

Maja Vizjak, M.Sc., Ph.D. student

University of Rijeka, Faculty of Tourism and Hospitality Management, Opatija
Primorska 42, P.O.Box 97, 51410 Opatija, Croatia
E-mail: let_zeppelin@hotmail.com

**EFFECTS OF CROATIAN TOURISM DURING THE YEAR
2012**

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Abstract

*While the world still operates in a large-scale economic crisis, people on the other hand operate in a somehow stable yet small economic rise. **The main hypothesis:** Economic rise is not only based on tourism achievements, but rather on dynamic production activity by application of new technologies and diligence. All of this is strongly reflected on tourism development and travel trends in the world. **PH1:** A simple economic analysis can prove that tourism in Croatia should be closely linked to other economic sectors. One must sadly admit the bitter truth as most tourist facilities in Croatia are owned by foreign capital, as well as all other activities related to tourism. Supply of tourist facilities and other activities is also owned and under the supervision of foreign capital. **PH2:** Tourism in Croatia, especially along the Adriatic coastline, should last at least for seven months a year. At the same time, tourism revenues for 2012 would be at least EUR fifteen billion. The current economic crisis severely struck Europe, and by this also European as well as tourist development trends in general. **PH3:** The fact that a great number of potential tourists chose staying in their own country during their vacation is hard to cope with for renowned tourism destinations, especially in the Mediterranean.*

Keywords: *tourism, development, performance, achievements*

1. INTRODUCTION

According to all the economic indicators in the world, although the large-scale crisis is still present, it is safe to conclude, although there is great structural crisis of neo-liberal capital economy in the world, that the majority of human population in all capitalist countries still participates in small, but stable economic growth. The growth is not based solely on achievements in tourism, but primarily on dynamic manufacturing activities by implementation of new technologies and diligence. Although new economically developed countries in the world such as China, India, Russia, Brazil, Canada, Australia, and Saudi Arabia are able to strongly develop and use their tourist potentials, because they possess great tourist resources, their years-long, strong economic development was founded on national industry capacities to which they tied their tourism industry as a supplementary industry which brings foreign currency and extra profit.

On the other hand, in contrast to the above-mentioned efficient economies, renowned tourist countries, such as Greece and Italy, which have based their activities exclusively on tourism and its effects, complain of crisis. These countries are currently in severe economic depression. Their economic and financial decline resembles and is characterised by the identical path through years-long crisis with fairly identical results. Namely, this crisis has been devastating for the small, pro-European, open, over-indebted, and wasteful Croatia with its destroyed industry and preoccupation with entertainment of any kind. All Croatian governments have been convincing

people for years that industry as such is unprofitable, that it pollutes the environment, that it is too costly and that there is no market, and the workers are supposed to be lazy and economically unprofitable. On the other hand, tourism is presented and advocated as the saviour of the national economy, and Croatia is presented as a tourism super-power. The worst is the claim which the highest governmental bodies keep sending out, that tourism should, and is able to, accumulate income which will cover all the gaps in the economy and constantly created minuses in foreign trade by tourist activities in a few months, from July to September; that it will fill the State Budget and close the foreign trade gap.

Naturally, like any other occurrences in this country, this is also the result of inability and incompetence, and corruption in the highest positions of authority which is tightly connected with the criminal milieu. Such views have been present in the Croatian media and politics for around twenty years, although official statistics constantly indicate completely different trends and data from year to year. At the same time, while the highest positions of authority discuss economic progress of the country, Croatian economy sinks into an even deeper recession and crisis. According to the latest data by the Croatian National Bank, during 2012, the GDP will be reduced by at least 1,6 per cent, along with employment reduction. In such economic circumstances, not even successful tourism, despite its somewhat more favourable results, can fulfil state and government's expectations. On the other hand, benefits from tourism will be achieved by banks, supermarket chains and different retailers which are, for a longer period of time, owned by foreigners. The rare lucky national and private participants or stockholders, usually over-indebted, stockholders might achieve fewer benefits.

Croatian tourism developed over time and acted mainly in three directions, all of which were harmful to Croatian national interests. Those were the following:

- total economic, financial, and ecological inflow and effects were realistically lower than their outflow in each of the analysed economic factors, and they did not contribute to development of the Croatian economy,

- strong tourism development in Croatia has been devastated for a long period of time, and urban and ecological harmony in the littoral and island settlements and in their old urban cores along the Adriatic coastline, which had been created for hundreds of years, are destroyed. At the same time, the government and government bodies are under strong pressure by foreign investors to take over unspoiled cultural or historical heritage and green areas for building and other forms of commercialisation.

