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ANNUAL REPORT 2005

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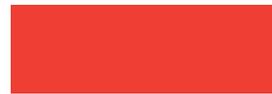
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Summary

The macroeconomic developments in 2005 were characterised by an acceleration of economic growth, increasing but still low rates of inflation, continued but slower growth of Croatia's external debt, and an increase in the current account deficit. Although the central bank's primary goal, price stability, was achieved, the CNB continued to place high priority on limiting the country's external imbalances, taking a series of measures to limit foreign borrowing by banks and companies related to them. In addition, the CNB introduced a significant refinement of monetary policy instruments, open market operations. Open market operations are conducted at weekly reverse repo auctions, and MoF treasury bills are acceptable collateral. These auctions are part of a broader set of innovations aimed at increasing the central bank's ability to manage banking system liquidity.

To begin with the question of growth. Real GDP rose to 4.3% in 2005 from 3.8% in 2004. It is interesting to note that the annual calculation of GDP for 2002 and 2003, released by the Central Bureau of Statistics (CBS) in March, revised GDP growth for these years upwards to 5.6% and 5.3% respectively. Although the figures for 2004 and 2005 are quarterly calculations based on partial statistical coverage, and thus not fully comparable to the earlier years, the data as it now stands suggests quite a sharp deceleration in growth in 2004. The beginning of 2005 was also unpromising, with GDP growing only 1.8% in the first quarter; but the economy gained momentum in the last three quarters.

Personal consumption made the largest contribution to total GDP growth in 2005, but the 2.1 percentage point contribution was down 0.3 percentage points from 2004. Part of the explanation for slowing consumption growth may lie with slower wage growth – real net wages grew only 1.7% in 2005, down from 3.6% in 2004. But consumer credit grew strongly, faster than in the year before.

Investment in fixed capital also made an important contribution to GDP growth, 1.4 percentage points. Investment had fallen in 2004, with the completion of the main works on the Zagreb-Split motorway in the middle of the year. In 2005, government capital expenditures were down, but private investment rose strongly. Two important indicators suggesting strong private expenditure growth were rapid growth in bank lending to enterprises (14.3%), and housing loans (28.8%).

Net exports of goods and services made a very small positive contribution, 0.1 percentage points, considerably below 2004's figure. Merchandise trade was behind this, as imports continued to grow strongly, but export growth fell. Strong tourism revenues were responsible for the positive outcome.

Government consumption contributed 0.2 percentage points to GDP growth, up from a 0.1 percentage point contribution in 2004.

Looking at the production side, value-added in industry rose a strong 5.5% in 2005. Production of capital goods grew sharply, some 14.9%, while growth in production of energy and consumer durables slowed substantially. Value-added in construction grew by 2.2% in 2005, lower than in 2004. But this annual slowdown masks a more complicated dynamic: fast growth in the first half of 2004, generated mainly by motorway construction, was followed by a sharp downturn in the second half of 2004 and the first half of 2005. In the second

half of 2005, construction activity came back to life, so that the year ended with acceleration rather than deceleration.

Value-added in the trade sector grew 4.2% in 2005, the same as in the year before. Seasonally adjusted real retail trade turnover rose from only 2.2% in 2004 to 3.2% in 2005. Finally, value-added in hotels and restaurants, which shows the developments in tourism, accelerated from 3.2% in 2004 to 5.1% in 2005.

Available data suggests a continuation of strong growth in the first quarter of 2006. The total volume of industrial production was up 6.6% in the first two months of 2006 compared to the same period last year. Imports of capital goods in the same period grew sharply, and real retail trade growth accelerated to 4.6%, measured by seasonally adjusted data. While real net wage growth slowed in the first two months to 0.6% from 1.4% in the fourth quarter of 2005, nominal government transfers to households rose sharply, and bank loans to household remained strong.

Registered unemployment was lower in 2005 than the year before, reaching 308,000 at the end of December. This is 3.1% less than at the end of 2004. The semi-annual Labour Force Survey found unemployment of 13.1% in the first half of 2005, 0.7 percentage points below the first half of 2004. (Data for the second half of 2005 will only be available after this report is published.) According to the CBS, total employment grew by 0.8%, or 11,000. However, the number of people insured with the CPIA, a good indicator of employment, rose by 1.8% in 2005, 0.5 percentage points faster than in the preceding year.

Turning now to inflation, consumer price inflation rose to 3.3% in 2005 from 2.1% in 2004. Strong imported price pressures, stemming from increased crude oil prices on world markets and the depreciation of the kuna against the US dollar, were key drivers of inflation in 2005. However, price pressures also came from the domestic market, above all, agricultural products, meat and meat products, and clothing and footwear, and from upward changes in administrative prices (electricity, fixed rents, and health care services).

Although the inflationary pressures seen in 2005 came from multiple sources and resulted in a noticeable increase in inflation, a set of factors helped keep inflation contained. Low wage increases, the strength of the kuna against the euro, restrained domestic consumption growth, labour productivity growth, and continuing strong competition in the retail and banking sectors were the most important factors. There are no signs that inflationary expectations are increasing, and the overall environment remains conducive to low inflation.

Price developments in the first three months of 2006 support this claim. Consumer price inflation fell from 3.6% in December 2005 to 3.0% in March 2006, and core inflation also fell from 3.0% to 2.6%.

The average daily exchange rate of the kuna against the euro appreciated 1.3% to 7.40 in 2005, from 7.50 in 2004. At the same time, the year-end exchange rate of HRK 7.38/EUR in December 2005 was 3.9% stronger than the HRK 7.67/EUR seen the year before. The US dollar strengthened by some 13.1% against the euro during 2005, so that the kuna depreciated some 10.6% against the dollar.

With the kuna appreciating in nominal terms against the euro, and depreciating against the dollar, the nominal effective exchange rate of the kuna depreciated 1.2%. Measured by consumer prices, the real effective exchange rate of the kuna only depreciated by 0.1%, however, as consumer price inflation was higher in Croatia than in the eurozone. However, measured by producer prices, the real effective exchange rate depreciated 4.1%, as Croatian producer price inflation was actually lower than inflation in Croatia's trading partners. In principle, this real depreciation measured by producer prices should increase

the price competitiveness of Croatian companies. However, a shadow of doubt exists here, due to the poor coverage of Croatia's producer price index.

Broad exchange rate stability, observed in the previous years, has been key to the Croatian National Bank's efforts to anchor inflationary expectations, keep inflation low and preserve financial stability. While this policy has resulted in low inflation, by itself it has not been enough to prevent the opening of external imbalances. In particular, Croatia's current account deficit grew sharply in 2002, under the influence of rapid credit growth, which in turn stimulated imports. Hence, the central bank took measures to slow down credit growth and thereby to improve the current account balance and slow down the foreign borrowing of private sector, banks especially, which used funds taken abroad to stimulate credit growth.

The measures taken by the CNB during 2005 to restrain foreign borrowing are a continuation of this effort. During 2005, the marginal reserve requirement rate, which directly applies to new foreign borrowing by banks and their related companies, was raised from 24% to 30% and then 40%. At the beginning of 2006, the rate was raised as high as 55%, and the coverage of the instrument was broadened.

In addition, since government foreign borrowing was one of the main causes of the debt increase in 2002 and 2003, the central bank has worked with the Ministry of Finance to reorient government borrowing from foreign to domestic markets. This reorientation of government foreign borrowing has resulted in a decrease in the government's share in Croatia's total external debt from 33.3% in 2003 to 27.6% in 2005.

Nonetheless, it is important to note that the government's effect on the external debt does not come exclusively from its direct foreign borrowing. Large fiscal deficit can indirectly increase the external debt by stimulating aggregate demand, creating demand for imports and demand for credit. Furthermore, even the issuance of government bonds on the domestic market may stimulate imports of capital, if these bonds are considered attractive by foreign investors and if investments in such bonds are not seen as substitutes for the other possible forms of investments in Croatia. This is why a credible, decisive, long-term plan for fiscal consolidation is crucial to efforts to control the external debt.

During 2005, Croatia's external debt grew from EUR 22.8bn to EUR 25.5bn, or 12.1%. Both banks and other domestic sectors increased their debt by about EUR 1.3bn, while foreign direct investment increased by EUR 0.3bn. Government external debt fell by EUR 0.2bn. The debt to GDP ratio grew by 2.3 percentage points to 82.5% at year-end.

Asides from the external debt, the other major theme in monetary policy during 2005 was the introduction of a set of new, more flexible instruments. The most prominent of these was the weekly reverse repo auction, which is used to inject liquidity into the banking system. The virtue of this facility is that it is regular and short-term, so that liquidity injected this week is automatically drained the next. Such an instrument allows the central bank to control the level of liquidity in the banking system more closely by choosing what proportion of the bids received it will accept, and by varying the interest rate at the auction. At the same time, the instrument allows banks to better manage their liquidity, since auctions are held weekly, and banks are free to bid for liquidity up to the level of eligible collateral that they hold (MoF T-bills).

Prior to the introduction of reverse repos, the main instrument for creating liquidity was purchase of foreign exchange by the central bank at auctions. While this instrument remains necessary to manage the exchange rate, it does not allow for the possibility of liquidity fine-tuning and is less flexible compared to reverse repo operations. During 2005, the central bank purchased some EUR 671m from banks, the largest sum purchased by the CNB in a calendar year so

far, and sold EUR 343m to the government.

After approximately two months in which auctions were held but banks showed no interest, during July, banks began to use the reverse repo facility on a large scale. The largest auction reached a level of some HRK 5.0bn, and the average amount of liquidity created on the 32 auctions at which there was trading was HRK 2.8bn.

In addition to the reverse repo facility, the CNB introduced a deposit facility, which allows banks to deposit their surplus funds overnight with the CNB, and an intra-day credit facility, designed to facilitate the work of the payments system. Taken together, these facilities also define an "interest corridor" between the low rate of the deposit facility (0.5%) to the reverse repo facility (3.5%) and the Lombard facility (7.5%). While interest rates do not play the guiding role in the Croatian financial system that they do in some other countries, due to the importance of the exchange rate, the introduction of an "interest rate corridor" is a step in the direction of directing attention to interest rates and away from the exchange rate.

Generally speaking, the changes in reserve requirements, including the marginal reserve requirement, resulted in moderate growths in the monetary aggregates in 2005. However, reserve money (M0), which includes kuna required reserves, grew rapidly, 19.1%. Perhaps more indicative of the monetary policy stance, the money supply (M1) grew 12.3%. Currency in circulation grew 11.0%, and demand deposits 12.9%.

The broadest monetary aggregate, M4, grew by 10.5% in 2005. Kuna quasi-money grew by 24.5%, a continuation of rapid growth in recent years. However, it should be noted that much of the growth in kuna quasi-money refers to kuna deposits with a currency clause; these deposits are close substitutes for foreign currency deposits, and their growth cannot be taken to indicate a growing willingness to hold kuna.

Foreign currency deposits grew 6.1%, driven by 6.8% growth of household foreign currency deposits. At constant exchange rates, these rates are higher, 8.2% and 8.8% respectively. Since foreign currency deposits are by far the largest component of M4, their growth is a key indicator of the health and potential of the banking system.

Banks' placements to the non-banking sector grew 17.2% in 2005 (or 19.9% at constant exchange rates). Thus their growth far exceeded that of deposits. Banks' placements growth accelerated compared with 2004, when it stood at 14.0%. One of the notable characteristics of 2005 was a sharp acceleration in lending to enterprises, which rose 14.3% during 2005 from 9.0% in 2004. Still, loans to households grew faster, by 20.3%. Housing loans were the fastest-growing component of loans to households, growing 28.8%. While the growth of domestic deposits in 2005 was strong, it was only partly used to finance the growth of bank placements. Banks thus borrowed abroad, mostly from their parent banks, and extended these funds to domestic sectors. As a result, their foreign liabilities increased by some HRK 6.0bn.

However, banks increased their foreign liabilities by another HRK 6.3bn in the first quarter of 2006, despite the new measures taken by the CNB. A little more time will be required to gauge the effects of these measures, but if they do not seem to be adequate, the central bank will not hesitate to take further measures.

Strong credit growth was one of the contributing factors to strong imports and a deterioration in Croatia's current account balance in 2005. The current account deficit rose to 6.3% of GDP in 2005 from 5.1% in 2004. Goods imports grew faster than exports (10.5% vs. 9.7%, in euros). Also, the balance on factor income deteriorated, from EUR -637m in 2004 to EUR -974m in 2005, a

52.9% change. Strong growth in tourism revenues prevented a larger worsening of the current account. Net tourism revenues grew 11.9%.

Looking in more detail at merchandise trade, the rate of growth of exports, measured at constant exchange rates, fell from 21.7% in 2004 to 10.0% in 2005. Ship exports fell 9.5% in 2005 after growing 32.7% in 2004. In addition, exports of clothing, leather, leather manufactures and dressed fur skins, electrical machinery, apparatus and equipment and telecommunication apparatus all fell. On the positive side, exports of oil and refined petroleum products, as well as sugar, sugar preparations and honey, natural and industrial gas and electrical energy all rose strongly.

The key contribution to strong growth of goods imports came from a marked year-on-year growth in imports of oil and refined petroleum products (39.4%, measured at current exchange rates). Even if we strip out imports of oil and refined petroleum products from the merchandise import series, all other imports grew by 9.2% in 2005 as compared to 6.8% in 2004. Automobile imports had been an important cause of increased imports in years before 2004. These imports fell in 2004 but rose mildly in 2005. While part of this increase relates to increases in capital goods imports, which can result in greater output and productivity in the future, the increase in imports in 2005 is worrisome.

On the capital and financial account, net foreign direct investment in Croatia grew by 67.1% to reach EUR 1.2bn in 2005. While the main component of FDI was equity investment, retained earnings were also very strong. FDI was concentrated in banking, other trade, along with crude oil and natural gas extraction, and hotels, motels and restaurants.

Portfolio investment declined by EUR 1bn (net) in 2005, with a EUR 0.5bn increase in outward portfolio investment and a EUR 0.6bn decrease in foreign portfolio liabilities. The decrease in liabilities mainly refers to the repayment of government obligations to London Club creditors and the repayment of due eurobond worth EUR 500m.

Other investment, including trade credit, other credit, and currency and deposits, recorded an inflow of EUR 3.6bn (net), far more than the EUR 1.4bn recorded in 2004. A significant part of this came from decreases in foreign assets, especially in banks' currency and deposits held abroad. Concurrently, foreign liabilities grew further, with the strongest growth being recorded in foreign loans to domestic sectors.

According to balance of payments statistics, the international reserves of the central bank rose by EUR 822m in 2005. Some 98.6% of the central bank's international assets are foreign exchange reserves, held almost equally as debt securities (48.4%) and currency and deposits (50.2%). The rest of the central bank's international assets are reverse repo agreements.

The index of pressure on foreign exchange markets, which combines changes in the central bank's international reserves and the exchange rate stayed in safe territory during 2005. The index peaked in July and August, but remained well below the danger level.

The deficit of consolidated general government, calculated on the modified accrual principle, fell from 4.9% of GDP in 2004 to 4.1% in 2005. Expenditures grew strongly early in the year, but later, as growth accelerated and contributed to more favourable fiscal developments, revenue growth accelerated, outpacing expenditure growth throughout the entire 2005.

A key fiscal event of 2005 was the design of a mechanism to pay the so-called "pensioners debt." This debt was the result of the annulment of government measures to decrease the rate of growth of pensions during the 1990's by the Constitutional Court. The Pensioners' Fund was set up for this purpose, and its

operations are not included in the statistical definition of consolidated general government. The largest portion of this debt is expected to be paid out in semi-annual instalments during 2006 and 2007.

Consolidated general government revenues grew by 6.9% in 2005, accounting for 45.0% of GDP. Value added tax remains the largest source of revenue, providing 31.3%, followed by social security contributions with 30.4%, excise taxes with 10.6%, income taxes with 7.6%, and profit taxes with 5.4%.

Consolidated general government expenditures grew by 6.6%, exceeding the plan by HRK 464.6m. Social benefits accounted for 42.3% of expenditures, followed by compensation of employees with 26.6%, use of goods and services 10.8%, subsidies 6.0%, and interest 5.1%. Interest payments grew some 15.4%, and remain a potential problem in the future, as rising interest rates abroad could easily result in rising interest rates in Croatia. This is another strong motivation for further fiscal consolidation.

Consolidated general government financing requirements amounted to HRK 6.4bn, or 2.8% of GDP in 2005. Domestic government obligations increased by HRK 11.9bn, and foreign obligations were decreased by HRK 4.1bn. The government increased its domestic financial assets by HRK 1.4bn, while leaving its foreign assets almost unchanged. The consolidated general government deficit on a cash basis was 3.7% of GDP, which, after exclusion of concession fee for the provision of telecommunication services and correction for expenditures contracted but not yet realised by Croatian Motorways and Croatian Roads and arrears, resulted in an overall deficit of 4.1% of GDP (deficit on modified accrual basis).

The total debt of general government rose from 43.7% of GDP in 2004 to 44.3% in 2005. The domestic debt of general government rose from 20.1% to 24.5%, while the external debt fell from 23.6% to 19.8%. The debt of the Croatian Bank for Reconstruction and Development (CBRD) rose from 2.7% to 3.1% of GDP. In addition, guarantees issued by the central government fell from 5.7% to 5.4% of GDP, with domestic guarantees increasing and foreign guarantees decreasing. All told, current and potential general government debt increased slightly as a percentage of GDP, rising from 52.1% to 52.8%.

These debt trends continued in the first two months of 2006. The total debt of general government rose by HRK 443.8m, with internal debt growing HRK 1,873.4m and external debt decreasing by HRK 1,429.6m. CBRD's debt decreased HRK 338.4m, and government guarantees also decreased by HRK 243.4m.

MACROECONOMIC DEVELOPMENTS

1

INTERNATIONAL BANK
REPORT 2005

1.1 International Environment

In 2005, the world economy grew by 4.8% year-on-year in real terms, 0.5 percentage points down on 2004. Movements in the price of crude oil spurred by strong aggregate demand on one side and great instability of supply on the other greatly contributed to the slowdown in global economic growth as well as to the rise in inflation.

1.1.1 European Union and the Eurozone

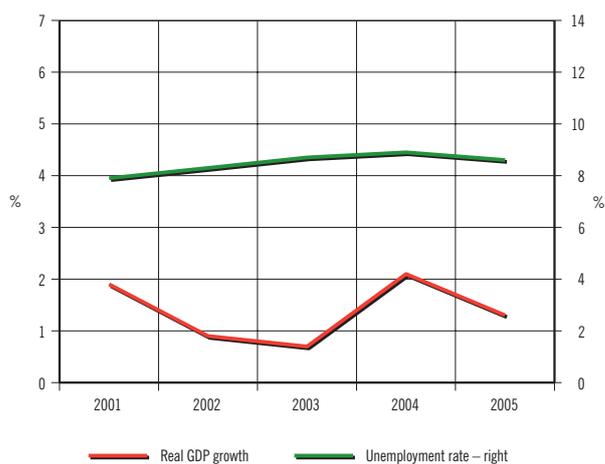
Eurozone economic activity slowed in 2005. GDP grew at 1.3% year-on-year in real terms, compared with 2.1% in 2004. Broken down by country, German and Portuguese economies grew at the lowest rate, while Italy's real GDP stagnated. Among the factors that contributed the most to the slowdown in economic growth in the eurozone are the year-on-year reduction in the positive contribution from the change in inventories and a mild reduction in the positive contributions from personal consumption and gross capital investments. Owing to faster growth of imports over exports, the contribution of net exports of goods and services to economic growth in the eurozone in 2005 was negative. Such movements may be explained by high oil prices and falling competitiveness of producers from the eurozone in the global market. Despite the slowdown in economic growth, the unemployment rate declined to 8.6% in 2005, from 8.9% in 2004.

Inflation measured by harmonised index of consumer prices (HICP) totalled 2.2% in 2005, up 0.1 percentage points on the previous year. Despite the substantial rise in the prices of energy products year-on-year, the stagnation in the general level of prices was influenced by the decline in the average annual growth rate of processed food products, industrial products exclusive of energy and services. Anticipating further inflationary pressures relating to the prices of energy products, the European Central Bank raised its Minimum Bid Refinance Rate by 0.25 percentage points, from 2% to 2.25%, in December 2005, for the first time since 2000.

Fiscal indicators for the eurozone in 2005 show a mild improvement compared with the previous year. The general government deficit in the eurozone countries

1.1

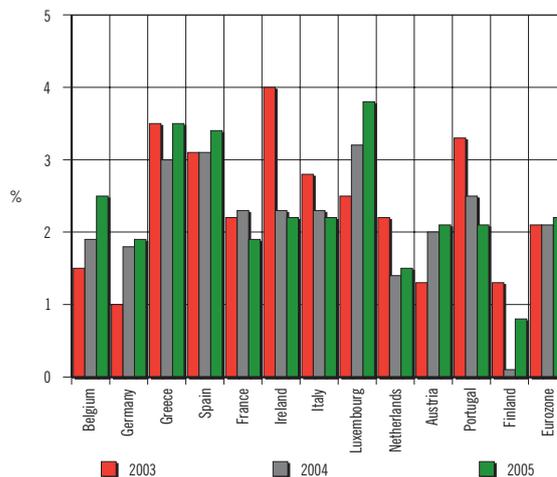
Real GDP Growth and Unemployment Rate in Eurozone



Source: Eurostat.

1.2

Inflation Rate in Eurozone Countries

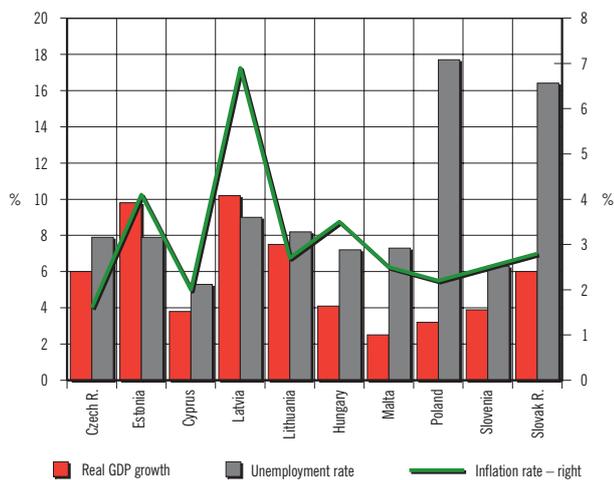


Source: Eurostat.

declined by 0.4 percentage points year-on-year, totalling 2.4% of GDP. In the same period, public debt in the eurozone went up by 1 percentage points on a year earlier, reaching 70.8% of GDP. As before, this indicator climbed to its highest levels in Italy and Greece (over 100%) and Belgium (slightly below 100%).

1.3

Real GDP Growth, Unemployment and Inflation Rates in New Member States in 2005



Source: Eurostat.

As for the new EU Member States, Latvia, Lithuania and Estonia boasted above average GDP growth rates in real terms, which have been exceeding 7% for several years, while the lowest growth rate was registered in Malta (2.5%). The unemployment rate in the labour markets of the new EU Member States declined by 0.8 percentage points in 2005 compared with the previous year, totalling 13.4%, with the highest unemployment rates being observed in Poland and Slovakia. Despite the pressures of high oil prices in the global markets, inflation in the new EU Member States decreased, averaging 3.1%, compared with 3.9% in 2004. Broken down by individual new Member State, most significant changes took place in Slovakia, where after two years of relatively high growth rates of consumer prices inflation significantly declined, to 2.8%. Of other new EU Member States, the highest growth rates of the consumer price index were seen in Latvia and Estonia and the lowest in the Czech Republic, Cyprus and Poland.

1.1.2 United States of America

In 2005, the real GDP growth rate in the USA totalled 3.5% compared with 4.2% a year before. The slowdown in economic growth was to the greatest extent a result of slower growth of private investments and personal consumption. Slower growth of private investments was primarily influenced by the decline in inventories year-on-year and the slowdown in the growth of

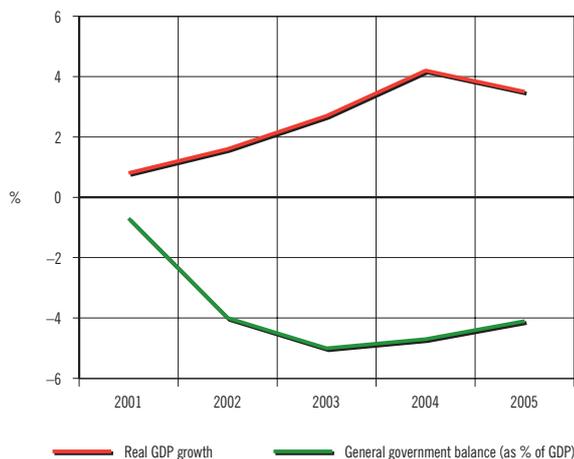
fixed investments, especially investments in housing construction. As for personal consumption, the consumption of consumer and durable goods as well as services grew at a slower rate. In addition, the economic activity of the government sector declined primarily as a result of slower growth of national defence consumption.

Broken down by quarters, the worst developments were seen in the last quarter of 2005 when real GDP growth totalled only 1.7% year-on-year. This may be largely attributed to the negative effects of natural disasters, such as hurricane Katrina and Rita that hit oil production facilities in the USA in the second half of the year, interrupting production and causing a sharp rise of oil prices as well as damaging the majority of infrastructure and business facilities.

In 2005, the US general government deficit declined for the second year in a row – from 5% of GDP in

1.4

Real GDP Growth and General Government Balance in the USA



Sources: Bureau of Economic Analysis and IMF.

2003 to 4.7% in 2004 and 4.1% in 2005. However, any further reductions in 2006 will be under pressure from potential additional costs of military activities in Iraq and Afghanistan as well as restoration and recovery costs associated with hurricanes Katrina and Rita. In addition, the American economy continues to be faced with a balance of payments current account deficit, which totalled 6.4% of GDP in 2005, up 0.7 percentage points over 2004. The largest contribution to the US current account deficit came from more prominent growth of imports of goods over exports, which caused a negative US trade balance of some USD 800bn.

At the same time, the consumer price index continued growing (3.4% in 2005 compared with 2.7% in 2004) mostly due to the growth of crude oil prices in the world market. In this environment, the Federal Reserve System continued with its restrictive monetary policy, increasing its Federal Funds Target Rate from 2.25% in December 2004 to 4.25% in December 2005. Interest rate growth resulted in the strengthening of the US dollar which appreciated against the euro by over 10% in 2005 as well as against the majority of world currencies, according to the exchange rate at the end of the period.

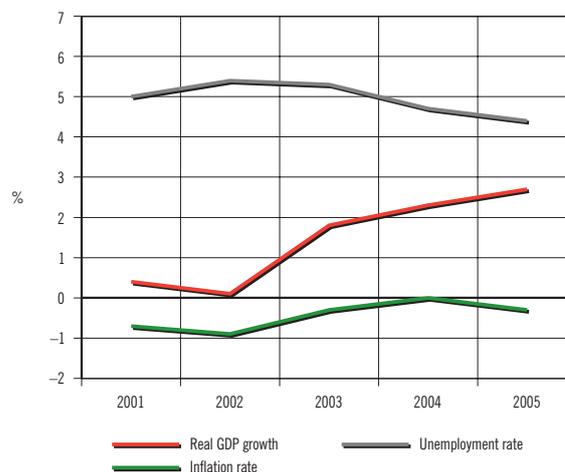
1.1.3 Japan

Positive trends in the Japanese economy continued in 2005. Real GDP growth rate totalled 2.7% in 2005 compared with 2.3% in 2004 and 1.8% in 2003. Positive contributions to Japan's economic growth came from domestic demand, namely personal consumption and private investments exclusive of housing construction, while net exports of goods and services made a mild positive contribution to real GDP growth. On the other hand, the contribution of the government sector was neutral since the positive contribution from government spending was offset by the negative contribution from government investments.

Japan's general government deficit narrowed by 0.8 percentage points year-on-year, totalling 5.8% of GDP in 2005. In the same period, Japan's public debt exceeded 160% of GDP, thus reaching the highest value of this indicator among developed countries. The efforts invested in fiscal consolidation were reflected primarily in the reduction of public investments in capital goods, since the reduction of current expenditures was made difficult by the rising social and health protection needs of the population. Despite central bank's expansive monetary policy, the Japanese economy again faced deflation in 2005 – the consumer price index declined by 0.3% year-on-year. In contrast, changes in the consumer price index in the first months of 2006 were positive (0.5% in January and 0.4% in February year-on-year), with such developments expected to continue in the remainder of the year.

1.5

Real GDP Growth, Inflation and Unemployment Rates in Japan



Source: Statistics Bureau of Japan.

1.1.4 Developing Countries

The economies of developing countries continued growing at high rates in 2005, raising the real growth rate of the world economy to high 4.8%. Among them, China again boasted the highest growth, with its real GDP growing by 9.9%. The main generators of Chinese economic growth in 2005 were domestic consumption spurred by the increase in wages and growth in private sector investments. External sector contribution was positive but smaller than last year due to a mild slowdown in the export of goods and services. Despite the dynamic economic activity, China's inflation measured by the index of consumer prices declined from 3.9% in 2004 to 1.8% in 2005.

Marked growth of investment and personal consumption and China's growingly intensive participation in international trade has been affecting the economies of other countries. Strong growth of demand in the environment of steep economic growth in China contributed to the increase in prices of raw materials in the world market as well as to the growth of goods and services imports of other countries. This also contributed to good economic results in the Asian and other countries.

Russia's GDP growth rate totalled 6.4% year-on-year. The greatest contribution to this growth was made by high energy prices in the world market which favourably affected Russia's exports, since energy products make up a significant share. In addition to significantly contributing to economic growth, rising exports revenues also contributed to a rise in international reserves as well as to generation and growth of budgetary surplus because tax revenues also went up. Positive changes in the Russian economy continue to be accompanied by the problems of high unemployment and high inflation, which totalled some 10% in 2005.

Economic activity in Latin American countries continued to be dynamic, however with results in 2005 being slightly weaker than in 2004. The slowdown in the economic growth of the region was primarily affected by the slowdown in the growth of the two largest economies, Brazil and Mexico. Lower growth rates in these two countries were partly caused by weaker foreign demand, i.e. the slowdown in economic growth in the USA, their most important trade partner. In the majority of other Latin American countries the estimated real GDP growth rates in 2005 were higher than the year before, thanks to the world demand for products like oil, coffee and copper which make up a lion's share of their exports.

1.1.5 Oil Price Movements

Steep growth of crude oil prices in the world market in 2005 was one of the main factors in connection with the slowdown in global economic growth and rise in inflation. The annual growth rate of the average price of crude oil of 30.4% in 2004 was raised to 44.5% in 2005. The average price of crude oil in some months in 2005 exceeded USD 60 per barrel. Marked rise in the price of crude oil was affected by the global growth in demand accompanied by continuous political risks and uncertainties and limiting factors on the supply side.

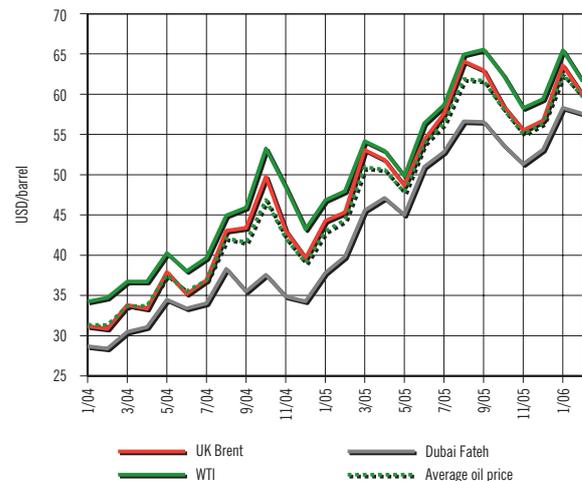
Strong economic growth in China and India and in numerous other developing countries in 2005 was accompanied by growing demand for energy products

which contributed to the rise in the prices of crude oil and other energy products and raw materials. As for supply, the 2005 was marked by uncertainty in the world's oil market arising from uncertain supply from OPEC members and political instability in Iraq, Venezuela and Nigeria. In addition, the movements of oil crude prices were under the influence of a series of short-term effects. Expectations of a slowdown in China's economic growth and reported growth of oil reserves in the US, the world's greatest oil consumer, contributed to a short-term decline in oil prices in May 2005. However, with uncertainty over oil production and delivery growing again, being intensified by the effects of the hurricane Katrina in August 2005 and the disruption in the production and processing of oil in the Mexican Gulf, the average crude oil price in August and September reached almost USD 62 per barrel.

After the weather settled down, the production in the Mexican Gulf started again and OPEC members decided to maximally increase production, crude oil prices declined in October and November 2005. A more prominent decline in oil prices was prevented by the uncertainty caused by the effects of the hurricane Rita, which again in September shortly shut down production in the Mexican Gulf, followed by the gas supply dispute between Russia and the Ukraine. This together with the increased demand for energy products due to a cold winter contributed to a new rise in the price of crude oil late in 2005. The price of crude oil totalled USD 58 per barrel at end-December, with its continued growth in the first quarter of 2006 compared with the last quarter of 2005 being spurred among other things by political disagreements surrounding Iran's uranium enrichment programme and further political uncertainty in the crisis areas of the Middle East.

1.6

Crude Oil Price in the World Market



Source: Bloomberg.

1.2 Economic Activity

1.2.1 Demand

According to the annual GDP calculations for 2002 and 2003, real GDP growth rates determined by the quarterly calculation were adjusted upwards, from 5.2% to 5.6% and from 4.3% to 5.3% in 2002 and 2003 respectively. The largest revision resulting from the annual calculation for 2002 was to the contribution of government consumption to GDP growth, from -0.4 percentage points according to the quarterly calculation to 1.1 percentage points. The contribution of total gross capital formation also underwent considerable revision upwards, from 5.4 to 6.5 percentage points.¹ The contribution of personal consumption was only slightly revised, from 4.5 to 4.6 percentage points, while the revision of the external imbalance calculation increased the

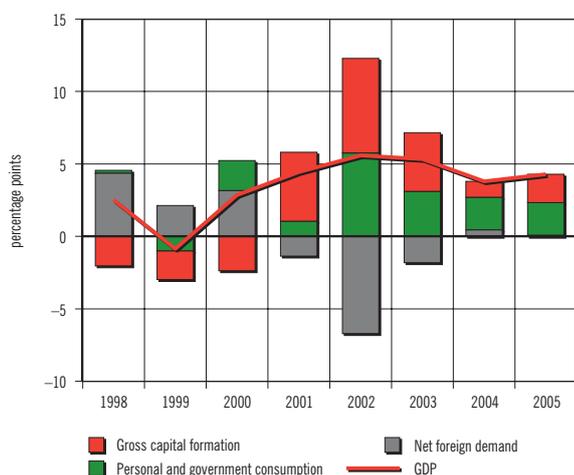
¹ Total gross capital formation consists of gross fixed capital formation and a change in inventories. The latter also includes statistical discrepancy.

negative contribution of net foreign demand, from -4.2 to -6.7 percentage points. The annual rate of change in implicit GDP deflator was revised upwards, from 2.9% according to the quarterly estimate, to 3.6% according to the annual GDP calculation, with the largest adjustments being made in the deflators of gross capital formation and goods and services exports. Thus, as a result of the final calculation for 2002, nominal GDP was revised upwards by HRK 1.84bn, reaching HRK 181.23bn.

As a result of the annual GDP calculation for 2003, the largest revision was made to the contribution of gross fixed capital formation, by 2.0 percentage points compared with the quarterly estimate, which thus reached 6.0 percentage points. The contribution of personal consumption to GDP growth in 2003 was revised from 2.5 to 2.8 percentage points, and the contribution of government consumption was revised upwards by 0.4 percentage points, reaching 0.3 percentage points. The negative contribution of net exports was again revised upwards in 2003, from -1.5 percentage points to -1.8 percentage points. According to the annual calculation, the change in inventories also made a negative contribution to the economic activity growth, -1.9 percentage points. As a result of the harmonisation with the annual calculation, the annual rate of change in implicit GDP deflator was also revised upwards, to 3.9% , which is up 0.7 percentage points from the quarterly estimate. Thus, the total GDP at current prices in 2003 was revised upwards by HRK 5.36bn and it currently stands at HRK 198.42bn.

According to the quarterly GDP estimate, the annual growth of real GDP accelerated from 3.8% in 2004 to 4.3% in 2005.² Modest economic growth in early 2005 (1.8%) was followed by its strengthening in the remaining part of the year, primarily on account of a recovery of investment activity and stronger personal consumption. For the entire year, the largest contributor to the economic activity growth was personal consumption (2.1 percentage points, a 0.3 percentage points decrease from 2004). Gross fixed capital formation contributed significantly to the real growth (1.4 percentage points). The contribution of government consumption to GDP growth in 2005 was mildly positive, as opposed to its mildly negative contribution in 2004. Similar developments were observed in the change in inventories, although its contributions were slightly higher. The contribution of net foreign demand to total GDP formation in 2005 was considerable smaller than a year before, partly owing to a slowdown in overall exports accompanied by stable growth in goods and services imports. However, favourable developments in foreign trade over the third quarter of 2005 offset the negative impact of the above mentioned dynamics of imports and exports in the rest of the year. Thus, at the entire 2005 level, net foreign demand made a mildly positive contribution of 0.1 percentage point.

Contributions of Domestic and Foreign Demand to GDP Growth



The rate of change in the general level of prices, measured by implicit GDP deflator, stood at 3.2% in 2005, a decrease of 0.1 percentage point compared with its growth in 2004. With the realised real economic growth and the stated inflation decrease, nominal GDP was estimated at HRK 229.03bn in 2005, an increase of HRK 16.2bn or 7.6% compared with the previous year.

Personal consumption was the strongest growth generator in 2005, despite the steady fall in its growth for the third consecutive year. Analysed by quar-

2 The CBS data on GDP for 2004 and 2005 are provisional data and are based on a quarterly GDP estimate, without being harmonised with the annual GDP calculation.

ter, the lowest growth rate was recorded in the first quarter, while the rates in the rest of the year went up slightly. Owing to the described slowdown in the growth of personal consumption, from 3.9% in 2004 to 3.4% in 2005, its contribution to GDP formation declined to 2.1 percentage points. The personal consumption dynamics in 2005 only partly reflected the developments in main sources of its financing. The growth of average real net wage paid slowed down from 3.6% in 2004 to 1.7% in 2005. Employment growth also decelerated slightly, according to the CBS data. However, the number of persons insured with the CPIA increased slightly. Furthermore, indicators of government transfers to households at the consolidated general government level,³ with pension payments accounting for the largest share in these transfers, point to their mild nominal growth of 3.5% in 2005. Their growth exceeded the consumer price growth recorded in 2005 (3.3%), showing that government transfers increased also in real terms relative to the year before. The semi-annual pension indexing to the nominal semi-annual gross wage growth⁴ of 2.2%, realised in September 2005 (for July pensions) partly offset the negative effects of the decelerating wage bill in that year, but influenced favourably the personal consumption dynamics. Somewhat slower growth was recorded in irregular sources of consumption financing. Nominal bank placements to households, excluding housing loans, rose by 16.2% in 2005 compared with 2004, according to the balance of loans at the end of the period. However, their growth, although slightly stronger than in 2004, still remained much below the average growth rate recorded in the last few years (the average growth rate in the period from 2001 to 2004 was 31.3%).

Government consumption declined in real terms in 2004, but rose mildly in real terms over 2005. However, as it still lagged behind the growth in other aggregate demand categories, its share in GDP continued to decrease, falling to some 20% in 2005. Nevertheless, the negative contribution of this category to GDP growth in 2004 (0.1 percentage point) was followed by its positive contribution in 2005, standing at 0.2 percentage points.

According to the original data from the Ministry of Finance, the real growth of government consumption primarily arose from the growth of expenditures for the use of goods and services, which was faster than in 2004. At the same time, the data from the CBS point to a mild increase in employment in public administration (including education and health care), while severance payments went down in real terms.

The growth of gross fixed capital formation⁵ accelerated over 2005, reaching an annual rate of 4.8% in 2005. Investment growth was pronouncedly low (0.3% year-on-year) in the first quarter, but it accelerated in the following quarters, reaching a real annual growth rate of 9.9% in the fourth quarter, the highest rate recorded since the fourth quarter of 2003. Similar developments in gross fixed capital formation and value added in construction during 2005 corroborate the importance of investment in construction projects, which account for the largest share of total investment in fixed assets.

3 The MoF data on the outturn of revenues and expenditures of the consolidated general government according to the international methodology for government financial statistics (GFS 2001).

4 Pension indexing has been carried out since 2004 pursuant to the Act on Amendments to the Pension Insurance Act (Official Gazette 30/2004). Under the new Act on Amendments to the Pension Insurance Act (Official Gazette 92/2005), which became effective on 31 December 2005, the semi-annual pension indexing is carried out on the basis of the average semi-annual rate of change in consumer price index and in average gross wage.

5 Total gross capital formation consists of gross fixed capital formation and a change in inventories. However, given the statistical discrepancy included in the change in inventories, it is not possible to determine precisely the size and dynamics of this component of gross capital formation. The change in inventories accounts for less than 3% of GDP and less than one tenth of total investment.

According to the nominal Ministry of Finance data, government capital expenditure (GFS 1986),⁶ accounting for somewhat less than one fourth of total capital investments, decreased in 2005. On the other hand, private investment grew at a faster pace in nominal terms during 2005, thus offsetting the afore mentioned decline in public investment.

Private investment dynamics was in keeping with the developments in bank placements to enterprises, which grew strongly in 2005, reaching an annual growth rate of 14.3%, according to the balance of loans at the end of the period. In addition, gross fixed capital formation during the previous year was partly fuelled by households' real estate investment, largely financed by housing loans, whose growth in the observed period accelerated from 26.6% in 2004 to 28.8% in 2005, according to the balance of loans at the end of the period.

The strengthening of investment activity resulted in more robust growth in the manufacture and imports of capital equipment in 2005, while the growth in manufacture and imports of intermediate goods declined, but remained positive. As the above mentioned groups of industrial products account for almost 2/3 of goods imports, the strengthening of investment activity contributed significantly to total imports growth in 2005.

Goods and services exports grew at a slower pace in 2005, while the growth of goods and services imports continued at the same pace as in the previous year. The growth of imports outdid that of exports in the first quarter only, while in the remaining quarters, exports grew faster than imports. The described foreign trade developments resulted in a positive contribution of net foreign demand to GDP growth of 0.1 percentage point, which is somewhat less than in 2004. Nominal CBS data suggest that such developments in foreign trade in 2005, despite more dynamic growth of net services exports, were due to a worsened trade imbalance. The imports/exports coverage rate was 47.5% in 2005, somewhat lower than in the previous year. By contrast, developments in the services account,⁷ like in the previous years, were determined by the dynamics of receipts from tourism, which went up in 2005, after having declined in the previous year.

1.2.2 Output

Quarterly GDP estimate according to the production method shows that GVA rose by 4.1% in real terms in 2005 compared with the previous year which saw the same GVA growth rate. In 2005, gross value added in all economic activities declined by 0.2 percentage points compared with GDP growth, as the growth of taxes on goods reduced by government subsidies significantly surpassed GVA growth.⁸ Such developments in taxes reduced by subsidies

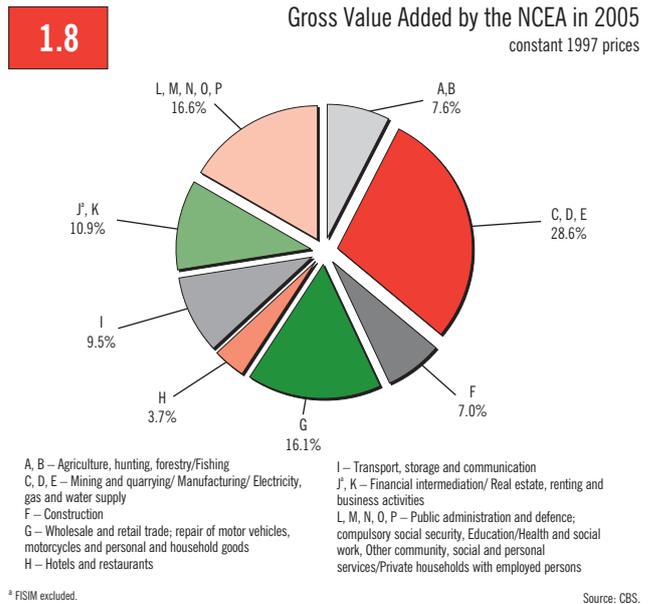
6 Government capital expenditure, as a category in the GFS 1986 methodology, was calculated on the basis of the data presented according to GFS 2001.

7 Differences between total imports and exports according to GDP calculations in the national accounts and according to balance of payments data are still noticeable. They arise primarily from different calculations of tourist consumption. The sharpest differences in services exports were recorded in 2003, but decreased subsequently. In 2005, services exports according to national accounts grew somewhat faster than according to the balance of payments data.

8 Income from the sale of goods and services, after exclusion of the income from taxes on goods and addition of the value of received subsidies, is shown in the so-called basic prices.

arose from accelerated annual growth of taxes paralleled with a decline in subsidies in 2005. The trends in subsidies resulted from stagnancy in subsidies granted to public corporations and stronger growth of subsidies to private enterprises.

In 2005, the largest slowdown in value added was recorded in agriculture, hunting, forestry and fishing. The real growth rate of this activity was 0.1%, the lowest rate recorded in a single activity in that year. By contrast, the strongest real growth was achieved in financial intermediation, transport, industry and hotels and restaurants. Like in the previous year, the greatest contribution to GVA growth in 2005 was provided by industry. Compared with 2004, the sharpest decrease was recorded in the contributions of agriculture and construction, and the largest increase was observed in the contribution of industry.

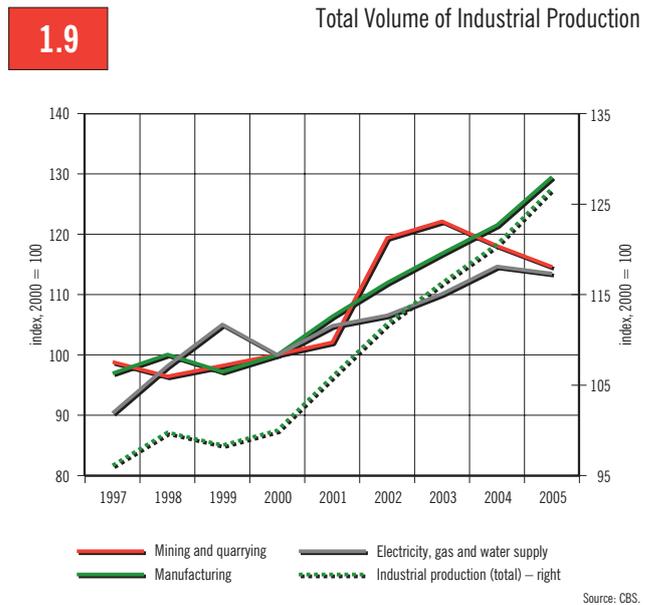


Industry

The real growth of GVA in industry, which comprises manufacturing, mining and quarrying and energy supply, accelerated from 4.0% in 2004 to 5.5% in 2005. After a slowdown in the first quarter, the GVA growth in industry accelerated strongly in the second quarter, but was retarded again in the second half of the year, still maintaining its high growth rates (above 5.5%). Like in 2004, this activity made the largest contribution to GVA growth in 2005 (1.5 percentage points). These developments were in line with the developments in the total volume of industrial production in 2005. The total volume of industrial production went up 5.1% in 2005, an acceleration compared with 2004, and its fluctuations during the year were in line with the value added dynamics.

According to the main industrial groupings (MIGs),⁹ production declined in energy supply and in the manufacture of durable consumer goods, so that the growing domestic demand for these products was partly satisfied by imports. The most significant growth in 2005 was recorded in the manufacture of capital goods (14.9%), which was in line with the strong investment activity during the observed period. This was the strongest growth of production in capital goods recorded since 2001.

According to the National Classification of Economic Activities (NCEA), the annual growth in manufacturing, which accounts for more than 80% of total industrial production, accelerated to 6.6% in 2005. Such developments re-



GDP calculation according to the production method is carried out by adding together the value added in all economic activities increased by taxes on goods and reduced by government subsidies. The CBS does not include this category in its GDP calculation at constant prices, so that this value may be obtained as a GDP and GVA residual (expressed at 1997 constant prices).

9 In its Monthly Statistical Report for February 2006, the CBS published recalculated series of industrial production volume indices for MIGs aggregates, for monthly data series covering the period from 1997 onwards, according to the new calculation methodology (MIGs 2001), which is in line with the EU recommendations.

sulted from high growth rates recorded in the last three quarters of 2005, as opposed to only mild growth in production over the first quarter. By contrast, production declined in energy supply (electricity, gas and water), as well as in mining and quarrying in 2005. However, the fall in production in mining and quarrying was less serious in 2005 compared with the previous year.

The upturn in domestic demand, primarily for investment goods, was not strong enough to compensate for the diminishing foreign demand in 2005, as shown by the nominal CBS data on merchandise trade. Because of this mismatch, the stock of finished goods grew at an annual rate of 11.0% in 2005, exceeding industrial production growth, which was particularly noticeable in the first and third quarters of the year.

Construction

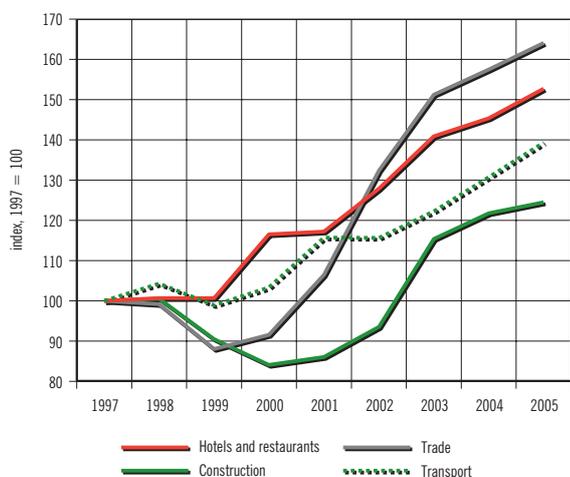
GVA in construction rose by 2.2% in 2005, relative to the previous year, which represented a 3.4 percentage point decrease compared with the annual growth in 2004. The first quarter saw a decline in construction activity, partly as a result of unfavourable weather conditions in February. However, in the next period construction activity recovered resuming its strong growth. In the fourth quarter of 2005, value added growth in this activity reached 5.7%. Owing to a slowdown in construction activity in the previous year, its contribution to total GVA formation decreased from 0.4 percentage points in 2004 to 0.2 percentage points in 2005. These developments were in line with the reduced volume of public investment during this period.

Monthly indicators of construction activity point to a recovery of the annual dynamics of construction activity over the second half of 2005, fuelled by a recovery of civil engineering works. However, the recovery in the second half of the year was not enough to compensate for the fall in the first half of the year. As a result, the total volume index of construction works for 2005, as measured by working hours of construction workers at building sites, fell by 0.8% at the annual level. However, leading indicators of construction activity (the value of net construction project orders and value of works according to construction permits issued) at the end of 2005 and the beginning of 2006, as well as the volume index of construction works in January 2006,

announce positive developments in this activity in the following months. This is also supported by the recovery of production in mining and quarrying at the end of 2005 and in early 2006.

1.10

Gross Value Added in Selected Economic Activities



Source: CBS.

Trade

The dynamics of gross value added in trade stabilised at 4.2% in 2005, thus stopping its downward trend observed since 2003. Its contribution to overall GVA growth remained unchanged relative to 2004, standing at 0.7 percentage points.

A slowdown in personal consumption in 2005 was offset by stronger foreign demand for consumer goods, having no negative impact on GVA growth in

trade. Nominal CBS data on distributive trade point to an acceleration in the annual growth of retail trade turnover, at a rate of 7.1%, as well as a recovery of wholesale and its fast growth (at the rate of 9.9%), following the 2004 decline. Moreover, retail trade satisfied the growing demand for consumer goods by reducing its stocks, accumulated in the previous years. Stocks in wholesale grew, exceeding the absorption capacity of retail network and other customers (which may also be a sign of positive business expectations).

Favourable developments in trade were also suggested by the growth of real retail trade turnover, which rose to 2.8% in 2005, a mild acceleration compared with 2004. The seasonally adjusted data point to even stronger growth, from 2.2% in 2004 to 3.2% in 2005.

Tourism

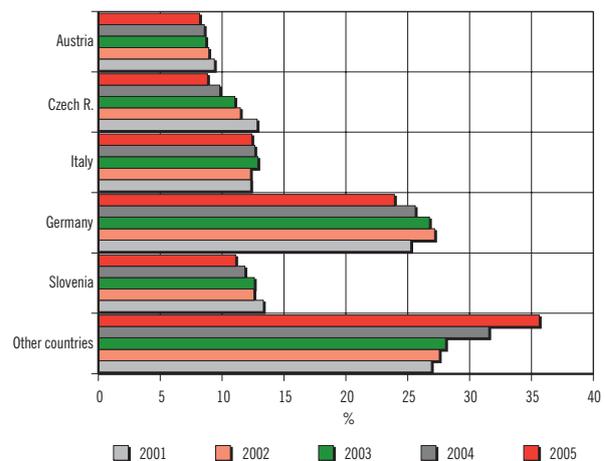
According to quarterly GDP estimate, the growth of gross value added in hotels and restaurants accelerated from 3.2% in 2004 to 5.1% in 2005. This was primarily the result of the marked strengthening of this activity during the second half of the year (its annual growth rates in the third and fourth quarters of 2005 were 7.6% and 7.9% respectively). As a result, its contribution to GVA growth increased from 0.1 percentage point in 2004 to 0.2 percentage points in 2005. This relatively low contribution can be accounted for by the small share of this activity in total value added in all economic activities. However, indirect and direct effects of this segment of the economy on other real developments are much stronger than suggested by this contribution.

The realised developments were in line with the acceleration of total nominal income from tourism and net income from tourism recorded in the balance of payments for 2005. The outturns were also in line with the volume indices available on a monthly level, i.e. the numbers of tourist nights and tourist arrivals. In 2005, tourist nights rose only slightly faster than tourist arrivals, so that the number of tourist nights per arrival remained almost unchanged relative to the previous year (5.1). Unlike in 2004, the number of arrivals and overnight stays of tourists arriving in organised groups grew faster than the arrivals and nights of individual tourists, which is attributable to the changes in the structure of tourists by country of residence.

Although tourists from Germany (23.9%), Italy (12.4%), Slovenia (11.1%), the Czech Republic (8.8%) and Austria (8.2%) accounted for the largest share in foreign tourist nights in 2005, their share, particularly that of tourists from Germany, the Czech Republic and Slovenia, in the structure of total foreign tourist nights fell slightly compared with the previous year. A strong impact on the change in the structure of foreign tourist nights was made by more rapid growth in arrivals and nights of tourists from France, Great Britain and the Scandinavian countries, as well as from extra-European countries.

1.11

Structure of Foreign Tourist Nights
by Country of Residence



Source: CBS.

Transport and Communications

Following acceleration in 2004, the real growth of GVA in transport, storage and communication slowed down to 6.5% in 2005, a growth rate still above average compared with other activities. The contribution of this activity to real overall GVA growth held steady at 0.6 percentage points.

According to the preliminary CBS data, the number of transported passengers rose at an accelerated pace in 2005 relative to 2004, and the growth measured in passenger-kilometres was even stronger. The growth of transported goods measured in tons also accelerated in 2005 compared with the previous year, while transported goods measured in ton-kilometres declined at the annual level. In 2005, road transport, as the most significant type of transport which accounts for over one half of total goods and passenger transport, increased by 0.4%, measured in passenger-kilometres, and by 5.8% measured in ton-kilometres, compared with 2004. High growth rates were also recorded in air transport of passengers and goods, but its level was still low, particularly as concerns goods transport. Telecommunications have recorded the most dynamic growth of activity for several consecutive years. The number of minutes spent in mobile network went up 27.9% in 2005 relative to 2004, and the number of minutes spent in fixed network fell by 7.9% at the annual level. The growth of minutes spent in mobile network is based on strong competition, the rising number of users and introduction of ever-increasing number of new services in the mobile network.

