilateral meeting with the representatives of the European Commission, held on 27 September 2005 in Zagreb.

On the basis of the 2004-2008 Program of Incentives to Small and Medium Size Enterprises, adopted by the Government of the Republic of Croatia at its session in May 2004, an Operative Plan of Incentives to Small and Medium Size Enterprises was made for 2005. Under this Plan, the Ministry of Economy, Labour and Entrepreneurship continues with its efforts, using advanced and improved projects, to ensure favourable funding for the enterprise sector, its competitiveness, entrepreneurial education and entrepreneurial infrastructure.

Table 19: Growth of Small and Medium Size Enterprises (SMEs)

	2003.		2004.			
	<i>Number of enterprises</i>	Number of persons in paid employment	<i>Number of enterprises</i>	Number of persons in paid employment	Index 3:1	Index 4:2
	1	2	3	4	5	6
Total	68.084	796.896	68.981	811.776	101,32	101,87
Large	889	375.081	962	386.980	108,21	103,17
Medium	2.597	158.971	2.692	156.407	103,66	98,39
Small	64.598	262.844	65.327	268.389	101,13	102,11
<i>Cooperatives</i>	903	4.750	1.081	5.533	119,71	116,48
<i>Crafts</i>	100.061	138.582	103.517	144.811	103,45	104,49
Total	169.048	940.228	173.579	962.120	102,68	102,33
	State ownership		Private ownership		Mixed ownership	
	2003	2004	2003	2004	2003	2004
	<i>% share of ownership (base: financial reports)</i>					
No of enterprises	1,2	1,2	96,5	96,6	1,6	1,5
No of employees	18,1	17,9	62,8	64,2	18,7	17,6
	Big		Medium		Small	
	2003	2004	2003	2004	2003	2004
	<i>% share per number (base: financial reports)</i>					
No of enterprises	1,3	1,4	3,8	3,9	94,9	94,7
No of employees	47,1	47,7	19,9	19,3	33	33

Source: FINA, CCE, CBS, MELE

The estimated share of SMEs in GDP stands at 45-50% and in exports at 45-55%. In terms of numbers, small enterprises show an upward trend.

Evaluation of 2004 PEP Implementing Measures

Activities planned for 2004/2005

- Entrepreneurial Education and Training

A uniform implementing program for entrepreneurial education has been prepared. Beginners' training gathered 3 920 attendees. A total of 196 seminars were held and 400 people attended entrepreneurial growth and development seminars, and 885 hours of advanced entrepreneurial seminars were organised. The project is carried out in co-operation with 53 entrepreneurial centres, entrepreneurial incubators and educational institutions throughout the country, while the Ministry of Economy, Labour and Entrepreneurship is responsible for monitoring and evaluating the program's implementation. Under the Consulting Network Training and Development Program, 39 entrepreneurial consultants have been verified so far.

Six projects were carried out in the area of vocational training:

1. *“Upgrading and Retraining”* - under this project, retraining for new vocations, taking of master's exam and new employment were provided for 386 persons;
2. *“Development of Vocational Schools which Provide Training for Crafts Specialisation”* – under this project, aid was given for equipping the practicum of 30 vocational schools;
3. *“Master's School”* – a project of co-financing equipment for 10 institutions for adult education;
4. *„Student Scholarships“* - 133 scholarships were given;
5. *“Incentives to Craftsmen and Companies – responsible for carrying out the practical part of training”* – under this project, incentives were provided for 178 craftsmen and companies involved in education of youth;
6. *“Advanced Training in Crafts”* – the project of co-financing seminar organisation in the area of finances.

- Cheaper and Quicker Establishment of Companies and Crafts

In 2005, the Ministry of Economy, Labour and Entrepreneurship joined the One Stop Shop Program, HITRO.HR, a service of the Government of the Republic of Croatia intended to provide quick communication of citizens and business entities with the government administration. In 2005, the Ministry of Economy, Labour and Entrepreneurship set up five communication points, HITRO.HR offices, with the Financial Agency in Zagreb, Split, Osijek, Rijeka and Vukovar, ensuring access to an application for keeping the Register of crafts. Until the end of the year the Ministry plans to set up some other ten communication points at different locations. The chronology of setting up HITRO.HR offices was as follows: 11 May 2005 in Zagreb, 31 May 2005 in Split, 20 July 2005 in Osijek and 22 July 2005 in Rijeka and 27 September 2005 in Vukovar.

There was an increase in the number of new crafts established. One of the measures which led to this increase is the reduction in the cost of setting up the craft business, and exempting certain categories of physical entities from paying for the establishing of crafts in accordance with the Decision on determination of the price of the craft licence. The other measure is related to the simplification of the conditions for running certain types of craft businesses, so a new Ordinance on associated and privileged crafts and the manner of granting privileges (Official Gazette 47/05) was adopted. This Ordinance lays down simplified conditions for running a craft business in 42 out of 140 activities which had required the professional qualification exam or the master's exam. Now, these craft activities can be done by persons who have finished high school (without taking the master's exam).

- Promoting Electronic Access

The Central register of crafts, which contains the registry data on all craft businesses in Croatia, has been set up in the Ministry. The Register is available on the Internet and data are accessible to the public without a fee. The Register of crafts is further improving on an ongoing basis through an increasing number of its links established with databases of other government bodies and other institutions, which is a necessary step towards achieving an on-line registration of crafts. The basic preconditions for on-line registration such as electronic signature and legislative framework and a selection of the competent authority (FINA) have been ensured. On-line registration is still not possible. It requires an appropriate degree of IT literacy and technology which was in 2005 fostered through project entitled "Entrepreneurship of Targeted Groups" for which 707 entrepreneurs submitted their applications while 293 incentives were approved by September.

The web site of the Ministry of Economy, Labour and Entrepreneurship (www.zone.mingorp.hr), provides information on the entrepreneurial and free zones in the Republic of Croatia, thus making a significant contribution to public informing, transparency and investment climate promotion. All entrepreneurial projects, public invitations and the forms required for project participation are published on the Ministry's web site (www.mingorp.hr). The Ministry's e-mail address is also available to the public (info@mingorp.hr) for any queries and there is also a question and answer column which also helps in achieving greater transparency in informing the public.

- Strengthening Successful Electronic Trading Models and State-of-the-Art Support

To transpose the best EU practices, the Ministry of Economy, Labour and Entrepreneurship has concluded an agreement on cooperation in the area of SMEs with the Italian Republic. The most significant aspect of this agreement is a project involving the setting up of clusters in five Croatian counties, notably in the timber industry, the textile industry, the metal manufacturing industry and in tourism.

In co-operation with a German company for technical co-operation, GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit), the authorities have launched different projects such as the setting up of a timber-technology centre in Zadar and various regional projects dealing with the issues of continental tourism, renewable sources of energy and in the context of cluster organisation, cluster management.

- Strengthening Institutional Capabilities of SMEs

With a view to strengthening the country's institutional capabilities in terms of SMEs, the Ministry of Economy, Labour and Entrepreneurship has included in its project decision-making processes active participation of different associations such as the Croatian Chamber of Commerce, the Croatian Employers' Association, the Croatian Chamber of Crafts and Trades, the Croatian Cooperatives Association, as well as entrepreneurial centres and development agencies with which the Ministry works closely and has proposed the following projects in co-operation with its partners in the respective fields:

- PHARE 2005 – "SME Institutional Strengthening and Policy Alignment"
- PHARE 2006 – "Support for Increasing the Competitiveness, Productivity and Volume of Exports of Croatian SMEs"
- PHARE 2006 – "Enhancing the Knowledge Based Infrastructure in Croatia"
- PHARE 2006 – "Enhancing the Institutional Framework for the Crafts Sector"
- CARDS 2004 - "Improving Information to the Croatian Business Community"

Implementing Measures

Under its program of incentives to small and medium size enterprises, the Government of the Republic of Croatia has defined guidelines for incentives to SMEs development. The program consists of annual operative plans which define projects intended for entrepreneurship, formulate measures and set incentives. Incentives may comprise co-financing measures, subsidies, grants, assistance, rewards, aid and government guarantees. The projects of incentives comprise the following areas:

- *Education in entrepreneurship* – implies the adoption of specific knowledge through training programs specifically designed by the Ministry of Economy, Labour and Entrepreneurship. Its implementation is conducted by means of a National Program for Entrepreneurial Education, a Consulting Network Training and Development Program and vocational training (lifelong learning) and involves co-operation with partner institutions.
- *Financing entrepreneurship* – a project involving subsidised interest rates for loans granted under projects such as “The Entrepreneur”, “Woman Entrepreneur”, “The Young”, “Veterans of War”, “Social Services” and “New Technologies” and incentives to entrepreneurship in tourism. Favourable credit terms involve subsidised interest rate loans, guarantees for small businesses, subsidies and aid to regional funds.
- *Entrepreneurial infrastructure* – these projects involve co-financing of entrepreneurial zones, assistance to beginners in entrepreneurship provided through a scheme of favourable incubation conditions and strengthening of institutional support to economic entities in small and medium size enterprises.
- *Competitiveness* – enhancing competitiveness is done through projects aimed at fostering marketing activities, establishing clusters and fostering introduction of new technologies and the implementation of knowledge in technological development by connecting production and science; a special projects are used for co-financing the development of innovation and innovative products with an aim of commercialization of new ideas and of connecting innovations and industries; the introduction of the quality and environment management systems is systematically supported as well as the harmonisation of the production with the European technical legislation aiming at ensuring free movement of goods and engaging in the single European market.
- *Promoting entrepreneurship and marketing* – conducted through projects aimed at fostering marketing activities of the entrepreneurs, entrepreneurial promotion projects, increasing the level of information and awareness of entrepreneurs and through projects and workshops intended for involving students in cooperatives and entrepreneurship as well as through magazines, public lectures and exchange of experience and knowledge
- *Targeted groups of society* – incentives are given to accelerate inclusion in entrepreneurship of women, young people, veterans of war and disabled persons through a system of subsidies and aid schemes
- *Promoting cooperatives* – cooperative-specific projects aimed at promoting cooperatives establishment and development of cooperatives through a system of subsidies and aid schemes.
- *Promoting crafts and trades* – implies development of crafts and trades, upgrading, retraining and training of craftsmen as well as preserving the traditional crafts.
- *New projects plan* – comprises a pilot of regional guarantee funds, register of small and medium size enterprises, innovation marketing and assistance in SMEs restructuring.

To achieve alignment of the Croatian legislation with relevant EU standards, the authorities plan to adopt Amendments to the Small Business Act in 2006.

Program of Professional Training and Employment of Croatian Veterans

The Government of the Republic of Croatia adopted the Program of Professional Training and Employment of Croatian Veterans in May 2004, for which HRK 35m is appropriated annually. The program aims at the reduction in the number of unemployed Croatian veterans and children of the deceased, imprisoned and missing Croatian veterans, representing the target group of the Program. The measures of the Program are focused on improving the educational level and therefore, increasing the competitiveness and employment of the unemployed persons from the target group at the labour market. The Program is also providing financial support for their entrance in the area of SMEs through four measures.

The program consists of six measures:

- *Professional training for the known employer* – intended for persons from the target group which need special knowledge and skills in order to be employed by the known employer. The Ministry of the Family, Veterans' Affairs and Intergenerational Solidarity is co-financing 90% of the training costs without setting the upper limit, while the employer is obliged to cover 10% of those costs and keep the trained person employed for at least 24 months. This measure is annually used by 50-100 persons from the target group.
- *Professional training for the unknown employer* – it can be used by the target group for their first employment, retraining and gaining new knowledge and skills. The Ministry is covering all costs up to HRK 7,000. This measure is annually used by 500 persons from the target group.
- *Self-employment of the persons from the target group* – establishing craft businesses, companies and insurance based on family agricultural farms is supported by the incentives of HRK 20,000. The incentive for employment is given to around 1,100 Croatian veterans annually.
- *Financing SME* – subsidizing the interest rate at the level of 2% for the entrepreneurial loans granted by the commercial banks which are realized through the programs of the Ministry of the Economy, Labour and Entrepreneurship. This measure can be used by the target group as well as by the legal entities which, by this incentive, employ people from the target group.
- *Promoting cooperatives of the Croatian veterans* – one-time aid in the amount of HRK 150,000 is used for fostering development of the cooperatives as a special type of entrepreneurship which enables performing activities in an organized and professional manner, as well as their joint participation at the market. This financial aid is given to 20 cooperatives annually.
- *Supporting individual projects* – intended for the purpose of creation of new jobs for at least three persons from the target group. The incentive at the amount of HRK 100,000 is given to people who, when Public announcement is made, submit the most perspective business plans, together with the requested documentation. This measure is annually used by 23 entities.

4.3. FINANCIAL SECTOR

4.3.1. Banking System

Table 20: Financial System Structure (million HRK)

	XII 1999		XII 2000		XII 2001		XII 2002		XII 2003		XII 2004	
	amount	%	amount	%	amount	%	amount	%	amount	%	amount	%
1. Banks, consolidated assets in gross terms	93.251,5	87,7	109.949,1	87,0	142.605,6	87,3	165.622,2	84,7	195.278,0	83,2	225.546,2	81,6
2. Open-end investment funds	26,0	0,02	191,1	0,2	1.432,5	0,9	2.797,5	1,4	3.258,8	1,4	4.867,8	1,8
3. Closed-end investment funds and PIFs*	2.717,7	2,6	3.736,3	3,0	3.795,6	2,3	3.051,7	1,6	1.027,4	0,4	1.194,0	0,4
4. Insurance companies	7.620,2	7,2	8.615,5	6,8	9.670,1	5,9	11.096,8	5,7	12.688,6	5,4	14.406,5	5,2
5. Housing savings banks	152,3	0,1	513,8	0,4	1.254,0	0,8	2.133,6	1,1	3.468,6	1,5	4.976,6	1,8
6. Pension funds - compulsory (net assets)							2.119,7	1,1	4.677,3	2,0	7.913,2	2,9
7. Pension funds - voluntary (net assets)									29,6	0,0	96,9	0,0
8. Credit unions	1.211,7	1,1	1.116,0	0,9	1.045,1	0,6	1.428,8	0,7	1.575,5	0,7	1.707,7	0,6
9. Leasing companies (estimates until 2002-XII)	1.330,4	1,3	2.210,6	1,7	3.523,4	2,2	7.328,3	3,7	12.702,8	5,4	15.739,4	5,7
TOTAL	106.309,7	100	126.332,3	100,0	163.326,3	100,0	195.578,5	100,0	234.706,6	100,0	276.448,4	100,0

Note:

* of which PIFs	2.335,0	2,2	3.242,2	2,6	3.183,3	1,9	388,8	0,2				
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At the end of the first half of 2005, the banking sector in the Republic of Croatia comprised 34 banks and 4 building societies, with this sector's total assets standing at HRK 241.1bn. The banks accounted for 97.8% of the total banking sector assets, while building societies accounted for 2.2% of the total.

Compared with end-2004, the number of banks fell by three. While two banks were merged with other banks, one bank underwent a regular liquidation process. As the two merged banks were foreign-owned, and the bank which initiated the process of liquidation was a domestic bank, the number of banks in (majority) foreign ownership fell to 13 and the number of banks in (majority) domestic ownership to 21 banks.

Table 21: Number of Banks (domestic/foreign ownership)

	in domestic ownership	in foreign ownership
1999	40	13
2000	23	20
2001	19	24
2002	23	23
2003	22	19
2004	22	15
June 2005	21	13

Within the banking sector, there are six groups of banks operating in the country, grouped in accordance with a *Decision on Consolidated Financial Reports of a Banking Group* (Official Gazette 17/2003). In terms of operating structure of all the groups, superordinate banks are largely dominant, while the number of subordinate banks is falling steadily as a result of integration processes in the banking segment of banking groups.

Table 22: Total bank assets (million HRK)

	XII 2002	XII 2003		XII 2004		VI 2005	
	Amount	Amount	Change	Amount	Change	Amount	Change
Total Assets	174.139,2	204.115,0	17,2	229.305,2	12,3	235.748,1	2,8

The share of assets of banks in (majority) foreign ownership in total banking system assets fell slightly (0.10 percentage points) at the end of first half of 2005 compared with the end of 2004, and stood at 91.2%. The share of the number of banks in (majority) foreign ownership fell to 38.2% of the total number of banks.

The second half of 2004 and the first half of 2005 saw several changes in banking regulations. The minimum requirements in terms of foreign currency claims that banks have to maintain in relation to their foreign currency liabilities were cut in February 2005 from 35% to 32% coverage. (*Decision Amending the Decision on the Minimum Required Amount of Foreign Currency Claims*, Official Gazette 22/2005).

In addition, since August 2004, the banks are required to calculate marginal reserve requirements which are calculated on any positive difference between the average daily balance of sources of funds from non-residents and legal persons in a special relationship with a bank during a particular calculation period and the average daily balance of the same sources of funds in the initial calculation period (*Decision on Marginal Reserve Requirement*, Official Gazette 99/2005). The marginal reserve requirement rate was raised from 24% to 30% in February 2005 (*Decision Amending the Decision on Marginal Reserve Requirement*, Official Gazette 24/2005) and additionally to 40% in May 2005, because of a steadily rising net increase in foreign liabilities (*Decision Amending the Decision on the Marginal Reserve Requirement*, Official Gazette 64/2005).

The Decision on Reserve Requirements was amended on two occasions in 2005; the first time in March when the percentage of the kuna part of reserve requirements was raised from 60% to 70% (*Decision Amending the Decision on Reserve Requirements*, Official Gazette 34/2005) and the second time in May when the central bank raised the rate of that part of foreign currency reserve requirements that is allocated in kuna, from 42% to 50% (*Decision Amending the Decision on Reserve Requirements*, Official Gazette 44/2005).

In accordance with changes in the International Accounting Standards, which the banks, as well as other companies in the Republic of Croatia, apply directly, subordinate legislation of the CNB (*Decision on the Chart of Accounts for Banks*, Official Gazette 115/2003 and *Decision on the Statistical Reports for Banks*, Official Gazette 166/2003) governs these issues separately. In light of the revised International Accounting Standards and the adoption of new International Financial Reporting Standards which came into force in 2005, the CNB is working on amendments to its subordinate legislation adopted in 2003 (*Decision on the Chart of Accounts for Banks*, *Decision on the Statistical Reports for Banks*, *Decision on Supervisory Reports of Banks*, *Decision on Consolidated Financial Reports of a Banking Group* and *Decision on the Classification of Placements and Contingent Liabilities of Banks*).

Changes in subordinate legislation will include increased demands on banks in terms of their currency risk evaluation and reporting practices. Under these changes, attempts are made to monitor a currency-induced credit risk arising from large euroisation of balance sheets of the Croatian banks.

Work on further alignment of laws and subordinate legislation with EU directives continued in 2005, with plans for the 2006 to 2008 period involving the adoption of regulations in the area of financial conglomerates, bank liquidation and electronic money.

In 2004 and 2005 the authorities intensified their efforts towards the preparations for the transposition into national legislation of the new capital standard Basel II. In mid-2004 a task force was established with the task of implementing the principles of Basel II, the banks were surveyed in connection with their plans regarding Basel II and bilateral working meetings were held with the largest banks. At the same time contacts were also established, through memorandums of understanding, with home supervisors from Austria, Italy and Hungary and host supervisors from Bosnia and Herzegovina. According to present preliminary plans, Croatia plans to implement Basel II solutions and the relevant EU Directives in the national legislation by 2010 at the earliest. Such plans are based on the expected readiness of banks and supervisory functions in the Republic of Croatia for efficient introduction of a new capital standard with the aim of building institutional capacities, without jeopardising banks' current operations and supervisory functions.

In July 2005, the CNB's Financial Stability Department issued its first in the line of future semi-annual publications entitled: "Macroprudential Analysis".

December 2004 saw the adoption of a new Deposit Insurance Act (Official Gazette 177/2004).

As provided by a *Decision on the Obligation to Report Payment System Data* (Official Gazette 189/04) issued by the CNB in December 2004, the central bank started collecting statistical payment system data of banks and payment card companies in accordance with internationally accepted standards in this area. The CNB received first reports of this type in July 2005.

Under a *Decision Amending the Decision on the Croatian Large Value Payment System and Settlement in Bank Accounts Held with the CNB* (Official Gazette 34/05 and 74/05) a new model of payment transaction execution was introduced which involves securities transactions clearance and settlement and which has finally provided a solution to the issue that the authorities sought to resolve for a long time, of shortening the time required for settlement in accordance with internationally accepted standards. Under this new model, the so-called DVP principle (delivery-versus-payment) was introduced which involves the execution of all securities trading payment transactions through the CLVPS. The Central Depository Agency, as a special participant in the CLVPS has thus become responsible since 4 July 2005 for the execution of all transactions related to payment transactions clearing through a transit securities trading settlement account.

4.3.2. Foreign Exchange System Regulation

Present Status

In the context of liberalisation of the country's foreign exchange system, the authorities have abolished most of the capital restrictions in the area of securities trading.

More specifically, on 24 March 2005, the central bank repealed its decision which had been used to restrict investment of non-residents in domestic securities and stakes in domestic investment funds. The one remaining restriction relating to investment of non-residents in

domestic securities is the investment of non-residents in the Croatian National Bank Bills and Treasury Bills of the Ministry of Finance of the Republic of Croatia.

The central bank also repealed, effective as of 24 March 2005, a decision which had been used to restrict issuing of short term securities by nonresidents in the Republic of Croatia, thus making the issuing of securities by non-residents in the Republic of Croatia unrestricted.

The adoption of a new decision which regulates the manner and the conditions of investment of residents in foreign securities has liberalised portfolio investment, as of 24 March 2005, by allowing residents to invest in all foreign securities irrespective of the issuer's headquarters or credit rating. Resident natural persons are obligated to make their foreign securities purchases and sales through domestic brokers and keep them in domestic custodian banks. Investment of residents in stakes in foreign investment funds is subject to the principle of mutuality.

Implementing Measures

The objective of the Republic of Croatia in 2006 is to liberalise investment of non-residents in CNB bills and T-bills of the Ministry of Finance. This is planned to be achieved through amendments to the Foreign Exchange Act.

The Republic of Croatia plans to repeal in 2008 the obligatory use of financial intermediaries, brokers and custodians for investment of resident natural persons in foreign securities. This is planned to be achieved through amendments to the Foreign Exchange Act.

No fiscal impacts are envisaged to be produced by measures taken in the context of foreign exchange system regulation.

4.3.3. Supervision of Non-Banking Sector

Supervision of the non-banking financial sector in the Republic of Croatia is governed by special laws within shared jurisdiction of three institutions: the Croatian Securities Commission, the Agency for the Supervision of Pension Funds and Insurance and the Insurance Companies Supervisory Authority.

The Croatian Securities Commission is responsible for direct supervision of financial institutions such as investment funds, privatisation investment funds, stock exchanges, the central depository agency as well as all securities issues and turnovers on stock exchanges.

As at 30 June 2005, there were 55 open-end investment funds registered in Croatia whose net assets stood at HRK 6.9bn and 5 closed-end investment funds with net assets standing at HRK 1.4bn. There are 20 investment fund management companies registered in Croatia, while the first six banks in the country dominate the investment fund deposit services market.

Complete turnover on the two stock exchanges in the Republic of Croatia, the Zagreb Stock Exchange and the Varaždin Stock Exchange is also under the jurisdiction of the Commission. At end-June, market capitalisation at the Zagreb Stock Exchange was HRK 94.6bn while that at the Varaždin Stock Exchange during the same period was HRK 55bn.

The Agency for the Supervision of Pension Funds and Insurance is responsible for the supervision of the four mandatory pension funds whose total assets amount to HRK 9.5bn and

twelve voluntary pension funds whose assets amount to HRK 132.4m. The Agency is also responsible for the supervision of the work of the Central Registry of Insured persons (REGOS), a technical body established primarily for the purpose of collecting and distributing payments of contributions for mandatory pension funds.

The Insurance Companies Supervisory Authority is a body responsible for the supervision of insurance companies, insurance brokers and insurance agents.

At the end of 2004, there were 26 companies operating in the Republic of Croatia, of which 24 were insurance and 2 were reinsurance companies. Of the 24 insurance companies, 4 of them dealt exclusively with the life insurance business, 8 with non-life insurance, while 12 companies offered both life and non-life insurances. There are also 11 insurance brokerage companies and over 150 insurance agents.

Total gross premium underwritten by insurance companies in 2004 was HRK 6.63bn of which HRK 1.57bn went to life insurance premiums and HRK 5.06bn to non-life insurance premiums.

According to balance sheet data as at 31 December 2004, the value of total assets of insurance and reinsurance companies stood at HRK 14.4bn, which is an increase of 13.5% compared with the value of this activity's assets in 2003.

In accordance with the measures defined in the 2004 PEP, the authorities adopted in the fourth quarter of 2005 a Croatian Financial Supervisory Authority Act, a precondition for the establishment of a new single body responsible for the supervision of the non-banking financial sector. This Act combines the existing supervisory authorities in the non-banking financial sector into a single supervisory authority responsible for the non-banking financial sector – the Croatian Financial Supervisory Authority (hereinafter: the Agency). As provided by this Act, this Agency is scheduled to become operative as of 1 January 2006. The Agency's supervisory responsibility will encompass the supervision of

- stock exchanges and regulated public markets, authorised companies and securities issuers,
- investment, privatisation investment, and pension fund management companies, investment funds, privatisation investment funds, pension funds, the Fund of the Croatian Homeland War Veterans and Their Family Members and the Pensioners' Fund,
- brokerage companies, brokers and investment consultants
- institutional investors,
- the Central Depository Agency,
- the Central Registry of Insured Persons,
- insurance companies, pension insurance companies, insurance agents and brokers;
- legal persons dealing with leasing and factoring, unless such activities are conducted by banks in the framework of their registered activity,

in accordance with this Act and other relevant legislation.

The establishment of a single authority for the supervision of financial institutions in the non-banking financial sector will contribute, in the framework of its regulatory and supervisory responsibilities, to financial system stability and will prevent any specific risks of individual institutions from spilling into system risks with the potential to affect the entire financial sector. This will particularly be true once the Agency is joined by the Prudential Regulation

and Bank Supervision Area in the future. With the establishment of an institution for consolidated supervision of the entire financial sector, the preconditions will be created for the adoption of a single financial services act. In 2006, we expect the Agency's inclusion in the PHARE program.

In addition to this Act, other acts have been adopted or are planned for adoption in the area of non-banking financial sector, which will contribute to improved legislative and supervisory framework of this sector and further development of the entire financial market.

As provided by measures envisaged under the 2004 PEP, the Insurance Act and the Act on Compulsory Insurance within the Transport Sector were adopted which are partly aligned with EU Directives (allowing for a transitional period for the provisions determining capital adequacy until end-2010) and are planned to be applied as of 1 January 2006. The application of the new Insurance Act will ensure better protection of insured persons, improved solvency of insurance companies and better risk management and create preconditions for efficient supervision of insurance companies. Economic impacts of the new act will be achieved primarily through larger investment of insurance companies in the capital market in equity and long-term debt securities. The Act on Compulsory Insurance within the Transport Sector introduced the liberalisation of insurance premiums, better protection of traffic accident victims and efficient realisation of their claims for damages.

As foreseen, the new Act on Investment Funds was passed in the fourth quarter of 2005. It defines open-end and closed-end investment funds and venture capital funds. Pursuant to the provisions of this Act open-end funds are fully harmonised with the UCITS III rules which are defined by two Directives of the European Parliament and the Council (2001/107/EC and 2001/108/EC). Closed-end investment funds are not a subject matter of Directives so the Act defines them in line with national needs, same as venture capital funds. The economic effects of this Act are best reflected in the development of the capital market, that is, the development of investment habits of traditional savers. In this segment, most is expected from venture capital funds which through their investments may restructure existing companies but also start up new companies with comparative advantages in the Republic of Croatia. The application of this Act is planned as of 1 January 2006.

The Accounting Act was also passed in the fourth quarter of the year. Pursuant to this Act Croatia applies International Financial Reporting Standards (IFRS). The IFRS supplement provisions IV and VIII of the EU Directive. Pursuant to the provisions of this Act a national Committee for Financial Accounting Standards has been established, which will as an official body implement, harmonise and interpret the application of IFRS. The Committee members shall be appointed by the Government of the Republic of Croatia at the proposal of the Minister of Finance. In general, the application of IFRS includes the adoption of the standards set by the International Accounting Standards Board (IASB). The economic effect of this Act will be best felt in the possibility of comparing the categories and results of companies operating in Croatia and other EU Member States with the countries applying IFRS. The Act will enter into force on 1 January 2006.

The adoption of the Leasing Act is planned for the first quarter of 2006. This Act is exceptionally important because, individually speaking and by assets per GDP, the leasing industry is the second largest industry in Croatia. Together 15 leasing companies account for assets of some HRK 15 billion, inclusive of operative and financial leasing. The Leasing Act will define the status of leasing companies from the accounting and tax aspect. The economic

impact of leasing industry in Croatia reflected itself in the intensive external debt growth especially when the CNB introduced marginal reserve requirement on all foreign sources of funds. This turned leasing companies into SPVs (special purpose vehicles) for their parent banks. The adoption of the Leasing Act will place leasing companies under the supervision of the Agency (the Croatian Agency for Supervision of Financial Services) which will pass all implementing acts within the realm of leasing companies' operations.

The Securitization Act is also being prepared and will be drafted in 2006.

Other Legislative Measures

The Act on the Amendments to the Act on Housing Savings and State Incentives for Housing Savings was passed and entered into force in the third quarter of 2005. It expanded the utilisation propose of housing loans, introduced intermediate financing, reduced government incentives from 25% to 15% of the HRK 5,000 basis of the available savings, while government incentives may be approved to an individual saver only at one housing saving bank, thus reducing the possibility of abusing this right.

4.4. LABOUR MARKET

4.4.1. The National Action Plan for Employment

Present Status

Labour market key indicators for the period 2000-2004 indicate a 0.6% rise in employment, the employment rate increasing from 42.6% to 43.5%, unemployment declining by 10.7% and the unemployment rate reducing from 16.1% to 13.8%. Despite the above-mentioned improvements of the situation in the labour market, there are still serious problems in its functioning since youth unemployment rate is still high and long-term unemployment still accounts for more than one half of the total unemployment. Due to the necessity to direct active employment policy measures at particularly sensitive groups in the labour market, the general programme of subsidised employment that had been carried out since March 2002 and included a total of 77,086 persons was repealed in August of 2005. Based on this programme, 16,177 persons were employed during 2005, with the total amount of the subsidy worth HRK 337,476,140.00.

By adopting all ten guidelines of the European Employment Strategy Croatia adopted the first National Action Plan for Employment for the period 2005-2008 based on which preparation and creation of implementation measures for 2006 is under way. The new cycle of active employment policy measures is based on close co-operation between competent authorities with decentralised financing where each of the competent authorities responsible for particular implementing measures plans and provides for the funds for their implementation. At the same time, the procedure for the utilisation of the EU pre-accession assistance funds through the programme PHARE 2005 “Active Measures for Employment of Groups Threatened by Social Exclusion” was launched with the signing of Memorandum of Understanding on the participation of the Republic of Croatia in the simulative measures by the Community in the field of employment.

The planned measure of implementing the Act on Professional Rehabilitation and Employment of Disabled Persons was carried out in 2005. The Act was amended in the part relating to ensuring fixed and permanent financing of financial incentives for employing disabled persons in such a way that by allocation of general contributions the Fund for professional rehabilitation and employment of disabled persons was provided with a regular income of some HRK 60,000,000.00 a year. Currently, the adoption of implementing regulations as regards the manner of realising financial incentives for the purpose of work place adjustment, equipment procurement and remuneration of contributions paid by employers for salaries of disabled persons is under way.

In the area of safety at work implementing regulations or ordinances have been adopted, by way of which EU Directives No. 92/270/EEC, 92/58/EEC, 92/269/EEC and 89/654/EEC have been incorporated into the national legislation. At the initiative of the National Council for Safety at Work a National Programme of Safety at Work has been adopted.

Implementing Measures

Based on the adopted National Action Plan for Employment 2005-2008, a new cycle of active employment measures will be started in 2006 aiming at:

- ensuring effective cooperation with the unemployed persons based on individual professional employment plan, education and training for seeking employment,

- reducing the average time required for registering small and medium-sized businesses and providing assistance in accessing capital for technological development and creation of new jobs,
- altering the system of secondary education from the current premature specialisation and narrow vocational training towards acquisition of general basic skills for the purpose of ensuring a higher level of flexibility in the selection of a profession,
- reform of vocational training and adult education,
- creating conditions for tripartite participation in education and life-long learning by stimulating collective negotiations on financing vocational life-long training,
- introducing standards for identification of various forms of discrimination in the process of employment and ensuring mechanisms for their eradication,
- stimulating the transfer from unregistered labour towards the official economy by way of increasing incentives as well as fines,
- developing undeveloped areas by establishing entrepreneurial zones and creating local development agencies.

Fiscal Impact Assessment

In view of the circumstance that creation of joint operative measures for the implementation of the adopted measures of the active employment policy for 2006, for which the competent authorities independently budgeted the required financial assets within the framework of the 2006 budget is under way, fiscal impact assessment may be given only on the basis of total planned funds for the implementation of individual measures of supporting the creation of new jobs, creating the level of knowledge and skills of all those present in the labour market and implementation of active measures aimed at employment of unemployed persons. The competent authorities budgeted the total amount of some HRK 650,000,000.00 which will represent direct budget expenditures.

Possible positive effects of implementing measures on the budget in the form of its revenues are difficult to assess at this point because of their dependence on the increase in employment, reduction of unregistered labour and rise in the economic power of the individual as well as the economy as a whole which might all positively affect budget revenues.

It is worth noting that individual measures directed at normative activities or reform of individual systems will not require additional funds because they fall within the scope of regular activities of state administrative bodies.

Institutional Organisation

One of the most important institutions in the labour market of the Republic of Croatia is the Croatian Employment Service, which, aiming at strengthening its influence on labour market flexibility, directed its activities on the following:

- a new individual approach to unemployed persons based on their individual professional plans,
- creating a partnership with private agencies at the national and the local level,
- centralisation of the data system and its openness and accessibility to all users.

Aimed at strengthening the competence and expert capabilities of the Croatian Employment Service, implementation of several CARDS programmes is under way as well as the above-mentioned PHARE programme:

1. CARDS 2001 "Labour Market Restructuring" Project within the framework of which:
 - the strategy for professional development has been created and the CASCAID system established,
 - 26 councils have been trained for work with disabled persons and persons with difficulties in finding employment,
 - 7 centres have been set up for support to business changes aimed at providing services to workers of companies in the process of restructuring.

2. CARDS 2002 and CARDS 2004 "Local Partnerships for Employment", which are expected to improve the knowledge of the labour market, strengthen human resources development and reduce the unemployment rate at county level by:
 - harmonising vocational education with the current and expected demands of the individual county labour market.

3. CARDS 2003 "Decentralisation and Restructuring of the Croatian Employment Service " which is carried out in order to strengthen regional and local abilities of the Croatian Employment Service through advancing the skills, technological knowledge and experience required for decentralised operation which will result in a more direct participation in local development plans and initiatives.

4. PHARE 2005 "Active Measures for Employment of Groups Threatened by Social Exclusion", aimed at strengthening economic and social cohesion of the most sensitive groups of the Croatian society by increasing their employability through measures of active employment policy tailored especially to their needs. This project is expected to give the following results:
 - thorough evaluation of existing measures for stimulating employment,
 - creation of new range of measures which would include the old measures deemed to have been efficient,
 - upgrading the level of employee qualifications, while creating and implementing the active employment policy,
 - raising the level of employability of groups threatened by social exclusion.

4.4.2. Social Security System

The social security system in the Republic of Croatia represents a network of rights and measures in the field of employment and protection from unemployment, education, healthcare, pension system, family policy and social welfare and assistance. Aimed at preventing the social exclusion of the most vulnerable Croatian citizens and fighting poverty, protection of the socially most vulnerable groups of citizens is carried out through a systematic government policy which includes child allowance, maternity allowance, youth benefits, family allowances, assistance to persons with disabilities, the elderly and the infirm, victims of violence, persons addicted to drugs and other narcotics, victims of trafficking, ethnic minorities, and unemployed persons. The social security system encompasses a range of rights aimed at aiding individuals to overcome particular hardships, providing material assistance in covering the costs of living, housing costs, providing one-off financial assistance, allowance for help and care, compensation for disability, training for independent living and working, care outside own family and other forms of assistance.

The social security system will be undergoing substantial changes in the coming period, in the segment of family policy, education, employment, pension insurance, health and health insurance as well as in social welfare system which takes an important place in the social security system. In this system social welfare represents the last layer of the social protective net whose aim is to cater for and integrate the socially most vulnerable or deprived groups of the population into the society.

The project of social welfare system development, which is a result of the cooperation of the Ministry of Health and Social Welfare and the World Bank, came as an answer to the need for systematic changes in this area.

The project aims at establishing a new, more economical and more efficient system oriented towards the socially most threatened and most vulnerable citizens. This includes continued decentralisation and transfer of authorities to units of local and regional self-government in order to make social services as efficient as possible and more accessible to citizens, provide systematic incentives for and financial support to operations of non-governmental organisations and humanitarian associations, as well as ensure that financial benefits are better allocated and the level of social services within and outside institutions improved, taking into account the specifics of different regions arising from different customs and way of life, and the needs and interests of the beneficiaries. And last but not least, to ensure that potential beneficiaries are better informed on their social rights as well as ensure the informatisation of the system. Such a social welfare system will help diversify the offered services and thus ensure a better quality care for system beneficiaries.

As part of the process of Croatia's EU accession, its social welfare system will continue to be harmonised with the criteria and the standards applied in the countries of the European Union. With this aim the Republic of Croatia signed an agreement worth EUR 31m with the World Bank for the Social Welfare System Project.