Tourism development is especially endangered by strengthening of mafia activities, which is proven in Italy, especially its southern part. Anyone who analyses this topic from a neutral point of view and who is not under pressure of different groups and lobbies, will reach the conclusion that the power of criminal groups is the strongest in tourism, like in no other economic activity. In tourism, they also infiltrate black market, tourism-related show business, and successfully avoid settling fiscal obligations to the State. Of course, cheating of the State is not possible without a strong connection between criminal circles and state bodies, because in all the solved criminal cases, small-time criminals are those who are most frequently discovered. When attempts had been made to undertake further investigations, all the way to the top, the investigations were suddenly terminated or covered-up under strange circumstances.

2. THE REAL STATE OF CROATIAN TOURISM

A simple economic analysis can prove that Croatian tourism, although experts call it „Croatian“ is, in fact, not only Croatian, although it should be tightly related with other economic activities, as it is their economic constituent. Unfortunately, the bitter truth is that most tourist facilities in Croatia are owned by foreign capital, and all other tourism-related activities which should supply tourist facilities as well as other tourist activities are owned by and under supervision of foreign capital. All the Croatian governments point out the fact that the most important task of tourism is to save national finance, and many families who are in enormous debt should, through tourism, pay their debts to banks owned by foreigners. All levels of government particularly pointed out the possibility of large employment of the population, which did not happen, because the structure of tourism cannot accept great quantities of labour force for a longer period of time. On the other hand, tourists spend much less during crisis; therefore, financial

results are much smaller, and a large number of tourists in one place significantly devastates the natural environment and inflicts immeasurable damage to any tourist destination. A great danger to Croatian tourism is concreting of the coastline, which happens when building of tourist facilities in a small place becomes too excessive. (Croatian National Bank, 2012, 4) .

All the natural and social circumstances are currently in favour of modern Croatian tourism and its development, in comparison with the neighbouring competitive countries in the Mediterranean in which there are high security risks, but also questionable public safety along with great debt crisis and unfavourable climate. In Croatia, the climate is pleasant and tourism is flourishing, but more abundant tourism revenues are not realised. Although the Croatian social component is stable social peace, which is also its basic comparative advantage, in comparison with the hot summer and the damage it inflicts on natural resources, national tourism will not be able to fulfil the expectations this season, nor realise the extra profit which will cover years-long mistakes and damage. This will particularly reflect on the State Budget and citizens' accounts. All this is a reflection of an extremely negative situation in the country with particularly negative effects, which, according to the nature of things, increasingly turns into trouble and large-scale uncertainty for national economy and local communities.

3. THE EXPECTED INCOME AND UNREALISED AMBITIONS

If Croatian tourism were, in fact, predominantly Croatian, and Croatia indeed a tourist power, in that case, the tourist season, especially along the Adriatic Coast, would last at least seven months a year. At the same time, tourism revenues in 2012 would amount to at least EUR 15 billion. Of this amount, at least EUR 10 billion would be realised by national companies, regardless of whether they are tourist, financial, or economic; they have to be related to tourism. Besides, the situation in the State Budget and in local budgets would greatly improve. On the other hand, stimulated by its success, Croatian tourism would increase the number of employees for as much as a hundred thousand in the scope of its activities. Tourism revenues would fill about forty per cent of the State Budget, but also about a third of local coastal budgets. This tourism effect would also provide a strong support for the government by which it could realistically balance government expenditures and revenues. The government still considers tourism a supporting activity for the growth of GDP, which is best proven by data according to which the number of employees in the sector of services which include trade, transport, catering, hotel industry, banks, etc. during the 2009 season was increased only by about thirty thousand of employees. In 2010, the number of employees in the same sector was reduced by fourteen thousand. The importance of tourism for Croatia is presented in Table 1.

Table 1. The Importance of Tourism for Croatia

Year	Tourism revenues in billions of euros	Income ratio and GDP
2005	6,0	16,8 %
2008	7,5	15,8 %
2010	6,5	14,2 %
2011	6,8	14,8 %
2012	7,0	15,5 %

Source: CNB, CBS, 2012.