Economic Activity in Early 2006

According to the available monthly indicators of economic activity, the beginning of 2006 was marked by positive movements in the real sector. The volume indices of growth in industry, trade, construction and tourism, as well as merchandise trade data for early 2006, point to the strengthening of both domestic and foreign demand. These developments suggest a continuation of the strong gross domestic product growth over the first quarter, although it is difficult to forecast the intensity of the growth.¹⁰

Industrial production grew strongly at the beginning of the year, thus continuing positive developments observed in this segment of the economy during the last nine months of 2005. Total volume of industrial production went up 6.6% in the first two months of 2006 (cumulatively) compared with the same period in 2005. Such growth was primarily the result of a pronouncedly high annual growth rate in February (7.3%). According to the new calculation methodology for main industrial groupings (MIGs 2001), the largest contribution to industrial production growth in February was made by the manufacture of capital and intermediate goods (seasonally adjusted), which is in line with positive developments in construction recorded in early 2006. In January and February, capital goods imports also accelerated, suggesting the strengthening of domestic demand for investment goods. The annual growth in stocks of finished industrial goods slowed down in early 2006. As a result of the change in their structure compared with end-2005, the largest contribution to the growth of stocks in February was made by the accumulation of stocks of investment goods. The described developments in stocks, paralleled with a recovery of retail trade in January and February, point to the strengthe-

¹⁰ According to the CBS calendar of statistical data issued in 2006, quarterly GDP estimate for the first quarter of the current year will be available on 30 June 2006.

ning of domestic demand for consumer goods, which is also supported by the data on growing imports of durable and non-durable consumer goods.

The end of 2005 and the beginning of 2006 were marked by a recovery in retail trade, as indicated by seasonally adjusted data. Thus, the real retail trade turnover accelerated at the annual level since December 2005, and it rose cumulatively by 4.6% in January and February 2006, relative to the same period in the previous year. These developments were only partly in line with the trends in the sources of personal consumption financing early in the year, as the annual growth of employment slowed from 1.3% in the fourth quarter of 2005 to 0.9%, cumulatively, in January and February (despite the faster growth in the number of the insured with the CPIA over the same period), and the annual growth of average real net wages declined from 1.4% in the fourth quarter to 0.6%, cumulatively, in January and February. By contrast, nominal government transfers to households, at the consolidated central government level, grew at a fast pace during the observed period, while nominal bank placements to households slowed down in early 2006. The results of the CNB Consumer Confidence Survey conducted in January 2006, point to a significant decline in consumer optimism, in seasonally adjusted terms.

Construction activity recovered continuously, according to the seasonally adjusted data, following its decline in the first half of 2005. Thus, the total volume of construction projects grew at a high annual rate of 12.9% in January. Such an increase was mainly due to the growth in the construction of buildings, although high growth rates were also observed in civil engineering works over the observed period. The upward trend in the value of net construction project orders in the last quarter of 2005 and the value of works according to construction permits issued late in 2005, as well as in January and February 2006, paralleled with a recovery of production in mining and quarrying, suggests that positive developments in construction will continue into the following months.¹¹

January and February 2006 saw a sharp annual increase in the number of tourist nights and arrivals in commercial accommodation facilities. In the first two months of 2006, tourist nights and tourist arrivals rose cumulatively by 13.4% and 14.6% respectively, at the annual level. The share of domestic tourists in overall tourist nights increased considerably, which is typical of the period off the main tourist season, exceeding 60.0% in January and February. The data for March and April, particularly concerning the Easter holidays, are likely to point to a further increase in tourist arrivals and overnight stays.

1.2.3 Labour Market

Both seasonally adjusted data and original data on registered unemployment point to a decline in registered unemployment. According to the original data, the number of unemployed persons registered with the CES stood at 308,000 at the end of 2005, approximately 10,000 or 3.1% less than at end-2004. The decline mainly relates to the first half of the year. The average registered unemployment rate was 17.9% in 2005, 0.1 percentage point below the average rate in 2004.

¹¹ This is supported by the nominal data on planned capital expenditures of the consolidated general government in 2006, indicating the developments in government investment in traffic infrastructure in this year. These data exceed by 6.8% the government capital expenditure outturns in 2005, which saw their decline.

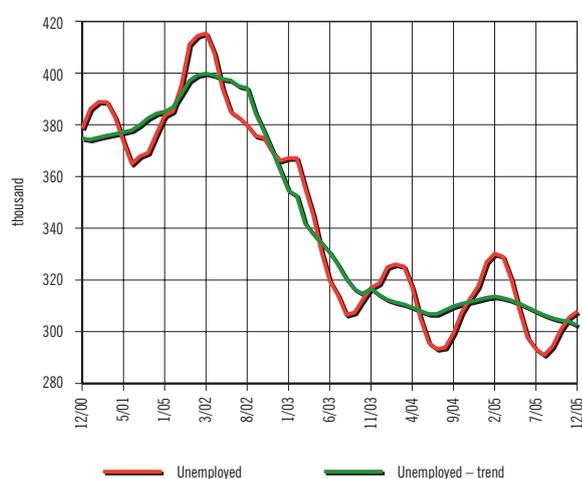
Final CBS data point to a rise in total employment in 2005, by an average of 0.8% (11,000). In the previous year, the annual employment growth rate was higher, 1.2%. The growth of real gross and net wages decelerated in 2005. As a result, the average real net wage grew at an annual rate of 1.7% and the average real gross wage, i.e. labour costs, rose at an annual rate of 1.2%.

Employment and Unemployment

A decline in registered unemployment, recorded in the first half of 2005, was followed by its slight acceleration from mid-year on. Given the usual fluctuations resulting from stronger seasonal employment during the summer months and the inflow of new persons from schools into the register during the autumn months, the average registered unemployment rate was 17.9%, which was in line with the dynamics of persons registered with the CES. The registered unemployment rate at end-2005 was 0.7 percentage points lower than the rate at end-2004.

1.12

Unemployed Persons Registered with the Croatian Employment Service



Source: CES.

A more detailed analysis of the structure of inflows into and outflows from the CES register of unemployed persons shows that the annual fall in registered unemployment in 2005 resulted from a decline in the number of the newly registered with the CES. The level of inflows into the register was exceptionally high throughout 2004, mainly due to the re-inclusion into the register of previously cleared persons with work experience. The re-inclusion of the unemployed into the register started to decline as early as the beginning of 2005, and was paralleled with a decrease in the number of the newly registered. A continuous weakening of inflows into the CES register throughout 2005 resulted in their cumulative annual fall of 5.4% relative to 2004. Strong growth of employment from the register in the second quarter of 2005, owing to seasonal influences, was followed by its stagnation at the level achieved in early 2004. In 2005, the number of persons cleared from the records for reasons other than em-

Table 1.1 Inflows into and Outflows from the CES Register
rate of change over the same period last year, in %

	1 – 6/2005 1 – 6 2004	7 – 12/2005 7 – 12/2004	2005 2004	Share in total flow		
				1 – 6/2005	7 – 12/2005	2005
Newly registered						
a) by type of inflow:	0.04	-9.7	-5.4	100.0	100.0	100.0
– directly from employment	1.00	-7.2	-3.6	57.9	59.8	58.9
– from private agriculture or similar works	-13.60	-16.3	-14.9	0.9	0.8	0.9
– directly from school	3.10	-11.6	-8.8	4.6	14.5	9.9
– from inactivity	-1.50	-14.0	-7.4	36.6	24.9	30.3
b) by previous work experience:	0.04	-9.7	-5.4	100.0	100.0	100.0
– first-time job seekers	-1.10	-14.1	-9.0	23.3	27.1	25.4
– previously employed	0.40	-8.0	-4.2	76.7	72.9	74.6
Outflow from the CES register	-2.30	-1.5	-1.9	100.0	100.0	100.0
– outflow from the register to employment	4.30	-1.6	1.7	62.6	53.5	58.3
– cleared for other reasons	-11.70	-1.3	-6.5	37.4	46.5	41.7

Source: CES.

ployment remained at the low level to which it fell in late 2004. Owing to a large number of clearings from the records in the first half of the year, the annual fall in the number of persons cleared from the records reached 6.5%. A comparison between the annual growth rate of clearings from the records for reasons other than employment and the annual growth rate of the newly registered shows that employment from the register was the only growing category in 2005, rising at an annual rate of 1.7% relative to the previous year.

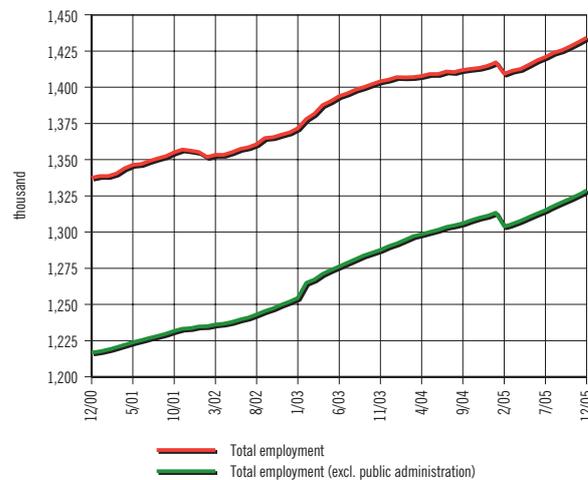
Over 2005, the CES register flows stabilised at the levels reported before the introduction of the employment intermediation reform in 2002, or at lower levels. This may suggest that the temporary effects of the reform disappeared, e.g. as concerns the increase in clearings from the CES register, and were replaced by the final effects. The final reform effects are reflected in the converging of certain flows towards lower levels, which is consistent with the weakening of the CES's employment intermediation role. The lower inflows into the CES register and reduced new employment from the register resulted from the activation of unemployed persons and from lifting the obligation to report all vacancies to the CES. In the absence of major external disturbances, like the change in registration rules that affected the registration system over the last three years, or some unfavourable changes in the labour market, the current levels of the flows could ensure a continued decline in registered unemployment.

Employment growth dynamics were slower in 2005 compared with the previous two years. However, the data on the number of persons insured with the CPIA, being a reliable short-term indicator of employment, point to an acceleration of employment growth in 2005, at an average annual rate of 1.8%, 0.5 percentage points above the average growth rate of employment in 2004. In the previous years, the dynamics of the number of the insured with the CPIA were generally in line with the developments in the CES employment indicators. However, in 2005, for the first time, a discrepancy was perceived between these two employment indicators, most likely due to an unexpected strong increase in the number of the insured with the CPIA in June 2005 (2.0% year-on-year). This high growth rate continued till the end of the year. The unexpected increase in the number of the insured was mainly recorded in legal persons, but in various activities. Therefore, the dynamics of the number of insured persons cannot be accounted for by a rise in employment in activities which are pronouncedly influenced by seasonal factors (e.g. hotels and restaurants, trade or construction). According to the CES data, the largest contribution to employment slowdown during 2005 (from 1.4% in 2004 to 0.9% in 2005) was made by legal persons, as well as by crafts and trades and freelances (from 4.2% to 2.5%). The number of private farmers decreased at a slower rate in 2005 (9.9%) compared with 2004 (13.4%), so that private farmers made no contribution to employment slowdown in this year.

According to the latest available data for the first half of 2005, the Labour Force Survey unemployment rate continued its downward trend observed since 2001. The Labour Force Survey unemployment rate stood at 13.1% in the first half of 2005, down 0.7 percentage points from the previous year (13.8% in the first and se-

1.13

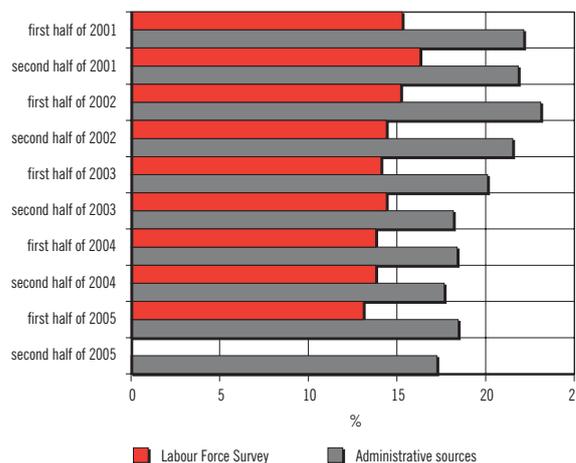
Total Employment According to Administrative Sources
seasonally adjusted data



Source: CBS.

1.14

Administrative and Labour Force Survey Unemployment Rates



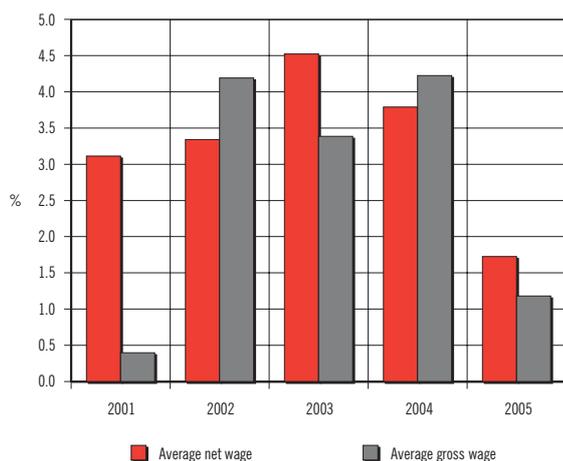
Source: CBS.

cond halves of 2004). The decline in the Labour Force Survey unemployment mainly arose from a fall in unemployment of middle-aged women (age group 25-49). This category even recorded considerable employment growth. The decline in the Labour Force Survey unemployment rate was somewhat milder than the fall in administrative unemployment rate, relative to the second half of 2004, which slightly narrowed the gap between the two unemployment rates. However, the administrative unemployment rate was still much higher than the Labour Force Survey unemployment rate, indicating that a large number of persons registered with the CES are either employed in the unofficial economy or are not active job-seekers, despite the measures to activate them, carried out lately by the CES. As the Labour Force Survey indicators for the second half of 2005 are unavailable (their publication is expected at mid-2006) it is impossible to make a reliable assessment of the correlation between these two indicators.

Wages and Labour Costs

1.15

Average Real Wage
year-on-year rate of change



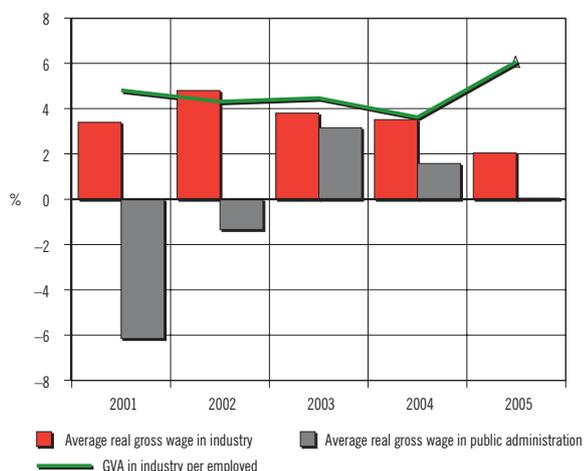
Source: CBS.

In 2005, average real net wage rose at an annual rate of 1.7%, slower than in the previous year when it grew at an annual rate of 3.8%. As a result of this slowdown, 2005 saw the lowest annual growth rate of average real net wages ever since 1997. Average real gross wage, i.e. labour costs, showed a strong downward trend, growing at an annual rate of 1.2% (4.2% in 2004).

The lower annual growth rate of real gross wages paid in 2005 relative to 2004 was the consequence of the tax reform introduced in early 2005, which included an increase in the non-taxable wage base, additional allowances for supported family members and a continuation of restrictive wage policy in the public sector. The growth of average real gross wage in public administration (including education, health care and social welfare) slowed down from 1.6% in 2004 to 0.04% in 2005. A contribution to this was also made by the low growth rates of real gross wage throughout 2005, and particularly, its negative growth rate over the last quarter of 2005. Wages in industry followed general trends in real wages, so that the annual growth of average real gross wage in this sector slowed down from 3.5% in 2004 to 2.0% in 2005. Exceptionally strong growth of labour productivity in industry, measured by the dynamics of gross value added in industry, at constant prices, per employee, reached 6.1%, the highest rate recorded in the last few years. As shown by the stated real wage and labour productivity dynamics, price pressures coming from the labour market were not particularly strong.

1.16

Gross Wage and GVA per Employed
year-on-year rate of change



Source: Calculation based on CBS data.

Labour Market in Early 2006

After having grown for five consecutive months, registered unemployment declined by 539 persons (0.2%) in February 2006 compared with January. The total number of unemployed persons registered with the CES was 313,600 at end-February. Seasonally adjusted data on registered unemployment during the first two months of 2006 point to its downward trend. Consequently, the number of registered unemployed persons declined by 5% (16,500) at the end of February compared with the same month in 2005. The reduced registered unemployment was partly attributable to the decrease in the number of the newly registered with the CES and an increase in outflows from the CES register, primarily due to re-employment. The registered unemployment rate was 18.3% in February, 0.8 percentage points below the rate in the same month in 2005.

According to the final CBS data, total employment grew at an annual rate of 1.4% in January 2006. A break in the series for total employment, as a result of the preliminary nature of CBS data since February 2006, makes it difficult to interpret the employment dynamics in early 2006. However, the CPIA data on insured persons clearly suggest a continuation of employment growth.

After showing a negative annual growth rate in January (-0.2%), the average real net wage paid in February 2006 grew at an annual rate of 1.6%. The real gross wage paid in February rose at an annual rate of 2.5%, 2 percentage points above the annual growth rate in January 2006 or 1.3 percentage points above the average annual growth of real gross wages for the entire 2005. The discrepancy between the real gross wages and real net wages was due to tax progression.

1.2.4 Prices and the Exchange Rate

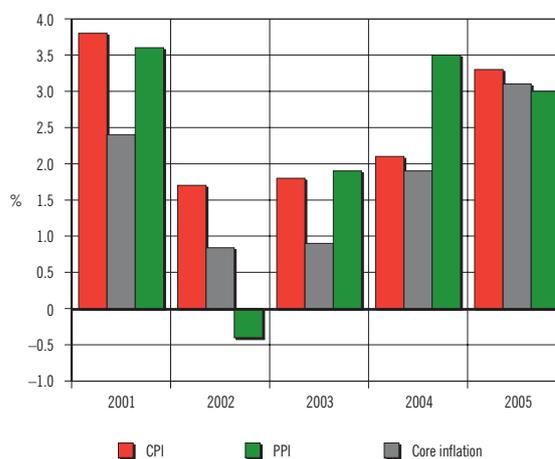
Prices

Consumer price inflation accelerated in 2005 from 2004. The average year-on-year rate of change in the overall CPI rose by 1.2 percentage points, from 2.1% in 2004 to 3.3% in 2005. The average year-on-year rate of change of core inflation also increased, from 1.9% in 2004 to 3.1% in 2005. In contrast, producer prices dropped in 2005, pushing the average year-on-year rate of change in the PPI down from 3.5% in 2004 to 3.0% in 2005.

The end-of-period year-on-year rate of change in the CPI increased by 0.9 percentage points, from 2.7% in December 2004 to 3.6% in December 2005, but remained within a low inflation range. The acceleration of consumer price inflation in 2005 was strongly influenced by a rise in the year-on-year growth rate of food prices (primarily agricultural products, meat and meat products' prices), some administrative prices (e.g. electricity, rent, health care services and refined petroleum

1.17

CPI, Core Inflation and PPI
average year-on-year rate of change



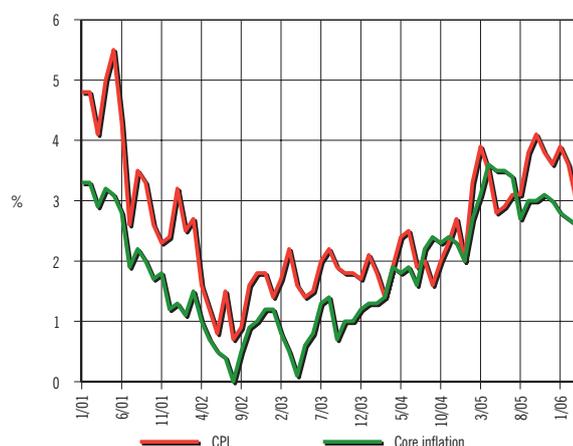
Source: CBS.

products' prices) and some market-determined prices (clothing and footwear prices). The year 2005 saw strong imported inflationary pressures; the most marked being the price rise of crude oil and other raw materials in the world market, depreciation of the kuna against the US dollar and increase in the year-on-year rate of change in eurozone producer prices. However, inflation in the domestic economy was kept at low levels, mainly due to the following: the appreciation of the kuna/euro exchange rate, modest domestic demand growth, slight nominal wage increase, labour productivity growth, reduced year-on-year growth rate of domestic consumer goods' producer prices and intense competition in retail trade. In addition, with 2005 being the last year of the phased-in reduction of tariffs on industrial products, introduced in line with the WTO framework, inflation pressures were also alleviated by the lingering effect of foreign trade liberalisation.

The largest contribution (0.5 percentage points) to the increase in the year-on-year CPI rate in 2005 came from the year-on-year rate of change of core

1.18

CPI and Core Inflation^a
year-on-year rate of change



^a Core inflation is calculated in the manner that agricultural products prices and administrative prices (which, among others, include the prices of electricity and refined petroleum products) are excluded from the basket of goods and services used in the calculation of the consumer price index.

Source: CBS.

inflation, rising from 2.3% in December 2004 to 3.0% in December 2005. Trends in the market-determined product prices included in core inflation calculation significantly affect general consumer price inflation trends due to their 69.9% weight in the overall CPI basket. Core inflation accelerated in 2005, mainly due to meat and meat products' prices rising from 3.5% in December 2004 to 6.1% in December 2005, and to the year-on-year rate of change in clothing and footwear prices increasing from -1.7% in December 2004 to 3.6% in December 2005. Additionally, there was a spillover of the growth of refined petroleum products prices into input goods and services prices. For example, the prices of road transport services were up by an average 6.9% in December and those of air transport services by 4.7% relative to December 2004 respectively. Trends in market determined prices of other products were generally relatively stable in 2005.

Although low in the observed period, the year-on-year rate of change in agricultural product prices rose from -2.2% in December 2004 to 1.2% in December 2005,

Table 1.2 Consumer Price Index
year-on-year rate of change

	Weight 2005	12/2004	3/2005	6/2005	9/2005	12/2005	3/2006
Total	100.0	2.7	3.9	2.9	3.8	3.6	3.0
Food and non-alcoholic beverages	32.9	2.4	5.5	4.2	5.8	3.7	0.9
Alcoholic drinks and tobacco	5.8	10.2	10.6	10.2	1.0	1.1	1.3
Clothing and footwear	8.0	-1.7	-1.2	0.4	2.0	3.6	2.9
Housing, water, energy, gas and other fuels	14.8	6.0	6.0	3.1	4.3	5.4	9.1
Furniture, equipment and maintenance	4.7	0.2	1.6	2.6	3.0	2.9	2.4
Health	2.8	1.0	0.8	2.0	1.9	8.6	9.4
Transport	11.2	2.6	3.3	-0.3	5.1	3.8	2.8
Communication	4.3	-0.5	-0.4	-0.4	-0.4	0.2	0.1
Recreation and culture	5.6	2.5	1.8	2.8	2.2	2.6	0.9
Education	0.9	1.1	1.4	1.7	6.0	6.2	5.8
Catering services	3.2	2.8	2.1	1.6	1.7	3.3	3.3
Miscellaneous goods and services	5.9	1.9	1.8	2.4	1.7	2.0	2.5
Goods	77.1	2.5	4.1	3.1	4.5	3.5	2.1
Services	22.9	3.6	3.2	2.2	1.8	4.1	6.1

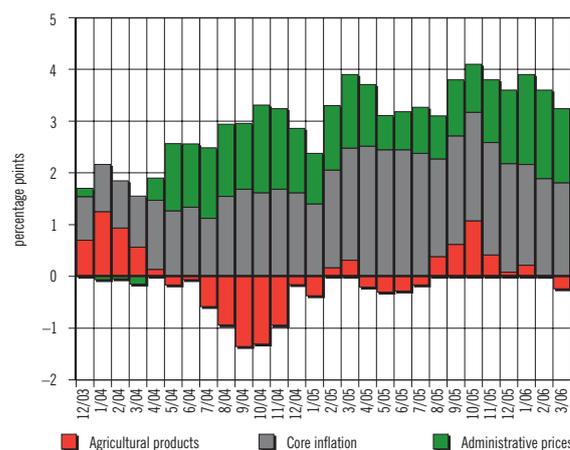
Source: CBS.

increasing its contribution to the overall year-on-year consumer price inflation by 0.2 percentage points. Administrative prices grew at a considerably faster pace than market determined prices in 2005, mainly because of the sharp price increase in electricity, rents, health care services and refined petroleum products. The year-on-year rate of change in administrative prices advanced from 5.5% in December 2004 to 6.1% in December 2005, with their contribution to the overall year-on-year inflation rate in 2005 increasing also by 0.2 percentage points. In September 2005, HEP was granted a 4.9% price increase for retail electricity prices by the Government, which responded to the fact that these prices had remained unchanged in the previous three years, in contrast with electricity supply costs, which had mostly risen in that period, most notably the prices of energy fuel and electric energy on the European market. Additionally, due to changes introduced to the system of co-payments for medical services and drugs, medical service prices grew by 35.2% in October 2005 from the previous month, boosting their year-on-year rate of change from -5.7% in December 2004 to 37.1% in December 2005. Fixed rents also rose considerably in 2005, from 2.8% in December 2004 to 26.2% in December 2005.¹² With their year-on-year growth rate rising from 12.3% in December 2004 to 15.2% in December 2005, refined petroleum product prices contributed significantly to the overall year-on-year rate of change in administrative prices.

Strong for the fourth consecutive year in 2005, imported pressures boosting domestic inflation were mainly related to the crude oil price hike in the world market. This was to a large extent due to supply and demand mismatches in the crude oil market, anticipated based on forecasts of the continuing strong global economic upturn, OPEC's limited available surplus capacities and feared long-term slowdown in non-OPEC countries. In addition, as in the previous years, market participants showed concern over safety of crude oil deliveries from the countries in political turmoil (Iraq, Nigeria and Venezuela). The most serious in the series of disturbances causing the crude oil prices to rise in 2005 was the damage inflicted by the hurricane Katrina on the Mexican Gulf oil production and refining facilities, which caused crude oil prices in the world market to rocket in August and early September 2005. The drop in crude oil prices early in the fourth quarter of 2005 is largely attributed to favourable weather conditions and the resultant unexpected build up of US oil stocks. The gas dispute between Russia and Ukraine had an adverse impact on the refined petroleum price trends in the world market and crude oil barrel price started to climb again in December 2005.

Having risen by 30.4% (in US dollar terms) in 2004, crude oil price per barrel continued to trend sharply upwards in 2005, increasing from USD 39.0 in December 2004 to USD 56.4 in December 2005, up by an average 44.5%. Considerably offset by the appreciation of the kuna/US dollar exchange rate, the year-on-year crude oil price growth expressed in kuna was 17.6% in December 2004. However, as the kuna depreciated against the US dollar, it stood at higher 59.7% in 2005. Despite this marked increase, the year-on-year rate of change of refined petroleum product prices in the domestic market failed to rise significantly, standing at 15.2% in December 2005,¹³ compared

1.19

Contribution^a of CPI Components to Year-on-Year Inflation Rate

^a The contribution is defined as the relative importance of a certain component of the consumer price index in total inflation. The sum of contributions of all components expressed in percentage points in a relevant month is the amount of the year-on-year consumer price inflation rate.

Sources: CBS and CNB calculations.

12 The monthly growth of fixed rents was the highest in November and December (19.2% and 5.5% respectively).

13 The year-on-year rate of change of fuel oil prices was 22.7% in December 2005, and that of fuels and car lubricants' prices was 14.8%.

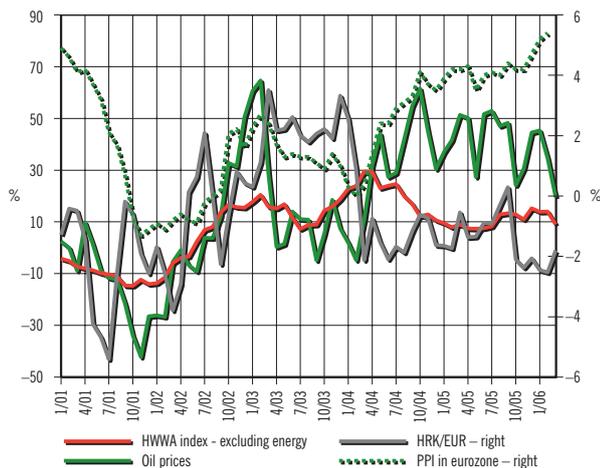
with 12.3% in December 2004.¹⁴ The above mentioned world market trends affected the movements of domestic refined petroleum product prices only to some extent. This was due to Ina acting on the Government's recommendation to alleviate the spillover of the rise in world price to domestic prices by reducing its production margin¹⁵ should the unleaded petrol price exceed HRK 8 under the pricing formula for refined petroleum products in the domestic market. It needs mentioning that the price per barrel of crude oil imported

into Croatia in the last two years was constantly below the price of Brent crude oil in the world market and that imports were considerably larger in the months when the prices were lower, which allowed Ina some room for savings.

In addition to crude oil prices, stock exchange prices of other raw materials also went up¹⁶ – by a total of 15.3%, which is an increase compared with 10.6% in 2004. Driven by high demand, particularly from China, the prices of iron ore and ferrous metals rose at especially high rates of 27.7% and 26.7% respectively. The year-on-year rate of change of eurozone producer prices moved sharply upwards in 2005, from 3.5% in December 2004 to 4.7% in December 2005, mainly in consequence of the oil price rise in the world market, which pushed up the year-on-year growth rate of eurozone energy prices to 16.9% in December 2005. The year-on-year rate of change of eurozone producer prices of final goods, low in the last two years, stood at a mere 1.3% for both durable and non-durable consumer goods in December 2005, so that there are no indications of a significant spillover of the price rise of refined petroleum products to producer prices of final goods.

1.20

Imported Inflation: Oil Prices, HWWA Index^a, Average Kuna/Euro Exchange Rate and PPI in Eurozone
year-on-year rate of change

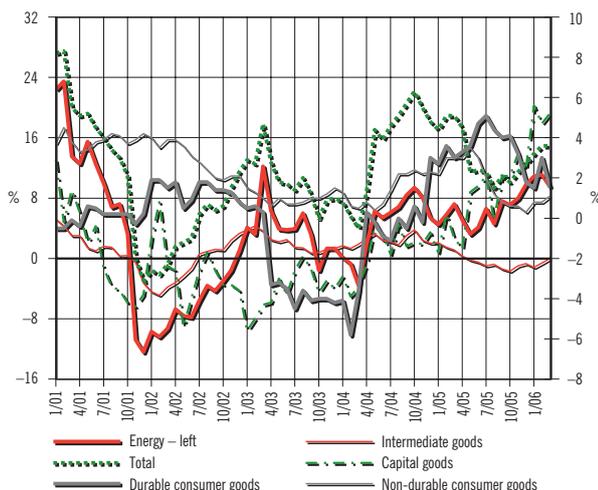


^a The Hamburg Institute of International Economics (HWWA) constructed the aggregate index of raw materials prices in the world market, the so-called HWWA index. The HWWA index is the indicator of movements in costs for imported raw materials (it includes a total of 29 raw materials or 27 excluding energy) and it is used in analysing the influence of changes in the prices of raw materials in the world market on the changes in prices in industrial countries. The index is calculated on the basis of raw materials prices expressed in US dollars.

Sources: Bloomberg, HWWA, Eurostat and CNB.

1.21

PPI by Main Industrial Groupings
year-on-year rate of change



Source: CBS.

Domestic producer prices of industrial goods rose sharply in 2004, achieving a year-on-year rate of change of 4.8% in December that year. They slowed down, however, in 2005, standing at 2.7% in December, even though the year-on-year rate of change of energy prices advanced from 5.4% in December 2004 to 9.8% in December 2005. The slowdown was caused by the drop in the year-on-year rate of change of intermediary goods prices, down from 2.0% in December 2004 to -0.7% in December 2005, durable consumer goods, down from 3.0% to 1.8%, and non-durable consumer goods, down from 2.3% to 0.3% in the same period. The year-on-year rate of change of water producer prices plummeted from 62.6% in December 2004 to 0.7% in December 2005. Low year-on-year rates of change of the producer prices of final goods suggest that the price rise of energy failed to spill over to the prices of final goods to any greater extent, similar as in the eurozone.

14 The year-on-year rate of change of fuel oil prices amounted to 35.7% in December 2004, and that of fuels and car lubricants' prices was 9.7%.

15 Ina is legally granted a margin of 60 lipa per 1l of refined petroleum products.

16 Measured by the aggregate HWWA index of raw materials' prices in the world market (excluding energy, calculated based on US dollar values).

Price Movements in the First Quarter of 2006

As suggested by CBS data, after having slightly decelerated in the last two months of 2005, the year-on-year consumer price inflation rate reached 3.9% in January 2006, dropped to 3.6% in February and further to 3.0% in March. In addition to the 0.6% monthly rise in the overall CPI, the year-on-year inflation rate was in January also increased by the base period effect – a lower monthly growth of prices (0.3%) in January 2005. The largest contribution to the monthly CPI rise came from a sharp seasonal increase in vegetable prices, up 14.9% from the previous month. The January price rise was also generated by the increase in some administrative prices (i.e. the prices of water supply, waste disposal and refined petroleum products, which went up by 9.3%, 4.5% and 2.1% respectively relative to December). In addition, with the Ordinance on Packaging Waste Handling coming into effect in January 2006, some producers transferred additional expenses arising from its implementation to consumers, which led to an increase in beverage and milk prices. The contribution of the said price increases to the overall monthly CPI rate in January 2006 was only partly offset by a sharp seasonal drop, 8.2% on average, in clothing and footwear prices compared with the previous month. The core CPI, which excludes agricultural product prices and administrative prices (whose growth was in January the highest), declined by 0.5% in January from the previous month. The year-on-year core inflation rate dropped from 3.0% in December 2005 to 2.8% in January 2006. The PPI rose by 0.5% in January 2006 relative to the previous month, due to the price rise of energy¹⁷ and capital goods. Energy prices were pushed up by a 3.9% rise in the producer prices of refined petroleum products in January this year from the previous month. The year-on-year producer price inflation rate increased from 2.7% in December 2005 to 3.2% in January 2006.

The CPI increased by 0.8% in February 2006 from the previous month and by a considerably lower 0.1% in March. The monthly consumer price increase in February this year, although rather strong, was nevertheless weaker than in February 2005, with the result that the favourable base period effect brought down the year-on-year consumer price inflation rate from 3.9% in January to 3.6% in February. The February price growth was mainly due to the anticipated seasonal rise in agricultural products' prices, contributing 0.3 percentage points to the overall monthly inflation rate. The price growth of some utility services (water supply and waste disposal increased in price by 4.4% and 20.5% respectively) again contributed significantly to the monthly price rise in February, 0.2 percentage points. The rise in the prices of milk, non-alcoholic beverages and alcoholic drinks, began in January, after coming into effect of the Ordinance on Packaging Waste Handling, contributed another 0.1 percentage point to the February's monthly inflation rate. In March, consumer prices rose compared with February mainly on account of the seasonal increase in the prices of clothing and footwear, and to some extent due to the rise in fuel and energy prices. The price drop of food products and package tours contained the overall growth of the CPI in March compared with February.

The core CPI drifted up 0.3% for the month in February and March. The year-on-year core inflation rate was down from 2.8% in January to 2.7% in February, dropping further to 2.6% in March. The PPI rose by 0.7% in February from January and by 0.3% in March from February. The most marked

17 In January 2006, for the purpose of harmonisation with EU standards, the CBS introduced new definitions for aggregates by the main industrial groupings, used in the calculation of the PPI subindices. According to these standards, MIGs 2001, water, previously not included in any of the main industrial groupings, is now comprised by the "Energy" aggregate.

monthly increase in February (1.6%) was that of energy prices, which as of January 2006 include the price of water, rising by 12.0% in February from the previous month. Producer prices of refined petroleum products dropped by 0.2% in February relative to January, while electricity and gas prices remained stagnant. Intermediary goods' prices rose the most in March from the previous month, by 0.5%. The year-on-year rate of change in the prices of industrial products increased from 3.2% in January to 3.6% in February and held steady in March.

Exchange Rate

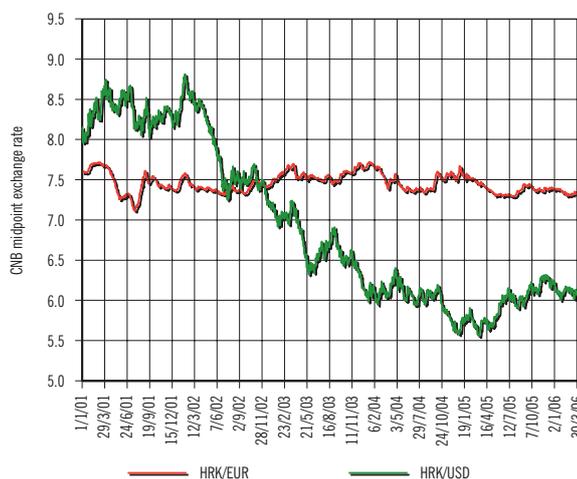
The kuna/euro exchange rate was stable in 2005, with the domestic currency appreciating slightly, in a trend continued from 2004. This was due to several factors, including an increased supply of foreign currency caused by foreign funds financed bank domestic lending, a rise in demand for kuna resulting from the investments in new government bond issues in the domestic market, market participants' appreciation expectations generated by the start of EU accession negotiations, enhanced investor interest in domestic securities and strong foreign currency inflows from goods and services exports and foreign remittances. The average daily kuna/euro exchange rate appreciated nominally by 1.3%, from HRK 7.50/EUR in 2004 to HRK 7.40/EUR in 2005. Standing at HRK 7.38/EUR at end-2005, the kuna/euro exchange rate appreciated by 3.9% in nominal terms from HRK 7.67/EUR at end-2004. In an effort to alleviate appreciation pressures on the kuna/euro exchange rate, almost constant in 2005, the central bank made foreign currency purchases worth a total of EUR 670.8m and released HRK 5.0bn. EUR 570.8m was purchased from banks on the nine foreign exchange auctions held in 2005, and the remaining EUR 100.0m through other foreign exchange transactions. Banks also met their needs for additional liquidity through CNB's regular reverse repo auctions. In addition, in conducting foreign exchange transactions with the CNB, the government made considerable purchases of foreign currency to service its external liabilities. In 2005, the central bank made net sales of foreign currency to the MoF totalling EUR 342.6m, withdrawing from circulation HRK 2.6bn

Despite the high liquidity of the banking system, the kuna appreciated in nominal terms against the euro in the first quarter of 2005 and the kuna/euro

exchange rate strengthened by 3.0%, rising from HRK 7.67/EUR on 31 December 2004 to HRK 7.44/EUR on 31 March 2005. This appreciation was slightly stronger in the first half of January 2005, with the result that the kuna regained part of the value it lost depreciating in the second half of December 2004. As a result of the appreciation pressures on the kuna exchange rate intensifying again in March 2005, the kuna strengthened by 0.9%, from HRK 7.51/EUR on 28 February to HRK 7.44/EUR on 31 March. An increased kuna demand and the ensuing appreciation pressures on the exchange rate were in March generated by, among other things, government bond placements worth HRK 3.0bn. Aiming to alleviate the appreciation pressures, the central bank purchased from banks EUR 217.0m in the first quarter 2005 (EUR 117.0m was purchased through foreign exchange auctions: EUR 8.5m on 19 January, EUR 80.4m on 4 March and EUR 28.1m on 15 March; EUR 100.0m was purchased through other foreign exchange transactions). The released liquidity

1.22

Daily Nominal Exchange Rate
– HRK vs. EUR and USD



Source: CNB.

volume amounted to a high HRK 1,637.6m. In the first quarter 2005, the CNB sold an anticipated worth of EUR 245.6m of foreign currency to the MoF for external debt repayments.

The kuna/euro exchange rate appreciated by a further 1.8% in nominal terms in the second quarter of 2005, from HRK 7.44/EUR on 31 March to HRK 7.31/EUR on 30 June. The exchange rate appreciated by 1.0% and 0.8% in April and May respectively and remained almost stagnant in June. In order to curb this appreciation trend, the central bank intervened three times in this period, purchasing from banks a total of EUR 176.2m (EUR 90.8m on 15 April, EUR 56.6m on 6 June and EUR 28.8m on 17 June) and creating kuna liquidity worth a considerable HRK 1,296.7m. Also in the second quarter, the central bank made net sales of foreign currency to the MoF amounting to EUR 32.4m, withdrawing HRK 240.0m from circulation.

The kuna nominally depreciated versus the euro by a slight 1.6% in the third quarter. Having risen by 0.2%, from HRK 7.31/EUR on 30 June to HRK 7.30/EUR on 31 July, the kuna/euro exchange rate reversed the trend in August, depreciating by 1.1% and standing at HRK 7.38/EUR on 31 August. The kuna depreciated by a further 0.8% in September, with the exchange rate weakening to the level of HRK 7.44/EUR on 30 September. The seasonal increase in demand for the kuna made no significant appreciation pressures on the exchange rate because banks met their additional liquidity requirements through CNB's regular reverse repo auctions. There was no need for CNB's foreign exchange auctions in the third quarter. The central bank only conducted foreign exchange transactions with the MoF in July, selling foreign currency worth EUR 61.6m net and withdrawing from circulation HRK 454.8m.

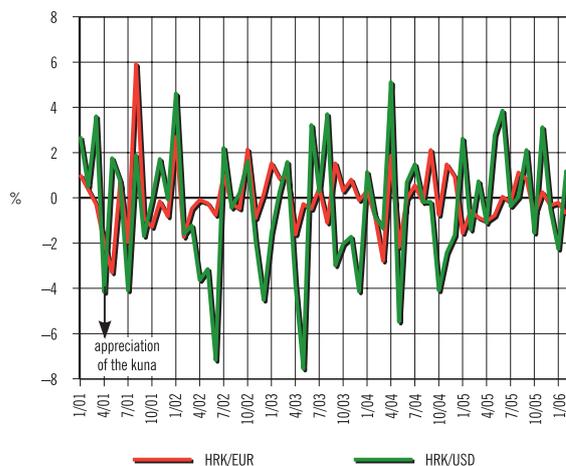
The nominal kuna/euro exchange rate strengthened by 0.8% in the fourth quarter, with the euro dropping from HRK 7.44 on 30 September to HRK 7.38 on 31 December. In an effort to slow the exchange rate appreciation, the central bank intervened three times in the foreign exchange market in that period, purchasing from banks EUR 277.6m and releasing HRK 2,051.5m. EUR 115.7m was purchased on the auctions held on 6 and 14 October and an additional EUR 161.9m on the auction held on 27 December. The latter was the largest volume traded at a single auction in 2005. In October, the CNB sold a total of EUR 3.1m to the MoF, the amount required for the external debt repayment.

Having been weakening against the euro since early 2002, the US dollar halted its slide in early 2005. In 2005, the US dollar/euro exchange rate strengthened by 13.1% in nominal terms, with the euro value falling from USD 1.36/EUR on 31 December 2004 to USD 1.18/EUR on 31 December 2005. The appreciation pressures on the US dollar/euro exchange rate are primarily attributed to the rising differential between US and eurozone interest rates (resulting from the Fed's restrictive monetary policy) and the unexpectedly low economic growth in the eurozone. However, analysts estimate that these are short-term pressures and expect the US dollar to weaken further against the euro, owing to the structural imbalances inherent in the US economy, in particular the current account and budget deficits.

The kuna/US dollar exchange rate depreciated by 10.6% in nominal terms in 2005, from HRK 5.64/USD on 31 December 2004 to HRK 6.23/USD on 31 December 2005. This depreciations was offset by the appreciation of the kuna against the euro, as the nominal exchange rate of the kuna against

1.23

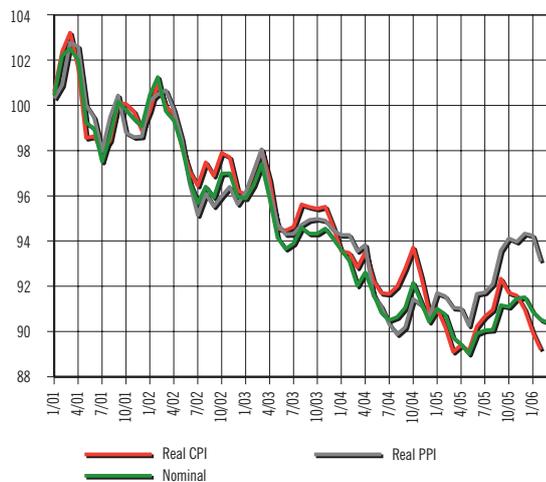
Rates of Change of the Nominal Exchange Rate – HRK vs. EUR and USD
month-on-month, CNB midpoint exchange rate



Source: CNB.

1.24

Indices^a of the Nominal and Real Effective Kuna Exchange Rate with Consumer and Producer Prices
2001=100



^a The fall of index denotes appreciation of the kuna.

Source: CNB.

the US dollar is calculated based on the ratio between the kuna/euro exchange rate (the euro being the base currency in the compilation of the CNB's exchange rate list) and the US dollar/euro exchange rate in the international foreign exchange market.

Influenced by a slight nominal appreciation of the kuna exchange rate versus the euro and its strong depreciation against the US dollar, the index of the nominal effective exchange rate of the kuna declined by 1.2% in 2005 (December 2005 to December 2004). With domestic consumer prices growing at a faster pace than foreign prices in 2005, the effective exchange rate of the kuna depreciated less in real terms (0.1%) than in nominal terms. In contrast, domestic producer prices grew at a slower rate than foreign prices in 2005, with the result that the kuna exchange rate depreciated by 4.1% in real terms. The developments in the index of the real effective kuna exchange rate suggest that price competitiveness of domestic importers improved in 2005 compared with the previous years when this index appreciated.

Exchange Rate Trends in the First Quarter of 2006

The kuna/euro exchange rate appreciated by 0.7% in the first quarter of 2006, from HRK 7.38/EUR on 31 December 2005 to HRK 7.32/EUR on 31 March 2006. The seasonally uncommon appreciation of the kuna exchange rate versus the euro primarily resulted from an increase in kuna demand due to new government bond issues in the domestic market in February and from continued domestic bank lending financed by foreign funds. The central bank intervened twice in February, when appreciation pressures increased, purchasing from banks EUR 118.6m and releasing HRK 868.0m. EUR 35.5m was purchased on the foreign exchange auction held on 2 February and EUR 83.1m on 16 February. The CNB made no foreign exchange sales to the government in January since the government settled its liabilities to the Paris and London Clubs by the funds received under the World Bank PAL. In February, the CNB sold EUR 10.1m to the MoF intended for external debt repayments and made no major foreign exchange transactions with the government in March.

Reflecting US dollar/euro exchange rate trends in the international foreign exchange market, the kuna/US dollar exchange rate fluctuated sharply in the first quarter of 2006. Having increased by 2.3% in January, it dropped by 1.2% in February and increased by 1.6% in March. The kuna/US dollar exchange rate strengthened by an overall 2.7% in the first quarter, from HRK 6.23/USD on 31 December 2005 to HRK 6.07/USD on 31 March. The US dollar/euro exchange rate depreciated in January 2006, due to investor expectations that the Fed would soon stop raising interest rates. However, the Fed lifted its benchmark rate by 25 basis points in February, and the US dollar/euro exchange rate appreciated as investors changed their expectations, allowing for the possibility that interest rates may rise further, due to the release of favourable US economic indicators on labour market trends and rising personal consumption. In addition to appreciating against the euro and US dollar, the nominal exchange rate of the kuna appreciated against the Slovene tolar (0.7%), Swiss franc (2.0%) and pound sterling (1.9%) in the first quarter of 2006. Due to the composition of the currency basket for the nominal effective exchange rate of the kuna (with the euro and US dollar assigned the

weights of 70.6% and 27.2% respectively, pound sterling and Swiss franc 1% respectively and the Slovene tolar 0.2%), these exchange rate trends resulted in the 1.3% appreciation of the index of the daily nominal effective kuna exchange rate (31 March 2006 to 31 December 2005).

The latest available data suggest that import price competitiveness indicators worsened in the first two months of 2006 – the index of the real effective exchange rate of the kuna deflated by producer prices appreciated by 1.3% from December 2005 to February 2006, while the index deflated by consumer prices appreciated by 2.0%. The index of the real effective kuna exchange rate appreciated more strongly than the index of the nominal effective kuna exchange rate in that period due to the fact that domestic producer and consumer prices, especially the latter, grew faster than foreign prices.

1.2.5 Monetary Developments and International Reserves

In 2005, the Croatian National Bank operated in an environment characterised by faster economic growth and a large inflow of foreign capital which created appreciation pressures on the exchange rate of the domestic currency, increased external debt and led to further current account widening. However, price stability was maintained and with the average annual CPI inflation standing at 3.3%, the Croatian National Bank managed to achieve its primary objective.

The central bank again used the exchange rate of the domestic currency as its key price control instrument, given that exchange rate developments largely affect inflationary expectations, are directly reflected in prices of those products which are still indexed to the euro and affect price developments of imported goods which account for a large share of domestic investment and personal consumption, thus reflecting the openness of the Croatian economy. Against the backdrop of large inflows of foreign capital mainly intended for heightened credit activities of banks in 2005, the central bank's efforts during the period were largely directed towards preventing excessive strengthening of the exchange rate of the kuna. To alleviate exchange rate pressures, the CNB continued to purchase foreign currency from banks, managing to partly sterilise the ensuing liquidity with its reserve requirements instrument. In April 2005, the central bank adopted a new framework for monetary policy implementation with a view to facilitating its domestic liquidity management. This required certain adjustments to be made to the existing monetary policy instruments and introduction of new instruments.¹⁸ Open market operations, particularly reverse repo operations, became the main instrument for kuna liquidity management in the second half of 2005.

Monetary policy in 2005 was marked by a systematic implementation of measures for slowing down external debt growth. The first set of measures was aimed at discouraging banks from foreign borrowing for their domestic credit activities. More specifically, the CNB increased the allocation rate of marginal

18 Changes in monetary policy instruments are discussed in more detail in chapter 2.1 Monetary Policy Instruments.

reserve requirements on any increase in foreign liabilities of banks twice in 2005. Following initial increase from 24% to 30% in March, the central bank decided to raise this rate further to 40% in June and to 55% in early 2006 when it also decided to widen the requirements' calculation base. However, driven by efforts to win as large market shares as possible, the banks continued to pursue their aggressive credit policies by means of foreign borrowing. As a result, external debt of banks rose by EUR 1,192m in 2005, making a key contribution to the country's total external debt growth.

At the same time, the central bank adopted a range of measures to encourage government financing on the domestic market. Thus, its February cut from 35% to 32% in the rate of minimum required foreign currency claims liberated some of the funds and made them available for government financing. Simultaneously with the introduction of restrictive measures for curbing foreign borrowing of banks in March and June kuna liquidity was maintained at a satisfactory level, thus facilitating government domestic financing. The introduction of regular reverse repo operations boosted demand of banks for short-term central government debt since T-bills of the Ministry of Finance can be used as collateral at CNB's regular reverse repo operations. Thus for the second consecutive year, the central government was able to meet all its financing needs on the domestic market. The measures described above slowed down external debt growth, which, after rising 31.6% (EUR 4.8bn) in 2003 and 15.0% (EUR 3.0bn) in 2004, rose 12.1% (EUR 2.8bn) in 2005. Nevertheless, external debt to GDP ratio remained high, standing at 82.5%.

Monetary Policy and Flows of Creating and Withdrawing Reserve Money

The flows of creating and withdrawing reserve money in 2005 were largely influenced by the introduction of open market operations which facilitated domestic kuna liquidity management for the central bank. Large capital inflows from abroad in 2004 forced the central bank to purchase foreign currency from the banks, thus creating surplus kuna liquidity that had to be sterilised. Reserve money was created almost exclusively through foreign exchange interventions without possibility for fine tuning the system's liquidity (Figures 1.25 and 1.26). The introduction of open market operations in 2005 facilitated the creation and withdrawal of liquidity so reserve money was created, in addition to the usual purchase of foreign currency from the banks, through regular weekly reverse repo operations. The flexibility of this instrument of monetary policy ensured for the banks a regular channel from where they could ensure every week the liquidity needed to meet their payment obligations and made it possible for banks to meet their reserve requirement allocation obligation with the CNB in a much easier and more efficacious way. On the other hand, the discretionary right of the CNB to refuse bank bids and set the minimum acceptable marginal repo rate below which it cannot approve excessive liquidity creation, added a new, more active and dynamic edge to CNB role in monetary system liquidity creation.

The beginning of 2005 was marked by very high kuna liquidity created towards the end of 2004, so the precondition for the introduction of reverse repo operations was to create deficit liquidity to boost banks' demand for additional funds. The June increase in the percentage of the kuna component of reserve requirement allocation from 42% to 50%, which helped withdraw some of the liquidity from the system, coupled with increased demand usual during the summer, paved the way for the introduction of reverse repo operations. Significant turnovers, such as those exceeding HRK 1.0bn were recorded from early June, and banks' demand for kuna funds did not abate until towar-

ds the end of the year. The funds created at reverse repo auctions at times reached a high HRK 5.0bn and of the total 39 reverse repo auctions in 2005, turnover was generated at 32 of them, amounting on average to HRK 2.8bn.

The presence of increased volatility of interest rates on the money market was common in the absence of possibility for banks to ensure the needed kuna funds through regular channels or to place their surplus liquidity through regular channels, which caused significant interest rates jumps with every beginning of the reserve requirement maintenance period. However, fine tuning of the system's kuna liquidity management and the November adjustment of monetary policy instruments, which made it easier for banks to manage their own liquidity and which helped the central bank to plan and conduct reverse repo operations, contributed to overnight interest rates stabilisation, particularly towards the end of 2005 and in early 2006.

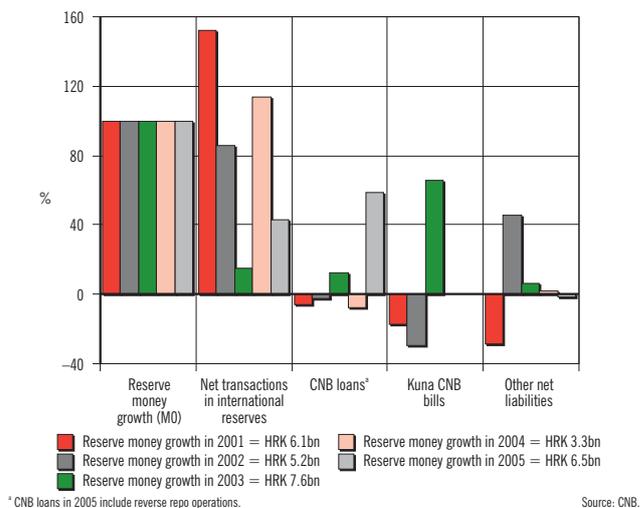
Though central bank monetary system liquidity management changed after the introduction of open market operations, the central bank nevertheless continued to make its presence felt on the foreign exchange market in 2005 through foreign currency purchase and sale transactions. The CNB continued to purchase foreign currency from the banks in an effort to alleviate appreciation pressures on the exchange rate of the kuna caused by constant inflow of foreign capital. The CNB purchased from the banks a total of EUR 671m in 2005, creating HRK 5.0bn.

At the same time, the central bank sold to the government the foreign currency needed for the settlement of central government obligations abroad. F/c sales to the government were particularly common in the first quarter, which helped decrease high liquidity during the period. The net effect of central bank f/c sales to the Ministry of Finance was EUR 342.6m, withdrawing a total of HRK 2.6bn from circulation.

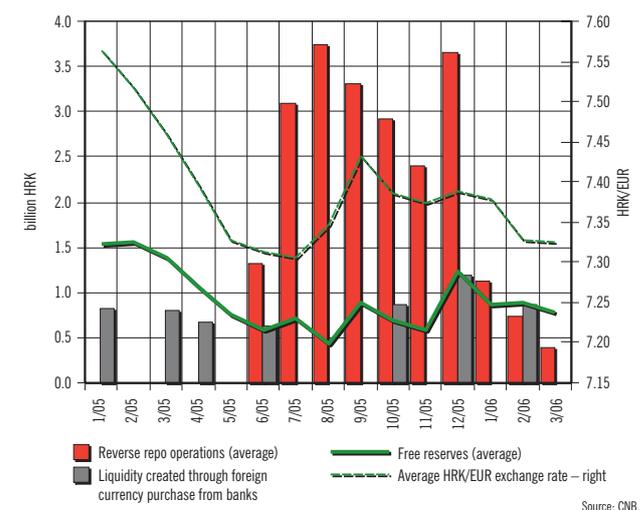
Foreign exchange interventions and reverse repo operations were the channels for reserve money formation and the source of the needed kuna liquidity in 2005. Given the absence of any significant liquidity deficit throughout the year, there was no need for other secondary sources of liquidity, such as the Lombard and short-term liquidity loans. The banks only made use of the interest-free intra-day loans within the limits in the settlement account, a new facility introduced within the framework of the new monetary policy framework.