The Project, which will be carried out by the Ministry of Health and Social Welfare in cooperation with the competent institutions, has three components as follows:

1. Improving the delivery of social services by way of a series of social programmes, starting with prevention, followed by increasing the quality of social service delivery and reintegration of beneficiaries into the community. Social services will become more efficient, oriented more towards the family and based on the principle of inclusion.
2. Strengthening the IT and management system of social welfare - the implementation of the IT and management system will support the new model of social welfare organisation which will be based on the principle of one-stop-shop, thus resulting with improved services and better organisation of work at social welfare centres.
3. Improving the infrastructure at social welfare facilities, which includes construction of 13 new social welfare centres and reconstruction of 13 existing centres as well as improvement of sanitary and hygiene conditions at 57 social welfare homes, which will improve the quality of life of their beneficiaries and thus to the overall quality of social service delivery.

With the completion of this project, which is based on the analysis and evaluation of the existing social welfare system and adheres to EU standards, the overall institutional framework will be improved, with special emphasis on the improvement of the standing of the most threatened segment of the society, that is, the most socially vulnerable groups. The

success of this Project of development of the social welfare system largely depends on the cooperation within the entire social security system.

Within the framework of the pension system, which makes up one of the components of the social security system, a new Pension Insurance Act was adopted in 2005. Pursuant to this Act pensions will be adjusted under the principle 50%:50% as of 2006, which includes the application of the composite formula of pension adjustment to the growth of wages and costs of living. The change in pension indexation in line with the said formula will be sustainable for the budget over the long-term and it will enable retired persons to participate in overall productivity through the share that will be adjusted with the growth of salaries on one hand, while maintaining the real value of pensions by adjusting a share to the costs of living.

For the purpose of repaying the debt to pensioners a special fund has been established pursuant to the Pensioners' Fund Act which will receive shares and other equity participation of the state in order to enforce the Supreme Court Decision of 1998. The Fund is established as an investment fund managed by a fund management company. The debt to pensioners is estimated at HRK 13.8bn and it will be, depending on the preferences of each individual pensioner, repaid during 2006 and 2007 at 50% discount or in its full amount over a period of eight years following a two-year grace period.

Aimed at preventing social exclusion of individual groups of the population measures have been undertaken in the area of education and employment policy (as listed in the corresponding chapters) within the framework of overall development of these segments based on prevention of discrimination and ensuring equal opportunities for all social groups.

Measures for implementing anti-discriminatory provisions: the rights of minorities, refugees, the Roma population - present situation and plans, harmonization with the EU *acquis communautaire*

In the Republic of Croatia rights of members of all minority groups are ensured pursuant to the Constitution, the Constitutional Act on the Rights of National Minorities and other acts and regulations as well as international standards and other documents that have been adopted by the Republic of Croatia. Article 15 of the Constitution guarantees equality to members of all national minorities.

The Constitutional Act on the Rights of National Minorities, adopted in December 2002, improved the rights and the position of the members of national minorities in the Republic of Croatia and, at the state level introduced the Council of National Minorities, whose purpose is to enable participation of national minorities in public life and elect councils and representatives of national minorities at the levels of counties, towns and municipalities. The Council of National Minorities consists exclusively of members of national minorities, who decide on allocation of the funds earmarked by the state budget for the needs of national minorities. At the level of counties, towns and municipalities 320 councils and 69 representatives of national minorities have been elected.

The Government Office for National Minorities carries out activities relating to the implementation of the Constitutional Act in the part relating to councils and representatives of national minorities. Aiming at implementation of the Act and more efficient cooperation with the units of local and regional self-government, the Office has in co-operation with the

Council and competent state administrative bodies organised 18 seminars on educating and training the councils and representatives of national minorities.

Aiming at continuing with the implementation of the Constitutional Act the Office will hold seminars in the period to come, starting with seminars in Osijek, Split and Rijeka to be held in December 2005 and the final seminar in Zagreb to be held in 2006. The seminars will be financially supported by the OSCE mission to Croatia. Pursuant to Article 20 of the Constitutional Act on the Rights of National Minorities and the Act on the Election of Members of Representative Bodies of Units of Local and Regional Self-Government, the Government of the Republic of Croatia took a decision on 15 September 2005 to hold additional elections for representatives of national minorities in the representative bodies of units of local self-government for five representatives of Serb nationality – for the Town Council of the Town of Drniš in the County of Šibenik-Knin, and municipality councils of the municipalities of Lovinac, Nijemci and Tovarnik in the County of Vukovar-Srijem. In line with the Government's Decision additional elections were held for the representative of the Ukrainian national minority in the Town of Slavonski Brod on 23 October 2005.

The implementation of the Framework Convention for the Protection of National Minorities has been continued by holding a seminar in Split in September this year, while the implementation of this international document will be continued over the coming period.

Attention will be given also to the adherence to the Central European Initiative for Protection of Minority Rights. The preparation of the project for implementation of this document is under way, with HRK 150,000 being earmarked for this purpose.

Following the signing of the Agreement on the Protection of Minorities with Serbia and Montenegro on 15 October 2004 that was ratified by the Croatian Parliament on 18 March 2005 a Mixed Intergovernmental Council for the Implementation of the Agreement will be established.

With the passing of the National Programme for the Roma and the Action Plan – Decade for Roma Inclusion 2005 – 2015 the issue was addressed systematically as well as the elimination of all forms of discrimination and the creation of the foundations for integration and living conditions of the Roma. Within the measures to be implemented during the Decade better living conditions will be ensured for the Roma: improvement of their settlements, (water, electricity, sewage system, access roads), free pre-school education, better access to the entire educational system, health care improvement, especially for women and children and better possibilities for employment.

In accordance with the National Programme for the Roma, the Office for National Minorities of the Government of the Republic of Croatia has continued with the education of young Roma in 2005 and 2006, aiming at educating the young Roma population for implementation of the National Programme for the Roma and the Action Plan – Decade for Roma Inclusion and providing help in running different associations and carrying out projects; educating young Roma population for participation in the decision-making process. So far, 6 seminars have been held with over 70 young Roma participants. By the end of the year, an additional seminar will be held on the affirmation of the Roma population in the media as well as a round table about the ways in which to promote positive aspects and ensure equal reporting about the Roma.

For the purpose of implementing the measures contained in the National Programme for the Roma and the Action Plan – Decade for Roma Inclusion, HRK 1,020,000 will be set aside in the State Budget of the Republic of Croatia for 2006.

The Office for National Minorities proposed a project of Roma support – a project for urbanisation of the Roma settlements in the County of Međimurje as well as educational programmes to be financed from the funds under the PHARE 2005 and PHARE 2006 Programme of the European Commission. The proposed value of the project is EUR 1.3 million for PHARE 2005 and EUR 2.5 million for PHARE 2006, in which the Republic of Croatia will, through the Office for National Minorities, participate with EUR 167,000 for PHARE 2005 and EUR 833,000 for PHARE 2006.

4.5. AGRICULTURAL SECTOR

Agriculture

The objectives of agricultural policy are directed at increasing the competitiveness of the sector and of membership in the EU. As a result, the Government of the Republic of Croatia continues with the implementation of agricultural policy measures which will ensure the change in the structure of agricultural farms, adequate functioning of the market and efficient public services.

Improvement of the Agricultural Land Market

In relation to the change in the structure of agricultural farms, support for the purchase of agricultural land has been provided through a capital investments model. In addition, within the framework of bilateral co-operation with Sweden, the Project "Enlargement of Agricultural Land" was initiated in September 2005, which will define the models of enlargement of agricultural land. Amendments to the Agricultural Land Act were carried out, aimed at speeding up the process of privatization of agricultural land owned by the state.

Aiming at regulating the agricultural land market the Government of the Republic of Croatia will launch activities necessary for the creation of an Agricultural Land Study which will provide guidelines for shaping agricultural policy measures (the funds have been earmarked as part of the project of the World Bank on «Harmonisation of Agricultural Legislation with the *acquis communautaire*»). Activities aimed at amending the Inheritance Act will also be launched in order to prevent further fragmentation and reduction of the size of agricultural farms, with full appreciation of the protection of ownership rights.

Privatisation of Companies in State Ownership

The privatisation of the two remaining large agricultural and food-producing companies (VUPIK and Sladorana Županja) in majority ownership of the state are under way and will be completed by the end of 2005 or at the beginning of 2006.

Regulation of the Agricultural Products and Foodstuffs Market

The Regulation on Wheat Market Order was adopted in 2005 as the first step in gradual harmonisation of this area with market mechanisms in the EU. The Regulation does not encompass all the elements of EU market organisation but proscribes a guaranteed and a minimal price. It is noteworthy that the planned guaranteed price for wheat in 2005 is adjusted with the price in the EU.

In view of the frequent disruptions in the beef market, the beef market is envisaged to be gradually aligned with that in the EU in 2006. Harmonisation of market mechanisms for all agricultural products in line with the changes of market organisation in the EU is an ongoing activity in the process of the accession of the Republic of Croatia to the EU.

State Aid in Agriculture

The reform of the system of state aid in agriculture was reformed in 2003. As part of the reform, in addition to the current models of supporting production (conventional and organic production of plants and livestock) new structural support models were implemented: the model of income support (support to non-commercial farms irrespective of the type and quantity of production), capital investments model (support to investments in agriculture for

commercial farms) and rural development model (national measures). The reform incorporated into the system a mechanism for maintaining the available agriculture budget within the set framework in a manner which proportionally reduces the amount of subsidy per unit if the requests overrun the available funds.

In the past three years, state aid to agriculture as a share of GDP totalled slightly above 1.0%. The agricultural policy aims at gradually increasing, within the framework of the available budget, the share of funds earmarked for structural support measures (primarily for investments into agricultural farms). The harmonisation of the state aid to agriculture with the changes in the common agricultural policy of the EU is an ongoing activity within the process of accession of the Republic of Croatia to the EU.

Rural Development

In 2005, a proposal of the SAPARD rural development plan was created and submitted to the European Commission to give its opinion. In line with the recommendations of the FAO Strategy of Rural Development for the Republic of Croatia activities were taken for the implementation of rural development measures which will be financed from the national budget.

The main activities over the coming period will be the creation of the Ordinance for the implementation of the SAPARD programme and preparation of promotional activities in connection with the promotion of the SAPARD programme on the regional level throughout the Republic of Croatia.

Payment Agency

As part of the Directorate for Market and Structural Support in Agriculture, of the Ministry of Agriculture, Forestry and Water Management an additional administrative structure was created in 2005 for the implementation of the SAPARD Rural Development Plan next to the already existing administration in charge of the implementation of national measures of state aid.

Aiming at becoming fully functional for administration of pre-accession funds the Directorate for Market and Structural Support in Agriculture is quickly preparing for the implementation of measures under the SAPARD, accreditation and the beginning of its operation in 2006. The part of the Directorate implementing national measures of structural and market support is preparing for the harmonisation of administrative procedures and controls with the system applied in the EU. Activities on the creation of the Integral Administrative and Control System (IACS) have been continued, as an addition to the existing Register of Agricultural Farms.

Agricultural Inspection

Over the past period, agricultural inspection was reorganised by integrating the inspection services from the State inspectorate and the offices of state administration at county level to the organisational structure of the Ministry of Agriculture, Forestry and Water Management.

The activities of the agricultural inspection are directed at increasing the number of inspectors, education, equipping and harmonisation with EU standards, with the envisaged project of the World Bank and EU pre-accession funds having a significant role.

Agricultural Statistics

The establishment of the system of agricultural accountancy data (FADN - Farm Accountancy Data Network) is in its initial phase where its possible future organisation is being deliberated.

Within the framework of the World Bank project, which is expected to be launched in 2006, a creation of study and a pilot project for the establishment of the FADN is envisaged. One of the priorities of the coming periods will be defining future requirements for statistical data pursuant to the EU methodology and consultations with the Central Bureau of Statistics on their collection.

The World Bank project "Harmonisation of Agricultural Legislation with *acquis communautaire*"

Together with the team of the World Bank the Ministry of Agriculture, Forestry and Water Management has been working on the preparation of the project of harmonisation of the agricultural legislation with *acquis communautaire*, which is to be carried out next year. In order to speed up the preparation of the Project an Agreement was signed this year with the International Bank for Reconstruction and Development on a loan advance no. 4180-HR for the project of harmonisation of the agricultural legislation with *acquis communautaire*.

The primary objective of the project is establishing the institutional structure within the agricultural sector and the harmonisation of legislation with the *acquis communautaire*. The stress of the project is on the Payment Agency, food safety and sanitary and phytosanitary conditions and the implementation of rural development measures. The project is to be carried out over the period of four years.

Wine Cadastre

During the period from 2003 to 2005 funds were set aside from the state budget for establishment of a Wine Cadastre (HRK 2 million per year). The necessary aerial photos were completed and digital ortophoto maps created and entered into a database. It is expected that a fully digitalised cadastre will be established by the end of 2006. After that time (during 2007 and 2008) the remaining data on vineyards will be collected and entered (variety, grape-wine, wine-growing method, slope, etc.).

Phytosanitary Area

In the phytosanitary area two basic regulations entered into force in 2005: the Plant Health Act (to be applied as of 2006) and the Plant Protection Act (to be applied as of 2007). The creation of the main implementing regulations is under way, by which the health control of plants and registration of plant protection products and their marketing will be regulated into more detail and which will enable the application of the new Acts. Aiming at strengthening the institutional framework, the number of employees of the plant protection service has been increased.

Over the coming period, activities will be directed at creating implementing regulations based on the new Acts. Due to the poor condition of the Plant Protection Institute, the construction of the new building is to be started within the framework of the World Bank project. The objective is to raise the quality and expertise in monitoring organisms harmful to plants and reach phytosanitary standards applied in the EU common market. It is planned to increase the number of persons employed in plant protection as well as educate and train them.

Food Quality and Safety

Regulations on general and labelling and marking of foods and the regulation on basic quality requirements for individual groups of products – vertical regulations were adopted and harmonised with EU legislation in 2005. Within the framework of agricultural policy implementation and raising the level of competitiveness of domestic production as well as implementation of the policy aimed at raising the quality of agricultural products and foodstuffs, during the past period an ordinance has been adopted on the protection of geographic origin and authenticity of food. Croatian legislation has been fully aligned with EU legislation thus ensuring producers in the Republic of Croatia the protection of products equal to the protection of geographic origin in the countries of the European Union. Aimed at strengthening the administrative capacity of the Croatian Food Agency the following Agency bodies have been established: the Managing Council, the Advisory Council, the Scientific Council and boards as Risk Analysis Department consisting of Agency Employees. The Agency commenced with its operations in 2005.

In the period to come, vertical regulations will continue to be adopted and harmonised with EU legislation. Over the next period, it is planned to implement the ordinance on signs of authenticity and signs of geographic origin: education and training of all producers and processors as well as all those interested, establishment of a control system and authorisation of certification bodies, enabling unbiased determination of compliance and control of foodstuffs in line with the identical system in place at EU level. By the end of 2005, an ordinance will be adopted on the conditions, the process of recognition and acquiring the sign of “traditional quality”, while its implementation is planned in 2006. As a crucial part of the World Bank project and with the earmarked funds from the state budget, organisational and institutional strengthening of the Croatian Food Agency it is planned for 2006 and 2007.

Veterinary Area

With the end of compulsory vaccination the policy of classical control of swine fever was implemented in 2005, vaccination was forbidden and the programme of monitoring domestic and wild pigs implemented. Regulations relating to international transport of animals and products of animal origin have been harmonised with EU legislation and construction has been started on 2 veterinary border crossings built in accordance with EU standards.

With the aim of bringing veterinary legislation of the Republic of Croatia in line with the EU legislation, the veterinary service and inspection will be re-organized. Further activities will involve improvement of the system of controlling animal health, improvement of the system of veterinary-public health, construction and moving of the laboratory of the Croatian Veterinary Institute, as well as the accreditation of the laboratory, including its regional branch offices, the establishment and organization of regional branch offices of the Croatian Veterinary Institute (Križevci, Vinkovci, Split and Rijeka), specialized centers for discovering, preventing and eliminating animal diseases, depending on their frequency in the region (wild animal diseases, especially dangerous exotic infectious diseases, economically most important animal diseases), continuation of the process of identification and registration of animals and production of animal origin products, rationalization and building of veterinary border crossings and their accreditation by the EU Commission, improvement of the implementation of animal welfare legislation, improvement of informatization in the veterinary sector, and ensuring of continuing education of veterinarians in the system of state veterinary service.

Regarding veterinary public health, the priorities are the appointment of state veterinary inspectors in approved structures for the production of animals and animal products, as well as changes to the system of payment collection for the performance of mandatory veterinary-health examinations and controls as well as system adjustment to the application of the so-called Hygienic package.

With respect to the system of supervision of the health of animals, activities directed at obtaining the status of a country free of classical swine plague (monitoring) are continued as well as certification of flocks free of tuberculosis, enzootic leucosis of bovines, brucellosis and other diseases, establishment of registers of all farms for breeding animals, as well as the establishment of an electronic data base on diseases of animals, and improvements to the protocol on gathering and standardization of data and reporting about the movement of diseases and health of animals.

Fisheries

In the first quarter of 2005, the Act on the Amendments to the Maritime Fisheries Act was adopted thus starting the process of full harmonisation of Croatian legislation in the fisheries segment with *acquis communautaire*. The fishery inspection was established in 2005 by taking over inspection services of the inspectorate and employment of additional employees. A pilot project of satellite tracking of vessels (tuna boats) was completed and a programme of the fleet modernisation initiated. As part of the National Programme for Increasing Production and Consumption of Fish funds have been allocated for the construction of a fishing port in the region of Istria. The implementation of the CARDS project is under way, aimed of strengthening institutional capabilities and providing assistance in aligning the national legislation in the fishing sector with the Common Fisheries Policy of the EU. Aiming at further harmonisation of administrative structures and legislation in the area of fisheries, a proposal of the PHARE programme has been created "Support to the Republic of Croatia in the Preparation and Implementation of the Strategy of Fishery Development for the purpose of adjustment and implementation of *acquis communautaire* in the segment of Common Fishery Policy" and sent to the European Commission to give its opinion. The implementation of the PHARE programme is envisaged in the period from 2006 to 2008.

Further strengthening of institutional capabilities and equipping of a fishery inspection in order for it to achieve full functionality is planned through the PHARE project. In addition, it has been planned to start establishing a fish and fish products market in line with EU requirements as well as establish a system of fish trading (construction of ports of discharge and wholesale markets, creation of standards for marketing fishery products). It is planned to create a National Programme for Fishery Development in a six year period and continue with the alignment of technical legislation as well as conduct a revision of the statistical database (benefits and vessel registry).

Forestry

After adopting the proposals on new laws (The Act on Forests and the Act on new Forestry Reproduction Material) which have entered the parliamentary procedure or have already been adopted, creation and adoption of subordinate legislation and the implementation of the *acquis* is to follow until the end of 2005 and in the first half of 2006, all related to the monitoring, supervising and collecting data on the degree of damage to forests in line with the methods and regulations of the European Union and other international organisations.

In line with the commitments undertaken by the Republic of Croatia at ministerial conferences on sustainable management of forests in Europe, aimed at improving the state of forests in private ownership and performance of tasks related to approval and recording of trees that have been felled as well as trees used from private forests, the Government of the Republic of Croatia planned the establishment and operation of the Forestry Advisory Service, introducing subsidies for forest owners and continued efforts as regards the national standard of forest management, that is the creation of the Croatian FSC standard.

The “Ideal and Operational Plan of the National Inventory of Forestry Resources of the Republic of Croatia” was created in 2005. The data obtained on forests (area, wood mass, growth, type of forest communities, etc.) by the project, that is, inventory in 2006 and 2007 will be highly reliable and accurate, in line with international standards of forestry data monitoring.

Hunting

The creation of the Act on Hunting and thus arising subordinate legislation (ordinances) is under way, as well as the digitalisation of maps of all hunting areas in the territory of the Republic of Croatia. The creation of a web page (for monitoring the central hunting registry) is also under way. By implementing legal and subordinate regulations, the objective is efficient nature protection for the purpose game preservation and preservation of its natural habitat as a national treasure as well as improvement of the economic significance of hunting and the relationship between this activity with other significant activities for the economy of the Republic of Croatia. In addition, one of the objectives is to establish a hunting inspection within the Ministry for the purpose of better control of implementation of primary and secondary legislation pertaining to hunting.

Wood Industry

Aimed at supporting measures and instruments and creating preconditions to spur exports as well as boost the competitiveness of domestic wood processing companies, a strategy for industrial processing of wood and paper has been created. The main objective of the strategy is deliberating and proposing efficient measures, instruments and preconditions for creating the new industrial policy of the wood processing sector. In line with this aim the Act on Classification of Wood in the Rough has been passed (which is harmonised with Council Directive 68/89/EEC) and an Ordinance on measuring, classification and marking of wood in the rough.

As part of short-term priorities in the wood processing sector, a need has been defined to conduct studies and carry out projects stipulated in the Strategy of development of industrial processing of wood and paper in order to address key development issues (clusters, sector restructuring, creation of the new sector brand, implementation of new design and recognisable quality) and create conditions for entering the international market. Activities have been taken connected with education and application of EU norms.

As part of mid-term priorities, it is planned to ensure funds for creation of an information system and a database as foundations for further development of the sectors. Budget funds have also been earmarked for implementation of EU norms and continued implementation of projects arising from the Program of wood processing industry development. The objective of the project will, among other things, be the introduction of new technologies which are to enable producers to be competitive on the EU market.

4.6. THE HEALTH SECTOR

4.6.1. Health Insurance Reform

With the aim of stabilizing the system of health care and health insurance, and improving fiscal discipline in the system of health care and health insurance, and with the expected result of decreased share of overall spending on health care in GDP and settlement of debts in the health sector without reducing the rights out of health insurance and preserving high quality health services, the Ministry of Health and Social Welfare developed a proposal of short-term and long-term measures, of which the most important ones are as follows:

- *Reducing expenditures on medicines*
Aimed at reducing expenditures on medicines a series of ordinances has been adopted, regulating the segment of medicines (registration) and marketing. Amendments to the Health Care Act of 1 October 2005 introduce an administrative fee to be paid for each prescription, so ensuring additional resources of HRK 380.0m is envisaged, with the additional effect of decreased visits to offices of primary health care. The realisation of the objective to reduce expenditures on medicines depends on setting the highest price of medicines to be covered by the Croatian Health Insurance Fund.
- *Reducing hospital costs*
As part of the contracts that the Croatian Health Insurance Fund enters with health care institutions a series of contractual obligations have been introduced such as operating within the framework of predetermined maximum amount of funds, that is, within a budget, the obligation to uphold clinical guidelines and rational pharmacotherapy, better organisation of work, introducing supervision over expenditures per organisational unit and keeping records on delivered services.
- *Changing the basic package of health care services with legislative changes to health insurance*
- *Improving the system of payment of services at medical institutions*
The number of diagnosis paid in accordance with the PPTT (prospective payment system) or DTS/DRG price is increasing. As of March 2006, a new model of prospective payment in hospitals will be implemented – called DTS. It is based on the Australian payment model which will, at the end, cover 600 procedures and will encompass specialist health care as well.

The Ministry of Health and Social Welfare in co-operation with the Croatian Health Insurance Fund established a working group in 2005 for the preparation of a new Act on Health Insurance in order to restructure the health insurance system. The working group has been working intensively on the wording of the new Health Insurance Act and so far it has been decided that two acts will be passed regulating the area of basic health insurance and of supplementary health insurance. The final text is to be completed by the end of 2005.

In addition, the Ministry of Health and Social Welfare has organised workshops and round tables under the sponsorship of the World Bank on the topic of health insurance restructuring in Croatia, in order to gather information on international experience with the reform of health care funding and health insurance and obtain recommendations for the creation of the new Health Insurance Act.

4.6.2. Reform of Health Services

Health Care Reform

Aimed at improving the organisation of the health care system, the Ministry of Health and Social Welfare will draft the text of the Health Care Development Strategy for the period 2006-2011, which, among other things defines the main objectives of the reform of primary health care such as: strengthening the role of general/family medicine in the health care system, developing and improving the privatisation concept, bringing the concept of family doctors into life as well as pressing ahead with the process of informatisation and creating a computerised network of all participants.

Preparation of the draft proposal of the Act on amendments to the Health Care Act is under way.

Aimed at *improving the organisation and functioning of primary health care* the privatisation of primary health care offices has been continued as well as the completion of the informatisation process of primary health care.

The Croatian Health Insurance Fund has been carrying out education of health care workers and selected doctors under contract as regards proscribing prescription medicines, which includes detailed knowledge of the Fund's List of Medicines, stressing the need to adhere strictly to the guidelines in connection with the List of Medicines. The project of harmonising the activities of family medicine with the European standards is under way, accompanied by approving and financing specialisations.

Financial stimulation of preventive examinations and education about health that was started in 2004 is continued, together with special financing of preventive examinations of health insurance beneficiaries above the age of 55 who have not received a clinical examination or been diagnostically processed in the past three years.

Reorganisation of community health centres, which at the level of primary health care resulted in the change of their status due to mergers of community health centres in the units of local (regional) self-government into a single community health centre, in practice caused unequal quality and availability of health care services for the public. The amendments to the existing Health Care Act will propose a possibility of the establishment of at least one community health centre at county level, or at least three in the City of Zagreb. Aimed at making health care available in the islands, establishment of health care centres is envisaged on some of the islands.

Improvement of the organisation and functioning of secondary and tertiary health care includes the creation of the system of categorisation and accreditation of health care institutions in order to enable better management and improve the quality and efficiency of rendering health care services. The categorisation of health care institutions will include the improvement of infrastructure, functionality and the scope of provided services as well as provision of guidelines for health care institutions on required resources for rendering optimum health care as well as determination of possibilities for co-operation between different institutions.

Aiming at improving the infrastructure and renewing medical equipment, analyses have been carried out in connection with the medical and technical equipment of medical institutions. A plan of investments in medical institutions and acquisition of medical equipment is adopted every year. The objective is to connect these two projects and thus optimise the decision-making process as regards investments into renewal of hospitals, construction of new hospitals as well as renewal of out-dated medical and technical equipment.

The process of informatisation of hospitals and networking them with the central information system has been continued. The task of the working group established in 2005 is to analyse the progress made so far and submit a report this year.

Aimed at improving the operation of inspection services, the Croatian Health Insurance Fund merged the service for internal and external control and introduced controllers to all regional offices who control the operations of hospitals on daily bases with the special accent on the control of medical documents, appropriate treatment procedures, charging for services rendered in line with signed contracts as well as the control of spent, used and proscribed medicines, etc.

The Ministry of Health and Social Welfare assumed *an active role in the management of human resources in the segment of health care activities* in order to ensure an adequate number of medical doctors in all regions of the Republic of Croatia and ensure equal availability of health care to all citizens irrespective of the place of residence. In order to adjust the number of doctors entering the health care system with actual needs it is necessary to adjust enrolment quotas at medical schools. Aimed at the implementation of the project of harmonising family medicine with European standards, the Ministry of Health and Social Welfare in co-operation with the Croatian Health Insurance Institute and Croatian Employment Service started preparing a plan in 2004 which is directed at enabling internship immediately after graduation for employees with higher-school and university degrees. Pursuant to the Health Care Act and at the proposal of health care institutions, the Croatian Health Care Institute and the competent chamber, the Minister of Health adopts the Annual plan of required specialisations and sub-specialisations. The first phase includes the realisation of the approved specialisations and sub-specialisations for clinical institutions, hospitals, and community health centres (paediatrics, gynaecology and obstetrics) and public health institutes. The second phase includes approvals of specialisations and sub-specialisations for special hospitals, polyclinics and the remaining activities of community health centres and public health institutes. It follows after the first phase of the Plan has been completed in order to realise the entire annual plan.

Harmonisation of the Public Health Legislation with the European Union

The area of health care that reflects itself in the improvement of the population's health and the area that the European is most interested in regulating at the Union level is the area of public health.

Within the framework of harmonising public health legislation with the EU legislation and respecting the recommendations and guidelines of the European Union, the Ministry of Health and Social Welfare has been working on a new act on the protection of the population from communicable diseases would define diseases in line with the EU legislation. The text of the act is in its final phase and it is expected that it will enter into the parliamentary procedure by the mid of 2006.

Since the Republic of Croatia signed the Convention on Control of Tobacco Products in June of 2004, the harmonisation of the act on the restriction of use of tobacco products with EU directives is under way and is planned to be adopted in the second quarter of 2006.

In relation to the issue of blood quality, the draft of the Blood Supply Act was adopted by the Croatian Parliament in the first reading.

The Act on the Extraction of Human Body Parts for Transplantation Purposes, which has been adopted at the end of 2004, envisages a series of subordinate legislation regulating the quality and safety of tissues and cells whose adoption is under way.

4.7. PUBLIC ADMINISTRATION REFORM

Current Status

In the period since the delivery of the 2004 PEP, measures have continually been carried out in the area of public administration reform, directed at modernisation of the state administration in accordance with the EU standards and practice.

- The creation of the Strategy of Public Administration Reform is under way and it is expected to be submitted to the Government of the Republic of Croatia by December this year.
- The new Civil Service Act, harmonised with EU standards, has been adopted, with the creation of implementing regulations for its application being under way.
- The Ordinance of the Government of the Republic of Croatia has been altered (introducing obligatory fiscal, social and environmental impact assessment as well as the assessment of the impact of proposed and other regulations on state aids/market competition. Fiscal impact assessment of laws and other regulations has been carried out since June of this year).
- In December 2004 the Government of the Republic of Croatia adopted the Framework Decentralisation Programme 2004-2007 and established a Commission for Decentralisation whose aim is to implement the Framework Programme.
- The Methodology of Functional Revision has been created and functional analysis of organisational structures and management completed in two ministries and state administrative offices at county level. (The functional revision pilot project was completed in June this year).
- An analysis of the system of salaries and wages in civil service has been conducted, aiming at developing a new salaries system which would introduce elements based on invested effort and work efficiency of civil servants (the results will make up the starting point for the creation of the Act on Salaries).
- Pursuant to the Conclusion of the Government of 20 May this year, official forms of state administration have been published in electronic format on the web pages of public administration bodies (submitting forms in electronic format will be possible following adoption of the new Regulation on Office Operations, which will be adapted to electronic functioning of the administration).
- Aiming at improving Croatia's administrative capacity for accession to the EU and strengthening of the horizontal education capacity in state administration, the Government of the Republic of Croatia adopted the Strategy of Professional Training and Education of Civil Servants in 2004.
- The implementation of the measure related to the amendments of the General Administrative Procedure Act, aimed at harmonisation with EU standards, has been started. SIGMA has made an evaluation of the General Administrative Procedure Act from the aspect of harmonisation with EU standards (basis for amendments to the Act).
- Several projects are being carried out in Croatia, within the program e-Croatia 2007 and in accordance with the guidelines of the European Commission (program eEurope and Initiative i2010), aiming at establishing modern public administration by making use of all the advantages of the information technology:
 1. *HITRO.HR Program* is oriented towards about twenty areas of public services. The aim of the Program is to simplify and speed up the provision of public services to citizens and entrepreneurs as well as to enable its provision electronically. A part of the tasks of the program e-Croatia is fulfilled by the

HITRO.HR program, but the coverage is not only related to the Internet because the use of the advantages of other available technology in the communication between both citizens and entrepreneurs and the public administration is planned. The first services within this program are the company registration and the submission of the forms to the Register of Insured Persons e-Regos.

2. *The project HITROnet* is used to establish a secure ICT infrastructure for the program HITRO.HR. The end of the first phase of the Project is marked by the connection of all the institutions of the state administration in Zagreb into the single network. The second phase will start by connecting the state administration bodies in Split and Rijeka in the network. The aim is to connect the state administration bodies in all parts of Croatia to HITROnet, in the shortest possible period of time, which will ease the access to information resources, enable further digitalisation of the content in the public administration as well as speed up the administrative processes thus enabling quicker and simpler performances of services encompassed by the HITRO.HR.

Measures related to the adoption of the Act on Salaries, which was planned for 2005 under the 2004 PEP, will be postponed for 2006 in line with the obligations assumed under the Loan contract for the first programmatic adjustment loan between the Republic of Croatia and International Bank for Reconstruction and Development.

The implementation of the measure related to the adoption of a Regulation on Amendments to the Regulation on Internal Organisation of State Administration Offices At County Level has been abandoned because pursuant to the Act on Amendments to the Act on Local and Regional Self-Government a significant share of responsibilities in the field of economy is being transferred from state administration offices at county levels to large cities and counties.

Implementing Measures

In the area of state administration reform, in the period 2006-2008, aimed at rapprochement to the European Union, the following measures are planned:

- adoption of subordinate regulation in connection with the Civil Service Act which will regulate in detail numerous status-related issues for civil servants as well as the principles of their activities (the adoption of listed regulations is planned to be completed by January 2006),
- establishment of organisational units for human resources development and management at all state administration bodies employing over 50 employees,
- establishment of an IT supported register of civil servants (establishing the structure, form and rules of operation),
- amendments to the General Administrative Procedure Act

Support in the implementation of these measures has been provided within the framework of the project financed by the Ministry of Foreign Affairs, Foreign and Commonwealth Office of Great Britain and CARDS Project 2003 "Support to the Implementation of the Programme of State Administration Reform".

As part of the PAL granted by the World Bank, Croatia plans to take further measures in the area of public administration reforms aimed at establishing fiscally acceptable public administration adapted to EU standards as regards capability/merit, professionalism and political independence. The following has been envisaged under the PAL program:

- Amendments to the Act on State Administration System, the Act on Rights and Obligations of Government Officials, the Act on the Procedure of Transfer of Office and the Conflict of Interest Prevention Act, aimed at depoliticising public administration in line with the new Civil Service Act;
- preparation and implementation of the rationalisation program (including catering for staff, reallocation and impact on the budget) in the state administration bodies on the basis of the results of the functional revision;
- adoption of the Act on Salaries in Civil Service;
- adoption of new regulations on conditions for employment in civil service, including provisions on centralised collective negotiation.

Within the framework of CARDS 2003 Project – Support for Decentralisation of the Croatian State Administration – support will be provided for implementing reforms to state administration in the process of decentralisation, which includes improvement of the entire institutional and legal framework for decentralisation as well as the improvement of the co-ordination of the decentralisation process. (Adjustment of job descriptions for this project with the European Commission is under way).

With an aim of establishing clear rules and achieving transparent financing of political parties, the adoption of the Political Parties Financing Act has been planned.

For the purpose of improving supervision of the operations of state administrative bodies amendments to the Act on Administrative Inspection are planned.

In addition, functional revision of state administration bodies is to be continued in order to improve the organisational structure and management of state administration bodies.

Further measures planned within the process of state administration reform, aimed at strengthening electronic administration in development of the economy, improvement of administrative capabilities and strengthening horizontal education capacities are as follows:

- Adoption of a new Regulation on Office Operations (adapted to electronic functioning of the administration),
- Informatisation of the state administration offices in counties,
- Within the framework of HITRO.HR program, services of electronic VAT declaration via Internet or HITRO.HR office within the service e-VAT, as well as electronic submission of personal income tax forms for citizens are planned for 2006. Further development of services will be planned in accordance with the results of the „Study on Administrative Burden on Companies“, which is also planned for 2006. The completion of the program HITRO.HR is planned for 2007.
- Within the framework of HITROnet project, after the completion of the first phase – interconnecting ministries in the city of Zagreb – a network connection of the institutions outside Zagreb, including the central state administrative offices in the counties, will be carried out in 2006. This will create preconditions for the public administration to operate electronically at the local level as well.
- The project of preparing, forming and publishing in electronic form the official forms of state administration that citizens and business entities may submit by public telecommunications network (in the segment that has not yet been completed)
- Strengthening of the Centre for Professional Improvement and Training of Civil Servants (Within the framework of Danish Pre-accession aid/ spring 2005 to December 2007/ assistance will be provided in the establishment of a comprehensive

human resources development system, strengthening of the Centre for Professional Improvement and Training of Civil Servants – with an aim to develop an adjustable demand-driven approach to training and ability development as the integral part of public administration reform.)

- Creation of a plan for education and training of civil servants and civil service employees in the use of IT technology and equipment.
- Establishment of a system for the exchange of experiences and co-ordination of activities among IT experts employed in state administration.
- Accelerated language lessons for civil servants participating in the harmonisation of legislation with EU legislation.

A comprehensive public administration reform is directed at developing an efficient public administration system as the sole prerequisite for private sector growth. With this aim, the planned state administration measures are oriented towards creating a modern, effective and efficient state administration, which is able to provide quality and speedy services to both citizens and entrepreneurs, working towards economic advancement and overall development and adjusting to European standards both from the aspect of fiscal acceptability of public administration and increased level of expertise.

4.8. EDUCATION AND SCIENCE

The Croatian society started great changes in all segments of education, striving to keep up with new scientific discoveries and new technologies in this century of knowledge.

Education System Development Plan 2005 – 2010, adopted by the Government of the Republic of Croatia on 9 June 2005 is a strategic development document aimed at directing the overall political effort on developing education as a system connecting human resources, legal, material, scientific and professional factors.

By monitoring the directions in which education systems in Europe and across the world have developed, Croatia too has recognised to need to reorganise its schooling system in accordance with the requirements of modern times. Education is directed towards the general good of the society as a whole in order to improve the quality of education leading to a functional economy, culture of living and a society based on democratic principles. A precondition for active inclusion of people in the economy and a society based on knowledge is acquiring the basic knowledge in the field of the language, biology, algebra, knowledge of the social and humanistic sciences. Contents and activities have been determined which should lead to developing a better quality, more accessible, more adjustable and more efficient system of education, aiming at creating human intellectual and working capital as the key resource of the state. Special attention is awarded to life-long learning, aiming at inclusion of adult and unemployed persons in adjustable educational programmes of training for active integration in the labour market. A common system of educational and professional guidance is developed, which has been recognised as a tool of common educational and employment policy in the EU countries.

Accession to the European Union places new challenges before the Croatian educational system. Better quality of knowledge and skills, better flexibility and mobility will create the possibility to adequately address the needs and the changes both in the Croatian society and the European Union.

It is very important for the Croatian education system to be based on clear priorities and objectives, of which the most important are: improving the quality and efficiency of education, supporting continued professional training of teachers and other employees in the field, developing strategies for management of the educational system and its efficiency as well as education directed at social cohesion and economic growth and development.