In 2012, the actual employment situation was somewhat improved; there are about forty thousand employees. This number amounts only three per cent of all the Croatian employees.

The greatest benefit from Croatian tourism is realised through VAT, followed by accommodation services, in which most tourist facilities are nationally-owned, functioning in accordance with the legislation (Croatian Tourist Board, 2012, 4). Other benefits are realised through parking of vehicles and boats. Local citizens realise the greatest profit from renting tourist facilities and different services on the black market. A special source of income originates from different forms of entertainment and drug market. These arrangements are mostly criminal in nature and in relation to the mafia.

Modern world keeps developing despite of the crisis which governs the world and destroys neo-liberalist Western capitalism. The majority of the world population continues to

function in the stable framework of social development and tourism, primarily under the strong influence of new technologies and production activities. This is related to the new world leaders, China and India, Russia, and others. They all have world-renowned attractions and developed tourism, but their principal economic orientation is national manufacturing activity. Their strong economic development is stimulated by development of a new industry and tourism is developed as a supplementary and accompanying branch of economy, and manufacturing serves to stimulate tourism development.

The leading tourism powers such as Greece, Italy, and Spain, which are currently facing a hard economic situation, are in contrast with the above-mentioned reasonable activities. They almost ruined their industry and production activities, and their economic difficulties very much resemble those in Croatia. A realistic question is posed: Can tourism save and further develop countries such as Croatia, because all the responsible entities, from the governments onwards, keep creating the impression that Croatia is a strong tourism power and that profit from tourism in a single trimester, from July to September, can pay off all the minuses created in the national economy, foreign trade, State Budget, as well as close the foreign trade gap. Unfortunately, these predictions have not been realised for almost fifty years, since the beginning of such ideas. Although all the official statistics indicate the opposite, this pernicious mindset is not changing. On the other hand, the Croatian economy keeps sinking deeper into depression every year. For example, the CNB predicted for 2012 the decline in GDP for about 1,6 per cent in relation to employment decline; therefore, tourism cannot fulfil the government's expectations and needs, despite the fact that it recorded another growth this year. However, on the other hand, it will bring enormous benefits to foreign bank owners, processors, and retailers in foreign supermarket chains. Less indebted national private entrepreneurs or stockholders will also achieve certain benefits (Croatian Family Accommodation Association, 2012, 12).

The extent of such tourism activities in the midst of general depression in Croatia in the first half of 2012 in relation to the year before is realised by an increase of 8,8 per cent of tourist arrivals and 13,7 per cent more tourist overnights. On the other hand, total financial income in service industries, such as accommodation, food services, travel agencies, and organisation of trips were only five per cent higher than in 2011. This means that tourism in Croatia in 2010 and 2011 did not manage to take over a large quantity of guests from the competition in the Mediterranean, nor did it pull the country's economic system out of the four-year recession. Statistics indicate that, in the first half of 2012, the Croatian GDP declined for almost 9 per cent in comparison with the one realised in the period before the crisis, 2008. This indicates that during the full season, tourism effect was reduced by 7 per cent in comparison with the year before.

It is evident that this year's season will be one of the longer ones and that it will last for almost a hundred tourist days, while the number of employees will increase for about 40 thousand, and at the same time, the share of tourism in the GDP will be reduced from the record 20 per cent, which was achieved in 2004, to only about 15 per cent this year. A comforting factor is a prediction by tourism scientists expressed at the end of the record 2008, when record tourist revenues were realised in the amount of EUR 7,5 billion, which was three times higher than in 2008. Along with greater modernisation of hotels and extra services, and the necessary re-industrialisation, which would develop as a foundation of the tourist offer and national customers, Croatian tourism could make up to EUR 20 billion a year. „To make“ means to generate turnover in this amount, followed by a different income distribution according to ownership structure, import and export, domestic production, taxes, duties, salaries, etc.

On the macro-economic level, it is safe to say that the majority of the tourist offer which is rated above-average and profitable is realised in Istria, primarily on its west coast, from Rovinj's *Maistra* and the Blue Lagune and Riviera of Poreč, to the *Istra Turist* of Umag or the *Arena Turist* from Pula. All this tourism capacity is controlled by foreign capital. Analysis of business activities of these successful tourist companies indicates that, in the 12 years of business activities, they did not manage to stimulate achievement of tourism results of greater significance. None of these tourist companies is listed among the top 20 successful export companies, and some were even on the list of losers. In Dubrovnik, which almost exclusively depends on tourism, there are only about five profitable tourist companies, and they realise individual realised amounts of HRK 5 million per company, after the deduction of taxes and other contributions. The main business leader of the

Central Adriatic was supposed to be *Sunčani Hvar*, but this tourist company is still a leader in complexity and shattered company reputation, as well as ownership, business- and financial structure.