The reserve requirement was again the main instrument for automatic surplus kuna liquidity sterilisation in 2005. Due to extremely good liquidity throughout the year, the 18% reserve requirement rate did not change. Total kuna reserve requirements rose by HRK 5.1bn or 25.6% in 2005, largely due to the growth in domestic sources of funds of banks, particularly household kuna deposits. The increase in kuna reserve requirements and a simultaneous decline in foreign currency reserve requirements in 2005 can be attributed to an increase from 42% to 50% in the share of foreign currency reserve requirements that is allocated in kuna. This increase also led to reserve money growth. Poorer growth of foreign currency reserve requirements expressed

1.25 Shares of Monetary Policy Instruments in Reserve Money Creation and Withdrawal
reserve money growth = 100%



1.26 Kuna Liquidity Creation through Reverse Repo Operations and Foreign Currency Purchase from Banks



in kuna equivalent towards the end of 2005 was the result of appreciation of the exchange rate of the kuna. Foreign currency reserve requirements stood at HRK 12.5bn in December, a fall of HRK 1.2bn compared with the year before.

In response to banks' failure to adjust their borrowing policies to monetary policy objectives regarding a slowdown in foreign borrowing, the CNB raised its marginal reserve requirement rate on two occasions in 2005, first from 24% to 30% in March and then to 40% in June, thus rendering foreign sources of finance more expensive. As a result, MRR allocated with the CNB rose by HRK 3.7bn, up to HRK 4.2bn at end-2005 from HRK 0.5bn at end-2004.

Reserve Money and International Reserves

Reserve money (M0) rose rapidly in 2005. Its annual growth rate in 2005 was up to 19.1% from 10.9% in 2004. The growth rates of this monetary aggregate used to be even higher in the preceding years such as for instance 32.8% and 29.3% in 2003 and 2002, respectively. It should be stressed that developments in reserve money are mostly affected by structural changes in monetary policy instruments and measures, particularly the reserve requirement instrument. Several past years saw quite a number of such changes, which makes annual growth rates of this monetary aggregate incomparable.

Banks' demand for reserve money in 2005 was boosted by autonomous growth of the kuna reserve requirement calculation base, with the June increase in the part of foreign currency reserve requirements that is allocated in

kuna giving additional impetus to its growth. Increased reserve money creation commonly took place in the third quarter due to rising demand for currency during the tourist season. At the end of the year, the banks had almost HRK 3.0bn in temporary surplus liquidity in the accounts with the CNB associated with a domestic market government kuna bond issue transaction. To a great extent, this led to a higher level of reserve money, which reached HRK 40.4bn at the end of 2005.

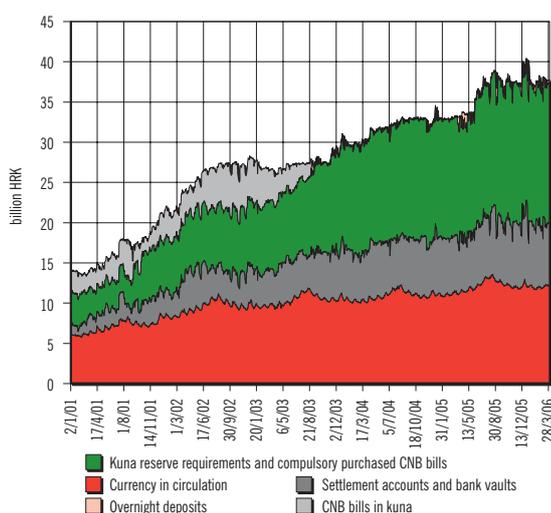
Looking at reserve money structure, bank deposits with the CNB rose the most (HRK 5.3bn or 4/5 of total M0 increase), just like the years before. This can largely be attributed to the growth in allocated kuna reserve requirements (HRK 2.9bn), while the banks' settlement accounts balances rose by HRK 2.0bn, mainly as a result of the previously mentioned end-year surplus liquidity. Cash in bank vaults, which are also included in the reserve requirement maintenance, rose by HRK 0.3bn in 2005. The other main component of reserve money, currency in circulation, rose by a considerable HRK 1.2bn.

Cash in bank vaults grew by 18.2% or HRK 340m in 2005. The largest growth of this component of reserve money commonly takes place during the summer due to a seasonally increased supply of banks with cash. Funds in bank vaults reached their annual maximum of HRK 2,361m during that period, compared with their annual average of HRK 1,802m in 2005, an increase of HRK 162m or 10.0%, compared with their average balance in 2004.

Of all the components of reserve money, settlement accounts again fluctuated the most in 2005. Given varying degrees of banks' reserve requirement

1.27

Structure and Daily Changes of Reserve Money and CNB Bills



Source: CNB.

maintenance during a single maintenance period, the balances in settlement accounts generally tend to be higher at the beginning of a maintenance period. The fact that the banks use these accounts to raise funds immediately before government bonds subscription has added to their volatility. The average balance of settlement accounts in 2005 was HRK 5.6bn, an increase of 17.0% compared with the previous year balance. At the end of the year, banks' surplus liquidity was reflected in the settlement accounts which stood at HRK 8.4bn, an increase of 31.3% compared with the end of 2004.

The growth of calculated reserve requirements in 2005 was seen in the growth of settlement account and bank vault balances where the banks maintain their reserve requirements as well as in the growth of reserve requirements allocated to a special account with the CNB. The March amendment to the Decision on Reserve Requirements, raising and fixing the percentage of kuna reserve requirement allocation from the minimum 60% to 70% of the calculated reserve requirements, facilitated system liquidity management. Common practice of banks until then to allocate on average amounts exceeding 70% provided additional motivation for this amendment. Allocated kuna reserve requirements stood at HRK 17.6bn at the end of 2005, which is an increase of 20.0%, compared with the end of the previous year.

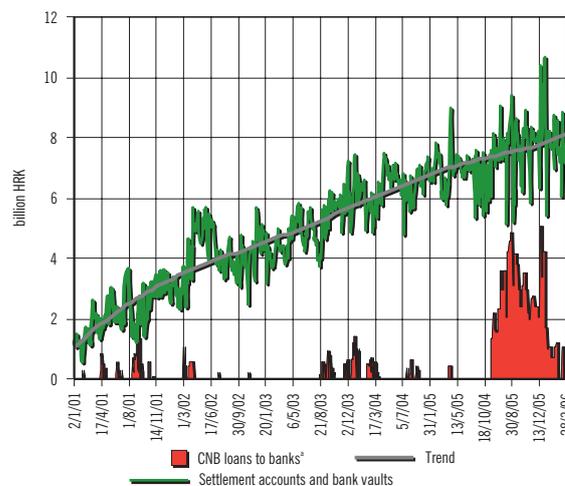
In addition to banks' deposits with the CNB, the other main component of reserve money, currency in circulation, grew faster in 2005 compared with the previous year. At end-2005, currency in circulation stood at HRK 12.2bn, growing annually by 11.0%, compared with 3.6% in 2004.

Average central government deposits with the CNB were HRK 633m, which is a fall of HRK 300m compared with their average balance in 2004. The usual volatility of government deposits during the year was caused by inflows and outflows of funds from the government account. HRK 605m in average government kuna deposits represented a slight increase compared with 2004, while their considerable jump in the first and the fourth quarters was associated with a government bond issue on the domestic market, which withdrew liquidity from the system. In the first quarter, the government was thus able to deposit the funds raised and use them to purchase foreign currency from the CNB for the settlement of its foreign liabilities under the Paris and London Club. Similarly, kuna government deposits also rose temporarily to HRK 2.4bn on the day of day of bond issue in December. During the same period, central government foreign currency deposits with the CNB were negligible. Their average balance fell from HRK 380m in 2004 to only HRK 28m in 2005. In July, the government made a temporary deposit of the foreign currency purchased from the CNB (HRK 455m), and in December there was a temporary inflow of foreign currency associated with succession (HRK 290m). At end-2005, kuna and foreign currency government deposits with the CNB stood at HRK 319m, and mere HRK 13m, respectively.

At end-2005, international reserves of the CNB stood at EUR 7,438m, an increase of EUR 1,002m or 15.6% compared with the end of 2004. In kuna terms, international reserves were HRK 54.9bn at end-December 2005, compared with HRK 49.4bn at end-2004. Rapid growth of international reserves in 2005 was mostly due to larger purchases of foreign currency from the banks and an increase in allocated foreign currency reserve requirements, including marginal reserve requirements. The total amount of foreign currency purchased from the banks in 2005 was EUR 671m, a record amount of foreign currency purchased in any calendar year so far. The considerable

1.28

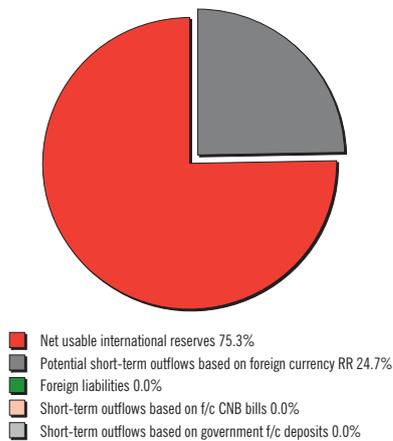
Banks' Settlement Accounts with the CNB and Liquidity Loans



* CNB loans in 2005 include reverse repo operations.

Source: CNB.

Structure of Total CNB International Reserves as at 31 December 2005



Source: CNB.

growth of EUR 512m in marginal reserve requirements allocated can be attributed to the growth in the marginal reserve requirement calculation base and an increase in the marginal reserve requirement allocation rate on two occasions in 2005 (from 24% to 30% in March and further to 40% in June). International reserves also grew due to investment-related income and exchange rate differences. The strengthening of the exchange rate of the dollar against the euro in 2005 (15%), led to an increase in the dollar component of international reserves expressed in euro (at end-2005, the dollar share of international reserves amounted to 15%). As for the fall in international reserves, foreign currency sales to the central government played the most important role. Net usable international reserves, which exclude allocated foreign currency reserve requirements of banks and government foreign currency deposits, rose by EUR 578m, or 11.5% in 2005, reaching EUR 5,604m at end-December.

Monetary Policy in Early 2006

The beginning of 2006 was marked by the implementation of December 2005 decision by the CNB Council to widen the base for the calculation of the MRR and to raise for the third time the marginal reserve requirement rate with a view to discouraging new foreign borrowing of banks. The reasons behind such a central bank decision were developments in the last quarter of 2005 when banks intensified their foreign borrowing by withdrawing funds from their parent banks to ensure further rapid growth of placements which reached almost 20.0% on an annual level. In addition to the obligation of banks to allocate with the CNB 40% of any increase in external debt compared to its average balance in June 2004, an additional obligation was imposed involving the requirement for banks to allocate 15% of any increase in external debt compared with their average debt balances in November 2005. The base for the MRR calculation was widened to include guaranties and warranties issued for the account of foreign persons which serve as a basis for the borrowing of domestic persons abroad as well as the funds of persons engaged in the business activity of financial leasing.

Raised MRR rate notwithstanding, foreign borrowing of banks continued in early 2006, partly due to a seasonal fall in domestic sector deposits but also due to further pursuit of increased market share policies by banks, often at the price which over a short-term involves negative yields on additional placements. The increase in the MRR calculation base led to, in addition to the effects of the mentioned instrument changes, a large increase in allocated MRR, from HRK 4.2bn at end-2005 to HRK 8.3bn at end-March 2006. It is estimated that the increased rate of MRR allocation makes it no longer worthwhile for banks to borrow abroad, which is hoped to lead, later in the year, to a slowdown in foreign borrowing of banks. Unless this happens, the central bank will be ready to react with additional measures.

In the context of measures for slowing down and halting foreign borrowing of banks, the central bank introduced a new instrument of special reserve requirement in February 2006, with a view to counteracting any possible attempts of banks to circumvent the existing CNB measures. The decision on the 55% allocation of special reserve requirements on the funds of banks raised through securities issue in the country prevents the banks from selling such securities to foreign banks on the secondary market or from selling such

securities to its clients who have for that purpose borrowed from foreign banks and thus avoid the obligation to pay the marginal reserve requirement on the funds secured from abroad.

Simultaneously with its policy aimed at reducing foreign borrowing of banks, the monetary authority, in an effort to slow down credit growth and alleviate the external imbalance and vulnerability associated with a rapid increase in external debt and widening of the current account deficit, continued to maintain high liquidity and pursue its fiscal policy which is based on domestic financing of the budget deficit instead of new foreign borrowing. The period of extremely good liquidity from end-2005 continued into early 2006 while the January lowering of the reserve requirement rate from 18% to 17% liberated additional HRK 2.1bn in banks' funds.

Despite good liquidity in early 2006, appreciation pressures tightened again because of large demand for kuna, prompting the central bank to intervene in the foreign exchange market in February. At two interventions, the central bank purchased a total of EUR 118.6m, creating HRK 868m. The need for additional reserve money creation was thus reduced, as reflected in the turnover at regular reverse repo auctions which were marked by considerably fallen demand of banks for additional funds while the CNB declined some of the bids received, fearing excess liquidity. Of the total of 13 reverse repo auctions in the first quarter of 2006, turnover at 10 of them averaged HRK 0.9bn, a significant fall compared with last year's average of HRK 2.8bn.

In early 2006, the CNB also introduced a range of prudential measures, raising minimum requirements for banks in the management of credit risks associated with foreign currencies. The reason for the inclusion of currency-induced credit risk in prudential regulations lies primarily in the highly euroised banking sector. All banks are now required to determine, for each client or placement individually, bank' exposure to currency-induced credit risk. The new prudential requirements are aimed at reducing and slowing down the growth of placements in foreign currency and with a currency clause, particularly placements to households which the banks will not be able to treat as hedged items.

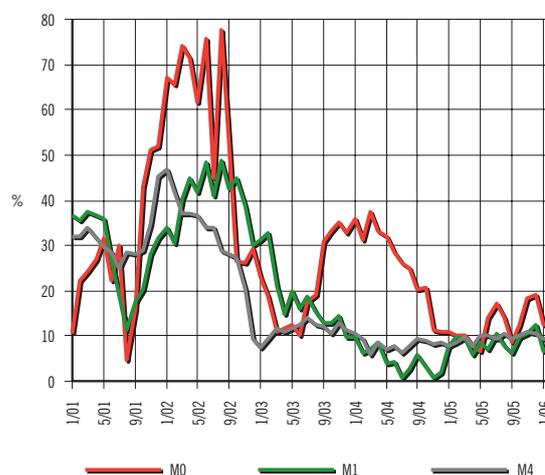
Developments in Monetary and Credit Aggregates

Total liquid assets (M4) rose by 10.5% in 2005, an increase of two percentage points compared with their increase in 2004. Given an extremely high share of foreign currency items in total liquid assets (56.1%), the annual growth rate of this monetary aggregate, the effects of appreciation of the exchange rate of the kuna excluded, was 11.7%. Acceleration in M4 growth in 2005 was mainly due to a rapid growth in money (M1). As for developments in non-monetary deposits, the growth of kuna deposits accelerated slightly, while the growth rate of foreign currency deposits held steady at its 2004 level. With nominal increase of HRK 14.6bn in 2005, total liquid assets reached HRK 154.6bn at the end of the year.

Fast acceleration in M1 growth in 2005 was reflected in the developments of annual growth rate, which rose from 2.0% in 2004 to 12.3% in 2005. Both components of money, demand deposits and currency, provided contribution to this acceleration, so its structu-

1.30

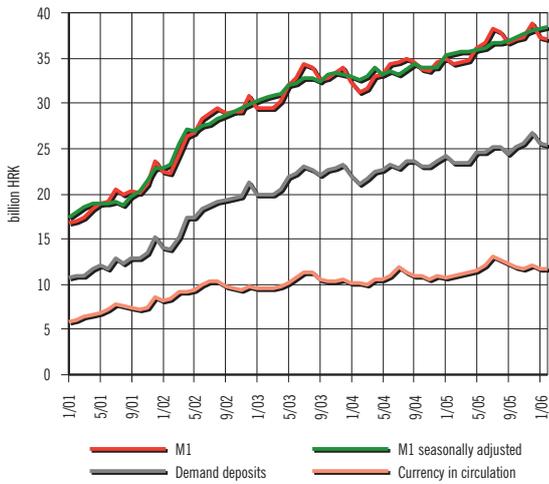
Monetary Aggregates
year-on-year rate of change



Source: CNB.

1.31

Money (M1)



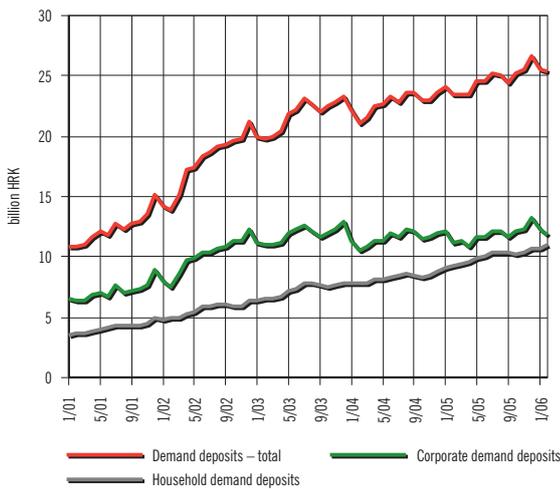
Source: CNB.

re did not undergo any significant changes. Demand deposits accounted for almost two thirds of the total amount of money at end-year, with the rest being attributed to currency in circulation. At end-year, M1 stood at HRK 38.8bn.

The annual growth rate of demand deposits was up to 12.9% in 2005 from 1.2% in 2004, with demand deposits reaching HRK 26.7bn at the end of the year. Their accelerated growth received the biggest boost from household sector demand deposits, whose annual growth rate doubled compared with the previous year and reached 22.3% at end-2005. In absolute terms, two thirds of the total HRK 3.0bn in demand deposit increase can be attributed to increased household giro and current accounts. As for the corporate sector, as the second most important sector, following a decline in 2004, demand deposits of companies rose considerably in 2005. The largest share of the increase took place in the second half of the year following marked acceleration in the growth of bank loans to companies. In addition to the mentioned increase, the feature that also marked corporate demand deposits last year was their somewhat more pronounced volatility.

1.32

Demand Deposits



Source: CNB.

The other component of money, currency in circulation, was also up significantly in 2005. Its annual growth rate rose from 3.6% in 2004 to 11.0% in 2005 and its developments during the year were characteristically seasonal, reaching their peak in mid-August at the height of the tourist season and towards the end of December, when demand for currency rises due to holiday shopping. Currency in circulation rose by a total of HRK 1.2bn in 2005, reaching HRK 12.2bn at end-year.

Kuna and Foreign Currency Non-Monetary Deposits

Kuna non-monetary deposits rose by a large HRK 5.5bn in 2005. Their annual growth rate was up to 24.5%, an increase of two percentage points compared with the previous year. Such developments point to a growing popularity of kuna deposits as a form of saving as opposed to savings in foreign currency. However it should be noted that, in terms of their structure, kuna time deposits with a currency clause again grew the most in 2005.

The household sector provided the largest contribution to the growth in kuna non-monetary deposits. Kuna deposits of the household sector rose by 4.1% in 2005 (35.9%), thus holding steady at their 2004 growth level. Unlike the household sector, kuna non-monetary deposits of the corporate sector declined on an annual level by HRK 0.5bn (-5.9%). Such developments were determined, as in the year before, by a dividend payment transaction to the shareholders of HT towards the end of the year which caused kuna corporate deposits to fall by a net HRK 1.4bn in December. In addition to the hou-

sehold and the corporate sectors, the share of other banking and non-banking financial institutions in total kuna non-monetary deposits is growing. After growing by HRK 1.8bn, their kuna deposits doubled in 2005, accounting for 12.6% of total kuna non-monetary deposits at the end of the year.

Effects of appreciation of the exchange rate of the kuna excluded, the annual growth rate of foreign currency deposits was 8.2% in 2005, a fall of 0.3 percentage points compared with 2004. Similarly as in the previous years, the largest share of the increase in foreign currency deposits took place during the main tourist season in the summer. With their absolute increase of HRK 5.0bn, total foreign currency deposits reached HRK 86.8bn at the end of the year, and thus were again in the largest item of the total liquid assets.

Looking by sectors, rapid acceleration in the growth of household foreign currency deposits compensated almost fully for the absence of growth of corporate foreign currency deposits which held steady in 2005. In absolute terms, household foreign currency deposits rose by HRK 4.6bn and reached almost HRK 73.0bn towards the end of the year. Their share in total foreign currency deposits did not change significantly (84.1% at end-2005), so they continued to determine developments in total foreign currency deposits.

Bank Placements

Bank placements to the non-banking sector rose by 17.2% in 2005 (19.9%, exchange rate effects excluded). This is acceleration compared with 14.0% in the previous year. Acceleration was particularly evident in the second half of the year, when the growth of bank placements was equal to their growth in the entire 2004 (HRK 15.5bn). Placements rose by a total of HRK 21.9bn in 2005, standing at HRK 149.2bn at end-year.

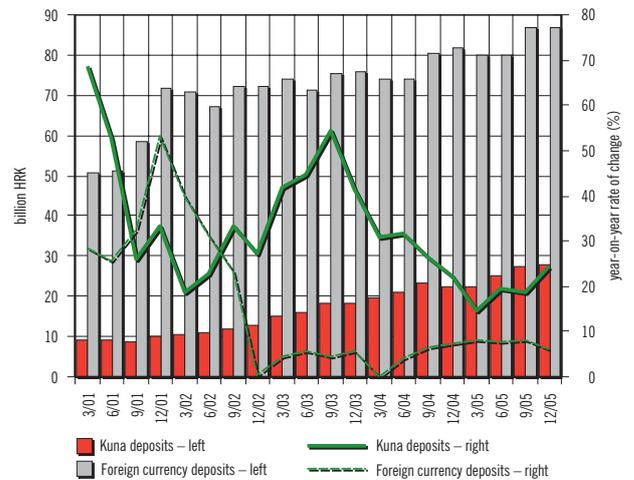
Loans granted account for the total increase in bank placements to the non-banking sector in 2005. In the structure of loans granted, household loans accounted for 60.1%, while corporate loans accounted for 39.4% of the total. The remaining loans granted can be ascribed to other banking and other financial institutions and local government.

The amount of loans granted to households more than doubled in 2005 compared with 2004 (HRK 8.7bn compared to HRK 3.9bn). Such rapid growth rate (annual growth rate 16.3%) is an indication of increased bank financing of economic entities. It is worth noting that, in addition to domestic banks, companies may use other sources of financing, both domestic and foreign.

However, the banks continued to focus their credit supply efforts mostly on the household sector. In addition to higher yields and lower risks for the banks, such developments were also driven by heavy demand for household loans, boosted by increasingly more favourable lending terms which banks

1.33

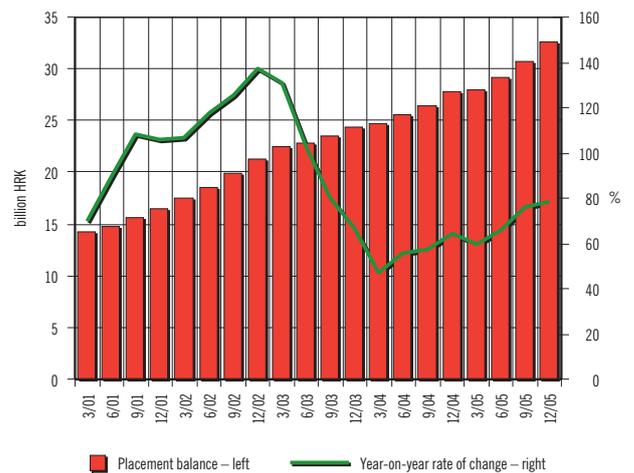
Kuna and Foreign Currency Deposits



Source: CNB.

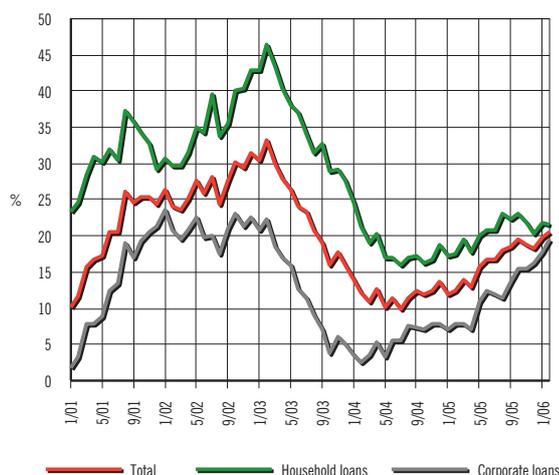
1.34

Bank Placements to Non-Banking Sector



Source: CNB.

1.35

Bank Loans
year-on-year rate of change

Source: CNB.

offer to win a competitive edge. Household loans were up HRK 13.3bn (20.3%) in 2005, which is an increase of HRK 3.0bn compared with 2004. Due to increased demand on the real estate market, and more favourable lending terms, housing loans grew the fastest (28.8%) and accounted for 35.4% of total loans granted to households. However, all purpose loans still accounted for the largest share of all loans granted. Other kuna loans (including current account overdrafts) were their largest item, accounting for 45.8% of total loans granted.

Banks' Net Claims on the Central Government

In 2005, the relations between the government and the banks intensified as the central government met its all financing needs on the domestic market. Following stagnation in 2004, bank placements to the central government rose by HRK 7.8bn (37.2%) in 2005.

Loans and short-term borrowing based on issued T-bills accounted for the largest share of increase in government liabilities towards the banks in 2005. Bank claims on the government arising from loans granted rose by HRK 4.1bn in 2005 with the increase taking place mostly in the first half of the year, notably in March, after the government negotiated with banks a EUR 500m foreign currency loan. Given good liquidity of the domestic market, the government ensured the needed short-term finance by intensifying its issues of T-bills of the Ministry of Finance. Bank claims associated with such transactions rose by HRK 3.4bn in 2005. In addition to the mentioned forms of borrowing, the government also secured a significant portion of the needed finance through banks' subscription of their domestic bond issues. Banks' net claims on the central government arising from issued bonds rose by HRK 0.3bn in 2005.

Large fluctuations in government deposits throughout the year were due to inflows from borrowing and outflows associated with due obligations. On an annual level, central government deposits with the banks held steady throughout 2005, while its deposits with the central bank were up HRK 0.3bn.

Developments in Foreign Assets and Liabilities

Foreign assets of banks fell by HRK 8.0bn in 2005 because banks used their surplus liquidity from 2004 to finance their domestic placements' growth. The central bank also cut its minimum foreign currency claims requirement from 35% to 32% in the first quarter, thus liberating some of the banks' funds for central government domestic financing instead of foreign borrowing.

By contrast, due to rapid growth of bank placements which was financed from foreign sources, foreign liabilities of banks rose by HRK 6.0bn in 2005. However, their increase in 2005 was twice below their increase in 2004 (HRK 11.2bn). To slow down further borrowing of banks abroad, the central bank raised its marginal reserve requirement rate several times during the year.

Monetary Developments in the First Quarter of 2006

Monetary developments in the first quarter of 2006 were marked by accelerated growth of bank placements to the non-banking sector and increased foreign borrowing of banks.

Early 2006 was marked by a common seasonal decline in money. Significant fall in foreign currency deposits fully compensated for the rapid growth in kuna deposits, whose annual growth rate reached high 40.0% at the end of March. Such developments led to a mild acceleration in the growth of total liquid assets on an annual level. At end-March, total liquid assets were HRK 153.6bn, growing annually by 11.3%.

The growth of bank placements to the non-banking sector in the first three months, the effects of appreciation of the kuna against the euro excluded, doubled compared with the same period previous year and reached a high 23.3% at end-March on an annual level. Bank placements to the corporate sector continued their accelerated upward trend from 2005, with their annual growth rate becoming equal to that of the household sector. After the government resorted in March to short-term borrowing from the banks to settle its foreign liabilities, bank placements to the central government rose by HRK 2.2bn in the first quarter.

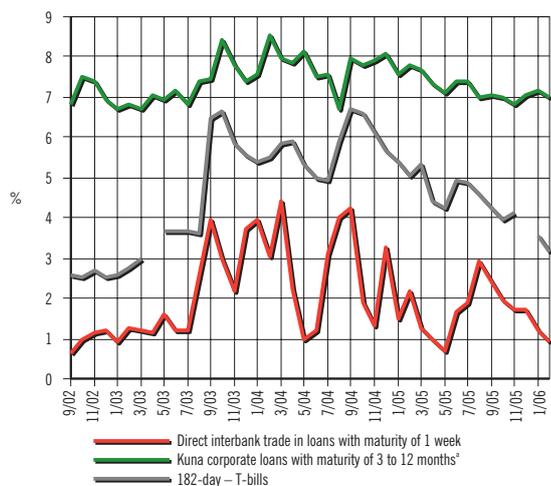
The banks continued to finance domestic placements growth by means of foreign borrowing in the first quarter of 2006. During that period, foreign liabilities of banks rose by HRK 6.3bn. Given the current central bank measures regarding foreign borrowing of banks and the expected growth of domestic sources of funds later in the year, the intensity of foreign borrowing of banks is slated for a slowdown.

1.2.6 Money Market

The liquidity of the banking system, high throughout 2005, was additionally spurred in the first half of the year by large foreign currency purchases made by the central bank in late 2004 and early 2005. The improved liquidity caused both the total turnover and interest rates on the money market to decline in 2005 from the previous year. Also contributing to this were CNB's reverse repo auctions, which were introduced in April with an aim to set the benchmark interest rate for trading in demand deposits and alleviate interest rate fluctuations generated by sudden changes in the banking system liquidity. With the generally high money market liquidity, reverse repo auctions initially failed to attract much interest from banks, but this changed following the amendments made to the decision on reserve requirements in June (see Monetary Policy and Flows of Creating Reserve Money) and the increase in demand for kuna brought about by the tourist season. However, liquidity rebounded already in September and remained high until the year-end. Relatively small liquidity amounts were released through CNB's reverse repo auctions in that period, except in December, which saw another seasonal increase in kuna demand. However, after the CNB improved the reserve requirement calculation, allocation and maintenance method in November 2005, money market interest rate volatility rapidly lessened. The initial observations of money market in-

1.36

Main Short-Term Interest Rates



* Without a currency clause.

Sources: CNB and ZMM.

Interest rate trends after these changes suggest that their considerably lower volatility will remain constant and supposedly strengthen the role of the interest rate on CNB's reverse repo auctions in 2006.

Due to the high liquidity and related great investor interest in MoF T-bills, these securities were auctioned very successfully in 2005. The stock of subscribed T-bills increased by HRK 18.5bn, 45.6% more than planned. Due to the strong demand, the yield on these securities suffered a large drop, which resulted in cheaper short-term government financing. Specifically, the yield on T-bills is determined on the basis of bids submitted by potential investors, comprising the nominal subscription amount and required yields. Based on the highest acceptable amount, a single yield is determined for the whole T-bills' series and investors whose bids are accepted are invited to make their subscriptions. However, interest rates on MoF T-bills' auctions still exceed money market interest rates for the same maturities. This could be an indication of a continued negative risk premium in the Croatian money market.

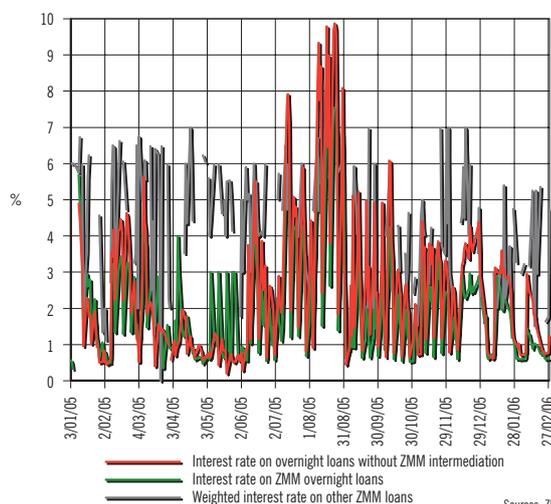
On the other hand, there is a possibility that due to a small volume of trading in money with maturities longer than a week and low investor interest in T-bills with shorter maturities, interest rates on these securities' auctions and money market interest rates are not comparable.

Due to the favourable money market liquidity in 2005, banks' interest rates on short-term loans continued their gradual but steady decline. At the same time, interest rates on long-term loans declined further. Interest rates on foreign currency time deposits drifted slightly upwards in 2005, due to the fact that these deposits are a cheaper financing source than foreign liabilities, which are subject to restrictive monetary policy measures aimed at reducing banks' foreign borrowing. Mostly in line with money market interest rate trends, interest rates on kuna time deposits decreased from end-2004.

Money Market Interest Rates

1.37

Money Market Interest Rates



Sources: ZMM and CNB.

The strong liquidity of the banking system in the first half of 2005 resulted in relatively low turnovers and low interest rates in the money market. These conditions, further improved by central bank's foreign exchange interventions in April and June, continued until the beginning of the tourist season, when the banking system liquidity declined and money market turnover and interest rates rose. This rise was spurred by a new government bond worth EUR 350m issued in July and also by the CNB Council's June decision to increase the percentage of the reserve requirement component allocated in kuna on foreign exchange sources of funds from 42% to 50%. However, the bank liquidity started to grow again as soon as in September, continuing the trend, strengthened by central bank's foreign exchange interventions in October and November, until the year-end.

As shown by ZMM data, the weighted interest rate on overnight loans intermediated by the ZMM rema-

ined relatively low (ranging from 2.26% in January to 3.38% in July) until the peak of the tourist season in August, when it reached its 2005 high of 5.55%. This rate drifted lower to 2.29% in December, a decrease compared with 3.55% in December 2004.

Interest rates on other loans intermediated by the ZMM drifted downwards almost continuously in 2005. Having peaked at 5.60% in March, the weighted interest rate on other loans decreased to 3.75% in December, dropping significantly below the December 2004 level of 6.02%.

Total turnover on the ZMM (daily and overnight) stood at HRK 31.9bn in 2005, a decrease of HRK 6.3bn from 2004. Overnight loans intermediated by the ZMM had a total turnover of HRK 23.1bn in 2005 (72% of total turnover in 2005), reducing from HRK 28.6bn in 2004 (75% of total turnover in 2004). The decrease in both total turnover and the share of overnight loans resulted from an increase in bank liquidity compared with 2004. Liquid money market participants were thus encouraged to extend loans with longer maturities, 70% of which was made up by loans maturing in one month. Standing at about HRK 70m in the first half of 2005, the average daily turnover in overnight loans doubled during the tourist season and then returned to the previous level. The average daily turnover in other loans hovered around HRK 40m in the first half of 2005 and dropped to approximately HRK 20m in the second half of the year.

In addition to loans with one-month maturity, the share of loans maturing in a week also rose, from 4% in 2004 to 10% in 2005.

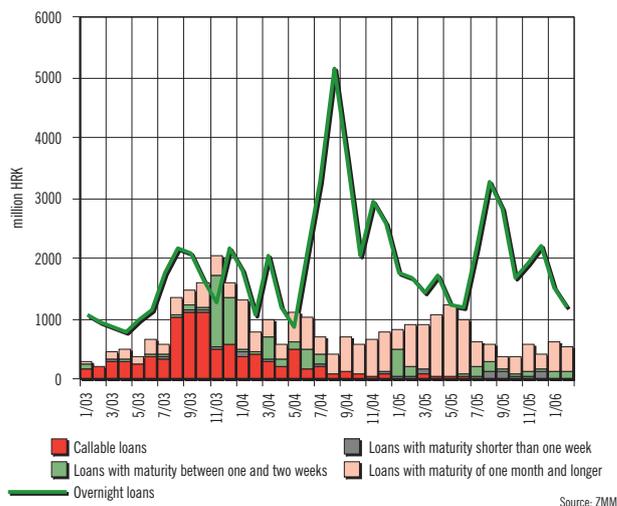
The high liquidity prevailing in the banking system in 2005 had an effect on direct interbank trading in demand deposits, with turnover in overnight deposits exceeding severalfold total ZMM turnover. Standing at HRK 123.6bn in 2005, total turnover in direct interbank overnight trading decreased by 12% compared with 2004. The average daily turnover in direct interbank overnight loans ranged about HRK 500m in 2005, reaching its peak of HRK 827.8m in August. Interest rates on these loans mainly exceeded interest rates on overnight loans intermediated by the ZMM. Having stood at a very low level in the first part of the year (0.80% in May), the weighted interest rate on direct interbank overnight loans rose to 6.75% in August, spurred by growing seasonal demand for the kuna, and dropped again to 3.14% in December, declining from 4.46% in December 2004.

Interest Rates on the Short-Term Securities Market

Interest rates on T-bills mostly trended downwards in 2005, rising only occasionally during periods of lowered banking system liquidity. Weighted interest rates on 91, 182 and 364-day T-bills dropped from 4.00%, 5.41% and 5.58%

1.38

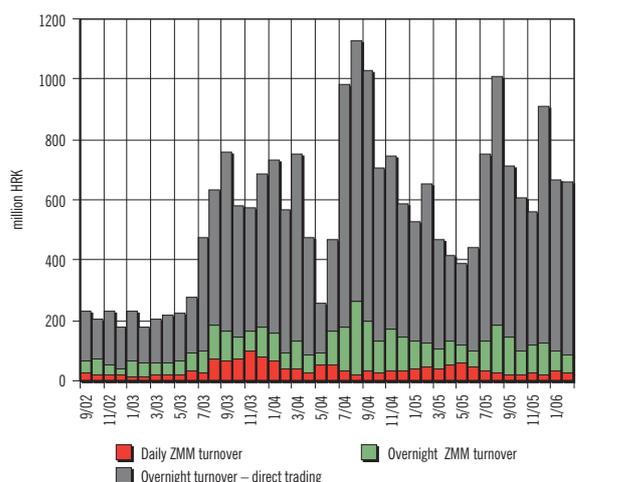
ZMM Turnover
by loan maturity, monthly data



Source: ZMM.

1.39

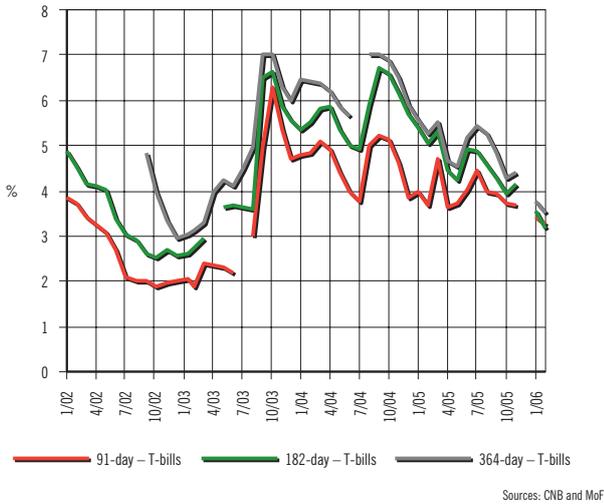
Money Market Turnover
daily average, monthly data



Sources: ZMM and CNB.

1.40

Interest Rates on T-Bills
maturity structure



Sources: CNB and MoF.

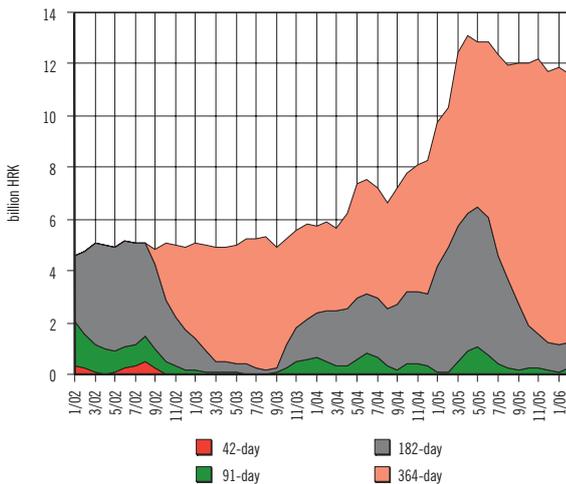
to 3.70%, 4.15% and 4.40% respectively from January to November 2005 (there were no T-bills' auctions in December).

Increasing by HRK 3.46bn from the end of 2004, the stock of subscribed T-bills amounted to HRK 11.72bn at the end of 2005. Having risen in the first part of the year, it began to drift lower with the advance of the tourist season, due to strong demand for currency. The stock of subscribed T-bills dropped further late in the year as investors reallocated part of their funds in the new government bond issue.

With the share ranging from 50% to 90%, one-year bills prevailed in the structure of subscribed T-bills. They were followed by 182-day bills, while the share of T-bills with the shortest maturities stood mainly below 5%. At end-2005, out of HRK 11.72bn of subscribed bills, HRK 10.50bn (90%) was made up by one-year bills, HRK 1.03bn (9%) by 182-day bills and HRK 180m (1%) by 91-day bills.

1.41

T-Bills Stock
maturity structure, end of period



Source: MoF.

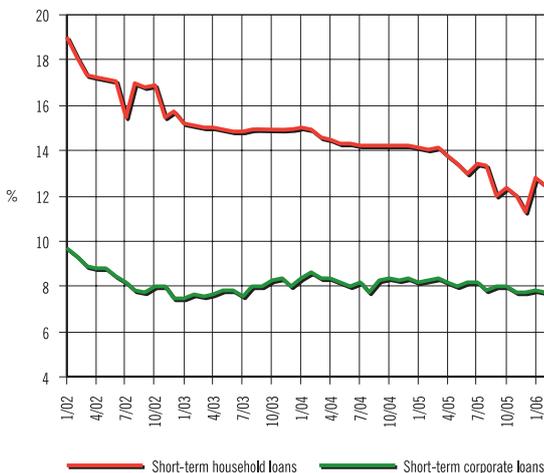
Banks' Interest Rates

Banks' lending interest rates declined in 2005. The weighted interest rate on short-term household loans without a currency clause dropped from 14.19% in December 2004 to its all-time low of 11.26% in December 2005. The weighted interest rate on short-term corporate loans without a currency clause fell from 8.33% in December 2004 to 7.71% in December 2005.

Interest rates on long-term household loans with a currency clause continued to drop in 2005, rising only in March, spurred by the growth of interest rates on car purchase loans and other long-term household loans. These two loan groups made up 84% of total new long-term household loans with a currency clause

1.42

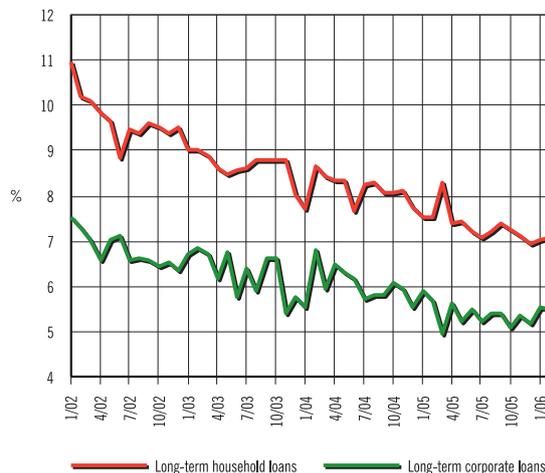
Banks' Average Interest Rates on Short-Term Loans without a Currency Clause



Source: CNB.

1.43

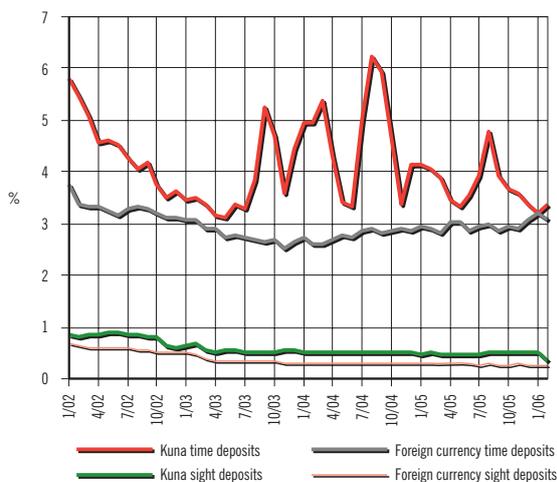
Banks' Average Interest Rates on Long-Term Loans with a Currency Clause



Source: CNB.

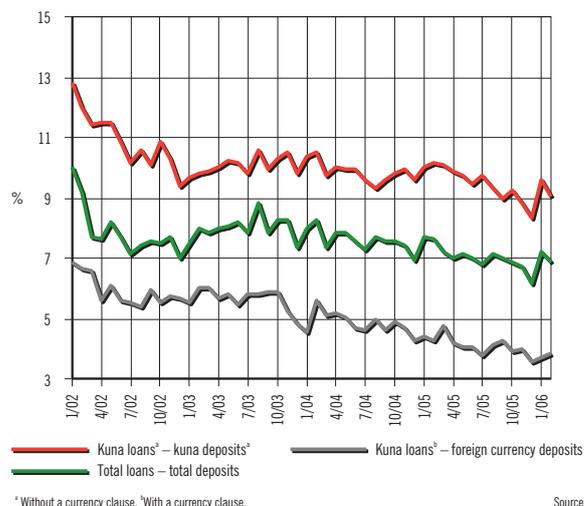
1.44

Banks' Average Deposit Interest Rates



1.45

Spread between Banks' Average Interest Rates on Loans and Deposits



in that month, which was 20 percentage points more than their average share in total new long-term loans to households with a currency clause in the whole 2005. Standing at 7.73% in December 2004, the weighted interest rate on long-term household loans with a currency clause amounted to 6.95% in December 2005.

Interest rates on long-term corporate loans with a currency clause commonly fluctuate the most of all the observed lending interest rates. The weighted interest rate on these loans fluctuated around 5.40% in 2005, without indicating either a clear-cut downward or upward trend. However, standing at 5.18% in December, this rate fell considerably compared with 5.55% in December 2004.

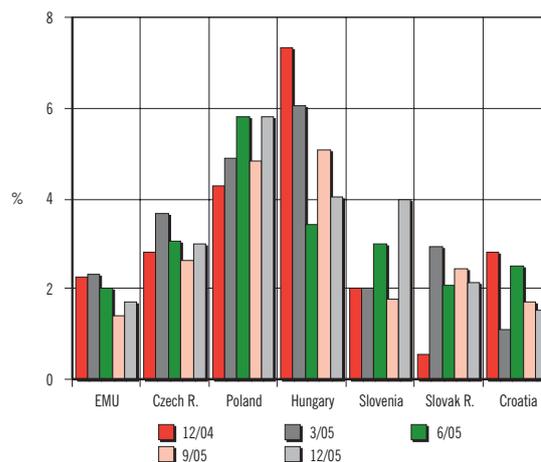
Influenced by money market developments, the weighted interest rate on kuna time deposits fluctuated sharply in 2005, hitting its low of 3.34% in May and peaking at 4.79% in August. This rate stood at 3.37% in December, a decrease from 4.12% recorded in December 2004. In 2005, the weighted interest rate on kuna sight deposits oscillated from 0.47% to 0.52% and stood at 0.50% in December, one basis point below the year ago level.

Interest rates on foreign currency time deposits continued their slow increase from early 2004. The weighted interest rate on foreign currency time deposits, standing at 2.85% in December 2004, reached its two-year high of 3.08% in December 2005. In contrast, interest rates on foreign currency sight deposits hovered around an average of 0.28% throughout 2005, with negligible deviations. Specifically, the weighted interest rate on foreign currency deposits was 0.30% in December 2004 and 0.27% in December 2005.

In consequence of these lending and deposit interest rate trends, the spread between interest rates on total loans and interest rates on total deposits narrowed from 6.92 percentage points in December 2004 to

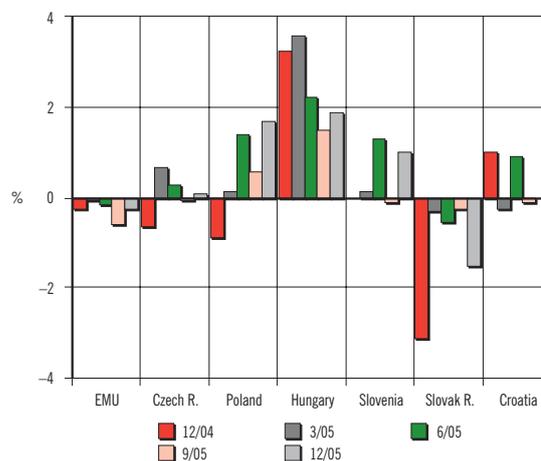
1.46

Real Interest Rates on Long-Term Corporate Loans in Selected Countries



1.47

Real Interest Rates on Short-Term Household Deposits in Selected Countries



6.17 percentage points in December 2005. The spread between interest rates on kuna loans without a currency clause and interest rates on kuna deposits reduced from 9.61 percentage points to 8.33 percentage points in the same period. The spread between interest rates on kuna loans with a currency clause and interest rates on foreign currency deposits also narrowed in 2005, hitting its all-time low of 3.56 percentage points in December (it was 4.24 in December 2004).

The downward trend in banks' nominal lending interest rates was also observed in other Central and East European countries and in EMU members. In 2005, nominal lending rates decreased in the EMU, Hungary, Poland, Slovakia, the Czech Republic and Croatia, increasing only in Slovenia. Real interest rates on long-term corporate loans fell at end-2005 from end-2004 in the EMU, Hungary and Croatia, and rose in the other observed countries.

Nominal interest rates on short-term household deposits rose only in the EMU and Czech Republic in 2005 compared with 2004, declining in all other observed countries. Real interest rates on both short-term household deposits and long-term corporate loans increased in all the observed countries, with the exception of Croatia, Hungary and the EMU.

Central to these trends was the fact that only the EMU and Croatia saw the inflation rate rise, while all the other observed countries saw it drop.

Developments in 2006

The banking system liquidity remained good in the first two months of 2006. Contributing to this were the amendments to the CNB's decision on the reserve requirement rate, reducing it from 18% to 17%. Due to high liquidity levels in the banking system, the CNB, at a mid-January reverse repo auction of T-bills, for the first time since May 2005, refused some banks' bids in order to prevent speculative demand for the kuna. This was repeated on several more reverse repo auctions in January and February.

In consequence of these developments, loan turnover decreased and interest rates on the kuna money market dropped further from end-2005, whereas the amount of subscribed MoF T-bills held steady at the end-2005 level. The weighted interest rate on overnight loans intermediated by the ZMM stood at 0.88% in February and the average daily turnover of these loans was HRK 58.3m in the same month.

Interest rates on MoF T-bills' auctions continued to drop in the first two months of 2006. The weighted interest rate on February T-bills' auctions was 3.23%, 3.18% and 3.49% for 91, 182 and 364-day bills respectively. The stock of subscribed T-bills amounted to HRK 11.67bn at end February 2006.

Banks' lending interest rates increased in January and February 2006 compared with end-2005, while interest rates on foreign currency deposits and those on kuna time deposits remained at their end-2005 levels. These developments are fully in line with market expectations of an impending increase in eurozone interest rates, generated by the ECB lifting its key interest rate in December 2005 and March 2006 for the first time since 2000. As a result, the ECB's key interest rate increased from 2% at end-November 2005 to 2.5% at end-March 2006.

1.2.7 Capital Market

Bond turnover increased by almost 40%, share turnover rose by nearly 75% and trading transactions doubled in number in 2005 compared with 2004. Stock exchange indices steadily increased throughout the year, to a large extent due to institutional investors, primarily compulsory pension funds, whose assets grew by HRK 3.9bn (48.3%) in 2005. Of this amount, HRK 2.5bn was accounted for by investments in shares and bonds on the domestic capital market. The rise in share turnover and market capitalisation in 2005 was significantly contributed to by the sale of domestic shares to two Scandinavian funds early in the year.

Despite these developments, the ZSE's bond market capitalisation to GDP ratio is still the lowest among the ratios of major stock exchanges in comparable Central and East European countries. However, only the Bratislava Stock Exchange has a higher bond turnover to GDP ratio, which proves that the Croatian market is ready to absorb new bond issues. Nevertheless, the ZSE's relative position as regards shares is substantially different. In contrast with bond turnover, share turnover (as measured by the turnover to GDP ratio) is very low, exceeding only the Bratislava Stock Exchange turnover. The share market capitalisation to GDP ratio on the ZSE is similar in value to those of the Budapest and Ljubljana Stock Exchanges, and it is preceded by the ratios of the Warsaw and Prague Stock Exchanges.

Equity markets in most selected Central and East European countries (except in Slovakia and Slovenia) saw average daily share turnovers rise in December 2005 from December 2004, while average daily bond turnovers increased in the same period only in Slovakia and Poland, dropping on all other observed stock exchanges. Share market capitalisation grew at end-December 2005 from end-December 2004 on all observed stock exchanges, except the one in Ljubljana, while bond market capitalisation rose on all observed stock exchanges in the same period, except on the Budapest Stock Exchange.

Table 1.3 Comparison of Capital Market Indicators

December 2005	Bratislava	Budapest	Ljubljana	Prague	Warsaw	Zagreb
Average daily turnover, shares (million EUR)	0.2	99.8	1.6	92.0	825.1	2.3
Average daily turnover, bonds (million EUR)	60.3	2.3	0.5	65.4	16.4	24.4
Share turnover/GDP ^a , annual level (%)	0.1	31.3	1.6	26.9	106.6	2.0
Bond turnover/GDP ^a , annual level (%)	37.2	0.7	0.5	19.1	2.1	21.7
Turnover velocity ^b	0.8	91.2	6.1	50.7	188.9	5.3
Market capitalisation of shares (million EUR), end month	4,067	27,586	6,699	45,745	110,083	10,954
Market capitalisation of bonds (million EUR), end month	11,138	31,300	6,052	22,533	n.a.	4,668
Market capitalisation of shares/GDP ^a , end month (%)	12.3	34.3	25.8	53.1	56.4	38.6
Market capitalisation of bonds/GDP ^a , end month (%)	33.7	39.0	23.4	26.1	n.a.	16.4
Share index movement from the beginning of the year (%)	26.5	41.0	-5.7	42.7	33.7	27.6
Bond index movement from the beginning of the year (%)	0.8	-1.8	0.1	5.0	4.9	-1.4

^a Data for 2004 is given for the purpose of comparison with other countries.

^b Annualised monthly share turnover x 100/market capitalisation of shares.

Sources: Bloomberg and reports from BSSE, BSE, PSE, LJSE, WSE and ZSE.

There were five new bonds issued in the domestic debt securities market in 2005, three government and two corporate bonds, nominally worth about EUR 1.25bn. This was a slight decrease from 2004, which saw nine bond

issues, worth an approximate EUR 1.4bn in nominal terms. Twenty bonds were listed on the domestic capital market at-end 2005, three more than at end-2004. The market continued to be dominated by government bonds, to a large extent due to the Government's intention to curb its external borrowing in 2005. The continuously low share of corporate bonds in total bond turnover and market capitalisation on the domestic market in 2005 was an indication that this form of corporate financing continued to fall behind bank lending. The capital market's minor role in corporate financing was further confirmed by the fact that 2005 saw only one equities' public offering, worth a total of EUR 9.5m. Share market capitalisation on the Croatian capital market stands below 20% of banking sector's assets, and Croatian share liquidity, measured by the share turnover to GDP ratio, ranks among the lowest in the region.

Table 1.4 Equities' Public Offers
in million HRK

Year	Number of successful issues	Total value of successful issues
1997	17	839.4
1998	6	247.1
1999	3	29.0
2000	1	20.0
2001	1	13.0
2002	1	11.8
2003	1	1.2
2004	2	11.0
2005	1	9.5

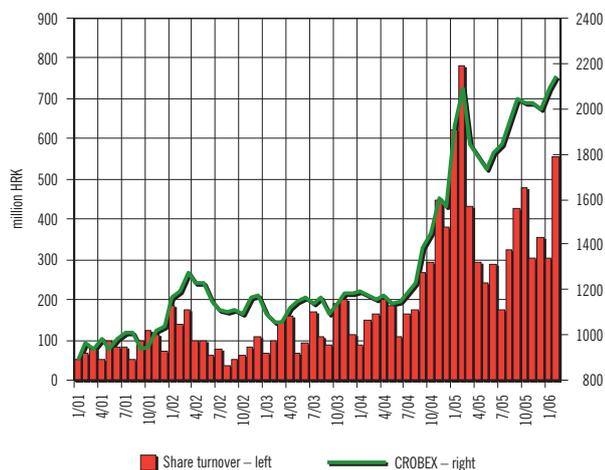
Source: CROSEC.

Not even an improving Croatia's rating in the international market contributed to the domestic capital market development. In 2005, the spread between Croatian eurobonds and benchmark German bonds fluctuated depending on the news on the start of Croatia's EU accession process and elections results in Germany, but the spreads of Croatian eurobonds of all observed maturities stabilised, shortly after the official start of EU accession negotiations, at a low level of around 40 basis points, held also at the year-end.

Equity Securities Market

1.48

ZSE Monthly Share Turnover
and End-Month CROBEX



Source: ZSE.

Growing by 80.58% from 2004, total share turnover on the ZSE stood at HRK 4,729.9m in 2005, while the number of listed shares rose from 183 to 194 over the year. With a turnover of HRK 957.4m, Adris grupa share accounted for 20.2% of total share turnover, outperforming the shares of Pliva (13.7%), Podravka (9.8%), Atlantska plovidba (8.8%) and Tankerska plovidba (4.1%).