The Development Plan will be carried out within the framework of the Government's system of financing and supported by a World Bank loan, pre-accession funds of the European Union and other sources.

The measures proposed by the Government for improvement of education, especially in the infrastructure segment and adjustment of secondary school education, require more efficient allocation and rational use of financial assets.

5.8.1. Preschool Education

There are 503 preschool institutions in the Republic of Croatia today, housed in 1,203 buildings (290 established by units of local self-government, 49 private kindergartens established by religious communities or parishes – 46 catholic, 1 evangelical, 1 of the Chavely Chapel religious community and 1 Jewish, 100 private kindergartens established by physical and legal persons, 28 organisational units of preschool programs at primary schools, 28 preschool programs, and 8 shorter programs carried out at libraries – *Medveščak* Library, *Društvo Naša djeca* Association, *Djeca prva* Association, *Brodski Stupnik* Library, *Zlatna Kobra* Roma Association, Roma Association of Istria and Roma Association of Croatia in Čakovec).

The total of 92,280 children of preschool age is covered by regular ten-hour programs, out of which 43,258 girls. The pre-school program covers 16,800 children and shorter programs cover 36,920, which totals 145,800 children of preschool age in the preschool education system.

Measures of the Action Plan - Decade for Roma Inclusion are being implemented systematically. 350 children were included in preschool programmes in 2005. It is planned to expand efforts for inclusion of children, especially in the City of Zagreb.

Since decentralisation in preschool education, in relation to financing and rights of establishment, started already in 1993, there is a large number of private kindergartens (171). However, the number of children covered by preschool education programmes in private kindergartens is not substantial. Legally, private kindergartens have been organised as a house where children live same as within their family, which constitutes a great advantage for development of preschool children, and where there are not more than 60 children. Healthy competition between the private and council or municipal sector is most prominent in large cities (Zagreb, Split, Rijeka and Pula) where private kindergartens have become an increasingly more attractive idea because the need for private kindergartens is recognised so they are co-financed the same as kindergartens established by the said entities.

The aim of preschool education is to extend the number of children enrolled in preschool programmes from current 43% to 60% in 2010, increase the number of children covered by primary school preparatory programmes (starting one year before transferring to primary school) from the current 96% to 98%, ensure systematic professional training of preschool teachers, associates and preschool director, ensure adequate facilities, staff and material conditions and strengthen the management system.

In 2006, HRK 4,316,000.00 is expected to be set aside for pre-school education in addition to the expected World Bank loan worth HRK 1,950,000.

5.8.2. Primary School Education

In the school year 2004/2005 there were 837 regular primary schools operating in the Republic of Croatia (530 founded by counties, 298 founded by cities) as well as 56 art schools (music and dance schools). Primary school education covers 394,325 students. There is not a great number of private primary schools (10), however, by their quality they strive to be able to compete with schools founded by counties or cities. The minority group children are

educated in line with positive legal provisions. Special care is taken of children of the Roma minority and measures from the Action Plan are systematically implemented. Some hundred Roma are included in the programme providing primary school education to adults.

A significant shift in the philosophy of establishing preschool and primary school institutions fosters closer co-operation between the local community, parents, schools and the state, to the benefit of children and students and in order to create adequate conditions for their healthy growth and comprehensive education. In the school year 2005/2006 49 primary schools introduced the Croatian National Educational Standard (CNES) on experimental basis. The objective is to improve the quality of teaching, modernise subjects and teaching methods, introduced more appropriate student monitoring and evaluation of student work, teachers and schools, adjustment of educational standards with that of the EU, support continued professional development and training of employees in educational institutions, devise strategies for management of the educational system and improve its efficiency as well as direct the entire educational system towards social cohesion, economic growth and development. In the school year 2006/2007 all primary schools will start implementing the Croatian National Educational Standard and National Curriculum. As regards the education of children with special educational needs, the range of offered programmes will be extended, aimed at improving their inclusion and better participation in the society. By the end of 2007, teachers will complete training for the implementation of the Croatian National Educational Standard and the new curriculum and by the end of 2008 all teachers will acquire the basic level of IT knowledge. By 2008, a system of indicators will be introduced, enabling monitoring and comparison of the development of the educational system in Croatia with educational systems of EU member states. In addition, national pedagogical standards for primary and secondary schools will be created as well as standards for the creation of a school network to be implemented gradually. The objective is to increase the percentage of students enrolled in primary schools from the current 96.5% to 98% by 2010 as well as of those completing their education from the current 91% to 95%. It is also planned to increase the number of primary schools operating in only one shift from the current 25, 45% to 40% and terminate the teaching of classes in three shifts. The objective is to introduce adequate evaluation to education, so the PISA project will be carried out as of 2006, while the system of self-assessment of schools will be implemented by 2008.

5.8.3. Secondary Education

Present Status

- Professional Training of Teachers

The competence of teachers, professional associates and headmasters is not adequate for the attainment of the set objectives of the educational system quality improvement. Teachers, tutors, advisors and headmasters, implementing the entire education strategy, should thus be provided with the adequate training. The priority areas include: active teaching methods, students modelling according to the new curriculum, development of entrepreneurial skills, development of leadership skills, acquisition of knowledge and skills for school and professional orientation. The innovations will also influence the training of teachers in the system of improvement of external valuation quality and state exam implementation.

The deadline for implementation is 2010.

The pedagogical and psychological education of teachers who have not graduated from teacher training faculties is not satisfactory. The Proposal of the Program for Pedagogical and Psychological Education of Teachers should be prepared, in accordance with the Bologna Declaration.

- State Secondary School Leaving Exam

As a result of inconsistent approaches and criteria of individual teachers and schools, a lack of explicit knowledge valuation and student achievement standards, non-transparency of the grading system and grades, incomparability of school diplomas, incomparability of school performance, unreliability of feedback concerning the system efficiency and school performance quality, the state secondary school leaving exam will be introduced –a standardised external final exam, examining the level of students' knowledge and the attained competence at the end of secondary school education. In addition, the level of responsibility of all participants in the education system will be upgraded. The National Center for the External Valuation of Education has been established, as well as the Council for the Implementation of the State Secondary School Leaving Exam into the Croatian Education System.

The external valuation should be performed in the standardised and controlled conditions and by using the exam material which is protected in accordance with the provisions of the Data Protection Act (Official Gazette 108/96).

In co-operation with the ministries competent for the economic and regional development, the national and regional assessments of the required educational profiles will be prepared. In addition, the new National Secondary School Curriculum will determine the duration and contents in accordance with the labour market needs.

- Curriculum

Vocational programs and the respective specialisations no longer correspond to the needs of the labour market. Therefore, a redefinition of vocational programs and the respective individual specialisations has been initiated. Amendments to the programs and curricula have been made for 30 specialisations, which mainly last for four years. A modification of the national qualification framework is being prepared, as well as a further redefinition of individual specialisations and a further modernisation of the existing programs and curricula and the preparation of the new ones. The secondary school specialisations have been reduced from 400 to 311. The vocational education has been changed to become less specialised and at the same time adaptable to the needs of the students, the economy and the labour market. The Vocational Education Agency has been established.

- Program Network

The existing program network is obsolete, inefficient and does not correspond to the labour market needs. Therefore, a new program network should be developed, which would reflect the needs of the labour market and interests of the local administration.

- Equipping of Secondary Schools

The current level of secondary school equipment does not warrant a successful preparation of students for the labour market and taking the state secondary school leaving exam. In addition to the Ministry of Science, Education and Sports, the Ministry of Agriculture participated with modest funds in equipping the agricultural schools, while the Ministry of the Economy, Labour and Entrepreneurship participated in equipping the crafts programs (uniform

education model, JMO). In addition to the development of the program network, definition of the national qualification framework, redefinition of the vocational programs, preparation of the new and modernisation of the existing programs, systematic efforts should be made in equipping schools.

- Normative Regulations

In order to create the preconditions for the implementation of the state secondary school leaving exam, external valuation of education and educational reform, the amendments to the Secondary School Act were adopted, as well as the Regulation Establishing the Vocational Education Agency and the National Center for the Act on External Valuation of Education. The Administrative Council of the Agency and its Director were appointed, the Articles of Association and Organisational Structure Ordinance were adopted and the Agency began with its operations.

- Education of Adults

In the system of education of adults, there is large number of institutions carrying out formal types of education of adults approved by the Ministry of Science, Education and Sports, and a large number of legal persons also carry out various forms of education of adults. Therefore, the activity should be regulated by law, as a precondition for creating a uniform education system for adults, which would provide the education quality, transferability in the education system and meeting of the needs of the community and the economy as a whole.

Data on all education indicators for adults should be compiled through the single database.

The launched literacy project «For Literate Croatia: a Path to Desirable Future – Decade for Literacy in Croatia 2003 – 2012» finances the primary education of adults and it is planned for the project to last until 2012.

- Private Sector

Within the secondary education system 34 private secondary school authorised by the Ministry of Science, Education and Sports are founded. In addition, there are 14 religious schools authorised by the Ministry of Science, Education and Sports. In this field, there is a tendency of increase in private secondary schools.

- Integration of the Roma Children into the Secondary School Programs

The National Program for the Roma and the Action Plan – Decade for Roma Inclusion from 2005 to 2015 provide for the measures which will contribute to the elimination of a years long marginalisation and discrimination of the Roma national minority. A special attention is devoted to the rights of the Roma children, their education, health care and inclusion of the Roma into all forms of work. In 2005/2006 school year about 30 secondary school students are included in the scholarship program (the Ministry of Science, Education and Sports). About 30 students have been residing in student homes (Međimurje and Varaždin County).

Development Objectives of the Secondary School Education area as follows:

- until 2010 – to increase the rate of secondary school enrolment from the present 79.2% to 83% of students who graduated from primary school;
- until 2010 – to increase the number of students in general secondary schools and artistic programs from the present 29% to 35% of the total number of students enrolled in secondary school programs;

- until 2010 – to increase the rate of students who graduated from secondary schools from the present 69.5% to 75% of the same generation;
- until 2008 – all teachers should gain the basic computer skills;
- implement the state secondary school leaving exam as a standardised final exam – for the general secondary school students until 2009, and for the students of four-year vocational and arts schools until 2010;
- to make the appropriate schooling and professional orientation and consultations available to secondary school students;
- until 2010 – to complete the National Secondary School Curriculum which will follow the principles and methodology of the Croatian National Education Standard for primary schools and which will be accompanied by a permanent professional training of teachers; the institutional capacities of the Vocational Education Agency should be strengthened;
- the institutional capacities of the Vocational Education Agency should be strengthened and modifications to vocational education should be introduced, so that it becomes less specialised and more adaptable to the needs of the students and the market, social and economic needs, and for the purpose of ensuring a possibility of continuing education after the completion of vocational school.

5.8.4. Science and Higher Education

Present Status

In 2005, the following by-laws were adopted: Rules of Procedure of the National Science Council, Ordinance on the Valuation of the Scientific Institutions, Ordinance on the Requirements for Obtaining the Scientific Ranks, the Ordinance on the Scientific and Artistic Areas, Branches and Fields, Minimum Requirements for Obtaining the Scientific Ranks, Ordinance on the Composition and Method of Work of the Regional Councils and Central Committees.

The National Science Council has appointed regional scientific councils, artistic council and parent committees.

The Ordinance on Standards and Criteria for Evaluation of Quality and Efficiency of Higher Education Institutions and Programs has been adopted, as well as the Ordinance on the Standards and Criteria for Establishment of Higher Education Institutions, the Ordinance on the Contents of Diploma and Supplementary Student Documents, the Ordinance on Record Keeping on the Students of Higher Education Institutions and the Ordinance on the Contents of a Student Document.

The National Science Council and the National Council for Higher Education have jointly appointed the Advisory Board for Scientific Activity and Higher Education Financing (May 2005).

The National Council for Higher Education evaluated the higher education institutions' curricula, from January to June 2005. On the basis of the National Council for Higher Education recommendations, the Minister has issued approvals, letters of expectation and the approval withdrawals.

In the higher education system, 16 private higher education institutions were founded in the Republic of Croatia until 2005, by the decision of the founders in a manner prescribed by the provisions of the Act on Scientific Activity and Higher Education and Institutions Act.

Within the National Program for the Roma by the Government of the Republic of Croatia, three applications of the Association of the Roma were received for the enrolment of the Roma attendants at higher teacher training schools (2) in the academic year 2005/2006 and at the Faculty of Transport and Traffic Engineering at Zagreb University (1), with an aim of providing active incentives and assistance to the Roma for their integration in the higher education system. About 16 students of the Roma national minority are enrolled at higher education institutions.

Higher education institutions may organise various programs of professional training, taking into account the concept of life-long learning and training. Such a program is not considered a faculty course in terms of the law. After the completion of the professional training program, the higher education institution issues a special certificate to the attendant.

The funds were allocated in the 2005 Republic of Croatia government budget for the development of the higher education system – implementation of the Bologna process – in the total amount of HRK 71,092.015.00, as follows: for the National Quality Assurance Agency for Higher Education and for the Lump Sum Project – introduction of the new method of higher education financing and creating new jobs in the system of higher education. HRK 500,000 out of the total amount was allocated to the 2005 Lump Sum Project.

By end-2006, the pilot project of the education institutions self-evaluation should be implemented and should begin to be applied as of early 2007. Science and higher education financing pursuant to the Act on Scientific Activity and Higher Education will begin as of 1 January 2006 (the Lump Sum Project). This would increase the GDP share for education from 4.4% to 4.9% by 2010. Regular expenditures for high quality education, including salaries, as a share of public expenditures for schooling up to the higher education level, will amount to at least 13% by 2010. A legal integration of the universities will be completed by 31 December 2007 at the latest. The constituents of the universities should act in a uniform and harmonised manner, primarily as regards the academic issues, financial operations and investments, setting of scientific and research priorities, and in international co-operation.

The ENIC/NARIC Office operates at the Agency for Science and Higher Education. More than 500 applications were received for the professional and academic recognition of the foreign higher education qualifications, of which about 475 have been processed and submitted for evaluation to the Commission of the Rector Assembly. For 214 applications, the positive decisions were issued for the recognition of foreign higher education qualifications. The Office co-operates on a daily basis with the consultants on the CARDS project Mobility in Higher Education, which has been carried out by the Ministry since September 2004.

Further Development of the Sector

The primary tasks of the Ministry of Science, Education and Sports in the forthcoming period, will include the science and higher education system reorganisation, in accordance with the law and by-laws:

- the Parliament of the Republic of Croatia, upon the proposal of the Government, will appoint the Board of Science and Higher Education Ethics (November 2005);

- introduction of the Registry of Scientific Institutions and Registry of Scientists, representing the basis for the implementation of the scientific institutions evaluation and issuing of authorisations for carrying out of a part of the procedure for obtaining the scientific rank;
- introduction of the Registry of Higher Education Institutions;
- the National Science Council is obliged to begin, no later than 10 December 2005, the evaluation of scientific organisations registered in the Registry of Legal Persons Engaged in Scientific and Research Activities, in accordance with the previously valid regulations, and to make the proposals to the Minister (for issuing the approvals, sending letters of expectations, issuing approval withdrawals);
- on the basis of the set priorities in science, the requirements for the project application and proposed projects evaluation procedure, a public tender for the project application will be invited (by end-2005). After the completed evaluation procedure, the regional councils propose to the Minister to accept the positively evaluated projects (by June 2006 at the latest);
- the regional councils set the criteria for the evaluation of periodic and final reports on the work on the scientific projects (2006 – 2007);
- it is estimated that in the 2006 – 2008 period, three higher education schools authorised by the Ministry of Science, Education and Sports could be established each year;
- the quality assurance system in higher education system of the Republic of Croatia will be implemented by 2006;
- before the beginning of the academic year 2010/2011, a dual system is planned to be implemented and the percentage of students leaving higher education is planned to be reduced to 50%, compared to the present 69.5%. The objective is to increase a total number of graduates from higher education institutions by 30% until 2010 and to increase the number of teachers by 20-25%.

In the 2006 - 2008 period, an increase in the number of the Roma first-year students is expected (five to ten students per academic year).

A long-term objective is to approach the level of funding in the developed European countries, by a gradual increase in budgetary and extra-budgetary allocations for science and higher education, to introduce the internationally recognised system of scientific and highly professional work evaluation and to train the staff for a permanent monitoring and evaluation of the scientific and highly professional work in accordance with the world standards.

4.9. OTHER REFORMS

4.9.1. Judicial Reform

Present Status

The objectives and measures of the judicial reform for the 2005 – 2007 period were fulfilled and carried out by the Ministry of Justice within the determined time limits and to the full extent in 2005. The planned reforms were realised as follows:

- Land Registry Reform

In 2005, the Ministry of Justice, in the area of establishing order in the land registry and in processing the land registry backlog, has taken the set measures, making a remarkable progress and achieving an optimum promptness in the operations of the land registry departments. The process of creating the digital land registry database has been accelerated.

As regards the planned measures, the authorised land registry clerks have been introduced, who independently process the land registry cases, a system of land registry department supervision has been established, as well as a regular provision of the statistic and analytic information on the condition in all land registry departments, the obligatory and systematic training of land registry clerks and informatisation have been carried out, and the by-laws establishing order in the land registry have been adopted.

From the onset of the application of measures for the reform policy implementation in field of land registry in September 2004 to 11 November 2005, the number of unsolved land registry cases was reduced by 113,406, i.e. from 351,632 unsolved land registry cases (1 Sept 2004) to 238,226 unsolved land registry cases (11 Nov 2005) in all municipal courts in the Republic of Croatia. In the Zagreb land registry department, the unsolved land registry cases were reduced by 52,439 in the stated period. It should be noted that at end-2004 there were 310,000 decisions at the land registry department of the Municipal Court in Zagreb that were not delivered to the parties. In the previous year, a transcription and delivery of these decisions were performed. A total of 95% of the land registry files have been transcribed and 47% have been verified in the Municipal Court in Zagreb so far, while in all municipal courts, 46.75% have been transcribed and 7.31% have been verified of the total number of the land registry files of the Republic of Croatia.

The entry of the land registry data in the computer system has allowed for the land registry to be managed digitally, so that as much as 79 municipal courts already have a digital land registry database. Parallel to the digitalisation process of the land registry data, legal and technical conditions have been created for the establishment of the single land registry database where both land registry and cadastral data will be networked.

- Enforcement and Bankruptcy Proceedings

In July 2005, the Croatian Parliament adopted the amendments to the Enforcement Act, which have eliminated numerous impediments to the implementation of the enforcement procedure. The provisions of that Act make the initiation and implementation of the enforcement functional and operational, and the measures taken will reduce the inflow of the enforcement cases to courts in the forthcoming years.

As regards the objectives and measures set by the Pre-accession programme for 2005, the activities for the improvement of the bankruptcy proceedings have been undertaken and the amendments to the Bankruptcy Act have been prepared. The amendments to the Bankruptcy Act will be forwarded in the parliamentary procedure by end-2005.

- Modernisation of the Operation of Courts

In 2005, the Twinning Project for the modernisation and more efficient operation of courts, under the EU CARDS 2002 technical assistance program, has been continued, and the Conference on the rationalisation of the organisation and network of courts was held in June 2005. The recommendations for the rationalisation of the court network were made at this Conference.

In 2005, by the decision of the Supreme Court of the Republic of Croatia, 30,354 cases were redistributed from the courts with excessive case-load to less burdened courts, for the purpose of a more expedient solving of the court cases.

As a result of expanding the powers of court counsellors, by virtue of law, a greater efficiency of work in courts is achieved, since the judges are in this manner exempted from carrying out routine and administrative tasks which are now performed by the court counsellors, so that the judges are now able to focus on their primary function, i.e. to be the “court procedure managers”.

In 2005, the number of court counsellors has increased by 140, which has a direct impact on the reduction of unsolved cases and on the increase in court efficiency.

During 2005, the Ministry of Justice has introduced the supervision of the court administration. The supervision performed has eliminated the identified weaknesses in the work of certain courts, and disciplinary measures have been taken against certain court presidents.

- Penal Legislation Reform

In 2005, the activities concerning the amendments to the penal legislation have continued, which primarily refers to the Penal Act which will regulate the issue of general and linear stricter repression, justify the introduction of long-term imprisonment for younger adults and extension of the limitation periods, etc.

Objectives and Measures for Performing the Judicial Reform Activities in the 2006 – 2008 period

In the performance of the judicial reform activities, the Ministry of Justice will pay a special attention to the following objectives and measures in the 2006 - 2008 period:

- Modernisation and More Efficient Operation of Courts

In the 2006 – 2008 period, for the purpose of a better distribution of the work load of courts within the judicial system on the entire territory of the Republic of Croatia, the Supreme Court will continue to redistribute the cases from the courts with an excessive case-load to less burdened courts. The Ministry of Justice will establish the administrative supervision over the work of courts. The administrative supervision will be carried by the court inspectors, primarily those appointed to work at the Ministry of Justice, who will carry out supervision efficiently, in view of their powers, expertise and capacity. In 2006, overtime

work for judges will be introduced in 2006, for the purpose of processing all the backlogs of court cases, and in accordance with the available funds. The electronic delivery introduction is also planned, primarily at commercial courts. For the purpose of expediting the court procedures, the amendments to the Civil Procedure Act are also proposed, in order to restrict returning of the cases for a retrial at the courts of first instance. In 2006, the Ministry of Justice will propose the alternative methods for resolving the disputes through establishing the regional conciliation centres, establishing a systematic relation between courts and the conciliation institutions, encouraging the judges to perform the conciliation procedure and refer the parties to this conciliation procedure, as well as through informing the citizens of the possibility to use alternative methods for resolving the disputes.

For the purpose of alleviating the work load of courts, and by virtue of the amended Enforcement Act and its application as of 1 January 2006, the enforcement cases are transferred, on the basis of a valid document, to the public notary jurisdiction. Granting greater powers to public notaries, will allow for a better access of citizens to courts, in a manner that public notaries will be electronically connected, as of early 2006, to the court registers of companies with the commercial courts and to the land registry departments. Public notaries will be granted powers to issue the certified court register certificates. The Ministry of Justice will adopt the action plan for solving the large number of enforcement cases, and in particular for large courts, such as the Municipal Court in Zagreb, which has 45% of the total enforcement cases.

- Rationalisation of the Court Network

The Ministry of Justice has begun the process of rationalisation, organisation and structure of courts in accordance with the efficiency and effectiveness criteria. At the conference on the rationalisation of court organisation and structure in the Republic of Croatia, held in June 2005, the results of the analysis of the existing structure of courts were presented, using the criteria of a minimum number of judges at one court, minimum number of cases, distance of one court from the other, and the minimum number of population to be covered by a court. The Twinning Partners under the 2002 CARDS project proposed measures for the reduction of the number of courts. In the 2006 - 2008 period, the Ministry of Justice is determined to carry out reorganisation of the structure and network of courts in accordance with the efficiency and effectiveness criteria of the judicial system, taking into account historical, traditional and developmental specific characteristics of Croatia.

The determinants of the court rationalisation are the following:

- small claim proceedings must be transferred from the court jurisdiction to the jurisdiction of administrative authorities;
- in several pilot projects, mergers of municipal and misdemeanour courts will be carried out, where neither misdemeanour nor municipal courts meet the criteria from the Project;
- the pilot project of merger of municipal courts which do not meet any of the set criteria will be implemented;
- the effectiveness of the present division of county court jurisdictions will be examined and the analysis of the rationality of the present number of commercial courts will be carried out;
- the method of achieving a full jurisdiction of the Administrative Court in accordance with Article 6 of the European Convention on Human Rights will be considered.

The rationalisation of the court network will be a years-long process for the success of which a consensus in the Croatian Parliament is required.

- Land Registry Reform

In the 2006 -2008 period, setting in order the land registries will continue and land registry reform will be completed until 2008. In the 2006 - 2008 period, the digital land registry will be introduced in all land registry departments. Parallel to the land registry data digitalisation process, the conditions have been created for establishing the joint land registry database, where digital data from both land registries and the cadastre will be compiled. The pilot project of registering apartments and business premises and other special parts of buildings will be implemented, the manual handling of land registers will begin, as well as opening of new business books, and the development of business processes between the cadastre and land register departments under the MATRA project will be completed.

- Increase in Efficiency of Creditor Protection and Claim Collection

In July 2005, the amendments to the Enforcement Act were adopted, which considerably expedited the enforcement procedure. Pursuant to that Act, legal conditions have been created for taking further measures aimed at increasing efficiency of the enforcement procedure. The measures are aimed at expediting the enforcement procedure and increasing legal discipline, and at the reduction of the number of unsolved enforcement cases, accounting for 32% of the total unsolved cases at courts of the Republic of Croatia. The planned measures will be focused on the following:

- implementation of the Enforcement Act in co-operation with the Croatian Chamber of Economy and the Croatian Notary Public Chamber,
- opening of commission stores where the seized movables will be sold,
- the Croatian Pension Insurance Fund will be obliged to provide data on pensions and regular income, and the Ministry of the Interior will be obliged to provide data on ownership of motor vehicles,
- establishment of the register of immovables and movables, the value of which exceeds HRK 50,000, which are sold in the enforcement procedure (the register will also be delivered through the Internet),
- transfer of enforcement cases, on the basis of a valid document, to public notaries,
- implementation of the administrative supervision of the work of the enforcement departments of municipal courts and court enforcement officers,
- training will be organised for judges and enforcement officers,
- technical equipping of courts with the appropriate IT equipment will be performed.

For the purpose of a better protection of creditors and claim collection, in 2006 further activities and measures will be taken for the purpose of implementing the amendments to the Bankruptcy Act.

- Penal Legislation Reform

In the 2006 – 2008 period, Croatia will continue to implement the penal legislation reforms. In the second stage, the Penal Act amendments will relate to the general and linear stricter repression, extension of the limitation period, restriction of the application of probation sentences, restriction of the release on parole of persons sentenced to a long-term imprisonment (a possibility of release on parole after serving two thirds of the sentence, etc). The amendments to the Penal Act will be forwarded in the parliamentary procedure in 2006.

Drafting of the new National Program for the Prevention of Corruption is underway and it will be submitted for a regular legislative procedure in 2006. The Program provides for the measures, both legislative and institutional, for a more efficient prosecution and prevention of corruption, since the public perception of omnipresence of corruption and a relatively small

number of prosecuted cases indicate a need for making stronger efforts in this area. The Ministry of Justice – Judicial Academy, supported by the CARDS program will organise education and training for judges, state attorneys and other judicial authority staff in the field of identifying and prosecuting corruption.

The reform of criminal procedure legislation is envisaged in the 2006 – 2008 period, as a comprehensive project of the Penal Procedure Act which encompasses the State Attorney Act and Penal Procedure Act, Police Act, Courts Act, and is implemented within the Twinning Light Project, which will cover the amendments to the previous criminal procedure by revising the investigation stage.

4.9.2. Environmental Protection

Introduction

In the *Environment* sector activities concerning the harmonisation with the EU *acquis* continued by adopting the new acts: Waste Act and Air Protection Act (at end-2004), Nature Protection Act and Act on Genetically Modified Organisms (2005), and by adopting the implementing regulations and other measures within the National Program for the Integration of the Republic of Croatia into the European Union - 2005 NPIEU.

Very intensive activities in the first half of 2005 related to the pre-accession 2005/2006 ISPA program. The Ministry of Environmental Protection, Physical Planning and Construction in co-operation with the Ministry of Agriculture, Forestry and Water Management, Directorate for Water Management, prepared the National ISPA Strategy for the environment sector (waste, water, air) with an indicative list of investment projects; three applications for co-financing of the investment projects (waste and water sector) implementation were submitted, two of which have in principle received a positive opinion by the European Commission, as well as the applications for technical assistance for the development of the IPA strategy and preparation of projects from the indicative list. In this manner, total funds allocated to the Republic of Croatia, under the 2005/2006 ISPA program, in the amount of EUR 30m, are planned to be used for the environment sector. The Republic of Croatia will co-finance the implementation of the supported ISPA projects with EUR 6.3m. The funds from ISPA program are not sufficient relative to the needs, so that the requirements for the ISPA technical assistance are considerably reduced. The indicative list of the projects under the ISPA strategy clearly indicates a need for large investments in the area of waste water purification, water supply and waste management, as well as a need for a larger allocation of funds from the EU funds to the environment sector, along with the provision of the required technical assistance for the preparation of the investment projects from the EU program and/or bilateral assistance funds, and domestic funds.

In 2005, at the same time intensive efforts were made concerning the preparation and adoption of the required agreements, guidelines and manuals on the internal procedures related to the appropriate and efficient implementation of the ISPA projects.

In the area of environmental protection financing from domestic sources, a very significant progress has been made by a gradual introduction of environmental taxes in 2004 and 2005, pursuant to the Act on the Environment Protection Fund (2003) and intensive activities of the Fund itself (extrabudgetary institution). Since the newly introduced taxes constitute the Fund's own revenue, the Fund provides additional resources for the environmental projects,

energy efficiency and renewable energy sources projects. In accordance with the set national priorities in environmental protection, during 2004, the Fund initiated rehabilitation of 163 municipal waste disposal sites in Croatia (for more details see subchapter on waste management). This was followed by funding and providing incentives for the implementation of the energy efficiency projects, projects for using renewable energy sources and purer technologies and emission reduction projects, as well as other projects. It is planned for the Fund to provide certain funds for the implementation of the investment projects which will be co-financed from the EU pre-accession funds.

For the purpose of numerous activities related to the pre-accession funds, legislative harmonisation and the entire EU accession process, the competent public administration authorities, the Environment Protection Fund, the Environmental Protection Agency and other institutions in the protection of environment and nature, carry out activities aimed at strengthening of administrative capacities by employing new staff and their professional training. Technical support to strengthening of capacities at the government, regional and local level is provided by implementing the projects under the programs CARDS, LIFE III – Third Countries, REReP, PHARE, programs of the Directorate General for Environment of the European Commission (DG ENV), and the bilateral assistance programs.

Horizontal Legislation

Present Status

The Environmental Protection Report of the Republic of Croatia is prepared by the Environmental Protection Agency and will be submitted for the legislative procedure at end-2005/first quarter 2006. In 2005, preparations began for drafting of the new Environmental Protection Act, which, as the framework Act, will be harmonized with the EU *acquis* in the area of horizontal legislation.

The implementation project of the Directorate General for Environment of the European Commission (DG ENV) *Support to the Candidate Countries and Croatia in the EU Accession Process* (implementation underway), within which tables of concordance and implementing questionnaires for individual horizontal sector directives have been prepared, will contribute to the monitoring of the Republic of Croatia's progress in the EU accession process.

Furthermore, the implementation of the 2002 CARDS project *Strategy towards Approximation of EU Environmental Legislation* continues, which will also include several investment programs and financial plans, with a special emphasis on investment demanding directives and three priority sectors: air, waste and the IPPC Directive. The 2004 CARDS project *Support for Further Harmonization of Legislation with the EU Acquis* /description of tasks is prepared/ should ensure a continuation of approximation of EU environmental legislation, along with the strengthening of absorption capacity at the government, county and local level, for the development and implementation of the investment projects and financial strategies. The implementation of the 2002 CARDS project, which refers to the strengthening of the Environmental Protection Agency, is also underway, and in July 2005, the implementation of the 2003 CARDS project *Environmental Impact Assessment – Guidelines and Training* started, the objective of which is to improve, facilitate and strengthen the utilisation of the environmental impact assessment, in accordance with the standards and actions of the European Union.

During 2005, the project *Implementation of the Environmental Acquis Requirements Concerning the Access to Information on Environment and Participation of the Public in the Procedures of Issuing Approvals in the Area of Environmental Protection* was approved, and it will be financed by the Dutch Ministry of Housing, Spatial Planning and the Environment and implemented in 2006 and 2007.

The two projects under the 2005 PHARE program have been approved, one of which refers to the strengthening of environmental protection inspection for the purpose of implementation of the new environmental legislation, and the other one to the implementation of 2000 NATURA.

A further support to the realisation of priorities of the Republic of Croatia, contained in the Accession Partnership, will be provided by the PHARE horizontal program related to the environmental protection and the enlargement process, launched by the European Commission in 2005 for four candidate countries (Romania, Bulgaria, Croatia and Turkey). The program relates to a further support to the participation of the environmental protection inspection in the work of the IMPEL and ECENA (previously BERCEN) network, development of capacities for the efficient use of financial resources and strengthening of capacities for the implementation of the EU *acquis* at the local and regional level.

Within the REReP project Priority Environmental Investment Program (PEIP), a new list of priority investment projects of the Republic of Croatia was made (waste, water, air) and presented at the Regional PEIP meeting in Brussels in September 2005.

Implementing Measures

The measures planned for the 2006 – 2008 period include adoption of the framework Environmental Protection Act, together with its implementing regulations, and of the Sustainable Development Strategy.

Along with publishing of the Environmental Protection Report (2006), the preparations for the new Report will begin at the end of the period.

The DG ENV projects *Support to the Candidate Countries and Croatia in the EU Accession Process* and 2002 and 2004 CARDS represent a direct support to the measures planned for the stated period.

Air Protection and Climatic Changes

Present Status

The new Air Protection Act was adopted in November 2004 and it entered into force as of 31 March 2005. By its structure, it represents a fundamental act regulating the air quality management in accordance with the framework Directive 96/62/EC. The implementing regulations, which will be adopted pursuant to this Act, will implement other directives.

In 2005, implementing regulations have been prepared governing marginal, tolerance, target and critical values of air pollutants, treatment of substances that deplete the ozone layer, and the biofuel quality. From the economic point of view, the implementation of the system for collection, recycling and recovery of the substances that deplete the ozone layer will require from the legal and natural persons engaged in the activity of servicing and maintaining of cooling and air-conditioning devices certain investments in the primary assets, i.e. purchase of

the devices for collecting these substances. The equipping of the centres for recycling and recovery of the used ozone-depleting substances is technically and financially supported through the implementation of the international project in co-operation with the implementing agency under the Montreal Protocol. For the purpose of a complete functioning of the centre, additional funds from the Republic of Croatia government budget, in the amount of HRK 250,000.00 are planned to be invested for the purchase of the chemical gas analyser. For the purpose of a permanent disposal of these substances when they become dangerous waste, a charge of HRK 3.00 per kg of the imported substance will be introduced as of 1 January 2006 and will be paid to the Environment Protection Fund.

In 2005, activities concerning the establishment of the state network for permanent monitoring of air quality continued. By the end of 2005, two new stations for monitoring air quality at the selected locations in Rijeka will start with their operations, so that a total of eight stations for monitoring air quality in urban and industrial areas will operate in the Republic of Croatia. For the construction of the previously stated two stations, a total of HRK 2,900,000.00 was allocated from the budget of the Republic of Croatia and a total of HRK 630,000.00 was spent for the maintenance of the existing stations and the air quality analysis.

Pursuant to the Air Protection Act, the air protection information system is operated by the Environmental Protection Agency.

The drafting of the new National Report of the Republic of Croatia under the UN Framework Convention of Climate Change (the First National Report was submitted to the Convention's Secretariat in February 2002) is underway and its completion is planned for the first quarter of 2006. The activities have also begun concerning the preparation of the national strategy with the action plan for the implementation of the UN Framework Convention of Climate Change and the Kyoto Protocol, as well as of other documents and implementing regulations required for the implementation of measures which will mitigate the climatic changes. The planned documents will be adopted in 2006 and 2007. The Republic of Croatia received financial and technical assistance under the LIFE program for the preparation of these documents.

Implementing Measures

Pursuant to the Air Protection Act, the National Environmental Protection Strategy and the 2006 - 2008 National Environmental Protection Action Plan, the following measures are planned:

- adoption of the implementing regulations,
- adoption of the National Report of the Republic of Croatia under the UN Framework Convention on Climate Change,
- preparation of the Action Plan for the Air Protection and Quality Improvement,
- carrying out assessment of air quality on the territory of the Republic of Croatia,
- completion of the construction of the state network for permanent monitoring of air quality,
- preparation of the Plan for the allocation of the emission quota of the greenhouse gases,
- setting up of the register of greenhouse gases emissions,
- monitoring and improvement of the system for collecting, recycling and recovering of ozone-depleting substances and their safe disposal when they become a dangerous waste,
- adoption of the national strategy with the action plan for the implementation of the UN Framework Convention on Climate Changes and the Kyoto Protocol.

Environmental Protection Agency will continue with the activities related to the development of the air protection information system.

Technical and financial support to the measures implementation will be ensured by the implementation of projects CARDS and LIFE III- Third Countries and the projects of the international agencies of the Multilateral Fund for the Implementation of the Montreal Protocol on ozone-depleting substances. Within the ISPA program, technical assistance has been requested, for the development of the study on the assessment of the development of centralised heating systems, using the renewable energy sources.

Waste Management

Present Status

The new Waste Act and two implementing regulations were adopted by end-2004 and in 2005, respectively. For the purpose of establishing the integrated waste management system, the Croatian Parliament adopted in October 2005 the Waste Management Strategy of the Republic of Croatia. The Waste Management Plan will be prepared by mid-2006, while the county waste management plans will be prepared in the 2006 – 2008 period.

Pursuant to the Waste Act, the waste management information system is operated by the Environmental Protection Agency which develops information and technological system and individual databases.

In 2004, the Environment Protection Fund initiated the rehabilitation of 163 municipal waste disposal sites, for which a total of HRK 1,300,200.160 (EUR 173.3m) will be allocated as a grant. In 2005, the Fund also started with the activities aimed at the implementation of the new financing system for the packaging waste management, which is based on the introduction of fees for packaging.

Implementing Measures

In 2006, the implementing regulation for the Waste Act will be prepared, by which the legal framework for the establishment of the integrated waste management system will be completed.

In the 2006 - 2008 period, the activities of the Ministry of Environmental Protection, Physical Planning and Construction related to the program of recovery of contaminated areas – “black spots” will continue, for which the funds are earmarked in the government budget.

For the rehabilitation of municipal waste disposal sites mainly extrabudgetary funds of the Environment Protection Fund will be used (2006: HRK 145.0m, 2007: HRK 145.0m, 2008: HRK 135.0m), as well as funds of the local self-government units. The planned allocation of funds by the Environment Protection Fund for the waste management sector in the 2006 – 2015 period amounts to HRK 2,405m (EUR 325m). The Fund will also co-finance a recovery of areas contaminated with hazardous waste, activities aimed at establishing the integrated waste management system and county and regional waste management centres.