Furthermore, Croatian tourism has no longer been only Croatian for more than fifteen years. Over the years, it came under control of foreign capital, as did many other industries, and most of the realised profit goes to foreign owners through the import of derivatives, food, vessels, various commodities, medicines, telecommunications and various tourism services as well as trade. At the same time, Croatia struggles with collection of tourist tax, monument annuity, tax on profit and income tax, not to mention the Protected Ecological-Fishing Zone, as well as control of anchoring and maritime transport of increasing number of foreign vessels which pollute the environment and the sea. If the financial aspect of the failed national policy, which strongly reflects on tourism, is analysed, the stable and overvalued national currency has been gradually ruining Croatian economy for about twenty years, and all the imported goods and services are cheaper than domestic ones, especially tourist services. When the government boasts of annual tourist revenues ranging from six to seven billion euros, it should be pointed out that half of this amount goes back to the accounts of foreign financial institutions, especially banks, various foreign companies and trade networks, and travel agencies.

In Croatia, the most important tourism benefit currently originates from the first-rate, strong marketing activities abroad. Croatia is recognised abroad for its natural beauties and rich cultural heritage. There are many protected historical monuments under the protection of the UNESCO in Croatia. Therefore, many local entrepreneurs benefit from tourism and presentation of historical and cultural heritage. Although in this case the problem is only in one segment of the tourist supply, it strongly affects the level of foreign tourist offer, and it has strongly developed in Croatia in the past fifteen years. On the other hand, the government still considers direct revenues from this elite tourism, as well as their impact on local budgets, subsidiary. The main leaders of this type of tourist supply are located in Dubrovnik and Zagreb, followed by the Plitvice Lakes, Brijuni, etc. According to predictions by travel analysts, protection, branding and efficient billing of Croatian natural and cultural heritage should have better results in the following decade, which will be accompanied by strong development and modernisation of the total hotel offer. (Hitrec and Hendija 2000,34).

4. IMPACT OF THE ECONOMIC CRISIS ON CROATIAN TOURISM

The current economic crisis has strongly hit Europe as well as European tourism and tourism development trends. The best proof of this claim is the fact that a great number of potential tourists spend their vacations in their own countries. This behaviour is also a result of the fact that tourist supply on Northern Seas has been greatly improved in the past few years, and many tourist facilities were built. Therefore, tourists from developed Northern countries can fulfil their tourist needs in their own countries (Dulčić and Petrić 2001, 56). This was especially visible during the 2011 season when, for the first time since tourist analyses are recorded, most Germans stayed on vacation in Germany, and it is expected that this trend will continue in the following years. On the other hand, there is also Poland with its Baltic Sea which is located in the vicinity of highly developed Germany, and it is an especially favourable circumstance that Poland is also an EU Member State, and that there are no borders among the EU Member States. It should be pointed out that all the Baltic countries invest a lot in development of their maritime tourist offer. Taking into account all of the above, this part of Europe became competitors of the southern tourist countries. The trend of staying in one's own country is evident in Hungary, but also in Italy. For example, North Italian lakes, except for Italians, attract more and more Austrians, the Swiss, and Germans from southern German counties, because all these countries are closely connected with the EU, there are practically no borders, and they all have very few linguistic, customary, and cultural barriers.

Croatian tourism is for now „saved“ by a cheaper tourist offer in comparison with the competitive countries, although the issue of quality of Croatian tourist products is questionable, and there will be problems if Italy, as its main competitor, starts lowering the prices of its tourist products. A contemporary tourist trend in Western countries is spending vacation in nature, in the mountains, lakes, and engaging in various sports activities in nature, all of which mostly takes

place in the summer months (Aliber 2007, 123). All of the above is the reality of the European tourist offer and Croatia should prepare for these new tourist trends in the future if it wants to survive on the European, and especially on the world tourist market.