Shares were traded on three ZSE markets in 2005: the Official Market (formerly First Quotation), Public Companies Market and Parallel Market. Istraturist and Medika common shares got listed on the Official Market this year, joining the already listed common Pliva and Podravka shares and common and preferred Croatia osiguranje shares.

Market capitalisation of shares traded on the ZSE amounted to HRK 80.72bn at end-December 2005

(35.2% of GDP for 2005), rising by HRK 19bn from end-December 2004, in consequence of the growth of both share prices and share liquidity.¹⁹ Privredna banka shares had the largest market capitalisation of all liquid shares at end-December (HRK 9.7bn or 12% of total share market capitalisation), followed by Pliva shares (HRK 7.7bn or 9.6% of total share market capitalisation).

The ZSE share index, CROBEX, stood at 1997.5 points at end-December 2005, increasing by 27.6% compared with end-December 2004.

Since its regular revision in September 2005, the CROBEX has comprised the shares of Adris grupa, Arenaturist, Atlantska plovdba, Belišće, Croatia osiguranje, Dalekovod, Franck, Institut građevinarstva Hrvatske, Istraturist, Jadroplov, Kraš, Končar elektroindustrija, Plava laguna, Pliva, Podravka, Riviera holding, Ericsson Nikola Tesla, Dom holding, Privredna banka Zagreb, Tankerska plovdba and Uljanik plovdba. The highest market capitalisation shares, those of Privredna banka Zagreb and Pliva, have had the largest influence on the CROBEX value.

The VSE also saw positive share trading trends in 2005, with share turnover totalling HRK 2,093.3m, a rise of 60% over 2004.

Share trading on the VSE is conducted in four segments: the First Quotation, Second Quotation, Public Companies' Quotation and Free Market. The fifth segment, the Quotation of Rights, involves trading in the rights of the Ministry of Finance and former Ministry of Public Works, Reconstruction and Construction.²⁰

The Free Market generated almost half of VSE turnover in 2005, in contrast with 2004, when the Public Companies' Quotation dominated. In addition to Republic of Croatia bonds and Koprivnica municipal bonds, only Varteks shares are traded in the First Quotation, while there is only one share listed in the Second Quotation.

Increasing by almost 41% from end-December 2004, the VSE's market capitalisation of shares stood at HRK 32.68bn at end-December 2005. The VIN amounted to 1993.5 points at end-December 2005, a growth of 42.4% compared with end-2004.

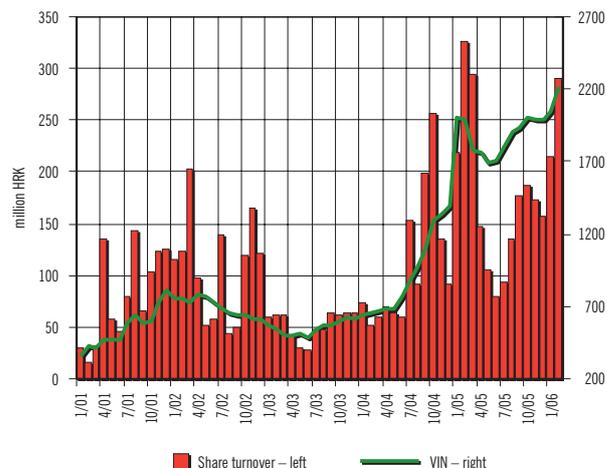
The VIN underwent two regular and two extraordinary revisions in 2005. The first extraordinary revision was carried out in March, after Anita Vrsar was removed from the index due to its merger with Jadran turist Rovinj, and the second in April, following SN holding's removal due to the initiated division of the company.

19 The ZSE share market capitalisation is calculated by multiplying each share's latest price by the number of shares issued. However, as share liquidity is also accounted for, the overall calculation includes half of market capitalisation of shares not traded in the previous month and only one fourth of market capitalisation of shares not traded in the previous three months.

20 Rights are securities which entitle their holders to some shares from the CPF portfolio. They are exchangeable for shares on public auctions intermediated by the VSE and tradable on the VSE.

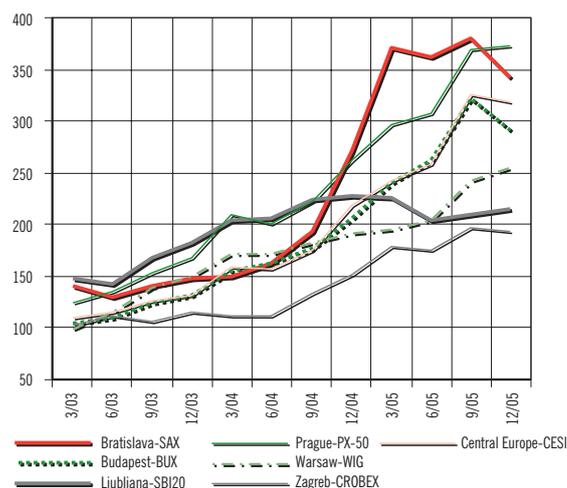
1.49

VSE Monthly Share Turnover and End-Month VIN



Source: VSE.

1.50

Selected Stock Exchange Indices
end of period, December 2001 = 100

Sources: Bloomberg and reports from BSSE, BSE, PSE, LISE, WSE and ZSE.

SN holding was reincorporated into the VIN already in the next regular revision, carried out in May, in addition to Chromos Agro Zagreb, Imperial Rab, Lošinjska plovidba–holding and Maistra Rovinj, while Petrokemija Kutina was removed. In the regular revision in November, the last in 2005, Rabac from Rabac was removed from the VIN and the following companies were included: Belje Darda, Jadranka Mali Lošinj, Luka Rijeka, Valamar holding, Viadukt Zagreb, and Podravska banka's common share. Since this revision, the VIN has been comprised of 19 joint stock companies' shares, with the largest weight assigned to the shares of Ericsson Nikola Tesla, Maistra Rovinj, Dom holding and SN holding.

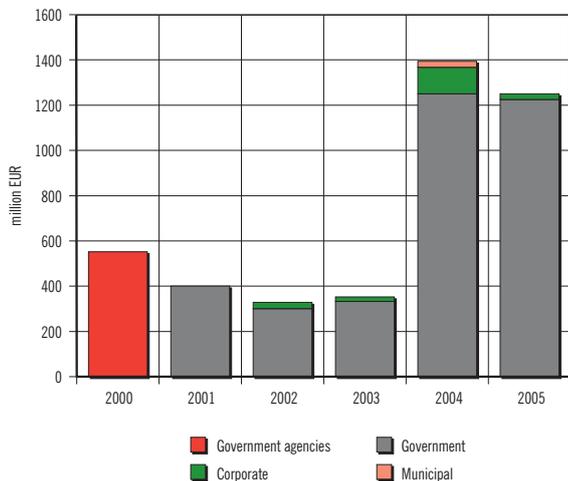
Share indices on major Central European stock exchanges continued growth in 2005, slowing down or reducing in value late in the year. The CROBEX was in line with these trends. The Prague Stock Exchange Index, PX-50, increased the most at end-December 2005 from end-December 2004, by 43%, while the other indices rose in the range of 27% to 41% in the same period. The only index that decreased in that period was the Ljubljana Stock Exchange Index, SBI20, down by 6%. The composite Central European Stock Exchange Index, CESI,²¹ increased by 46% in 2005, standing at 3212.0 points at end-December 2005.

Debt Securities Market

Three government bonds and two corporate bonds were issued in the Croatian debt securities market in 2005.

1.51

Bond Issues in the Domestic Market



Source: ZSE.

March 2005 witnessed the issue of a kuna government bond due 2010, worth HRK 3bn in nominal terms, with a yield to maturity at issue of 6.750%. The bond issue revenue was partially used to repay a government eurobond valued at EUR 500m, which matured at almost the same time. In July 2005, the Republic of Croatia issued a ten-year foreign currency bond worth EUR 350m, with a yield to maturity at issue of 4.394%. The last government bond issued in 2005 was a HRK 3.5bn worth kuna bond issued in December, with a yield to maturity at issue of 5.250%, due in 2015. With the second tranche issued in February 2006, worth nominally HRK 2bn, the bond's integral nominal value comes up to HRK 5.5bn. The revenues generated by the bond's first tranche mostly went towards the repayment of a DAB bond issued in 2000, which matured in December. Being the first ever ten-year kuna denominated bond, this bond is vital to the extension of the kuna yield curve,

Also issued in 2005 were two EUR-denominated corporate bonds (a Belišće bond valued at EUR 8m, due 2009, with a yield to maturity at issue of 5.546% and a Medika bond worth EUR 16.5m, due 2008, with a yield to maturity at issue of 4.580%).

There were 20 bond issues listed on the domestic debt securities market at end-December 2005: nine government bonds, one CBRD bond, two muni-

21 The CESI is comprised of the share prices of selected blue chip companies listed on the Budapest Stock Exchange (the weight assigned is 22%) and the stock exchanges in Bratislava (1%), Ljubljana (6%), Prague (29%) and Warsaw (42%).

cipal and eight corporate bonds (compared with 17 bond issues at end-December last year).

Table 1.5 Bond Issues in the Domestic Market as at end-February 2006

Series	Issuer	Issue date	Maturity	Currency	Issue nominal value	Nominal interest rate	Last price ^a	Current yield 28/2/2006
RHMF-0-08CA	Republic of Croatia	14/12/2001	14/12/2008	EUR	200,000,000	6.875%	109.40	6.284%
RHMF-0-125A	Republic of Croatia	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	117.50	5.851%
RHMF-0-085A	Republic of Croatia	28/5/2003	28/5/2008	HRK	1,000,000,000	6.125%	105.61	5.800%
RHMF-0-142A	Republic of Croatia	10/2/2004	10/2/2014	EUR	650,000,000	5.500%	111.00	4.955%
RHMF-0-077A	Republic of Croatia	7/7/2004	7/7/2007	EUR	400,000,000	3.875%	100.50	3.856%
RHMF-0-19BA	Republic of Croatia	29/11/2004	29/11/2019	EUR	200,000,000	5.375%	117.15	4.588%
RHMF-0-103A	Republic of Croatia	8/3/2005	8/3/2010	HRK	3,000,000,000	6.750%	111.40	6.059%
RHMF-0-157A	Republic of Croatia	14/7/2005	14/7/2015	EUR	350,000,000	4.250%	103.25	4.116%
RHMF-0-15CA	Republic of Croatia	15/12/2005	15/12/2015	HRK	5,500,000,000	5.250%	111.05	4.728%
HBOR-0-112A	CBRD	11/2/2004	11/2/2011	EUR	300,000,000	4.875%	–	–
GDKC-0-116A	City of Koprivnica	29/6/2004	29/6/2011	HRK	60,000,000	6.500%	101.35	6.413%
GDZD-0-119A	City of Zadar	1/9/2004	1/9/2011	EUR	18,500,000	5.500%	–	–
BLSC-0-091A	Belišće d.d.	14/1/2005	14/1/2009	EUR	8,000,000	5.500%	101.60	5.413%
HYBA-0-086A	Hypo Alpe-Adria-Bank d.d.	6/6/2003	6/6/2008	HRK	150,000,000	6.500%	104.50	6.220%
BNAI-0-22CA	Bina Istra d.d.	15/12/2002	15/12/2022	EUR	210,000,000	8.000%	–	–
PODR-0-072A	Podravka d.d.	20/2/2004	20/2/2007	EUR	27,000,000	5.000%	100.80	4.960%
AGKR-0-074A	Agrokor d.d.	3/4/2002	3/4/2007	EUR	230,000,000	11.000%	104.45	10.531%
PLVA-0-115A	Pliva d.d.	12/5/2004	12/5/2011	EUR	75,000,000	5.750%	107.10	5.369%
ATGR-0-077A	Atlantic Grupa d.o.o.	15/7/2004	15/7/2007	EUR	15,000,000	5.750%	102.30	5.621%
MDKA-0-087A	Medika d.d.	11/7/2005	11/7/2008	EUR	16,500,000	4.500%	101.35	4.440%
RBA-0-112A	Raiffeisenbank Austria d.d.	10/2/2006	10/2/2011	HRK	600,000,000	4.125%	101.00	4.084%

^a Regularly traded shares.

Source: ZSE, monthly report, February 2006.

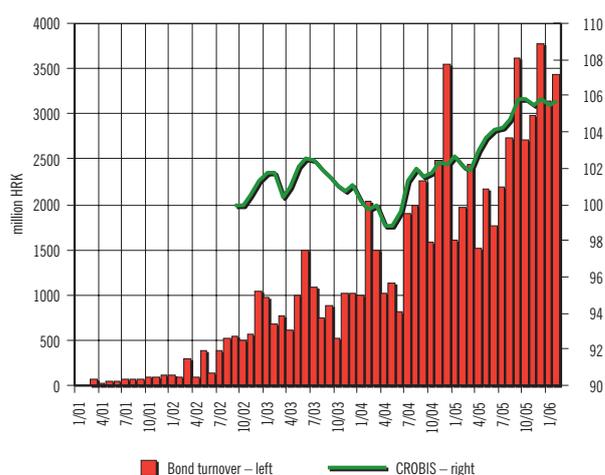
Bond turnover came to HRK 29.5bn in 2005, increasing by almost 40% compared with 2004. Accounting for 19% of total turnover (HRK 5.46bn), a Republic of Croatia kuna bond, due 2010, was the most liquid bond. Also strong was the turnover from trading in Republic of Croatia bonds maturing in 2014 (HRK 4.54bn), 2019 (HRK 3.89bn), 2012 (HRK 3.01bn) and 2015 (HRK 3.00bn). With relatively low issue values and consequently slight liquidity, corporate bonds had turnover of a low HRK 807.9m, making up 2.74% of total ZSE bond turnover.

At end-December 2005, market capitalisation of all the bonds on the domestic market stood at HRK 31.9bn (EUR 4.3bn), or 13.9% of 2005 GDP. Of this amount, HRK 4.5bn (EUR 608m), 2% of 2005 GDP, went to market capitalisation of the eight corporate bonds.

Strong demand boosted bond prices on the domestic market in 2005, which was reflected in the value of the ZSE bond index, CROBIS.²² At end-December

1.52

ZSE Monthly Bond Turnover and End-Month CROBIS

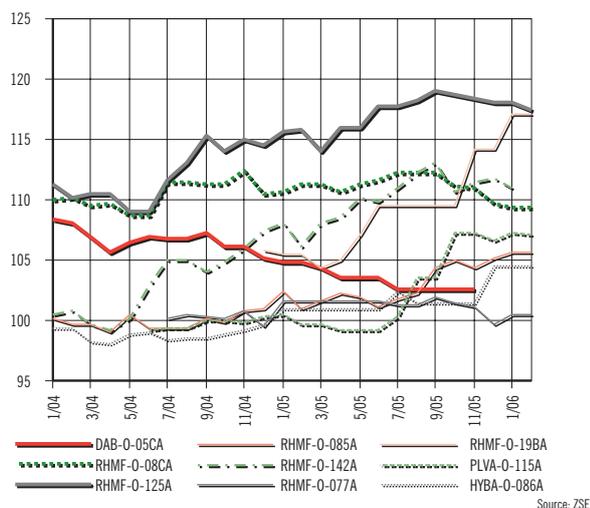


Source: ZSE

²² Compiled from end-September 2002, the CROBIS is comprised of all government and government agencies' bond listed on the ZSE, providing that their nominal issue values exceed or equal EUR 75 m, that their maturities exceed 18 months and that they were issued at a fixed rate. In addition to changes in market interest rates, CROBIS value is also affected by the portfolio duration of constituent bonds.

1.53

Croatian Bonds' Prices in the Domestic Market



2005, the CROBIS was composed of nine Republic of Croatia bonds (due in 2007, 2008, 2010, 2012, 2014, 2015 and 2019) and a CBRD bond due in 2011. The index trended steadily upwards over 2005, amounting to 105.82 points at end-December 2005, 3.65 percentage points more than at end-December 2004.

There were 11 Croatian government bonds listed on international capital markets at end-December 2005, one less than at end-December 2004. A EUR 500m eurobond, issued in 2000, matured in March 2005, and there were no new Republic of Croatia bond issues on international markets that year. The nominal value of the 11 Croatian bond issues was HRK 33.63bn (EUR 4.57bn) at end-December 2005, a decrease from HRK 37.88bn (EUR 4.94bn) at end-December 2004.

Table 1.6 Republic of Croatia International Bond Issues

Bond	Issue date	Currency	Amount	Nominal interest rate	Yield on issue date	Spread on issue date	Spread ^a 31/3/2005	Spread ^a 30/6/2005	Spread ^a 30/9/2005	Spread ^a 31/12/2005
London Club Series A, 2006	31/7/1996	USD	604,426,000	6-month LIBOR + 81.25 b.p.			91	79	26	17
London Club Series B, 2010	31/7/1996	USD	857,796,000	6-month LIBOR + 81.25 b.p.			117	111	96	105
Eurobonds, 2006	10/3/1999	EUR	300,000,000	7.375%	7.45%	375	30	17	7	-8
Eurobonds, 2011	14/3/2001	EUR	750,000,000	6.75%	6.90%	215	59	67	38	37
Eurobonds, 2009	11/2/2002	EUR	500,000,000	6.25%	6.45%	158	46	61	35	34
Eurobonds, 2010	14/2/2003	EUR	500,000,000	4.625%	4.65%	102	53	62	36	34
Eurobonds, 2014	15/4/2004	EUR	500,000,000	5.000%	5.11%	101	59	61	32	33
Samurai bonds, 2007	11/7/2000	JPY	40,000,000,000	3.00%	3.00%	135	29	33	33	32
Samurai bonds, 2006	23/2/2001	JPY	25,000,000,000	2.50%	2.50%	152	25	25	25	24
Samurai bonds, 2008	26/6/2002	JPY	25,000,000,000	2.15%	2.15%	144	43	42	35	36
Samurai bonds, 2009	26/6/2003	JPY	25,000,000,000	1.23%	1.23%	99	46	49	54	53

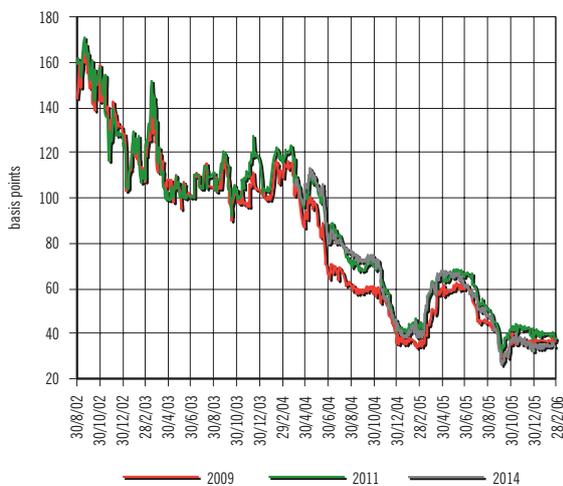
^a In relation to benchmark bond.
Source: Bloomberg.

With Croatian eurobond yields changing depending on the progress of Croatia's EU accession process in 2005, the spreads between Croatian eurobonds and benchmark German bonds narrowed to record lows following the start of Croatia's accession negotiations. The spreads of Croatian eurobonds due in 2009, 2011 and 2014 were 34, 37 and 33 basis points respectively at end-December 2005, compared with 37, 43 and 42 basis points at end-December 2004.

Compared with new EU members' bond spreads, the spread between Croatian eurobonds and benchmark German bonds was high in 2005. However, it reduced late in the year and came close to the comparable bond spread of new EU members. EU candidate countries' bond spreads showed similar trends. Specifically, the said spread of the Croatian eurobond due in 2011 is still lower than the comparable spread of Romanian and Bulgarian eurobonds due in 2012 and 2013 respectively.

1.54

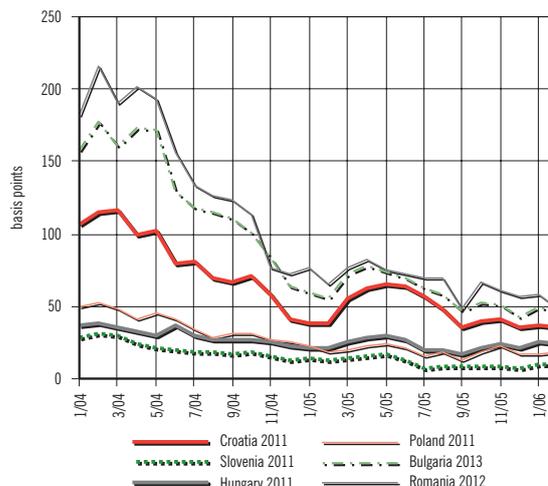
Croatian Eurobond Spread 2009, 2011 and 2014, Compared with Benchmark German Bonds



Source: Bloomberg.

1.55

Croatian Eurobond Spread and the Spread of Similar Euro-Denominated Bonds of Selected Transition Countries Compared with the Benchmark German Bond



Source: Bloomberg.

Developments in 2006

Favourable capital market trends continued in the first two months in 2006. With both share turnover and prices rising, stock exchange indices at the two Croatian stock exchanges reached record highs at end-February. Share turnover on the ZSE came to HRK 855m in the first two months in 2006, accounting for 18% of total share turnover in 2005. Standing at HRK 554m, the monthly turnover was in February the highest in the last 12 months. The CROBEX stood at 2147.9 points at end-February, rising by 8% from end-December 2005. ZSE's market capitalisation of shares was HRK 87.9bn, an increase of HRK 7.2bn compared with end-December 2005. Share trading on the VSE generated a turnover of HRK 504.9m in January and February, whereas the VIN amounted to 2210.8 points at end-February, growing by 11% from end-December 2005.

At mid-February 2006, the debt securities market saw the issue of the second tranche (HRK 2.0bn) of a ten-year kuna government bond, issued in December 2005, whose integral value was HRK 5.5bn in nominal terms. A Samurai bond worth JPY 25bn (about HRK 1.3bn), issued in 2001, fell due in February, and a eurobond worth a nominal EUR 300m, issued in 1999, in March. This resulted in a new decrease in the external debt to total government debt ratio. In early February 2006, Raiffeisenbank Austria issued a five-year corporate bond valued at HRK 600m, with a yield to maturity at issue of 4.125%.

1.2.8 Balance of Payments

According to the preliminary BOP data, the current account deficit stood at EUR 2bn in 2005, accounting for 6.3% of GDP or 1.2 percentage points more than in 2004. Marked growth in goods account deficit, brought about by a slowdown in goods exports and a simultaneous increase in goods imports in relation to 2004, contributed the most to the widening of external imbalance.

Concurrently, the negative factor income balance increased, mostly due to year-on-year growth in retain earnings paid out to foreign owners of domestic companies and growth in residents' expenditures for interest payments on accumulated foreign liabilities. In contrast, the account of services performed extremely well, largely on account of year-on-year growth in net income from services rendered in tourism.

Domestic banks' activities, supported by strong marketing efforts aimed at promoting new financial instruments, led to a further growth in banks' placements, as well as to a substantial growth in their external debt. The growth in external debt of banks and enterprises offset the positive contributions made by the developments in government external debt. As a result, Croatia's total external debt continued to trend upward in 2005, reaching EUR 25.5bn or 82.5% of GDP at year-end. Croatia's international liquidity, measured by the IEMP, proves to be satisfactory, indicating no possible difficulties in domestic debtors' service of due foreign liabilities.

Current Account

The negative balance on the goods account amounted to EUR 7.5bn in 2005, up 11.2% on the year before. Moreover, the foreign trade deficit rose primarily due to a higher year-on-year deficit in trade in oil and refined petroleum products and lower net exports of ships.

Table 1.7 Current Account

in million EUR and %

	2003	2004	2005	Rate of change 2005/2004
A. CURRENT ACCOUNT	-1,866	-1,458	-1,964	34.7
1. Goods	-6,974	-6,728	-7,483	11.2
1.1. Credit (f.o.b.)	5,572	6,603	7,244	9.7
1.2. Debit (f.o.b.)	-12,546	-13,331	-14,727	10.5
2. Services	4,933	4,715	5,317	12.8
2.1. Credit	7,566	7,637	8,052	5.4
2.2. Debit	-2,633	-2,922	-2,735	-6.4
3. Income	-1,070	-637	-974	52.9
3.1. Credit	451	657	651	-0.9
3.2. Debit	-1,520	-1,294	-1,626	25.6
4. Current transfers	1,245	1,192	1,176	-1.3
4.1. Credit	1,539	1,585	1,625	2.5
4.2. Debit	-294	-393	-448	14.1

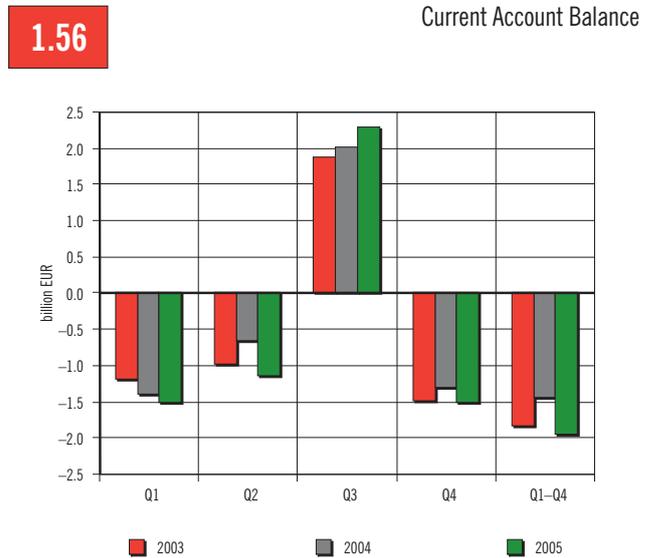
Source: CNB.

In contrast to goods exports and imports, the services account performed better in 2005 than in 2004, yielding a surplus of EUR 5.3bn or 12.8%. This positive balance was generated by strong tourism revenues, which grew by 9% or EUR 6bn year-on-year in 2005, and lower tourism expenditures of Croatian citizens abroad. Increased tourism revenues should be put into correlation with improved performance of volume indicators. More specifically, foreign tourist arrivals rose by 7% year-on-year in 2005 (6.8% in 2004) and foreign tourist nights in commercial accommodation facilities by 8.2% (2.9% in 2004). The largest increase in the number of foreign tourist nights was realised by tourists from France, Great Britain, Italy and Hungary.

Net revenues from transportation services also grew at accelerated pace in 2005. Net revenues from sea transportation rose by almost EUR 100m, mostly on account of a substantial drop in expenditures. The account of other services saw its negative balance increase in 2005, primarily due to year-on-year fall in net revenues from construction services and increase in net expenditures for research and development, and agriculture, mining and manufacturing services.

The deficit on the factor income account deepened in 2005 (52.9% year-on-year). This was mostly due to increase in net expenditures for equity investment and growth in retained earnings. Retained earnings paid out to foreign owners of domestic companies amounted to EUR 0.6bn in 2005, almost two times as much as in 2004, while dividends paid out to foreign owners fell. In addition, expenditures for interest payments on foreign liabilities grew by about EUR 0.8bn year-on-year in 2005. On the other hand, revenues from international reserves investments reached EUR 192m in 2005, an increase of EUR 50.3m or 35.6% year-on-year. The current transfers account ran a surplus of EUR 1.2bn, with net revenues holding steady in contrast to 2004.

As a result, the overall deficit reached EUR 2bn or 6.3% of GDP for 2005 (derived from quarterly calculations) and Croatia's external imbalance widened by EUR 0.5bn or 1.2 percentage points compared with 2004.



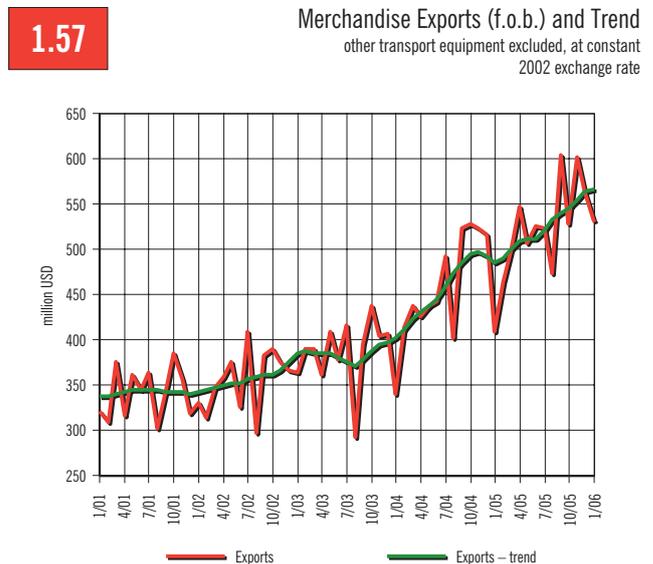
Source: CNB.

Merchandise Trade

According to the preliminary CBS data, total exports of goods stood at USD 8.8bn and total imports of goods at USD 18.5bn in 2005. Faster growth in goods imports (11.8% year-on-year) than in goods exports (9.8% year-on-year) generated the foreign trade deficit of 13.7% in 2005 relative to 2004. In addition, the imports/exports coverage was 47.5% in 2005, down 0.9 percentage points compared with 2004.

With regard to the currency structure of trade in goods, where the euro accounts for almost three-quarters and the US dollar one-quarters, it is considered more appropriate to comment on international trade performance in constant exchange rate terms and thus eliminate the effects of exchange translation. Hence, measured at constant exchange rates, Croatia's exports of goods grew by 10% year-on-year in 2005, or half as much in 2004 (21.7%).

The marked slowdown in the growth of total exports of goods was to a large extent the result of weaker performance in ship exports. The value of ship exports fell to 9.5% in 2005, whereas its growth in 2004 stood at 32.7% year-on-year. The key factors contributing to the lower performance of ship exports in 2005 were, inter alia, the high growth rate in the base period, the impact of the methodology for monitoring the trade in ships (value-added finishing operations recorded on gross and not on net value), the postponement of or-



Sources: CBS and CNB.

ders planned for the end of 2005 to early 2006 (preferred by clients because in case of sale they would own ships that are one calendar year younger) and the increase in the share of ships delivered to domestic clients.

Other SITC divisions, contributing to slower growth of Croatia's exports, were wearing apparel (9.6% year-on-year fall, measured at current exchange rates), leather, leather manufactures and dressed fur skins (27.3%), electrical machinery, apparatus and equipment (4.5%) and telecommunication apparatus (19.7%).

On the other hand, the main contributors to the growth of total exports of goods in 2005 were oil and refined petroleum products (17.9%), accounting for about 15% of total increase in goods exports in 2005. The registered growth in the value of exports of oil and refined petroleum products was entirely based on increased world market prices, while the volume of exports fell to 10.6% relative to 2004. In addition, other contributors to the growth of total exports in 2005 were sugar, sugar preparations and honey (202.3% year-on-year growth, measured at current exchange rates), natural and industrial gas (49.1%) and electricity (145%).

In contrast to exports of goods, imports of goods accelerated in 2005. Measured at constant exchange rates, total imports of goods rose by 12.5% year-on-year in 2005, up 3.8 percentage points compared with 2004. The pronounced growth in the value of imports of oil and refined petroleum products (39.4%, measured at current exchange rates) was the key contributor to the growth of total imports of goods in 2005, accounting for about one-third of the absolute growth of total imports of goods. As above, the increase in the value of imports of oil and refined petroleum products was accounted for by the growth in prices, while the volume of imports decreased slightly.

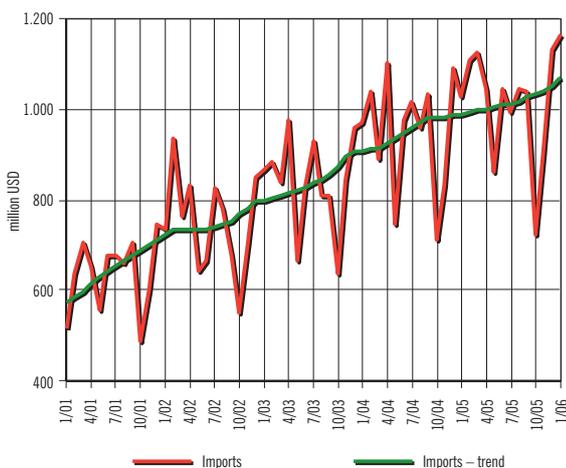
If we exclude the imports of oil and refined petroleum products from the series of total imports of goods, we see the acceleration in imports of other SITC divisions in 2005. Looking beyond this component, total imports of goods stood at 9.2% year-on-year in 2005 (measured at constant exchange rates), up 2.4 percentage points over 2004. This was mostly due to increased imports of other energy products, i.e. increased import values of electricity (72.4% year-on-year, measured at current exchange rates) and natural and industrial gas (43.4%).

Moreover, imports of road vehicles grew slightly in 2005 (1.2% year-on-year, measured at constant exchange rates), following a decline of 3.4% year-on-year in 2004. In the years preceding 2004, road vehicles were one of the major generators of the high growth rates of total imports. In addition, imports of capital goods (i.e. machinery and transports equipment excluding other transport equipment and road vehicles) intensified in 2005, growing by 9% year-on-year or 4.4 percentage points more than in 2004. In contrast, imports fell in only several SITC divisions: electrical machinery, apparatus and equipment (5.1% year-on-year, measured at current exchange rates), cereals and cereal products (10%), fertilizers (19.2%) and stock-cattle feed (7.2%).

According to the structure of goods exports by economic classification of countries, the share of exports to developed countries slightly decreased in 2005, while the share of exports to developing countries increased. As for developed countries, the share of exports to EU-25 fell most, largely due to a pronounced slowdown of exports to "old" Member States which account for almost one half of total exports of the Republic of Croatia. The share of

1.58

Merchandise Imports (c.i.f.) and Trend
oil and refined petroleum products excluded,
at constant 2002 exchange rate



Sources: CBS and CNB.

exports to “new” Member States increased, mostly due to strong exports to Slovenia, Malta and Hungary. The share of exports to developing countries rose mainly on account of increased exports to Bosnia and Herzegovina, and Serbia and Montenegro (refined petroleum products, cigarettes, electrical energy and various consumer goods).

Table 1.8 Imports and Exports by Economic Classification of Countries

in %

Exports			Economic classification of countries	Imports		
2003	2004	2005 ^a		2003	2004	2005 ^a
74.6	71.7	69.2	Developed countries	80.8	77.4	73.8
67.6	64.6	62.1	EU-25	72.0	69.5	65.6
8.3	7.5	8.1	Slovenia	7.4	7.1	6.8
1.3	1.3	1.6	Hungary	3.0	3.1	3.1
54.7	51.4	48.1	EU-15	56.6	54.2	50.6
7.7	9.4	7.1	Austria	6.6	6.8	5.7
26.7	22.9	21.4	Italy	18.2	17.0	16.0
11.9	11.2	10.6	Germany	15.6	15.5	14.8
0.8	1.0	1.1	EFTA	1.8	1.6	1.7
25.4	28.3	30.8	Developing countries	19.2	22.6	26.2
0.7	1.2	1.4	CEFTA	1.2	1.5	2.4
14.4	14.4	14.3	Bosnia and Herzegovina	1.6	2.1	2.4
3.1	3.7	4.5	Serbia and Montenegro	0.5	0.8	0.9
1.2	1.4	1.3	Russia	4.8	7.3	9.1

^a Preliminary data.

Source: CBS.

The geographic structure of goods imports in 2005 also shows a decrease in the share of imports from developed countries, EU Member States especially, and an increase in the share of imports from developing countries. The decrease in the share of imports from EU countries was to a large extent the consequence of slower growth in imports from Italy and Germany and the year-on-year fall in imports from Austria. In the same period, imports from France, the Netherlands and Greece accelerated. As for developing countries, their share in the structure of total imports increase primarily on account of strong imports from Russia (increased import values of oil and refined petroleum products and other energy products) and China (increased imports of electrical machinery, apparatus and equipment, telecommunication apparatus, textiles and consumer goods). The increase in imports from developing countries also comprised imports from Bulgaria and Bosnia and Herzegovina (aluminium, wood, iron and steel) and imports from Romania.

According to the data on foreign trade in goods in the first two months of 2006, total exports of goods amounted to USD 1.4bn and total imports of goods to USD 2.9bn. Measured at constant exchange rates, exports of goods grew by 19.1% year-on-year and imports of goods by a significant 31.2% year-on-year. The foreign trade deficit grew by 45.6% over the same period last year, and the imports/exports coverage rate amounted to 49% in the first two months of 2006, down 3.8 percentage points over the same period in 2005.

The SITC division of oil and refined petroleum products continued to be the main generator of the growth in total exports and imports in the first two months of 2006, accounting for more than one-third of total goods exports and less than a half of total goods imports. In terms of contribution size, oil and refined petroleum products were followed by exports of other transport equipment (i.e. ships), fish and preparations, natural and industrial gas and

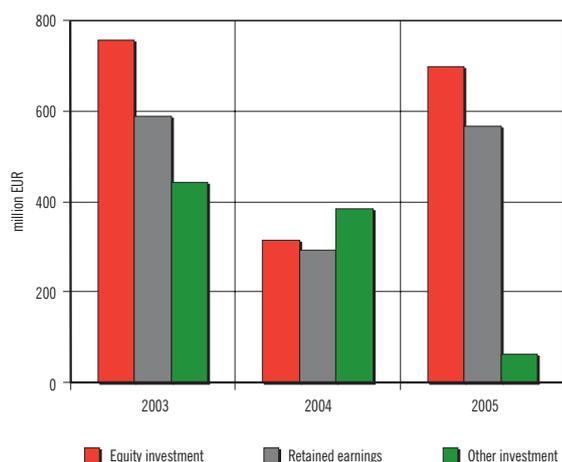
electricity. On imports side, the pronounced growth rates were registered in divisions of other transport equipment, road vehicles, natural and industrial gas and telecommunication apparatus.

Capital and Financial Account

In 2005, net FDI in Croatia amounted to EUR 1.2bn, a 67.1% increase over the previous year. This was due a significant year-on-year growth in FDI in Croatia (34.2%) and a parallel decrease in FDI of Croatian citizens abroad (in 2005, they accounted for one half of the value registered in 2004). Marked equity investment were the main component of the year-on-year growth in FDI in Croatia in 2005. Concurrently, retained earnings were almost two times stronger in 2005 than in 2004, while other capital investment saw a year-on-year decrease. Observed by individual countries, most FDI in 2005 were made by investors from Austria, Hungary, Italy and the Netherlands, accounting for about two thirds of total FDI.

1.59

Foreign Direct Investment
in the Republic of Croatia



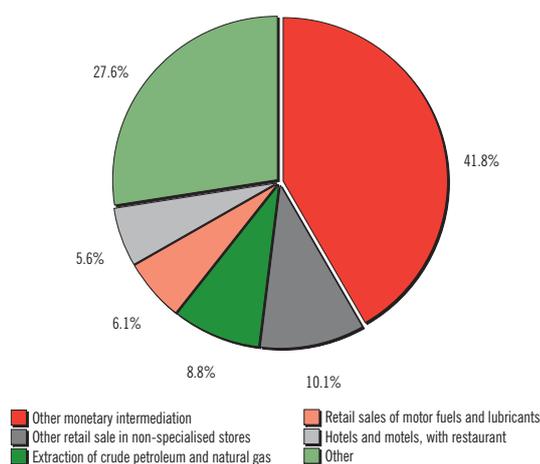
Source: CNB.

In 2005, the largest share of direct equity investment (41.8%) was accounted for by other monetary intermediation, i.e. recapitalisation of some foreign-owned banks and take-over of Nova banka d.d. by Hungarian OTP Bank. Investment in other forms of trade activities (other retail sale in non-specialised stores, retail sale of motor fuels and lubricants and retail sale in non-specialised stores with food) followed, accounting for about one-fifth of total equity investment. Furthermore, a relatively large share of direct equity investment was accounted for by extraction of crude oil and natural gas and by investment in hotels and motels with restaurants.

Portfolio investment recorded an outflow of EUR 1bn (net) in 2005, with foreign assets increasing by EUR 0.5bn and foreign liabilities decreasing by EUR 0.6bn. The growth in domestic sectors' foreign assets in 2005 was the result of banks' portfolio investment in foreign bonds and other domestic sectors' investment (enterprises) in equity securities. On the other hand, the decrease in liabilities was largely accounted for by the repayment of government due liabilities arising from bonds issued abroad, amounting to EUR 0.6bn. The stated principal payments comprised the regular semi-annual payments to the London Club in January and July and the repayment of eurobonds worth of EUR 500m that were due in March 2005.

1.60

Structure of Direct Equity Investment
in the Republic of Croatia in 2005



Source: CNB.

In 2005, other investment (currency and deposits, trade credits and credits) saw net inflow of foreign financial assets, i.e. the increase in net liabilities of EUR 3.6bn which was larger than that in 2004 (EUR 1.4bn). The 2005 growth in net liabilities was mainly contributed to by the increase in domestic sectors' foreign liabilities (EUR 2.6bn) and by the decrease in their foreign assets (EUR 1bn). The decrease in foreign assets came mostly from the fall in banks' currency and deposits. On the other hand, trade credits and credits extended by other domestic sectors (enterprises) to non-residents contributed to the increase in foreign

assets. As far as liabilities arising from other investment are concerned, there was a strong growth in net disbursement of foreign credits, and concurrent, although less pronounced, increase in liabilities arising from currency and deposits. Observed by domestic sectors, banks and enterprises accounted for the largest share in total increase in liabilities arising from other investment (about 90%), while the government share was considerably lower (more details on total external debt dynamics and individual sectors' contributions are offered in External Debt section).

According to the BOP data (cross-currency changes excluded), international reserves rose by EUR 822m in 2005. The main factors contributing to the change in the level of international reserves were the increase in foreign exchange purchased from banks, amounting EUR 671m, and the sale of foreign exchange to the government, amounting to EUR 343m (net). In addition, the strong contribution to the growth in international reserve came from increased allocation of marginal reserve requirements by banks. As a result of international reserves flows in 2005, the international reserves stock amounted to EUR 7,438m²³ at year-end, up 15.6% over the end of 2004.

Currency and deposits accounted for the largest share of international reserves at end-2005 (50.2%), with the majority of currency and deposits being deposited with banks headquartered outside Croatia and only a small portion with central banks in other countries, BIS and IMF. Debt securities (48.4%) and reverse repos (1.3%) accounted for the remaining shares of international reserves.

Table 1.9 Currency Structure of CNB International Reserves
end of period, in million EUR and %

	2003	2004	2005
Balance	6,554.1	6,436.2	7,438.4
Share			
1. Foreign currency reserves	87.6	96.9	98.6
1.1. Securities	48.9	50.7	48.4
1.2. Total currency and deposits with:	38.6	46.2	50.2
– other national central banks, BIS and IMF	4.1	3.6	5.5
– banks headquartered outside Croatia	34.5	42.6	44.7
2. IMF reserve position	0.0	0.0	0.0
3. SDRs	0.0	0.0	0.0
4. Gold	0.0	0.0	0.0
5. Reverse repo	12.4	3.1	1.3

Note: Expressed at the approximate market value.
Source: CNB.

External Debt

Croatia's gross external debt stood at EUR 25.5bn at end-2005, up EUR 2.8bn or 12.1% over the end of 2004. Both banks and other domestic sectors (enterprises) increased their external debt, while government external debt fell.

23 As opposed to the BOP data, which record the international reserves flows, the monetary statistics data, which record the stock, include the cross-currency changes.

The external debt structure by debtor at end-2005 shows that the largest portion of Croatia's external debt was generated by enterprises (direct investment included), amounting to EUR 9.3bn or 36.3% of total external debt. In relation to 2004, the external debt of enterprises grew by EUR 1.8bn. Within this, the external debt of other enterprises, non-banking financial institutions and public enterprises grew the most, while the external debt of enterprises in mixed-ownership fell.

Table 1.10 External Debt by Domestic Sectors
end of period, in million EUR and %

	2003	2004	2005	Structure			Indices	
				2003	2004	2005	2004/03	2005/04
1. Government	6,601	7,252	7,047	33.3	31.8	27.6	109.9	97.2
2. Central bank (CNB)	366	2	3	1.8	0.0	0.0	0.6	111.8
3. Banks	6,121	7,702	8,993	30.9	33.8	35.2	125.8	116.8
4. Other sectors	4,878	5,809	7,156	24.6	25.5	28.0	119.1	123.2
5. Direct investment	1,845	2,016	2,341	9.3	8.8	9.2	109.3	116.1
Total (1+2+3+4+5)	19,811	22,781	25,541	100.0	100.0	100.0	115.0	112.1

Source: CNB.

The external debt of banks, including hybrid and subordinated instruments (part of direct investment), reached EUR 9.2bn at end-2005, accounting for 36% of total external debt. Although the central bank's increase in the MRR rate was aimed at discouraging further increase in bank foreign borrowing, the external debt of banks continued to grow in 2005 at relatively fast rate. This may be explained by strong domestic demand and insufficient domestic savings and a still positive difference between interest rates on loans extended by banks in the country and interest rates (increased by MRR costs) which banks pay on loans taken abroad. Nevertheless, the year-on-year growth in the external debt of banks was significantly slower in 2005 than in the previous years, standing at 14.9% compared with 56.1% in 2003 and 23.1% in 2004. Observed by debt instruments, the 2005 increase in banks' external debt was to a large extent accounted for by long-term loans and currency and deposits (a total of EUR 0.7bn), largely realised through the intermediation activities with parent banks headquartered abroad, while EUR 0.6bn of the increase was generated by short-term loans.

In contrast to the external debt of banks and enterprises, the external debt of the government sector decreased in 2005, which was in line with the government's commitment to rely predominantly on the domestic capital market in financing the deficit and its other financial needs. At the end of 2005, the government external debt stood at EUR 7bn or 2.8% less than at the end of 2004. In large part, this was due to the repayment of due government bonds issued by the Republic of Croatia (government administration bodies), while no new issuance of bonds was made. On the other hand, the CBRD and central government funds increased their external debt, reflecting the continuation of borrowing via long-term loans.

The public sectors as a whole, which in addition to the Croatian National Bank includes the public and mixed-ownership enterprises, decreased its external debt by 1.5%, whereas the potential external debt of the government sector continued to fall. The potential external debt of the government sector, or, in other words, the publicly guaranteed private sector external debt, amounted to EUR 0.3bn at end-2005 or 4.4% less than at end-2004.

Table 1.11 Public Sector External Debt
end of period, in million EUR and %

	2003	2004	2005	Structure			Indices	
				2003	2004	2005	2004/03	2005/04
1. Republic of Croatia	5,368	5,487	4,940	64.4	64.1	58.6	102.2	90.0
2. Central government funds	584	1,033	1,183	7.0	12.1	14.0	177.0	114.5
3. CBRD	605	699	895	7.3	8.2	10.6	115.6	128.0
4. Local government	42	32	30	0.5	0.4	0.4	76.3	92.5
5. Central bank (CNB)	366	2	3	4.4	0.0	0.0	0.6	111.8
6. Public enterprises	992	959	1,080	11.9	11.2	12.8	96.6	112.6
7. Mixed-ownership enterprises	377	347	298	4.5	4.1	3.5	92.1	85.9
Total (1+2+3+4+5+6+7)	8,334	8,560	8,428	100.0	100.0	100.0	102.7	98.5

Source: CNB.

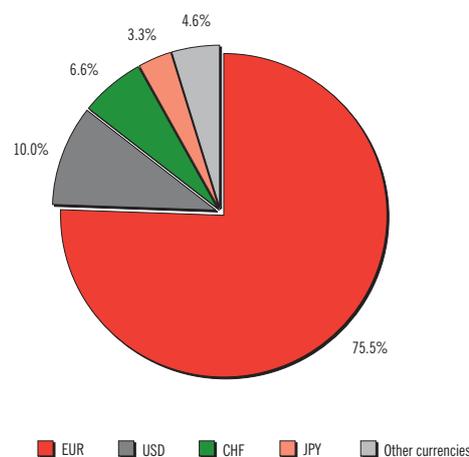
Data on the currency structure of external debt at end-2005 show that 75.5% of total external debt was denominated in euros. The US dollar followed with 10%, and the Swiss franc and the Japanese yen with 6.6% and 3.3% respectively. Compared with end-2004, there was a noticeable increase in the shares of the Swiss franc and the kuna, while the shares of the US dollar and the Japanese yen decreased. Observed by debtors, the currency structure of government external debt shows that the share of the euro in total government external debt was somewhat lower than the average for the overall external debt, while the above-average shares were accounted for by the US dollar and the Japanese yen, as a result of the London Club bond issue (Series A and B) denominated in US dollars and the issue of four series of bonds denominated in Japanese yens. The structure of bank's external debt indicates a substantial increase in the external debt denominated in Swiss francs; in particular, the share denominated in Swiss francs doubled, and was followed by a corresponding decrease in the share denominated in euros. Other domestic sectors displayed similar trends. Specifically, the share of the euro denominated debt, although higher than the average for total external debt, decreased slightly relative to the end of 2004, while the share of the external debt denominated in Swiss francs and kunas increased.

The gross external debt increase in 2005 brought about the deterioration in relative external debt indicators. Hence, the external debt to GDP ratio stood at 82.5% in 2005, a 2.3 percentage points increase over the end of 2004. The ratio of external debt to exports of goods and services also deteriorated, increasing from 160% at end-2004 to 167% at end-2005, due to a pronounced increase in external debt in relation to exports of goods and services. Despite high growth in international reserves (15.6% year-on-year), larger gross external debt and strong fall in banks' foreign assets contributed to the growth in net external debt²⁴ and to the deterioration in relative net external debt indicators. As a result, net external debt, expressed as a percentage of GDP value, increased from 37.6% at end-2004 to 42.9% at end 2005, while the ratio of net external debt to exports of goods and services reached 86.8% at end-2005, up 11.9 percentage points over the end of 2004.

Developments in early 2006 indicate further increase in external debt. Croatia's external debt rose by anot-

1.61

Currency Structure of External Debt
of the Republic of Croatia
as at 31 December 2005

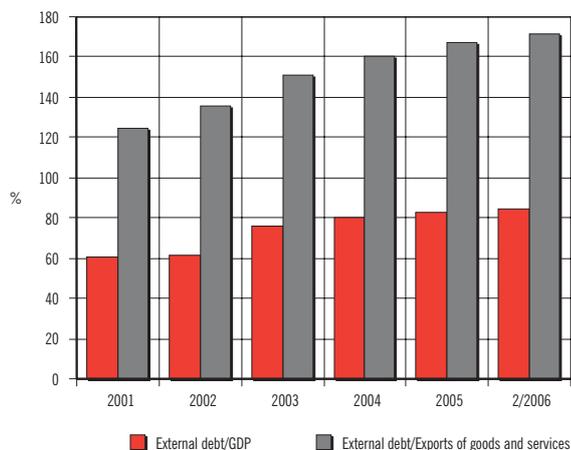


Source: CNB.

24 Net external debt is defined as gross external debt less gross international reserves and banks' foreign assets.

1.62

External Debt Indicators of the Republic of Croatia



Note: Relative debt indicators for 2006 rely on the data on GDP and exports of goods and services in 2005.

Source: CNB.

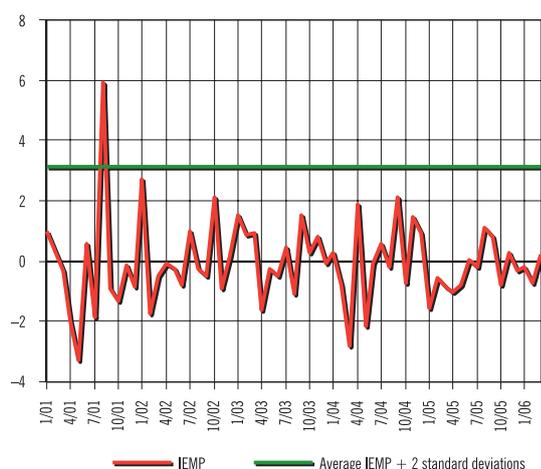
her EUR 679m in the first two months of the year, and reached EUR 26.2bn at end-February. As the relative indicators of external debt continued to deteriorate, the ratio of external debt to GDP realised in 2005 stood at 84.7%, while the ratio of external debt to exports of goods and services realised in 2005 was 171.4% at the end of February 2006.

Observed by debtors, the largest contribution to the external debt growth in the first two months of 2006 was made by banks (including direct investment in banks). During the observed period, banks' external debt went up by EUR 708m. This increase in bank's foreign liabilities was to a large extent the result of the increase in liabilities arising from long-term loans and long-term currency and deposits, while one-quarter of the increase was accounted for by short-term loans. During the same period, the external debt of other domestic sectors also grew (including direct investment in enterprises), by EUR 136m, which to a large extent was the result of the increase in liabilities arising from received loans. In contrast to banks and other domestic sectors (enterprises), the external debt of the government sector continued to decline in the first two months of 2006 relative to its figure at end-2005, by EUR 165m. This decrease was to a large extent effected through substantial repayments of due foreign bonds (including the repayments of regular semi-annual liabilities to the London Club and 25 billion yens worth of Samurai bond), while the amount of loans used was significantly lower.

International Liquidity

1.63

Index of Exchange Market Pressure



Source: CNB.

The IEMP²⁵ pointed to no potential imbalance in international liquidity in 2005. Strong growth in international reserves (15.6% year-on-year) and concurrent appreciation of the kuna/euro exchange rate (3.9%) contributed to favourable index movements. More specifically, international reserves increase was largely accounted for by foreign exchange purchases and increased allocation of foreign currency reserve requirements, including marginal reserve requirements. Appreciation pressures, on the other hand, came from high supply of foreign currency caused by foreign funds financed bank domestic lending, a rise in demand for kuna resulting from the investments in new government bond issues in the domestic market, and appreciation expectations generated by the start of EU accession negotiations.

The IEMP movements were especially favourable in the first half of the year and in the summer months which witnessed the appreciation of the kuna/euro exchange rate and a substantial increase in international reserves. In August and September, marked by the depreciation

25 IEMP is calculated as a weighted average of the monthly rate of change of the kuna exchange rate against the euro at end-period and gross international reserves in euro terms, using standard deviations as weights.

of the kuna/euro exchange rate and no substantial increase in international reserves, the IEMP value rose slightly but still remained far from the critical value that would indicate concern. In the last quarter of 2005, the IEMP returned to positive territory on the back of increasing international reserves and kuna/euro exchange rate appreciation.

The IEMP remained favourable in the first quarter of 2006, pointing to no imbalance in international liquidity. The key contributors to this were modest kuna/euro exchange rate appreciation in January and February and strong growth in international reserves throughout the first quarter. The IEMP movements was especially favourable in February when international reserves grew by a high 4% and the kuna/euro exchange rate appreciated, partly because of the issue of government bonds in the domestic market.

1.2.9 Government Finance

Budget Outturn

Fiscal adjustment that had been started in 2004 continued through 2005. Consolidated general government deficit on modified accrual basis reduced from 4.9% of GDP in 2004 to 4.1% of GDP in 2005. Although expenditures grew at a strong pace early in 2005, the remainder of the year saw much more favourable developments, with the growth of consolidated general government revenues outpacing that of expenditures. In addition, expenditures for acquisition of fixed assets were much lower as a consequence of the completion of individual capital road construction projects. The narrowing of the budget deficit reduced the need for borrowing so the increase in general government debt of HRK 8.4bn was smaller than in 2004.

The beginning of 2005 was marked by the application of the new Income Tax Act²⁶ and the new Profit Tax Act.²⁷ The new Income Tax Act, among other things, increased the personal allowance, while reducing the cumulative effect of tax benefits. Negative fiscal effects, arising primarily from the mentioned increase in personal allowance and the increase in personal allowance for supported family members, were visible in income tax revenues realised in 2005, while positive effects of the reduction in the cumulative amount of tax benefits will be realised in 2006, after the annual income tax statements are processed. The new Profit Tax Act, among other things, reduced the tax rates in the areas of special state concern and abolished the tax on dividends paid out to foreign persons, which is expected to attract foreign investors, as well as abolished the possibility of one-off asset write-offs.

In July, the Croatian Parliament adopted the proposal of the amendments to the Act on the Execution of the State Budget for 2005. The main reasons for the amendments to the state budget were temporary, but significant, slow-down in economic activity in the first quarter of the year compared with expectations, which resulted in individual revenue items coming in below the plan (especially VAT revenues), as well as the risk of exceeding the planned

26 Official Gazette 177/2004.

27 Official Gazette 177/2004 and 95/2005.

limits of individual expenditure items. Revenue shortfall and expenditure overrun as compared with the 2005 plan would have jeopardised the achievement of the budget targets set by the Memorandum on Economic and Financial Policies of July 2004 so the budget revision contained certain corrective measures that limited departures from the said deficit target. In addition, the Government adopted Economic and Fiscal Policy Guidelines in July 2005, underlining the strengthening of economic development and maintaining macroeconomic stability as the main fiscal policy objectives. The announced reduction of the consolidated general government deficit to 2.8% of GDP and of public debt to the level of 46.7% by 2008 is expected to contribute towards their achievement.