The 2005 Packaging and Packaging Waste Ordinance introduces the taxes on the producers and importers of packaged goods placing such goods on the Croatian market, which will be paid to the Environment Protection Fund as of the beginning of 2006.

For the establishment of the waste management centres, in addition to funds from domestic sources, the funds under the 2005/2006 ISPA program and from the EU funds are expected, which will follow after the ISPA. The interest for co-financing of these and similar projects has been expressed by the Croatian and international financial institutions. Pursuant to the ISPA strategy for the environmental sector, at end-June 2005, an application was submitted for co-financing of the construction of the waste management centre of the County of Šibenik-Knin.

The Environmental Protection Agency will continue with its activities related to the waste management and waste flow information system.

For the purpose of harmonisation with the EU *acquis* requirements in the area of waste management, and especially with the financially demanding (difficult) directives, large financial resources from various sources should be ensured on a permanent and long-term basis. In accordance with the Waste Management Strategy of the Republic of Croatia, the estimated value of total investments (general waste avoidance measures, municipal waste, other types of waste) for the period until 2025, amounts to HRK 24,389m (EUR 3.25bn).

The technical support for the approximation of EU legislation in the area of waste management is realised under the 2002 CARDS project, and for the implementation of the Waste Management Plan in the Republic of Croatia under the LIFE III – Third Countries. The CARDS program also provides funds for certain infrastructure investments for improving waste management at the local level. Strengthening of administrative capacities for the preparation and implementation of the investment projects and development of financial strategies at the government, county and local level, will be completed by the implementation of the project 2004 CARDS *Support for Further Harmonization of Legislation with the EU Aquis* (a continuation of the 2002 CARDS project), which will begin to be implemented in 2006, and a newly initiated project within 2005 PHARE horizontal program related to the environmental protection and the enlargement process which will be carried out in 2007.

Water Quality

Present Status

The activities that are in their last stage, and relate to the legislative harmonisation with the EU *acquis*, include the adoption of the amendments to the Waters Act and amendments to the Water Management Financing Act and the adoption of the Ordinance on Keeping Water Documentation. As regards the safety of drinking water, the drafting of the ordinance is underway concerning the general and specific food hygiene conditions and the conditions for the establishment of the self-control system development in the food production and sale facilities. The Water Management Basis of Croatia – Strategic Guidance is completed and is in the legislative procedure. The proposal of the National Plan for the Irrigation System is in its final drafting stage. The 2002 CARDS project Water Information System is completed (EUR 800,000), while 2003 CARDS Harmonisation of the Croatian Water Legislation with the Relevant EU Legislation is in the contracting stage (EUR 1,000,000). Within the framework of ISPA program, non-refundable resources have been requested for the project of the development of water supply and drainage in the city of Karlovac. Also, funds are foreseen for technical assistance for the preparation of projects for the coming IPA program.

Implementing Measures

Intensive efforts will continue to be made concerning the development and harmonisation of the legal framework with the EU acquis, further strengthening of implementing mechanisms, administrative capacities and water management planning. Further intensive implementation of measures of water protection and the use of water in the area of water supply are planned.

The area of safety of drinking water is regulated by the provisions of the Food Act, which prescribes the obligation of adopting implementing regulations related to the safety of drinking water. The main activities ensuing from the implementing regulations include establishment of the system of self-control for public water supply structures and introduction of the system in practice, as well as a regular monitoring of drinking water.

The planned financial resources for performing monitoring of drinking water are also used for performing food monitoring, so that water monitoring accounts for only a portion of the planned amount.

Financial resources for the establishment of the zones of sanitary protection of water at source are provided from the local self-government units.

In the 2006 – 2008 period, the activities are planned related to the capital irrigation projects and the capital projects for the development of protection system against harmful effects of water.

Under the CARDS projects, technical assistance is provided for the harmonisation of legislation in the area of water management and strengthening of water management planning. The current available sources of financing are insufficient and the reform of the existing funding system should be initiated, as a priority, and the investment strategies and programs should be developed.

Protection of the Sea and Marine Environment

Present Status

In early 2005, the National Report, brochure and the map of the sea bathing water quality at the beaches of the Croatian Adriatic Sea for 2004 were prepared.

The preparation of the new National Contingency Plan for Accidental Pollution of the Adriatic Sea is underway, and it will be harmonised with the sub-regional contingency plan for the prevention, alertness and action in the event of large-scale accidental pollution of the Adriatic Sea for Croatia, Italy and Slovenia, which was signed in November 2005.

HRK 2,750,000.00 was allocated from the 2005 government budget for the construction of the new cleanup vessels, while for the maintenance and additional operating costs of the existing cleanup vessels owned by private companies, HRK 2,250,000.00 was allocated. One cleanup vessel was constructed, which was in 2005 delivered for the use to the County of Primorje – Gorski Kotar (today, there are 9 cleanup vessels in the coastal counties).

Until the end of 2005, the following is planned:

- annual national report, printing of the map and brochure on the sanitary sea quality for swimming on the beaches of the Croatian Adriatic Sea for 2005;

- draft of the annual 2005 National Monitoring Program for the Adriatic Sea, under the Program for Pollution Assessment and Control in the Mediterranean (MED POL) for the UN Environmental Program/Mediterranean Action Plan (UNEP/MAP).

Implementing Measures

In 2006, the new Contingency Plan for accidental sea pollution in the Republic of Croatia will be prepared.

The international demonstrative accidental sea pollution exercise “Adriatic 2006” will be organised in co-operation with the REMPEC Malta (the obligation of the Republic of Croatia as a signatory party to the Barcelona Convention).

The national reports, maps and brochures on the sea quality on the beaches for the current year, are prepared and published annually.

In the 2006-2008 period, the projects and plans for the rehabilitation of the areas contaminated with sunken ships will be developed and the preparation of the report National Monitoring Program (Adriatic Project) for MED POL will be co-ordinated. In the same three-year period, three cleanup vessels are planned to be constructed (one per year).

The implementation of the Project against the pollution of the waters in the coastal area of the Republic of Croatia (Adriatic Project) will continue, consisting of 47 sub-projects for the construction of facilities and maritime infrastructure. The project is implemented by public enterprise Croatian Waters (Hrvatske vode), units of local self-government (177), in the coastal area and on islands and the Ministry of Environmental Protection, Physical Planning and Construction (competent for the sea monitoring). The project is financed by the funds allocated from the government budget, loans of the International Bank for Reconstruction and Development (IBRD), budget of the local self-government units and by Croatian Waters.

Nature Protection

Present Status

In May 2005, the new Nature Protection Act was adopted. Pursuant to the new Nature Protection Act, a Decision was issued on the preventive protection of Lastovo area in the nature park category.

In May 2005, the State Office for Nature Protection completed the implementation of the three-year project LIFE III *Establishment of the National Ecological Network*, as a part of the All-European Ecological Network and NATURA 2000 Network, which resulted in the proposal of the national ecological network by establishing a database for recording data on the ecological network areas (compatible with the NATURA 2000 database), and a basis for the National System for Monitoring Biological Diversity was set.

In addition, the State Office for Nature Protection will, by the end of 2005, prepare the draft Report on the State of Nature, on the basis of which the revision of the National Strategy and Action Plan for the Protection of Biological and Landscape Diversity of the Republic of Croatia will begin and will continue into 2006.

In 2005, as a part of the CITES Convention implementation, the Ministry of Culture (Nature Protection Directorate) organised two seminars (one for the training of customs employees

and the other one for the joint training of customs employees, police officers and customs veterinary and phytosanitary inspectors). The implementing regulations are prepared, which will prescribe in detail the rules governing cross-border transport, trade and breeding of the protected wild life.

The plans for the protected species (wolf and lynx) management are successfully implemented. In the January - September 2005 period, HRK 2.0m were paid as a compensation for wolf-caused damage.

In 2005, under the project Protection of Karst Ecological Systems, making inventory of the components of biological diversity continued, as well as strengthening of the information systems of the protected areas, the main phenomenon of which is karst. The draft of the Risnjak National Park Management Plan was also prepared. HRK 2.8m was allocated from the 2005 government budget for monitoring of the Protection of Karst Ecological Systems project.

Implementing Measures

For the activities and programs in the area of nature protection (excluding material costs, wages to employees) HRK 19.1m was allocated from the government budget during 2005, while in the 2007 – 2009 period, the budget allocations will increase, i.e. a total of HRK 32m is planned to be allocated in 2006, HRK 40m in 2007, and HRK 45m in 2008.

The drafting of implementing regulations pursuant to the Environmental Protection Act is underway. The GIS (Geographic Information System) development for 7 national parks will begin in 2006.

In the 2006 – 2008 period, HRK 3.0m is planned to be provided annually for the development of the protected areas systems.

A draft Management Plan for the National Park Risnjak has been completed, while the preparation of the management plans for the Nature Park Učka and Nature Park Žumberak-Samoborsko gorje has started. Within the framework of Karst Ecological Systems project a preparation of the management plans for national parks Sjeverni Velebit, Paklenica and Plitvička jezera and for the nature park Velebit is planned until the end of 2007.

During 2006, a preventive protection of Lastovo in the nature park category is planned to be transformed into a permanent protection by performing the protection procedures, and for the establishment and operation of Lastovo Nature Park the required funds have been ensured. In 2006, the protection procedure is also planned to be initiated for the protection of area of the river Neretva valley in the nature park category, and the funds for the establishment and operation of Neretva Nature Park are planned in the Central Government Budget for 2007.

On the basis of the Report on the State of Nature, a revision of the National Strategy and Action Plan for the Protection of Biological and Landscape Diversity will be performed, for which HRK 500,000.00 (HRK 220,000.00 for working groups and the workshop, and HRK 280,000.00 for printing) are planned to be allocated from the 2006 government budget. The revision of the sectoral legislation and incorporation of the nature protection determinants in the sectors will continue in the 2006 – 2008 period as well.

In early 2006, the Ordinance on the National Ecological Network is planned to be adopted, and HRK 1.0m is planned to be provided for the implementation of protection in the ecological network area in 2006 (for the incentives to the owners and legally authorised persons residing in the areas that are a part of the ecological network to utilise the natural resources in accordance with the nature protection principles). The identical amount is planned in the government budget for 2007 and 2008.

The European Commission ensured technical assistance related to the implementation and administration (administrative procedure) of NATURA 2000 for ten new member states and two acceding states. Afterwards, it has been decided that Croatia will join this technical assistance program, and so training for the employees of the state administration bodies responsible for the implementation of NATURA 2000 is planned in 2006.

The funds for the introduction of the network NATURA 2000 are provided under the EU PHARE project which begins in 2006 and ends in 2007.

For monitoring of the international projects, HRK 5.9m are planned to be allocated in the 2006 budget, as follows:

- NATURA 2000 (EU PHARE) – HRK 2.0m,
- Protection of Karst Ecological Systems (World Bank) – HRK 3.5m,
- Institutional Strengthening of the State Office for Nature Protection (EU CARDS) – HRK 400,000.00.

The developed plans for the protected species management will be implemented in the 2006 – 2008 period, and the funds from the Central Government Budget are allocated for compensation for damage caused by strictly protected species. The preparation of the Ordinance on procedure of determining damage caused by strictly protected species and damage compensation is in the process.

Funds in the amount of HRK 1,0m will be appropriated for protection of regional wild life and prevention of entering and spreading of foreign invasive species in 2006.

The introduction of the computer system for issuing approvals for the cross-border transfer, trade and breeding of protected wild life pursuant to the Nature Protection Act (implementation of the CITES convention), in a manner prescribed in the European Union, is planned for the second half of 2006.

Industrial Contamination and Risk Management

Present Status

Under the 2002 CARDS project *Strategy for the Approximation of EU Environmental Legislation*, a working group for the Council Directive 96/61/EC related to integrated contamination prevention and control (IPPC Directive) and the Ministry of Environmental Protection, Physical Planning and Construction have established co-operation with other line ministries. In 2005, the implementation of the pilot project for the development of ecological pollution control licence applications began in several companies, in order to identify the required institutional and organisational forms for regulating the licensing procedure. The results of the pilot projects will be used in the preparation of the regulations related to the IPPC Directive.

As regards the EMAS Regulation (1761/2001/EC) on the voluntary participation in the eco-management, in January 2005, the National Accreditation Authority was established.

Within the activities related to the establishment of the Register of Risk-Exposed and Potentially Risk-Exposed Facilities, the Environmental Protection Agency has performed, among other things, the activities related to the preparation of the preliminary list of risk-exposed and potentially risk-exposed facilities, the secondary collection of data on the companies on the preliminary list, as well as the activities aimed at developing the Register structure and preparation of the required application.

Implementing Measures

The implementing measures, planned for the 2006 – 2008 period, after the adoption of the Nature Protection Act are the following:

- to adopt the implementing regulation related to the Environmental Protection Act for the application of the provisions on the pollution control licence (IPPC Directive),
- to adopt the new Environmental Protection Contingency Plan pursuant to the new Environmental Protection Act,
- to make a register of dangerous and risk-exposed facilities,
- to organise professional workshops and prepare guidelines for the implementation of contingency plans at the local level,
- to adopt the implementing regulations for the Environmental Protection Act, for the application of the provisions under the Council Directive 96/82/EC related to the control of danger from big accidents which include dangerous materials (Seveso II Directive).

Chemicals

Present Status

The Chemicals Act from June 2003, regulating the area of chemicals, did not enter into force and none of the measures planned by the PEP for 2004 and 2005 was implemented, as a result of the Act's incongruity and other identified problems.

By the Act on the amendments to the Chemicals Act, the application of the Act is postponed to 31 December 2005. At the same time, the Government of the Republic of Croatia has imposed an obligation on the ministry competent for health care and the ministry competent for the economy to prepare the appropriate amendments to this Act as soon as this is practicable.

Implementing Measures

The Act which will regulate the area of chemicals will be harmonised the EU Directive on classification, packing and labelling of dangerous substances (67/548/EEC) and with the Directive on biocidal products (98/8/EEC), as well as with other regulations governing human health and environment protection against dangerous substances. Pursuant to this Act, the required implementing regulations will be adopted.

The required funds for the implementation of the planned measures in 2006 and 2007 are estimated at HRK 11.25m, and they should be provided from the 2005 PHARE project *Safe Chemicals Management for Sustainable Development*. However, these funds were not approved, since the issue of competence in the area of chemicals was not resolved. In the

meantime, this issue was resolved, and the Ministry of Health and Social Welfare will make a new proposal of the project.

Genetically Modified Organisms

Present Status

The GMO Act was adopted in May 2005. This Act distributed the competencies for the area of genetically modified organisms among several ministries: The Ministry of Culture is competent for the GMO deliberate release in the environment, the Ministry of Health and Social Welfare is competent for placing GMO on the market as food, the Ministry of Science, Education and Sports is responsible for the restricted use of GMO in the closed system and the Ministry of Agriculture, Forestry and Water Management is responsible for placing GMO on the market as animal food, as drugs in veterinary medicine and as plant protection agents and reproductive material in agriculture, forestry and cattle breeding.

The preparation of the implementing regulations, for which the Ministry of Culture is competent, is underway. As regards the competence of the Ministry of Health and Social Welfare, by the end of 2005, two new implementing regulations pursuant to the Food Act will be adopted. The Ministry of Agriculture, Forestry and Water Management will prepare subordinate legislation, within the competence granted, in the first half of 2006.

Implementing Measures

In the 2006 – 2008 period, the following was planned:

- establishing coordination of all the competent government administration authorities in adopting and implementing the implementing regulations,
- adopting implementing regulations pursuant to the GMO Act.

Noise

Pursuant to the Noise Act, in 2005, eight subordinate legislation began to be prepared, but due to a lack of funds, the progress in the implementation of the planned legislative and other measures was halted.

In the 2006 – 2008 period, the implementing regulations for the Noise Act will be adopted, in the first place, and the activities aimed at the improvement of the noise protection system will be strengthened.

Forestry

Present Status

The proposals of the new Forest Act and the new Forest Reproductive Material Act are currently in the adoption procedure. During 2005 the Conceptual and Operating Plan for the Republic of Croatia National Inventory of Forest Resources was developed in 2005.

Implementing Measures

Until the end of 2005 and in the first half of 2006, subordinate legislation related to the Forest Act and Forest Reproductive Material Act will be prepared and adopted, and the *acquis* will be implemented, as regards monitoring, control and collection of data on forest damages in accordance with methods and regulations of the EU and other international organisations.

In accordance with the obligations of the Republic of Croatia, undertaken at the ministerial conferences on sustainable forest management in Europe, for the purpose of condition improvement of forests in private ownership and performance of tasks of approval and registration of felling and exploitation of woods from the private forests, the establishment and beginning of operation of the Forest Advisory Service is planned by the Government of the Republic of Croatia, as well as the introduction of subsidies to forest owners and a continued work on the national forest management standard, i.e. development of the Croatian FSC standard.

As regards the Conceptual and Operating Plan for the Republic of Croatia National Inventory of Forest Resources, during 2006 and 2007, which is the period planned for the project (i.e. inventory) duration, the highly reliable and accurate forest data (area, wood mass, growth, types of forest communities, etc.) will be obtained, in accordance with the international standards on forest data monitoring.

Administrative Capacities

The Ministry of Environmental Protection, Physical Planning and Construction (*horizontal legislation, air, waste, protection of sea and the sea environment, industrial contamination, risk and accident management*): According to the new 2005 Regulation on the internal organisation of the Ministry of Environmental Protection, Physical Planning and Construction, the former Directorate for Environmental Protection has been divided into two Directorates: *Directorate for the Strategic and Integration Processes in the Environmental Protection* and *Directorate for Environmental Protection*. These Directorates currently employ 49 persons (end-October 2005), and until the end of 2005, 16 new employees are planned to be hired, which will represent a 62.5% increase (i.e. 65 employees) compared to the end of 2004, when there was 40 employees.

Pursuant to the Ordinance on the internal organisation of the Ministry of Environmental Protection, Physical Planning and Construction, from April 2005, in the Inspection Directorate, Inspection Department in the central office in Zagreb, the following divisions are established: Division for Environmental Protection Inspection, Division for the Improvement of Work of Regional Units of Environmental Protection Inspection and International Co-operation Division, as well as 20 Inspection Divisions, organised in the regional units of the Ministry of Environmental Protection, Physical Planning and Construction.

In 2005, there are 57 employees in the Inspection Directorate performing the tasks of environmental protection inspection. Compared to 31 December 2004, when a total of 48 employees performed the tasks of environmental inspection supervision, this is an increase of 18.8%. Until the end of 2005/beginning of 2006, 9 more employees are planned to be hired, which will be a 37.5% increase compared to 31 December 2004. In 2006, 2007 and 2008, 5 more employees per year are planned to be hired, who will perform the tasks of environmental protection inspection.

In the *Independent Legislation Service* 7 employees perform the tasks related to environmental protection (end-October 2005). By the end of 2005, two more employees are planned to be hired, and from 2006 to 2008, two more employees each year. However, if the scope of work on the new projects, related to environmental protection, increases, a larger number of lawyers than planned will be employed.

Ministry of Agriculture, Forestry and Water Management (*area of water quality and forestry*), *Directorate for Water Management*: currently employs 39 persons, in 2006, 4 more employees are planned to be hired, and in 2007, 3 more employees. In the *Forestry Directorate*, none of the employees performs the tasks of environmental protection, but in 2006, 2007 and 2008, 4 persons are planned to be hired, who will perform the tasks of environmental protection, directly related to the role of forests and forestry.

Ministry of Health and Social Welfare (*area of chemicals, noise and GMO*): in the *Sanitary Inspection Directorate* in 2005, 8 sanitary inspectors are employed, while 205 sanitary inspectors in the county state administration offices perform the tasks partly related to environmental protection.

Ministry of Culture (*area of environmental protection, GMO*): *Nature Protection Directorate* employs 37 persons performing the tasks of nature protection, while the *State Office for Nature Protection* employs 12 persons. From January to September 2005, the following progress has been made: 12 persons were employed at the state level, as follows: in the Ministry of Culture, Nature Protection Directorate – 3 employees and 4 trainees, and 5 persons in the State Office for Nature Protection (2 employees and 3 trainees). In the public institutions for national park and nature park management 13 persons are employed (at the expense of the institutions' own revenues, rather than the government budget). Until the end of 2005, 2 more persons will be employed at the State Office for Nature Protection and 14 at the public institutions (at the government budget expense). In 2006, employment of one person is planned, with an appropriate university degree and/or experience, for performing the tasks partly related to the GMO issues, which is, pursuant to the GMO Act, within the competence of the Ministry of Culture, and for the tasks related to the implementation of the Biological Safety Plan.

In the area of nature protection, in 2006, the administrative strengthening of the Nature Protection Directorate in the Ministry of Culture will continue by hiring 15 persons, of whom at least three will be engaged in the tasks related to the EU accession process. The State Office for Nature Protection will be strengthened by employing 10 persons and the national parks and park natures by employing 15 persons. In 2007, the State Office for Nature Protection will employ 10 new persons and in 2008, further 18.

In the Ministry of Science, Education and Sports (*GMO*): the tasks related to nature protection are performed within other tasks. They are not distinguished from other tasks, but are rather treated equal to the other activities, e.g. energy, food, shipbuilding, etc. 4 employees are engaged in these tasks.

Environment Protection Fund has 30 employees (end-October 2005). Until the end of 2005, 4 more employees are planned to be hired, which is an increase of 16 employees, relative to the end of 2004. In 2006, 25 new employees are planned to be hired.

Environmental Protection Agency currently has 16 employees (end-October) and until end-2005, an increase of 3 new employees is planned, in 2006, 13 new employees and in 2007, 7 more.

The ministries and the above stated institutions in the area of nature protection, also employ temporarily employed trainees.

In addition to a significant increase in the number of employees in 2005 (especially in the Ministry of Environmental Protection, Physical Planning and Construction) and the planned increase in 2006 (mainly in the Fund for Environmental Protection and Energy Efficiency, State Office for Nature Protection, Environmental Protection Agency and in the Nature Protection Directorate of the Ministry of Culture) an on-going improvement of employees' professional skills is carried out, though their participation in seminars, training programs and workshops in the country and abroad. A significant support in that respect is provided by the EU technical assistance programs.

4.9.3. Public Procurement

In 2005, Act on the Amendments to the Public Procurement Act was prepared and published (Official Gazette 92/05, of 27 July 2005), as well as the Regulation on the Amendments to the Regulation on the Public Procurement Announcements and Records Keeping (Official Gazette 122/05, of 19 October 2005). This measure is not determined as an implementing measure in the 2004 PEP, but a need has arisen for its implementation.

For the purpose of strengthening administrative and institutional capacity of the Public Procurement Office of the Government of the Republic of Croatia, the Regulation on the Amendments to the Regulation of the Establishment of the Public Procurement Office of the Republic of Croatia has been published (Official Gazette 98/05 of 10 August 2005) and the twinning project was initiated, under the 2002 CARDS program *Strengthening of the Public Procurement System in the Republic of Croatia*, which encompasses the majority of the previously stated implementing measures aimed at meeting the objectives of legislative, administrative and institutional strengthening of the public procurement system, the part of which is included in the 2004 PEP.

The application of individual implementing measures indicated in the 2004 PEP is postponed due to the planned dynamics of the Republic of Croatia's legislation harmonisation with the EU *acquis*, which provides for the two-stage harmonisation, i.e. in 2005, through the preparation and adoption of the amendments to the existing Public Procurement Act and in 2006, through the preparation and adoption of the new Public Procurement Act, amending the existing Regulation on procurement procedures of goods, works and services of small value (Official Gazette 14/02) in accordance with the preparation of the new Public Procurement Act, the preparation of the Regulation on general provisions for procurement of goods, services and for awarding of works and methodology of preparation, assessment and performance of the investment projects in correlation with the adopted strategy for preparation of the new Public Procurement Act. Also, while preparing the new Public Procurement Act, a record on qualified economic entities will be examined. In accordance with the preparation of new Public Procurement Act and with professional cooperation with the Central Bureau of Statistics, a subject of work will also be CPV and CPC nomenclatures in the period 2006-2008.

The 2005 PEP, indicates the goals, implementing measures for strengthening of the public procurement system, and the time period, which are related to the introduction and implementation of the legislative framework within the public procurement system in the Republic of Croatia in accordance with the EU *acquis*, strengthening of its administrative and institutional capacities by developing the Public Procurement Office and establishment of public procurement in the entities liable to the application of the Public Procurement Act and

the development of professional competence and capacity of the Public Procurement Office and entities liable to the application of the Public Procurement Act by organizing various forms of training and communication. The final purpose of realisation of the stated goals through implementing measures set out in the Economic Policy Matrix is to achieve economic, efficient and effective implementation of the public procurement procedures, i.e. of the use of resources in the public procurement system, and broader in the public sector, in view of the fact that these are the tax payers' funds, the use of which is earmarked for the meeting the public needs.

This implies that by the introduction and implementation of the appropriate legislative framework in the public procurement system, specification of the procedures in the public procurement process preceding the conclusion of the contract for purchasing goods and services and for awarding of works, analysis of the current public procurement structure and preparation and adoption of the proposal for its improvement, development of professional competence and capacity of the Public Procurement Office and entities liable to the Public Procurement Act through seminars, trainings and other types of education and communication, introduction and development of the IT system for the needs of the Public Procurement Office, as well as the electronic public procurement system, and other indicated implementing measures, a more economic use of time and resources will be achieved in the public procurement procedures, i.e. the use of tax payers' funds for inefficient purposes will be prevented. By the implementation of the previously stated measures, a high level of transparency and non-discrimination of the public procurement procedure will be achieved and competition will be ensured.

5. ECONOMIC POLICY MATRIX

5.1. COMPETITION POLICY AND STATE AID		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Competition		
Harmonisation of the national legislation with the EU <i>acquis</i>	<ul style="list-style-type: none"> Monitoring on a continuous basis of all further changes in the EC <i>acquis</i> and their appropriate transposition into the Croatian legislation 	2006-2007
Efficacious implementation of competition rules	<ul style="list-style-type: none"> Increase the number of experts on the Agency staff and ensure their training for efficient implementation of competition rules 	2006-2007
	<ul style="list-style-type: none"> Active and continuous cooperation with other regulatory authorities in the Republic of Croatia (the Croatian Telecommunications Agency, the Council for Electronic Media, the Croatian National Bank, the Croatian Energy Regulatory Agency) 	2006-2007
	<ul style="list-style-type: none"> Concluding agreements on co-operation with regulatory bodies (the Croatian Telecommunications Agency, the Council for Electronic Media, the Croatian Energy Regulatory Agency) 	2006
	<ul style="list-style-type: none"> Activities involving amendments to the existing Competition Act in co-operation with the Ministry of Justice (especially with regard to the possibility of pronouncing punishments based on the Agency's decisions and with regard to jurisdiction in deciding on the legitimacy of the Agency's regulations. 	2006-2007
State Aid		
Efficient implementation of state aid rules	<ul style="list-style-type: none"> Increase the number of experts on the Agency staff and ensure their training for efficient implementation of state aid rules 	2006-2007
	<ul style="list-style-type: none"> Specialisation of employees in bodies of government administration and in units of local government and regional self-government responsible for proposing state aid, or processing of applications for state aid of state aid users and their additional education and training. 	2006-2007
	<ul style="list-style-type: none"> Establishment of a comprehensive state aid computer database with the financial assistance from the CARDS program 	2006

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
	<ul style="list-style-type: none"> Drafting a map of regional state aid in accordance with the previously determined data on NUTS II level 	2006
5.2. ENTERPRISE SECTOR AND RESTRUCTURING		
5.2.1. Privatisation		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Privatisation of Companies in Majority State Ownership		
Adequately prepare companies for privatisation	<p>The Croatian Privatisation Fund (HFP) is working hard to remove the limiting factors which have made the privatisation of a certain number of companies in HFP portfolio impossible (resolving property issues, balance sheet consolidation, etc.)</p> <ul style="list-style-type: none"> Achieving better communication with the Ministry of Finance, line ministries, and other governmental bodies with a view to ensuring timely approval for the implementation of planned measures. 	end of I quarter 2006
Accelerating the process of privatisation	<p>In accordance with the revised operative privatisation plan, until the end of the first half of 2006, HFP plans to announce the sale of stakes or initiate the process of liquidation in cases where privatisation is not likely, in 45 companies in which the combined government portfolio exceeds 50% plus 1 share of their equity capital</p> <ul style="list-style-type: none"> HFP has intensified its promotional efforts related to the forthcoming privatisation projects to ensure greater response of potential domestic and foreign investors to its international tenders 	end of first half of 2006
Privatisation of Minority Portfolio (sale of companies on the stock market)		
Adequate preparation for privatisation	<ul style="list-style-type: none"> A sale of minority packages in companies has been made difficult due to a large number of administrative cases and reserved shares. HFP is working on a thorough revision of the reservations, with a view to examining if there are grounds in particular cases for their cancellation Efforts are made to accelerate resolution of administrative cases 	revision implementation planned until end-2006, cancellation of remaining reservations upon completion of administrative cases

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Accelerating the process of privatisation	<p>HFP intends to continue with the planned privatisation dynamics of minority packages, subject to completion of relevant administrative cases involving some</p> <ul style="list-style-type: none"> • 80 packages of companies amounting to a nominal amount of minimum HRK 100m in the Varaždin capital market and some 20 companies in the Zagreb capital market a month. 	IV quarter 2005
Privatisation of Tourist Portfolio		
Adequate preparation for privatisation	<ul style="list-style-type: none"> • In the context of financial consolidation of companies, management boards will execute the sale of company assets by means of public invitation for bids. • Efforts towards further consolidation of companies because of a high level of insolvency and their preparation for privatisation 	IV quarter 2005 and I quarter 2006 I quarter 2006
Accelerating the process of privatisation	<ul style="list-style-type: none"> • Accelerating the sale of minority packages until full sterilisation 	II quarter 2006
5.2.2. Railway Restructuring		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Harmonisation of legislation	<ul style="list-style-type: none"> • Railway Act • Adoption of Railway Safety Act 	adopted 2006
Liberalisation of the railway transport market	<ul style="list-style-type: none"> • Setting up a regulatory body • Allocation of infrastructural lines • Strengthening of administrative capacities 	until EU accession as from 2006 continuously
National railway company restructuring and modernisation	<ul style="list-style-type: none"> • Adoption of an Act on the division of HŽ • Establishment of new entities • Fulfilment of the World Bank PAL requirements 	2006 2006 2005-2007
Adoption of a National Program of Railway Infrastructure Development	<ul style="list-style-type: none"> • Draft completion and adoption • Establishing the railway infrastructure administrator 	2006 prior to adoption of the National Program

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
	<ul style="list-style-type: none"> Determining the method of railway infrastructure development, modernisation and maintenance 	2006
5.2.3. Shipbuilding Industry Restructuring		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Restructuring	<ul style="list-style-type: none"> Implementation of the restructuring program 	2005 - continuously
Privatisation	<ul style="list-style-type: none"> The selection of the model of privatisation will depend on the Privatisation Act and the Act on Employee Stock Option Plan (ESOP), and will be carried out by means of public invitation for bids and defined terms of reference (ToR). 	2005 - continuously
Raising sophistication of the products of the shipbuilding industry	<ul style="list-style-type: none"> The choice of market niches, domestic and international production integration and specialisation, IMO rules compliance, etc. 	continuously
Creating a new market for the shipbuilding industry which rests on a commercially justified basis	<ul style="list-style-type: none"> Building ships in accordance with the principles of Leadership 2015 	continuously
Transfer to development and construction of more complex vessels	<ul style="list-style-type: none"> Contracting construction of more complex vessels 	continuously
Improving cost efficiency and competitiveness	<ul style="list-style-type: none"> Implementation of business restructuring and rationalisation program, cost control, etc. 	2005 - continuously
Using the effects of synergy	<ul style="list-style-type: none"> Centralisation of purchase, construction, and marketing and product specialisation 	continuously
5.2.4. Restructuring of the Metallurgy Sector		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Restructuring and modernization of ferrous metallurgy	<ul style="list-style-type: none"> Writing off the direct liabilities to the state acting as the creditor and writing off a part of the indirect liabilities to the state acting as the guarantor for loans granted to the steel companies, with an aim of successful implementation of restructuring and privatization 	2006
	<ul style="list-style-type: none"> Issuing new state guarantees for new long-term loans granted to the steel companies by the commercial banks, for the insurance of the working capital, for financing investment in fixed assets and for financing catering for redundant employees 	2006

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
	<ul style="list-style-type: none"> • Inevitable fast modernization of the most important segments of the production • Reaching the projected production capacities • Abolishing the state aid to the steel sector 	<p>2006 and 2007</p> <p>2007 and continuously</p> <p>2007 and continuously</p>
Privatisation	<ul style="list-style-type: none"> • Preparing the privatisation process of the two steel companies in Split and Sisak 	2006 and continuously
5.2.5. Business Environment of SMEs		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Promoting Entrepreneurial Training		
<p>Entrepreneurial training</p> <p>Employment</p> <p>Professional improvement</p>	<ul style="list-style-type: none"> • Training entrepreneurs-beginners and those developing and growing • Promoting and stimulating entrepreneurial culture of the young people • Co-operation and partnership with the stakeholders 	2006-2008
Ensuring access to financial resources for small and medium size enterprises		
<p>Regional development</p> <p>Development of tourism</p> <p>Employment</p> <p>Initial investment</p> <p>Enterprise growth and development</p>	<ul style="list-style-type: none"> • Co-financing costs of banking loans • Establishment of regional guarantee funds • Co-operation and partnership with the stakeholders 	2006-2008

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Promoting Entrepreneurial Infrastructure		
Regional development Initial investment and new job openings Consultancy services, training and professional improvement Development of entrepreneurial infrastructure	<ul style="list-style-type: none"> • Development of entrepreneurial zones • Strengthening of institutional support to entrepreneurship (entrepreneurial centres, entrepreneurial incubators, regional development agencies) • Favourable conditions for entrepreneurs-beginners 	2006-2008
Development of SMEs Competitiveness Strategy		
Research and Development Environmental protection Standards Promotion of individual economic activities and individual economic areas Competitiveness ICT	<ul style="list-style-type: none"> • Use of new technology and technological procedures • Innovation and new products • System of quality and technical regulations • Associations of economic entities (CLUSTER) • Co-operation and partnership 	2006-2008
Promotion and Marketing		
Entrepreneurial climate Focus on exports	<ul style="list-style-type: none"> • Marketing activities in entrepreneurship • Promotion of entrepreneurial projects • Ensure that entrepreneurs are well informed • Vocational training and introducing students to cooperatives and entrepreneurship 	2006-2008

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Professional Assistance and Consulting for Small Businesses		
Development of small business	<ul style="list-style-type: none"> • Training and setting up a network of consultants - HAMAG (Croatian Agency for Small Business) • Education and certification of twenty new consultants • Promoting faster and easier inclusion of women, young people, veterans of war and disabled persons in entrepreneurship • Education and training of new economic entities which provide social services 	2006-2008
Promoting entrepreneurship of targeted groups		2006
Training of targeted groups for entrepreneurship		2006-2008
Social entrepreneurship		2006-2008
Employment		2006-2008
Projects Specific for Cooperatives and Crafts		
Promotion of traditional professions and scarce occupations	<ul style="list-style-type: none"> • Promoting development of production cooperatives • Promoting development of crafts • Register of cooperatives • Register of crafts 	2006-2008
Maintaining tradition in crafts		
Promoting ecological production methods and ecological and production knowledge		
Cheaper and faster setting up of crafts		
Legislative Alignment with the New Recommendation of the EU Commission on the Definition of SMEs		
Amendments to the Small Business Act	<ul style="list-style-type: none"> • Alignment with the EU <i>acquis</i> 	2006
5.3. FINANCIAL SECTOR		
5.3.1. Banking System		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Legislative alignment with the EU rules	<ul style="list-style-type: none"> • Adoption of amendments to the existing subordinate legislation based on changes in the International Accounting Standards and new International Financial Reporting Standards and adoption of regulations in connection with financial conglomerates, bank liquidation and electronic money 	2006 - 2008 (more time needed because it will probably be necessary to amend the Banking Act)

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Stability assessment of the entire domestic financial system	<ul style="list-style-type: none"> Analysis of the early warning systems in banks, analysis of the sensitivity of the banking system as a whole to macroeconomic disturbances and macroprudential analysis 	continuously
5.3.2. Foreign Exchange System Regulation		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Liberalisation of investment of non-residents in CNB bills and T-bills of the Ministry of Finance	<ul style="list-style-type: none"> Amending the Foreign Exchange Act in a manner that would repeal those provisions of this Act which explicitly forbid investment of non-residents in CNB bills and T-bills of the Ministry of Finance 	2006
Revoking the obligation to use financial intermediaries, brokers and custodians in case of investment of resident natural persons in foreign securities	<ul style="list-style-type: none"> Amending the Foreign Exchange Act in a manner that would repeal those provisions of that Act which explicitly bind resident natural persons to use domestic brokers and custodian banks for foreign securities purchases and sales 	2008
5.3.3. Supervision of the Non-banking Sector		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Strengthening the regulatory framework for the supervision of the provision of financial services and setting up a single non-banking financial supervisory authority	<ul style="list-style-type: none"> The implementation of the Croatian Financial Supervisory Authority Act, Setting up the Croatian Financial Supervisory Authority 	2006
Alignment of the national investment funds regulations with those of the EU	<ul style="list-style-type: none"> The implementation of the Investment Funds Act 	2006
Alignment of the national regulations with the EU regulations and strengthening of administrative capacities	<ul style="list-style-type: none"> The implementation of the Insurance Act The implementation of the Act on Compulsory Insurance within the Transport Sector 	2006
Setting up a legislative framework for the leasing industry	<ul style="list-style-type: none"> Drafting the Leasing Act Adoption of the Leasing Act 	2006

