

**Key Structural Measures**

<b>Structural Measures</b>	<b>Lead Institution 1/</b>	<b>Prior Action</b>	<b>March 2001</b>	<b>June 2001</b>	<b>Sep. 2001</b>	<b>Dec. 2001</b>	<b>After 2001</b>
<b>Fiscal Sector</b>							
1. Operationalize the treasury and the treasury single account. a) Startup of treasury operations. b) Channel all but routine central budget expenditures through the treasury single account. c) Channel all expenditures of the central budget and the extrabudgetary funds (except the health fund) through the treasury single account. d) Channel health fund expenditures through the treasury single account.	IMF	X X		X			X
2. Start applying the new treasury information system to monitor arrears and payments float.	IMF		X				
3. Develop and apply a monitoring system for government guarantees and lease contracts.	WB			X			
4. Health care reform. a) Reduce the level and duration of sick-pay benefits. b) Increase/Introduce co-payments for drugs and selected health services and reduce the exemptions. c) Introduce budget caps on spending for outpatient polyclinics. d) Moratorium on new capital investments in health sector except for those foreign-financed projects already included in the budget. e) Introduce a basic package for public health provision. f) Introduce performance-based reimbursements for the ten most frequent medical services.	WB		X  X X	X			
5. Strengthen the first-pillar reform by improving efficiency and operations of the Pension Institute.	WB		X				
6. Ensure adequate budget resources for the introduction of the second pillar of the pension system in the 2002 budget.	WB					X	
7. Ministry of Agriculture to compile a list of farmers to facilitate the provision of income support subsidies.	WB				X		
8. Prepare the 2002 budget on the basis of recommendations of the Public Expenditure Review.	WB					X	
<b>Public Enterprises</b>							
1. Croatian Privatization Fund a) Adopt action plan for divestiture of all shares. b) Divest all shares in 327 enterprises. c) Divest any assets that are returned to the Privatization Fund due to the nonpayment by the beneficiary (within one year in the case of each enterprise).	WB		X			X	
2. Complete preparation for IPO of HT. 2/	WB			X			
3. Prepare privatization and conduct tender for the insurance company.	WB				X		
4. Prepare privatization and conduct tender for the privatization of JANAF.	WB					X	
5. Any subsidization of enterprises to be transparent in the budget and not to include tax concessions (throughout the entire period).	WB						
6. Regulatory framework for public utilities. a) Submission of regulations to parliament. b) Enactment of regulations.	WB		X	X			

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Structural Measures	Lead Institution 1/	Prior Action	March 2001	June 2001	Sep. 2001	Dec. 2001	After 2001
<b>Public Enterprises (continued)</b>							
7. Implement the decision to unbundle the National Power Company (HEP).	WB			X			
8. Implement the decision to restructure the National Petroleum Company (INA).	WB			X			
9. HEP, INA and National Railroad (HZ). a) Decision on divestiture of noncore assets of public enterprises (HEP, INA, HZ). b) Implementation of this decision.	WB		X		X		
10. Privatization of HEP and INA. a) Adoption of privatization laws for HEP and INA. 2/ b) Privatization of both companies.	WB				X		X
11. Implementation of the Government resolution to privatize/liquidate 12 enterprises listed in the Law on Rehabilitation of Selected State-Owned Enterprises.	WB			X			
<b>Monetary and Financial Sector</b>							
1. Bank privatization. a) Adopt a plan to improve efficiency of Hrvatska Poštanska Banka (including budget provision for recapitalization if needed). b) Adopt a plan to rationalize Hrvatska Poštanska Banka, including the possibility of privatization. c) Prepare for privatization and conduct privatization tender for: Dubrovačka Banka Croatia Banka	WB		X			X	
2. Obtain parliamentary approval for the draft National Bank Law to adopt price stability as the CNB's primary objective, give the CNB exclusive responsibility for monetary and exchange rate policy, ensure the personal independence of the CNB's board, prohibit the CNB from lending to the government, and formalize the procedures for consultation and information sharing between the CNB and the Ministry of Finance.	IMF		X				
3. Banking A new law to provide for CNB's automatic, but graduated response to banks not in compliance with regulations, ensure prompt bank resolution based on the least-cost principle, and lengthen the transitional period for adjusting bank exposure (if needed). The new law will also clarify and strengthen the procedures pertaining to the insolvency of banks. a) Submit draft law to parliament. b) Obtain parliamentary approval.	IMF				X	X	
4. Exchange restrictions a) Allow enterprises to hold foreign exchange deposits. b) Allow banks to lend to residents in foreign exchange.	IMF		X X				
5. Money market a) Introduce monthly instead of weekly auctions of CNB bills. b) Develop repo market and establish master repo agreement.	IMF		X	X			