The second half of the year was marked by the adoption of the Pensioners' Fund Act. The debt to pensioners will be repaid through this fund, thus fully implementing the Constitutional Court Decision of 1998. The repayment of the debt will substantially increase transfers to households during 2006 and 2007 and will significantly affect fiscal and macroeconomic variables during that time. Since the repayment of the debt creates the need for additional fiscal adjustment, early in November last year the Government created the 2006 budget proposal with the consolidated general government target at 3.3% of the 2006 nominal GDP estimate, which is 0.2 percentage points below the figure stated in the above-mentioned Guidelines.

Budget Revenues

According to the preliminary MoF data, consolidated general government revenues totalled HRK 103.1bn in 2005, exceeding the revenue plan by HRK 375.3m. Compared with 2004, consolidated general government revenues went up by 6.9%. Since at the same time GDP saw somewhat faster growth, in nominal terms, the share of revenues in GDP narrowed from 45.3% in 2004 to 45.0% in 2005. The general government revenue structure remained nearly unchanged compared with 2004. Tax revenues again stood at 59% of total revenues, while revenues from social contributions mildly decreased, to 30.4% of total revenues. Other revenues (administrative fees, dividends, leases etc.) and grants accounted for the remaining share.

Table 1.12 Main Sources of Consolidated General Government Revenues
in million HRK and %

Revenues	2003	2004	2005	Structure			Indices	
				2003	2004	2005	2004/03	2005/04
1. Taxes	53,835	56,426	60,522	60.3	58.5	58.7	104.8	107.3
1.1. VAT	28,129	29,865	32,243	31.5	31.0	31.3	106.2	108.0
1.2. Excises	10,482	10,625	10,939	11.7	11.0	10.6	101.4	103.0
1.3. Income tax	7,198	7,765	7,825	8.1	8.1	7.6	107.9	100.8
1.4. Profit tax	4,319	4,396	5,572	4.8	4.6	5.4	101.8	126.8
2. Social security contributions	27,425	29,478	31,301	30.7	30.6	30.4	107.5	106.2
3. Grants	12	14	28	0.0	0.0	0.0	116.3	201.1
4. Other revenues	8,043	10,510	11,253	9.0	10.9	10.9	130.7	107.1
4.1. Administrative fees	1,986	3,476	4,094	2.2	3.6	4.0	175.0	117.8
4.2. Dividends	109	1,994	1,200	0.1	2.1	1.2	1,822.5	60.2
Total revenues	89,315	96,427	103,104	100.0	100.0	100.0	108.0	106.9

Source: MoF.

Tax revenues, as the most important revenue source of the consolidated general government, went up by 7.3% in 2005. The greatest contributions to this rise came from the growth in VAT revenues, profit tax revenues, revenues

from excises and income tax revenues. VAT revenues, which make up over a half of consolidated general government revenues, stood at HRK 32.2bn in 2005, up 8% on the year before and HRK 537.2m over the 2005 budget rebalance plan. The highest growth rate year-on-year was realised in the third quarter, during the tourist season, while the slowdown in retail trade at the end of the year reflected itself in lower VAT revenues in the fourth quarter.

Profit tax revenues totalled HRK 5.6bn in 2005, up 26.8% over the previous year. This high growth rate may, to an extent, be explained by the fact that in 2004 Croatia's entrepreneurs reported much higher pre-tax profit than in 2003.²⁸ Pursuant to the provisions of the Profit Tax Act, monthly advance profit tax payments are determined on the basis of the tax liability for the previous year. In addition, a payment of tax on retained earnings, which have been paid out to a foreign owner of one of Croatian companies, was received in the first quarter of 2005, in the total amount of some HRK 270m, which also increased the growth of profit tax revenues year-on-year.

Income tax revenues totalled HRK 7.8bn in 2005, up 0.8% on the year before but HRK 425m less than planned. Weak income tax revenues growth may partly be attributed to the implementation of the new Income Tax Act.

According to the MoF data, excise revenues accounted for HRK 10.9bn in 2005. Compared with the 2005 revenues plan, only revenues from beer and luxury products exceeded the plan, while all other excise revenues fell short in the total amount of HRK 241.3m. The greatest contribution to total revenues growth came from excises on cars, which went up by 14.4% in 2005. This was a result of the rise in the number of newly registered cars (1.7%) on one side and the effects of changes in the Act on Special Taxes on Cars, Other Motor Vehicles, Boats and Planes²⁹ on the other, by which excises on cars were raised by 25% on average. Revenues from excises on tobacco products totalled HRK 2.5bn in 2005, which is 3.6% more than in 2004. This rise may, to the greatest extent, be attributed to the amendments in the Act on Special Tax on Tobacco Products³⁰ and the growth in retail trade in tobacco products in 2005 year-on-year. The greatest excise revenues in terms of amount were revenues from excises on oil derivatives which totalled HRK 6.1bn, up 1.5% over the previous year but a sizeable HRK 180.3m below the plan. As for other excises, revenues from excises on coffee, excises on non-alcoholic beverages and excises on luxury products went up, while revenues from excises on beer and alcohol went down.

Revenues from social security contributions, which are used to cover the costs of pension and health insurance and employment, make up almost one third of the consolidated general government revenues. In 2005, the said revenues reached HRK 31.3bn or came in HRK 184m below the plan. Compared with 2004, social security contributions went up by 6.2%, primarily as a result of the growth in the average gross monthly wage. The structure of social security contribution remained almost identical to that in 2004 with employee contributions (pension insurance contributions) accounting for 44.3%, employer contributions (health insurance contributions, special contributions for health insurance and benefits in case of accident or injury at work and occupational disease as well as insurance in case of unemployment, i.e. contributions for employment) accounting for 53.3%, while contributions of the self-employed or non-employed registered with the CES accounted for the remaining share.

28 FINA, Information on business activities of entrepreneurs in the Republic of Croatia in 2004, June 2005.

29 Official Gazette 95/2004.

30 Official Gazette 95/2004.

Other revenues, which accounted for roughly one tenth of consolidated general government revenues, totalled HRK 11.3bn in 2005, exceeding the plan by a high HRK 788.1m. Compared with 2004, revenues from the sales of goods and services grew the most, reflecting primarily the rise in revenues from administrative fees, which totalled HRK 4.1bn or 17.8% more than the year before. In contrast, dividend revenues fell short by a substantial amount. They reached HRK 1.2bn in 2005, with dividends of HT,³¹ accounting for some HRK 1bn. For comparison, dividend revenues totalled HRK 2bn in 2004, with payments of retained earnings of HT for 2001, 2002 and 2003 making up the lion's share.

According to the preliminary MoF data, local government revenues³² totalled HRK 12.2bn in 2005, up HRK 211.5m compared with the plan. Revenues from profit and income tax which are divided among the government, municipalities, towns and counties pursuant to the Act on Financing the Units of Local and Regional Self-Government³³ make up the most important source of income of local government units and account for some 50% of total revenues at this level of the government. Compared with 2004, revenues from administrative fees grew the most (HRK 432.8m), followed by profit tax revenues (HRK 356.9m) and revenues from current grants from the general government (HRK 282.4m).

Budget Expenditures

According to the MoF data, consolidated general government expenditures totalled HRK 100.5bn in 2005, up 6.6% compared with the year before, exceeding the expenditures plan by HRK 464.6m. As at the revenue side, the expenditure structure did not change much compared with 2004.

Table 1.13 Main Sources of Consolidated General Government Expenditures
in million HRK and %

Expenditures	2003	2004	2005	Structure			Indices	
				2003	2004	2005	2004/03	2005/04
1. Social benefits	38,254	41,022	42,468	43.8	43.5	42.3	107.2	103.5
2. Compensation of employees	24,065	25,505	26,686	27.6	27.1	26.6	106.0	104.6
3. Use of goods and services	9,494	9,679	10,863	10.9	10.3	10.8	101.9	112.2
4. Subsidies	4,916	5,694	5,999	5.6	6.0	6.0	115.8	105.3
5. Interest	4,039	4,423	5,102	4.6	4.7	5.1	109.5	115.4
6. Other	6,527	7,963	9,391	7.5	8.4	9.3	122.0	117.9
Total expenditures	87,296	94,287	100,510	100.0	100.0	100.0	108.0	106.6

Source: MoF.

The greatest contribution to the growth of consolidated general government expenditures in 2005 came from the increase in expenditures on social benefits, which was to the greatest extent a consequence of their large share in

31 Extraordinary dividend for 2004 was paid out in December 2005. In line with the ownership structure the government received HRK 688m. Of the advance dividend payment for 2005 that was paid out late in January 2006 the government received HRK 341.5m (this amount is included in 2005 data on cash basis).

32 Unconsolidated.

33 Official Gazette 117/1993, 33/2000, 73/2000, 59/2001, 107/2001, 117/2001, 150/2002 and 147/2003.

total expenditures. As a result, expenditures on social benefits stood at HRK 42.5bn in 2005, with social assistance benefits growing nearly three times faster than social security benefits. The growth of social assistance benefits was, among other things, caused by the rise in expenditures on additional maternity leave and expenditures on permanent rights of Croatian war veterans. The movements of social security benefits were to an extent a consequence of the mild rise in the number of pension beneficiaries (1.2%) and the growth of the average pension (5%). According to the CPIA data, HRK 27bn worth of pensions were paid out in 2005, up 4.4% on the year before.

Expenditures for the use of goods and services (which include the use of telephone, postal services, transport, energy and intellectual and personal services), whose growth significantly accelerated in 2005, also greatly contributed to the growth of total consolidated general government expenditures year-on-year. According to the MoF data, the government spent HRK 10.9bn or 12.2% more than last year, on the use of goods and services, while 2004 saw a mild rise of 1.9% year-on-year.

Expenditures for compensation of employees totalled HRK 26.7bn in 2005, up 4.6% on 2004, reflecting a mild 0.5% rise in the number of civil servants and civil service employees and the rise in gross wage of public administration employees by 3.3% year-on-year. In the structure of expenditures for compensation of employees, expenditures on wages and salaries made up 85.2% in 2005, while social contributions paid by the government accounted for the remaining share.

Expenditures for subsidies reached HRK 6bn in 2005, with their growth slowing down considerably compared with the previous year. Subsidies granted to companies in the public sector continued to account for over 50%, totalling HRK 3.4bn in 2005. According to the MoF data, HRK 1.8bn of this amount was made up by subsidies to Croatian Railways. Subsidies paid out to companies outside the public sector, which include subsidies granted to farmers, craftsmen and small and medium-sized enterprises totalled HRK 2.6bn in 2005, rising by a sizeable 12.6% year-on-year.

Interest expenditures totalled HRK 5.1bn in 2005, up HRK 166.8m compared with the plan. Compared with 2004, interest expenditures went up by 15.4%, with interest rates on domestic liabilities growing much faster (21.6%) than interest rates on foreign liabilities (9.1%). These developments, among other things, indicate more intensive government borrowing in the domestic than in the foreign market which also reflected itself in the structure of interest expenditures. The share of interest on external debt thus fell from 49.8% in 2004 to 47.1% in 2005, and the share of interest on domestic debt increased accordingly.

According to the MoF data, expenditures on local government level³⁴ totalled HRK 9.9bn in 2005, up HRK 282.4m on the plan and 12.7% more than in 2004. In the expenditures structure of the units of local and regional self-government expenditures for the usage of goods and services made up the greatest share (38.2% of total expenditures at this level of the government), followed by compensation of employees (24.1%) and other expenditures (20.8%).

34 Unconsolidated.

Operating Balance and Transactions in Non-Financial Assets, Financial Assets and Liabilities

Net operating balance, as the difference between revenues and expenses at consolidated general government level, stood at HRK 2.6bn. If the net increase in non-financial assets of HRK 9bn is subtracted from this amount, the resulting net borrowing figure totals HRK 6.4bn. Compared with 2004, net borrowing reduced by a high 23.1%, to the greatest extent due to the substantial reduction in the acquisition of fixed assets and the increase in net operating surplus arising from faster growth of revenues over expenditures at this level of the government. Since 2005 saw an increase in financial assets of the consolidated general government and a reduction of foreign liabilities, the government generated all the necessary funds by increasing its liabilities towards residents.

Non-financial assets of the consolidated general government increased by HRK 9bn in 2005, that is, by HRK 1.5bn less than the year before. While the disposal of non-financial assets in 2005 remained at almost identical level as a year earlier, their acquisition reduced substantially year-on-year, primarily due to weaker, although still strong, activity of the government in the segment motorway construction. Croatian Motorways and Croatian Roads spent HRK 4.6bn on acquisition of buildings and structures,³⁵ down HRK 1.7bn compared with the year before. Nevertheless, CM and CR invested sizeable funds (HRK 202.2m) in the acquisition of land as part of the preparatory works for construction projects planned over the coming years. Acquisition of non-financial assets by CM and CR made up nearly 50% of total acquisitions of non-financial assets of the consolidated general government, while other budgetary users and units of local and regional self-government accounted for the remaining share.

Table 1.14 Operating Balance, Transactions in Non-Financial Assets and Transactions in Financial Assets and Liabilities

GFS 2001, in million HRK

	Consolidated general government		
	2004	2005	2005/04
1. Change in net worth (net operating balance)	2,140	2,594	
1.1. Revenue	96,427	103,104	106.9
1.2. Expense	94,287	100,510	106.6
2. Change in net non-financial assets	10,495	9,017	
2.1. Acquisition of non-financial assets	11,360	9,881	87.0
2.2. Disposal of non-financial assets	865	864	99.9
3. Net lending (+) / borrowing (-) (1-2)	-8,354	-6,423	
3. Financing (5-4)	8,354	6,423	
(as % of GDP)	(3.93%)	(2.80%)	
4. Change in financial assets	104	1,350	
4.1. Domestic	96	1,355	
4.2. Foreign	8	-5	
5. Change in liabilities	8,459	7,773	
5.1. Domestic	4,339	11,911	
5.2. Foreign	4,119	-4,138	

Note: On cash basis.

Source: MoF.

35 Under the GFS 2001 methodology, the item buildings and structures includes among other things: residential buildings, office buildings, schools, hospitals, motorways, roads, bridges, tunnels, railways, channels, ports and dams.

Financial assets of the consolidated general government increased by HRK 1.3bn in 2005. While domestic financial assets increased, foreign financial assets slightly reduced. This rise in domestic financial assets was a result of the net increase in loans as well as of the increase in currency and deposits. A total of HRK 0.5bn worth of shares was sold in 2005, with shares from DAB's and CPF's portfolio accounting for almost the entire amount. In the same period, expenditures for shares and other equity totalled HRK 0.3bn, of which initial capital paid in by the CBRD accounted for over two thirds.

Although consolidated general government revenues exceeded its expenditures in 2005, the government invested substantial funds in the acquisition of non-financial assets and further lending³⁶ to companies in the public sector, craftsmen and small and medium-sized entrepreneurs so the necessary funding were obtained by borrowing. As a result, consolidated general government liabilities increased by HRK 7.8bn in 2005, down HRK 0.7bn compared with the increase in 2004. Domestic liabilities went up HRK 11.9bn, primarily due to the rise in net liabilities arising from issued securities (bonds and T-bills) as well as net loan incurrence. Although borrowing in the foreign financial market continued throughout 2005 (HRK 1.1bn of new borrowings by CM, CR and Croatian Waters and HRK 0.8bn of borrowings by budgetary users), new borrowings were substantially lower than repayments of matured obligations so total foreign liabilities of the consolidated general government decreased by HRK 4.1bn.

Consolidated General Government Balance on Cash Basis and Modified Accrual Basis

According to the preliminary MoF data, general government deficit, exclusive of capital revenues, on cash basis, totalled HRK 8.4bn or 3.7% of GDP for 2005. Broken down by government level, budgetary central government and extra-budgetary users accounted for the lion's share of the deficit (HRK 5.1bn and HRK 2.6bn respectively), which resulted in the consolidated central government deficit of HRK 7.7bn or 3.4% of GDP for 2005. Units of local and regional self-government accounted for the remaining share of the deficit, amounting to HRK 0.7bn.

Total consolidated general government deficit reduced by HRK 2.2bn compared with the previous year. The most significant fiscal adjustment was carried out at the level of extra-budgetary funds, with their deficit reduction totalling a sizeable HRK 1.5bn. This was to the largest extent a result of the reduction in the acquisition of non-financial assets by CM. The deficit was reduced also at the central budgetary level, owing to faster growth of revenues over expenditures and a reduction of acquisitions of loans and acquisitions of shares and other equity.

For the purpose of the Stand-By Arrangement that the Croatian government entered into with the IMF in August 2004, consolidated general government deficit was defined on a modified accrual basis, which means that data on cash basis were corrected for data on expenditures contracted but not yet realised by Croatian Motorways and Croatian Roads (accrual basis) and for changes in unpaid claims on the central government budget and local government. According to the MoF preliminary data, consolidated general gover-

36 Pursuant to GFS 2001 methodology, acquisition of non-financial assets and expenditures on extended loans are not included in expenditures.

ment deficit on modified accrual basis totalled HRK 9.3bn in 2005, or 4.1% of GDP for 2005. The deficit, defined in this way, reduced by HRK 1bn on the previous year. However, the growth of unpaid claims, which went up by HRK 455.8m in 2005, accelerated again.

Table 1.15 Consolidated General Government Balance
on modified accrual basis, in million HRK and %

	2004		2005	
	Amount	As % of GDP	Amount	As % of GDP
1. Net lending (+) / borrowing (-) GFS 2001	-8,354	-3.93	-6,423	-2.80
2. Disposal of non-financial assets	865	0.41	864	0.38
3. Lending minus repayments ^a	1,331	0.63	1,098	0.48
4. Balance without capital revenues, on cash basis (1 - 2 - 3)	-10,551	-4.96	-8,386	-3.66
5. Balance without capital revenues, on cash basis (CM and CR reported on accrual basis)	-10,138	-4.76	-8,671	-3.79
6. Concession fee on the provision of telecommunication services – paid in February 2005	197	0.09	-197	-0.09
7. Change in non-paid and non-recorded liabilities (negative change denotes increase)	-384	-0.18	-456	-0.20
5. Balance without capital revenues, on modified accrual basis (5 + 6 + 7)	-10,325	-4.85	-9,324	-4.07
Note: Gross domestic product	212,827		229,031	

^a GFS 1986 category; calculated based on GFS 2001 data.

Source: MoF.

Government Debt

According to the CNB data, general government debt, inclusive of CBRD debt, reached HRK 108.5bn at the end of December 2005, i.e. 47.4% of the nominal GDP for 2005. Compared with end-2004, general government debt, inclusive of CBRD debt, increased by HRK 9.8bn in 2005 or HRK 2.8bn less than in 2004. The entire increase of general government debt in 2005 was a result of the rise in domestic debt, which went up by HRK 13.5bn, while external debt reduced by HRK 3.7bn. Together with the HRK 12.4bn of issued government guarantees, which represent potential debt because they may be exercised, total debt at the end of 2005 reached HRK 120.9bn or 52.8% of the nominal GDP.

Government borrowing, which was more intensive in the domestic than in the foreign market in order to reduce external vulnerability, exchange rate risk and spur the development of the domestic capital market, affected the structure of total general government debt (inclusive of CBRD debt) in the past two years. Thus, the share of general government domestic debt in the total general government debt went up from 41.4% at the end of 2003 to 52.1% at the end of 2005. In the same period, the share of general government external debt (inclusive of CBRD debt) decreased proportionally.

Table 1.16 General Government Debt
end of period, in million HRK and %

	2004		2005		2005/04
	Amount	As % of GDP	Amount	As % of GDP	
A. Total general government debt (1 + 2)	92,988	43.7	101,424	44.3	9.1
1. General government domestic debt	42,721	20.1	56,046	24.5	31.2
1.1. Domestic debt of the Republic of Croatia	37,224	17.5	50,560	22.1	35.8
1.2. Domestic debt of central government funds	3,911	1.8	3,935	1.7	0.6
1.3. Domestic debt of local government	1,586	0.7	1,552	0.7	-2.2
2. General government external debt	50,267	23.6	45,378	19.8	-9.7
2.1. External debt of the Republic of Croatia	42,096	19.8	36,434	15.9	-13.5
2.2. External debt of central government funds	7,925	3.7	8,726	3.8	10.1
2.3. External debt of local government	246	0.1	218	0.1	-11.1
B. Total CBRD debt (1 + 2)	5,746	2.7	7,135	3.1	24.2
1. CBRD domestic debt	382	0.2	534	0.2	39.8
2. CBRD external debt	5,363	2.5	6,601	2.9	23.1
Supplement:					
C. Total guarantees issued by the Republic of Croatia	12,135	5.7	12,384	5.4	2.1
1. Domestic	4,542	2.1	5,268	2.3	16.0
2. Foreign	7,592	3.6	7,115	3.1	-6.3

Source: CNB.

General Government Domestic Debt

According to the CNB data, general government domestic debt totalled HRK 56bn at the end of December 2005, up HRK 13.3bn on the end of the previous year. The entire increase of the general government domestic debt was a result of the borrowing at the Republic of Croatia level, which totalled HRK 13.3bn, with issued bonds accounting for the largest share of the increase. In March 2005, the government issued bonds worth HRK 3bn with a five-year maturity. This was the second kuna bond issue, while the first kuna bond was issued in May 2003. In July, a government bond worth EUR 350m with maturity in 2015 was issued in the domestic market. Finally, the Ministry of Finance issued a ten-year bond, worth HRK 3.5bn and maturity in 2015, in the domestic market at the beginning of December. The funds raised by these issues were used to finance a part of the budget deficit and repay liabilities that became due.

The remaining part of the increase in liabilities at the Republic of Croatia level was accounted for by T-bill issues and loans received from domestic banks. In March, the government signed an agreement on a syndicated foreign exchange loan worth EUR 500m with a syndicate of seven Croatian banks. The funds were used for repayment of a five-year eurobond that became due. The government's decision to refinance this bond by borrowing in the domestic market was supported by the CNB, which in February amended the Decision on the Minimum Required Amount of Foreign Currency Claims, thus reducing the minimum required coverage of foreign currency liabilities by foreign currency claims from 35% to 32%. This freed up some HRK 4bn at banking system level.

Although the CNB raised the marginal reserve requirement rate on two occasions in 2005 in order to limit foreign borrowing by banks, kuna liquidity of the banking system remained high, enabling further government borrowing in the domestic market. Thus, demand at MoF T-bill auctions was strong, which

was, among other things, a result of the introduction of regular reverse repo operations where T-bills are used as collateral.

A substantial decline in the debt of central government funds month-on-month was observed in December when the five-year DAB bond worth HRK 1.7bn was repaid. However, since liabilities arising from received bank loans went up through the year due to new borrowings by CM and CR, in the end domestic debt of central government funds slightly increased.

At the end of 2005, CBRD domestic debt totalled HRK 534.2bn, accounting for a relatively low 7.5% of total CBRD debt. Compared with the end of 2004, CBRD domestic debt went up by HRK 152.1m, which was a result of the rise in liabilities arising from received loans and repayments of liabilities arising from bond issues.

General Government External Debt

According to the CNB data, general government external debt totalled HRK 45.4bn at the end of 2005, down HRK 4.9bn on the previous year. This decline was a result of the strong reduction in the Republic of Croatia external debt and a slight reduction in the external debt of the local government. In the same period, external debt of central government funds continued growing.

External debt at the Republic of Croatia level totalled HRK 36.43bn at the end of 2005. Although new borrowings in the foreign financial market were observed in 2005, repayments of liabilities that became due were more sizeable, thus resulting in a reduction of HRK 5.66bn at the end of the year. A five-year eurobond worth EUR 500m became due in March. In addition, two regular repayments to the London Club became due in January and July in the total amount of USD 161.2m. The growth of external debt arising from loans totalled HRK 124.8m in 2005 year-on-year, resulting primarily from new borrowings with international financial institutions.³⁷ Exchange rate movements also contributed to the decrease in external debt. Since some 65% of total external debt of the Republic of Croatia is denominated in euros, the depreciation of the euro exchange rate against the kuna by 3.9% in 2005 reflected itself in the statistical reduction of the debt.

External debt of central government funds stood at HRK 8.7bn at the end of 2005, up HRK 0.8bn on the year before. This increase can be fully attributed to new borrowings of CM, CR and Croatian Waters (totalling HRK 1.1bn) and the repayment of the previously received bank loans by Croatian Waters.

As a rule, the CBRD borrows in foreign financial markets where interest rates are lower in order to be able to offer more favourable lending conditions to its domestic clients. As a result, CBRD external debt totalled HRK 6.6bn at the end of 2005, up HRK 1.2bn on the year before. The greatest increase was observed in April when the CBRD signed an agreement on a syndicated loan worth EUR 160m with a syndicate of foreign banks. The loan maturity is three years with the possibility of extending the loan period by additional two years, while the obtained funds are earmarked for financing the CBRD's lending programme. In December, the CBRD entered a loan agreement worth EUR 100m with a consortium of five banks, with the largest share of the said amount being registered as external debt. Since a bank with registered office in Croatia also participated in the consortium, a small portion of the said amount was registered as CBRD domestic bank.

37 International Bank for Research and Development and Council of Europe Development Bank.

Developments in 2006³⁸

The latest MoF data show that consolidated central government revenues totalled HRK 14.4bn in January and February 2006, rising by a sizeable 13.5% year-on-year. This rise resulted primarily from the exceptionally strong growth of VAT revenues (which grew by 31.5% year-on-year), followed by revenues from social security contributions (6.1%) and revenues from excises (7.5%). Income tax revenues in the first two months of 2006 reached HRK 626.6m or 8.4% more than in the corresponding period of 2005. This outturn was due to relatively high growth of the average gross monthly wage (5.3%) and the parallel increase in the average number of persons insured with the CPIA (2.9%).

Consolidated central government expenditures totalled HRK 15.4bn in the first two months of 2006, up 0.3% on the same period in 2005. The greatest contribution to this growth year-on-year came from expenditures on social benefits, which totalled HRK 7bn or 4.7% more than in the first two months of 2005. Expenditures on salaries and wages, which totalled HRK 3.6bn during the period in question, also made a strong contribution, while the greatest reduction was seen in other expenditures, grants to general government units and expenditures for the use of goods and services.

Non-financial assets of the consolidated central government increased by HRK 512.2m in the first two months of 2006. Acquisition of non-financial assets totalled HRK 566.5m, primarily as a result of the acquisition of buildings and structures by CM and CR. On the other side, disposal of non-financial assets totalled HRK 54.2m as a result of disposal of fixed assets and to a smaller extent of strategic reserves. As revenues were smaller than expenditures during the period under review, which was paired in the said increase of non-financial assets, the government obtained the required funds largely by borrowing. As a result, consolidated central government liabilities in January and February of this year went up by HRK 1.4bn which was a consequence of continued borrowing of the government in the domestic market combined with the parallel reduction of external liabilities. The remaining share of the necessary funds was raised by the reduction in financial assets.

Consolidated central government deficit, on cash basis, presented in accordance with GFS 1986 methodology, reached cumulatively HRK 1.8bn in January and February 2006, down HRK 1.7bn or a sizeable 48.1% on the corresponding period of the previous year (HRK 3.5bn). This substantial change in the consolidated central government deficit was a result of the fast revenue growth combined with the decrease in expenditures and smaller expenses for acquisitions of non-financial assets.

According to the CNB data, general government debt (inclusive of CBRD debt) totalled HRK 108.7bn at the end of February. Compared with the end of 2005, general government debt, inclusive of CBRD debt, went up by HRK 105.4m, while the debt increase observed in the corresponding period of the previous year totalled HRK 2.3bn. Inclusive of issued government guarantees, the total debt reached HRK 120.8bn at the end of February, which is HRK 138m less than at the end of 2005.

38 Since data on government finance at consolidated general government level is available at quarterly frequency, developments in January and February of 2006 are analysed at consolidated central government level.

Table 1.18 Recent Developments in General Government Debt
end of period, in million HRK

	Stock		Change	
	2/2005	2/2006	1-2/2005	1-2/2006
A. Total general government debt (1+2)	95,357	101,868	2,369	444
1. General government domestic debt	46,428	57,920	3,707	1,873
2. General government external debt	48,929	43,948	-1,338	-1,430
B. Total CBRD debt	5,669	6,797	-77	-338
Supplement:				
C. Total guarantees issued by the Republic of Croatia	12,229	12,140	95	-243

Source: CNB.

General government domestic debt stood at HRK 57.9bn at the end of February 2006, up 3.3% on the end of the preceding year. This increase may be entirely attributed to borrowing at the Republic of Croatia level, while domestic debt of central government funds and the local government reduced. As a result, domestic debt of the Republic of Croatia increased by HRK 2bn in January and February, of which bonds issues accounted for HRK 1.6bn. The government borrowed HRK 2bn in the domestic capital market early in February by issuing bonds with maturity in 10 years and a fixed annual interest rate of 5.25%. Funds raised by this issue will be used to repay the liabilities due in 2006. During the period under review, the government borrowed by taking out loans thus increasing liabilities arising from bank loans by HRK 0.4bn.

According to the latest CNB data, general government external debt reached HRK 43.9bn at the end of February, reducing by 3.2% on the end of 2005. Despite the rise in liabilities arising from loans of foreign banks, repayments of bonds that became due resulted in net decrease of the Republic of Croatia debt by HRK 1.4bn. There was a regular repayment of debt to the London Club in January, while Samurai bonds worth JPY 25bn became due in February. On the other side, liabilities arising from received loans increased by HRK 859.8m partly as a result of the withdrawal of the Programmatic Adjustment Loan (PAL1) which was granted to Croatia by the World Bank in 2005. External debt of central government funds and the local government went down by HRK 48.2m. Owing to the decline in its liabilities arising from issued bonds and received foreign loans, the CBRD external debt reduced by HRK 252.5m in the same period.

MONETARY POLICY
INSTRUMENTS AND INTERNATIONAL
RESERVES MANAGEMENT

2

INTERNATIONAL BANK
REPORT 2005

2.1 Monetary Policy Instruments

Monetary policy instruments of the Croatian National Bank focused on two monetary policy objectives in 2005:

- further slowdown and halting of foreign borrowing with the aim of maintaining macroeconomic stability, and
- promoting monetary management through the introduction of open market operations with the aim of reducing volatility of the overnight interest rate on the monetary market and creating pre-conditions for the strengthening of monetary policy interest rate channels.

The marginal reserve requirement, a measure introduced in 2004 to contain foreign borrowing, saw additional tightening in 2005, following a decision of the central bank to raise its rate on two occasions. Despite government's prevailing orientation towards domestic borrowing to alleviate the pressure on external debt growth, the banking system continued with its foreign borrowing policy. By raising the rate of the marginal reserve requirement, the central bank signalled its readiness to further tighten this measure if needed to slow down and maintain external debt at a level which will not jeopardise its maintenance of the country's macroeconomic stability.

Open market operations were introduced for the purpose of promoting monetary management and establishing a more active role of the Croatian National Bank in banking system liquidity management. Over a short-term, the objective of open market operations was to achieve stabilisation of the overnight interest rate and create a reference interest rate on the money market. Over a longer term, the aim of monetary policy is to establish a transmission mechanism that involves the operation of an interest rate channel. With the introduction of open market operations, the central bank redefined its existing monetary policy instruments and introduced new ones.

2.1.1 Open Market Operations

Open market operations, a new instrument for liquidity management, were introduced for the purpose of reducing interest rate fluctuations on the money market and stabilising interest rates. With its new monetary policy implementing framework, the Croatian National Bank continued to pursue its policy of stable exchange rate of the domestic currency.

Technically, the implementing framework of open market operations includes three types of operations:

1. regular reverse repo operations,
2. fine-tuning operations, and
3. structural operations.

The mechanism of open market operations requires adjustment of all other instruments of monetary policy which affect monetary management so the

existing monetary policy instruments had to be adjusted to increased efficacy of open market operations. The reserve requirement ensured for the withdrawal of free reserves and creation of deficit liquidity needed for the implementation of open market operations with the central bank as the system's net creditor. At the same time, standing facilities were also made available.

Standing facilities are limited for banks only to the extent of collateral available, so interest rates on such funds limit the range of overnight interest rate corridor while the position of a net creditor ensures for the central bank greater control over overnight interest rate developments.

Regular Reverse Repo Operations

Regular open market operations are the most important source of funding for the financial sector. They increase the system's liquidity and are conducted by means of reverse repo transactions every Wednesday at auctions with a one week maturity. Participants at auctions are domestic banks which supply T-bills of the Ministry of Finance as collateral. Intended to create liquidity in the system, the precondition for active use and efficacy of such operations is the creation and maintenance of the system's deficit liquidity. In this way, regular reverse repo operations enable the establishment of the reference interest rate.

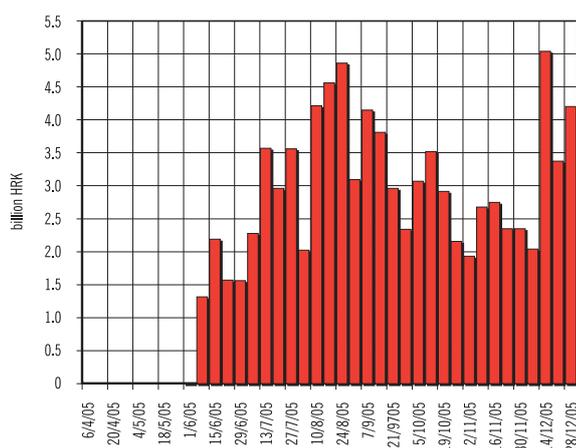
Increased percentage of the foreign currency component of reserve requirements that is allocated in kuna, coupled with increased demand for kuna during the summer created deficit liquidity, with open market operations becoming the main source of bank liquidity. The banks therefore regularly participated in reverse repo auctions since June, in contrast with the first months of the year when they did not use central bank secondary sources of liquidity.

Regular auctions were used for liquidity creation particularly in the days immediately preceding the new reserve requirement allocation and maintenance period and at the beginning of the maintenance period.

The total amount of funds placed to banks on that basis was HRK 89.4bn in 2005. Symbolic amounts placed at two auctions in April and June excluded, the amount of funds placed at auctions in 2005 ranged about HRK 1.3bn in June to HRK 5.0bn in December. The average daily balance of funds created at reverse repo auctions during the same period stood at HRK 3.0bn. The largest average daily balance of funds was achieved at reverse repo auctions in the maintenance period from 8 August to 7 September 2005 and amounted to HRK 4.0bn, with individual amounts of funds placed at five auctions ranging between HRK 3.1bn and HRK 4.9bn.

2.1

Reverse Repo Auctions



Source: CNB.

Other Types of Open Market Operations

In addition to regular operations, the new implementing framework also envisaged fine-tuning operations, used for temporary reduction or increase in system liquidity. These operations are conducted ad hoc for the purpose of market liquidity and interest rate management in situations calling for the

neutralisation of interest rate effects caused by unexpected market fluctuations. They can be performed by means of repo and reverse repo auctions, outright securities and foreign currency purchase and sale transactions and by means of foreign currency swaps. In view of potential need for fast action in case of unpredicted market fluctuations, a large degree of flexibility has been maintained, leaving the frequency and maturities of fine-tuning operations non-standardised while their auctions involve non-standard bids or are held bilaterally involving a limited number of participants. Acceptable collateral is kuna T-bills of the Ministry of Finance.

The third form of open market operations are structural operations, which are used where long-term adjustment of structural liquidity position is required. They are conducted by means of outright securities purchase and sale transactions and by means of repo and reverse repo operations. They serve to increase or reduce the system's liquidity and can be conducted in either regular time intervals or periodically, without any standard maturity. They are conducted at auctions by means of standard bids and involve banks' participation as well as a broader scope of acceptable collateral including a greater number of government securities.

In 2005, only regular open market operations were used and there were no fine-tuning operations or structural operations.

2.1.2 Standing Facilities

Standing facilities comprise those instruments that are used by banks at their discretion, for an unlimited number of days in a month, to stabilise unexpected changes in bank liquidity. Standing facilities have an overnight maturity and are available in the form of Lombard loans, in case of deficit liquidity, or in the form of monetary deposit, in case of surplus liquidity. These facilities provide an interest rate corridor on the money market, with the interest rate on the Lombard facility setting a ceiling and the interest rate on overnight deposit with the CNB setting a floor of that interest rate corridor. Interest rates on the money market should move within that corridor. In the situation of regular CNB presence on the market, the banks should use standing facilities only in exceptional circumstances when that they cannot solve their liquidity problems, either surplus or deficit, on the market and at CNB auctions.

Lombard Loan

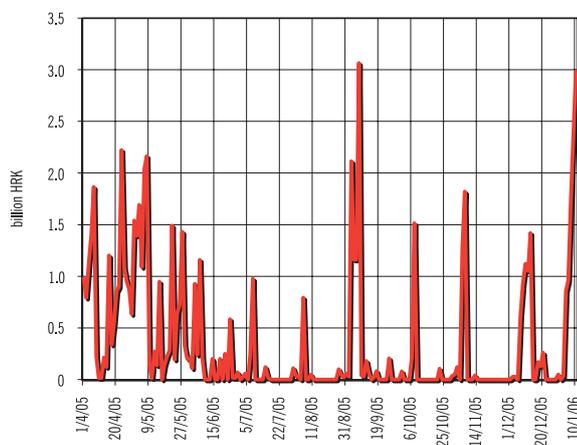
Interest rate on the Lombard loan (7.5%) provides a ceiling to the interest rate corridor. In April 2005, the central bank raised the possibility of its use to 90% of the nominal value of T-bills pledged by banks, instead of the previous 50%, and repealed the maximum 5 day-use restriction within a month. The Lombard loan is used on bank's request or is granted automatically in the event of default on an intra-day loan, and that exclusively at the end of a business day. The banks have to repay the Lombard loans on the next business day. The CNB may at its discretion deny a bank on a temporary or a permanent basis the use of the Lombard loan. Until 13 December 2005, the interest rate on the Lombard loan was 9.5% and since 14 December 2005, it was cut to 7.5%.

Deposit Facility

Since April 2005, the banks have been able to use an overnight deposit facility for their kuna surplus liquidity in the form of monetary deposits remunerated by the CNB at 0.5%, an interest rate which is also the floor of the interest rate corridor on the money market. Access to this instrument is open only to banks at the end of a business day, following the close of interbank trading. Monetary deposits, in the same way as the Lombard loan, have an overnight maturity, and are repaid by the CNB to the banks immediately after the Croatian Large Value Payment System (CLVPS) opens for business. Overnight deposits are not included in the reserve requirement maintenance obligation. The CNB can also, at its discretion, deny a bank access to this instrument either temporarily or on a permanent basis.

2.2

Overnight Deposits



Source: CNB.

During 2005, banks used the overnight deposit facility with the CNB for their monetary funds, particularly in months up to June. Average daily overnight deposits ranged around HRK 852.8m, exceeding HRK 2.0bn on individual days towards the end of the maintenance period. During the same period, banks did not use the overnight deposit facility only on one day. Following amendments in the reserve requirement instrument and transition of the banking system from surplus liquidity position to deficit liquidity, the banks reduced their use of overnight deposits in the months that followed. As a rule, the banks increased their overnight deposits towards the end of calculation periods when it was obvious that they would meet the reserve requirement. From 8 June 2005 to 31 December 2005, the banks used the overnight deposits between 6 and 12 business days during the maintenance period, and the amounts involved on the last days of the maintenance period ranged between HRK 1.0bn and HRK 2.0bn. The maximum amount of overnight deposits of HRK 3.1bn was recorded on the last day of the maintenance period, from 8 August to 7 September 2005.

2.1.3 Reserve Requirements

The reserve requirement continued to be the main instrument for the system's surplus liquidity sterilisation. In 2005, the reserve requirement rate was calculated at the rate of 18% on the base which consisted of the kuna and foreign currency component. The reserve requirement rate was reduced to 17% in December, but the application of this lower rate did not begin until January 2006. Most of the changes in this instrument in 2005 were associated with the implementation of open market operations. The June increase from 42% to 50% in the component of foreign currency reserve requirements that is allocated and maintained in kuna, caused deficit liquidity in the system. During the same period, with a view to achieving a more precise liquidity forecasts, the maintenance and allocation ratios were set at levels which minimise the effects on existing liquidity. The component of kuna reserve requirements allocated to the special accounts with the CNB was set at 70% of the calcu-

lated reserve requirements, while the percentage of foreign currency reserve requirements allocation was set at 60% of the calculated reserve requirement. The remaining share of the reserve requirement has to be maintained as an average in the accounts of liquid claims, over a one-month maintenance period, with the remaining kuna reserve requirements being met by funds maintained in the settlement accounts with the CNB and the foreign currency reserve requirements by the accounts of liquid foreign currency claims with the banks.

The central bank again made changes to its monetary policy instruments in November 2005 in an effort to increase efficacy of open market operations, improve liquidity management and achieve a more uniform movements in overnight interest rates on the money market. Changes in the instrument of reserve requirement involved a change in the calculation date, maintenance period and inclusion of non-business days in the reserve requirement maintenance. Under these changes, starting with the December calculation, the period for the calculation of the base and the period for the reserve requirement maintenance also included non-business days, i.e. Saturdays, Sundays and holidays. This adjustment was made with the view to achieving further interest rate stabilisation on the overnight market and particularly with a view to eliminating large fluctuations commonly taking place on Fridays or immediately before holidays. As these days were previously excluded from the reserve requirement maintenance period, the banks were not obliged to ensure from the CNB or on the money market free reserves to maintain the reserve requirement on non-business days. As a result, interest rates on the money market commonly fell below average just before weekends (on Fridays) or the day proceeding holidays, while surplus liquidity was deposited overnight.

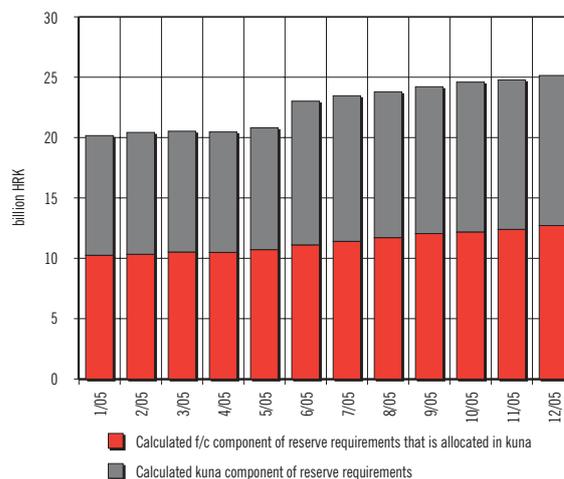
The calculation of reserve requirements has been performed on the second Wednesday in a month since December, instead of the eight calendar day in a month. The beginning of the reserve requirements maintenance periods was thus linked to the date of regular reverse repo auction which helped alleviate the upward pressure on the interest rates on the money market commonly caused by increased demand for free reserves on the days of reserve requirements allocation. This helped avoid situations where one reverse repo auction could affect two maintenance periods, facilitated liquidity management for banks and helped central bank plan and implement open market operations.

Kuna and Foreign Currency Component of Reserve Requirements

The kuna component of reserve requirements rose in 2005 due to an increase in the calculation base, i.e. growth in kuna and foreign currency deposits in banks and an increase from 42% to 50% in the calculated foreign currency component of reserve requirements that is allocated in kuna. The kuna component of the base ranged from HRK 56.9bn recorded in the calculation period in December 2004 to HRK 70.6bn in the calculation period in November 2005, an increase of 24.1%. The foreign currency component of the base ranged from HRK 131.3bn to HRK 138.8bn during the same period, which is an increase of 5.3%. Total kuna reserve requirements rose from HRK 20.2bn in January to HRK 25.2bn in December, which is an increase of 24.7%. The share of calculated foreign cu-

2.3

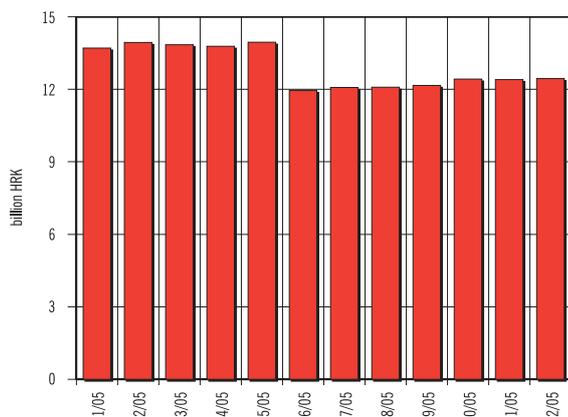
Total Kuna Component of Reserve Requirements
balance in maintenance period



Source: CNB.

2.4

Total Foreign Currency Component
of Reserve Requirements
balance in maintenance period



Source: CNB.

rreny component of the reserve requirements that are allocated in kuna rose by 25.4% in 2005.

The growth of foreign currency component of the base throughout 2005 notwithstanding, the foreign currency component of reserve requirements fell from HRK 13.7bn in January to HRK 12.4bn in December, a decline of 9.2%. During the first five months of the year, foreign currency reserve requirements fluctuated between their January level of HRK 13.7bn and HRK 13.9bn recorded in May. Foreign currency reserve requirements fell by over HRK 2bn in June as a result of the previously mentioned change in the percentage of the calculated foreign currency share of reserve requirements that is allocated in kuna. Later on in the year, foreign currency reserve requirements rose from HRK 11.9bn in June to HRK 12.4bn in December, an increase of 4.2%.

In contrast with its previous practice until March 2005 when the Croatian National Bank remunerated the calculated reserve requirements allocated to a special reserve requirement account with the Croatian National Bank and the reserve requirements maintained as an average in the settlement account and in bank vaults, the CNB has, since April 2005, decided to remunerate only the allocated share of reserve requirements, excluding from its remuneration obligation the share of reserve requirements that is maintained in the settlement account and in bank vaults. The central bank also cut the remuneration paid on the allocated kuna component of reserve requirements from 1.25% to 0.75% in June 2005. The central bank made similar cuts in the remuneration paid on the foreign currency component of reserve requirements, so the remuneration paid on funds allocated in American dollars now amounts to 50% of the U.S. Federal Funds Target Rate, while the remuneration paid on the funds allocated in euro amounts to 50% of the ECB Minimum Bid Refinance Rate, instead of the previous 75% of both Fed and ECB reference interest rates.

2.1.4 Measures for Restricting External Debt Growth

Marginal Reserve Requirements

In 2005, the Croatian National Bank focused on current account deficit narrowing and efforts to halt external debt growth. The central bank therefore continued to use its instrument of marginal reserve requirements to discourage further growth of bank foreign borrowing.

The rate of marginal reserve requirements which banks are obligated to calculate on any increase in their foreign borrowing, was raised on two occasions in 2005, first from 24% to 30% in March and then from 30% to 40% in June.

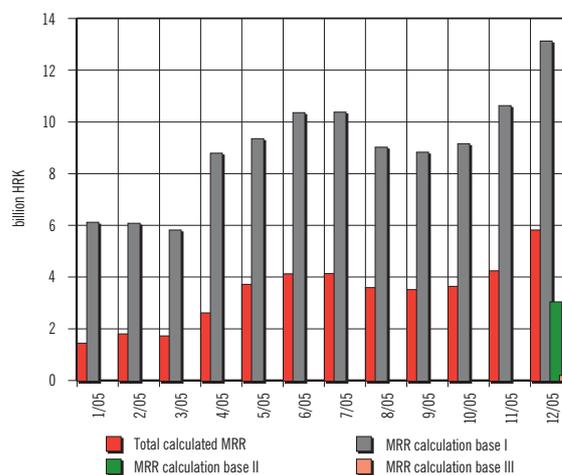
The base for the calculation of marginal reserve requirements was largely provided throughout the year by the positive difference between the average

daily balance of funds from non-residents and legal persons in a special relation with a bank in the calculation and in the initial period, with the initial period being that from 1 June to 30 June 2004. The banks calculated marginal reserve requirements on any increase in their foreign liabilities in January and February at the rate of 24%. This rate was raised to 30% and 40% in March and June, respectively. In December 2005, the central bank widened the base for the calculation of marginal reserve requirements and introduced additional initial calculation period. The base for the calculation of marginal reserve requirements was thus widened to include guarantees and warranties for the account of foreign persons used as a basis for foreign borrowing of domestic persons and funds received from leasing companies not in a special relation with a bank. Therefore, the banks were now obligated to calculate marginal reserve requirements at the rate of 55% on any increase in their average daily balance of funds received from leasing companies not in a special relation with a bank and contingent liabilities arising from guarantees and warranties on behalf of third persons in kuna and in foreign currency, used as a basis for foreign borrowing of domestic persons. The additional initial calculation period against which the increase in the average daily balance of such sources funds and contingent liabilities was measured was 1 to 30 November 2005. At the same time, in addition to their regular marginal reserve requirements calculation obligation of 40%, the banks also had to calculate additional marginal reserve requirements at the rate of 15% on any increase in their average daily balance of the sources of funds from non-residents and legal persons in a special relation with a bank compared with their average balance in the initial period from 1 to 30 November 2005.

Total sources of funds from non-residents and legal persons in a special relation with a bank were HRK 60.7bn in January, reaching HRK 68.0bn in December due to a large increase in non-resident funds, which is an increase of 12% compared with the beginning of the year. The increase in non-resident funds and multiple increases in the rate of marginal reserve requirements also led to an increase in total calculated marginal reserve requirements which rose from HRK 1.5bn in January to HRK 5.8bn in December.

2.5

Marginal Reserve Requirement balance on calculation days



Note: The base for the calculation of MRR I is any positive balance between the average daily balance of sources of funds from non-residents and legal persons in a special relation with a bank in the current and initial calculation period from 1 to 30 June 2005. The base for the calculation of MRR II is any positive difference between the average daily balance of sources of funds from non-residents and legal persons in a special relation with a bank in the current and initial calculation period from 1 to 30 November 2005. The base for the calculation of MRR III is any positive difference between the average daily balance of funds raised from persons engaged in financial leasing and individual off-balance sheet liabilities such as guarantees and warranties for the account of foreign persons in kuna and in foreign currency used as a basis for domestic persons foreign borrowing in the current and initial calculation period from 1 to 30 November 2005.

Source: CNB.

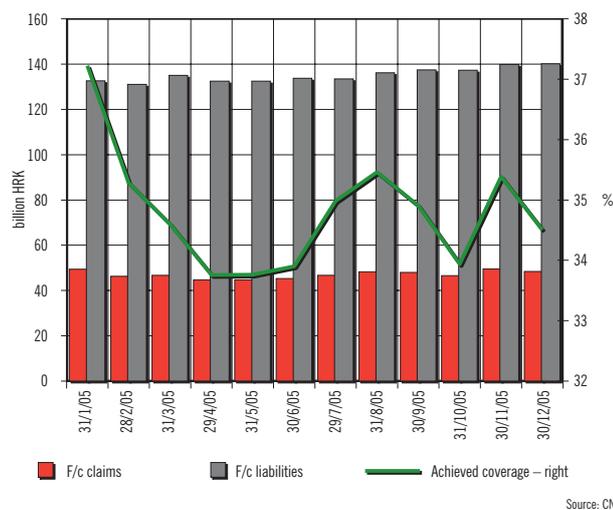
2.1.5 Other Instruments

Minimum Required Foreign Currency Claims

The percentage of minimum required foreign currency claims that banks have to maintain relative to their foreign currency liabilities was changed in February from 35% to 32%. This liberated liquid foreign currency funds and helped improve liquidity needed for government financing on the domestic market.

The percentage of foreign currency liabilities covered by foreign currency claims in the first half of the year ranged from 37.22% on 31 January to 33.76% on 31 May. The ratio rose later on in the year and stood at 35.46% on 31

2.6

Foreign Currency Claims to Foreign
Currency Liabilities Coverage

Source: CNB.

August. However, the increase in foreign liabilities of banks and a decrease in their claims after the summer, led to a fall in the coverage of foreign currency liabilities by foreign currency claims which stood at 34.50% on 30 December 2005.

Croatian National Bank Bills
in Kuna

CNB bills in kuna are a part of the operative monetary policy framework. Unlike the previous 2004 when a total of HRK 106.0m worth of CNB bills were issued at two auctions, this instrument was not used in 2005.

Dematerialised negotiable 35 day kuna CNB bills are sold at auctions at a discount and with the same day settlement. The CNB determines the date of auction, and access to the primary market is open to domestic

banks, foreign bank branches and CBRD. The Central Depository Agency provides depository services for CNB bills.

Short-Term Liquidity Loans

During 2005, the banks did not use short-term liquidity loans. The interest rate on short-term liquidity loans did not change and equalled Lombard loan rate, increased by 0.5 percentage points for up to three month maturity loans or increased by 1 percentage points for over three month maturity loans.

Intra-Day Loans

Intra-day loans were introduced in July 2005 to improve the flow of payment transactions during business hours. The banks may use intra-day loans on a daily basis in the form of limit on the settlement account, with the limit being the amount of negative settlement account balance. Any unpaid intra-day loan at the end of a business day is automatically considered to be an application for a Lombard loan, to the amount of the negative settlement account balance. Refusal to grant such loans, or a restriction on the amounts that can be granted under Lombard loans, automatically implies identical restrictions on the use of intra-day loans. The CNB does not charge any interest on its intra-day loans.

In the period following 1 July and the introduction of intra-day loans, to 31 December 2005, the amount of average daily intra-day loans granted was HRK 401.1bn. The loans were used for a total of 60 business days, and individual daily amounts granted under such loans ranged from HRK 30.6m to HRK 1.4bn.

2.1.6 Croatian National Bank Interest Rates and Remuneration

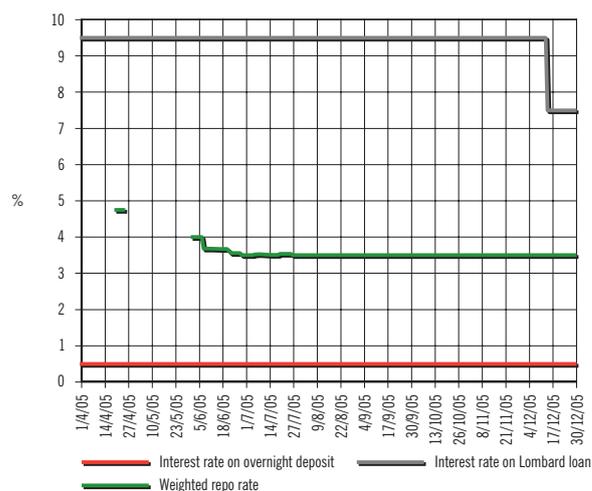
With open market operations the central bank introduced repo rates at which banks pay interest on funds borrowed at reverse repo auctions. Although the marginal repo rate at the reverse repo auction in April when the bids were accepted for the first time was 4.5%, the marginal repo rate stood at unchanged 3.5% since 8 June till end-2005, as the banks became more active and the amounts involved at auctions began to grow. From the 4.75% at the first auction, the weighted repo rate was steadily falling until early August when it reached its until end-year level of 3.5%. Throughout the period, the lowest repo rates offered ranged between 3.2% and 4.0%, with the highest repo rates offered ranging from 3.5% and 5.0%.

The introduction of a new implementing framework in early April 2005, paved the way for the creation of the so called interest rate corridor for the overnight interest rate on the money market. Interest rate on Lombard loans, standing at 9.5% p.a. at the time of adoption of the new implementing framework, provides the ceiling of the interest rate corridor while the interest rate on overnight deposits with the CNB, standing at 0.5% annually, represents the floor of the interest rate corridor. The cut in the Lombard loan rate to 7.5% under November decision was made with a view to improving the symmetry of the interest rate corridor, with the repo rate standing in the middle of that corridor.

Remuneration paid on the kuna component of reserve requirements was cut from 1.25% to 0.75% in June. Remuneration paid on the foreign currency component of reserve requirements was also cut at that time from 75% to 50% of the U.S. Federal Funds Target Rate for funds allocated in American dollars and from 75% to 50% of the ECB Minimum Bid Refinance Rate, for funds allocated in euro.

2.7

Interest Rate Spread and Repo Rate



Source: CNB.

2.2 International Reserves Management

Total international reserves of the Croatian National Bank, shown at cost, rose by EUR 1,008.47m or 15.7% in 2005. On the last day of December 2005, total international reserves were EUR 7,418.08,¹ compared with EUR 6,409.61m at end-2004.

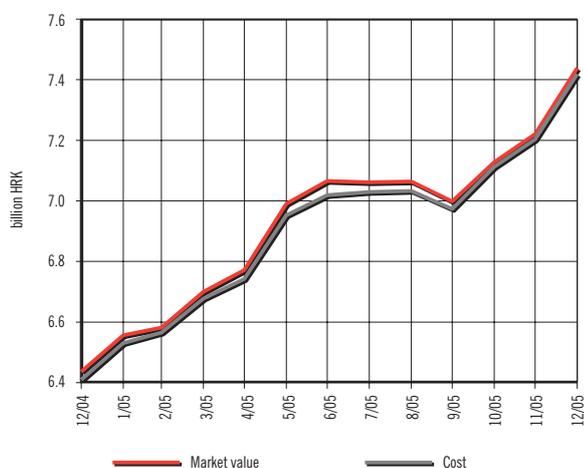
Table 2.1 CNB International Reserves
end of period, in million EUR

Year	Month	Total reserves	
		Market value	Cost
2004	December	6,435.99	6,409.61
2005	January	6,556.26	6,530.91
	February	6,581.35	6,565.05
	March	6,700.28	6,677.63
	April	6,771.79	6,742.13
	May	6,990.44	6,952.72
	June	7,065.48	7,018.82
	July	7,061.40	7,029.36
	August	7,064.07	7,033.06
	September	6,998.51	6,972.96
	October	7,128.28	7,112.74
	November	7,220.18	7,203.43
	December	7,438.16	7,418.08
Change Dec. 2005 – Dec. 2004		1,002.17	1,008.47

Source: CNB, operating data.