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Alignment of the accounting legislation with the EU rules	<ul style="list-style-type: none"> The implementation of the Accounting Act The Implementation of the International Financial Reporting Standards 	2006
5.4. LABOUR MARKET		
5.4.1. National Action Plan for Employment		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Creating efficient redundancy programmes for companies undergoing restructuring	<ul style="list-style-type: none"> Setting up 7 centres for supporting business changes in companies undergoing restructuring 	continuously
Strengthening the synergy of institutions at the local level and the capacity of local players in the implementation of an active employment policy	<ul style="list-style-type: none"> Selection of the promising sectors in the counties and an analysis of the employers' needs in these sectors in terms of skills and knowledge that their employees have to have 	2006
	<ul style="list-style-type: none"> Development of a programme for training the unemployed based on the employers' needs 	2006
Strengthening the adjustment capacity of the Croatian Employment Service on all levels	<ul style="list-style-type: none"> Defining a decentralised organisational structure of the Croatian Employment Service and of the operative management guidelines within the new decentralised organisation 	2006
	<ul style="list-style-type: none"> Development of human resources at key positions within the Croatian Employment Service 	2006
	<ul style="list-style-type: none"> Defining an implementation plan for the new decentralised structure 	2006
Development of a system of employment for sensitive social groups who have difficulties finding employment	<ul style="list-style-type: none"> Operationalisation of the National Action Plan for Employment through annual implementing measures 	2006 continuously
Harmonisation	<ul style="list-style-type: none"> Monitoring the EU legislation 	continuously
5.4.2. Social Security System		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Social Welfare Reform		
Improved provision of social services	<ul style="list-style-type: none"> Development of a range of social programs for prevention, raising the quality of service provision and reintegration of users in the community 	2005-2008

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Strengthening of IT and management system of social welfare	<ul style="list-style-type: none"> Introducing a new model of social welfare organisation based on a "one-stop-shop" principle 	2005-2008
Improving infrastructure in institutions of social welfare	<ul style="list-style-type: none"> Setting up new social welfare centres 	2005-2008
Proceeding with the Initiated Pension Reform		
Re-evaluating the application of the institute of the insured years of service with prolonged duration	<ul style="list-style-type: none"> Analysis of the efficacy of application of the institute of the insured years of service with prolonged duration in the conditions of the initiated pension reform Development of a comparative analysis of the safety at work of employees exposed to harmful conditions at work and of the working capacity of employees in Croatia and the EU Member States 	2006 continuously
Strengthening voluntary pension savings and encouraging access to voluntary insurance funds	<ul style="list-style-type: none"> Incentives to popularise voluntary pension funds and encouraging interest in voluntary pension savings 	continuously
Encouraging the establishment of closed pension funds and re-evaluating occupational professional pension insurance	<ul style="list-style-type: none"> Amendments to the Voluntary and Mandatory Pension Funds Act and the Pension Insurance Companies and Individual Capitalised Savings Based on Pensions Act 	underway
Coordination of Social Security Systems with Systems in EU Member States		
Achieving the same or a similar degree of social security for persons who during their career work in more than one country	<ul style="list-style-type: none"> Revising potential benefits that may be derived from bilateral and multilateral social security contracts Concluding social security contracts 	continuously continuously
Preparations for the implementation of the rules for the coordination of social security systems pursuant to Article 47 of the Stabilisation and Association Agreement	<ul style="list-style-type: none"> Strengthening intraministerial co-operation between the Ministry of Economy, Labour and Entrepreneurship and the Ministry of Health and Social Welfare in matters involving system coordination 	2006
National Minorities		
Improving the position of the Roma as a national minority	<ul style="list-style-type: none"> The Roma support project 	2006, 2007, 2008
Promoting the rights of national minorities in the Republic of Croatia	<ul style="list-style-type: none"> Issue a publication on the rights of the national minorities in the Republic of Croatia 	2006
The implementation of the Constitutional Act on the Rights of National Minorities	<ul style="list-style-type: none"> Elections for national minorities councils and representatives 	2007

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Improving the rights of national minorities in accordance with international documents	<ul style="list-style-type: none"> • Implementation of Central European initiative for national minorities 	2006
5.5. AGRICULTURAL SECTOR		
Agriculture		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Land Reform		
Development of the agricultural land market	<ul style="list-style-type: none"> • Support to agricultural land purchase through a capital investment model • Project "Enlargement of Agricultural Land" • Making a Land Study • Launching activities aimed at amending the Inheritance Act 	continuously 2005-2008 2006-2007 2006-2007
Privatisation of Agro-conglomerates		
Complete the privatisation of agro-conglomerates	<ul style="list-style-type: none"> • Implementation of privatisation tender procedures 	2005, 2006
Adoption of the CAP Mechanisms		
Regulating the market in agricultural food products	<ul style="list-style-type: none"> • Harmonisation in accordance with changes in EU market organisation 	continuously
Alignment of state aid in agriculture with EU practices	<ul style="list-style-type: none"> • Adjustment of EU legislation 	continuously
Establishment of a rural development support system	<ul style="list-style-type: none"> • Implementing measures for rural development from the state budget and accrediting and implementing measures from the pre-accession funds 	continuously
Setting up a Paying Agency	<ul style="list-style-type: none"> • Accrediting the SAPARD agency • Alignment of national aid payments with EU standards 	2005 continuously
Alignment of agricultural inspection with EU standards	<ul style="list-style-type: none"> • Increase the number of inspectors, education, ensuring adequate equipment, legislative alignment 	2006, 2007, etc.
Setting up a system of farm accountancy data	<ul style="list-style-type: none"> • Prepare a study and launch a pilot project for the establishment of FADN 	2006-2008
Establishment of a vineyard register	<ul style="list-style-type: none"> • Setting up a fully digitalised cadastre • Collection and entry of remaining data 	2006 2007-2008
Alignment of phytosanitary standards with those in the EU	<ul style="list-style-type: none"> • Ensuring a new building for the Institute for Plant Protection • Increase the number of staff in the plant protection services, ensure their training and professional advancement • Prepare implementing regulations 	2006-2008 2006, 2007, etc. continuously

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Set up a functional Food Agency	<ul style="list-style-type: none"> Strengthening the capacities of the Food Agency 	continuously
Alignment of veterinary standards with those in the EU	<ul style="list-style-type: none"> Prepare implementing regulations Reorganise veterinary services and inspection 	continuously continuously
Alignment of fisheries policy with the EU's Common Fisheries Policy	<ul style="list-style-type: none"> Harmonisation of regulations Reorganisation of inspection services 	continuously continuously
FORESTRY		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Obtaining more reliable and accurate forest data in accordance with EU standards with a view to forest monitoring, planning, and development policy and reporting to national and international bodies and institutions	<ul style="list-style-type: none"> Preparing and implementing a project "National Inventory of Forest Resources of the Republic of Croatia". 	2006, 2007 and 2008
Determining and monitoring forest plants health for the purpose of combating pests and preventing them from spreading	<ul style="list-style-type: none"> Establishing a system and implementing health control 	continuously
Improving supervision and setting up a point for continuous supervision of forests relating to forest damages caused by air pollution and other factors which affect the forests and improving control of forest fires and their causes, effects and prevention	<ul style="list-style-type: none"> Adoption of subordinate legislation on an ongoing supervision of forests Adoption of a program of measures for data collection and setting up a register of forest damages Developing and keeping a single forest information system and fire register 	continuously continuously continuously
Protection and maintenance of genetic material of forest varieties in the Republic of Croatia	<ul style="list-style-type: none"> Preserving genetic resources of plants 	continuously
Implementation of the assumed obligations on sustainable forest management in the Republic of Croatia	<ul style="list-style-type: none"> Setting up a forest counselling service Prepare a Croatian FSC standard for forest management Setting up a register of forest owners Introduction of subsidies for forest owners (for enlargement of forests in their ownership, sustainable management, use of biomass, etc.) 	continuously continuously continuously continuously
5.6. HEALTH SECTOR		
5.6.1. Health Insurance Reform		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Stabilization of the Systems of Health Care and Health Insurance		
Reducing medical expenditure	<ul style="list-style-type: none"> Adopt a number of ordinances regulating the area of medicines (registration) and marketing, amendments to the implementing regulations of the Croatian Institute for Health Insurance in the area of medicines; amendments to the Health Care Act in connection with co-payments for medicines 	2005-2008

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Reducing hospital expenditure	<ul style="list-style-type: none"> Amendments to the implementing regulations of the Croatian Institute for Health Insurance and contractual obligations of institutions of health 	continuously
Amendments to the basic package of health care services in basic health insurance	<ul style="list-style-type: none"> Amendments to the existing Act on Health Insurance and adoption of a new health insurance act 	2006-2008
Improving the system of payment for services in hospitals	<ul style="list-style-type: none"> Further enlargement of the system of diagnostic related groups (DRG), or increased number of entities covered by the "prospective payment system" and introduction of payment by diagnostic-therapeutic groups 	continuously
5.6.2. Reform of Health Services		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Health Care System Reform		
Improvement of the Organisation and Operation of Primary Health Care		
Completion of privatisation of general practice in primary health care	<ul style="list-style-type: none"> Adoption of a strategy for the development of the Croatian Health Care System until 2015 	2005-2008
Completion of informatisation in primary health care	<ul style="list-style-type: none"> Providing doctor's offices with computer equipment and connecting them with the central IT system 	2005-2006
Education of health workers	<ul style="list-style-type: none"> The Croatian Institute for Health Insurance provides education of selected physicians under contract with the Institute. 	continuously
Financial incentives for preventive medical examinations and education in health care matters	<ul style="list-style-type: none"> Responsibility of the Croatian Institute for Health Insurance through contractual relationships with selected physicians 	2005-2008
Reorganisation of community health centres	<ul style="list-style-type: none"> Amendments to the Health Care Act 	2000-2006
Improvement of the Organisation and Operation of Secondary and Tertiary Health Care		
Categorisation and accreditation of hospitals	<ul style="list-style-type: none"> Adoption of the Croatian Health Care Development Strategy until 2015 	2005-2008
Improving infrastructure and renewing medical equipment	<ul style="list-style-type: none"> Analysing the conditions in terms of medical and technical equipment and adopting an investment plan for hospitals and plan of renewal of hospital equipment 	2000-2008
Further informatisation of hospitals	<ul style="list-style-type: none"> Ensure funds for further informatisation of hospitals, check functionality of implementing solutions and connecting to the central IT system 	2005-2008
Improvement of inspection services	<ul style="list-style-type: none"> Unification of internal and external control services of the Croatian Institute for Health Insurance and ensuring funds for professional and health care supervision functions 	2005-2008

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Taking an Active Role in Human Resources Management in the Health Care Sector		
Aligning the number of MDs entering the health care system with the real needs	<ul style="list-style-type: none"> • Alignment of enrolment quotas at medical schools 	2005-2008
Ensuring internship practice immediately upon completion of medical school	<ul style="list-style-type: none"> • Financial incentives to health care institutions to hire interns 	2005-2008
Planned approach in new job openings and approvals for specialisation	<ul style="list-style-type: none"> • Analysis of the need for health care specialists and preparation of annual plans of specialisations and subspecialisations 	2005-2008
Alignment of Public Health Regulations with EU Standards		
Promoting Public Health		
Alignment of public health regulations with EU standards	<ul style="list-style-type: none"> • Adoption of an act on the protection of citizens from contagious diseases 	2005-2006
	<ul style="list-style-type: none"> • Alignment of the act governing restrictions of the use of tobacco products with EU directives 	2005-2006
	<ul style="list-style-type: none"> • Adoption of a blood supply act 	2005-2006
	<ul style="list-style-type: none"> • Treatment Purposes, a number of ordinances are planned to be adopted which regulate transplantation issues. 	2005-2006
5.7. PUBLIC ADMINISTRATION REFORM		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Reorganisation of Government Administration		
Depolitisation of public administration	<ul style="list-style-type: none"> • Adopt amendments to the Act on State Administration System 	2006
	<ul style="list-style-type: none"> • Adopt amendments to the Act on the Rights and Obligations of Government Officials 	2006
	<ul style="list-style-type: none"> • Adopt Amendments to the Act on the Procedures of Transfer of Office 	2006
	<ul style="list-style-type: none"> • Adopt amendments to the Conflict of Interest Prevention Act 	2006

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Creating organisational preconditions for the improvement of human resources management in civil service	<ul style="list-style-type: none"> Setting up organisational units for human resources management and development in all bodies of government administration with a staff of over 50 	2006
Rationalisation of government administration	<ul style="list-style-type: none"> Preparation and implementation of the rationalisation program (including catering for staff, reallocation and impact on the budget) in the state administration bodies on the basis of the results of the functional revision 	2006-2007
Formulating clear rules on political parties financing and donations to political parties	<ul style="list-style-type: none"> Adopt Political Parties Financing Act 	2007
Improved supervision of the work of bodies of government administration	<ul style="list-style-type: none"> Adopt amendments to the Administrative Inspection Act 	2008
Improving the organisational structure and management in bodies of government administration with the aim of achieving EU standards and efficacy	<ul style="list-style-type: none"> Continue with functional revision in bodies of government administration 	2006-2007
Civil Service System		
Ensure greater expertise in the administration, unified system of planning and recruitment in government administration with a view to achieving planned and efficient use of the budget funds, improved, more transparent civil servants management methods and practices, including recruitment, selection, career development and advancement	<ul style="list-style-type: none"> Adopt subordinate legislation on job system and classification and other implementing regulations for the Civil Service Act 	until 1 January 2006
Ensure consistency in rewarding in government administration, introduce transparency in wage policy and compensations and increase the number of elements based on merits and work	<ul style="list-style-type: none"> Adopt Act on Salaries in Civil Service 	2006
Improve the performance of public administration	<ul style="list-style-type: none"> Adopt new regulations on terms of employment in the public service, including provisions on centralised collective negotiation 	2007

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Define the status of civil servants in local and regional self government, ensure improved, more transparent civil service management methods and practices in local and regional self government, including recruitment, selection, career development and advancement	<ul style="list-style-type: none"> • Adopt Local and Regional Self-Government Employment Act 	2008
Simplifying Administrative Procedures and Development of Modern Electronic Business		
Efficacy and expertise in administrative adoption of decisions, shorter administrative procedures, easier exercise of the rights of parties	<ul style="list-style-type: none"> • Adopt and implement amendments to the General Administrative Procedure Act 	2006-2007
Strengthening of the role of electronic administration in the development of the economy	<ul style="list-style-type: none"> • Adopt a new decree on office operations (in line with electronic functioning of the administration) • Informatisation of the offices of government administration in different counties • Developing a model and solutions for interconnectivity of IT systems of bodies of government administration through a single telecommunications network with a view to strengthening the role of electronic administration in the development of the economy • A project involving a production and issuing in an electronic format of official forms of the bodies of government administration enabling citizens and economic entities to submit such forms by public telecommunications network • Defining the structure, the form and the rules of business of a centralised, IT-supported, register of civil servants • Develop a "Study on Administrative Burden on Companies" 	<p>2006-2007</p> <p>2006-2007</p> <p>2006-2007</p> <p>2006-2007</p> <p>2006-2007</p> <p>2006</p>
Education and Training of Government Employees		
Improving administrative capacities for Croatia's EU accession	<ul style="list-style-type: none"> • Strengthening the Centre for education and training of civil servants (in terms of sufficient staff) 	2006-2007

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Strengthening of horizontal capacities in government administration education	<ul style="list-style-type: none"> • Make an IT education plan for civil servants and employees in government administration and carry out education of civil servants in the area of IT technology and equipment 	2006-2007
	<ul style="list-style-type: none"> • Establish a system for the exchange of experience and coordination of IT activities in state administration 	2006-2008
	<ul style="list-style-type: none"> • Accelerate foreign language learning of civil servants participating in the alignment of the national legislation with the EU 	continuously
5.8. EDUCATION AND SCIENCE		
5.8.1. Pre-school Education		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Increase the number of children enrolled in preschool programs (from 43% to 46% in 2006)	<ul style="list-style-type: none"> • Encourage setting up of a larger number of preschools (either private and/or expanding the capacities of the existing ones) in units of local and regional self-government and ensure support in the provision of didactic equipment 	2006 - 2008 continuously
Expand preschool education coverage to include more children	<ul style="list-style-type: none"> • Setting up new preschool programs in 30 counties and towns (in new preschools or in primary schools, cultural and sports institutions and associations) 	2006
Increase coverage of children by preschool programs (one year before they start primary school) from current 96% to 96.4% in 2006	<ul style="list-style-type: none"> • Setting up new preschool programs particularly for children from socially deprived environments, the Roma children, children on the islands and in rural areas 	2006 - 2008 continuously
Improve the quality of work in institutions for preschool education Systematic professional training of preschool teachers, preschool principals, and associate staff and representatives of municipalities and towns in the development of different preschool education programs	<ul style="list-style-type: none"> • Drafting a new curriculum for preschool education • Drawing up new preschool programs (e.g.. foreign languages, arts and sports programs) of different duration 	2006 - 2007
		2006- 2008 continuously

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Inclusion of the Roma children of both sexes in preschool education programs (preparations for primary school)	<p>Implementing the government's action plan Decade of Roma Inclusion 2005-2015 (informing the parents of the Roma children about the need of inclusion in</p> <ul style="list-style-type: none"> • preschool programs, ensuring financial conditions for the program's implementation, organising preschool education for the Roma children in areas where they live) 	2005 -2015 continuously
5.8.2. Primary School Education		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Improve the quality and efficacy of primary school education by introducing a Croatian National Educational Standard	<ul style="list-style-type: none"> • Drafting a new Primary Education Act • Implementation of the PISA project • Drafting a School Trips Ordinance 	2006 2006, 2009 continuously 2006
Formulate a national policy for evaluating educational achievement	<ul style="list-style-type: none"> • Drafting an Ordinance on the Assessment of Psychological and Physical Condition of Children (for enrolment in the first grade of primary school) • Drawing up a National Primary School Curriculum on the basis of the Croatian National Educational Standard • Drawing up a new National Educational Primary School Plan and Program • Implementation of the National Strategy of Uniform Policy for Disabled Persons • Drafting a Sports Act • Introduction of the Croatian National Educational Standard in all 837 primary schools planned for the school year 2006/2007 	2006 2006 2006 2005 continuously 2006 2006-2007
Ensure higher expertise of teachers to deal with changes in primary education and professional training of teachers, school principals and associate staff in matters related to the implementation of the Croatian National Educational Standard in primary schools	<p>Professional training of teachers, principals, and associate staff from 49 primary schools with a view to achieving a more efficient implementation of the Croatian National Educational Standard (three cycles)</p> <ul style="list-style-type: none"> • Professional training of teachers, principals, and associate staff from other 788 primary schools with a view to introducing the Croatian National Educational Standard in all schools in the school year 2006/2007 	2006 2006

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Ensure higher expertise of teachers to deal with changes in primary education and professional training of teacher-instructors for professional training of teachers in primary schools for the implementation of the Croatian National Educational Standard	<ul style="list-style-type: none"> Professional training for 300 teachers-instructors in class teaching (grade 1 to 4) and 300 teachers-instructors in subject teaching (grade 5 to 8) 	2006
Ensure higher expertise of teachers to deal with changes in primary education and professional training of foreign language teachers and other teachers for primary school classes taught in English	<ul style="list-style-type: none"> Develop a model of primary school classes taught in English Building new capacities (build new schools or add extensions to the existing ones) 	2006 continuously 2006 continuously
Raise the number of pupils enrolled in primary school from present 96.5% to 96.8% in 2006. Increase the percentage of pupils who graduate from primary school.	<ul style="list-style-type: none"> Strengthen cooperation and cooperative relationships between the parents, schools and local communities 	2006 continuously
Improve material conditions in primary schools by ensuring didactic equipment and modern teaching aids in research and project teaching	<ul style="list-style-type: none"> Ensure additional didactic equipment and teaching aids for the 49 schools implementing the Croatian National Educational Standard Ensure initial didactic equipment for all the schools planned to implement the Croatian National Educational Standard in the school year 2006/2007 	2006
Provide basic level of IT literacy training for teachers	<ul style="list-style-type: none"> Ensure IT literacy of teachers 	2005 - 2008 continuously
Increase coverage of the Roma children of both sexes by compulsory primary education	<p>Implementation of the action plan entitled Decade of Roma Inclusion 2005-2015. (Assistance with enrolment of the Roma children of both sexes in primary schools. Create preconditions for their inclusion in extended day school programs.</p> <ul style="list-style-type: none"> Train Roma assistants. Create conditions to reduce the number of classes attended by the Roma children only. Reduce the number of Roma absentees. Create conditions for an increase in the number of Roma children who complete primary education.) 	2005 continuously
5.8.3. Secondary Education		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Training of Teachers and Principals		
Develop a teacher education strategy based on international standards and practices.	<ul style="list-style-type: none"> Define standards and competencies for each category 	2006/2007/2008

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
	<ul style="list-style-type: none"> Teacher Training Ordinance 	2006-2007
Raise the level of pedagogical and psychological education of teachers	<ul style="list-style-type: none"> Draft a project proposal for the pedagogical and psychological education of teachers in accordance with the Bologna Declaration 	2005, 2006
State School-leaving Exam		
<p>Ensure and improve the quality of education</p> <p>Raise accountability of all participants in the system.</p> <p>More reliable, objective and fair evaluation of achievement of pupils</p>	<ul style="list-style-type: none"> Under the amendments to the Secondary Education Act, the state school-leaving exam has been introduced. The State School-Leaving Exam Council and the National Centre for External Evaluation of Education are responsible for conducting external evaluation and for state school-leaving exams The State School-Leaving Exam Ordinance 	<p>2008/09 for pupils of general secondary schools</p> <p>2008/09 for pupils of general secondary schools</p> <p>2009/10 for pupils of vocational schools</p> <p>2006-2007</p>
National Centre for External Evaluation of Education		
External evaluation of school and pupil achievements, enabling schools to carry out self-analysis and self-evaluation on an ongoing basis and define own development objectives and plans. Set clear national standards.	<p>The National Centre for External Evaluation of Education is responsible for the</p> <ul style="list-style-type: none"> preparation and carrying out of external evaluation in the system of education in the Republic of Croatia. It conducts all exams based on national standards. 	2006/2007 Continuing
Drawing up Secondary School Curriculum		
Preparing pupils for work, school-leaving exam, and further education - drawing up new curricula	<ul style="list-style-type: none"> Redefining vocational areas Drawing up a national qualifications framework Determining exit competencies Redefining occupations Drawing up new and updating the existing programs 	<p>2006, 2007, 2008</p> <p>2006, 2007, 2008</p> <p>2006, 2007, 2008</p> <p>2006, 2007, 2008</p> <p>2006, 2007, 2008</p>

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Program Network		
Develop a new program network in accordance with the needs of the labour market and interests of local administration	<ul style="list-style-type: none"> Drawing up program networks 	2005, 2006
Providing Equipment for Secondary Schools		
Provide up-to-date equipment to prepare pupils for the labour market and state school-leaving exam	<ul style="list-style-type: none"> Draft an equipment plan (continued) Providing equipment 	2006 2006, 2007 continuously
Adult Education		
Legislative regulation of adult education	<ul style="list-style-type: none"> Drafting a proposal for the Adult Education Act which would ensure a uniform legislative regulation of all forms of adult education, high quality implementation of educational programs, high quality education of persons involved in adult education, financial regulation of this activity, etc. 	2006
Analyse the condition and develop a database containing all data related to adult education	<ul style="list-style-type: none"> The CARDS 2004 (pending adoption by EC Delegation) envisages, among other things, an analysis of the condition in the area of adult education and a development of a database with all relevant data on adult education 	2006/2007
Continue with the literacy program for adults who have not completed primary school	<ul style="list-style-type: none"> Project entitled For Literate Croatia: the Path to Desirable Future has been implemented since 2003 and its planned duration is the year 2012 	2006 to 2012 continuously
Inclusion of Roma Children in Programs of Secondary School Education		
Increase the enrolment of Roma pupils in the first grade of secondary school	<ul style="list-style-type: none"> Collecting data into a single database in cooperation with Roma associations 	2006 continuously
Create possibilities for scholarships for Roma pupils	<ul style="list-style-type: none"> Collecting data on the enrolment and regular secondary school attendance in co-operation with Roma associations, determine annual reports on the granting of scholarships 	2006 continuously
Ensuring accommodation in student homes	<ul style="list-style-type: none"> In cooperation with towns, municipalities and Roma associations, develop a database comprising data on pupils staying in student homes 	2006 continuously
Modernise the entire educational system through the use of IT communications technologies	<ul style="list-style-type: none"> Systematic application of the project "Development of a central eLearning portal of the Republic of Croatia" 	2005 continuously

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Set up an IT system for monitoring education management	<ul style="list-style-type: none"> • Introduction of the Education Management Information System-EMIS 	2006-2008
5.8.4. Science and Higher Education		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Alignment of the national with EU legislation	<ul style="list-style-type: none"> • Reorganisation of the system of science and higher education in accordance with the new act 	2004- 2007
Increase budgetary and extra budgetary allocations for science and higher education The level of allocation should be aligned with levels in developed EU countries.	<ul style="list-style-type: none"> • Introduce an international system of evaluation of scientific and highly expert work • LUMP SUM (introduction of a uniform model of universities financing) 	2005- 2007 1 January 2006
Implementation of laws and subordinate legislation - Ministry of Science, Education and Sports	<ul style="list-style-type: none"> • Setting up a Register of Institutions of Higher Education • Setting up a Register of Scientific Organisations and a Register of Scientists • Designating an Ethics Board for Science and Higher Education • Quality assurance for the national system of higher education • Conduct external quality evaluation of higher education programs and institutions simultaneously with the development of quality assurance units at institutions for higher education • Increase the share of private sector in higher education • Issue invitations for project tenders 	2005-2006 2005-2006 until 2005 2006 2006-2010 continuously 2006-2010 continuously until end 2005

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Implementation of laws and subordinate legislation -National Science Council	<ul style="list-style-type: none"> Based on Scientific Organisations Evaluation Ordinance, carry out evaluation of all scientific organisations enrolled in the register of scientific and research legal entities Alignment of the ordinance governing scientific areas, fields, and branches in accordance with remarks obtained from scientific organisations 	<p>to be launched on 10 Dec. 2005 at the latest, continuously</p> <p>2005-2006</p>
Implementation of laws and subordinate legislation -National Council for Higher Education	<ul style="list-style-type: none"> Implementation of the Bologna Declaration guidelines and documents related to the establishment of a European system of higher education 	2005-2007
5.9. OTHER REFORMS		
5.9.1. Reform of the Judiciary		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Modernisation and Increased Efficacy of the Croatian Courts		
Increase efficacy of the courts, reduce case backlogs	<ul style="list-style-type: none"> The Supreme Court will rule on the redistribution of cases, from overburdened to less burdened courts The Ministry of Justice will introduce overtime for court judges to help resolve the issue of case backlogs. 	<p>2006-2008 continuously</p> <p>2006</p>
Administrative supervision of courts' work	<ul style="list-style-type: none"> The Ministry of Justice will set up a judicial inspection which will be responsible, within its legislative authorities, for administrative supervision of courts' work 	2005 continuously
Reorganisation of serving of judicial documents	<ul style="list-style-type: none"> The Ministry of Justice will introduce electronic serving of judicial documents, particularly in case of commercial courts 	2006
Faster and more economic conduct of court proceedings	<ul style="list-style-type: none"> The Ministry of Justice has proposed an amendment to the Civil Procedure Act to prevent cases from being returned to first instance court for retrial 	2006

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Alternative resolution of court disputes	<p>In the framework of PHARE 2005 Project, the Ministry of Justice has proposed launching a joint project with the Croatian Employers' Association, the Croatian Chamber of Commerce, and the Croatian Chamber of Crafts and Trades in connection with the development of conciliation as an alternative to dispute resolution.</p> <ul style="list-style-type: none"> ● Setting up regional conciliation centers ● Establishing a systematic relationship between the courts and conciliation organisations ● Encourage judges to use conciliation procedures and refer clients to such procedures ● Informing citizens about the possibilities of use of alternative resources for dispute resolution 	<p>2005</p> <p>2006-2008</p> <p>2006-2008</p> <p>2006-2008</p> <p>2006-2008</p>
Transfer of certain court jurisdictions to public notaries	<p>Under amendments to the Enforcement Act, a legislative framework is provided</p> <ul style="list-style-type: none"> ● for the transfer of enforcement cases to public notaries on the basis of a valid document, thereby relieving courts of their heavy caseloads of this type ● Linking electronically public notaries offices with land registers and registers of companies - issuing of verified statements from these registers 	<p>2005-2008 continuously</p> <p>2005 - 2006</p>
Rationalisation of the Court Network		
Process of rationalisation of court organisation and structure	<ul style="list-style-type: none"> ● The Conference on rationalisations of court structure in the Republic of Croatia (June 2005) proposed the criteria for rationalisation of the court network. ● Legally define minor offences to be transferred from under the jurisdiction of the minor offence court to the jurisdiction of administrative bodies. ● Carry out several pilot projects of municipal and minor offence court mergers in places where neither minor offence courts nor municipal courts meet the Project criteria. 	<p>2005-2006</p> <p>2006-2007</p> <p>2006</p>

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
	<ul style="list-style-type: none"> ● Carry out the pilot project of merging municipal courts which do not meet the set criteria ● Re-examine and analyse the feasibility of current division of jurisdiction of county courts in accordance with the administrative division into counties and consider a reduction in the number of county courts. ● Create an analysis of the rationality of the current number of commercial courts. ● Pursuant to Article 6 of the European Convention on Human Rights, examine how to attain full jurisdiction for the Administrative court. 	<p style="text-align: center;">2006</p> <p style="text-align: center;">2006-2007</p> <p style="text-align: center;">2006-2007</p> <p style="text-align: center;">2006</p>
Land Registry Reform		
Project of putting the land registry in order - clearing land registry backlog and achieving the optimum speed in land registry operations	<ul style="list-style-type: none"> ● Measures and activities planned within the project of putting the land registry in order will be continued in 2006. ● Systematic supervision of land registry operations. ● Regular statistic and analytic reporting on daily state of operations at land registries. ● Mandatory and systematic training of all land registry officers ● Intensive acquiring of IT equipment 	<p style="text-align: center;">2006-2008</p> <p style="text-align: center;">continuously</p> <p style="text-align: center;">continuously</p> <p style="text-align: center;">continuously</p> <p style="text-align: center;">continuously</p>
Establish a digital land registry database	<ul style="list-style-type: none"> ● Prepare all technical conditions for establishment of digital land registry at the 50 remaining land registries by 2007 	<p style="text-align: center;">2006</p>
Creation of a digital land registry database	<ul style="list-style-type: none"> ● Prepare all technical conditions for establishment of digital land registry at the 50 remaining land registries by 2007 	<p style="text-align: center;">2006</p>
Development of a joint registry of land registry data base	<ul style="list-style-type: none"> ● Parallely with the land registry digitalisation prepare conditions for creation of the common land registry database for networking digitalised land registry and cadastral data. 	<p style="text-align: center;">2007</p>

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Increase the Efficiency of Creditor Protection and Claim Collection		
Increasing the efficiency of the execution procedure	<ul style="list-style-type: none"> • The novel of the Execution Act created legal preconditions for increasing the efficiency of the execution procedure. The novel of the Execution Act will enter into force on 1 January 2006. • Implementation of the Execution Act in co-operation with the Croatian Chamber of the Economy and the Croatian Bar Association • Opening of stores for commission sale of impounded movable property • Creation of a Real Estate Register and a Register of Movable Property of value exceeding HRK 50,000 that are sold as part of execution proceedings • Real Estate Register and Register of Movable Property will be published on the Internet • Transfer of execution cases to public notaries on the basis of certified documents • Carry out administrative supervision over the execution departments of municipal courts and court execution officers • Training of execution judges and execution officers 	<p>2006</p> <p>2006</p> <p>2006-2007</p> <p>2006</p> <p>2005-2006</p> <p>2006</p> <p>2005-2008 continuously</p> <p>2005-2007 continuously</p>
Reform of Criminal Legislation		
Harmonisation of substantive criminal legislation with the international conventions accepted by the Republic of Croatia	<ul style="list-style-type: none"> • Amendments to the Penal Act will be related to general and linear expansion of repressive measures, extension of periods of prescription, etc. The novel of the Penal Act is to be put into parliamentary procedure in Autumn 2005. 	2005
Prevention of corruption and organised crime	<ul style="list-style-type: none"> • A draft of the new National Programme for Corruption Prevention was created. The programme envisages institutional measures for more efficient prosecution of perpetrators of criminal offences and prevention of corruption. It will be sent into parliamentary procedure in Autumn 2005. 	2005

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
	<ul style="list-style-type: none"> Judicial Academy of the Ministry of Justice supported by the CARDS programme will educate and train judges, public attorneys and other employees in the field of processing corruption and organised crime. 	2006
Reform of criminal procedure legislation	<ul style="list-style-type: none"> Within the framework of the Penal Code Project, carried out as part of the Twinning Light Project the amendments to the previous criminal procedure will be encompassed and harmonised with the amendments to the State Attorney Act and Criminal Procedure Act 	2006-2008
5.9.2. Environment Protection		
Horizontal Legislation		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Improvement of the environmental protection system	<ul style="list-style-type: none"> Adopt a new Environmental Protection Act 	2006
Introduction of integrated prevention and supervision of environmental pollution	<ul style="list-style-type: none"> Incorporate provisions for the application of the IPPC Directive into the new Environment Protection Act 	2006
The integration in the area of environmental protection requires the establishment and implementation of other sector policies with the aim of promoting sustainable development	<ul style="list-style-type: none"> Adopt the sustainable development strategy 	2006
	<ul style="list-style-type: none"> Adopt implementing regulations on the strategic evaluation for the environment 	2007
Improving the procedure of environmental impact studies for specific projects	<ul style="list-style-type: none"> Adopt implementing regulations on the evaluation of environmental impact for specific projects 	2007
Reporting about environmental situation and the results of measures taken to protect the environment	<ul style="list-style-type: none"> Creation and Adoption of the Environmental Protection Report 	continuously (every 4 years)
Development and reconstruction of the environment	<ul style="list-style-type: none"> Support to environment development and reconstruction - ISPA 	2006-2007
Air Quality and Climate Changes		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Improve the overall system of air quality management and establish conditions for systematic solving of problems related to climate changes		
Establish the policy and measures for solving air pollution problems	<ul style="list-style-type: none"> Harmonisation of the regulations in the area of atmosphere protection with the EU acquis communautaire 	2006-2007

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Improve and strengthen the application of measures for the protection of air quality, and the way of organising and implementing the protection and improvement of air quality	<ul style="list-style-type: none"> • Development of the Plan of Action to Protect and Improve Air Quality 	2006
	<ul style="list-style-type: none"> • Air quality assessment at state level and division into zones and areas 	2006-2007
Establish a quality system for permanent monitoring of air quality at the state level	<ul style="list-style-type: none"> • Construction of the remaining 12 stations (background and stations in protected nature reserves) 	2006-2008
Implementation of policy and measures for mitigation of climate changes (in accordance with the United Nations Framework Convention on Climate Change), in a way enabling sustainable economic development	<ul style="list-style-type: none"> • Develop a national strategy and action plan for the implementation of the UNFCCC and Kyoto Protocol with the plan of action 	2007
	<ul style="list-style-type: none"> • Preparation of National Report of the Republic of Croatia under the UN Framework Convention on Climate Changes 	2006
	<ul style="list-style-type: none"> • Creation of the Plan for the allocation of emission quota of greenhouse gases 	2006-2007
	<ul style="list-style-type: none"> • Creation of a register of emission of greenhouse gases 	2006-2007
Waste Management		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Establishment of the comprehensive waste management system	<ul style="list-style-type: none"> • Adopt and implement a Waste Management Plan 	2006-continuously
	<ul style="list-style-type: none"> • Create implementing measures of the Waste Act 	2006
	<ul style="list-style-type: none"> • Further development of charges for disposal of products when they become waste 	2006 - continuously
Establishment of a network of waste management centres (up to 21 centre)	<ul style="list-style-type: none"> • Invest in construction of waste management centres combined with reconstruction, recovery and possible further use of existing waste dumping sites by using funds from different sources (different investors) 	2006 - continuously
Recovery and closing of high pollution areas - black holes	<ul style="list-style-type: none"> • Creation and implementation of recovery programmes by using funds from different sources (different investors) 	2006-continuously

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Establishment of complete informatization of the waste management system	<p>Further development of waste management information system and waste flows</p> <ul style="list-style-type: none"> • by the Environment Protection Agency (quantity, type, procedure, management procedures, etc.) 	2006 - continuously
Water Quality		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Strengthening and Establishing the System of Integrated Water Management with More Intensive Investments in the Water Management Infrastructure		
Maintain/achieve good quality of water and eco-systems dependant on water	<p>Strengthening/reform of the existing system of financing water management and ensuring more funds per year (amendments to/adoption of new subordinate legislation arising from the Act on Water Management Financing) (Ministry of Agriculture, Forestry and Water Management)</p> <ul style="list-style-type: none"> • 	2006-continuously
	<p>Strengthening of water management planning (adoption of the Water Management Basis of Croatia and continuation of work on the second phase of water management plans in certain water areas), (Ministry of Agriculture, Forestry and Water Management)</p> <ul style="list-style-type: none"> • 	continuously (2009)
Recovery and removal of the sources of pollution	<p>More intensive implementation of water protection measures, especially with respect to the preparation and implementation of infrastructural water protection projects; recovery and completion of the existing and building of new water discharge systems (Ministry of Agriculture, Forestry and Water Management)</p> <ul style="list-style-type: none"> • 	continuously
Population provided access to safe drinking water	<p>Reduction of losses in the existing water supply systems and more connections to the public water supply systems (regional water supply systems), recovery and completion of the existing and building of new water supply systems (Ministry of Agriculture, Forestry and Water Management)</p> <ul style="list-style-type: none"> • 	continuously
	<p>Establishment of a self-control system for public water supply facilities (development of guidelines for introducing the system, education about water,</p> <ul style="list-style-type: none"> • education of the sanitary inspection about the system, control, evaluation and verification of the system and making of check lists for inspectors, acquisition of equipment for water disinfection), (Ministry of Health and Social Welfare) 	2006-2008