## Key Structural Measures

Structural Measures	Lead Institution 1/	Prior Action	March 2001	June 2001	Sep. 2001	Dec. 2001	After 2001
<b>Monetary and Financial Sector (continued)</b>							
6. Bank and nonbank supervision.	WB/IMF						
a) Review current banking regulations and practices with a view to identify deficiencies vis-à-vis EU directives.				X			
b) Review securities law, regulations and practices with a view to identify deficiencies vis-à-vis pertinent EU directives.					X		
c) Adopt a plan to formalize cooperation among supervisory agencies.						X	
d) Adopt consolidated supervision for financial conglomerates.					X		
e) Increase the frequency of on-site supervision of insurance companies.					X		
f) Agree on a timetable for the full compliance with the insurance law.							
7. Capital market	IMF/WB						
a) Avoid issuing T-bills and CNB bills with same maturities.					X		
b) Consolidate all outstanding government bonds into one single type of bond with different maturities.							X
8. Payments system	IMF/WB						
a) Implement the new clearing system (NKS).			X				
b) Abolish the CNB's intervention credit facility.			X				
c) Steering Committee on ZAP finalizes drafting amendments to law on domestic payment system.			X				
d) Obtain parliamentary approval of amendments of domestic payment system law with a view to reorganize ZAP.						X	
e) Include the depository for CNB bills in the Central Depository Agency.							X
f) Adopt delivery-versus-payment of securities transactions.						X	
<b>Judicial System</b>							
Begin to take measures to strengthen the capacity of the commercial courts to settle bankruptcy cases (measured by satisfactory progress under a new World Bank loan).	WB		X				

1/ Institution primarily responsible for providing technical assistance and general advice for implementing the structural measure(s) concerned. Except where explicitly footnoted, the structural measures listed in this matrix do not represent program conditionality.

2/ Structural benchmark.

## Croatia: Medium-Term Macroeconomic Framework, 1999-2003

	1999	Estimate 2000	Program 2001	Projections 2002	2003
	(Percentage change)				
Output and prices					
Real GDP	-0.4	3.5	4.0	4.2	4.5
CPI inflation (average)	4.2	6.2	5.6	4.3	3.8
CPI inflation (end-of-period)	4.4	7.4	4.5	4.0	3.5
	(In percent of GDP)				
Savings and investment					
Gross national savings	18.7	20.2	22.4	24.8	27.0
Gross domestic investment	26.3	24.8	26.2	28.3	30.2
Central government operations					
Revenue and grants	42.8	39.7	37.8	36.8	36.3
Expenditure and net lending 1/	50.2	46.2	43.1	40.9	37.6
Overall balance	-7.4	-6.5	-5.3	-4.2	-1.3
Domestic borrowing (including arrears)	-0.4	-0.8	-0.9	0.5	-2.0
Privatization receipts	4.5	2.0	5.2	3.1	1.9
Foreign financing	3.2	4.8	1.0	0.5	1.4
	(End-of-period; in annual percent change)				
Money and credit					
Credit to the private sector 2/	-6.5 3/	4.4	15.9	12.0	16.8
Broad money	-1.1 3/	26.5	15.3	10.2	9.7
Base money	3.6	13.6	7.5	15.6	8.7
	(In millions of U.S. dollars)				
Balance of payments					
Current account balance	-1,523	-874	-780	-753	-744
(in percent of GDP)	-7.6	-4.6	-3.9	-3.5	-3.2
Capital and financial account	1,948	476	1,051	939	1,023
Overall balance	460	518	271	185	279
	(End-of-period; in millions of U.S. dollars)				
Debt and reserves					
Gross official reserves	3,025	3,525	3,764	3,914	4,157
(in months of imports)	3.7	4.3	4.4	4.3	4.3
Gross usable reserves 4/	2,249	2,629	2,868	3,018	3,262
(in months of imports)	2.8	3.2	3.3	3.3	3.4
(as a percentage of short-term debt) 5/	129.4	108.0	137.0	163.4	150.1
Debt service ratio (in percent)	20.8	18.4	19.2	18.4	14.9
Public debt (in percent of GDP) 6/	45.2	47.6	42.1	42.1	39.0
<i>Of which</i> : External 6/	25.9	30.9	27.9	25.8	25.1
Total external debt	44.5	53.2	50.4	47.5	45.0

Sources: Croatian authorities; and Fund staff estimates.