2.8

CNB International Reserves
end of period



Source: CNB, operating data.

The main factors contributing to the change in the level of international reserves (shown at cost and at value date) in 2005 were:

- on the inflow side
 1. EUR 670.80m in f/c purchases from banks at auctions on the foreign exchange market;
 2. EUR 395.91m in net increase in total foreign currency reserve requirements allocated (foreign currency reserve requirements and marginal reserve requirements included);
 3. EUR 144.29m in income earned on CNB foreign currency reserves investment; and
 4. EUR 195.46m in positive exchange rate differences arising from a 15% strengthening of the exchange rate of the dollar against the euro,

¹ At market value, international reserves of the CNB rose by EUR 1,002.17m in 2005 – from EUR 6,435.99m to EUR 7,438.16m.

- and on the outflow side:
 1. EUR 342.67m in f/c sales to the Ministry of Finance.

The Croatian National Bank intervened in the market during 2005 by means of f/c purchase and sale transactions with:

1. domestic banks,
2. the Ministry of Finance of the Republic of Croatia, and
3. foreign banks.

Table 2.2 Total CNB Turnover on the Foreign Exchange Market, 1 January – 31 December 2005

at the exchange rate applicable on the intervention date, in million

	Purchase (1)		Sale (2)		Net (1 – 2)	
	EUR	HRK	EUR	HRK	EUR	HRK
Domestic banks	670.80	4,985.76	0.00	0.00	670.80	4,985.76
Ministry of Finance	0.02	0.13	342.67	2,561.94	-342.65	-2,561.81
Foreign banks	0.00	0.00	0.13	0.99	-0.13	-0.99
Total	670.82	4,985.89	342.80	2,562.93	328.02	2,422.96

Source: CNB.

The CNB purchased a total of EUR 670.82m and sold a total of EUR 342.80m during the reporting period. As a result of overall turnover on the foreign exchange market, total international reserves rose by EUR 328.02m. Foreign currency net purchases created HRK 2,422.96m on the Croatian market.

The year 2005 saw a trend in f/c purchases from domestic banks similar to that in 2004. There were no f/c sales to the banks in that year. At its nine interventions in January, March, April, June, October and December, the CNB purchased a total of EUR 670.80m from the banks, which is an increase of EUR 267.60m compared with 2004. In this way, the central bank issued a total of HRK 4,985.76m. CNB's f/c purchases from domestic banks on the foreign exchange market were driven by appreciation pressures.

A total of EUR 0.02m was purchased from and EUR 342.67m were sold to the Ministry of Finance of the Republic of Croatia, creating a net sales effect of EUR 342.65m. The most significant transactions with the Ministry of Finance during the reporting period involved:

- 1) EUR 132.62m worth of f/c sales (the largest items being USD 85.09m in January and USD 75m in July) for the settlement of obligations under the Paris and London Club,
- 2) EUR 152.13m worth of f/c sales in February, March and April 2005 for eurobond interest payment.

There were also other small value transactions with the Ministry of Finance made for the purpose of settlement of other foreign obligations.

International reserves investments are analysed according to individual instruments, credit risk and currency structure. Changes in investment structure in 2005 were due to changes in marginal reserve requirements and partial shortening of the tactical duration of the CNB's dollar portfolio.

The Croatian National Bank invests its international reserves into the following instruments:

1. fixed and variable interest rate debt securities;
2. central bank and international financial institutions instruments;
3. repurchase agreements (repo and reverse repo agreements);
4. deposits of commercial banks with long-term investment grading of minimum A+ or A1;

5. certificates of deposits from banks with long-term investment grading of minimum A+ or A1; and
6. foreign cash.

Based on degree of credit risk exposure, total international reserves can be divided into funds invested in government bonds, commercial banks, international financial institutions and central banks. There was a small fall in the share of total international reserves invested in government bonds and central banks, and a small increase in the share of reserves invested in the commercial banks and international financial institutions towards end-2005, compared with end-2004. Investment into government bonds accounted for the largest, 49.60%, share in the structure of total international reserves as at 31 December 2005. In absolute terms, they rose from EUR 3,399.85m on 31 December 2004 to EUR 3,679.35m on 31 December 2005. Credit risk exposure of these investments is minimal given that they involve investments in government bonds of countries with the highest credit rating (eurozone countries, the USA, and Great Britain). The share of total international reserves invested in uncollateralised instruments with the commercial banks (including f/c time deposits and certificates of deposit) rose from 43.32% at end-2004 to 44.79% on 31 December 2005. The share of investments in international financial institutions which comprise BIS, European Investment Bank and World Bank instruments was up to 4.92% at end-2005 from 2.60% at end-2004.

A somewhat less than one half of total international reserves (EUR 3,441.83m or 46%) were invested in securities of governments and banks with a Aaa rating (according to Moody's credit rating), while 17% and 16%, respectively, of total international reserves were invested in securities of governments and banks with a Aa2 and banks with a A1 rating, respectively.

The currency structure of international reserves actively managed by the Croatian National Bank (net international reserves) is adjusted twice a year with a currency structure of the projected external debt repayment of the Republic of Croatia for one year ahead and with a currency structure of goods and services imports in the previous one year period. The euro share of net international reserves of the CNB amounted to 80.70% at the end of the reporting period while their USD share amounted to 19.28%, compared with 79.98% and 20.01%, respectively, at end-2004.

Table 2.3 Currency Structure of Total International Reserves as at 31 December 2005
at cost, in million EUR and %

Currency	International reserves				Share	
	Total	o/w:			31 Dec. 2005	31 Dec. 2004
		RR	MRR	MoF		
EUR	6,313.65	1,234.61	568.78	1.43	85.11	74.86
USD	1,103.29	21.21	4.68	0.08	14.87	25.13
XDR	0.85	–	–	–	0.01	0.01
Other currencies	0.29	–	–	0.28	0.00	0.00
Total	7,418.08	1,255.82	573.46	1.79	100.00	100.00

Source: CNB, operating data.

Table 2.4 Realised Income^a and Average Yields on the CNB Foreign Exchange Portfolios Actively Managed in 2005

at market value, in million EUR and USD and %

Portfolio	Realised income	Average amount invested	Annual yield rate					
	2005	2005	2000	2001	2002	2003	2004	2005
EUR	89.86	4,181.34	4.38%	4.63%	3.79%	2.58%	2.66%	2.15%
USD	35.59	1,300.35	6.56%	4.72%	2.38%	1.40%	1.27%	2.74%

^a Realised income comprises realised and unrealised, but accrued interest on deposits, certificates of deposit, reverse repo agreements and bonds and realised and unrealised profit (loss) on any bond price changes in CNB's net foreign exchange portfolio in 2005. Excluded from this analysis are foreign cash, allocated f/c reserve requirements and funds of the Ministry of Finance.

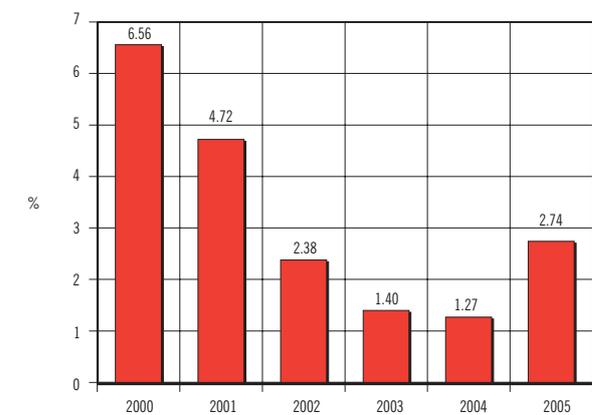
Source: CNB.

The average yield on CNB's net euro portfolio stood at 2.15% throughout 2005, while the average yield on CNB's net dollar portfolio during the same period stood at 2.74%. Greater yield on the dollar portfolio in 2005, compared with the previous three years is the result of a higher level of interest rates on the dollar market and relatively short duration of the CNB's dollar portfolio. The yield on the euro portfolio of the CNB in 2005 reflected low interest rates on the euro market and a slight fall in bond prices.

The Fed continued to raise its key overnight rate throughout 2005. More precisely, it raised its benchmark rate eight times, increasing it by a total of 2 percentage points in 2005, up to 4.25% from 2.25%. Interest rates in the USA were raised thirteen times consecutively since June 2004.

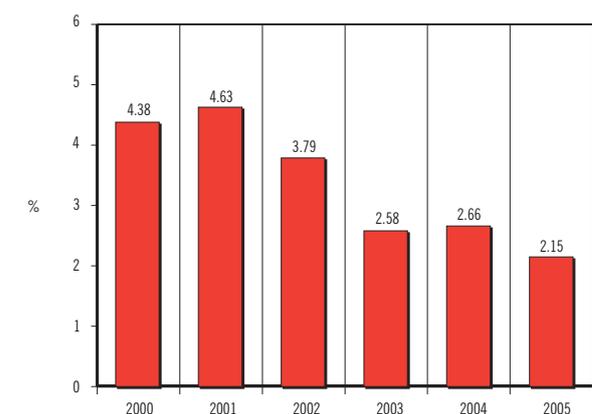
The ECB raised its benchmark repo rate by 0.25 percentage points in December 2005. The last time the ECB changed its interest rates was June 2003 and the last time it raised them was in April 2000.

2.9 Yield on the CNB Dollar Portfolio



Source: CNB.

2.10 Yield on the CNB Euro Portfolio



Source: CNB.

BANKING SECTOR

3

INTERNATIONAL BANK
REPORT 2005

3.1 Bank Operations

At the end of 2005, the banking system of the Republic of Croatia comprised 34 banks. The consolidation of the banking system which marked the past few years continued in 2005. Although the share of commercial banks' assets in total banking system assets mildly reduced, their assets continued to make up the lion's share of 97.7% of total banking system assets, while housing savings banks accounted for the remaining 2.3%. The reason for the reduction in the number of banks may be seen in Table 3.1. Two banks merged with other banks,¹ while one initiated regular winding-up proceedings.²

Table 3.1 Number of Banking Institutions

end of period

Banks	2003	2004	2005
Number of banks at the beginning of the year	46	41	37
Banks that merged with other banks	-4	-3	-2
Banks undergoing winding-up proceedings	-1	-	-1
Banks whose license was revoked	-	-1	-
Number of banks at the end of the year	41	37	34
Housing savings banks	2003	2004	2005
Number of housing savings banks at the beginning of the year	3	4	4
Housing savings banks that were granted license	1	-	-
Number of housing savings banks (and savings banks) at the end of the year	4	4	4

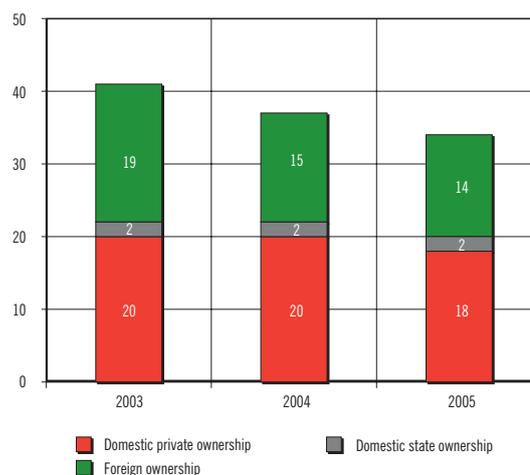
Source: CNB.

The decline in the number of banks in 2005 was also affected by the reduction in the number of banks in private domestic ownership (by two banks) and banks in foreign ownership (by one bank). Although two banks that were merged with other banks were in foreign ownership, the number of banks in foreign ownership went down only by one bank because one bank in foreign ownership became the majority owner of a domestic private bank in 2005, which thus indirectly became a foreign-owned bank.³ The number of state owned banks remained unchanged (Figure 3.1).

Thanks to the growth rate of 24.4%, which was almost double the growth rate of total bank assets (13.6%), the share of banks in majority state ownership in total assets of all banks rose by 0.3 percentage points, while the share of assets of banks in the majority ownership of domestic shareholders declined proportionally (Table 3.2). The share of bank assets in majority ownership of foreign shareholders remained unchanged.

3.1

Number of Banks by Ownership Residence and Form of Ownership
end of period



Source: CNB.

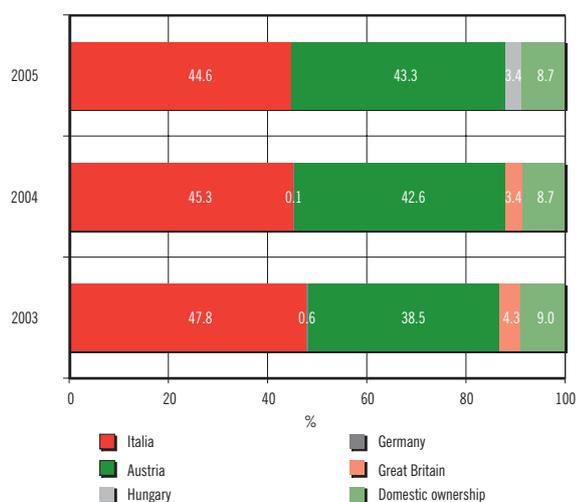
- 1 Privredna banka – Laguna banka d.d., Poreč merged with Privredna banka Zagreb d.d., Zagreb, Dresdner banka Croatia d.d., Zagreb merged with Zagrebačka banka d.d., Zagreb.
- 2 Križevačka banka d.d., Križevci.
- 3 Podravska banka d.d., Koprivnica became the owner of Požeška banka d.d., Požega.

Table 3.2 Bank Assets by Ownership Residence and Form of Ownership in %

Banks by ownership residence and form of ownership	Share of assets in total bank assets		
	2003	2004	2005
Banks in majority ownership of domestic shareholders	5.6	5.6	5.3
Banks in majority state ownership	3.4	3.1	3.4
Banks in majority ownership of foreign shareholders	91.0	91.3	91.3
Total	100.0	100.0	100.0

Source: CNB.

3.2

Bank Assets by Shareholder's Domicile
end of period

Note: For the purpose of this overview the shareholder's domicile means the head office of a company or residence of the owner (a natural person).

Source: CNB.

Almost 90% of assets of all banks were owned by Italian (6 banks, accounting for 44.6% of total bank assets) and Austrian (6 banks, accounting for 43.3% total bank assets) shareholders. In 2005, Hungarian shareholders took over one bank, whose assets account for 3.4% of total banking system assets (Figure 3.2).

Table 3.3 shows the number of banks classified in four peer groups by asset size as well as the share of each group in total banking system assets. The group of largest banks, Group I (banks with assets exceeding HRK 5bn) continued growing, increasing the influence of its results on the results of the banking system as a whole. At the end of 2005, the assets of Group I banks accounted for 90.7% of total bank assets, while the remaining share of less than ten percent was divided among banks from other three groups.

At the end of 2005, although still very high, totalling 42.8%, the share of assets of two largest banks in total bank assets mildly declined year-on-year (43.2% at end-2004). The five largest banks accounted for three quarters of the banking system, that is, 74.4%.

Table 3.3 Bank Groups by Asset Size
end of period, in billion HRK and %

Assets	Number of banks			Share of assets of peer groups of banks in total bank assets		
	2003	2004	2005	2003	2004	2005
Group I Assets exceeding HRK 5bn	8	9	9	82.9	90.0	90.7
Group II Assets from HRK 1bn to HRK 5bn	11	7	9	12.5	5.7	6.1
Group III Assets from HRK 0.5bn to HRK 1bn	8	10	7	2.7	3.2	2.2
Group IV Assets below HRK 0.5bn	14	11	9	1.9	1.1	1.0
Total	41	37	34	100.0	100.0	100.0

Source: CNB.

Compared with end-2004, the number of banking groups that were required to report to the CNB on their operations through their superordinate bank pursuant to the provisions of the Decision on Consolidated Financial Reports of a Banking Group⁴ rose from four to six. The superordinate banks of these groups are as follows: Centar banka d.d., Zagreb, Hypo Alpe-Adria-Bank d.d., Zagreb, Podravska banka d.d., Koprivnica, Privredna banka Zagreb d.d., Zagreb, Raiffeisenbank Austria d.d., Zagreb and Zagrebačka banka d.d., Zagreb.

In 2005, the CNB continued efforts directed at establishing co-operation with supervisory authorities of foreign banks owning Croatian banks as well as banks owned by Croatian banks. Memorandum of Understanding and Co-operation in Banking Supervision was signed with authorities responsible for bank supervision in Austria and Hungary (in addition to the already signed Memorandum with the relevant agency in Bosnia and Herzegovina), while the procedure relating to entering such an agreement with the relevant agency in Italy entered into its final phase.

3.1.1 Regulatory Changes

The quality of bank assets in financial reports of 2005 is defined by the amended and revised International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). As a result, to comply with financial reporting requirements banks changed the way in which financial assets, particularly securities portfolios, are reported as of 30 June 2005. The portfolio “securities and other financial instruments bought on issue directly from the issuer” is no longer reported, while the existing balances are entered in other financial asset categories. A new portfolio was introduced “securities and other financial instruments not traded in active markets but carried at fair”.

Regulations were amended on several occasions in 2005, which affected the structure and the dynamics of balance sheet items over the current year, while the effects of the provisions on currency-induced credit risks and changes in the approval and weighting of placements will be felt in the coming period.

The changes over the year in review refer to the reduction in the minimum required coverage of foreign currency liabilities by foreign currency claims⁵ from 35% to 32%, the increase in the marginal reserve requirement⁶ from 24% to 30% in February 2005, than to 40% in May and finally to 55% in December. The Decision on Reserve Requirements⁷ was also amended three times: for the first time in March 2005 when the percentage for allocating the kuna component of reserve requirements was raised from 60% to 70%, than in May when the percentage of the calculated foreign currency reserve requirement that is included in the calculated kuna reserve requirement and allocated in kuna increased from 42% to 50% and finally in December when the reserve requirement rate was lowered from 18% to 17%.

Bank operations were affected also by the introduction of two new monetary policy instruments aimed at maintaining banking sector liquidity: regular reverse repo operations⁸ and the possibility of overnight deposits with the Croatian National Bank.⁹

Prudential regulation was also amended in 2005 for the purpose of harmonisation with International Accounting Standards, that is, International Finan-

5 Decision on the Minimum Required Amount of Foreign Currency Claims (Official Gazette 22/2005).

6 Decision on the Marginal Reserve Requirement (Official Gazette 22/2005).

7 Official Gazette 203/2003, 145/2004, 34/2005, 64/2005, 136/2005 and 146/2005.

8 Decision on the Terms of Granting Short-Term Loans on the Basis of Pledged Securities (Lombard Loan) (Official Gazette 34/2005).

9 Decision on the Deposit Facility with the Croatian National Bank (Official Gazette 34/2005).

cial Reporting Standards. Starting from the reporting period ending on 30 June 2006, the period of the so-called recognising timelines in meeting obligations will be extended from 60 to 90 days, with the calculation of the period of default being revoked. Pursuant to the new Decision on Amendments to the Decision on the Classification of Placements and Contingent Liabilities of Banks,¹⁰ banks are obligated to additionally assess currency risk when approving placements, that is, whether cash flows of individual or related groups of debtors are (matched) adjusted to the potential changes of the level of their total liabilities, arising as a result of changes of the kuna exchange rate against foreign currencies in which those placements are denominated. Banks have to apply risk weights increased by 25 percentage points on placements with currency mismatch, which will directly contribute to the increase in capital requirements.

In addition, as from the reporting period ending on 30 June 2006 provisions for unidentified losses will be cancelled while the possibility is introduced of calculating and forming provisions for identified losses on a joint basis in line with the provisions of items 63 and 64 of the amended IAS 39. At the same time, pursuant to the amendments to the Decision on Capital Adequacy of Banks¹¹ provisions for unidentified losses are gradually excluded from the calculation of supplementary capital I.

The provisions of the Decision on Amendments to the Decision on Classification of Placements and Contingent Liabilities stipulating the obligation to introduce procedures relating to monitoring and reporting on court proceedings against a bank, assess risks and set aside adequate provisions in line with the provisions of IAS 37, will be applied a later, as from the reporting period ending on 30 September 2006.

In addition to its subordinate regulation, aimed at further development of risk-based supervision, late in 2004 Croatian National Bank published Guidelines for Adequate Management of Outsourcing Risk, while Guidelines for IT System Management aimed at reducing the operating risk and Guidelines for Managing Currency-Induced Credit Risk were prepared in 2005 and published early in 2006.

3.1.2 Balance Sheet Structure of Banks

Structure of Bank Assets

Bank assets totalled HRK 260.6bn at end of 2005, up 13.6% on the end of 2004.¹² Three banks saw their assets decline, while other reported asset growth.

10 Official Gazette 149/2005.

11 Official Gazette 17/2003, 120/2003 and 149/2005.

12 All financial data for 2005 are based on preliminary unaudited bank reports for 2005.

Table 3.4 Structure of Bank Assets
end of period, in million HRK and %

	2003			2004			2005		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	28,002.6	13.7	30.9	34,891.3	15.2	24.6	42,901.1	16.5	23.0
1.1. Money assets	2,955.6	1.4	32.1	3,062.1	1.3	3.6	3,347.3	1.3	9.3
1.2. Deposits with the CNB	25,047.0	12.3	30.8	31,829.2	13.9	27.1	39,553.8	15.2	24.3
2. Deposits with banking institutions	31,186.6	15.3	54.8	33,351.2	14.5	6.9	23,155.0	8.9	-30.6
3. MoF treasury bills and CNB bills	7,820.7	3.8	-22.7	3,580.6	1.6	-54.2	7,007.2	2.7	95.7
4. Securities and other financial instruments held for trading	7,784.9	3.8	0.0	6,566.1	2.9	-15.7	8,284.9	3.2	26.2
5. Securities and other financial instruments available for sale	0.0	0.0	0.0	9,918.6	4.3	-	11,879.4	4.6	19.8
6. Securities and other financial instruments held to maturity	10,773.3	5.3	0.0	6,557.3	2.9	-39.1	5,046.0	1.9	-23.0
6.1. Securities and other financial instruments bought on issue directly from the issuer	-	0.0	0.0	994.3	0.4	-	-	-	-
7. Securities and other financial instruments not traded in active markets but carried at fair value	-	-	-	-	-	-	1,101.4	0.4	-
8. Derivative financial assets	0.0	0.0	0.0	152.0	0.1	-	173.1	0.1	13.9
9. Loans to financial institutions	3,057.0	1.5	41.7	3,289.5	1.4	7.6	3,867.3	1.5	17.6
10. Loans to other clients	106,730.6	52.3	19.0	121,912.6	53.2	14.2	148,090.4	56.8	21.5
11. Investments in subsidiaries and associates	2,456.0	1.2	0.3	1,687.5	0.7	-31.3	1,603.5	0.6	-5.0
12. Foreclosed and repossessed assets	355.4	0.2	-5.3	358.1	0.2	0.7	356.7	0.1	-0.4
13. Tangible assets (net of depreciation)	4,094.6	2.0	9.0	3,786.9	1.7	-7.5	4,188.0	1.6	10.6
14. Interest, fees and other assets	3,603.6	1.8	-10.9	4,255.4	1.9	18.1	5,154.5	2.0	21.1
15. Net of: Specific reserves for unidentified losses	1,750.2	0.9	15.2	1,996.1	0.9	14.0	2,214.9	0.8	11.0
Total assets	204,115.0	100.0	17.2	229,305.2	100.0	12.3	260,593.7	100.0	13.6

Source: CNB.

The largest item in total bank assets in nominal terms – loans to other clients – went up faster than total assets, that is, by 21.5%, thus raising its share in total assets to 56.8%. The following item by size – money assets and deposits with the CNB – also grew at a rate larger than the growth rate of total assets, which amounted to 23.0%, primarily thanks to the 24.3% rise in deposits. This change is a reflection of stricter CNB measures that were adopted during 2005, aimed at curbing foreign borrowing of banks. The greatest increase of 95.7% year-on-year was seen in the item MoF T-bills, as a direct consequence of the introduction of open market operations.

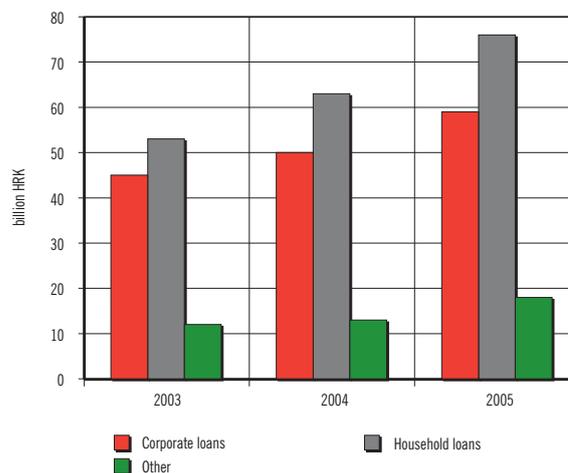
Total securities went up only slightly more than assets, by 14.0%, thus holding their 10.1% share in total assets.

On the other hand, deposits with banking institutions went down by a sizeable 30.6%, with their share in total assets declining to 8.9%, which was partly a consequence of the reduction in the minimum required coverage of foreign currency liabilities by foreign currency claims from 35% to 32%.

Within the framework of total net loans, which made up 58.3% of total bank assets at the end of 2005, household and corporate loans continued to account for the greatest share. However, since both of these items grew slower than total loans, that is, at rates of 20.9%

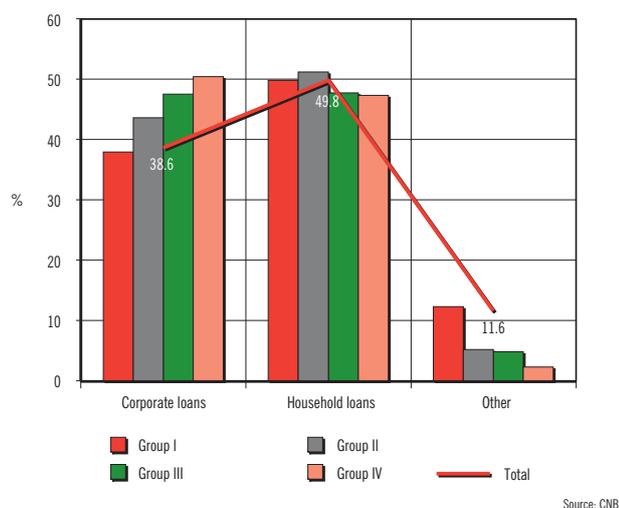
3.3

Net Loans by Type of User end of period



Source: CNB.

3.4

Structure of Net Loans by Peer Groups of Banks
end-2005

and 18.4% respectively, their share in total loans lowered at the end of 2005 on a year earlier. The share of loans to households in total loans narrowed from 50.0% to 49.8%, while the share of corporate loans reduced by one percentage point, from 39.6% to 38.6%.

Much higher growth than the growth of total bank assets (41.3%) was realised by loans to government units (with loans to the Republic of Croatia rising by 42.8% and loans to central government funds by as much as 73.1%), with their share reaching 8.4% of total loans.

The currency structure of extended net loans was not much different from the one observed at the end of 2004. Loans with a currency clause accounted for 81.5% of total net loans. A more substantial change in the share in net loans with a currency clause was observed only as regards to loans extended in Swiss francs (CHF), which went up from 3.1% at the end of 2004 to 9.6% at the end of 2005. Loans extended in euros continued to account for the greatest share, of 68.2%, of total net loans.

Structure of Bank Liabilities

Deposits continued representing the largest item of bank liabilities and capital, accounting for 65.9% of total liabilities. Since they grew at a slower rate (10.6%) than total liabilities, their share in total liabilities reduced by 1.8% on the end of 2004. The next item by the size of its share in total liabilities was the item of other loans, making up 13.9%, while loans from financial institutions accounted for a share of 5.3%. Total received loans made up 19.2% of total liabilities, rising by 1.8 percentage points on the end of 2004 and 3.4 percentage points on the end of 2003. The share of deposits in total liabilities moved in the opposite direction, declining from 70.4% at the end of 2003 to 67.7% at the end of 2004 and finally to the said 65.9% at the end of 2005. At the end of the year, the share of capital in total liabilities amounted to 9.0%, thanks to its growth of 19.7% year-on-year (Table 3.5).

By reviewing peer group of banks, it may be seen that the share of their deposits in total liabilities and capital moved around the banking system average in all four groups of banks, while the share of capital in total liabilities gradually grew from Group I to Group IV banks. The share of other sources of funds moved in the opposite direction, declining from Group I to Group III banks, while Group IV compensated for a slightly smaller share of deposits with proportionally larger other liabilities.

Table 3.5 Structure of Bank Liabilities

end of period, in million HRK and %

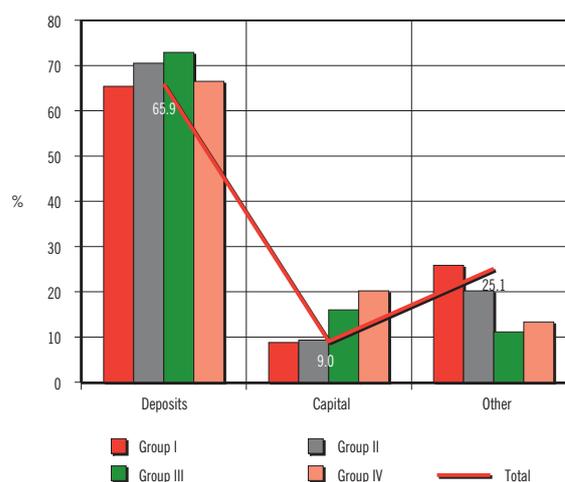
	2003			2004			2005		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	7,112.9	3.5	74.1	8,462.0	3.7	19.0	13,843.8	5.3	63.6
1.1. Short-term loans	3,689.1	1.8	211.5	3,592.1	1.6	-2.6	7,409.8	2.8	106.3
1.2. Long-term loans	3,423.8	1.7	18.1	4,869.9	2.1	42.2	6,434.0	2.5	32.1
2. Deposits	143,692.8	70.4	15.4	155,277.5	67.7	8.1	171,731.7	65.9	10.6
2.1. Giro account and current account deposits	25,285.1	12.4	8.6	25,560.0	11.1	1.1	29,175.2	11.2	14.1
2.2. Savings deposits	24,770.7	12.1	3.3	25,223.3	11.0	1.8	26,114.3	10.0	3.5
2.3. Time deposits	93,637.0	45.9	21.3	104,493.4	45.6	11.6	116,442.2	44.7	11.4
3. Other loans	25,080.3	12.3	28.7	31,368.3	13.7	25.1	36,191.2	13.9	15.4
3.1. Short-term loans	3,429.0	1.7	-23.0	5,265.3	2.3	53.6	8,213.9	3.2	56.0
3.2. Long-term loans	21,651.3	10.6	43.9	26,103.0	11.4	20.6	27,977.3	10.7	7.2
4. Derivative financial liabilities and other financial liabilities held for trading	-	-	-	238.8	0.1	-	249.5	0.1	4.5
5. Debt securities issued	97.0	0.0	0.0	3,535.1	1.5	3,543.9	3,396.9	1.3	-3.9
5.1. Short-term debt securities issued	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
5.2. Long-term debt securities issued	97.0	0.0	395.3	3,535.1	1.5	3,543.9	3,396.9	1.3	-3.9
6. Subordinated instruments issued	813.6	0.4	26.9	818.3	0.4	0.6	770.7	0.3	-5.8
7. Hybrid instruments issued	2,261.6	1.1	-0.3	1,642.8	0.7	-27.4	886.6	0.3	-46.0
8. Interest, fees and other liabilities	6,899.4	3.4	3.8	8,280.3	3.6	20.0	9,957.6	3.8	20.3
Total liabilities	185,957.6	91.1	18.0	209,623.4	91.4	12.7	237,028.1	91.0	13.1
Total capital	18,157.3	8.9	10.0	19,681.8	8.6	8.4	23,565.5	9.0	19.7
Total liabilities and capital	204,115.0	100.0	17.2	229,305.2	100.0	12.3	260,593.7	100.0	13.6

Source: CNB.

The shares of individual types of deposits in total deposits did not change much. Total time deposits made up more than two thirds (67.8%) of total deposits at the end of 2005. Compared with end-2004, their share increased only slightly, by 0.5 percentage points, same as the share of deposits at giro and current accounts. Owing to their low growth of 3.5%, the share of savings deposits in total deposits declined by one percentage point, totalling 15.2%.

Substantial changes were observed in the sectoral structure of individual types of deposits. Time deposits of financial institutions, which accounted for 3.8% of total time deposits and 5.6% of total deposits, went up by 73.0% in 2005 on a year earlier. Within the framework of time deposits of financial institutions, deposits of other banking institutions¹³ grew nearly four times, that is, by 398.4%, while deposits of non-banking financial institutions¹⁴ went up by 73.6%. Household deposits and deposits of non-residents, which make up the largest items of time deposits, increased

3.5

Structure of Liabilities by Peer Groups of Banks
end-2005

Source: CNB.

13 Pursuant to the provisions of the Instructions for Implementation of the Chart of Accounts for Banks (Official Gazette 115/2003 and 39/2004) deposits of other banking institutions include, for instance, deposits of housing savings banks, savings and loan associations, investment funds, etc.

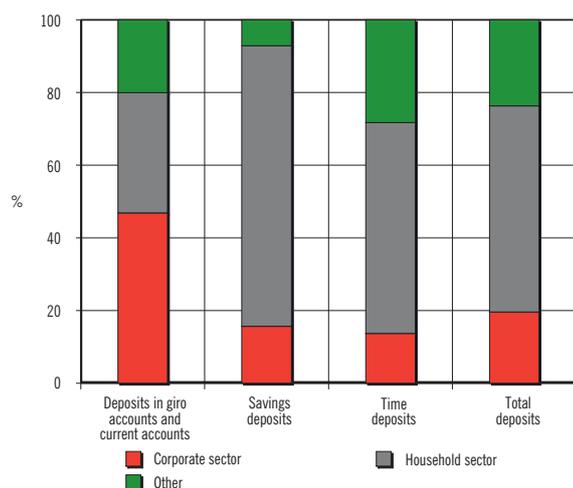
14 Pursuant to the provisions of the Instructions for Implementation of the Chart of Accounts for Banks deposits of non-banking institutions include, for instance, deposits of insurance companies, pension funds (voluntary and mandatory), leasing companies, etc.

by 13.9% and 7.3% respectively in 2005 compared with 2004, while in the same period deposits of other enterprises narrowed by 4.4%.

Savings deposits of financial institutions were 33.3% lower at the end of 2005 compared with 2004, while household savings deposits, which made up 77.2% of total savings deposits, savings deposits of other enterprises and savings deposits of non-residents grew by 2.3%, 5.0% and 21.3% respectively.

3.6

Structure of Deposits by Type and Sector
end-2005



Source: CNB.

As for changes in deposits at giro and current accounts, they were not substantial. Deposits of other enterprises, which made up 45.5% of deposits at giro and current accounts, went up by 10.0%. Household deposits rose by 22.6%, while deposits of other banking institutions and deposits of non-banking financial institutions grew by 67.3% and 13.2% respectively (Figure 3.6).

By reviewing the sectoral structure of total deposits at the end of 2005, it may be established that there were no significant changes in individual shares in total deposits compared with 2004. The share of the household sector increased by 0.7 percentage points to 56.7%, followed by the deposits of other enterprises and deposits of non-residents, whose shares in total deposits went down by 15.5% and 18.8% respectively. Deposits of non-residents grew at a slower pace than total deposits, that is, went up by 7.9%, while deposits of other enterprises went up at the rate of 2.1%. The share of deposits of the majority foreign owners in deposits of non-residents narrowed from 71.5% at the

end of 2004 to 68.5% at the end of 2005. Total deposits of financial institutions went up by a high 55.6%. Total deposits of non-banking financial institutions, which at the end of 2005 accounted for almost a half of total deposits of financial institutions, that is, 49.6%, went up by 58.6% compared with the end of 2004, while total deposits of other banking institutions (accounting for 20.0% of deposits of financial institutions) by as much as 224.8%.

According to the data reported in required statistical reports, the total amount of household deposits that is insured with the State Agency for Deposit Insurance and Bank Rehabilitation went up by 16.1%, totalling HRK 56.1bn, and accounted for 57.6% of total household deposits at the end of 2005.

Total received loans rose by 25.6% compared with 2004, which is 12.0 percentage points more compared to the growth of total liabilities and capital, so their share in total bank liabilities at the end of 2005 grew. The growth of loans received from non-residents totalled 16.2% year-on-year, with their share in total received loans reducing despite the substantial rise, to 71.2% in 2005 from 76.9% in 2004. Loans from foreign financial institutions, which accounted for 98.7% of loans from non-residents, grew at a faster pace, that is, went up by 16.8%, while substantial growth of 45.9% was observed also as regards to loans received from majority foreign owner. They accounted for nearly a half of loans received from non-residents, that is, 49.7%. Loans from financial institutions rose by as much as 63.6%, with their share in total received loans increasing to 27.7%. This change caused a sizeable growth of other loans from financial institutions, especially of the nominally largest item within their framework, that of loans received from CBRD, which grew by 48.7%. The growth of liabilities arising from reverse repo operations of the Croatian National Bank by as much as 970.0% (mostly in the second half of the year) also made a great contribution, with these loans reaching the second place within the framework of other loans from financial institutions and accounting for 8.4% of total received loans at the end of 2005.

3.1.3 Bank Capital

At the end of 2005, bank capital totalled HRK 23.6bn, rising 19.4% on the end of 2004 (Table 3.6). This was mostly due to, both in absolute and relative terms, the growth of capital reserves.

Share capital went up by a substantial 36.3% (HRK 1.4bn in nominal terms) compared with the end of 2004 due to the transformation of subordinate and hybrid instruments into regular shares and the increase of paid in regular shares. Despite the rise in share capital in nominal terms, the declining of its share in total bank capital was not stopped. In 2004, share capital made up 51.4% of bank capital, while in 2005 it accounted for only 48.9%.

Table 3.6 Structure of Bank Capital

end of period, in million HRK and %

	2003			2004			2005		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Share capital	9,945.6	54.8	1.8	10,113.1	51.4	1.7	11,523.3	48.9	13.9
Current year profit/loss	2,351.6	13.0	22.1	3,036.8	15.4	29.1	3,369.1	14.3	10.9
Retained earnings/loss	1,415.0	7.8	64.5	1,899.0	9.6	34.2	2,505.2	10.6	31.9
Legal reserves	711.2	3.9	21.9	718.1	3.6	1.0	796.9	3.4	11.0
Reserves provided for by the articles of association and other capital reserves	3,824.0	21.1	13.6	3,918.2	19.9	2.5	5,353.7	22.7	36.6
Unrealised gains/losses on value adjustment of financial assets available for sale	0.0	0.0	0.0	-2.8	0.0	-	17.4	0.1	-
Reserves arising from hedging transactions	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0	-
Previous year profit/loss	-90.1	-0.5	0.0	-0.7	0.0	-99.2	0.0	0.0	-
Total capital	18,157.3	100.0	10.0	19,681.8	100.0	8.4	23,565.5	100.0	19.7

Source: CNB.

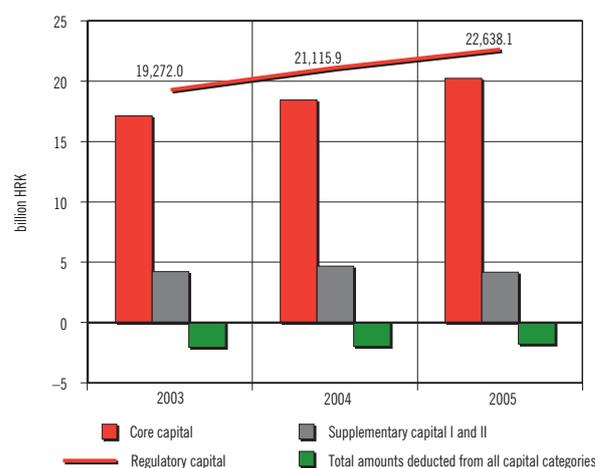
At the end of 2005, banks' regulatory capital totalled HRK 22.6bn, up 7.2% compared to the end of 2004 when it stood at HRK 21.1bn (Figure 3.7). The greatest changes were observed in core capital, which increased by 9.8% compared with the end of 2004. As already said, this growth was influenced primarily by the transformation of subordinate and hybrid instruments into regular shares and the increase of paid in regular shares.

Core capital made up 84.6% of gross regulatory capital at the end of 2005. Supplementary capital I, which is included in regulatory capital, accounted for 15.4% of gross regulatory capital, while supplementary capital II accounted for a currently negligible share of 0.0003%.

Despite the continued growth of regulatory capital, bank capital adequacy had been reducing from 16.2% at the end of 2003, 15.3% at the end of 2004 to 13.4% at the end of 2005. As over the previous years, the reason for this decline is to be found in faster growth of risk-weighted assets over regulatory capital. Of the total number of banks, eight banks calculated the capital adequacy ratio by applying the comprehensive approach.

3.7

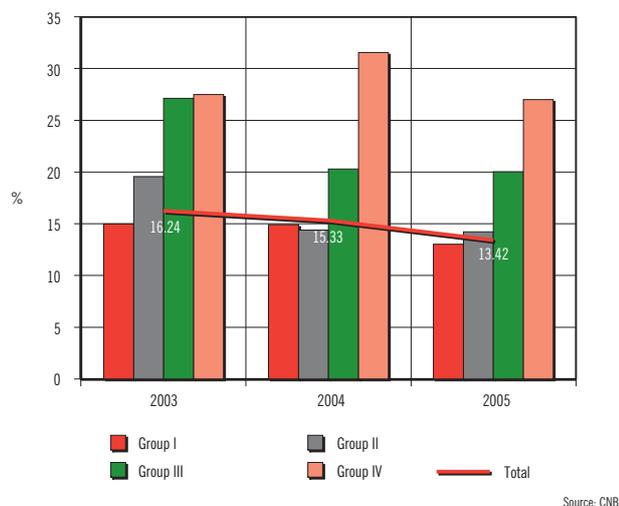
Structure of Bank Gross Regulatory Capital
end of period



Source: CNB.

3.8

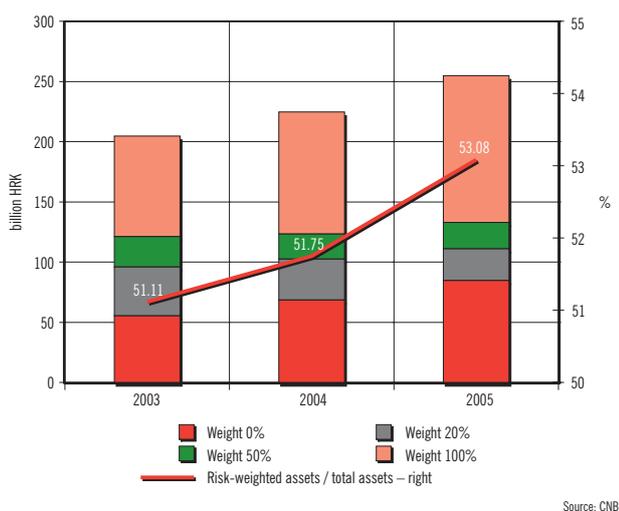
Capital Adequacy Ratio by
Peer Groups of Banks
end of period



At the end of 2005, only one bank posted capital adequacy ratio below the minimum statutory limit. Capital adequacy ratio of Group I banks was the lowest at 13.0%, having additionally declined on the end of the previous year. With a share of 90.7% in total bank assets this group of banks had the strongest influence on capital adequacy at banking sector level, while other groups of banks registered capital adequacy ratios exceeding the one at system level (Figure 3.8). The highest capital adequacy ratio but also the highest rate of decline in the ratio was registered by the so-called small banks, which by the size of their assets belong to Group IV banks.

3.9

Bank Assets Included in Total
Risk-Weighted Assets
end of period



Risk-weighted assets went up by 13.4% compared to 2004 (Figure 3.9). In the asset structure, weighted in accordance with the level of risk, the greatest increase (by 23.5%) was observed in the share of assets with the risk weight of 0% as a result of faster growth of loans to the government sector. A substantial increase was also observed in the share of assets bearing the highest risk (risk weight of 100%), which grew at a rate of 20.3%.

Owing to such growth rates, the share of these types of assets in total structure of risk-weighted assets increased. The share of assets with a risk weight of 100% went up from 45.2% at the end of 2004 to 47.9% at the end of 2005, while the share of assets with the risk-weight of 0% went up from 30.5% to 33.2% respectively. As a result of the increase in items with risk weights of 0% and 100% other shares of risk-weighted assets reduced, especially the share of assets bearing the risk weight of 20%.

The ratio of total risk-weighted assets to total assets also went up, to 53.1% at the end of 2005 to from 51.8% the year before, owing to the faster growth of risk-weighted assets bearing the risk weight of 100%.

3.1.4 Bank Asset Quality

Loans, whose share in net assets continued increasing (2003: 53.8%, 2004: 54.6%, 2005: 58.3% of net assets), continue to represent banks' most important investments. Loan growth in the past two years totalled HRK 42.2bn in absolute terms, while the growth of total placements totalled HRK 68.0bn.

The quality of total placements improved parallel with the increase in loans, which may be seen from the decrease in the share of group B and C placements from 5.1% in 2003 to 4% in 2005 (Table 3.7).

Table 3.7 Classification of Bank Placements and Contingent Liabilities by Risk Groups

end of period, in million HRK and %

	2003		2004		2005	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements	200,166.3	94.9	231,225.3	95.4	267,933.8	96.0
Partly recoverable placements	7,475.8	3.5	6,722.6	2.8	6,869.0	2.5
Irrecoverable placements	3,371.5	1.6	4,386.2	1.8	4,227.1	1.5
Total	211,013.6	100.0	242,334.1	100.0	279,029.9	100.0

Source: CNB.

This was reflected in stronger growth of fully recoverable placements, belonging to group A, totalling HRK 36.7bn, compared with 2004 when they grew by HRK 31.1bn and in the decline of the estimated riskiness through the nominal decrease in irrecoverable placements (group C).

In contrast to 2004, when substantial changes were observed in some of the risky placements (group B reduced by HRK 753.2m, while group C grew by HRK 1,014.7m), 2005 saw several times weaker changes in the opposite direction. Group B placements increased by HRK 159.1m in nominal terms, while group C placements reduced by HRK 146.4m.

As a consequence, expenses on placement value adjustment for identified losses decreased by HRK 239.3m, while expenses on placement value adjustment for unidentified losses grew by HRK 310.6m (Table 3.8). Compared with total expenses on value adjustment in 2004, banks' provisions in 2005 were HRK 127.5m lower (Table 3.9).

Table 3.8 Value Adjustment and Bank Provisions

end of period, in million HRK and %

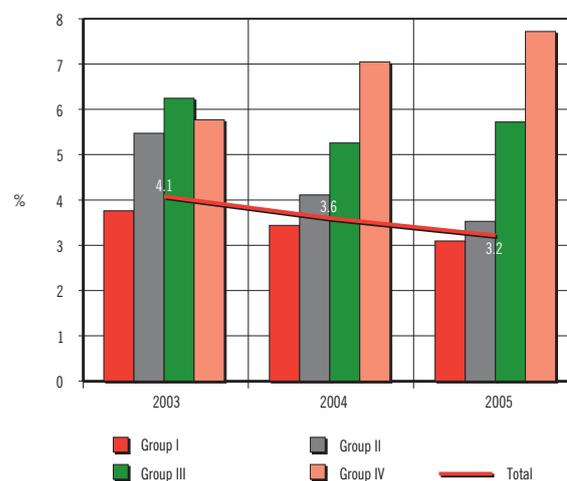
	2003	2004	2005
Total value adjustment against placements and provisions for contingent liabilities	8,611.5	8,909.9	8,981.2
– value adjustment against placements and provisions for contingent liabilities	6,573.8	6,672.6	6,433.3
– provisions for unidentified losses	2,037.7	2,237.3	2,547.9
Total placements and contingent liabilities	211,013.6	242,334.1	279,029.9
Relative ratio of total value adjustment and provisions to total placements and contingent liabilities	4.1	3.7	3.2

Source: CNB.

This change contributed to further decline of the share of total value adjustments and provisions for losses in total placements and contingent liabilities (differing greatly by individual peer group of banks, as shown in Figure 3.10) from 4.1% in 2003 to 3.7% at the end of 2004 and 3.2% at the end of 2005.

Group III and Group IV banks (with below HRK 1bn of total bank assets) remained well above the banking system average (with a higher share of provisions).

3.10

Placements and Contingent Liabilities to Value Adjustment and Provisions Ratio
by peer groups of banks, end of period

Source: CNB.

3.1.5 Bank Earnings Quality

In 2005, banks reported the highest income before taxes in nominal terms, which slightly exceeded HRK 4bn. Of the total number of banks, 33 banks earned income before taxes of HRK 4,141.8m, while only one posted losses in the total amount of HRK 50.3m (Table 3.9).

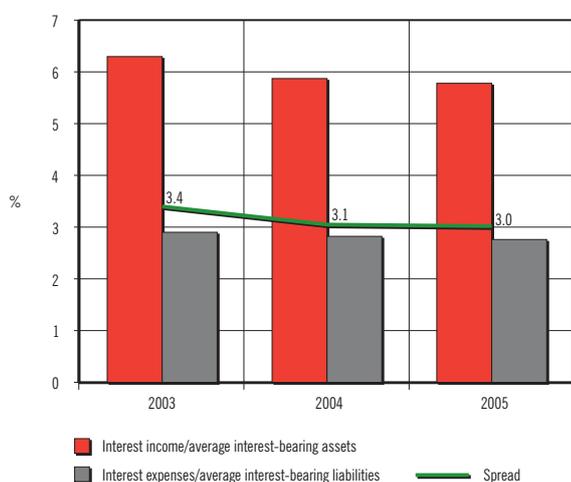
Table 3.9 Bank Income Statement
in million HRK and %

	2003		2004		2005	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	11,093.7	11.8	11,802.5	6.4	12,936.7	9.6
Total interest expenses	4,784.2	2.8	5,364.3	12.1	5,897.6	9.9
Net interest income	6,309.5	19.9	6,438.2	2.0	7,039.1	9.3
Total income from commissions and fees	3,010.5	15.3	3,082.9	2.4	3,325.6	7.9
Total expenses on commissions and fees	1,528.4	23.4	1,438.1	-5.9	1,384.7	-3.7
Net income from commissions and fees	1,482.1	8.0	1,644.8	11.0	1,941.0	18.0
Other non-interest income	1,493.8	-5.5	1,846.0	23.5	1,730.2	-6.3
Other non-interest expenses	788.2	13.7	618.8	-21.5	705.5	14.0
Net other non-interest income	705.6	-20.4	1,227.3	73.9	1,024.7	-16.5
Net non-interest income	2,187.8	-3.2	2,872.0	31.3	2,965.6	3.3
General administrative expenses and depreciation	4,831.8	9.1	5,057.7	4.7	5,422.5	7.2
Net operating income before loss provisions	3,665.5	18.4	4,252.6	16.0	4,582.2	7.8
Expenses on value adjustment and provisions for identified losses	435.6	179.2	402.1	-7.7	178.5	-55.6
Expenses on provisions for unidentified losses	219.3	-44.6	216.2	-1.4	312.3	44.4
Total expenses on loss provisions	654.8	18.7	618.3	-5.6	490.8	-20.6
Income/loss before taxes	3,010.7	18.3	3,634.3	20.7	4,091.4	12.6
Income tax	504.0	7.2	597.5	18.5	722.3	20.9
Current year profit/loss	2,506.7	20.8	3,036.8	21.1	3,369.1	10.9

Source: CNB.

3.11

Income from Interest-Bearing Assets and Expenses on Interest-Bearing Liabilities end of period



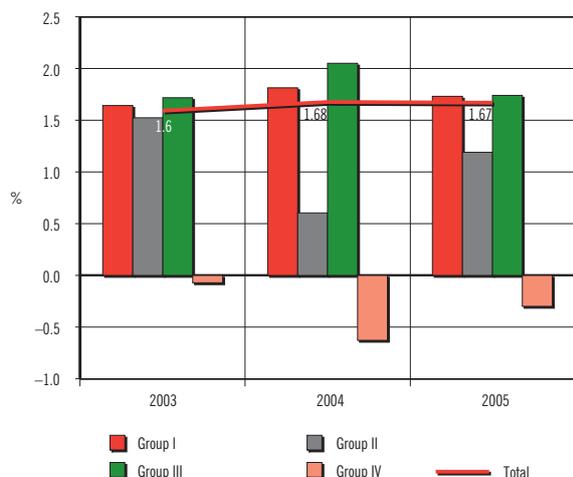
Source: CNB.

Net interest income went up by 9.3% at the end of 2005 compared with the end of 2004 when it grew by 2%, which was a significant recovery in consequence of renewed acceleration in the growth of placements. The share of interest income in the average interest-bearing assets went down slightly compared with 2004, from 5.9% to 5.8% in 2005, while the share of interest expenses in the interest-bearing liabilities remained unchanged (Figure 3.11). As a result, there was a minimal narrowing of the spread, to 3.0% in 2005 from 3.1% in 2004.

This “neutral” change, which followed the level of banks’ balance sheet growth and resulted in nearly equal rise of total banking system profit, leads to a superficial conclusion that there were no significant changes in the income statement.

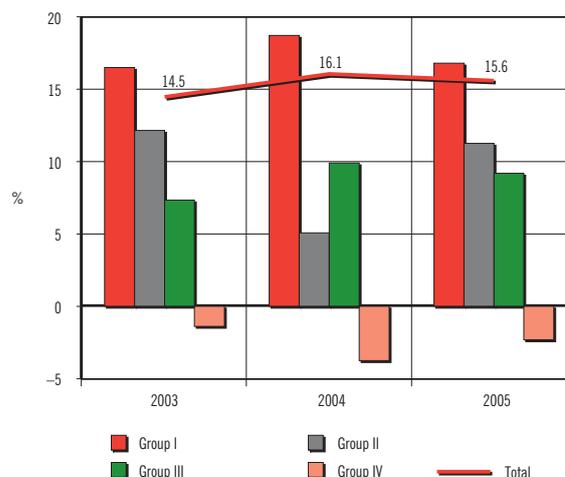
Banks had to neutralise the narrowing of the spread as well as the exceptionally negative trend of net other non-interest income, which declined by 16.5%,

3.12

Return on Average Assets
by peer groups of banks, end of period

Source: CNB.

3.13

Return on Average Equity
by peer groups of banks, end of period

Source: CNB.

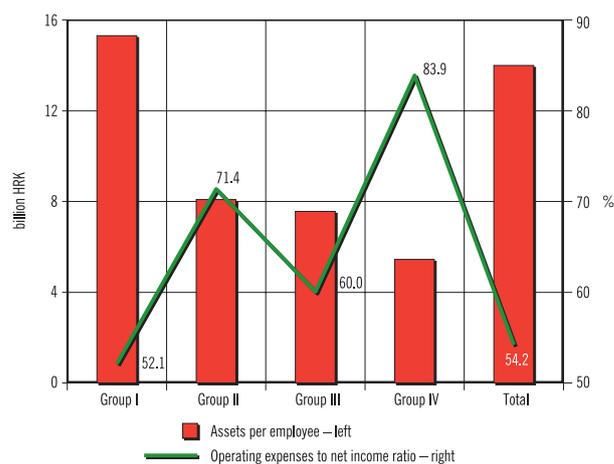
and accelerated growth of operating costs in order to maintain an acceptable level of profitability. A share of increased expenses was offset by substantial growth of net income from fees and commissions, which went up by 18% compared with 2004, resulting in 7.8% higher net operating income. The remaining share was neutralised by the decline in expenses for loan loss provisions, which totalled as much as 20.6%, as a result of the quality of extended loans.

In 2005, realised net profit or income after taxes grew at half the rate (10.9%) observed in the two preceding years (2003: 20.8%, 2004: 21.1%), thus reducing profitability indicators. Return on average assets went down from 1.68% at the end of 2004 to 1.67% at the end of 2005, while the return on average equity declined from 16.1% to 15.6% respectively (Figure 3.12 and 3.13).

It is noteworthy that a negative financial result achieved by a Group IV bank reflected itself negatively on the profitability of the entire group.

The largest impact on the efficiency of the entire banking sector came from large banks, belonging to Group I banks, which managed their resources more successfully than banks in other three groups, thus generating 93.4% of total income before taxes (Figure 3.14).