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
	<ul style="list-style-type: none"> Continuous monitoring of the safety of drinking water, creation of the annual monitoring plan, forms and the system of data collection on conducted monitoring, creation of an annual report, development of a water quality data base (Ministry of Health and Social Welfare) Establishment of zones of sanitary protection of drinking water at source and intensification of measures to protect water in such zones (Ministry of Agriculture, Forestry and Water Management) 	<p>2006-2008</p> <p>continuously</p>
Sufficiently developed irrigation systems	<ul style="list-style-type: none"> Reconstruction of the existing and development of new irrigation systems, (Ministry of Agriculture, Forestry and Water Management) 	continuously
System of protection from damage caused by water ensures the required safety	<ul style="list-style-type: none"> Greater investments in the system of protection from damage caused by water, (Ministry of Agriculture, Forestry and Water Management) 	continuously
Sea and Marine Environment Protection		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Sea and Marine Environment Protection	<ul style="list-style-type: none"> Development of a new Intervention Plan for Cases of Accidental Adriatic Sea Pollution in the Republic of Croatia 3 Cleanup vessels 3 (1 cleanup vessel per year) Creation of the annual National Adriatic Sea Monitoring Report Creation of an annual report, leaflet and map of sea water quality on beaches 	<p>2006</p> <p>2006-2008</p> <p>2006-continuously</p> <p>2006-continuously</p>
Nature Protection		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Administrative and institutional strengthening	<ul style="list-style-type: none"> Administrative strengthening of nature protection institutions at the state and local level Development of national parks GIS Development of a system of protected areas 	2006-2008
Strengthening of the policy of the Government of the Republic of Croatia with respect to nature protection	<ul style="list-style-type: none"> Revision of the National Strategy for the Protection of Biological and Landscape Diversity Develop implementing regulations based on the Nature Protection Act 	2006
Incorporation of nature protection in economic sectors	<ul style="list-style-type: none"> Revision of sector legislation development of mechanisms to incorporate nature protection guidelines through co-operation between various sectors 	2006-2008

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Increase of the percentage of protected areas	<ul style="list-style-type: none"> Establishment of the National Eco-Network (providing funds for protection in the area of the eco-network) Protection of new areas (Nature Park Lastovo and Nature Park Neretva) Network establishment „NATURA 2000“ 	2006-2008 2006-2008 2008
Protection of endangered wild life outside the protected areas	<ul style="list-style-type: none"> Implementation of wolf and lynx management plans Activities relating to the implementation of the CITES 	continuously
International co-operation (implementation of international projects)	<ul style="list-style-type: none"> NATURA 2000 – PHARE KEC World Bank Institutional strengthening of the State Institute for Nature Protection - CARDS 	2006-2007 continued-2007 2007-continuously
Industrial Contamination and Risk Management		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Introduction of a comprehensive system of environment pollution prevention and monitoring system	<ul style="list-style-type: none"> Adopt implementing regulations of the Environmental Protection Act for the application of provisions on the eco-licence (IPPC Directive) 	2007
Improve the procedure of implementation of the Environmental Protection Intervention Plan, including reporting about the implementation, and bring it fully in line with the new EU Directives	<ul style="list-style-type: none"> Adopt a new Environmental Protection Intervention Plan 	2007
	<ul style="list-style-type: none"> Creation of a register of dangerous and risky industrial plants 	2007
	<ul style="list-style-type: none"> Organise expert workshops and make instructions for the implementation of intervention plans at the local level 	2007
	<ul style="list-style-type: none"> Adoption of implementing regulations for application of provisions of the Seveso II Directive 	2007
Chemicals		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Development of the National Strategy and legislative framework for the protection from dangerous chemicals, harmonised with regulations and practices in the EU	<ul style="list-style-type: none"> Adoption of laws in the segment of chemicals 	2005
	<ul style="list-style-type: none"> Development of implementing measures 	2006
Genetically Modified Organisms		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Implementation of the Act on Genetically Modified Organisms	<ul style="list-style-type: none"> Development of implementing measures 	(2005) 2006
Establishment of the institutional infrastructure for efficient GMO control	<ul style="list-style-type: none"> Education of personnel in competent bodies 	2006-2008

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Noise		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Development of a National Programme and Legislative Framework for protection against noise	<ul style="list-style-type: none"> • Development of implementing measures • Improve, supplement and harmonise laws and regulations with EU requirements 	2006-2007 2006-2007
Strengthening of the system of protection against noise	<ul style="list-style-type: none"> • Organise supervision of legal entities performing expert activities related to the protection against noise, as well as acquisition of necessary instruments • Approve or certify legal entities for performance of expert activities related to protection against noise. • Establish a register of legal entities • Carry out noise examination 	2006-2008 2006-2008 2006-2008 2006-continuously
Forestry		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Obtaining more reliable and accurate data on forests in line with EU standards, for the purpose of monitoring, planning, forest policy development and reporting to national and international authorities and institutions	<ul style="list-style-type: none"> • Development and implementation of the project "National Inventory of Forestry Resources of the Republic of Croatia" 	2006-2008
Determination and monitoring of the health status of forest plants aimed at containment and prevention of organisms harmful to plants	<ul style="list-style-type: none"> • Development of a system and monitoring health supervision 	continuously
Improvement and establishment of permanent forest supervision in one place, as regards damage caused by atmospheric pollution and other factors affecting the state of forests, and improvement of forest fire monitoring and their causes, effects and prevention	<ul style="list-style-type: none"> • Adoption of subordinate legislation on permanent forest monitoring • Adoption of a programme of measures for data collection and establishment of a register on the level of damage to forests • Establishment and running of a comprehensive information system and register on forest fires 	continuously continuously continuously
Protection and preservation of gene material of forest types of the Republic of Croatia	<ul style="list-style-type: none"> • Establishment of gene bank and preservation 	continuously

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Implementation of undertaken obligations in relation to sustainable forest management in the Republic of Croatia	<ul style="list-style-type: none"> ● Establishment of the Forestry Advisory Service ● Creation of the Croatian FSC standard for forest management ● Establishment of a register of forest owners ● Introduction of incentives for forest owners (concentration of fragmented land, sustainable management, usage of biomass products, etc.) 	<p>continuously</p> <p>continuously</p> <p>continuously</p> <p>continuously</p>
5.9.3. Public Procurement		
POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
Harmonisation of the legislative framework with the EU <i>acquis communautaire</i>	<ul style="list-style-type: none"> ● Creation of the Proposal of the new Public Procurement Act ● Adoption of new Public Procurement Act ● Amending the Regulation on procurement procedures of goods, works and services of small value ● Preparation of the Regulation on general provisions for procurement of goods, services and for awarding of works and methodology of preparation, assessment and performance of the investment projects ● Record on qualified economic entities ● CPV and CPC norms 	<p>April 2006</p> <p>December 2006</p> <p>December 2006</p> <p>December 2006</p> <p>December 2006</p> <p>December 2006</p> <p>2006-2008</p>
Strengthening of the administrative and institutional capabilities of the Public Procurement Office of the Government of the Republic of Croatia and the public procurement system	<ul style="list-style-type: none"> ● Creation of a Public Procurement Manual ● Harmonisation (development) of real proposals for establishment and organisation of organisational units for procurement with entities covered by the Public Procurement Act: <ul style="list-style-type: none"> - The analysis of the existing organisation of public procurement at entities covered by the Public Procurement Act 	<p>January 2006</p> <p>January 2006</p>

POLICY GOAL	IMPLEMENTING MEASURES	PERIOD
	<ul style="list-style-type: none"> - Development of the proposal for the organisation of public procurement of entities covered by the Public Procurement Act - Organisation of public procurement at entities covered by the Public Procurement Act • Development of professional abilities and capacities of public procurement units at entities covered by the Public Procurement Act: <ul style="list-style-type: none"> - Development of a national training plan - Training public procurement instructors - Monthly training of personnel for procurement and supervision. • Creation of Internet web page, Announcement Site for all procurement procedures in the Republic of Croatia • Establishment of the organisational development plan of the Public Procurement Office • Support and development as well as the creation of comprehensive measures for the development of the public procurement system (creation of a web page, publishing of a bulletins and other publications, holding seminars) 	<p>December 2006</p> <p>continuously 2007-2008</p> <p>June 2006</p> <p>continuously 2006-2008</p> <p>continuously 2006-2008</p> <p>December 2006</p> <p>continuously 2006-2008</p> <p>continuously 2006-2008</p>
Implementation of the system of electronic procurement	<ul style="list-style-type: none"> • Proposal of the creation and development of the system of electronic procurement and implementation of the possibility to centralise public procurement • Support in the development of an IT system of the Public Procurement Office • Data Statistics and Analysis 	<p>during 2006</p> <p>March 2006</p> <p>continuously 2006-2008</p>

ANNEX I. MATRIX OF POLICY COMMITMENTS

	2005.	2006.	2007.	2008.
OVERALL ASSESSMENT OF FISCAL IMPACTS OF MAJOR IMPLEMENTING MEASURES				
A. Implementation profile				
B. Net direct budgetary impact	-5.216.425.244	-5.632.965.700	-6.054.018.091	-6.837.023.213
B1. Direct impact on budgetary revenue	104.099.100	486.740.669	496.261.898	467.220.000
B2. Direct impact on budgetary expenditure	5.320.524.344	6.119.706.369	6.550.279.989	7.304.243.213
I. COMPETITION POLICY AND STATE AID				
A. Implementation profile				
B. Net direct budgetary impact	-9.325.000	-12.938.050	-17.776.460	-15.700.584
B1. Direct impact on budgetary revenue	0	0	0	0
B2. Direct impact on budgetary expenditure	9.325.000	12.938.050	17.776.460	15.700.584
II. ENTERPRISE SECTOR AND RESTRUCTURING				
Total (1+2)				
A. Implementation profile				
B. Net direct budgetary impact	-3.055.057.275	-3.044.183.081	-3.211.773.011	-3.930.085.388
B1. Direct impact on budgetary revenue	0	0	0	0
B2. Direct impact on budgetary expenditure	3.055.057.275	3.044.183.081	3.211.773.011	3.930.085.388
1. Railway Restructuring				
Total				
A. Implementation profile				
B. Net direct budgetary impact	-2.889.662.275	-2.852.088.081	-3.002.553.000	-3.424.529.588
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	2.889.662.275	2.852.088.081	3.002.553.000	3.424.529.588
of which: State aid	652.958.192	564.734.000	469.201.000	432.700.000
Subsidies				
A. Implementation profile				
B. Net direct budgetary impact	-1.838.620.467	-1.603.373.000	-1.462.017.000	-1.406.900.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	1.838.620.467	1.603.373.000	1.462.017.000	1.406.900.000
Modernisation and Restructuring of Croatian Railways				
A. Implementation profile				
B. Net direct budgetary impact	-1.051.041.808	-1.248.715.081	-1.540.536.000	-2.017.629.588
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	1.051.041.808	1.248.715.081	1.540.536.000	2.017.629.588
2. Business Environment of SMEs				
Total				
A. Implementation profile				
B. Net direct budgetary impact	-165.395.000	-192.095.000	-209.220.011	-505.555.800
B1. Direct impact on budgetary revenue	0	0	0	0
B2. Direct impact on budgetary expenditure	165.395.000	192.095.000	209.220.011	505.555.800
Incentives for Education				
A. Implementation profile				
B. Net direct budgetary impact	-5.850.000	-5.850.000	-6.250.000	-6.750.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	5.850.000	5.850.000	6.250.000	6.750.000
Financing Entrepreneurship				
A. Implementation profile				
B. Net direct budgetary impact	-21.200.000	-22.000.000	-20.547.011	-20.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	21.200.000	22.000.000	20.547.011	20.000.000
Incentives for Development of Entrepreneurial Infrastructure				
A. Implementation profile				
B. Net direct budgetary impact	-90.100.000	-97.100.000	-101.000.000	-401.600.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	90.100.000	97.100.000	101.000.000	401.600.000

Competitiveness

A. Implementation profile				
B. Net direct budgetary impact	-15.000.000	-15.000.000	-15.800.000	-17.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	15.000.000	15.000.000	15.800.000	17.000.000

Promoting Entrepreneurship

A. Implementation profile				
B. Net direct budgetary impact	-4.095.000	-21.495.000	-27.903.000	-18.683.300
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	4.095.000	21.495.000	27.903.000	18.683.300

- of which:

Promotion of Entrepreneurship	2.050.000	2.050.000	3.950.000	4.250.000
National Counselling	1.545.000	1.545.000	2.003.000	2.083.300
International Activities of the Entrepreneurs	500.000	500.000	1.700.000	2.000.000
Regional Guarantee Funds	0	6.000.000	6.000.000	7.500.000
CARDS Increasing the Level of Information and Awareness of the Croatian Business Community	0	3.900.000	4.875.000	975.000
PHARE Institutional Strengthening of SMEs and Development of Policies for the Harmonization with the EU	0	7.500.000	9.375.000	1.875.000

Incentives for Marketing Activities

A. Implementation profile				
B. Net direct budgetary impact	-9.000.000	-9.000.000	-10.000.000	-11.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	9.000.000	9.000.000	10.000.000	11.000.000

Incentives to Targeted Social Groups

A. Implementation profile				
B. Net direct budgetary impact	-4.000.000	-5.000.000	-6.250.000	-7.812.500
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	4.000.000	5.000.000	6.250.000	7.812.500

Incentives to Cooperatives

A. Implementation profile				
B. Net direct budgetary impact	-4.700.000	-4.700.000	-7.800.000	-8.600.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	4.700.000	4.700.000	7.800.000	8.600.000

Incentives to Crafts

A. Implementation profile				
B. Net direct budgetary impact	-11.450.000	-11.950.000	-13.670.000	-14.110.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	11.450.000	11.950.000	13.670.000	14.110.000

III. FINANCIAL SECTOR**Incentives for Housing Savings**

A. Implementation profile				
B. Net direct budgetary impact	-343.431.000	-262.495.000	-279.309.000	-358.191.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	343.431.000	262.495.000	279.309.000	358.191.000

IV. LABOUR MARKET**Total (1+2+3)**

A. Implementation profile				
B. Net direct budgetary impact		-186.440.602	-255.538.820	-269.784.497
B1. Direct impact on budgetary revenue		18.000.000	13.000.000	3.000.000
B2. Direct impact on budgetary expenditure		204.440.602	268.538.820	272.784.497

1. National Action Plan for Employment

A. Implementation profile				
B. Net direct budgetary impact		-150.000.000	-218.005.000	-231.500.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		150.000.000	218.005.000	231.500.000

2. PHARE 2005 - Active Measures for Employing People which are Threatened by Social Exclusion

A. Implementation profile				
B. Net direct budgetary impact		0	0	0
B1. Direct impact on budgetary revenue		18.000.000	13.000.000	3.000.000
B2. Direct impact on budgetary expenditure		18.000.000	13.000.000	3.000.000

3. Incentives for Employment of Disabled Persons

A. Implementation profile				
B. Net direct budgetary impact		-36.440.602	-37.533.820	-38.284.497
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		36.440.602	37.533.820	38.284.497

V. AGRICULTURAL SECTOR

Total (1+2+3+4+5)

A. Implementation profile				
B. Net direct budgetary impact	-1.887.403.219	-2.003.936.319	-2.140.469.419	-2.111.161.269
B1. Direct impact on budgetary revenue	0	37.500.000	75.000.000	75.000.000
B2. Direct impact on budgetary expenditure	1.887.403.219	2.041.436.319	2.215.469.419	2.186.161.269

1. State Aid in Agriculture

A. Implementation profile				
B. Net direct budgetary impact	-1.886.403.219	-1.946.403.219	-1.981.403.219	-2.011.403.219
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	1.886.403.219	1.946.403.219	1.981.403.219	2.011.403.219

2. SAPARD Implementation

A. Implementation profile		X		
B. Net direct budgetary impact		-12.600.000	-25.200.000	-25.200.000
B1. Direct impact on budgetary revenue		37.500.000	75.000.000	75.000.000
B2. Direct impact on budgetary expenditure		50.100.000	100.200.000	100.200.000

3. Implementation of the World Bank Project for the Adjustment of Agricultural Legislation with Acquis Communautaire

A. Implementation profile		X		
B. Net direct budgetary impact		-40.243.100	-129.166.200	-69.558.050
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		40.243.100	129.166.200	69.558.050

4. Inventory of Forestry Resources

A. Implementation profile				
B. Net direct budgetary impact	-1.000.000	-3.190.000	-3.200.000	-3.500.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	1.000.000	3.190.000	3.200.000	3.500.000

5. Forestry Advisory Service

A. Implementation profile				
B. Net direct budgetary impact		-1.500.000	-1.500.000	-1.500.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		1.500.000	1.500.000	1.500.000

VI. HEALTH SECTOR

Total (1+2)

A. Implementation profile				
B. Net direct budgetary impact	94.000.000	364.700.000	364.700.000	364.700.000
B1. Direct impact on budgetary revenue	95.000.000	380.000.000	380.000.000	380.000.000
B2. Direct impact on budgetary expenditure	1.000.000	15.300.000	15.300.000	15.300.000

1. Health Insurance Reform

Reducing Expenditures on Medicines

A. Implementation profile				
B. Net direct budgetary impact	95.000.000	380.000.000	380.000.000	380.000.000
B1. Direct impact on budgetary revenue	95.000.000	380.000.000	380.000.000	380.000.000
B2. Direct impact on budgetary expenditure				

2. Reform of Health Services

Total

A. Implementation profile				
B. Net direct budgetary impact	-1.000.000	-15.300.000	-15.300.000	-15.300.000
B1. Direct impact on budgetary revenue	0	0	0	0
B2. Direct impact on budgetary expenditure	1.000.000	15.300.000	15.300.000	15.300.000

Improvement of Organisation and Functioning of Primary Health Care
Financial Incentives for Preventive Examinations

A. Implementation profile				
B. Net direct budgetary impact	-1.000.000	-1.000.000	-1.000.000	-1.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	1.000.000	1.000.000	1.000.000	1.000.000

Reorganisation of Community Health Centres

A. Implementation profile				
B. Net direct budgetary impact		-3.300.000	-3.300.000	-3.300.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		3.300.000	3.300.000	3.300.000

Taking on an Active Role in Human Resources Management

A. Implementation profile				
B. Net direct budgetary impact		-11.000.000	-11.000.000	-11.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		11.000.000	11.000.000	11.000.000

VII. PUBLIC ADMINISTRATION REFORM
Total (1+2+3+4+5+6)

A. Implementation profile				
B. Net direct budgetary impact	0	0	0	
B1. Direct impact on budgetary revenue	2.109.100	30.008.419	13.690.648	
B2. Direct impact on budgetary expenditure	2.109.100	30.008.419	13.690.648	

1. The Project „Support to the Public Administration Reform“ – Ministry of Foreign Affairs and the State, Foreign and Commonwealth Office, UK

A. Implementation profile	X			
B. Net direct budgetary impact	0			
B1. Direct impact on budgetary revenue	1.110.053			
B2. Direct impact on budgetary expenditure	1.110.053			

2. Danish Pre-Accession Aid (2005-2007)

A. Implementation profile	X			
B. Net direct budgetary impact	0	0	0	
B1. Direct impact on budgetary revenue	999.047	6.919.327	5.698.270	
B2. Direct impact on budgetary expenditure	999.047	6.919.327	5.698.270	

3. Swedish Aid/via World Bank Instruments

A. Implementation profile		X		
B. Net direct budgetary impact		0		
B1. Direct impact on budgetary revenue		7.400.350		
B2. Direct impact on budgetary expenditure		7.400.350		

4. CARDS 2003-Support to the Decentralisation of Croatia's State Administration

A. Implementation profile		X		
B. Net direct budgetary impact		0	0	
B1. Direct impact on budgetary revenue		5.920.280	2.960.140	
B2. Direct impact on budgetary expenditure		5.920.280	2.960.140	

5. CARDS 2003 –Support to the Implementation of the Programme of State Administration Reform - (24 months - starting on 1 January 2006)

A. Implementation profile		X		
B. Net direct budgetary impact		0	0	
B1. Direct impact on budgetary revenue		7.548.357	5.032.238	
B2. Direct impact on budgetary expenditure		7.548.357	5.032.238	

6. CARDS 2003 Procurement Contract: "Acquisition of Information System for Human Resources Management "

A. Implementation profile		X		
B. Net direct budgetary impact		0		
B1. Direct impact on budgetary revenue		2.220.105		
B2. Direct impact on budgetary expenditure		2.220.105		

VIII. EDUCATION AND SCIENCE
Total (1+2+3+4)

A. Implementation profile				
B. Net direct budgetary impact	-6.695.750	-304.602.648	-325.912.581	-357.352.545
B1. Direct impact on budgetary revenue	0	0	0	0
B2. Direct impact on budgetary expenditure	6.695.750	304.602.648	325.912.581	357.352.545

1. Pre-school Education				
Development of Pre-school Education				
A. Implementation profile		X		
B. Net direct budgetary impact		-4.316.000	-4.661.280	-5.127.408
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		4.316.000	4.661.280	5.127.408
2. Primary School Education				
Croatian National Educational Standard for Primary School				
A. Implementation profile				
B. Net direct budgetary impact		-175.583.914	-189.630.627	-208.593.689
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		175.583.914	189.630.627	208.593.689
3. Secondary School Education				
Development of Secondary School Education				
A. Implementation profile		X		
B. Net direct budgetary impact		-110.593.734	-117.229.494	-128.952.443
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		110.593.734	117.229.494	128.952.443
4. Science and Higher Education				
Total				
A. Implementation profile				
B. Net direct budgetary impact	-6.695.750	-14.109.000	-14.391.180	-14.679.005
B1. Direct impact on budgetary revenue	0	0	0	0
B2. Direct impact on budgetary expenditure	6.695.750	14.109.000	14.391.180	14.679.005
The Bologna Process				
A. Implementation profile	X			
B. Net direct budgetary impact	-4.000.000	-7.000.000	-7.140.000	-7.282.800
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	4.000.000	7.000.000	7.140.000	7.282.800
Agency for Science and Higher Education				
A. Implementation profile	X			
B. Net direct budgetary impact	-2.195.750	-4.609.000	-4.701.180	-4.795.205
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	2.195.750	4.609.000	4.701.180	4.795.205
LUMP SUM				
A. Implementation profile		X		
B. Net direct budgetary impact	-500.000	-2.500.000	-2.550.000	-2.601.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	500.000	2.500.000	2.550.000	2.601.000
IX. JUDICIAL REFORM				
Total (1+2+3+4+5+6)				
A. Implementation profile				
B. Net direct budgetary impact		-39.390.000	-46.415.000	-42.415.000
B1. Direct impact on budgetary revenue		10.072.250	10.186.250	9.000.000
B2. Direct impact on budgetary expenditure		49.462.250	56.601.250	51.415.000
1. Modernisation and More Efficient Operation of Courts				
A. Implementation profile				
B. Net direct budgetary impact		-590.000		
B1. Direct impact on budgetary revenue		1.911.000		
B2. Direct impact on budgetary expenditure		2.501.000		
2. Harmonisation of Croatian Legislation with EU Legislation				
A. Implementation profile				
B. Net direct budgetary impact		-680.000	-680.000	-680.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		680.000	680.000	680.000
3. Development of a Model of Functional Statistical Court Data Maintained by the Court and the Ministry of Justice				
A. Implementation profile				
B. Net direct budgetary impact		0	0	
B1. Direct impact on budgetary revenue		186.250	186.250	
B2. Direct impact on budgetary expenditure		186.250	186.250	

4. Alternative Dispute Solutions «Conciliation Project»

A. Implementation profile				
B. Net direct budgetary impact		-575.000	-575.000	-575.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		575.000	575.000	575.000

5. Land Registry Reform

A. Implementation profile				
B. Net direct budgetary impact		-37.385.000	-45.000.000	-41.000.000
B1. Direct impact on budgetary revenue		7.975.000	10.000.000	9.000.000
B2. Direct impact on budgetary expenditure		45.360.000	55.000.000	50.000.000

6. Reform of Criminal Legislation

A. Implementation profile				
B. Net direct budgetary impact		-160.000	-160.000	-160.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		160.000	160.000	160.000

X. ENVIRONMENTAL PROTECTION**Total (1+2+3+4+5+6+7+8)**

A. Implementation profile				
B. Net direct budgetary impact	-8.513.000	-143.120.000	-140.950.000	-116.445.000
B1. Direct impact on budgetary revenue	6.990.000	11.160.000	4.385.000	220.000
B2. Direct impact on budgetary expenditure	15.503.000	154.280.000	145.335.000	116.665.000

1. HORIZONTAL LEGISLATION**Total**

A. Implementation profile				
B. Net direct budgetary impact	-1.053.000	-3.240.000	-2.310.000	-1.150.000
B1. Direct impact on budgetary revenue	5.100.000	8.235.000	2.335.000	0
B2. Direct impact on budgetary expenditure	6.153.000	11.475.000	4.645.000	1.150.000

Adoption of the Environmental Protection Act

A. Implementation profile				
B. Net direct budgetary impact		-400.000	0	
B1. Direct impact on budgetary revenue		1.125.000	1.125.000	
B2. Direct impact on budgetary expenditure		1.525.000	1.125.000	

Incorporation of Provisions for the Application of the IPPC Directive into the Environmental Protection Act

A. Implementation profile				
B. Net direct budgetary impact	-223.000	-200.000		
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	223.000	200.000		

Adoption of the Sustainable Development Strategy

A. Implementation profile				
B. Net direct budgetary impact		-500.000	-400.000	-400.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		500.000	400.000	400.000

Adoption of the Implementing Regulations on Strategic Evaluation for the Environment

A. Implementation profile				
B. Net direct budgetary impact		-210.000	-210.000	
B1. Direct impact on budgetary revenue		5.900.000		
B2. Direct impact on budgetary expenditure		6.110.000	210.000	

Adoption of the Implementing Regulations on the Evaluation of Environmental Impact for Specific Projects

A. Implementation profile				
B. Net direct budgetary impact	0	-210.000	-210.000	
B1. Direct impact on budgetary revenue	5.100.000			
B2. Direct impact on budgetary expenditure	5.100.000	210.000	210.000	

Reporting on the Situation of the Environment and the Results of Implemented Measures

A. Implementation profile				
B. Net direct budgetary impact	-830.000	-300.000	-70.000	-750.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	830.000	300.000	70.000	750.000

Support for Construction and Reconstruction of the Environment - ISPA

A. Implementation profile				
B. Net direct budgetary impact		-1.420.000	-1.420.000	
B1. Direct impact on budgetary revenue		1.210.000	1.210.000	
B2. Direct impact on budgetary expenditure		2.630.000	2.630.000	

2. AIR PROTECTION AND CLIMATE CHANGES

Total				
A. Implementation profile				
B. Net direct budgetary impact	-4.380.000	-4.390.000	-8.310.000	-1.360.000
B1. Direct impact on budgetary revenue	1.890.000	2.740.000	1.865.000	35.000
B2. Direct impact on budgetary expenditure	6.270.000	7.130.000	10.175.000	1.395.000
Preparation of the Action Plan for the Air Protection and Quality Improvement				
A. Implementation profile				
B. Net direct budgetary impact		-450.000		
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		450.000		
Establishment of a Quality System for Permanent Air Quality Monitoring at the State Level - Construction of New Stations				
A. Implementation profile				
B. Net direct budgetary impact	-2.900.000	-2.520.000	-6.550.000	
B1. Direct impact on budgetary revenue		1.250.000	1.000.000	
B2. Direct impact on budgetary expenditure	2.900.000	3.770.000	7.550.000	
National Report of the Republic of Croatia under the United Nations Framework Convention on Climate Change				
A. Implementation profile				
B. Net direct budgetary impact	-700.000	-500.000		
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	700.000	500.000		
Creation of the National Strategy and Action Plan for Implementation of the UNFCCC and the Kyoto Protocol				
A. Implementation profile				
B. Net direct budgetary impact	-150.000	-270.000	-160.000	
B1. Direct impact on budgetary revenue	1.250.000	830.000	830.000	
B2. Direct impact on budgetary expenditure	1.400.000	1.100.000	990.000	
Maintenance of Stations in the State Network for Air Quality Monitoring				
A. Implementation profile				
B. Net direct budgetary impact	-630.000	-650.000	-1.350.000	-1.360.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	630.000	650.000	1.350.000	1.360.000
UNIDO Project «Phase-out of Substances Depleting the Ozone Layer in Cooling and Air-Conditioning Devices in the Republic of Croatia»				
A. Implementation profile				
B. Net direct budgetary impact	0	0	-250.000	0
B1. Direct impact on budgetary revenue	340.000	60.000	35.000	35.000
B2. Direct impact on budgetary expenditure	340.000	60.000	285.000	35.000
UNEPDT Project «Institutional Strengthening Aimed at Implementing the Montreal Protocol on Substances Depleting the Ozone Layer»				
A. Implementation profile				
B. Net direct budgetary impact	0	0		
B1. Direct impact on budgetary revenue	300.000	240.000		
B2. Direct impact on budgetary expenditure	300.000	240.000		
UNIDO Project "Creation of the National Halon Bank"				
A. Implementation profile				
B. Net direct budgetary impact		0		
B1. Direct impact on budgetary revenue		360.000		
B2. Direct impact on budgetary expenditure		360.000		

3. WASTE MANAGEMENT

Total				
A. Implementation profile				
B. Net direct budgetary impact	-330.000	-1.600.000	-3.000.000	-3.000.000
B1. Direct impact on budgetary revenue	0	0	0	0
B2. Direct impact on budgetary expenditure	330.000	1.600.000	3.000.000	3.000.000
Professional Basis for Ordinance Creation				
A. Implementation profile				
B. Net direct budgetary impact		-300.000		
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		300.000		
Recovery of Highly Polluted Areas - "Black Spots" (Project Documentation)				
A. Implementation profile				
B. Net direct budgetary impact		-800.000	-2.000.000	-2.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		800.000	2.000.000	2.000.000

Complete Informatization of Waste Management System				
A. Implementation profile				
B. Net direct budgetary impact	-330.000	-500.000	-1.000.000	-1.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure	330.000	500.000	1.000.000	1.000.000

4. WATER QUALITY

Total				
A. Implementation profile				
B. Net direct budgetary impact		-93.705.000	-103.230.000	-87.730.000
B1. Direct impact on budgetary revenue		0	0	0
B2. Direct impact on budgetary expenditure		93.705.000	103.230.000	87.730.000
Harmonisation of Legislation with EU Legislation				
A. Implementation profile				
B. Net direct budgetary impact		-375.000	-400.000	-400.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		375.000	400.000	400.000
Capital Projects of Water Supply				
A. Implementation profile				
B. Net direct budgetary impact		-1.330.000	-1.330.000	-1.330.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		1.330.000	1.330.000	1.330.000
Capital Projects of Protecting Waters and the Sea Against Contamination and Pollution				
A. Implementation profile				
B. Net direct budgetary impact		-70.000.000	-63.500.000	-48.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		70.000.000	63.500.000	48.000.000
Capital Irrigation Projects				
A. Implementation profile				
B. Net direct budgetary impact		-16.000.000	-30.000.000	-30.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		16.000.000	30.000.000	30.000.000
Capital Projects Relating to Protection Against Harmful Effects of Water				
A. Implementation profile				
B. Net direct budgetary impact		-6.000.000	-8.000.000	-8.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		6.000.000	8.000.000	8.000.000

5. NATURE PROTECTION

Total				
A. Implementation profile				
B. Net direct budgetary impact		-28.700.000	-8.200.000	-7.000.000
B1. Direct impact on budgetary revenue		0	0	0
B2. Direct impact on budgetary expenditure		28.700.000	8.200.000	7.000.000
Administrative Strengthening of Institutions for Nature Protection				
A. Implementation profile				
B. Net direct budgetary impact		-4.000.000		
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		4.000.000		
Creation of Geographic Information Systems (GIS) for National Parks				
A. Implementation profile				
B. Net direct budgetary impact		-9.900.000		
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		9.900.000		
Development of the Protected Areas System				
A. Implementation profile				
B. Net direct budgetary impact		-3.000.000	-3.000.000	-3.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		3.000.000	3.000.000	3.000.000
Revision and Adoption of the Revised National Strategy for the Protection of Biological and Landscape Diversity				
A. Implementation profile				
B. Net direct budgetary impact		-500.000		
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		500.000		

Establishment of the National Eco-Network (Provision of Funds for Protection of the Area Covered by the Eco-Network)				
A. Implementation profile				
B. Net direct budgetary impact		-1.000.000	-1.000.000	-1.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		1.000.000	1.000.000	1.000.000
Protection of New Areas (Nature Park Lastovo and Neretva)				
A. Implementation profile				
B. Net direct budgetary impact		-1.200.000	-1.200.000	
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		1.200.000	1.200.000	
Implementation of Wolf and Lynx Management Plans				
A. Implementation profile				
B. Net direct budgetary impact		-3.000.000	-3.000.000	-3.000.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		3.000.000	3.000.000	3.000.000
Activities Related to Implementation of CITES				
A. Implementation profile				
B. Net direct budgetary impact		-200.000		
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		200.000		
Completing International Projects (Budget Funds Earmarked for Monitoring of Projects)				
A. Implementation profile				
B. Net direct budgetary impact		-5.900.000		
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		5.900.000		
6. INDUSTRIAL CONTAMINATION AND RISK MANAGEMENT				
Total				
A. Implementation profile				
B. Net direct budgetary impact		-400.000	-800.000	-800.000
B1. Direct impact on budgetary revenue		0	0	0
B2. Direct impact on budgetary expenditure		400.000	800.000	800.000
Implementing Regulations for the Application of Provisions on the Eco-licence (IPPC Directive)				
A. Implementation profile				
B. Net direct budgetary impact			-200.000	-200.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure			200.000	200.000
Creation of the New Environmental Protection Intervention Plan				
A. Implementation profile				
B. Net direct budgetary impact		-100.000	-200.000	-200.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		100.000	200.000	200.000
Creation of a Register of Dangerous and Risk-Exposed Facilities				
A. Implementation profile				
B. Net direct budgetary impact		-200.000	-100.000	-100.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		200.000	100.000	100.000
Organisation of Expert Workshops for Implementation of Intervention Plans at Local Level				
A. Implementation profile				
B. Net direct budgetary impact		-100.000	-100.000	-100.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		100.000	100.000	100.000
Implementing Regulation for Application of Provisions of the Seveso II Directive				
A. Implementation profile				
B. Net direct budgetary impact			-200.000	-200.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure			200.000	200.000
7. FORESTRY				
Total				
A. Implementation profile				
B. Net direct budgetary impact		-4.690.000	-4.700.000	-5.000.000
B1. Direct impact on budgetary revenue		0	0	0
B2. Direct impact on budgetary expenditure		4.690.000	4.700.000	5.000.000

Inventory of Forestry Resources of the Republic of Croatia				
A. Implementation profile				
B. Net direct budgetary impact		-3.190.000	-3.200.000	-3.500.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		3.190.000	3.200.000	3.500.000
Forestry Advisory Service				
A. Implementation profile				
B. Net direct budgetary impact		-1.500.000	-1.500.000	-1.500.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		1.500.000	1.500.000	1.500.000

8. PROTECTION OF SEA AND MARINE ENVIRONMENT

Total				
A. Implementation profile				
B. Net direct budgetary impact	-2.750.000	-6.395.000	-10.400.000	-10.405.000
B1. Direct impact on budgetary revenue	0	185.000	185.000	185.000
B2. Direct impact on budgetary expenditure	2.750.000	6.580.000	10.585.000	10.590.000
Preparation of new Intervention Plan in the Cases of Sudden Sea Contamination in Croatia				
A. Implementation profile				
B. Net direct budgetary impact		-50.000		
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		50.000		
Building Cleanup Vessels				
A. Implementacija*				
B. Neto izravni učinak na proračun	-2.750.000	-2.550.000	-2.850.000	-2.850.000
B1. Izravni učinak na prihode				
B2. Izravni učinak na rashode	2.750.000	2.550.000	2.850.000	2.850.000
Monitoring Operation of 47 Sewage Systems and Equipment on the Adriatic Sea (Adriatic Project)				
A. Implementation profile				
B. Net direct budgetary impact		-3.750.000	-7.500.000	-7.500.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		3.750.000	7.500.000	7.500.000
Preparation of Annual National Report on Adriatic Sea Monitoring				
A. Implementation profile				
B. Net direct budgetary impact		0	0	0
B1. Direct impact on budgetary revenue		185.000	185.000	185.000
B2. Direct impact on budgetary expenditure		185.000	185.000	185.000
Report, Map of and Leaflet on Sea Quality				
A. Implementation profile				
B. Net direct budgetary impact		-45.000	-50.000	-55.000
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		45.000	50.000	55.000

XI. Public Procurement

<ul style="list-style-type: none"> ● Preparation of Public Procurement Manual ● Development of Professional Competences and Capacities of Entities Liable to the Application of the Public Procurement Act ● Support and Development, Preparation of Total Measures for the Public Procurement Development (creating web pages, publishing bulletins and publications, organizing seminars) 				
		X		
A. Implementation profile				
B. Net direct budgetary impact		-560.000	-573.800	-587.930
B1. Direct impact on budgetary revenue				
B2. Direct impact on budgetary expenditure		560.000	573.800	587.930

ANNEX II. FISCAL EFFECTS OF PROJECTS FINANCED BY EU FUNDS (2006)

Users of EU funds	CARDS 2002-decentralised projects	CARDS 2003	CARDS 2004	PHARE 2005	PHARE 2006	ISPA	SAPARD	LIFE	TOTAL
1	2	3	4	5	6	7	8	9	10
Ministry of Health and Social Welfare	2.056.275								2.056.275
Ministry of Science, Education and Sports	9.055.702			22.500.000					31.555.702
co-financing				30.100.000					30.100.000
Croatian Employment Service	1.558.654		4.146.346	4.500.000	3.000.000				13.205.000
co-financing				225.000	400.000				625.000
Ministry of Agriculture, Forestry and Water Management	7.835.947		12.600.000	30.665.625		3.344.000	37.500.000		91.945.572
co-financing				5.356.875		3.000.000	22.000.000		30.356.875
Ministry of the Economy, Labour and Entrepreneurship	5.473.503	2.555.000	9.675.000	9.750.000					27.453.503
co-financing				750.000					750.000
Ministry of the Sea, Tourism, Transport and Development			6.500.000	4.095.000		23.620.000			34.215.000
co-financing				3.115.000		41.875.000			44.990.000
Ministry of Justice			11.112.496	10.373.580					21.486.076
co-financing				130.906					130.906
Ministry of the Interior			47.175.000	10.374.758					57.549.758
co-financing				393.750					393.750
Ministry of Foreign Affairs and European Integration			12.375.000	33.045.000					45.420.000
co-financing				4.500.000					4.500.000
Ministry of Finance									0
internal control			8.000.000	3.750.000					11.750.000
co-financing				940.000					940.000
customs administration			7.312.500	21.787.500					29.100.000
co-financing			1.890.000	5.062.500					6.952.500
tax administration				10.506.248					10.506.248
Ministry of Environmental Protection, Physical Planning and Construction			6.750.000	7.065.000		1.210.000		7.482.405	22.507.405
co-financing				882.000		1.420.000		2.122.000	4.424.000
Ministry of Culture				8.520.750					8.520.750
co-financing				1.330.000					1.330.000

Users of EU funds	CARDS 2002-decentralised projects	CARDS 2003	CARDS 2004	PHARE 2005	PHARE 2006	ISPA	SAPARD	LIFE	TOTAL
1	2	3	4	5	6	7	8	9	10
Center for Human Rights			2.600.000						2.600.000
Office for Prevention of Drug Abuse			2.199.995						2.199.995
Office for Gender Equality				150.000					150.000
co-financing				37.500					37.500
State Bureau for Metrology			3.872.658						3.872.658
National Foundation for Civil Society Development									0
Office for National Minorities				3.000.000					3.000.000
co-financing				592.500					592.500
Central Bureau of Statistics				12.750.000					12.750.000
co-financing									0
State Geodetic Directorate		3.070.000		8.869.299					11.939.299
co-financing		650.000							650.000
Croatian Competition Agency				3.475.287					3.475.287
co-financing				212.763					212.763
State Inspector's Office				1.296.100					1.296.100
co-financing				333.750					333.750
Central State Administrative Office for e-Croatia of the Government of the Republic of Croatia				326.250					326.250
co-financing				163.125					163.125
State Office for Nuclear Safety				1.350.000					1.350.000
co-financing				250.000					250.000
Croatian Demining Centre		15.000.000							15.000.000
TOTAL - EU FUNDS	25.980.081	20.625.000	134.318.995	208.150.397	3.000.000	28.174.000	37.500.000	7.482.405	465.230.878
TOTAL - CO-FINANCING	0	650.000	1.890.000	54.375.669	400.000	46.295.000	22.000.000	2.122.000	127.732.669
TOTAL	25.980.081	21.275.000	136.208.995	262.526.066	3.400.000	74.469.000	59.500.000	9.604.405	592.963.547

Source: MF

ANNEX III. STATISTICAL APPENDIX

Table 1: Growth and Associated Factors

Percentages unless otherwise indicated	2004.	2005.	2006.	2007.	2008.
1. GDP <i>growth</i> at constant market prices (14+15+16)	3,8	3,9	4,0	4,1	4,3
2. GDP level at <i>current</i> market prices (mil HRK)	207.082	222.688	239.257	256.838	276.074
3. GDP deflator	3,3	3,5	3,3	3,1	3,1
4. CPI change (annual average)	2,1	3,3	3,2	2,8	2,6
5. Employment growth	1,2	1,6	1,4	1,2	1,2
6. Labour productivity growth *	2,6	2,3	2,6	2,9	3,0
7. Investment ratio (% of GDP) **	30,2	30,4	30,7	30,8	31,1
Sources of growth: percentage changes at constant prices					
8. Private consumption expenditure	3,9	3,5	3,9	4,0	3,7
9. Government consumption expenditure	-0,3	0,8	0,8	1,3	1,3
10. Gross fixed capital formation	4,4	3,4	4,9	5,1	5,6
11. Changes in inventories and net acquisitions of valuables as a % of GDP ***	2,7	3,3	3,1	3,0	2,9
12. Exports of goods and services	5,4	4,2	5,7	4,7	5,4
13. Imports of goods and services	3,5	3,4	4,4	3,9	4,2
Contribution to GDP growth					
14. Final domestic demand	3,5	3,2	3,8	4,0	4,0
15. Change in inventories and net acquisition of valuables***	-0,2	0,7	0,0	0,0	0,0
16. External balance of goods and services	0,5	0,1	0,2	0,0	0,2
Growth of Gross Value Added ****					
17. Agriculture *****	4,2	0,0	1,6	2,4	2,0
18. Industry (excluding construction)	3,9	5,7	5,1	4,9	4,7
19. Construction	5,6	1,0	3,4	3,1	3,3
20. Services *****	4,1	4,0	4,3	4,5	4,6

Comments: Values written in black are realisations, in blue estimates (composite of realisations and projected values) and in red projected values.