4. 1. Statistical and Analytical Indicators of Croatian Tourism

Analysis of statistical indicators of Croatian tourism indicates that there are more tourists in Croatia than in the previous years, while national analysts point out certain particularities. One of the more significant ones is that one can find a parking space next to the beach in the most renowned coastal tourist resorts, which sounds almost incredible, and they also point out non-existence of great summer crowds, which were a common sight since the beginning of Croatian tourism development. On the other hand, the problem of consumption in tourist destinations is another issue. Consumption has been drastically declining and it reached the lowest level in the past ten years (Hitrec 2001, 26). Total physical turnover will surely increase by the end of the year through family accommodation, because renters have many more possibilities for various irregularities in the process of registration of their guests, which they take advantage of, because the state gave them the possibility for wider activities through new legislation according to which they are allowed to rent more beds, at the time sixteen per a single license, and they also benefit from entry into the VAT system, the amount of which rose from HRK 83,000 to HRK 230,000, which is getting closer to the practice of the European countries. According to this law, renters can realise income of up to HRK 230,000 without becoming subjects to VAT, which they had mostly avoided anyway because more registrations imply more contributions to the state, this requires book-keeping, especially if they enter the VAT system, for they cannot get out of it for three years. Therefore, without risking to become subject to special tax, they can report three times larger income and do not have to risk hiding their guests.

4. 2. Facilitated Business Activities in Family Tourism

In 2011, family tourism facilities were increased by about 5 per cent, which amounts to about 452,000 beds and realisation of about 21 million overnights. If the number of a 100, 000 beds in private family accommodation is added to this number, which, according to analysts' estimates, is in the constant turnover on the black tourist market, tourist accommodation offer grows rapidly and creates an impressive tourist resource (Vizjak 2007,156). In comparison, in hotels, which realise about half of the income from tourist accommodation in Croatia, there is only about 130,000 beds with about 15,2 million of overnights. In comparison with statistical data by the Croatian Family Accommodation Association – HZUOS, in the period between the first and the twentieth of July, 2012, there was about seven per cent more tourists and overnights in family accommodation in the Kvarner, in Istria about three per cent more arrivals, and about five per cent more overnights (Croatian Chamber of Economy, 2012). Dalmatia achieved the same results as in the year before, while in the continental part of Croatia, there are up to 25% better tourist results than was the case the year before. These data are presented in Table 2.

Table 2 . Data for Family Tourist Accommodation from July 1st to July 20th, 2012 in comparison with 2011

Family accommodation in 2012 in comparison with 2011	
Kvarner	+ 7 %
Istria	+ 5 %
Continental Croatia	+ 25 %

Source: Statistical data of the Tourist Board of the County of Primorje-Gorski Kotar, 2012

All the Croatian regions expect much from the tourist season, especially from the Italian *Ferragosto*, which starts in August. In the analysis of tourism results in private accommodation, it is evident that occupancy in smaller tourist facilities which offer less beds on the market declined. On the other hand, houses and villas sell much better, especially abroad, because there is stronger promotion of larger facilities abroad, through mobile communications, Internet networks, telephones, leaflets, brochures, etc. More successful trends are significantly boosted by new

activities of the Ministry of Tourism oriented towards increasing the number of beds, and VAT is reduced to the level which allows higher income. Although extra consumption is declining, which is pointed out by renters, they claim that tourist programmes must be improved in order to improve efficiency of the tourist offer, because the classic tourist offer comprising only the sun and the sea cannot provide successful economic and financial results in the future.

According to statistical reports by authorised government bodies which follow tourist trends in Croatia, total financial income in more important industries which provide accommodation services, preparation of food and catering services, but also activities related to travel agencies and organisation of tourist trips, in the first half of the year realised income in the amount of HRK 6,1 billion, which, in comparison with the same period last year, represents growth of about 4,2 per cent, according to the Ministry of Tourism, Ministry of Finance and Tax Administration.

According to these data, all the legal and natural persons providing accommodation in hotels and similar facilities in the mentioned half-year period realised income of about HRK 2,3 billion, which amounts to about ten per cent more than in the same period the year before.