3.14

Operating Efficiency by Peer Groups of Banks
end-2005

Source: CNB.

3.1.6 Bank Liquidity

The banking sector was liquid in 2004, with banks having no problems in servicing their obligations, which contributed to the stability of money market interest rates. The beginning of the year was marked by high liquidity, which reduced in the second and third quarter due to stronger bank lending and de-

mand for money as well as CNB's measures aimed at attracting liquidity through reserve requirements and the increase in marginal reserve requirement.

The main instrument in generating kuna liquidity in the period from June until the end of the year were regular reverse repo operations, with the average value of liquidity generated per auction totalling HRK 2,281.8m. The CNB accepted all offers at the equal marginal rate of 3.5%.

During periods of increased liquidity banks used the instrument that was introduced in April, providing the opportunity of overnight deposit facility with the CNB with the interest rate of 0.5%.

Received deposits by banks totalled HRK 171.7bn at the end of 2005, up 10.6% on the year before. At the same time extended loans increased by 21.4%, with the ratio of received deposits to extended loans further increasing from 80.7% at the end of 2004 to 88.5% at the end of 2005.

Total received loans in total liabilities increased by one quarter on average compared with the end of 2004. Growing nearly twice as fast as assets, they raised the ratio of received loans to total assets from 17.4% at the end of 2004 to 19.2% at the end of 2005 (Table 3.10). Foreign financial institutions accounted for the largest share of total received loans. Owing to the introduction of the marginal reserve requirement, which made foreign sources of funding more expensive, the share of loans from non-residents went down from 76.9% at the end of 2004 to 71.2% at the end of 2005. There was no parallel decline in the share of loans received from majority foreign owners which stood at almost 10% higher level on average. (2004 average: 24.0%, 2005 average: 36.1%).¹⁵

Table 3.10 Bank Liquidity Ratios

end of period, in %

	2003	2004	2005
Extended loans / received deposits	76.6	80.6	88.5
Received loans / total assets	15.8	17.4	19.2
Net interbank position	13.2	10.0	2.0

Source: CNB.

This leads to the conclusion that banks reduced the so-called indirect sources of funding and turned directly to majority owners (Table 3.11). Taking into account the growth of off-balance sheet risky items, especially issued guarantees, it is certain that a share of (in)direct bank borrowing was substituted by issuing guarantees for direct borrowing of clients abroad.

Table 3.11 Structure of Loans Received by Banks

end of period, in million HRK and %

	2003			2004			2005		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans from government units	961.6	3.0	-30.5	679.2	1.7	-29.4	528.0	1.1	-22.3
Loans from financial institutions	7,112.9	22.1	74.1	8,462.0	21.2	19.0	13,843.8	27.7	63.6
Loans from enterprises	90.5	0.3	104.9	40.3	0.1	-55.5	40.8	0.1	1.2
Loans from foreign financial institutions	22,869.3	71.0	36.7	30,081.9	75.5	31.5	35,143.1	70.2	16.8
Loans from other non-residents	1,158.9	3.6	-13.3	566.8	1.4	-51.1	479.3	1.0	-15.4
Total loans extended	32,193.3	100.0	36.5	39,830.3	100.0	23.7	50,035.0	100.0	25.6
Loans from majority foreign owners	-	-	-	12,131.2	30.5	-	17,705.0	35.4	45.9

Source: CNB.

¹⁵ Annual averages are calculated on the basis of quarterly balances of loans received from majority foreign owners.

Banks maintain and adjust assets and liabilities by maturity structure for liquidity management purposes. Maturity structure (mis)match represents the difference between net assets and liabilities (not including capital) with the same period until maturity.

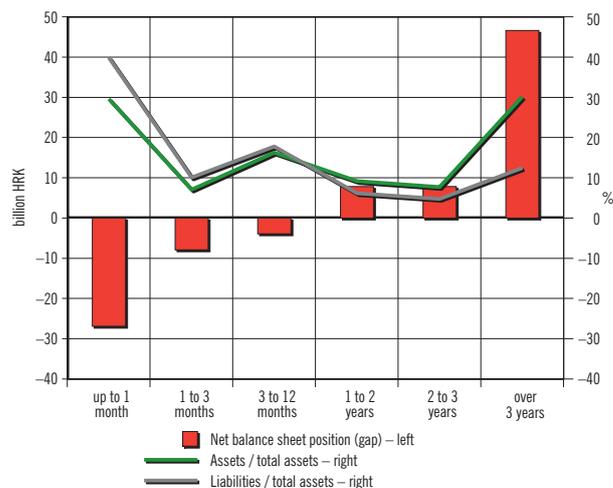
The main characteristic of banks' balance sheet by remaining maturity for periods reviewed at system level is the bipolarity of assets and liabilities, that is, a large deficit of assets over liabilities (negative gap) worth HRK 26.9bn as regards the shortest maturity and a large surplus of liabilities over assets as regards the longest maturity (positive gap), totalling HRK 46.6bn (Figure 3.15).

Viewed cumulatively, banks compensated for the deficit of assets over liabilities (negative gap) only by maturity of over three years.

Total short-term liabilities with maturity in up to one year exceeded short-term assets by HRK 38.7bn at the end of 2005, that is, 78.2% of banks' short-term liabilities was covered by their short-term assets. This indicates an increase in the negative gap compared with 2004 when the coverage stood at 85.3%.

As regards all maturities over one year (1 to 2 years, 2 to 3 years and over 3 years) banks realised a surplus of assets over liabilities, which fully eliminated the cumulative deficit of short-term assets. If we include off-balance sheet items by maturity into the calculation, almost all positions are balanced, except for the position as regards maturity over 2 to 3 years and maturity over 3 years.

3.15

Bank Assets/Liabilities by Remaining Maturity
end-2005

Source: CNB.

3.2 Performance of Housing Savings Banks

Same as in the previous year, there were four housing savings banks operating in the Republic of Croatia in 2005. Their assets totalled HRK 6.1bn, rising by 14.5% over 2004. At the end of 2005, housing savings banks accounted for 2.3% of total bank assets. Despite having a relatively small share in total bank assets, individual housing savings banks surpassed many commercial banks by the size of their assets. If they were banks, the asset size of two housing savings banks would place them in the second group of peer banks, while the remaining two savings banks would belong to Group III. All housing savings banks are, directly or indirectly, owned by foreign owners.

3.2.1 Balance Sheet Structure of Housing Savings Banks

At the end of 2005, total assets of each of the four housing savings banks went up compared with 2004, with the increase ranging from 8.7% to 74.1%.

At end-2005, securities and other financial instruments accounted for over a half of total assets of housing savings banks. Securities and other financial instruments not traded in active markets but carried at fair value made up the largest share, of 22.6%, followed by securities and other financial instruments held to maturity, with a share of 14.2%, and securities and other financial instruments available for sale, with a share of 11.5%. Securities and other financial instruments held for trading accounted for the smallest share of 6.4%. Free assets were used predominantly for purchase of long-term government securities, especially bonds issued by the Republic of Croatia, accounting for 80.8%. MoF T-bills made up 18.9% of total securities, while the remaining share of 0.3% was accounted for by investments in banks' debt securities.

Net loans of housing savings banks extended to financial institutions and other clients increased by 17.7% compared with the end of 2004, making up 16.2% of total assets of housing savings banks. In 2005, savers increased their reliance on housing savings loans extended on the basis of their housing savings, thus affecting a rise in net loans of housing savings banks extended to households by 54.1% compared with the end of 2004.

Table 3.12 Structure of Housing Savings Bank Assets
end of period, in million HRK and %

	2003			2004			2005		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	0.0	0.0	-100.0	0.0	0.0	0.0	0.0	0.0	-
1.1. Money assets	0.0	0.0	-56.3	0.0	0.0	0.0	0.0	0.0	-
1.2. Deposits with the CNB	0.0	0.0	-100.0	0.0	0.0	0.0	0.0	0.0	-
2. Deposits with banking institutions	25.9	0.7	-4.9	332.3	6.2	1,185.2	720.5	11.8	116.8
3. MoF treasury bills and CNB bills	748.9	21.3	33.4	780.8	14.6	4.3	782.0	12.8	0.2
4. Securities and other financial instruments held for trading	766.8	21.8	-33.3	250.2	4.7	-67.4	390.6	6.4	56.1
5. Securities and other financial instruments available for sale	-	-	-	2,148.0	40.1	-	706.8	11.5	-67.1
6. Securities and other financial instruments held to maturity	1,527.9	43.4	450.1	548.2	10.2	-64.1	869.6	14.2	58.6
6.1. Securities and other financial instruments bought on issue directly from the issuer	-	-	-	74.9	1.4	-	-	-	-
7. Securities and other financial instruments not traded in active markets but carried at fair value	-	-	-	-	-	-	1,382.4	22.6	-
8. Derivative financial assets	-	-	-	-	-	-	-	-	-
9. Loans to financial institutions	211.4	6.0	2,002.7	468.9	8.8	121.8	263.7	4.3	-43.8
10. Loans to other clients	187.8	5.3	105.6	372.9	7.0	98.6	727.6	11.9	95.1
11. Investments in subsidiaries and associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
12. Foreclosed and repossessed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
13. Tangible assets (net of depreciation)	19.0	0.5	-7.4	8.7	0.2	-54.2	8.2	0.1	-5.7
14. Interest, fees and other assets	39.1	1.1	27.1	389.3	7.3	895.6	312.3	5.1	-19.8
15. Net of: Specific reserves for unidentified losses	6.3	0.2	297.8	23.1	0.4	268.7	37.2	0.6	61.0
Total assets	3,520.4	100.0	61.0	5,351.3	100.0	52.0	6,126.7	100.0	14.5

Source: CNB.

The funding structure of housing savings banks did not change much, with time deposits, which grew by HRK 787m on the end of 2004, still accounting for the largest share, thus together with interest, fees and other liabilities accounting for 96.5% of total liabilities of housing savings banks.

Table 3.13 Structure of Housing Savings Bank Liabilities
end of period, in million HRK and %

	2003			2004			2005		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1. Short-term loans	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2. Long-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Deposits	3,265.1	92.7	62.2	4,728.2	88.3	44.8	5,514.7	90.0	16.6
2.1. Giro account and current account deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2. Savings deposits	0.1	0.0	13,000.0	0.0	0.0	-100.0	0.0	0.0	0.0
2.3. Time deposits	3,265.0	92.7	62.2	4,728.2	88.3	44.8	5,514.7	90.0	16.6
3. Other loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.1. Short-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2. Long-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Derivative financial liabilities and other financial liabilities held for trading	-	-	-	4.9	0.1	100.0	4.1	0.1	-15.8
5. Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.1. Short-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.2. Long-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6. Subordinated instruments issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7. Hybrid instruments issued	10.7	0.3	0.0	10.7	0.2	-0.1	10.3	0.2	-3.7
8. Interest, fees and other liabilities	89.4	2.5	146.2	452.6	8.4	406.3	383.0	6.2	-15.4
Total liabilities	3,365.6	95.6	64.2	5,196.5	97.1	54.4	5,912.2	96.5	13.8
Total capital	154.8	4.4	12.9	154.8	2.9	0.0	214.5	3.5	38.6
Total liabilities and capital	3,520.4	100.0	61.0	5,351.3	100.0	52.0	6,126.7	100.0	14.5

Source: CNB.

3.2.2 Housing Savings Bank Capital

Total housing savings bank capital amounted to HRK 214.5m at the end of 2005, up by 38.6% on the previous year. This was to the greatest extent due to the increase in current year profit. Resulting from the previously mentioned large investments in securities, housing savings banks reported unrealised profit from value adjustment of financial assets available for sale, which raised their capital by additional HRK 31m.

Table 3.14 Structure of Housing Savings Bank Capital
end of period, in million HRK and %

	2003			2004			2005		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	193.4	124.9	18.4	203.4	131.4	5.2	203.4	94.8	0.0
2. Current year profit/loss	-9.3	-6.0	-127.6	11.4	7.4	-222.2	45.4	21.2	298.3
3. Retained earnings/loss	-51.5	-33.2	-29.7	-63.4	-41.0	23.2	-53.6	-25.0	-15.5
4. Legal reserves	1.5	1.0	400.0	3.5	2.3	133.3	1.9	0.9	-45.7
5. Total reserves provided for by the articles of association and other capital reserves	20.7	13.4	61.1	0.0	0.0	-100.0	0.0	0.0	0.0
5.1. Reserves provided for by the articles of association and other capital reserves	-	-	-	-	-	-	-	-	-
5.2. Unrealised gains/losses on value adjustment of financial assets available for sale	-	-	-	-	-	-	31.0	14.5	100.0
5.3. Reserves arising from hedging transactions	-	-	-	-	-	-	-	-	-
6. Previous year profit/loss	0.0	0.0	0.0	0.0	0.0	0.0	-13.6	-6.3	100.0
Total capital	154.8	100.0	12.9	154.8	100.0	0.0	214.5	100.0	38.6

Source: CNB.

Despite the 12.8% increase of the regulatory capital (at the end of 2005 on the previous year) the capital adequacy ratio of housing savings banks decreased from 27.7% to 21.3%. The first reason was the increase in total risk-weighted assets, which was 41.3% higher at the end of 2005 than at the end of 2004. The second reason was the 75.1% increase in the market risk exposure of housing savings banks, which arose from the investment of housing savings banks in securities and consequently their exposure to general interest rate risk.

3.2.3 Asset Quality of Housing Savings Banks

Table 3.15 Classification of Housing Savings Bank Placements and Contingent Liabilities by Risk Groups
end of period, in million HRK and %

	2003		2004		2005	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements	2,717.3	100.0	2,648.8	100.0	3,516.6	100.0
Partly recoverable placements	0.2	0.0	0.7	0.0	2.1	0.0
Irrecoverable placements	0.0	0.0	0.0	0.0	0.4	0.0
Total	2,717.5	100.0	2,649.6	100.0	3,519.1	100.0

Source: CNB.

Total placements and contingent liabilities of housing savings banks were 32.8% higher at the end of 2005 than at the end of the previous year. During the same period all types of placements that are divided into different risk groups increased in nominal terms. However, due to greater investments in government securities and newly approved loans to their savers, the greatest portion of the increase was accounted for by fully recoverable placements. As a result, total placements and contingent liabilities at the end of 2005 were made up almost entirely of risk group A placements, whose share exceeded 99.9%. Partly recoverable and irrecoverable placements, in the total amount

of HRK 3.5m, accounted for only an insignificant share of total placements and contingent liabilities, totalling 0.1%.

Table 3.16 Value Adjustment and Housing Savings Bank Provisions

end of period, in million HRK and %

	2003	2004	2005
Total value adjustment against placements and provisions for contingent liabilities	6.5	23.3	38.1
– value adjustment against placements and provisions for contingent liabilities	0.1	0.2	0.9
– provisions for unidentified losses	6.4	23.1	37.2
Total placements and contingent liabilities	2,717.5	2,649.6	3,519.1
Relative ratio of total value adjustment and provisions to total placements and contingent liabilities	0.2	0.9	1.1

Source: CNB.

The ratio of total placement value adjustment and provisions for contingent liabilities to total placements and contingent liabilities of housing savings banks stood at 1.1% at the end of 2005. Owing to credit risk exposure, the ratio of provisions for unidentified losses (which housing savings banks set aside at the average rate of 1.1%) to fully recoverable placements were roughly the same. The reason for this was the small share of bad placements in total placements and thus of value adjustments in total value adjustments and provisions for contingent liabilities. As a result, the majority, that is, 97.6%, of total value adjustments and provisions for unidentified losses at the end of 2005 was accounted for by estimated unidentified losses.

3.2.4 Housing Savings Banks Earnings Quality

In 2005, all housing savings banks reported income before taxes, which totalled HRK 49.4m.

Net interest income of housing savings banks rose by 15.3% at the end of 2005 on the previous year. In the structure of interest income, income from deposits with banks went up the most, by HRK 19.1m. The increase in the amount of loans extended to savers of housing savings banks contributed to higher earnings from household loans, which went up by HRK 10.5m or 63.8%. In the same period, the increase in liabilities arising from deposits received from savers influenced a rise in interest expenses on deposits and thus a rise in total interest expenses, by 18.3%.

Net income from fees and commissions went down compared with 2005 but income arising from securities trading contributed to a 17.3% increase in net non-interest income.

Earnings generated from their operations sizeably raised the profit of housing savings banks in 2005, which went up by 298.7% on the year before.

Tablica 3.17 Housing Savings Bank Income Statement
in million HRK and %

	2003		2004		2005	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	152.0	60.1	205.3	35.1	240.9	17.4
Total interest expenses	90.2	74.4	143.5	59.1	169.7	18.2
Net interest income	61.8	43.0	61.8	0.0	71.3	15.3
Total income from commissions and fees	84.7	39.0	90.2	6.5	75.9	-15.8
Total expenses on commissions and fees	21.5	3.8	7.6	-64.6	8.0	5.0
Net income from commissions and fees	63.2	57.1	82.6	30.6	67.9	-17.8
Other non-interest income	-3.1	-	45.6	-	65.3	43.2
Other non-interest expenses	29.4	17.8	40.7	38.5	30.6	-24.8
Net other non-interest income	-32.5	-	4.9	-	34.7	613.3
Net non-interest income	30.7	-	87.5	184.9	102.6	17.3
General administrative expenses and depreciation	96.7	24.9	118.1	22.1	109.3	-7.4
Net operating income before loss provisions	-4.2	-	31.2	-	64.5	107.0
Expenses on value adjustment and provisions for identified losses	0.1	-	0.1	-35.3	0.7	645.6
Expenses on provisions for unidentified losses	4.8	269.3	16.9	255.3	14.4	-14.6
Total expenses on loss provisions	4.9	285.5	17.0	246.6	15.1	-11.0
Income/loss before taxes	-9.1	-	14.2	-	49.4	248.1
Income tax	0.3	0.0	2.8	898.2	4.0	41.9
Current year profit/loss	-9.3	-	11.4	-222.2	45.5	298.7

Source: CNB.

PAYMENT OPERATIONS

4

NATIONAL BANK
REPORT 2005

4.1 Interbank Payment Systems

The settlement of payment transactions through the Croatian Large Value Payment System (CLVPS) and the National Clearing System (NCS) was conducted in accordance with the rules on settlement in interbank payment system without any larger deviations as regards the time of settlement prescribed by payment execution schedule. In 2005, there were no occurrences that could in any way compromise the stability and safety of interbank systems as the basic payment transaction infrastructure in the country.

Overview of Payment System Transactions (Statistical Indicators)

The analysis of the statistical indicators on interbank payment operations in the country as compared to 2004 reflects a distinct rising trend in the value of payment transactions executed through both interbank systems. The number of payment transactions carried out through the CLVPS also showed a rising trend, while the number of payment transactions conducted through the NCS declined.

Croatian Large Value Payment System

In 2005, 127,688 transactions were settled through the CLVPS, with the average value of a payment transaction totalling HRK 14.3 million. As compared to 2004, the number of transactions settled through the CLVPS increased by 12%, while the increase observed in connection to the value of transactions totalled 34% on the year before. The largest number of payment transactions, by number and value, was conducted through the CLVPS in December.

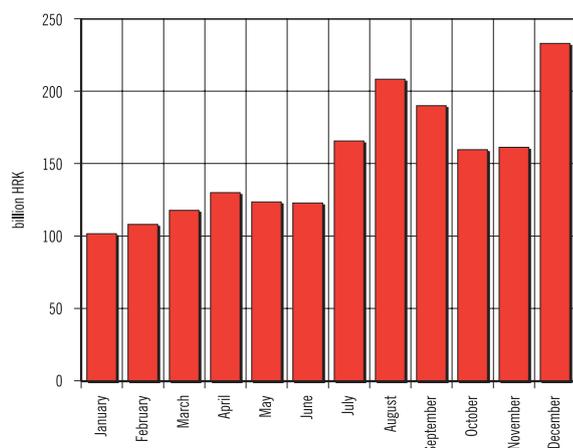
Table 4.1 CLVPS – Payment Transactions Executed in 2005
in HRK

Month	CLVPS	
	Transaction value	Transaction number
January	101,546,035,527	8,325
February	108,026,300,055	8,462
March	117,745,968,072	9,429
April	129,936,624,396	8,544
May	123,582,505,741	8,473
June	122,716,114,402	9,336
July	165,691,809,178	11,801
August	208,223,868,323	12,683
September	189,971,025,968	13,069
October	159,625,382,320	11,924
November	161,154,432,809	11,729
December	232,924,257,793	13,913
Total	1,821,144,324,584	127,688

Source: CNB.

4.1

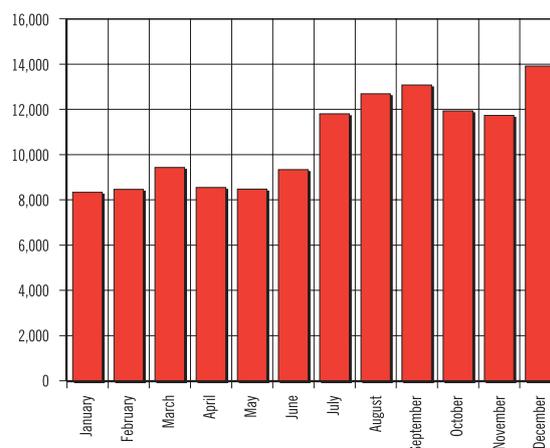
CLVPS – Value of Payment Transactions Executed in 2005



Source: CNB.

4.2

CLVPS – Number of Payment Transactions Executed in 2005



Source: CNB.

Table 4.2 CLVPS – Overview of Payment Transactions Executed in HRK

	2004	2005
Transaction value	1,362,098,692,595	1,821,144,324,584
Transaction number	114,021	127,688
Transaction average value	11,946,034	14,262,455

Source: CNB.

Central Depository Agency (CDA) – Special Participant in CLVPS

The settlement of payment transactions through the CLVPS relating to payments arising from the settlement of securities trading commenced on 4 July 2005. Participants carry out such payments exclusively through the CLVPS, which enables the execution of payment transactions in real time across the accounts in the CLVPS. Thus, all prerequisites have been met for securities settlement in accordance with the delivery versus payment (DVP) principle and standard procedures applied in capital markets of EU countries. To meet the needs of CDA, a special participant in the CLVPS, the system supports the possibility of granting intra-day loans to banks against securities.

National Clearing System

The number of payment transactions settled through NCS in 2005 totalled 109.3 million, with the average value of a payment system transaction amounting to HRK 6,547. Statistical data on payments effected through NCS point towards a mild decline in the number of settled transactions, while their value rose by 9% compared to the previous year.

The largest number of payment transactions effected through the NCS (75%) was settled during the second and the third clearing cycle, while the largest value of transactions (50%) was settled during the third clearing cycle. The largest number of payment transactions, by number and value, was conducted through the NCS in December.

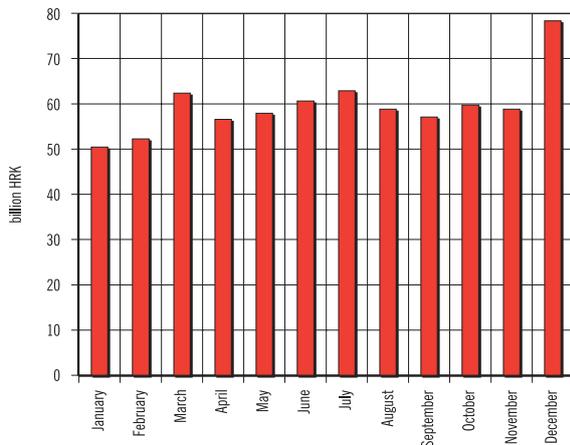
Table 4.3 NCS – Payment Transactions Executed in 2005
in HRK

Month	NCS	
	Transaction value	Transaction number
January	50,442,753,492	8,225,448
February	52,227,022,062	8,404,500
March	62,379,342,583	9,418,796
April	56,535,320,590	9,284,722
May	57,883,141,988	9,244,858
June	60,623,481,731	9,157,541
July	62,847,242,594	9,278,834
August	58,815,172,579	8,958,748
September	57,048,979,891	9,079,033
October	59,684,339,276	9,120,635
November	58,811,883,039	9,208,919
December	78,319,264,182	9,931,007
Total	715,617,944,008	109,313,041

Source: FINA.

4.3

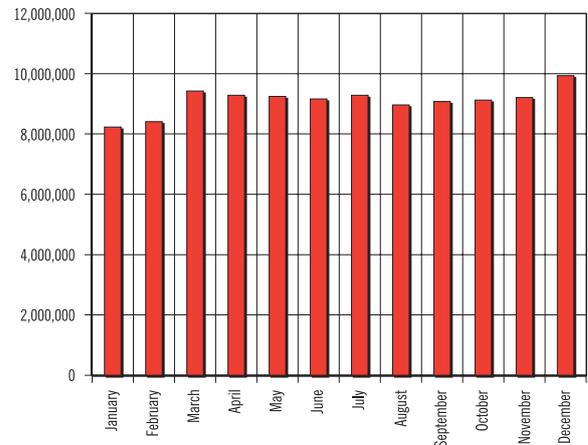
NCS – Value of Payment Transactions Executed in 2005



Source: FINA.

4.4

NCS – Number of Payment Transactions Executed in 2005



Source: FINA.

Table 4.4 NCS – Overview of Payment Transactions Executed
in HRK

	2004	2005
Transaction value	653,951,821,633	715,617,944,008
Transaction number	111,619,938	109,313,041
Transaction average value	5,859	6,547

Source: FINA.

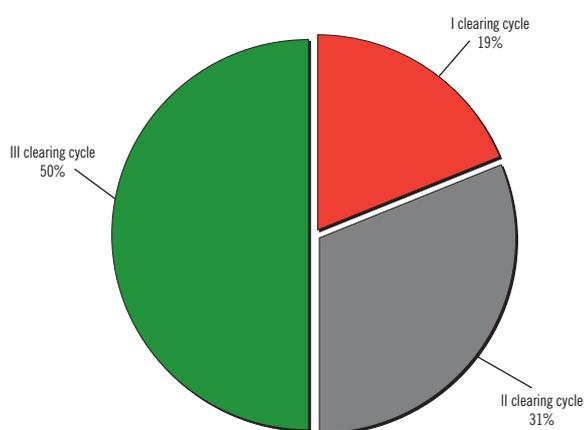
Table 4.5 NCS – Total Value and Number of Payment Transactions by Clearing Cycles in 2005
in HRK and %

	I clearing cycle	II clearing cycle	III clearing cycle	Total
Transaction value	136,903,194,349	224,118,510,184	354,596,239,474	715,617,944,008
Share	19	31	50	100
Transaction number	27,266,416	43,838,932	38,207,693	109,313,041
Share	25	40	35	100

Note: I clearing cycle - from 18.15 T-1 to 8.30 T0
II clearing cycle - from 8.30 T0 to 12.30 T0
III clearing cycle - from 12.30 T0 to 18.15 T0
Source: FINA.

4.5

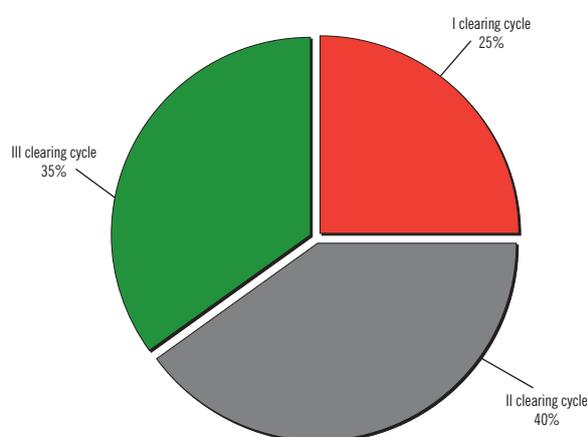
NCS – Value of Payment Transactions
by Clearing Cycles in 2005



Source: FINA.

4.6

NCS – Number of Payment Transactions
by Clearing Cycles in 2005



Source: FINA.

4.2 Interbank/Interinstitutional Co-operation in the Area of Payment Operations

National Payment System Committee

The National Payment System Committee, consisting of the representatives of the Croatian National Bank, the Ministry of Finance, the Croatian Banking Association and the Banking and Finance Department of the Croatian Chamber of the Economy held two sessions in 2005, giving its support among other things to the Project of reducing the time limit for securities settlement that was developed by the Croatian National Bank in co-operation with the Central Depository Agency.

The Committee also discussed the Final Draft of the Act on Amendments to the Executions Act. Since certain parts of the proposed amendments to the

Executions Act were contrary to the existing regulations on payment operations in the country, in order to prevent the adverse effects arising from the fact that different pieces of legislation regulate the same matter in two different ways, the Committee proposed to the Ministry of Justice possible solutions to avoid contradiction between the said regulations.

Council of Participants in the National Clearing System

The Council of participants in the NCS, consisting of representatives of the Croatian National Bank, banks and FINA, held three sessions in 2005 (two special and one annual session) where specific activities related to the project of re-engineering the NCS, aimed at developing (by introducing new functions) and re-designing the clearing system, were presented.

Within the framework of discussions and harmonisation of their positions the members of the Council also adopted new tariffs that as of 1 July 2005 regulate the fees charged to banks for services within the scope of the NCS.

4.3 Statistical Reports on Payment System Data

Pursuant to the Decision on the Obligation to Submit the Report on Payment Statistics,¹ as of 1 April 2005 the Croatian National Bank monitors statistical data on the payment system. Reports have to be compiled and submitted by banks and legal persons engaged in issuing payment cards to be used by their holders for making payments in accordance with the agreed modes of payment (hereinafter: card issuers). An overview of the sections of individual statistical reports received from banks and card issuers is given further below.

1 Official Gazette 189/2004.

Table 4.6 Number of Transaction Accounts as at 31 December 2005

Business entities' accounts	361,171
Business entities' regular operating accounts	334,508
Business entities' sub-accounts	26,663
Citizens' accounts	4,176,976
Giro accounts	708,472
Current accounts	3,372,786
Other citizens' accounts ^a	95,718
Total	4,538,147

^a Specific purpose citizens' accounts and accounts of non-residents – natural persons resident abroad.
Source: CNB.

Of the total number of accounts of business entities as much as 92.6% were regular operating accounts, while only 7.4% were sub-accounts.

There were 4,176,976 accounts of natural persons, of which 80.7% were current accounts, 17% were giro accounts and 2.3% were "other accounts".

Table 4.7 Number of Bank Operating Units, ATMs by Function and POS (EFTPOS) Terminals as at 31 December 2005

	Total
1. Operating units	1,114
2. ATMs	2,307
– cash withdrawal	2,307
– cash deposit – cash withdrawal	135
– transaction ATMs	0
– e-money loading	0
– with CCTV cameras	635
– in secured area	959
– owned by other legal persons	0
3. POS (EFTPOS) terminals	48,001

Note: An ATM may have more than one function.
Source: CNB.

All ATMs in the Republic of Croatia (2,307) enable cash withdrawals, while only 5.8% also accept cash deposits. In the Republic of Croatia there were as yet no registered ATMs to be used as transaction ATMs (providing the possibility of cashless payments) or having the function of e-money (loading monetary value into pre-paid cards).

Tables 4.8 and 4.9 show available services through which banks enable their clients to use additional methods of payment against their transaction accounts with the bank. Compared with previous reporting periods, a rising trend was observed in statistical indicators related to payments effected via electronic banking, using internet technology. The tables illustrate that, in the absolute amount, natural persons use the offered services significantly more often than business entities.

Table 4.8 Number of Users by Type of Service as at 31 December 2005

Citizens	
Internet	276,170
Telebanking	0
Mobile phones	28,134
Fixed line phones	197,997
Direct debit transfers	240,004
Permanent transfer order	595,509
POS (EFTPOS)	3,109,991
Other	7,966
Business entities	
Internet	83,527
Telebanking	2,514
Mobile phones	797
Fixed line phones	11,725
Direct debit transfers	1,465
Permanent transfer order	1,370
POS (EFTPOS)	133,081
Other	47,902

Source: CNB.

Table 4.9 Number of Users' Accounts by Type of Service as at 31 December 2005

Citizens	
Internet	310,545
Telebanking	0
Mobile phones	29,938
Fixed line phones	203,137
Direct debit transfers	238,590
Permanent transfer order	591,840
POS (EFTPOS)	3,349,155
Other	7,615
Business entities	
Internet	87,620
Telebanking	2,914
Mobile phones	807
Fixed line phones	12,276
Direct debit transfers	1,476
Permanent transfer order	1,579
POS (EFTPOS)	133,578
Other	70,204

Source: CNB.

Table 4.10 Payment Cards by Function as at 31 December 2005

in %

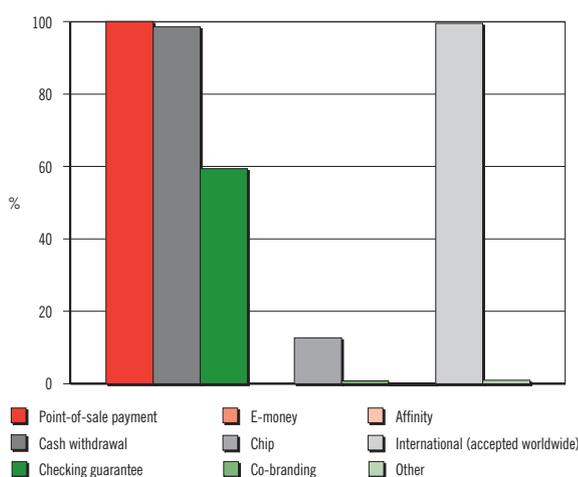
Function	General		Business	
	Number of payment cards by function	Share of individual function in total number of payment cards	Number of payment cards by function	Share of individual function in total number of payment cards
Total number of payment cards in circulation	6,324,028		330,382	
Function				
Point-of-sale payments	6,324,028	100.00	330,382	100.00
Cash withdrawal	6,237,468	98.63	329,392	99.70
Checking guarantee	3,758,718	59.44	4,572	1.38
E-money	0	0.00	0	0.00
Chip	801,675	12.68	39,499	11.96
Co-branding	51,425	0.81	4,875	1.48
Affinity	4,009	0.06	0	0.00
International (accepted worldwide)	6,292,320	99.50	205,303	62.14
Other	64,648	1.02	678	0.21

Note: A payment card may have more than one function.

Source: CNB.

4.7

General Payment Card Functions



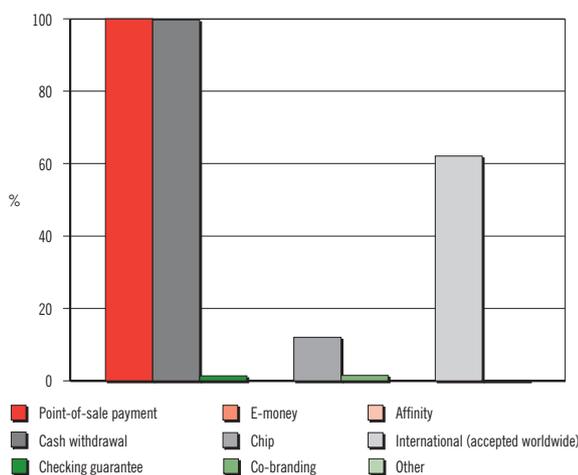
Source: CNB.

At the end of 2005, there were 6,324,028 general payment cards in circulation in the Republic of Croatia and they could all be used for point-of-sale payments for goods and services. In addition, 98.63% of all payment cards enabled cash withdrawals while almost all were accepted internationally (99.50%). There were no payment cards in the Republic of Croatia with the function of e-money.

Of the 330,382 business payment cards in circulation in the Republic of Croatia at the end of 2005, all enabled point-of-sale payments for purchased goods or services. Nearly all business payment cards (99.70%) enabled cash withdrawals while 62.14% were internationally accepted. There were no business payment cards in the Republic of Croatia with the function of e-money.

4.8

Business Payment Card Functions



Source: CNB.

CURRENCY
DEPARTMENT OPERATIONS

5

INTERNATIONAL BANK
REPORT 2005

5.1 The Balance and Movements of Cash in Circulation

On 31 December 2005, the balance of cash in circulation totalled HRK 12.16bn, up 11.0% on the end-2004. The growth of cash in circulation by 11.0% in 2005 was 7.4 percentage points higher than the growth rate of 3.6% observed in 2004.

On 31 December 2005, there were 109.8 million banknotes, valued at HRK 11.56bn, outside the vaults of the CNB and cash supply centres.

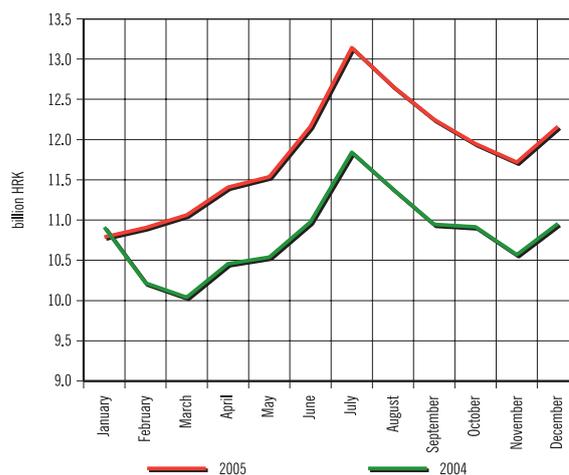
Compared with late 2004, the quantity of banknotes outside the vaults rose by 9.4%, while the total value of banknotes outside the vaults and cash supply centres went up by 11.1%.

The total number of banknotes in circulation increased in 2005 by 9.8 million as compared to 2004, of which banknotes in denomination of 200 kuna accounted for 3.6 million or 36.7%. The real growth of the number of banknotes in denominations of 100, 50, 20 and 10 kuna in circulation (the difference between the total rise of the number of banknotes of these denominations in circulation, the 2001 and 2002 issues, and the number of withdrawn worn out banknotes, the 1993 issue) totalled HRK 5.6 million banknotes or 57.2%. As for banknotes in denominations of 1,000 and 500 kuna, their number went up by 0.6 million or 6.1%. The total number of banknotes in circulation in the denomination of 5 kuna reduced by 0.4 million because the need for banknotes of this particular denomination is primarily met by coins of the same denomination.

Of banknotes in circulation, banknotes in denomina-

5.1

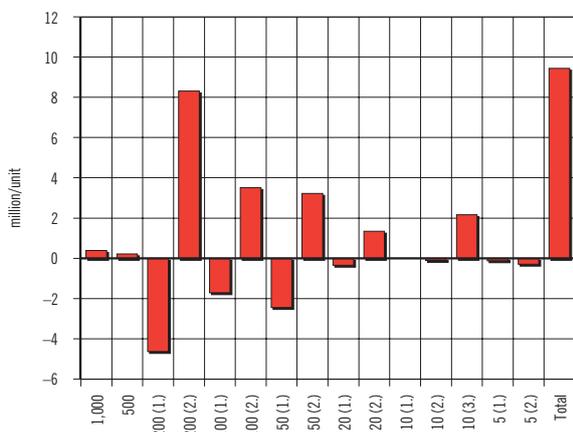
Cash in Circulation end of period



Source: CNB.

5.2

Change in the Number of Banknotes in Circulation in 2005 as Compared to 2004

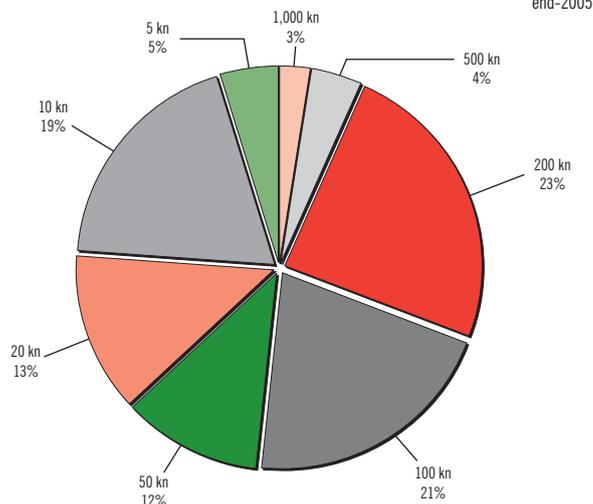


Note: Figures 1, 2, and 3 stated in brackets mark the series of issuance.

Source: CNB.

5.3

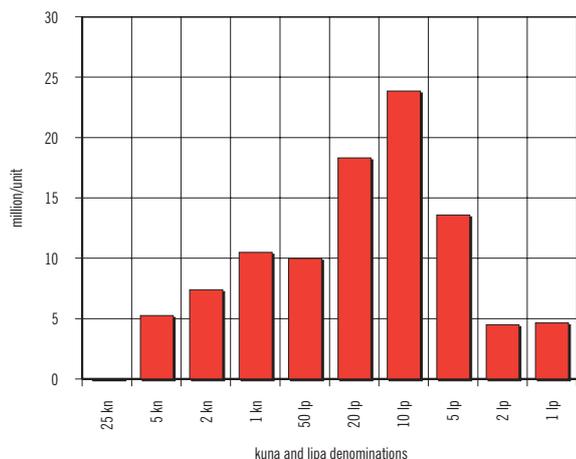
Structure of Total Volume of Banknotes in Circulation by Denomination end-2005



Source: CNB.

5.4

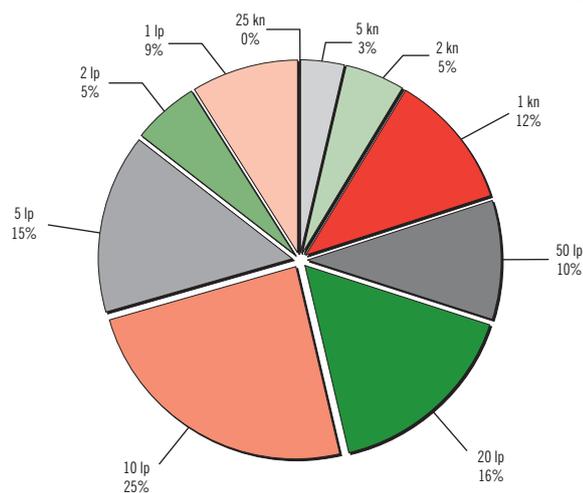
Change in the Number of Coins in Circulation in 2005 as Compared to 2004



Source: CNB.

5.5

Structure of Total Volume of Coins in Circulation by Denomination end-2005



Source: CNB.

tions of 200 kuna, with a share of 23%, and of 100 kuna, with a share of 21%, were the most numerous and accounted for HRK 7.5bn or 64% of the total value of banknotes in circulation in 2005. The said two denominations are predominantly used by banks to effect ATM payments, which accounted for such a large number of banknotes of these denominations in the structure of banknotes in circulation.

On 31 December 2005, there were 1.145 billion coins outside the vaults, worth HRK 0.603bn.

In comparison with late 2004, the quantity of coins outside the vaults increased by 9.3%, while their value increased by 11.8%.

The quantity of coins in circulation increased by 98 million in 2005, with the coin denomination of 10 lipa accounting for the largest share of the increase, up 23.8 million coins or 9.4% from the number of coins registered in 2004.

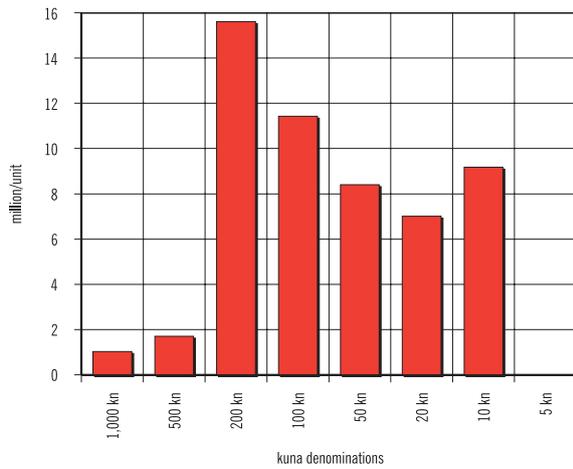
Of coins in circulation in 2005, the most numerous were coins in denomination of 10 lipa, with 277 million coins or 25% of the total number of coins in circulation, while from the point of view of total value coins in denomination of 5 kuna accounted for the largest share, HRK 196.8 million or 32.6% of the total value of coins in circulation.

5.2 Supply with Cash

For the purpose of settling bank cash requirements in 2005, 54.3 million banknotes (worth HRK 6.7bn) and 97.1 million coins (worth HRK 0.055bn) were issued from the central bank's vault to cash supply centres. The total value of issued banknotes increased by 30.6% compared with 2004, while the increase in the number of banknotes totalled 15.1%. The total value of issued coins went up by 84.3%, and their number by 22.8%.

5.6

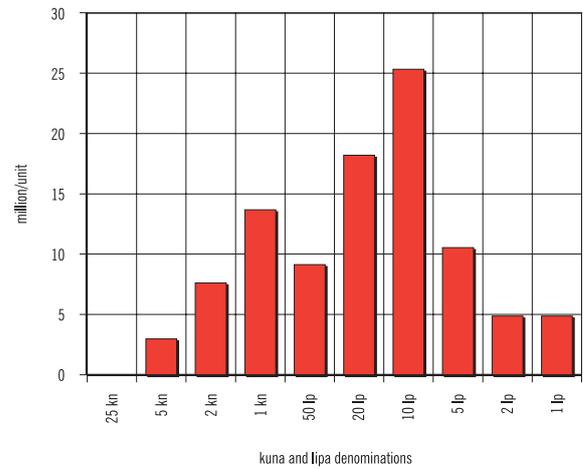
Banknotes Issued to Cash Supply Centres in 2005



Source: CNB.

5.7

Coins Issued to Cash Supply Centres in 2005



Source: CNB.

A substantial share of coin requirements of cash supply centres was covered by transfer of excess coin quantities from one cash supply centre to another. As a result, 17.7 million coins, worth HRK 0.043bn, were transferred among cash supply centres.

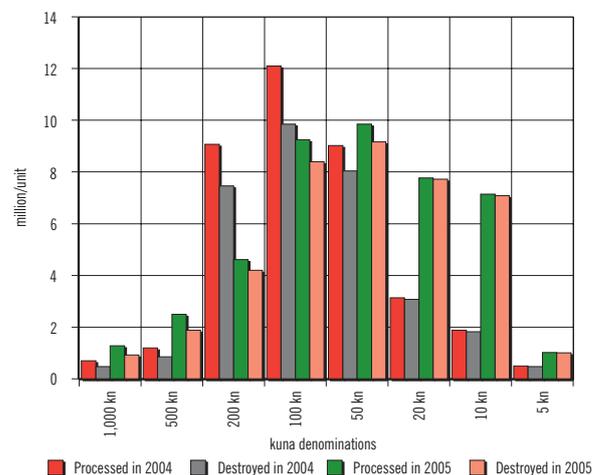
5.3 Withdrawing and Processing Worn Out Banknotes

The central bank's Currency Department withdrew 42.8 million banknotes from cash supply centres over 2005, valued at HRK 5.6bn. The banknote sorting system processed 43.4 million banknotes, of which 92.9% or 40.3 million units, valued at HRK 4.2bn, were immediately destroyed as they failed to meet the quality standards set for banknotes in circulation.

According to the latest data, the renewal index in 2005 was 37 (destroyed banknotes/circulation x 100), since the number of banknotes in circulation as per 31 December 2005 totalled 109.8 million and the number of destroyed banknotes 40.3 million.

5.8

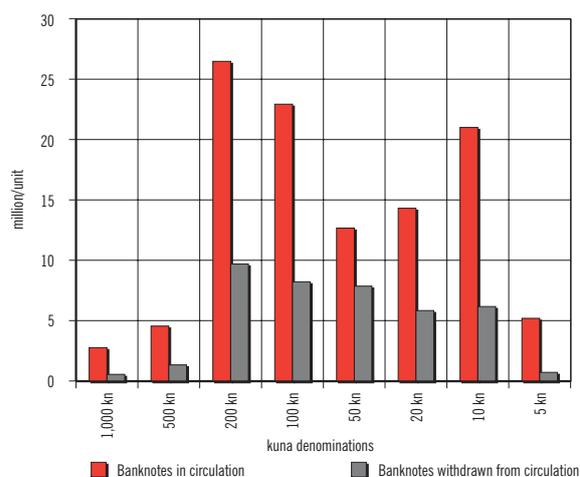
Processed and Destroyed Banknotes



Source: CNB.

5.9

Ratio of Withdrawn Banknotes and Banknotes in Circulation in 2005



Source: CNB.

5.4 Expert Evaluation of Banknotes

In 2005, the expert evaluation of banknotes identified 4,734 counterfeit banknotes valued at HRK 1,284,815. Compared with 2004, the number of identified counterfeits went up by 105.7%. The largest number of counterfeits, 2,433 or 51.4% of the total went to 200 banknotes. Faced with sizeable growth of counterfeits in 2005, the CNB in co-operation with the Ministry of Internal Affairs of the Republic of Croatia undertook measures that led to the discovery of the perpetrator responsible for 77% of total detected counterfeits, thus to the greatest extent preventing further production and circulation of counterfeits. Efforts to make the general public and banknote users (especially networks of retail outlets) acquainted with the security features of kuna banknotes were continued, aiming at preventing the distribution of counterfeit banknotes. As shown by the relevant indicators, 43 counterfeit were discovered per 1 million banknotes in circulation in 2005. The analysis of received counterfeits showed that in 99% of cases they were produced mostly using computer technology and printed on colour printers.

Table 5.1 Identified Counterfeit Banknotes in 2005

Denominations	1,000	500	200	100	50	20	10	5	
Units	280	853	2,433	721	366	51	29	1	4,734.0
Share	5.9	18.0	51.4	15.2	7.7	1.1	0.6	0.0	100.0

Source: CNB.

5.5 Issuing Commemorative Coins

In 2005, the CNB issued 2,000 numismatic sets of kuna and lipa circulation coins, with “2005” marking the year of issue as well as 30,000 commemorative circulation coins in the denomination of 25 kuna under the name “Republic of Croatia – EU Membership Candidate”.

In co-operation with Croatian Monetary Institute, the Croatian National Bank also issued two commemorative silver coins in denominations of 150 kuna, celebrating the 2006 World Football Championship and 2006 Winter Olympics in Italy.

5.6 Cash Supply Centres

Late in 2004, the CNB and FINA, in co-operation with seven banks with the largest volume of cash operations, completed the project of the organisation of cash supply centres in the Republic of Croatia. The project was carried out in two phases: the first was establishing the existing situation and the second was to define the concept of cash supply centre network, the concept of products and services offered, work-flow concept, machinery, storage and internal transport concept as well as IT and staffing concept, the number, cost and organisation model as well as the business model of cash supply centres.

Based on the results achieved through the implementation of the project, in 2005 the Croatian National Bank, FINA and banks worked on harmonising their positions on the organisation of cash supply centres, especially in relation to their organisational scheme, ownership structure, supervision and management.

PUBLIC
RELATIONS

6

NATIONAL BANK
REPORT 2005

6.1 Public Relations

The Croatian National Bank considers the transparency of its activities a key prerequisite for maintaining the credibility of its operations. Therefore, it devotes significant and continued efforts to informing and educating the domestic and international public on its goals, monetary policy measures and other activities within the scope of its responsibilities as well as on the characteristics and indicators of its economic environment. By making use of different means of communication, the Croatian National Bank strove to regularly and timely inform the public on all important aspects of its operations again in 2005.

Press releases on the decisions of the CNB Council, the bank's governing body, were published immediately upon their adoption, as well as press releases informing the public on central bank's interventions in the foreign exchange market and other measures taken in performing its central banking tasks. The information was published or broadcast by the media and it is available, both in English and the Croatian language, at CNB's web page www.hnb.hr where all those interested may also find the results of open market operations that the CNB started conducting in 2005.

Press conferences and briefings for journalists covering the finance and banking sector were organised after important decisions had been taken in order to make them acquainted with the relevant changes and enable them to properly and timely inform the public. Interviews and press releases by the highest central bank officials to numerous domestic and foreign media and their participation at numerous domestic and international conferences in the country and abroad were also part of the CNB's efforts to provide to the public detailed and comprehensive insight into its activities.

In 2005, the CNB added one more publication to the range of its existing publications (monthly and quarterly bulletins on economic and monetary developments and situation in the banking sector, annual reports, different research and analyses by CNB's experts and statistical reports). The semi-annual Macroprudential Analysis covers the functioning of Croatia's financial system and its relation to the economy, the public sector and international environment. The main focus of this publication is the recognition of the possibilities of financial system development within the framework of its role in protecting national savings and being the source of liquidity and capital required for efficient operation and further development of Croatia's economy.

The Croatian National Bank devotes great efforts to replying as soon as possible to numerous inquiries it receives every day not only in order to comply with the existing legal requirements, but primarily due to its sense of responsibility as a public institution to different segments of the public. In 2005, the Public Relations Office of the Croatian National Bank responded to over a thousand written (fax or e-mail) and telephone inquiries from savers, businessmen, secondary school and university students as well as companies, banks, embassies and other domestic and international institutions. Over two hundred replies to inquiries of domestic and foreign journalists were prepared in co-operation with different expert departments of the CNB, while direct information and answers to questions are provided on daily basis to telephone inquiries by interested legal and natural persons regarding central bank's operations.

To make them acquainted with the central bank's operations, the CNB held several lectures for secondary school students and domestic and foreign graduate and postgraduate students. The CNB's successful organisation of the 11th Dubrovnik Economic Conference is also a contribution towards informing the domestic and international public on the challenges faced by modern central banks and thus the Croatian National Bank in defining its monetary policy and carrying out other tasks.

INTERNATIONAL
RELATIONS



INTERNATIONAL BANK
REPORT 2005

7.1 Activities of the CNB in Connection with the Relations between the Republic of Croatia and the European Union

Two years following the submission of the Republic of Croatia's application for the EU membership, the Council of the European Union adopted a decision in 2005 on the initiation of the Croatia's EU accession negotiation process. The negotiations formally started on 3 October 2005, by the convention of a bilateral intergovernmental conference on the Croatia's EU accession. This was preceded by a procedure which is common to all the countries wishing to become the EU Member States. After having submitted its application for EU membership in February 2003 and responded to the European Commission Questionnaire, the Republic of Croatia received a positive European Commission opinion (Avis) on its application for EU membership in April 2004. The Council of the European Union accepted the Commission's opinion and granted a candidate status to Croatia in June 2004.

A formal initiation of the negotiations was followed by the analytical examination and evaluation of the degree of harmonisation of the Republic of Croatia's national legislation with the EU *acquis communautaire*, known as screening. Screening is carried out for 35 negotiation chapters and is divided into two stages: explanatory stage, where the European Commission experts explain at the joint meeting the provisions of the EU *acquis communautaire* for the respective area to the members of the respective Croatia's working group, and bilateral stage, where the Croatian representatives give an overview of the Croatian national legislation in that area. The experts of the Croatian National Bank participate in the work of the working groups for the three areas: Free Movement of Capital, Financial Services and Economic and Monetary Union. The heads of the working groups were appointed and the working groups established for each individual area, where more than 30 employees of the Croatian National Bank participate. In addition to the appointed members of the working groups, other CNB employees also take part in the activities related to the preparation of negotiations. The Deputy Governor of the Croatian National Bank himself is the negotiator for the previously indicated areas and he is also a Deputy Chief Negotiator. In 2005, screening for the chapter Free Movement of Capital was carried out, and in early 2006 screening for the two remaining areas: Financial Services and Economic and Monetary Union, was underway.

February 2005 saw entering into force of the Stabilisation and Association Agreement (SAA), which was signed in Luxembourg as early as in 2001. A years-long ratification process of the SAA was completed in 2004, after the procedure had been broadened to include the ten new EU Member States. An overview of all the activities related to the fulfillment of commitments under the SAA and other activities related to the accession process is contained in the document the National Programme for Accession to the EU. At its session of 3 January 2006 the Government adopted the National Programme for

2006. The CNB co-operates in the preparation of this document, in the part relating to economic criteria, free movement of capital, financial services and economic and monetary union.

By getting the EU candidate status, Croatia assumed an obligation to prepare the Pre-accession Economic Programme (PEP) on an annual basis. In that regard, the PEP for 2006-2008 is the second PEP prepared by the Republic of Croatia and accepted by the Government at its session on 8 December 2005. The PEP is aimed at preparing the candidate countries for participation in procedures of multilateral supervision and co-ordination of the economic policy currently pursued in the EU, as a part of the EMU. The real objective of the Programme is to create an appropriate medium-term monetary policy framework, which is complementary to the achievement of the set macroeconomic goals, including public finance targets and priorities in the area of structural reforms. The CNB experts also participated in the preparation of this document, in the part related to the current economic developments, macroeconomic programme and the financial sector.

The European Commission's Progress Report on the Republic of Croatia for 2005, which was presented by the Commission in November 2005, confirms the conclusions from the Opinion of April 2004, relating to the economic criteria for EU membership. The Report points out that stability-oriented macroeconomic policy contributed to a relatively low inflation and maintenance of the stable exchange rate, as well as to a significant reduction in budget deficit and balance of payment current account deficit.