* Growth of GDP at constant prices per employment growth.

** Total investment (values at current market prices).

*** Changes in inventories including statistical discrepancy.

**** Values at constant prices.

***** Including hunting, forestry and fishing.

***** Includes following NACE categories: G, H, I, J, K, L, M, N, O, P and FISIM.

Sources: CBS and CNB

Table 2: Labour Markets Developments

Percentages unless otherwise indicated	2004.	2005.	2006.	2007.	2008.
1. Population (thousands)	4.442	4.442	4.442	4.442	4.442
2. Population (growth rate in %)	0	0	0	0	0
3. Working-age population (thousands) *	2.762	2.775	2.775	2.775	2.775
4. Participation rate *	63,5	63,9	64,4	64,9	65,4
5. Employment level (thousand)	1.409,3	1.410,6	1.430,3	1.447,5	1.464,8
6. Employment (growth rate in %)	1,2	1,6	1,4	1,2	1,2
7. Public sector employment (thousands) **	269	268	268	268	268
8. Public sector employm. (growth rate in %)	0,6	-0,3	0,0	0,0	0,0
9. Unemployment rate (ILO definiton) *	13,8	13,3	12,8	12,4	12,0
10. Average real wage (growth rate in %)	4,2	1,7	2,5	2,9	3,0

Comments: Values written in black are realisations, in blue estimates (composite of realisations and projected values) and in red projected values.

* Labour force survey based figures.

** 2003 adjusted for new figures on employment in military and police (2004).

Sources: CBS and CNB

Table 3: External Sector Developments

Euro mil. unless otherwise indicated	Year				
	2004.	2005.	2006.	2007.	2008.
1. Current account balance (% of GDP)	-5,2	-5,8	-5,3	-4,5	-3,8
2. Export of goods	6.603	7.392	8.171	9.018	10.014
3. Import of goods	-13.331	-14.606	-15.737	-16.768	-17.940
4. Trade balance	-6.728	-7.214	-7.566	-7.750	-7.925
5. Export of services	7.637	8.027	8.420	8.837	9.281
6. Import of services	-2.922	-2.795	-2.962	-3.148	-3.340
7. Service balance	4.715	5.232	5.458	5.690	5.941
8. Net interest payments	-461	-550	-410	-313	-275
9. Other net factor income from abroad	-165	-421	-454	-490	-528
10. Current transfers	1.192	1.220	1.274	1.329	1.387
11. Of which: from EU	712	732	764	797	832
12. Current account balance	-1.447	-1.734	-1.698	-1.534	-1.401
13. Foreign direct balance	698	1.242	1.550	1.300	1.400
14. Foreign reserves	6.436	7.106	7.793	8.385	9.077
15. Foreign debt	22.675	24.924	26.699	28.684	30.906
16. Foreign debt (% of GDP)	82,1	83,0	83,1	83,2	83,4
17. Of which: public	6.533	5.881	5.456	5.191	4.843
18. O/w: foreign currency denominated	22.173	24.343	26.165	28.110	30.288
19. O/w: repayments due (principal)	3.334	4.432	3.365	2.539	2.189
20. Exchange rate vis-a-vis EUR (end year)	7,67	7,55	7,60	7,60	7,60
21. Exchange rate vis-a-vis EUR (annual average)	7,50	7,41	7,45	7,45	7,45
22. Net foreign saving (lines 23-26: percentages of GDP)	5,2	5,9	5,5	4,7	4,0
23. Domestic private saving *	23,1	22,5	23,2	23,8	24,4
24. Domestic private investment **	24,2	25,2	25,9	26,2	26,4
25. Domestic public saving ***	1,9	2,2	2,0	2,3	2,5
26. Domestic public investment ****	6,0	5,4	4,8	4,5	4,5

Comments: Values written in black are realisations, in blue estimates (composite of realisations and projected values) and in red projected values.

* Difference between current account deficit and net domestic public savings, increased for an estimated value of domestic private investment

** Difference between total investments (gross fixed capital formation and change in inventories) and domestic public investment

*** Difference between consolidated central government current revenues and expenses, data based on GFS 2001.

**** Consolidated central government capital expenses (capital grants to other general government units, other expenses - capital, acquisition of nonfinancial assets)

Sources: MF and CNB

Table 4: General Government Budgetary Developments

Percentages of GDP	2004	2005	2006	2007	2008
Net lending / borrowing by sectors					
1. General government	-3,9	-3,1	-2,4	-2,2	-1,9
2. Central government	-2,0	-1,7	-1,4	-1,5	-1,3
3. State government	0,0	0,0	0,0	0,0	0,0
4. Local government	-0,1	-0,2	-0,1	-0,1	-0,1
5. Extrabudgetary funds	-1,8	-1,3	-0,9	-0,6	-0,5
General government					
6. Revenue	46,6	46,1	45,9	44,9	44,2
7. Expense	45,8	44,9	44,4	43,3	42,3
8. Gross operating balance (6-7)	0,8	1,3	1,5	1,6	1,9
9. Interest	2,2	2,2	2,3	2,2	2,2
10. Primary operating balance	3,0	3,5	3,8	3,9	4,1
11. Net acquisition of nonfinancial assets	4,7	4,4	3,9	3,8	3,8
12. Net lending / borrowing (6-7-11)	-3,9	-3,1	-2,4	-2,2	-1,9
General government revenue					
13. Taxes	27,2	27,3	26,8	26,5	26,2
14. Social contributions	14,2	14,1	14,1	14,0	13,9
15. Other	5,2	4,7	5,1	4,4	4,1
16. Revenue	46,6	46,1	45,9	44,9	44,2
General government expense					
17. Compensation of employees	12,3	12,0	11,6	11,2	10,9
18. Use of goods and services	4,9	4,8	5,4	5,3	5,1
19. Interest	2,2	2,2	2,3	2,2	2,2
20. Subsidies	2,8	2,7	2,5	2,3	2,2
21. Grants	0,5	0,4	0,5	0,7	1,0
22. Social benefits	19,8	19,1	18,5	18,0	17,4
23. Other expense	3,4	3,6	3,6	3,5	3,5
24. Expense	45,8	44,9	44,4	43,3	42,3
General government net acquisition of nonfinancial assets					
25. Net acquisition of nonfinancial assets	4,7	4,4	3,9	3,8	3,8
26. Acquisition	5,1	4,9	4,3	4,1	4,0
27. Disposal	0,4	0,5	0,5	0,3	0,3

Comments: Values written in black are realisations, in blue estimates (composite of realisations and projected values) and in red projected values.

Source: MF

Table 5: General Government Debt Developments

Percentages of GDP	2004.	2005.	2006.	2007.	2008.
1. Gross debt level	44,8	45,1	42,7	42,1	41,5
2. Of which: repayments due	7,4	5,8	5,0	4,0	3,2
3. Change in gross debt	2,6	0,3	-2,4	-0,6	-0,6
Doprinosi promjeni ukupnog duga					
4. Primary balance	1,7	0,7	0,1	-0,1	-0,2
5. Interest	2,2	2,4	2,3	2,3	2,2
6. Nominal GDP growth	-2,9	-3,1	-3,0	-3,0	-2,9
7. Other factor influencing the debt ratio	1,6	0,3	-1,8	0,2	0,4
8. Of which: Exchange rate change	-0,3	-0,3	0,1	0,1	0,1
9. Of which: Privatization receipts	-0,2	-0,3	-2,1	-0,4	-0,2
10. p.m. implicit interest rate on debt (%)					

Comments: Values written in black are realisations, in blue estimates (composite of realisations and projected values) and in red projected values.

Sources: MF and CNB

Table 6: Divergence from Previous PEP Update

	Comments	2004.	2005.	2006.	2007.	2008.
1. Real GDP growth (% points)						
Previous update	CNB estimates	3,9	4,4	4,5	4,6	-
Latest update	CNB estimates	3,8	3,9	4,0	4,1	4,3
Difference	CNB estimates	-0,1	-0,5	-0,5	-0,5	-
2. Current account balance (in mil. EUR)						
Previous update	CNB estimates	-1.517	-1.486	-1.368	-1.261	-
Latest update	CNB estimates	-1.447	-1.734	-1.698	-1.534	-1.401
Difference	CNB estimates	70	-247	-330	-273	-
Difference (as % of GDP)	CNB estimates	0,3	-0,8	-1,0	-0,8	-
3. Gross foreign debt (in mil. EUR)						
Previous update	CNB estimates	21.605	23.055	24.489	25.785	-
Latest update	CNB estimates	22.675	24.924	26.699	28.684	30.906
Difference	CNB estimates	1.071	1.869	2.210	2.899	-
Difference (as % of GDP)	CNB estimates	3,9	6,2	6,9	8,4	-
4. Actual budget balance (% of GDP)						
Previous update	MF estimates	-4,5	-3,7	-3,2	-2,9	-
Latest update	MF estimates	-3,9	-3,1	-2,4	-2,2	-1,9
Difference*	MF estimates	-0,6	-0,6	-0,8	-0,7	-
5. Gross public debt levels (% of GDP)						
Previous update	MF estimates	53,8	52,5	52,5	52,0	-
Latest update	MF estimates	50,7	51,3	49,0	48,4	47,7
Difference	MF estimates	3,1	1,2	3,5	3,6	-

Comments: Values written in black are realisations, in blue estimates (composite of realisations and projected values) and in red projected values.

* In 2004 PEP budget balance, i.e. deficit was presented according to the modified accrual basis while in 2005 PEP it is being presented as net lending/borrowing, i.e. net borrowing according to the GFS 2001 methodology

Sources: MF and CNB

Table 7: Assumptions on the External Economic Environment Underlying Republic of Croatia's 2005 PEP Framework

VARIABLE (annual growth rates in %, if not otherwise stated)	Comments	2004.	Assumptions for			
			2005.	2006.	2007.	2008.
Interest rates (in % p.a., annual averages)						
Croatia: short-term	CNB estimates	5,0	4,6	4,1	3,7	3,4
Croatia: long-term	CNB estimates	6,1	6,5	6,1	5,7	5,3
Euro area: short term (3-months money markets)	ECFIN estimates	2,1	2,2	2,7	2,8	2,9
Euro area: long term (10-year govt bonds, lowest one prevailing in euro area)	ECFIN estimates	4,0	3,8	4,3	4,5	4,6
USA: short-term (3-months money markets)	ECFIN estimates	1,6	3,7	4,1	4,4	4,7
USA: long term (10-year govt bonds)	ECFIN estimates	4,3	4,6	5,2	5,3	5,6
Exchange rates (p.a., "-" denotes depreciation)						
HRK / EUR	CNB estimates	7,50	7,41	7,45	7,45	7,45
USD / EUR	Consensus (September 2005) estimates	1,24	1,26	1,26	1,29	1,29
Nominal effective exchange rate (index, 2001=100)	CNB estimates	91,7	90,7	90,8	90,2	90,2
Real effective exchange rate (index, 2001=100) *	CNB estimates	92,5	90,7	89,8	88,6	88,0
GDP (in real terms)						
World	IMF (WEO, September 2005) estimates	5,1	4,3	4,3	4,3	4,4
USA	IMF (WEO, September 2005) estimates	4,2	3,5	3,3	3,4	3,5
Japan	IMF (WEO, September 2005) estimates	2,7	2,0	2,0	1,8	1,7
Euro area	IMF (WEO, September 2005) estimates	2,0	1,2	1,8	2,0	2,2
World trade (in real terms)						
Croatia's export markets	IMF (GEE, August 2005) estimates	6,4	5,1	5,5	5,3	4,8
World imports of goods and services	IMF (WEO, September 2005) estimates	10,5	7,3	7,2	6,9	6,4
International prices						
World import prices (goods, in USD) **	IMF (GAS, August 2005) estimates	8,7	5,2	0,3	0,6	0,6
Oil prices (USD per barrel)***	IMF (GAS, August 2005) estimates	37,8	54,2	61,8	60,0	58,0
Non-oil commodity prices (USD) **	IMF (GAS, August 2005) estimates	18,5	8,6	-2,1	-4,3	-4,0

Comments: Values written in black are realisations, in blue estimates (composite of realisations and projected values) and in red projected values.

* Effective exchange rate calculated as a weighted geometric mean of bilateral exchange rates of HRK against: EUR (weight 70.6%), USD (27.2%), GBP (1.0%), CHF(1.0%) and SIT (0.2%). For derivation of the real effective exchange rate the CPI is used as deflator.

** Average YOY percentage change.

*** A simple average of UK Brent, Dubai, and West Texas Intermediate.

Sources: IMF, Consensus Forecast, ECFIN and CNB

Table 8: Cyclical Developments

Percentages of GDP	2004.	2005.	2006.	2007.	2008.
1. GDP growth at constant prices	3,8	3,9	4,0	4,1	4,3
2. Actual balance	-3,9	-3,1	-2,4	-2,2	-1,9
3. Net interest payments	2,2	2,2	2,3	2,2	2,2
4. Potential GDP growth	3,9	4,0	3,9	3,8	3,7
5. Output gap	0,0	-0,1	0,0	0,3	0,8
6. Cyclical budgetary componet	0,0	0,0	0,0	0,1	0,3
7. Cylically-adjusted balance (2-6)	-3,9	-3,1	-2,4	-2,3	-2,2
8. Cyclically-adjusted primary balance (7+3)	-1,7	-0,8	-0,1	-0,1	0,1

Comments: Values written in black are realisations, in blue estimates (composite of realisations and projected values) and in red projected values.

Sources: CBS and CNB

Table 9: Long-Term Sustainability of Public Finances

Percentages of GDP	2005.	2010.	2020.	2030.	2040.	2050.
1. Total expenditure	44,9	42,7	39,9	37,4	35,0	32,8
2. Old age pensions	10,7	10,3	9,7	8,0	6,0	4,9
3. Health care (including care for the elderly)	8,5	8,1	7,7	7,2	6,8	6,3
4. Interest payments	2,2	2,2	2,1	2,1	2,0	1,9
5. Total revenues	46,1	45,3	43,9	41,2	38,7	36,4
6. of which: from pension contributions	7,1	7,1	7,0	6,6	6,1	5,6
7. National pension fund assets (if any)						
Assumptions						
8. Labor productivity growth	6,0	5,0	5,0	5,0	5,0	5,0
9. Real GDP growth	3,9	4,0	4,0	4,0	4,0	4,0
10. Participation rate males (aged 15-64)						
11. Participation rate females (aged 15-64)						
12. Total participation rates (15-64)						
13. Unemployment rate (ILO definition)	13,3	9,5	8,5	8,0	7,5	7,0

Comments: Values written in black are realisations, in blue estimates (composite of realisations and projected values) and in red projected values.

* Total expenditures according to GFS 2001 methodology

Source: MF

ANNEX IV. STRUCTURAL REFORMS AGENDA AND ACHIEVEMENTS

Matrix on structural reforms agenda and achievements shows realisation of the measures that were to be implemented in 2005, in accordance with the previous year's PEP. The measures are shown in a sequence corresponding to the new 2005 PEP

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
ENTREPRENEURIAL SECTOR				
Privatisation				
Privatisation of large agricultural conglomerates in majority state ownership				
Quality preparation for privatisation	<ul style="list-style-type: none"> Adoption and implementation of measures for financial consolidation and restructuring of agricultural companies in order to prepare them for privatisation 	Yes	II quarter 2005	In early 2005 a financial consolidation and privatisation of two large agricultural conglomerates PIK Belje d.d. , Darda and PIK Vrbovec d.d. , Vrbovec was successfully performed. Consolidation of company Vupik d.d. , Vukovar, was also successfully carried out and the company privatisation is being prepared. Consolidation of company IPK Osijek d.d. , Osijek will continue, and after the completion of this process, privatisation of the company will follow.
Speeding up the process of privatisation	<ul style="list-style-type: none"> The Fund is currently preparing a draft model of privatisation of the companies 	Yes	2005	Privatisation of all other state-owned agricultural conglomerates is being prepared. Privatisation will be performed in accordance with the revised privatisation plan.
Privatisation of the tourist portfolio				
Quality preparation for privatisation	<ul style="list-style-type: none"> Adoption and implementation of measures for financial consolidation and restructuring of hotel and tourism companies in order to prepare them for privatisation 	Yes	14 January 2005	<p>In January 2005, the Croatian Privatisation Fund initiated, through the supervisory boards, the process of sale of non-core assets of the companies Hoteli Orebič d.d., Orebič, Hoteli Živošće d.d., Živošće and Hoteli Podgora d.d., Podgora, since, as a result of their excessive indebtedness, it was not possible to privatise them through the standard tenders. In all three companies, the assets that will be offered for sale were determined, appraised, and all the tender documentation was prepared. The tenders will take place in the last quarter of 2005.</p> <p>In company Rab d.d., Rab, a revision of the proposed consolidation and privatisation model was carried out. The comments of the Croatian Privatisation Fund's management board on that issue are expected (last quarter of 2005).</p> <p>The preparation of the consolidation model for the companies ZRC Lipik d.d., Lipik, Jadran Crikvenica d.d., Crikvenica and Bizovačke toplice d.d., Bizovac is underway. The implementation of consolidation and privatisation is expected in the first half of 2006.</p>
Speeding up the process of privatisation	<ul style="list-style-type: none"> Sale of minority shares through public auction at a faster pace Adoption and implementation of the Operative plan for privatisation of leftover portfolio 	Yes Yes	I quarter 2005 I quarter 2005	<p>The Croatian Privatisation Fund plans to continue, at the determined pace, with the sale of minority packages, depending on the resolution of the administrative proceedings, for about 80 packages of companies, in the nominal amount of a minimum HRK 100m on the Varaždin capital market and for about 20 companies on the Zagreb capital market, on a monthly basis.</p> <p>The privatisation of all other tourism companies in state ownership is being prepared. Privatisation will be carried out in accordance with the revised Operative Plan for privatisation.</p>
Privatisation of shipbuilding				
Quality preparation for privatisation	<ul style="list-style-type: none"> Finalization of the process of financial consolidation as part of the preparation for privatisation 	No	end 2005	The report <i>Status and Perspectives of the Croatian Shipbuilding</i> , the basic document for carrying out rehabilitation and restructuring of the national shipbuilding companies, was submitted by the Ministry of the Economy, Labour and Entrepreneurship (in September 2005) in the procedure for obtaining the decision of the Government of the Republic of Croatia. According to our estimate, and in view of the common procedure, it is realistic to expect the Government's decision by end-2005.

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
Speeding up the process of privatisation	• Adoption of a master plan of privatisation	Yes	30 June 2005	Under the PAL programs, supported by the World Bank, the Republic of Croatia has undertaken, in the first half of 2005, to initiate the selling procedure or liquidation of the state share in a shipbuilding company.
	• Sale of minority shares through public auction at a faster pace	No		Sale of the state share in the national shipbuilding companies has not been planned as the sale of minority shares at a faster pace, but the intention is rather to sell these shares as a technological entirety.
Competition				
Harmonisation of the national legislation with the EU acquis	• Adoption of relevant regulations specifically regulating particular mechanisms as provided for by the Competition Act, and particularly:	Yes	27 October 2004	The Regulation was published in the Official Gazette No.158/2004
	• Regulation on block exemption granted to certain categories of horizontal agreements	Yes	29 December 2004	The Regulation was published in the Official Gazette No. 2/2005
	• Regulation on block exemption granted to certain categories of agreements in the insurance sector	Yes	21 April 2005	The Regulation was published in the Official Gazette No.54/2005
Effective application of competition rules	• Increase in the expert staff of the CCA and capacity building to ensure effective application of competition rules	Yes	continuously	By end-2005 total staff employed by the CCA will be 37 plus 5 Council members
	• Establishment of active and permanent co-operation with other regulators in Croatia (the Croatian Telecommunications Agency, the Council for the Electronic Media)	Yes	17 February 2005 - CTA; 23 February 2005 - CER	An on-going co-operation process between the stated authorities
	• Conclusion of the co-operation agreement in the area of competition on the energy market, between the Croatian Competition Agency and the Energy Activities Regulatory Council	Yes	25 March 2004	
	• Conclusion of the co-operation agreement in the area of competition on the banking and financial services market with the Croatian National Bank	Yes	23 March 2005	This agreement superseded the 2003 co-operation agreement
State aid				
Harmonisation of the national legislation with the EU acquis and transparency in decision making	• Drafting of amendments to the State Aid Act	Yes	19 September 2005	
	• Adoption of the amendments to the State Aid Act	Yes	November 2005	New State Aid Act was adopted in November 2005
	• Drafting of the notification form, establishing of the procedure concerning the authorisation, monitoring and keeping the register of state aid	Yes	22 December 2004	The Ordinance was published in the Official Gazette 11/05
	• Drafting of guidelines on horizontal aid and certain categories of sectoral aid	No		The implementation of the measure is planned for 2006
	• Laying down the procedure for filing complaints by the interested parties	No		The implementation of the measure is planned for 2006
Effective application of state aid rules	• Compilation of the final list of the existing state aid schemes by provider	Yes		The compilation of the final list of state aid is underway
	• Adjustment of the state aid programs in compliance with the criteria stipulated under the SAA and the state aid system within the EU	Yes		The measure is currently being implemented
	• Preparation of records or registers on state aid	Yes		The contractor selection procedure is underway
	• Purchase of IT equipment (hardware and software) and development of a computer data base for monitoring state aid, supported by the resources from the CARDS Program	Yes		The supplier selection procedure is underway
	• Training of the CCA staff in the EU member states within the twinning project	Yes	9 December 2005	
State aid advocacy	• Including state aid on the local level	Yes	9 November 2004	Co-operation with the counties and county state administration offices has been established

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
Public Utilities - Energy Sector				
Liberalisation of the Energy Market				
Harmonisation of the legislative framework with the EU <i>acquis communautaire</i>	•Adoption of amendments to the package of energy acts	Partly	July 2005	Act on the Amendments to the Gas Market Act (Official Gazette 87/05) and the new Act on the Heat Production, Distribution and Supply (Official Gazette 42/05). The new Gas Market Act and the new Act on Oil and Refined Petroleum Products Market remain to be adopted. In 2004, the new Electricity Market Act, the Act on Regulating Energy-Related Activities and the Act on the Amendments to the Energy Act (Official Gazette 177/04) were adopted.
	•Strengthening of the Energy Directorate in the Ministry	Yes	June 2005	Hiring of 5 new employees
	•Strengthening of the Energy Activities Regulatory Council	Yes	July 2005	The Croatian Energy Activities Regulatory Agency was established
	Financing by state aid from the Fund for Environmental Protection and Energy	No	December 2005	Implementation underway
	•Efficiency, by guaranteed redemption prices for OIE, and by international EU projects and funds	No	December 2005	Implementation underway
Commencement of operation of the State Institute for Nuclear Safety	•Adoption of the Regulation on Internal Organisation and other decisions/acts needed for the beginning of work	Yes	25 November 2004	Published in the Official Gazette 167/04
	•Acquisition of equipment	Yes	In progress	Acquisition of equipment for 2005 is in progress
	•Finding the premises	Yes	1 October 2005	
Subordinate legislation according to the Nuclear Safety Act	•Ordinance on the Control of Nuclear Material and Special Equipment (Art. 4, 7, 16 and 17)	Yes	30 November 2005	Published in the Official Gazette 120/05
	•Ordinance on the Conditions for the Performance of Activities from the Area of Nuclear Safety (Art. 24)	Yes	New deadline: July 2006	The deadline for drafting of all legislation according to the Nuclear Safety Act is July 2006
	•Ordinance on the Location, Design, Construction, Use and Dismantling of Structures in which Nuclear Activities are Performed (Art. 8)	Yes	New deadline: July 2006	The deadline for drafting of all legislation according to the Nuclear Safety Act is July 2006
Intensifying the control of nuclear material	•Intensifying of co-operation between various departments and further program of acquiring the needed equipment	Yes	28 October 2004	The conclusions of the meeting of the officials of the ministry directorates and of the state and professional institutions interested in the project of establishing the system for the prevention of illegal NRM trade at the border crossings of the Republic of Croatia.
	•Assembly of the acquired stationary equipment	Yes	New deadline: July 2006	Assembly of the stationary equipment depends on the progress of reconstruction of the Bregana border crossing
	•Trial work with new personal and manual equipment at new locations	Yes	4-15 October 2004	Trial work was performed at the Bregana border crossing
Upgrading the level of alertness in case of a nuclear accident	•Development of preconditions for access and application of the EURDEP/ECURIE/RODOS systems	No		The project has not been implemented due to insufficient financial resources allocated in the 2005 government budget for the State Institute for Nuclear Safety, after taking over the tasks of the Ministry of the Economy, Labour and Entrepreneurship
Railway transport				
Harmonisation of the legislation	•Adoption of subordinate legislation for the Railway Act	Yes	IV quarter 2005	Adopted and published (Official Gazette 127/05)
	•Adoption of the Railway Safety Act	No		The deadline is postponed; the completion and adoption is expected by end-2006
Restructuring and modernising of the national railway company	•Adoption of an act that would ensure adequate restructuring of the Croatian Railway (HŽ)	No		The deadline is postponed; the completion and adoption is expected in the first half of 2006
Air transport				
Harmonisation of the legislation with the EU legislation	•Amendments to the Air Transport Act	Yes	Official Gazette No. 178/04	Harmonised
	•Adoption of the implementing legislation	No		Harmonisation by end-2005

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
Maritime transport				
Expansion and introduction of competition in public transport in regular coastal maritime navigation, and consequently domestic passenger maritime transport, and the reduction of funds from the government budget of the RC as support for the performance of the mentioned activity	<ul style="list-style-type: none"> Adoption of a new Act on Public Transport in Regular Coastal Maritime Navigation 	No		The Act will be adopted by the end of 2005.
Sustainability, survival and competitiveness of maritime transport in international market conditions (employment of Croatian seamen and shippers in international navigation)	<ul style="list-style-type: none"> The new Maritime Code in the adoption procedure - parliamentary procedure (2nd reading) 	Yes	29 December 2004	
Road transport				
Legislative framework	<ul style="list-style-type: none"> Public Roads Act Act on Transport on Public Roads 	Yes Yes	14 December 2004 10 December 2004	
FINANCIAL SECTOR				
Banking System				
Protection of consumers in the banking sector	<ul style="list-style-type: none"> Adoption of the Regulation on the interest rate amount pursuant to the Act on Interest 	Yes	November 2004	
Insurance Sector				
Harmonisation of the legislation with the EU legislation and administrative strengthening	<ul style="list-style-type: none"> Preparation of the new Insurance Act 	Yes	Fourth quarter 2005	The Insurance Act and Traffic Liability Insurance Act have been adopted
Regulation of the Foreign Currency System				
Evaluation of the situation and further liberalisation of the capital account	<ul style="list-style-type: none"> Revocation of certain provisions of the Foreign Exchange Act and subordinate legislation 	Yes	24 March 2005	
LABOUR MARKET				
Employment and Safety at Work				
Creating efficient redundancy program for companies undergoing the restructuring process	<ul style="list-style-type: none"> Development of instruments for professional orientation Formation of a Compulsory Redundancy Fund 	No	December 2005	Professional orientation department strategy has been developed and the system under the CASCAID program has been established The implementation of this measure is abolished, at the moment, in view of the operation of the Development and Employment Fund
Strengthening the synergy of institutions at the local level and the capacity of local players in the implementation of an active employment policy	<ul style="list-style-type: none"> Establishment of local partnerships at the regional level 	The implementation started in October 2004		The project has been presented to the potential partners in four counties and to the general public
Strengthening the adjustment capacity of the Croatian Employment Service at all levels	<ul style="list-style-type: none"> Defining of a decentralised organisational structure of the Croatian Employment Service and of the operative management guidelines within the new decentralised organisation Development of human resources at key positions within the Croatian Employment Service 	The project was launched in May 2005 No		The analysis of the work method and organisational structure of the Croatian Employment Bureau is performed A need for training depends on the analysis performed
Development of a system for employing sensitive social groups who have more difficulties in finding employment	<ul style="list-style-type: none"> Adoption, execution and implementation of the National Action Plan for Employment 	Yes	NEAP for the 2005-2008 period was adopted in Dec 2004	Preparation of implementing measures for 2006 in underway

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
	<ul style="list-style-type: none"> Amendments to the Act on the Professional Rehabilitation and Employment of Disabled Persons 	Yes	Act on the Amendments to the Act on the Professional Rehabilitation and Employment of Disabled Persons entered into force in March 2005	Drafting of the Decision on the Method of Obtaining Incentives for Employing Disabled Persons is underway
Safety at Work				
Harmonisation of the legislative framework with the EU acquis	<ul style="list-style-type: none"> Adoption of subordinate legislation in line with the guidelines of the EU Directives 	Yes	2005	<p>During 2005, the following regulation was adopted :</p> <ul style="list-style-type: none"> - Ordinance on requirements for work with display screen equipment (92/270/EEC) , - Ordinance on safety signs (92/58/EEC), - Ordinance on the manual handling of load where there is a risk of back injury (90/269/EEC) - Ordinance on the amendments to the Ordinance on safety at work at workplace and ancillary premises (89/654/EEC). <p>The draft ordinances in the final drafting stage, which will be adopted by end-2005, are as follows:</p> <ul style="list-style-type: none"> - Ordinance on placing on the market personal protective equipment (89/686/EEC) - Ordinance on personal protective equipment (89/656/EEC) , - Ordinance on cancerous and mutagenic substances (1999/38/EC) , - Ordinance on the protection of female workers at work (92/85/EEC) , - Ordinance on the protection of young people at work (94/33/EEC) .
Pension System Reform				
Improvement of the Pension System Fiscal and Social Viability				
Change of the way of adjusting pensions by finding a new pension adjustment formula	<p>Analysis of the financial effects of the last amendment to the Pension Insurance Act, which enabled the adjustment of pensions in line with the growth of the average salary of all employed persons</p> <ul style="list-style-type: none"> Amendments to the Pension Insurance Act in the part relating to pension adjustment 	Yes	31 December 2005	
Coordination of social security systems with EU member state systems				
Application of the EU legislation in the area of social security	<ul style="list-style-type: none"> Harmonizing with the Directive 98/49/EEC of 29 June 1998 on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community Harmonizing with the Directive 2003/41/EC of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision. 			<p>The planned deadline for harmonisation with the mentioned Directive is 2006</p> <p>The planned deadline for harmonisation with the mentioned Directive is the same as provided for in the Directive (not before 2007)</p>
Social Welfare Reform				
Rights of Minorities, Refugees and the Roma				
Protection of the rights of national minorities	<ul style="list-style-type: none"> Making of a report on the implementation of the Constitutional Act on the Rights of National Minorities 	No		The report on the implementation of the Constitutional Act on the Rights of National Minorities is currently being prepared
Inclusion of national minorities in social life, participation in public activities and integration in society	<ul style="list-style-type: none"> Organisation of seminars about the education of councils and national minority representatives (until now seminars were held in Zagreb, Dubrovnik and Rijeka) 	Yes		Until now 18 seminars were held about the education of councils and national minority representatives in the county centers
Improving the rights of national minorities in line with the international documents ratified by the Republic of Croatia	<ul style="list-style-type: none"> Seminars on the implementation of the Framework Convention 	Yes		The seminar on the implementation of the Framework Convention for the protection of rights of national minorities was held on 20 and 21 September 2004 in Dubrovnik and on 15 and 16 September 2005 in Split
Eliminating prejudices	<ul style="list-style-type: none"> Research Assimilation or Integration of the Roma and organisation of seminars for journalists on the affirmation of the Roma in the media 	Yes		The research is in progress
Preventing discrimination against the Roma	<ul style="list-style-type: none"> Organisation of round tables on the promotion of the positive aspects of equal reporting about the Roma 		November 2005	The two-day round tables on the promotion of the positive aspects of equal reporting about the Roma will be held in Opatija at end-November this year.