1/ Assumes accumulation of arrears of HRK 1.8 billion in 2000.

2/ When taking arrears repayment into account, the overall rate of growth of credit to other domestic sectors would be 15.3 percent in 2000, 18.5 percent in 2001, 13.2 percent in 2002, and 17.6 percent in 2003.

3/ Growth rates for 1999 are affected by changes in the statistical reporting system and by the bankruptcy of various banks in the course of the year. After adjusting for all these factors, estimates of the 1999 growth rate are -0.8 percent for credit to the private sector and 9.4 percent for broad money.

4/ Program definition. Excludes reserves held against CNB foreign currency bills and foreign currency deposits of domestic banks.

5/ Short-term debt is presented on a remaining maturity basis.

6/ Including publicly guaranteed debt.

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**Croatia: Monitoring the Implementation of the Program**


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**Prior actions**

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|----|--|---------------------------------------|
| 1. | Startup of the treasury system and channeling of all nonroutine budget expenditures through the treasury single account  | MEFP, Para. 14 and 25,                |
| 2. | Begin implementing the government's wage policy by finalizing the strategy for the budgetary sphere, announcing the freeze of the basic wage in the budgetary sphere and the nonbudget government sector and of wages of higher public officials, canceling vacation, Christmas and child bonuses, eliminating all allowances not mandated by law and enacting the laws on public administration and civil service employment; by announcing and starting to negotiate the basic wage freeze in public enterprises; and by inviting the social partners to resume discussions on a social pact | Annex IX and<br>MEFP, Para. 18 and 19 |
| 3. | Complete the payout of all insured deposits in failed banks  | MEFP, Para. 5                         |
| 4. | Repeal car import privileges for war veterans  | MEFP, Para. 13                        |

**Quantitative performance criteria**

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|----|--|------------|
| 1. | Consolidated central government <ul style="list-style-type: none"> <li>a) Quarterly limits on the cumulative deficit of the consolidated central government</li> <li>b) Quarterly limits on the cumulative increase in the net credit of the banking system to the consolidated central government</li> <li>c) Quarterly limits on arrears of the consolidated central government</li> </ul> | Annex IV   |
| 2. | Quarterly limits on net bank borrowing by 10 large public enterprises  | Annex V    |
| 3. | Public and publicly guaranteed debt <ul style="list-style-type: none"> <li>a) Quarterly ceilings on the contracting and guaranteeing of nonconcessional external debt</li> <li>b) Quarterly ceilings on the stock of short-term external debt</li> </ul>   | Annex VI   |
| 4. | Quarterly floors under the net usable international reserves of the CNB  | Annex VII  |
| 5. | Quarterly limits on the cumulative change of the net domestic assets of the CNB  | Annex VIII |

**Structural performance criteria**

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|----|--|----------|
| 1. | Enact government decree on salary coefficients for individual posts to replace existing ministry-specific coefficients to reduce wage bill and issue separate decrees determining each Ministry's wage bill on the basis of the new coefficients and total number of employees | Annex IX |
| 2. | Reduce employment in the budgetary sphere by 10,000  | Annex IX |

**Performance clauses**

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|----|---|----------------|
| 1. | No new external payments arrears.   | MEFP, Para. 35 |
| 2. | No new, or intensification of existing, payments restrictions, multiple currency practices, and import restrictions | MEFP, Para. 35 |

**Structural benchmarks**

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|----|---|----------------|
| 1. | Take all steps necessary to bring at least 20 percent of HT's shares to the point of sale by issuing the privatization prospectus and organizing the roadshow | Annex X        |
| 2. | Make progress in restructuring and privatizing HEP and INA  | MEFP, Para. 34 |
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