At the same time, camps realised about HRK 54 million, or 14 per cent more income, and tour operators HRK 122,7 million, or about 24 per cent more income than in the previous year. The proclaimed tourism revenues of about EUR seven billion, planned by the government bodies, are based on the plans made by the Croatian National Bank, but also Tax Administration. In this methodology, all the income from travelling represents consumption of non-residents who travel through Croatia, which also includes items of accommodation, food, entertainment, etc. Data on these items are collected on the border when tourists enter or leave the country. These data collections have been conducted from 1999, the results are compared with the data provided by the Home-Office which has complete information on all the foreign or domestic tourists in the country, but also information on arrivals of foreign tourists from certain countries which are analysed by the Central Bureau of Statistics (Croatian Tourist Board 2012, 20).

Increase in registrations in order to achieve a better level of VAT was to be expected, because before, people found different ways of avoiding payment of state taxes, because people do not like to work to their own disadvantage, especially if investing more work and efforts results in fewer benefits. Different associations of renters of tourist accommodation facilities were pointing out these negative effects of legislation for years, and they pointed out that it was often the case in practice that married couples divided the accommodation unit in order to gain two tourist licences, by which they increased the number of tourists in their accommodation facility and they each realised the legally approved profit of HRK 85,000. They often even rejected reservations because they wanted to avoid reaching the prescribed income level. By implementation of the new legislation, they can perform their business activities without limitations. On the other hand, income level is also important when renters take bank loans with the objective to improve their tourist offer. Rising of the VAT level to HRK 230,000 is indeed a useful financial measure which realises certain positive results in practice, and even better effects are expected in the following season, when people will become better acquainted with all the positive effects of this measure.

The second important negative factor in this tourist season is the evident decline in tourist consumption, and rooms are used less, while suits which include kitchen are more popular. On the other hand, single rooms are successfully sold on the market only in case when kitchen use is also included in the offer. In accordance with these trends, large supermarkets in tourist destinations use the opportunity when a large number of tourists arrives to the destination and raise prices of their groceries over night.

Family accommodation offers an outdated tourist product which is not popular on the tourist market. On the other hand, those who noticed these new trends and invested in new forms of the family tourist offer, and specialised in their tourist business activities, in a way covered the shortcomings and lack of guests and this type of tourist offer and adapted their offer to market demand, because trends indicate that tourists are not interested only in the sun and the sea. In any case, without additional or specialised tourist offer and strong marketing activities, in the future it will no longer be possible to fulfil tourist-, but also private accommodation facilities.

It is evident that times when tourist supply was uniform and when it lacked a certain level of imagination and spirit are behind us, and modern times, when strong competition all around is

taken into consideration, drives us to designing of new forms and types of tourist offer in which the tourist offer will no longer be characterised only by the sun and the sea. The following season should, according to estimates presented in various scientific research, be much harder in economic terms and it will require a sophisticated presentation on the foreign, but also the national market.

5. CONCLUSION

The world crisis and changes it causes in the world became an important factor. It is unavoidable either in tourism or in everyday life. Changes are happening and they encompass all the structures of the society, change habits, behaviour and thinking patterns in everyday life, actions, and business activities of every individual. This verifies the PH3 on a great number of potential tourists who choose to stay in their own country during their vacation.

The main hypothesis on economic rise which is not only based on tourism accomplishments, but rather on dynamic production activity, by application of new technologies and diligence is verified, and the emphasis in the paper is especially placed on the fact that each Croatian tourist company, in order to operate successfully in the future, should find a successful tourist product which can be sold on the tourist market, but also a certain business niche, along with using intellectual capacity of its employees and management, taking into consideration its economic segment which is closely connected with other economic activities, which verifies PH1. .

The strength and performance of a tourist company no longer lies exclusively in capital; it is rather dependent on a person – an employee or a manager and their knowledge, level of information, and motivation. In a tourist company, business performance and survival depend exclusively on intellectual performance of employees and their motivation, but also willingness to work harder and prolong the season. However, there is obviously no such sensibility in Croatia, which also verifies PH2. .

In the future, business performance of each tourism operator will become even more important, and business success will very much depend on finding innovative human resources able to produce, realise and offer something new and unknown to the tourist market which will be interesting to customers.

The scientific methods used in this paper are methods of systematic analysis, dialectical and logical method, primarily combined with inductive, deductive and conversely deductive-inductive method. Quantitative and qualitative methods are also frequently used with methods of comparison of spatial and temporal characteristics. The scientific contribution of this paper is to analyse and establish the real situation in tourism which has always been one of the primary economic branches in Croatia which stimulated the creation of new development processes and showed the way out of periods of crisis

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