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
Preserving traditional culture	<ul style="list-style-type: none"> • Organisation of seminars on the traditional Roma music and customs 			The university professors from Sorbonne and Bucharest held lectures on the Roma customs and tradition at seminars on training and education of the young Roma males and females. In 2004 and 2005, 7 seminars were held, where more than 100 Roma secondary school students participated, as well as one student at the Faculty of Political Science in Zagreb.
PUBLIC ADMINISTRATION				
Public Administration Reform				
Re-organisation of Public Administration				
Developing an efficient public administration system, compliant with the European standards	<ul style="list-style-type: none"> • Adoption of a strategy for public administration reform and operative plans for its implementation 	in progress	31 December 2005	
Ensuring quality and fiscal acceptability of the proposed acts and policies	<ul style="list-style-type: none"> • Adoption of amendments to the Rules of Procedure of the Government of the Republic of Croatia according to which the assessment of the fiscal, social and environmental effect of the proposed policies and laws becomes mandatory 	Yes	10 February 2005 (Official Gazette No.22/2005)	
Rationalising organisational structures	<ul style="list-style-type: none"> • Adopt the methodology and execute a functional revision of the organisational structures, and accordingly adopt new rules on the internal organisation, and adjust human resources employment plans 	Yes (partly implemented)		The functional revision methodology has been developed, on the basis of which a trial functional revision was performed in 2 ministries and 2 county state administration offices, which was planned for 2005, while the functional revision in all county state administration authorities is planned in the 2006-2007 period.
Decentralising the activities of state administration	<ul style="list-style-type: none"> • Adoption of the State Administration Decentralisation Plan (based on the analysis of the performance of the activities of state administration at the level of central and first-instance bodies of state administration) 	Da	09 December 2004 Conclusion of the Government of RC	(the name of the document has changed into Framework Decentralisation Program for the 2004-2007 period)
Administrative strengthening in the services performing economic activities at the level of first-instance bodies of state administration	<ul style="list-style-type: none"> • Adoption of the Regulation on Amendments to the Regulation on the Internal Organisation of County State Administration Offices (based on the analysis) 	No		The implementation of this measure has been abolished since, according to the Act on the Amendments to the Act on Local and Regional Self-Government, a significant part of activities from the economic sector, which were performed by the county state administration offices, are decentralised - they will be performed by the cities and counties.
Civil Servants				
Ensuring better expertise of the administration through clear division between political and administrative positions	<ul style="list-style-type: none"> • Adoption of the Civil Service Act 	Yes	15 July 2005 (Official Gazette No. 92/2005)	(the name of the Act was amended to read: Act on Civil Servants). The Act will enter into force on 1 January 2006
Ensuring a uniform system of employment planning in state administration with the aim of achieving planned and cost-efficient use of budgetary funds	<ul style="list-style-type: none"> • Adoption of subordinate legislation on the system and classification of work places and other implementing regulations for the Act on Civil Servants 	in progress	31 December 2005	
Base the employment system in state and public administration on the principles of abilities/merits, expertise and impartiality	<ul style="list-style-type: none"> • Adoption of the Act on Salaries in Civil Service 	No	2006	The date of the Act adoption was revised in accordance with the PAL program, supported by the World Bank. In the matrix of PAL program measures, submission of the Act on Salaries in Civil Service for parliamentary procedure is planned by 1 April 2006.
Reorganisation of public administration	<ul style="list-style-type: none"> • Adoption of the plan for reducing the number of public and civil servants 	Yes - partial implementation (in bodies with surplus staff)		The plan was adopted and implemented in the Ministry of Defence (where employment was terminated for a total of 1289 servants and employees and in the Ministry of the Interior, where employment was terminated for 809 servants and employees.
Simplification of Administrative Procedures and Development of Modern Electronic Operations				
Strengthening of the role of electronic administration in the development of the economy	<ul style="list-style-type: none"> • The project of making and publishing official forms of state administration bodies in electronic form, which citizens and business entities may submit in a public telecommunications network. 	Yes (partly implemented)	20 May 2005 Conclusion of the Government of the Republic of Croatia	In accordance with the conclusion of the Government of the Republic of Croatia, the state administration bodies published the official forms in the electronic format, on their respective web sites.
Expert Training and Education of Civil Servants				
Improvement of the administrative capacity for the accession of Croatia to the EU	<ul style="list-style-type: none"> • Adoption of the Strategy of Expert Training and Education of Civil Servants 	Yes	6 October 2004 the conclusion of the Government of RC	

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
AGRICULTURE				
Agricultural Reform				
Land Reform				
Improvement of the use of state-owned agricultural land	<ul style="list-style-type: none"> Amendments to the Agricultural Land Act 	Yes	25 July 2005	Act on the Amendments to the Agricultural Land Act was published in July in the Official Gazette 90/2005
Privatisation of Agro-conglomerates				
Finish the privatisation of agro-conglomerates	<ul style="list-style-type: none"> Implementation of privatisation tender procedures for the remaining several companies (Croatian Privatisation Fund) 	Yes	in progress	Within the competence of the Croatian Privatisation Fund
Adoption of the Mechanisms of the Joint Agricultural Policy				
Form the Payment Agency	<ul style="list-style-type: none"> Development of a plan of activities for the restructuring of the Directorate for Market and Structural Support in Agriculture in accordance with the standards of the EU Payment Agency and the mechanisms of pre-accession structural funds 	Yes	38548	The plan of activities was developed and the reorganisation of the Directorate, in accordance with the EU standards for administration of pre-accession structural funds, was published in the Regulation on the Internal Structure of the Ministry of Agriculture, Forestry and Water Management in July 2005 in the Official Gazette 86/2005.
	<ul style="list-style-type: none"> Submission of the application for the accreditation of the Agency 	Yes	IV quarter 2005/ I quarter 2006	The application for the SAPARD Agency accreditation will be submitted to the European Commission by end 2005 or in early 2006, after obtaining the national accreditation.
Establishment of mechanisms for the implementation of rural development measures	<ul style="list-style-type: none"> Development of the Rural Development Program 	Yes	in progress	The plan was submitted for opinion to the European Commission.
OTHER REFORMS				
Judicial Reform				
1. Land Registry Reform				
Land Registry Project - Establishment of a single land registry base for the entire territory of the Republic of Croatia	<ul style="list-style-type: none"> Amendments to the Land Registry Act were adopted. 	Yes	July 2004	The amendments to the Land Registry Act determined the authorities of the land registry clerks.
	<ul style="list-style-type: none"> The Ministry of Justice and the Croatian Geodetic Directorate concluded an Agreement on the Organisation and Operation of the Croatian Land Registry Database and the Ordinance on the Land Registry Database was prepared. 	Yes	July 2004	This Agreement is a pre-condition for the Project of IT Strategy and land registry database.
Keeping the data in the land registry updated	<ul style="list-style-type: none"> The Ordinance on Land Registry Forms was adopted. 	Yes	September 2004	
	<ul style="list-style-type: none"> Instructions for the work of land registry clerks in all land registry departments were made. 	Yes	August 2005	The Ministry of Justice regularly issues instructions for the work of land registry departments.
	<ul style="list-style-type: none"> A plan for re-organising the land registry department of the Municipal Court in Zagreb was prepared. 	Yes	July 2005	The plan for reducing the number of cases at the land registry department of the Municipal Court in Zagreb is fully developed and is fully implemented.
	<ul style="list-style-type: none"> Authorised land registry clerks were introduced. 	Yes	July 2004.	From July 2004 and during 2005, 271 authorised land registry clerks were employed at land registry departments.
	<ul style="list-style-type: none"> The Ministry of Justice introduced supervision over the work of land registry departments. 	Yes	July 2004	The supervision is performed continuously and the reports are delivered to the Ministry of Justice, county courts and the Supreme Court of the RC
	<ul style="list-style-type: none"> Completion of procedures started in 2004 for the reconstruction and establishment of land registries in areas where a new survey was made. 			Land registry corrective procedures are partly carried out.
2. Increase the Efficiency of Creditor Protection and Claim Collection				
Harmonisation with the European standards	<ul style="list-style-type: none"> Formation of a working group for amendments to the Bankruptcy Act 	Yes	January 2005	The working group prepared the proposal of the amendments to the Bankruptcy Act and it will be submitted in a parliamentary procedure in the IV quarter.
- making or amending the Act	<ul style="list-style-type: none"> Development of a proposal of amendments to the Enforcement Act (in legislative procedure) 	Yes	July 2005	The Croatian Parliament adopted the amendments to the Enforcement Act in July 2005.
Regulation of relations arising out of the law of obligations	<ul style="list-style-type: none"> Development of the Draft of Amendments to the Act of Obligations 	Yes	March 2005	The Croatian Parliament adopted the amendments to the Bankruptcy Act in 2005

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
3. Reform of Criminal Legislation				
Harmonisation of substantive criminal legislation with the international conventions accepted by the Republic of Croatia	The amendments to the Penal Act changed the existing incrimination of criminal acts and introduced new criminal acts in the area of environmental protection. <ul style="list-style-type: none"> exploitation of mineral raw materials and computer crime. The amendments to the Penal Act also covered changes that bring substantive penal law in line with the international conventions. 	Yes	October 2004	The amendments to the Penal Act were also adopted, which complete the 1. stage of changes in the material penal legislation, in accordance with the EU OESS and the Council of Europe standards. The existing incriminations of criminal acts were modified, and new criminal acts were prescribed, such as definition of criminal organisation, crime against humanity, commanding responsibility, revealing identity of protected witnesses, recruiting of mercenaries, incrimination of obstruction of justice, obstruction of provision of evidence, cyber crime, child pornography on the computer network, human trade and slavery, etc.
Elimination of corruption and organised crime	The Government of the Republic of Croatia forwarded for legislative procedure the adoption of amendments to the Act on the Office for the Prevention of <ul style="list-style-type: none"> Corruption and Organised Crime (USKOK). The amendments ensure the leading role of USKOK in the prevention of organised crime and corruption. 	Yes	February 2005	In February 2005, the Croatian Parliament adopted the amendments to the Act on the Office for the Prevention of Corruption and Organised Crime (USKOK). These amendments ensure the leading role of USKOK in the prevention of organised crime and corruption.
4. Modernization and More Efficient Work of Croatian Courts				
Establishment of an integrated court case management system	Twinning project from the EU CARDS 2002 technical assistance program <ul style="list-style-type: none"> "Modernization of the Judiciary - Support to More Efficient and Modern Croatian Courts" 	Yes	February 2004	This project has been implemented continuously since 2004 and will be completed in the 1 quarter of 2006.
	The project is being implemented by the Ministry of Justice of the Republic of Finland, Ministry of Justice of the Republic of Croatia, Supreme Court of the Republic of Croatia, Judicial Academy and pilot courts (County Courts in <ul style="list-style-type: none"> Zagreb, Rijeka, Split and Osijek, Municipal Courts in Zagreb, Rijeka, Split, Osijek and Sveti Ivan Zelina). 	Yes	February 2004	This project introduces the court management process, and a faster and more efficient civil penal procedure at pilot courts.
	<ul style="list-style-type: none"> Models for the functioning of statistical data kept by the courts and the Ministry of Justice are in preparation. 	No		This project is exempt from the Twinning Project framework and is incorporated in the World Bank project and donations of the European Commission.
	<ul style="list-style-type: none"> CARDS 2003 continuation of the project after the completion of CARDS 2002 - Support to More Efficient and Modern Croatian Courts (25 new pilot courts) 	Yes		The project documentation is being prepared; the deadline is 15 October 2005 and it represents a continuation of the CARDS 2002-Support to More Efficient and Modern Croatian Courts.
	<ul style="list-style-type: none"> CARDS 2004 modernisation of the High Misdemeanour Court and the selected misdemeanour courts and support to a more efficient Administrative Court of the Republic of Croatia - approved project proposals 	No		The project of modernisation of the High Misdemeanour Court and the selected misdemeanour courts was postponed at the proposal of the Delegation of the European Commission in Zagreb. The preparatory documentation for this project was prepared and preparatory activities will begin on 15 October 2005.
Reduction of the number of unsolved cases and keeping the courts more updated	Amendments to the Courts Act were adopted in March 2004. In order to alleviate the work load of courts with an excessive number of cases, the president of the <ul style="list-style-type: none"> Supreme Court of the Republic of Croatia can transfer to another competent court cases from a court that is not able to review the cases and render a decision within a reasonable time period, because of a large number of cases. 	Yes	February 2004 July 2004 and thereafter	In 2004 and 2005, a total of 27,467 cases were transferred from the courts with an excessive number of cases to less burdened courts, for the purpose of performing adjudication procedure within a reasonable time period.
	<ul style="list-style-type: none"> Court counsellors were granted the authority to independently conduct certain court procedures. This alleviates the work load of judges and accelerates the adjudication procedure. 	Yes	January 2005	
More modern organisation of court administration	<ul style="list-style-type: none"> The presidents of courts received greater powers for taking measures to speed up the work of judges and make it more efficient. 	Yes	March 2005	The amendments to the Courts Act granted greater powers to the presidents of courts in court management. In 2005, the Ministry of Justice introduced the supervision over the work of courts and took measures for the elimination of irregularities in particular courts.
	<ul style="list-style-type: none"> Development of Framework Standards for the Work of Judges 	No		The new framework standards for the work of courts are being developed, in particular for the work of misdemeanour courts.

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
Training of judges, clerks and employees	<ul style="list-style-type: none"> The Judicial Academy was formed within the Ministry of Justice whose aim is to constantly provide further education to judges, state attorneys and court clerks. 	Yes	April 2004	Judicial Academy began with its work in 2004.
	<ul style="list-style-type: none"> Support to the expert training of judges is conducted as part of the CARDS 2001 program 	Yes		This project was completed in 2005.
	<ul style="list-style-type: none"> Expert training of state attorneys will be implemented in the CARDS 2003 project 	Yes		Activities under this project will begin in October 2005.
ENVIRONMENTAL REFORM				
Horizontal Legislation				
Reporting about environmental situation and the results of measures taken to protect the environment	<ul style="list-style-type: none"> Adoption of the State of the Environment Report 	No	March 2006	Preparation of the Report is underway, and its adoption is planned in I quarter 2006.
Air Quality and Climatic Changes				
Establish the policy and measures for solving air pollution problems	<ul style="list-style-type: none"> Harmonisation of the regulations in the area of atmosphere protection with the EU <i>acquis communautaire</i> Development of the draft of the proposal of the Air Protection Act Development of subordinate legislation 	Yes Yes	December 2004 October 2005	The Air Protection Act was adopted (Official Gazette 178/04) Three Regulations were adopted, 6 subordinate legislation were prepared.
Improve and strengthen the application of measures for the protection of air quality, and the way of organising and implementing the protection and improvement of air quality.	<ul style="list-style-type: none"> Development of the Plan of Action to Protect and Improve Air Quality (CARDS 2002) 	No	November 2006	The Plan of Action to Protect and Improve Air Quality is planned to be adopted in 2006.
Establish a quality system for permanent monitoring of air quality at the state level.	<ul style="list-style-type: none"> Building of 22 stations in the state network to permanently monitor air quality. 		December 2007	According to the Program, the deadline for building 22 stations is 31 February 2007. 6 stations were constructed in the 2002-2004 period, and 2 stations in 2005.
Establish a quality system for monitoring air quality at the local level (competencies and financing: units of local self-government)	<ul style="list-style-type: none"> Adopt a programme for measuring air quality and if necessary build new stations at the local level 	No	2007	10 counties did not adopt the measurement program; insufficient funds in the county budgets
Mitigation of climate changes (in accordance with the United Nations Framework Convention on Climate Change), in a way enabling sustainable economic development	<ul style="list-style-type: none"> Develop a national program for evaluating the impact and adjustment to climate change and mitigating the consequences of climate change, build a national system for calculating the emission of greenhouse gases, register of sources and technologies, and adopt a state plan for the emission of greenhouse gases, inform the local community about the implementation of measures to mitigate climate change, establish an operative authority for the implementation of JI projects. 	in progress	2007	
Waste Management				
Harmonisation of Croatian legislation with the EU <i>acquis communautaire</i>	<ul style="list-style-type: none"> Adopt a new Waste Act 	Yes	December 2004	Waste Act (Official Gazette 178/04)
Recovery of "black spots"	<ul style="list-style-type: none"> Develop recovery programs and ensure financial funds out of various sources 	Yes	2004-continuously	Two recovery programs are being prepared.
	<ul style="list-style-type: none"> Initiate the implementation of the recovery programs and projects 	No	2004-continuously	Implementation after the adoption of the recovery programs
Establishment of an integrated waste management system	<ul style="list-style-type: none"> Adopt a Waste Management Strategy and Action Plan 	Yes	October 2005	The Waste Management Strategy was adopted by the Croatian Parliament in October 2005. The Waste Management Plan is planned to be adopted in June 2006.
	<ul style="list-style-type: none"> Implementation of the Action Plan 	No	2006 - continuously	It will be implemented after the Plan adoption.
	<ul style="list-style-type: none"> Introduce economic incentives based on Government programs, including incentives to prevent the appearance of waste at the source 			The work program of the Fund for Environmental Protection and Energy Efficiency encompasses, among other things, incentives for avoiding and reducing waste and emissions in the production processes, i.e. purer production, waste processing and recovery of valuable properties of waste, and incentives for the use of renewable energy sources. The processing of the tender is in progress (October 2005), which was invited by the Fund for financing of energy efficiency projects and use of renewable energy sources, as well as the projects encouraging a reduction of harmful emissions in the environment and purer production, by granting favourable loans and interest subsidies for companies, other legal persons and craftsmen.

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
Establishment of a "network" of waste management centres	<ul style="list-style-type: none"> Invest in the building of regional centres, including the reconstruction, repair and possible further use of the existing waste dumps 			After the adoption of the Waste Management Plan, on the basis of the Waste Management Strategy of the Republic of Croatia (funds for the preparation of the project documents for individual centres were approved by the Fund for Environmental Protection and Energy Efficiency in 2005)
Establishment of complete informatization of the waste management system	<ul style="list-style-type: none"> Develop a waste management information and waste flow system (quantity, type, procedure, management procedures, etc.) 	Yes	2004 -continuously	Activities aimed at the IT development are performed by the Environmental Protection Agency. In 2005, the Agency developed the Cadastre of waste disposal sites and a preliminary report on the reported waste quantities in 2003.
Nature Protection				
Strengthening of the policy of the Government of the Republic of Croatia with respect to nature protection	<ul style="list-style-type: none"> Revision of the National Strategy for the Protection of Biological and Landscape Diversity Develop implementing regulations based on the Nature Protection Act 	No Yes	2006 12/2005 - 2006	In 2005, the draft Report on the State of Nature was prepared, on the basis of which the revision process of the National Strategy will be initiated. 5 Ordinances were prepared, which are currently in the adoption procedure. One Regulation was adopted.
Increase of the percentage of protected areas	<ul style="list-style-type: none"> Protection of new areas (Nature Park Lastovo) Establishment of NATURA 2000 Establishment of the National Eco-network 	No No No	2006 2006	Pursuant to the new Act, the Decision was issued on the preventive protection of Lastovo area in the nature park category; permanent protection in 2006. Development of NATURA 2000 is planned by the end of 2007, and its implementation prior to the date of accession to the EU. In May 2005, LIFE III project was completed, which resulted in a proposal of the national eco-network. By end-2005, the adoption of the Regulation on the National Eco-network was planned (implementation in early 2006).
Protection of endangered wild life outside the protected areas	<ul style="list-style-type: none"> Adoption of wolf and lynx management plans 	Yes	December 2004	Entry into force as of 1 January 2005
Chemicals				
Establishment of the national legislative infrastructure for the whole system of integrated safe chemicals management throughout their life span	<ul style="list-style-type: none"> Amendments to the Chemicals Act and other relevant legislation 	No	December 2005	Application of the Chemicals Act is postponed until 31 December 2005 (Act on the Amendments to the Chemicals Act Official Gazette 79/05)
Remedy the existing legislative "fragmentation"	<ul style="list-style-type: none"> Initial application of the Chemicals Act Development of subordinate legislation for the Chemicals Act (harmonised in line with the EU Guidelines) 	No No	2006 2006	
Strengthen the institutional infrastructure for safe chemicals management	<ul style="list-style-type: none"> Form the Chemicals Office 	No		
Establish mechanisms for co-operation between bodies/institutions	<ul style="list-style-type: none"> Establish the system of registering "new" chemicals 	No	2006-2008	
Genetically Modified Organisms				
Defining of Legislative Framework	<ul style="list-style-type: none"> Ensure funds from the government budget Adopt the GMO Act and the relevant implementing legislation 	Yes	June 2005	Genetically Modified Organisms Act (Official Gazette 70/05)
Noise				
Adoption of the National Program of Protection of Health against Noise	<ul style="list-style-type: none"> Establish a working group that would prepare a situational analysis for the adoption of the National Program of Protection of Health against Noise Develop the National Program 	No No	2006	The working group has not been established because the subordinate legislation has not been adopted.
Protection against Ionising Radiation				
Improve the existing system for using the sources of ionising radiation and prescribe safety measures	<ul style="list-style-type: none"> Adopt a new Act on Protection against Ionising Radiation 	in progress		The draft Act was prepared and forwarded for the adoption procedure.
Prescribe the manner of conduct and issuance of certain approvals regarding the performance of activities with the sources of ionising radiation	<ul style="list-style-type: none"> Adopt implementing legislation of the Act on Protection against Ionising Radiation (about 11 ordinances) 	No		Implementation depends on the adoption of the Act on Protection against Ionising Radiation.
Disposal of radioactive waste and used closed radioactive sources	<ul style="list-style-type: none"> Build radioactive material shelters/dumps 	No		Implementation depends on the adoption of the Act on Protection against Ionising Radiation.

MAIN MEASURES UNDER THE 2004 PEP	ACCEPTED (YES/NO)	DATE	COMMENTS	
Science and Education				
Science and higher education				
<p>Implementation of acts and subordinate legislation</p> <p>Establish mechanisms for implementation of the act</p>	<ul style="list-style-type: none"> • The Parliament of the Republic of Croatia appoints the National Science Council and the National Council for Higher Education that jointly appoint the Advisory Board for Financing of Scientific Activities and Higher Education • The National Science Council appoints regional councils for respective scientific and artistic areas as well as committees for specific fields (parent committees) • The Government of the Republic Croatia establishes the Agency for Science and Higher Education • Appointment of the Board of Science and Higher Education Ethics • Adoption of the Council's rules of procedure <p>National Science Council:</p> <ul style="list-style-type: none"> • gives an initial opinion on the regulation on evaluation of quality and efficiency of scientific institutions • adoption of the regulation on the composition and method of work of the regional councils and committees for specific fields (parent committees) • adoption of the regulation on the scientific areas, branches and fields and the regulation on the conditions for the election into the scientific profession <p>National Council for Higher Education:</p> <ul style="list-style-type: none"> • gives an initial opinion on the regulation on standards and criteria for evaluation of quality and efficiency of higher education institutions and programs and on the regulation on the standards and criteria for establishment of higher education institutions • adoption of the regulation on standards and criteria for evaluation of quality and efficiency of higher education institutions and programs and of the regulation on the standards and criteria for establishment of higher education institutions 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>No</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>3 December 2005, May 2005</p> <p>1 March 2005</p> <p>25 January 2005</p> <p>23 June 2005</p> <p>23 June 2005 11 July 2005</p> <p>January 2005</p> <p>17 January 2005</p>	<p>The Parliament of the Republic of Croatia adopted the Decision on the appointment of president and members of the National Science Council and the Decision on the appointment of president and members of the National Council for Higher Education</p> <p>In accordance with the Act on Scientific Activity and Higher Education, the National Council for Higher Education gave the initial opinion on the mentioned regulations.</p> <p>The National Council for Higher Education gave the initial opinion on the regulation on standards and criteria for evaluation of quality and efficiency of higher education institutions and programs and on the regulation on the standards and criteria for establishment of higher education institutions</p>
<p>Adopting Amendments to the Act on Recognising Foreign Educational Qualifications</p>	<ul style="list-style-type: none"> • Establishment of ENIC/NARIC Office at the Agency, the reporting center on academic mobility and recognition of higher education qualifications 	<p>Yes</p>	<p>September 2004</p> <p>2005</p> <p>2005</p> <p>May 2005</p> <p>from January 2005</p> <p>from January 2005</p> <p>from January 2005</p> <p>2005</p>	<p>By the Decision of the minister of 11 January 2005, the expert committee was appointed for drafting the Amendments to the Act on Recognising Foreign Educational Qualifications</p> <p>For the purpose of implementing the Bologna process, the evaluation of the university and professional higher education programs was carried out (evaluation of post-graduate studies should be carried out)</p> <p>Staff should be trained for a permanent monitoring and evaluation of scientific and higher education work, in accordance with the world standards</p> <p>Advisory Board for Financing of Scientific Activities and Higher Education was appointed</p> <p>Application of the ordinance on the contents of diploma and supplementary student documents</p> <p>Application of the ordinance on keeping records on students</p> <p>Application of the ordinance on the contents of a student document</p> <p>Establishing priorities in science, harmonisation with the European objectives (FP 6 and FP7)</p>

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
	<ul style="list-style-type: none"> Implementation of acts and subsidiary legislation - of the National Council for Higher Education Implementation of the Act on Recognising Foreign Educational Qualifications Implementation of the regulation on the establishment of the Agency for Science and Higher Education. 		<p>January 2005</p> <p>March 2005</p>	<p>Giving initial opinion on the adoption of the Ordinance on standards and criteria for evaluation of quality and efficiency of higher education institutions and programs and on the Ordinance on the standards and criteria for evaluation of programs, and on the Ordinance on measurement</p> <p>The Ordinance on the standards and criteria for establishment of higher education institutions was adopted</p> <p>The Agency for Science and Higher Education was established</p>
Foreign language teaching in primary school - current state, plans and improvements			<p>June 2005</p> <p>September 2005</p> <p>June and August 2005</p> <p>June-September 2005</p>	<p>The Croatian National Education Standard was prepared. In the school year 2005/2006 it was experimentally introduced in 49 primary schools.</p> <p>The teaching programs were prepared for primary schools according to the Croatian National Education Standard (for 5% of primary schools). The revision is in progress.</p> <p>Professional training for 1,474 teachers and 176 headmasters and professional associates from 49 primary schools was carried out, which experimentally implement the Croatian National Education Standard in the school year 2005/2006.</p> <p>In 2005, all 49 primary schools implementing the Croatian National Education Standard were supplied with the required didactical equipment.</p>
Amendments to the school-related acts			<p>23 June 2005</p> <p>5 July 2005</p> <p>October 2005</p>	<p>Act on the Amendments to the Primary School Act was adopted (Official Gazette 76/05)</p> <p>Act on the Amendments to the Secondary School Act was adopted (Official Gazette 81/05)</p> <p>The Textbooks Act is in the adoption procedure</p>
Assure higher expertise and efficiency of foreign language teachers and base the system of employment on advancement and expertise	<ul style="list-style-type: none"> Adopt an ordinance on advancement and further training of teachers in primary and secondary schools Adopt an ordinance on professional training for teachers 	Yes	<p>9 February 2005</p> <p>9 February 2005</p> <p>December 2006</p>	<p>The Ordinance on the amendments to the Ordinance on the method and conditions of professional advancement and promotion to the occupational title of pre-school teachers and expert associates in kindergartens was adopted (Official Gazette 20/05);</p> <p>The Ordinance on the amendments to the Ordinance on the advancement of teachers in primary and secondary schools was adopted (Official Gazette 20/05)</p> <p>The ordinance on professional training has not yet been adopted</p>
Increase the learning of foreign languages through course curriculum (in a foreign language)	<ul style="list-style-type: none"> Establish the rules on the course curriculum in a foreign language in general secondary schools 		December 2006	It was not realised, since the activities were planned until the end of 2007.
Croatian system of vocational training and education at the secondary school level	<ul style="list-style-type: none"> Upgrade pedagogical and psychological education of teachers 		2005	The analysis of the present status has been performed.
The lack of skilled teachers	<ul style="list-style-type: none"> Develop the new network of programs according to the needs of the labour market and interests of the local administration 		<p>in progress</p> <p>2005</p>	<p>Analysis of the present status</p> <p>Development of standards and procedures for the new network</p>
	<ul style="list-style-type: none"> Supply secondary schools with modern equipment to prepare students for taking the state school leaving exam Update the obtained data, perform the analysis and establish the needs for additional training for teachers 		<p>2005</p> <p>2005, 2006</p> <p>in progress</p> <p>2005</p>	<p>Analysis of the present status</p> <p>Development of the equipment plan</p>

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
	<ul style="list-style-type: none"> Together with the higher education institutions develop a proposal for regular training of teachers of vocational subject theory courses and practical courses for the most critical areas (engineering, electrical engineering and other) Together with higher education institutions develop a program and curriculum for the training of teachers of vocational subject theory courses and practical courses 			<p>The implementation was prolonged due to harmonisation with the Bologna Declaration</p> <p>The implementation was prolonged due to harmonisation with the Bologna Declaration</p>
Program obsolescence				
<p>Modernise the existing programs and curricula, adapt them to the needs of the labour market, decrease the unnecessary high number of current specialisations, develop programs and curricula for the new specialisations according to demands of the labour market</p>	<ul style="list-style-type: none"> Continue to modernise the contents of existing programs and curricula Continue with the analysis of the needs for particular specialisations and establish the real need for the number of specialisations (work on decreasing their number from 400 to 100-150) Develop a new model of education (3+2+3) for the specialisations in building and civil engineering and shipbuilding Continue to develop programs and curricula for the introduction of new specialisations according to the demands of the labour market 		<p>Modernised programs for 30 specialisations until 1 September 2005</p> <p>Number of specialisations reduced from 400 na 311 until 1 September 2005</p> <p>in progress, to be continued in 2006</p> <p>in progress, it will continue until 2007</p>	
Equipping the vocational secondary schools				
Systematically work on equipping the vocational secondary schools with modern teaching tools	<ul style="list-style-type: none"> Developing the project for equipping vocational secondary schools according to the projection of the program and specialisation network 			It depends on the projection of the program network.
Textbooks				
Ensure textbooks and other literature for the courses that enrol small number of students	<ul style="list-style-type: none"> Evaluate the need for textbook and other literature that is lacking, above all for courses that serve small numbers of students and are therefore not interesting for the publishers. 		Realised in the first seven months of 2005	
Pedagogical standards				
Develop a pedagogical standard that will serve as a foundation for equipping the schools and for standardisation of equipment, textbooks and other literature	<ul style="list-style-type: none"> Development of the pedagogical standard Ensuring greater expertise of teachers for changes in primary schools and professional training for foreign language teachers and other teachers teaching in primary schools in a foreign language. Regulating the activity of education of adults 		2005	<p>It depends on the exit competencies and development of curriculum</p> <p>In 2005, the international primary school curriculum in English language was authorised in the primary school Matija Gubec in Zagreb.</p> <p>Strategy for the education of adults was adopted, as well as the action plan for the strategy implementation, which created a precondition for the improvement of the educational system for adults.</p>
Public Procurement				
Harmonisation of the legislative framework with the EU acquis	<ul style="list-style-type: none"> Preparation of the Public Procurement Act 	No	April/December 2006	Preparation and adoption of the Act on the Amendments to the Public Procurement Act (Official Gazette 92/05 of 27 July 2005). Preparation and adoption of the Regulation on the Amendments to the Regulation on the Public Procurement Announcements and Records Keeping (Official Gazette 122/05, of 19 October 2005) - this measure is not determined as an implementing measure in the 2004 PEP, but a need has arisen for its implementation. The draft of the new Public Procurement Act should be completed until April 2006, while its adoption is scheduled by the end of December 2006.
	<ul style="list-style-type: none"> Preparation of subordinate legislation and implementing regulation for small-value procurements, publication of the CPV and CPC nomenclatures 	No	December 2006	The application of individual implementing measures is postponed to 2006 due to the planned dynamics of the Republic of Croatia's legislation harmonisation with the EU acquis: the two-stage harmonisation, i.e. in 2005, through the preparation and adoption of the amendments to the existing Public Procurement Act and in 2006, through the preparation and adoption of the new Public Procurement Act and subordinate legislation. Work on CPV and CPC nomenclature will be carried out in the period 2006-2008.

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
	<ul style="list-style-type: none"> Preparation of implementing regulation for the introduction of the qualification list of the Republic of Croatia 	No	December 2006	The application of individual implementing measures is postponed to 2006 due to the planned dynamics of the Republic of Croatia's legislation harmonisation with the EU acquis: the two-stage harmonisation, i.e. in 2005, through the preparation and adoption of the amendments to the existing Public Procurement Act and in 2006, through the preparation and adoption of the new Public Procurement Act and subordinate legislation.
Strengthening of the administrative and institutional capacity of the Public Procurement Office of the Government of the Republic of Croatia	<ul style="list-style-type: none"> Institutional change and internal organisation of the Public Procurement Office 	Yes	August 2005	Regulation on the Amendments to the Regulation on the Establishment of the Public Procurement Office was published (Official Gazette No. 98 of 10 August 2005)
	<ul style="list-style-type: none"> Introduction of the website Classified Advertisements for all public procurements in the Republic of Croatia 	No	during 2006	There is no legal framework for the introduction.
	<ul style="list-style-type: none"> Launching of the twinning project (CARDS) 	Yes	June 2005	The twinning project will begin, as well as intensified planned activities from July 2005.
	<ul style="list-style-type: none"> Monthly training program for the procurement and inspection staff 	No	during 2006	The monthly training program for the procurement and inspection staff - implementation through the twinning project.
	<ul style="list-style-type: none"> Preparation of publications and instructions - new implementing measure 	No	October 2005	A need has arisen for the implementation of this measure (part of the twinning project). A part of the activities has already been realised through the Public Procurement Bulletin - publishing of the first issue.
Introduction of the electronic public procurement system in practice	<ul style="list-style-type: none"> Proposal of preparation and development of the electronic procurement system and its introduction into practice as well as possibility of public procurement centralisation 	No	December 2006	The application of individual implementing measures is postponed to 2006 due to the planned dynamics of the Republic of Croatia's legislation harmonisation with the EU acquis: the two-stage harmonisation, i.e. in 2005, through the preparation and adoption of the amendments to the existing Public Procurement Act and in 2006, through the preparation and adoption of the new Public Procurement Act and subordinate legislation.
Information Technology				
Liberalisation of the telecommunications market	<ul style="list-style-type: none"> Ensure efficient regulatory control; 	Yes	October 2004	The National Information Security Program in the Republic of Croatia and the Implementing Plan for the National Information Security Program in the Republic of Croatia for 2005, were adopted by the Government of the Republic of Croatia at its 74th session, held on 31 March 2005 An Agreement on the Establishment of the Agency for Information System and Information Technology Support – APIS IT (signed between the Republic of Croatia and the City of Zagreb) Establishment of the Central Register of Personal Data Collection within the Personal Data Protection Agency
Development of information and communication infrastructure	<ul style="list-style-type: none"> Establish common criteria and recommendations for the security of data and computer-communication equipment; 	Yes	March 2005	
	<ul style="list-style-type: none"> Establish the Agency for Information System Support as institutional infrastructure for the integration of information systems of state administration and the establishment of the central information portal about the work of public administration and public services on the Internet; 	Yes	October 2005	
	<ul style="list-style-type: none"> Establish the technological basis for efficient protection of personal data; 	Yes	September 2005	
Meeting of infrastructural preconditions for the availability of the advanced services of information society	<ul style="list-style-type: none"> Enable the application of electronic signature infrastructure, especially in the area of rendering public services to citizens and enterprises; 	Yes	May 2005	1. Implementation of the Hitro.hr program began, which will allow for performing the administrative procedures through the Internet and for the use of the overall computer-communication infrastructure, including the electronic signature. 2. The proposed Act on Electronic Document (currently in parliamentary procedure) creates a basis for a broader use of e-business system and provision of on-line services. The key category of the electronic document is electronic signature – it ensures authenticity and validity of an electronic document.
Increase in the number of users of information society services	<ul style="list-style-type: none"> Enable access to the Internet with broadband data transfer at affordable prices 	Yes	January 2005	Further liberalisation of the telecommunication market created precondition for competition development, which resulted in price reduction of the broadband access to the Internet.
	<ul style="list-style-type: none"> Adopt incentives, especially for under-represented social groups (the youth and the elderly, women, people with special needs); 	Yes	November 2004	Preparation of the proposal for the introduction of tax relief for the information society area.

MAIN MEASURES UNDER THE 2004 PEP		ACCEPTED (YES/NO)	DATE	COMMENTS
Establishment of systematic monitoring and measuring of the results of implementation of implementing documents	<ul style="list-style-type: none"> Establishment of mechanisms for systematic measuring and monitoring of information society development indicators in accordance with the methods of measuring the implementation of the Action Plan eEurope 2005 and the EUROSTAT standards; 	Yes	January 2005	The Study on accessibility of public services in the Republic of Croatia was prepared, for which an indicator for e-public administration was used. "the percentage of accessibility of on-line public services", in accordance with the recommendations of the Action Plan eEurope
Tourism				
Improve the standards and quality of accommodation facilities				
Improve the standards and quality of accommodation facilities	<ul style="list-style-type: none"> Adoption of the new ordinance for categorization of other accommodation facilities that by law must be categorised 	Yes	19 July 2005	
Development of the selective types of tourism				
Development of tourism on the whole territory of Croatia, especially in hinterland	<ul style="list-style-type: none"> Encouragement of tourist offer based on traditional, cultural and other heritage 	Yes	10 August 2004	
Development of additional offer according to tourist demand and trends at the international tourist market	<ul style="list-style-type: none"> Creation of program of incentives for the development of rural tourism 	Yes	From 1 October 2002 to 1 October 2005	Partial realisation through the program "Incentive for Success". Development of a special program for rural tourism is planned in 2006, in accordance with the budget position.
Creation of unique/authentic tourist offer by including traditional, cultural and other heritage in the tourist offer	<ul style="list-style-type: none"> Creation of program of support for the eco-based programs in tourism 	No		In 2005, there was no budget position; the program should be implemented in 2006.
Development of golf courses as a "new" tourist offer	<ul style="list-style-type: none"> Start-up of the master plan for the development of golf in Croatia 	No		The modification of the golf program is in progress, as an element of the developmental strategy of the Croatian tourism, which will be adopted by end-2005.
	<ul style="list-style-type: none"> Establishment of the "Golf project" corporation in order to realise the program of golf courses construction in Croatia 	No		The establishment of a corporation is not planned, since it is not in line with the Competition Act.
Development of total tourist destination and operation of travel/tourist companies				
Improvement of local infrastructure, public utilities and tourist attractions	<ul style="list-style-type: none"> Passing the tourist association laws "package" 	No		It is planned for I quarter of 2006
Regional Development				
Balancing regional differences in development	<ul style="list-style-type: none"> Establish the degree of regional economic development 			As a part of the proposed Regional Development Strategy of the Republic of Croatia, the new model is developed for the inclusion of the areas lagging in development, which is based on the system of inclusion of the areas in the third group of areas of special state concern, and which is in line with the EU guidelines relating to the assessment and categorisation of territorial units of the member states for the purpose of the national regional development policies. This year, the Ministry, in accordance with the Act on the Areas of Special State Concern, again performed the evaluation of development of municipalities in the Republic of Croatia in order to determine whether they may be included in the third group of areas of special state concern for 2005. It will forward the proposal to the Government of the Republic of Croatia of the decision on confirming the status, granting or rejecting the status of belonging to the third group of areas of special state concern.
More clear definition of the areas whose development the state should stimulate	<ul style="list-style-type: none"> Define priority regions and local units with GDP below average 			