The Croatian National Bank is also involved in the activities aimed at the achievement of the legal convergence, by continuing the harmonisation of the legislation within its field of competence, which is already harmonised with the EU legislation to a great extent, with the EU *acquis communautaire*. The CNB is also active in the area of institutional adjustment. It should be noted, in that respect, that following the preparations for the appointment of the CNB representative to the Mission of the Republic of Croatia with the European Communities in Brussels, the appointment took place in early 2006.

7.2 International Monetary Fund (IMF)

The quota of the Republic of Croatia in the IMF remained unchanged in 2005 (SDR 365.1m), the same as its voting rights (0.18% of total voting rights). The Republic of Croatia can realise its interests within the IMF through the Dutch Constituency, which includes, in addition to the Republic of Croatia, another 11 countries: Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Israel, Macedonia, Moldova, the Netherlands, Romania and Ukraine. The Constituency is headed by the Dutch representative, Jeroen Kremers, who acts as Executive Director of the Constituency. A voting power of the

Constituency is 4.85% of the total votes in the IMF, which makes it the seventh strongest constituency (of the total of 24 constituencies).

Intensive contacts with the experts of the IMF continued in 2005, both through this institution's representative office and through repeated visits of the IMF missions to Croatia and the CNB delegation visits to the IMF. They were primarily focused on the implementation of the stand-by arrangement which was approved in 2004 by the Executive Board of the IMF in the amount of SDR 97m for a period of 20 months. As in the case of the previous two arrangements, this arrangement was concluded as "precautionary", given the favourable financial position of the Republic of Croatia, and the Republic of Croatia did not withdraw any funds approved.

In September 2005, the first review of the stand-by arrangement was completed. On this occasion, the IMF Executive Board confirmed that all the quantitative performance criteria were met, except for the criteria relating to the consolidated general government deficit and general government arrears for the end of 2004. The implementation of the macroeconomic policy within the IMF program was assessed as positive, supported by the stable economic growth and prudent monetary policy. However, a further increase in the external debt to GDP ratio was also recorded, along with a poorer fiscal adjustment compared to the previously planned one for 2005. As a result, the Croatian authorities took several corrective measures, placing a special emphasis on the acceleration of the structural reforms implementation. The IMF Executive Board, holds that, in the forthcoming period, special efforts should again be made with a view to further implement the structural reforms plan, fiscal adjustment and the related finding of a way to mitigate the macroeconomic effects of the settling of the government's debt to pensioners, the beginning of which is expected at the beginning of the second half of 2006.

The second review of the stand-by arrangement was successfully completed on 29 March 2006. The Executive Board of the IMF accepted the explanation of the Croatian authorities concerning the non-fulfilment of the quantitative performance criterion for end-December 2005, relating to the balance of the general government arrears, approved the extension of the arrangement until 15 November 2006, and increased the right of access to the funds to SDR 99m. The implementation of the macroeconomic policy was again assessed positively; a stable economic growth was achieved, as well as low inflation, reduction of external vulnerability, progress in the implementation of structural reforms and a successful fiscal adjustment. The establishment of the Croatian Financial Services Supervisory Agency was also stressed, as well as a need for a future close co-operation between the CNB and the newly-established agency. The CNB continues to successfully fulfil its task of maintaining the price stability and exchange rate stability and attempts, on its part, to contribute to the reduction of the external debt growth. As was the case in the previous review, the second review pointed out to an increase in the share of external debt in GDP in 2005, caused primarily by an excessive borrowing of the private sector and, as a consequence, to a still high level of external debt. The Executive Board believes that the Croatian authorities will achieve a further progress by continuing to implement fiscal consolidation and the key structural reforms, especially in the field of health care system, further privatisation and reduction of subsidies and government grants, as well as shipyard restructuring.

The Croatian representatives continued with their regular participation in the work of the IMF management bodies (Constituency, International Monetary and Financial Committee and Board of Governors) in 2005. On that occasion, the Croatian representatives had a chance to get acquainted more closely with several issues in which the IMF is involved in order to be able to assist its member countries as successfully as possible, by an appropriate advice or in financial terms. In that regard, in the previous year, the IMF dedicated a

special attention to a study on its role in the global economy and the manner in which it should change itself to adjust to the global economy. The result of this work is, the so-called, IMF mid-term strategy, presented at the IMF and World Bank Annual Meeting in 2005.

Furthermore, as the fiscal agent of the Republic of Croatia and a depository of the International Monetary Fund (as provided by the Act on Accepting Membership of the Republic of Croatia in the International Monetary Fund and Other International Financial Organisations on the Basis of Succession¹), the Croatian National Bank is responsible for keeping deposit accounts of the IMF and for regular servicing of the obligations arising from the arrangements concluded between the Republic of Croatia and the IMF. The obligations due in 2005 related to the charges on the already mentioned stand-by arrangement concluded in 2004 (SDR 0.16m). Also, as a member of the Special Drawing Rights Department (of the IMF), Croatia regularly repaid its succession-related obligations arising from the allocation of special drawing rights in the amount of SDR 1.09m in 2005.

7.3 Bank for International Settlements (BIS)

At its Annual General Meeting held on 27 June 2005, which was attended by the Governor, as the representative of the Croatian National Bank, BIS adopted its Annual Report and decided that dividends to be paid were to amount to SDR 235 per share.

At the same time when the regular annual meeting took place, the Extraordinary General Meeting was held, where the Amendments to the BIS Statutes were adopted, for the purpose of a further improvement of operational transparency of this international financial institution (this time, in the field of management). By adopting the amendments to the Bank's Statutes the number of the top management bodies was reduced from three to two; the position of the president was abolished, and the Chairman of the Board of Directors and the General Manager remained the top management bodies. Furthermore, the existing authorities of the Board of Directors were defined more precisely, and the General Manager, as the chief executive officer, in charge of carrying out of the policy determined by the Board, was also granted an authority to propose the departmental organisation. In addition, the Executive Committee, as the advisory body of the General Manager, was also introduced.

1 Official Gazette 89/1992.

In 2005, the process of taking over the BIS shares by the central banks was completed, which began by the decision of the BIS Extraordinary General Meeting in January 2001 that the BIS shares should be held exclusively by the central banks. More specifically, in early 2005, BIS offered for sale to the central banks that are its members, including the CNB, the shares that remained available after the BIS had repurchased the shares that were owned by the private shareholders, in accordance with the previously mentioned decision. This refers to 35,933 shares of the so-called American issue, implying that the voting rights, appertaining to these shares, remain with the central bank of the United States of America, pursuant to the provisions of the BIS Statute. On the basis of that offer, the Croatian National Bank also purchased 161 BIS shares on 31 May 2005, in proportion to its share in the BIS total capital as of that date.

Regular meetings of the central bank governors from the BIS member countries, where topical issues in the area of international banking and finance are discussed, are still an important incentive to the co-operation between the central banks in this area. Within the activities of the BIS aimed at promoting co-operation among central banks, an important part is played by a number of committees and expert bodies within the BIS, in whose work the CNB representatives actively participate (e.g. participation in the work of a regional group of supervisors from the Central and East European countries and co-operation in the area of technical assistance).

Another important form of co-operation between the CNB and the BIS was achieved in the area of international reserves management.

7.4 Co-operation with Other International Financial Institutions

The major part of CNB's co-operation with other international financial institutions refers to its co-operation with development banks of which the Republic of Croatia is a member: the World Bank Group, the EBRD and the Inter-American Development Bank (IDB). The Republic of Croatia's membership in these banks is regulated by special acts, pursuant to which the Croatian MoF is the competent authority for co-operation with the World Bank Group, EBRD and IDB, and is authorised to perform all operations and transactions in the name of the Republic of Croatia that are permissible under these institutions' articles of association. The CNB is the depository, i.e. it keeps all deposit accounts owned by these international financial institutions, in the name and on behalf of these financial institutions, and performs financial transactions with these organisations as the payment agent of the Republic of Croatia. Withdrawals and repayments of funds based on structural loans,

which the IBRD granted to the Republic of Croatia, are also executed through the CNB.

In addition to these legally prescribed tasks, the CNB representatives, at numerous meetings with the representatives of the World Bank and the EBRD in 2005, exchanged information on macroeconomic situation in the Republic of Croatia and on the planned strategy of these development banks for the Republic of Croatia in the forthcoming period.

In 2005, the CNB also co-operated with many other international financial institutions. Intense contacts with the EIB also continued. As in the preceding years, the CNB and other competent Croatian institutions were visited by IIF representatives for the purpose of monitoring the economic and political situation.

7.5 Foreign Exchange System and Foreign Exchange Policy Measures of the Republic of Croatia

The legal basis of the foreign exchange system of the Republic of Croatia is the Foreign Exchange Act.² Relevant subordinate legislation defines the instruments and measures for the implementation of foreign exchange policy.

Foreign exchange policy measures determine the degree of restrictions on capital movements between residents and non-residents. Regulations also determine the procedure for the issuance of authorisations based on applications to transfer capital from the Republic of Croatia, as well as the terms and methods of using foreign means of payment and kuna in relations between residents and between residents and non-residents.

7.5.1 Free Movement of Capital

The SAA, which entered into force on 1 February 2005, obliges the Republic of Croatia to abolish restrictions on payments and transfers of funds based on

² Official Gazette 96/2003 and 140/2005.

current foreign exchange operations, as well as restrictions on payments and transfers of funds in the remaining capital transactions.

The negotiations concerning the Republic of Croatia's EU accession began in early October 2005, and the screening process of the national legislation in Chapter 4. Free Movement of Capital, which included the subordinate legislation within the competence of the Croatian National Bank governing the movement of capital and external payment transactions, was performed during November and December. The Croatian National Bank anticipates that it will harmonise its regulations in this area with the EU *acquis communautaire* by end-2008.

As a part of the capital transactions liberalisation process, in 2005 the Croatian National Bank abolished the largest part of capital restrictions in the area of securities transactions. The restrictions that were prescribed by the Decision on the Manner of and the Conditions for Investment of Residents into Foreign Securities and Stakes in Foreign Investment Funds were abolished by the adoption of the new Decision,³ which entered into force on 24 March 2005.

According to the new Decision, residents are free to invest in foreign securities, regardless of the issuer's credit rating or its registered office. When investing in foreign securities, the resident natural persons are obliged to perform these investments through domestic authorised companies and are also obliged to deposit the purchased securities into custody with the domestic custodian bank.

The Croatian National Bank also adopted the Decision on the Revocation of the Decision Governing the Conditions under Which Non-Residents Issue Short-Term Securities in the Republic of Croatia,⁴ which completely liberalised the issuance of securities by non-residents on the domestic market.

Furthermore, by adopting the Decision on the Revocation of the Decision on the Manner of and the Conditions for Investment of Non-Residents into Domestic Securities and Stakes in Domestic Investment Funds,⁵ the portfolio investments of non-residents in the Republic of Croatia also became free. The only restriction that remained on the investment of non-residents in the domestic securities is related to the investments of non-residents in CNB bills and T-bills of the Ministry of Finance of the Republic of Croatia.

Restrictions on capital transaction have remained only for granting short-term financial loans to non-residents by residents, opening of accounts in foreign financial institutions by residents, taking cash in and out of the country, cash transactions across the accounts of non-residents in domestic banks, and cash payment and collection between residents and non-residents.

In July 2005, the Croatian National Bank adopted the Decision Governing the Conditions for and the Manner of Performing External Payment Operations,⁶ and in September 2005 it adopted the Instruction⁷ for the Implementation of that Decision, which applies as of 1 June 2006. The previously indicated subordinate legislation has, to a large extent, harmonised the Croatian legislation in the area of external payment operations with the EU *acquis communautaire*.

3 Official Gazette 34/2005.

4 Official Gazette 34/2005.

5 Official Gazette 34/2005.

6 Official Gazette 88/2005.

7 Official Gazette 136/2005.

7.5.2 Exchange Transactions

The Act on Amendments to the Foreign Exchange Act,⁸ which entered into force on 6 December 2005, imposed an obligation on the authorised exchange offices, to obtain an authorisation by the Croatian National Bank for conducting their exchange transactions.

The Act prescribes the documentation and conditions that must be fulfilled by a resident who wishes to perform the operations of the authorised exchange office to be granted the authorisation, as well as the grounds for revoking the authorisation for conducting the exchange transactions.

The exchange transactions worth EUR 3.8bn were recorded during 2005, which were conducted by approximately 1,200 authorised exchange offices. Accordingly, about 1,200 applications for granting the authorisation for conducting exchange transactions are expected in the Croatian National Bank in the forthcoming period.

Within the implementation of the foreign exchange policy and performance of its tasks, the CNB in 2005 issued 31 certificates for the protected computer software that must be used by the authorised exchange offices. The use of certified computer software for the authorised exchange offices has been introduced to strengthen their fiscal and financial discipline and is directly related to the implementation of the anti-money laundering policy.

8 Official Gazette 140/2005.

FINANCIAL STATEMENTS

OF THE
CROATIAN NATIONAL BANK

8

NATIONAL BANK
REPORT 2005

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Independent Auditor's Report

To the Governor and the Council of the Croatian National Bank, Zagreb

We have audited the accompanying balance sheet of Croatian National Bank as at 31 December 2005, and the related statement of income, changes in capital and cash flow for the years then ended, and summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Croatian National Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of Croatian National Bank as at 31 December 2005, the results of its operations, cash flow, and changes in capital for the years then ended in accordance with International Financial Reporting Standards.

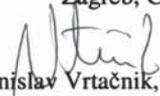


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Zagreb, Croatia



Branislav Vrtačnik, certified auditor

10 March 2006

10 March 2006

Income Statement

Income Statement

for the year ended 31 December 2005, in thousand HRK

	Notes	Year ended 31 December 2005	Year ended 31 December 2004
Interest and similar income	3	1,193,860	928,050
Interest expense and similar charges	4	(361,048)	(400,264)
Net interest income		832,812	527,786
Fee and commission income		5,744	4,796
Fee and commission expense		(3,157)	(3,124)
Net fee and commission income		2,587	1,672
Dividend income		4,740	4,549
Net result from financial operations	5	86,421	141,604
Net effect of revaluation of precious metals	5	724	(104)
		87,145	141,500
Net foreign exchange losses	6	(400,824)	(379,155)
Other income	7	7,458	7,814
Operating income		533,918	304,166
Operating expenses	8	(279,552)	(246,634)
Decrease/(increase) in provisions	9	7,342	(1,043)
Operating surplus		261,708	56,489
– Allocated to general reserves		(52,342)	(56,489)
– Allocated to State Budget		(209,366)	–

Balance Sheet

Balance Sheet

as at 31 December 2005, in thousand HRK

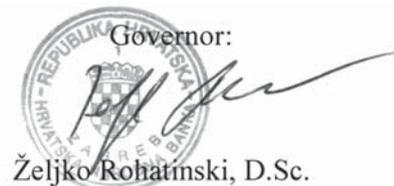
	Notes	As at 31 December 2005	As at 31 December 2004
Assets			
Cash and current accounts with other banks	10	8,716	7,063
Due from other banks	11	28,250,507	24,319,677
Trading securities	12	26,572,991	25,023,661
Loans	13	4,201,237	394,134
Placements with International Monetary Fund	14	3,259,112	3,200,964
Equity investments	15	57,541	33,085
Accrued interest and other assets	16	156,545	134,953
Tangible and intangible assets	17	373,858	361,388
Total assets		62,880,507	53,474,925
Liabilities			
Banknotes and coins in circulation		14,374,538	12,826,645
Due to banks and other financial institutions	18	39,621,119	31,862,457
Due to the State and State institutions	19	294,126	284,120
Due to the International Monetary Fund	20	3,251,453	3,194,754
Accrued interest and other liabilities	21	316,942	343,421
Total liabilities		57,858,178	48,511,397
Equity			
Capital	22	2,500,000	2,500,000
Reserves	22	2,522,329	2,463,528
Total equity		5,022,329	4,963,528
Total equity and liabilities		62,880,507	53,474,925

The financial statements set out on pages 158 to 177 were approved on 10 March 2006 by:

Director of Accounting Department:
Ivan Branimir Jurković



Governor:



Željko Rohatinski, D.Sc.



Statement of Changes in Equity

Statement of Changes in Equity

for the year ended 31 December 2005, in thousand HRK

	Capital	General reserves	Revaluation reserves	Unrealised gains	Operating surplus	Total capital
Balance at 1 January 2004	2,500,000	2,149,374	257,665	–	–	4,907,039
Transferred to general reserve from revaluation reserves	–	5,588	(5,588)	–	–	–
Operating surplus	–	–	–	–	56,489	56,489
Operating surplus transferred to general reserves	–	56,489	–	–	(56,489)	–
Balance at 31 December 2004	2,500,000	2,211,451	252,077	–	–	4,963,528
Transferred to general reserves from revaluation reserve	–	5,102	(5,102)	–	–	–
Exchange differences on available-for-sale financial assets	–	–	–	1,346	–	1,346
Changes in the value of equity investments	–	–	–	5,113	–	5,113
Operating surplus	–	–	–	–	261,708	261,708
Operating surplus transferred to general reserves	–	52,342	–	–	(52,342)	–
Operating surplus allocated to the State Budget	–	–	–	–	(209,366)	(209,366)
Balance at 31 December 2005	2,500,000	2,268,895	246,975	6,459	–	5,022,329

Statement of Cash Flows

Statement of Cash Flows

for the year ended 31 December 2005, in thousand HRK

	2005	2004
Cash flows from operating activities		
Interest received	1,192,580	896,181
Interest paid	(382,916)	(403,857)
Commissions received	5,670	4,062
Commissions paid	(2,917)	(2,970)
Dividends received	4,741	4,549
Other receipts	10,163	11,335
Expenses paid	(216,613)	(192,833)
	610,708	316,467
Changes in operating assets and liabilities		
(Increase)/decrease in deposits with other banks	(4,140,498)	630,885
(Increase)/decrease in loans	(3,797,626)	571,142
Purchases of trading securities	(1,759,814)	(594,692)
Net (increase)/decrease in other assets/liabilities	(261,643)	214,154
Decrease in amounts due to the IMF	(1,428)	(2,525)
Increase of currency in circulation	1,548,933	570,248
Increase in amounts due to banks and other financial institutions	7,868,194	4,620,383
Increase/(decrease) in amounts due to State	17,598	(1,150,445)
	(526,284)	4,859,150
Net cash from operating activities	84,424	5,175,617
Cash flows from investing activities		
Purchase of property and equipment	(33,149)	(64,525)
Acquisitions of equity investments	(18,256)	–
Net cash from investing activities	(51,405)	(64,525)
Cash flow from financing activities		
Net issue of CNB bills	–	(5,036,313)
Net cash from financing activities	–	(5,036,313)
Effect of exchange differences	(29,942)	(74,841)
Net increase/(decrease) in cash	3,077	(62)
Cash at the beginning of the year	11,900	11,962
Cash at the end of the year (Note 24)	14,977	11,900

The accompanying notes form an integral part of these financial statements.

Accounting Policies and Notes to the Financial Statements

Note 1 – General Information and Accounting Standards

1.1 General information

The Croatian National Bank is the central bank of the Republic of Croatia, whose status has been defined by law. The owner of the Croatian National Bank is the Republic of Croatia, which guarantees the liabilities of the Bank. It is headquartered in Zagreb, Trg hrvatskih velikana 3. Its area of competence comprises the responsibility for achieving and maintaining price stability. The Croatian National Bank is an independent organization, and reports to the Croatian Parliament, which has adopted its Statute. The Governor of the Croatian National Bank represents the Croatian National Bank.

The tasks performed by the Croatian National Bank as provided by the Constitution and law include the following:

- Determining and implementing monetary and foreign currency policy;
- Maintaining and managing international reserves of the Republic of Croatia;
- Issuing banknotes and coins;
- Issuing and withdrawing banking licenses, and supervising the operations of banks;
- Maintaining bank accounts and performing payment transactions on those accounts, issuing loans to other banks and receiving deposit funds from other banks;
- Regulating, improving and supervising payment operations;
- Performing tasks on behalf of the Republic of Croatia as defined by law;
- Promulgating regulations from its area of competence; and
- Performing other tasks specified by law.

1.2 Accounting standards and conventions

These financial statements are prepared using the accrual method and under historical cost convention as modified for revaluation of tangible assets and certain financial assets and liabilities to fair value in accordance with International Financial Reporting Standards.

The financial statements are presented in thousands of Croatian kunas.

The preparation of financial reports in accordance with generally accepted accounting standards requires the use of estimates and judgments that influence the amounts of assets and liabilities at the reporting date and the amounts of income and expenditures for the reporting period. Although the

estimates are based on the management's best estimate of current events and operations, they may differ from the actual results.

Note 2 – Summary of Significant Accounting Policies

2.1 Interest income and expense

Interest income and expense are recognized in the income statement on an accrual basis.

Interest income includes interest earned on coupons for fixed-yield financial instruments, as well as accrued discount on purchased securities.

Accrued discount on issued treasury bills is treated as interest expense, as is also any premium on purchased securities.

2.2 Fee and commission income and expense

Fee and commission income earned on financial services provided by the Croatian National Bank and is recognized when the corresponding service is provided.

Fee and commission expense is included in the income statement when the services are received.

2.3 Dividend income

Dividend income on equity investments is recognized in the income statement when the right to receive dividends is established.

2.4 Foreign exchange gains and losses

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. All monetary assets and liabilities denominated in a foreign currency are retranslated at the balance sheet date at the rate effective on that date. Gains and losses on translation are included in the income statement for the period in which they occur. They are translated at the midpoint exchange rate of the Croatian National Bank, except for the Special Drawing Rights (XDRs), which are translated to Croatian kuna at the exchange rate provided by the International Monetary Fund.

Foreign exchange gains and losses arising from fluctuations in exchange rates are recorded in the income statement as unrealized gains or losses in the period when they occur.

Foreign exchange gains and losses arising from financial instruments available-for-sale are recognized directly in equity.

Gains and losses arising from trading in foreign currencies are included in realized income or expenditure in the period in which they occur.

The exchange rates of major foreign currencies at 31 December 2005 were as follows:

USD 1 = HRK 6.233626 (2004: HRK 5.636883)
EUR 1 = HRK 7.375626 (2004: HRK 7.671234)
XDR 1 = HRK 8.912040 (2004: HRK 8.754136).

2.5 Provisions for commitments and contingencies

The Croatian National Bank recognizes a provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation. If all these conditions are not met, no provision is recognized.

2.6 Financial instruments

2.6.1 Classification

Financial assets of the Croatian National Bank are classified into the following categories:

- a) *Financial assets at fair value through profit or loss*
This category comprises marketable debt securities in which the Croatian National Bank invests international reserve funds for the purpose of earning interest income or changes in the fair value of the underlying instrument.
- b) *Loans and receivables*
This category comprises loans approved by the Croatian National Bank without the intention of short-term profit taking.
- c) *Financial assets available for sale*
This category comprises the Croatian National Bank's investments in equity securities.

2.6.2 Recognition

The Croatian National Bank recognizes financial assets on the settlement date. Any gains and losses arising from changes in the fair value of financial assets are recognized as of the last day of the reporting period.

2.6.3 Measurement

Financial instruments are measured initially at cost, which includes transaction costs.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, which corresponds to the quoted market price in an active financial market. Financial instruments with no quoted market price and with fixed maturities are stated at amortized cost, by applying the effective interest rate method.

Those that do not have a fixed maturity and whose fair value cannot be reliably measured are measured at cost, less any impairment loss.

2.7 Impairment of financial assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated, and an allowance is made to reduce the asset to its recoverable amount.

2.8 Repurchase and reverse repurchase agreements

The Croatian National Bank enters into a securities purchase/sale agreement where it contracts to resell/repurchase the same instrument on a specific

future date at a fixed price. Securities purchased under reverse repurchase agreements are not recognized in the balance sheet. Outflows arising from these agreements are recognized as due from banks or other financial institutions, and are collateralized by appropriate securities pledged under the repurchase agreement. Securities sold under repurchase agreements are not removed from the balance sheet but are reported in accordance with the accounting policy for such financial assets. Inflows from sales of securities are recognized as due to banks or other financial institutions. The difference between sale and repurchase price is treated as interest income or expense and accrued over the period of transaction.

2.9 Balances with International Monetary Fund

Balances with the International Monetary Fund are denominated in Special Drawing Rights (XDR).

2.10 Gold and other precious metals

Gold and other precious metals are held at the market value. Gains and losses arising from a change in the fair value are recognized in the income statement in the period when they occur.

2.11 Cash in circulation

The legal tender in the Republic of Croatia is the Croatian kuna. Banknotes and coins in circulation are carried at face value.

2.12 Taxation

The Croatian National Bank is not subject to Croatian income tax.

2.13 Tangible and intangible assets

Tangible and intangible fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation. Depreciation is provided under the straight-line method at prescribed rates designed to write off the cost or valuation of assets over their useful lives.

Assets are revalued by independent expert reference to their market values. Any gains on revaluation are included in revaluation reserves as a separate component of equity. Losses on revaluation are recorded against revaluation reserves to the extent of previously recognized gains. Losses in excess of previously recorded gains are recognized as an impairment charge in the income statement.

The following annual rates are used:

in %

Item	2005	2004
Business buildings	2.5	2.5
Flats	5.0	–
Garages	2.5	2.5
Air-conditioning system	20.0	10.0
Fire alarm system	20.0	20.0

Item	2005	2004
Mobile phones	50.0	25.0
Fixed telephony	25.0	25.0
Office equipment	25.0	25.0
Restaurant equipment	25.0	25.0
Machinery and other equipment	20.0	25.0
Furniture	20.0	20.0
Safes	10.0	20.0
Motor vehicles	25.0	25.0
Servers and other computer equipment	25.0	25.0
Software	33.3	25.0
Immaterial assets	25.0	20.0
Security system and video surveillance equipment	25.0	–

2.14 Appropriations

The surplus of income over expenditures is transferred in accordance with Article 53 of the Law on the Croatian National Bank.

Note 3 – Interest and Similar Income

in thousand HRK

Item	2005	2004
Deposits	668,668	428,133
Trading securities	460,907	492,103
International Monetary Fund	36	21
Loans to domestic banks	59,068	5,903
Other	5,181	1,890
	1,193,860	928,050

Note 4 – Interest and Similar Expense

in thousand HRK

Item	2005	2004
Kuna reserve requirements	166,290	234,897
Foreign currency reserve requirements	125,497	118,938
Kuna CNB bills	–	254
Mandatory CNB kuna bills	–	128
Foreign currency CNB bills	–	9,488
International Monetary Fund arrangements	1,403	2,533
Repurchase arrangements	64,721	32,229
Other interest expense	3,137	1,797
	361,048	400,264

Note 5 – Net Financial Result and Revaluation of Precious Metals

in thousand HRK

Item	2005	2004
Net result on sale and changes in the fair value of trading securities	86,421	141,604
Net effect of revaluation of precious metals	724	(104)
	87,145	141,500

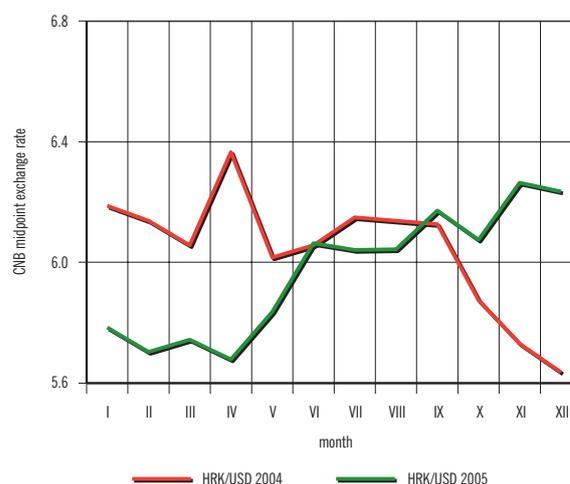
Note 6 – Net Exchange Differences

Since the international reserves of the Republic of Croatia account for over 90% of the balance sheet of the Croatian National Bank, any changes in foreign exchange rates imminently affect both the balance sheet and the income statement.

Considering the currency structure of international reserve funds, the movements in major exchange rates (USD, EUR, XDR) in relation to kuna during 2005 and 2004 are illustrated below.

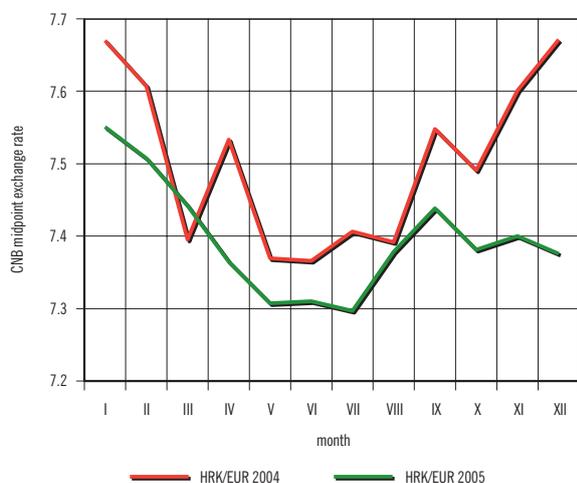
8.1

Exchange Rate Movement – HRK vs. USD in 2004 and 2005



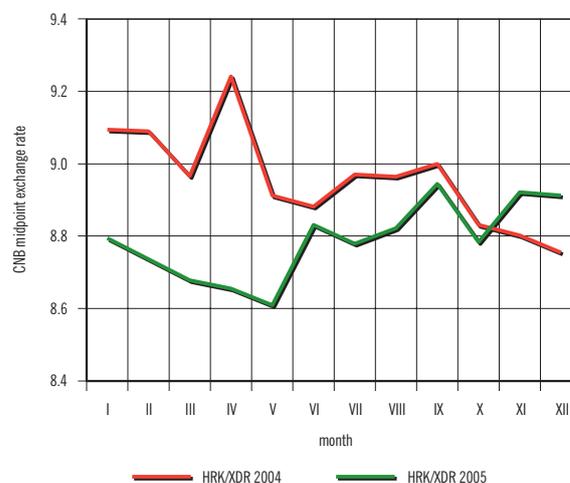
8.2

Exchange Rate Movement – HRK vs. EUR in 2004 and 2005

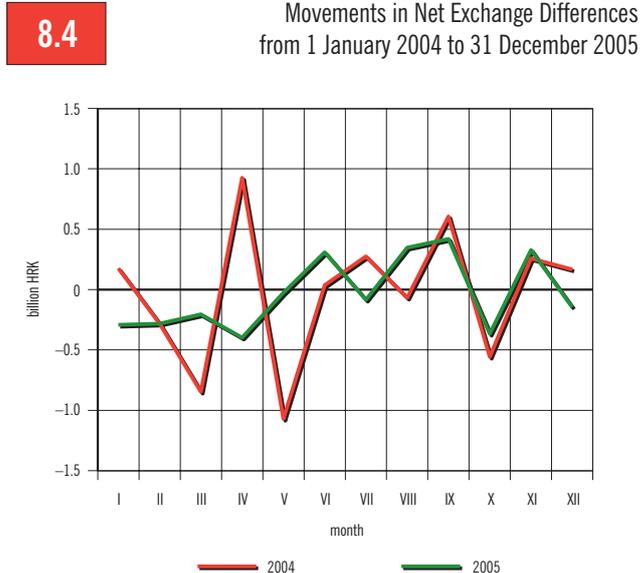


8.3

Exchange Rate Movement – HRK vs. XDR in 2004 and 2005



The graph below illustrates movements in net exchange differences during 2005 and 2004:



The movements in net losses on remeasurement of the balance sheet items according to the fluctuations in foreign exchange rates over the past five years are presented below:

Year	Net loss
2001	261,309
2002	1,240,948
2003	609,737
2004	379,155
2005	400,824

Note 7 – Other Income

in thousand HRK

Item	2005	2004
Gains on sales of numismatics	1,194	1,337
Other income	6,264	6,477
	7,458	7,814

Note 8 – Operating Expenses

in thousand HRK

Item	2005	2004
Staff costs (Note 8.1)	133,706	125,832
Materials, services and administrative expenses	89,124	68,202
Costs of banknotes and coins in Croatian currency	34,217	34,795
Depreciation and amortization	22,505	17,805
	279,552	246,634

Note 8.1 – Staff Costs

in thousand HRK

Item	2005	2004
Net salaries	58,063	53,714
Contributions from and on salaries	34,206	32,224
Taxes and local taxes	16,614	16,515
Other staff costs	24,823	23,379
	133,706	125,832

The average number of employees during the year was 561 (2004: 541).

Note 9 – Decrease/Increase in Provisions

in thousand HRK

Item	2005	2004
Loans		
New provisions made	–	4
Amounts collected	(9,481)	(10,688)
Accrued interest		
Amounts collected	–	(385)
Provisions for risks and charges		
New provisions made	7,444	16,123
Provisions released	(5,305)	(4,011)
	(7,342)	1,043

Note 10 – Cash and Current Accounts With Other Banks

in thousand HRK

Item	31/12/2005	31/12/2004
Cash on hand	5,157	5,529
Current accounts with foreign banks	3,559	1,534
	8,716	7,063

Note 11 – Deposits With Other Banks

in thousand HRK

Item	31/12/2005	31/12/2004
Foreign central banks	373,395	564,816
Foreign commercial banks	27,863,021	23,740,579
Domestic commercial banks	14,091	14,282
	28,250,507	24,319,677

Note 12 – Trading Securities

in thousand HRK

Item	31/12/2005	31/12/2004
Securities denominated in EUR	21,643,381	19,754,380
Securities denominated in USD	4,929,610	4,961,664
Certificates of deposit	–	307,617
	26,572,991	25,023,661

Note 13 – Loans

a) By type of loan

in thousand HRK

Item	31/12/2005	31/12/2004
Loans to domestic banks		
– Repo auctions	4,201,100	393,985
– Intervention	63,228	63,228
– Liquidity	9,342	18,823
Other loans	818	830
Gross loans	4,274,488	476,866
Less: provision for loan impairment	(73,251)	(82,732)
	4,201,237	394,134

b) Movements in allowances for impairment losses

in thousand HRK

Item	31/12/2005	31/12/2004
Balance at 1 January	82,732	93,416
New impairment allowances made	–	4
Amounts collected	(9,481)	(10,688)
Balance at 31 December	73,251	82,732

Note 14 – Placements With the International Monetary Fund

in thousand HRK

Item	31/12/2005	31/12/2004
Membership quota	3,252,851	3,196,127
Special Drawing Rights (XDR) and deposits	6,261	4,837
	3,259,112	3,200,964

Note 15 – Equity Investments

in thousand HRK

Item	31/12/2005	31/12/2004
Membership in other international institutions	44,374	25,031
Domestic enterprises	13,167	8,054
	57,541	33,085

The membership in other international institutions relates to the shares of the Bank for International Settlements, Basle, and the shares of SWIFT (Society for Worldwide Interbank Financial Telecommunication).

Domestic equity investments represent the share of the Croatian National Bank in the capital of the Croatian Monetary Institute.

Note 16 – Accrued Interest and Other Assets

in thousand HRK

Item	31/12/2005	31/12/2004
Accrued interest	70,975	59,732
Prepaid expenses	67,075	65,947
Numismatics	10,293	10,666
Gold and other precious metals	2,726	1,948
Other assets	83,364	74,548
	234,433	212,841
Impairment allowance	(77,888)	(77,888)
	156,545	134,953

Item	31/12/2005	31/12/2004
Movements in provisions		
Balance at 1 January	(77,888)	(78,342)
New provisions made	–	–
Amounts collected	–	385
Write offs	–	69
Balance at 31 December	(77,888)	(77,888)

The major portion of prepaid expenses in the amount of HRK 63,823 thousand (2004: HRK 62,893 thousand) relates to the costs of printing banknotes and coining coins.

Note 17 – Tangible and Intangible Assets

in thousand HRK

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Investments in course of construction	Software and licenses	Total
Balance at 31 December 2004								
Cost or revaluation	306,052	53,845	30,525	6,922	3,124	44,299	6,015	450,782
Accumulated depreciation	(24,133)	(35,603)	(20,940)	(5,032)	–	–	(3,686)	(89,394)
Net book amount	281,919	18,242	9,585	1,890	3,124	44,299	2,329	361,388
Year ended 31 December 2005								
Opening net book amount	281,919	18,242	9,585	1,890	3,124	44,299	2,329	361,388
Additions	–	–	–	–	173	34,798	–	34,971
Assets brought into use	86	12,725	5,420	407	–	(27,073)	8,435	–
Revaluation	–	–	–	–	–	–	–	–
Net write-offs	–	(194)	183	–	53	–	(38)	4
Charge for the year	(5,932)	(9,226)	(4,018)	(719)	–	–	(2,610)	(22,505)
Closing net book amount	276,073	21,547	11,170	1,578	3,350	52,024	8,116	373,858
Balance at 31 December 2005								
Cost or revaluation	306,138	65,683	34,703	6,999	3,350	52,024	14,450	483,347
Accumulated depreciation	(30,065)	(44,136)	(23,533)	(5,421)	–	–	(6,334)	(109,489)
Net book amount	276,073	21,547	11,170	1,578	3,350	52,024	8,116	373,858

The tangible fixed assets of the Bank are neither subject to a mortgage nor to a fiduciary relationship.

Note 18 – Due to Banks and Other Financial Institutions

in thousand HRK

Item	31/12/2005	31/12/2004
Kuna reserve requirements	17,605,236	14,674,409
Foreign currency reserve requirements	13,492,115	10,755,318
Other deposits of domestic banks	8,462,135	6,409,404
Foreign banks and other financial institutions	18,944	18,071
Court-mandated deposits	42,689	5,255
	39,621,119	31,862,457

Note 19 – Due to the State and State Institutions

in thousand HRK

Item	31/12/2005	31/12/2004
Domestic currency account balances	280.908	248.923
Foreign currency account balances	13.218	35.197
	294.126	284.120

Note 20 – Due to the International Monetary Fund

in thousand HRK

Item	31/12/2005	31/12/2004
Bills of exchange denominated in HRK	3,243,301	3,186,744
Other IMF's accounts	8,152	8,010
	3,251,453	3,194,754

The bills of exchange denominated in Croatian kuna relate to the membership of the Republic of Croatia in the International Monetary Fund.

Note 21 – Accrued Interest and Other Liabilities

in thousand HRK

Item	31/12/2005	31/12/2004
Accrued interest	15,251	29,166
Due to employees	5,064	4,886
Taxes and contributions	4,578	4,343
Due to the Ministry of Finance	215,418	6,356
Amounts due to suppliers	11,516	10,440
Other liabilities	65,115	288,230
	316,942	343,421

Other liabilities include long-term provisions for risks and charges, out of which HRK 14,040 thousand (2004: HRK 12,747 thousand) are in respect of litigation provision and HRK 12,163 thousand (2004: HRK 11,317 thousand) in respect of provisions for employee benefits.

Note 22 – Capital and Reserves

The capital funds of the Croatian National Bank consist of the initial capital and reserves. The initial capital in the amount of HRK 2,500,000 thousand is held by the Republic of Croatia. The capital is non-transferable and cannot be encumbered by any guarantees.

The increase in the reserves of the Croatian National Bank resulted from the transfer of operating surplus in the amount of HRK 52,342 thousand.

Note 23 – Contingencies and Commitments, and Treasury Inventory System

Legal actions: As at 31 December 2005 there were several legal actions outstanding against the Bank. In the opinion of the management and internal legal advisors of the Croatian National Bank, there is a possibility that the Bank will lose certain cases, and, consequently, provisions for potential losses on such cases were made by the Bank in the amount of HRK 14,040 thousand (see Note 21).

Capital commitments: At 31 December 2005, the Croatian National Bank had capital commitments in the amount of HRK 29,424 thousand (2004: HRK 13,219 thousand).

Treasury inventory system:

in thousand HRK

Item	31/12/2005	31/12/2004
Non-issued banknotes and coins	82,666,032	86,339,863
Stamp duties and bills of exchange	250,429	297,619
	82,916,461	86,637,482

Note 24 – Cash

in thousand HRK

Item	31/12/2005	31/12/2004
Cash on hand	5,157	5,529
Current accounts with foreign banks	3,559	1,534
Special Drawing Rights (XDR) and deposits with the IMF	6,261	4,837
	14,977	11,900

Note 25 – Appropriations

in thousand HRK

Item	31/12/2005	31/12/2004
Surplus of income over expenditure	261,708	56,489
Transfer of surplus to general reserves	(52,342)	(56,489)
Transfer of surplus to the State Budget	(209,366)	–
	–	–

Note 26 – Risk Management

The Bank maintains active trading positions in money market and capital market instruments that are appropriate for central banks. The Bank pays special attention to the monitoring of credit, foreign exchange and interest rate risks, as well as other types of risks. The Bank's investment gain corresponds to assumed risks and reflects its basic investment principles – safety and liquidity.

Note 27 – Credit Risk

The Bank is subject to credit risk that may arise as a result of counterparties' default on their obligations to the Bank. Therefore, the Bank monitors the credit ratings of governments and financial institutions with which it places its international reserve funds on an ongoing basis. The Croatian National Bank only deals with counterparties of the highest credit standing, by setting limits for placements with individual countries and financial institutions.

Geographical concentration of assets and liabilities:

in thousand HRK

Item	Total assets	Total liabilities
Balance at 31 December 2005		
Croatia	4,724,539	54,605,765
OECD countries	54,430,764	18
USA	3,725,192	3,252,395
Other countries	12	–
	62,880,507	57,858,178

in thousand HRK

Item	Total assets	Total liabilities
Balance at 31 December 2004		
Croatia	886,007	45,310,397
OECD countries	46,535,907	6,183
USA	6,052,979	3,194,817
Other countries	32	–
	53,474,925	48,511,397

Note 28 – Foreign Exchange Risk

The majority of the Bank's assets is held in foreign currencies (international reserves). Therefore, the Bank has a large exposure to foreign exchange risk. As a result, there are high fluctuations in the income statement, primarily because of the effects of exchange differences on the financial result of the Bank for the year.

The analysis of significant items of assets and liabilities by currency is provided below:

in thousand HRK

Item	EUR	USD	XDR	Other foreign currencies	HRK	Total
Balance at 31 December 2005						
Assets						
Cash and current accounts with other banks	3,994	2,212	–	2,487	23	8,716
Due from other banks	25,030,213	3,206,203	–	–	14,091	28,250,507
Trading securities	21,643,381	4,929,610	–	–	–	26,572,991
Loans	–	–	–	–	4,201,237	4,201,237
Placements with International Monetary Fund	–	–	3,259,112	–	–	3,259,112
Equity investments	78	–	44,296	–	13,167	57,541
Accrued interest and other assets	28,923	8,836	8	23	118,755	156,545
Tangible and intangible assets	1,807	–	–	–	372,051	373,858
Total assets	46,708,396	8,146,861	3,303,416	2,510	4,719,324	62,880,507
Liabilities						
Banknotes and coins in circulation	–	–	–	–	14,374,538	14,374,538
Due to banks and other financial institutions	13,301,123	190,992	–	–	26,129,004	39,621,119
Due to the State and State institutions	10,552	569	–	2,097	280,908	294,126
Due to the International Monetary Fund	–	–	3,251,453	–	–	3,251,453
Accrued interest and other liabilities	3,719	1,069	–	834	311,320	316,942
Total liabilities	13,315,394	192,630	3,251,453	2,931	41,095,770	57,858,178
Net balance sheet position	33,393,002	7,954,231	51,963	(421)	(36,376,446)	5,022,329
Balance at 31 December 2004						
Total assets	37,024,075	12,343,699	3,225,915	741	880,495	53,474,925
Total liabilities	6,305,931	4,499,404	3,194,754	846	34,510,462	48,511,397
Net balance sheet position	30,718,144	7,844,295	31,161	(105)	(33,629,967)	4,963,528

Note 29 – Interest Rate Risk

The Bank has an exposure to market interest rates on its financial position and cash flows. As a result of the application of clearly set guidelines, the Bank's exposure to interest rate risk is low and in compliance with its basic principle of international reserves investment – safety and liquidity.

in thousand HRK

Item	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Non-interest bearing	Total
Balance at 31 December 2005						
Assets						
Cash and current accounts with other banks	–	–	–	–	8,716	8,716
Due from other banks	23,171,808	5,064,608	–	–	14,091	28,250,507
Trading securities	26,572,991	–	–	–	–	26,572,991
Loans	4,201,237	–	–	–	–	4,201,237
Placements with International Monetary Fund	1,634	–	–	–	3,257,478	3,259,112
Equity investments	–	–	–	–	57,541	57,541
Accrued interest and other assets	–	–	–	–	156,545	156,545
Tangible and intangible assets	–	–	–	–	373,858	373,858
Total assets	53,947,670	5,064,608	–	–	3,868,229	62,880,507
Liabilities						
Banknotes and coins in circulation	–	–	–	–	14,374,538	14,374,538
Due to banks and other financial institutions	31,097,351	–	–	–	8,523,768	39,621,119
Due to the State and State institutions	208,849	–	–	–	85,277	294,126
Due to the International Monetary Fund	–	–	–	–	3,251,453	3,251,453
Accrued interest and other liabilities	–	–	–	–	316,942	316,942
Total liabilities	31,306,200	–	–	–	26,551,978	57,858,178
Net balance sheet position	22,641,470	5,064,608	–	–	(22,683,749)	5,022,329
Balance at 31 December 2004						
Total assets	44,892,227	4,831,255	–	–	3,751,443	53,474,925
Total liabilities	25,430,854	–	–	–	23,080,543	48,511,397
Net balance sheet position	19,461,373	4,831,255	–	–	(19,329,100)	4,963,528

The table below summarizes the average interest rate by major currencies for monetary financial instruments at 31 December 2005:

in %

Balance at 31 December 2005	EUR	USD	XDR	HRK
Assets				
Current accounts with other banks	1.25	3.44	–	–
Special Drawing Rights (XDR)	–	–	3.03	–
Due from other banks	2.31	4.31	–	–
Trading securities	2.76	4.40	–	–
Loans	–	–	–	3.50
Liabilities				
Due to domestic banks	1.13	2.13	–	0.75
Due to the International Monetary Fund	–	–	–	–
Due to foreign banks	–	–	–	–

in %

Balance at 31 December 2004	EUR	USD	XDR	HRK
Assets				
Current accounts with other banks	1.00	1.79	–	–
Special Drawing Rights (XDR)	–	–	2.22	–
Due from other banks	2.02	2.33	–	–
Trading securities	2.28	2.80	–	–
Loans	–	–	–	9.50
Liabilities				
Croatian National Bank bills	–	–	–	2.51
Due to domestic banks	1.50	1.69	–	1.25
Due to the International Monetary Fund	–	–	–	–
Due to foreign banks	–	–	–	–

Note 30 – Liquidity Risk

Liquidity risk arises in the general funding of the liabilities due or of other activities of the Croatian National Bank. Therefore, the Croatian National Bank has to ensure sufficient funds available on a daily basis to meet all of its liabilities and contractual commitments.

The following table provides an analysis of the financial assets and liabilities of the Croatian National Bank into relevant maturity groupings based on the remaining period to repayment.

in thousand HRK

Item	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Balance at 31 December 2005						
Assets						
Cash and current accounts with other banks	8,716	–	–	–	–	8,716
Due from other banks	23,171,808	5,064,608	–	–	14,091	28,250,507
Trading securities	26,572,991	–	–	–	–	26,572,991
Loans	4,201,100	–	–	–	137	4,201,237
Placements with International Monetary Fund	1,634	–	–	–	3,257,478	3,259,112
Equity investments	–	–	–	–	57,541	57,541
Accrued interest and other assets	39,030	5,292	34,941	63,823	13,459	156,545
Tangible and intangible assets	–	6,422	–	–	367,436	373,858
Total assets	53,995,279	5,076,322	34,941	63,823	3,710,142	62,880,507
Liabilities						
Banknotes and coins in circulation	–	–	–	–	14,374,538	14,374,538
Due to banks and other financial institutions	39,602,174	–	–	–	18,945	39,621,119
Due to the State and State institutions	294,126	–	–	–	–	294,126
Due to the International Monetary Fund	–	–	–	–	3,251,453	3,251,453
Accrued interest and other liabilities	36,409	209,366	33,041	38,126	–	316,942
Total liabilities	39,932,709	209,366	33,041	38,126	17,644,936	57,858,178
Net liquidity gap	14,062,570	4,866,956	1,900	25,697	(13,934,794)	5,022,329
Balance at 31 December 2004						
Total assets	44,926,886	4,837,865	10,815	87,813	3,611,546	53,474,925
Total liabilities	32,402,584	–	7,152	62,191	16,039,470	48,511,397
Net liquidity gap	12,524,302	4,837,865	3,663	25,622	(12,427,924)	4,963,528

MANAGEMENT AND
INTERNAL
ORGANISATION OF THE
CROATIAN NATIONAL BANK



NATIONAL BANK
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Members of the Council and Management of the Croatian National Bank

Members of the Council of the Croatian National Bank

Chairman of the Council
Željko Rohatinski

Mate Babić
Alen Belullo
Božidar Jelčić
Branimir Lokin
Čedo Maletić
Relja Martić
Adolf Matejka
Damir Novotny
Silvije Orsag
Tomislav Presečan
Sandra Švaljek
Boris Vujčić
Branko Vukmir

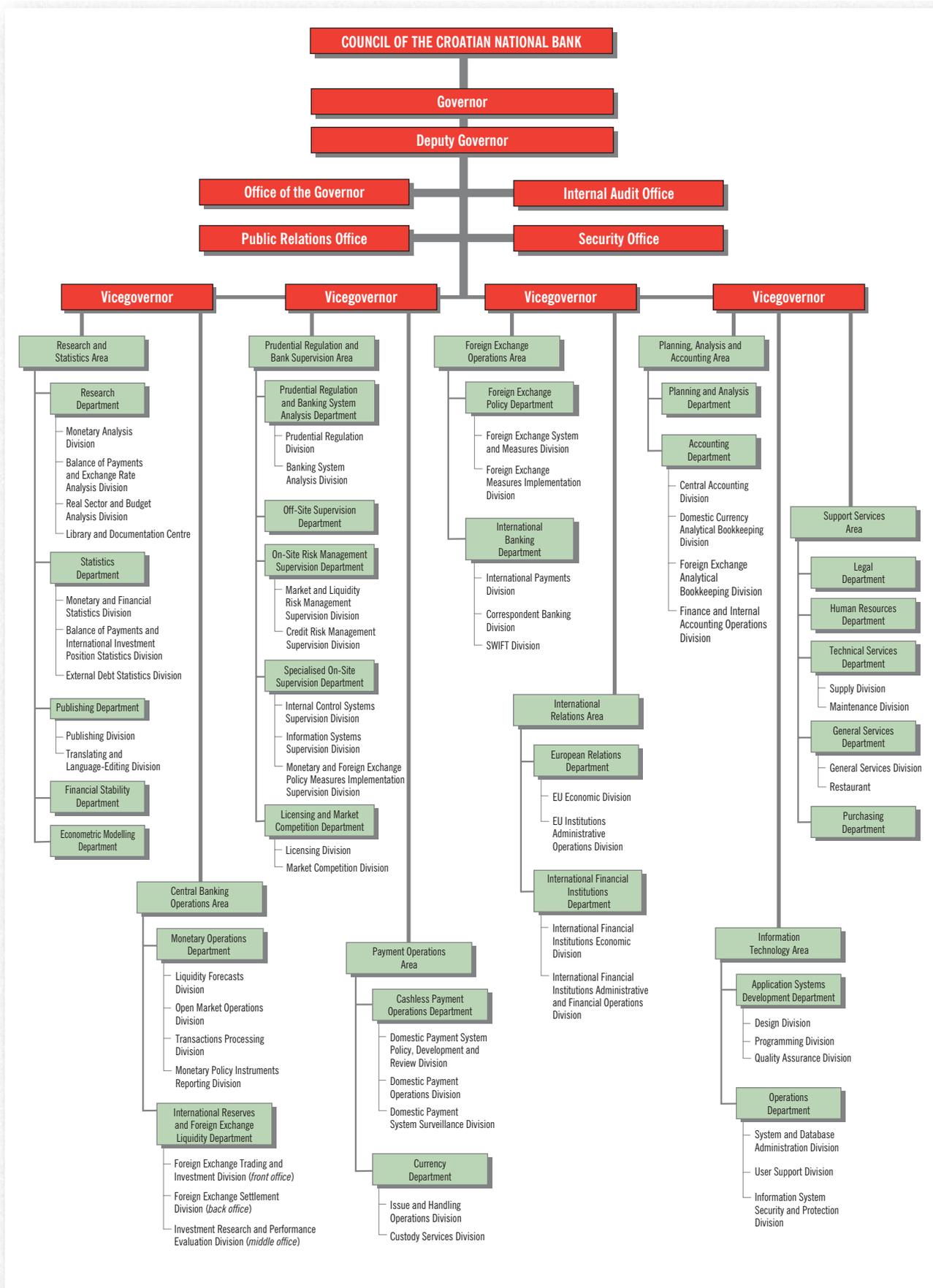
Management of the Croatian National Bank

Željko Rohatinski, Governor
Boris Vujčić, Deputy Governor
Čedo Maletić, Vicegovernor
Relja Martić, Vicegovernor
Adolf Matejka, Vicegovernor
Tomislav Presečan, Vicegovernor

Executive Directors

Research and Statistics Area – Ljubinko Jankov
Central Banking Operations Area – Irena Kovačec
Foreign Exchange Operations Area –
Prudential Regulation and Bank Supervision Area – Marija Mijatović-Jakšić
Planing, Analysis and Accounting Area – Diana Jakelić
Payment Operations Area – Neven Barbaroša
Information Technology Area – Mario Žgela
Support Services Area – Boris Ninić
International Relations Area – Michael Faulend

International Organisation of the Croatian National Bank



LIST OF
BANKING INSTITUTIONS
31 DECEMBER 2005



NATIONAL BANK
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Licensed Banks

BANKA BROD d.d.¹

I. pl. Zajca 21
35000 Slavonski Brod

Phone: + 385 35/445-711, 445-766

Fax: + 385 35/445-755

SWIFT: BBRD HR 22

ERSTE & STEIERMÄRKISCHE BANK d.d.

Jadranski trg 3a
51000 Rijeka

Phone: + 385 51/208-211

Fax: + 385 51/330-525

SWIFT: ESBC HR 22

BANKA KOVANICA d.d.¹

P. Preradovića 29
42000 Varaždin

Phone: + 385 42/403-403

Fax: + 385 42/212-148

SWIFT: SKOV HR 22

GOSPODARSKO KREDITNA BANKA d.d.

Draškovićeve 58
10000 Zagreb

Phone: + 385 1/4802-666

Fax: + 385 1/4802-571

SWIFT: CCBZ HR 2X

BANKA SONIC d.d.

Savska 131
10000 Zagreb

Phone: + 385 1/6345-666

Fax: + 385 1/6190-615

SWIFT: SONI HR 22

HRVATSKA POŠTANSKA BANKA d.d.

Jurišićeva 4
10000 Zagreb

Phone: + 385 1/4804-539

Fax: + 385 1/4804-528

SWIFT: HPBZ HR 2X

BANKA SPLITSKO-DALMATINSKA d.d.¹

Matice hrvatske 1
21000 Split

Phone: + 385 21/540-280

Fax: + 385 21/540-290

SWIFT: DALM HR 22

HVB SPLITSKA BANKA d.d.

R. Boškovića 16
21000 Split

Phone: + 385 21/304-304

Fax: + 385 21/312-586

SWIFT: BACX HR 22

CENTAR BANKA d.d.

Jurišićeva 3
10000 Zagreb

Phone: + 385 1/4803-444

Fax: + 385 1/4803-441

SWIFT: CBZG HR 2X

HYPOTHEKALNE ALPE-ADRIA-BANK d.d.

Koturaška 47
10000 Zagreb

Phone: + 385 1/6103-666

Fax: + 385 1/6103-555

SWIFT: KLHB HR 22

CREDO BANKA d.d.

Zrinsko-Frankopanska 58
21000 Split

Phone: + 385 21/380-655

Fax: + 385 21/380-682

SWIFT: CDBS HR 22

IMEX BANKA d.d.

Tolstojeva 6
21000 Split

Phone: + 385 21/406-100

Fax: + 385 21/348-453

SWIFT: IMXX HR 22

CROATIA BANKA d.d.

Kvaternikov trg 9
10000 Zagreb

Phone: + 385 1/2391-111

Fax: + 385 1/2391-470

SWIFT: CROA HR 2X

ISTARSKA KREDITNA BANKA UMAG d.d.

Ernesta Miloša 1
52470 Umag

Phone: + 385 52/702-300

Fax: + 385 52/702-388

SWIFT: ISKB HR 2X

¹ In accordance with Article 190 of the Banking Act and the pace prescribed therein, the bank is required to adjust its share capital to the provisions of this Act by 31 December 2006.

JADRANSKA BANKA d.d.

A. Starčevića 4
22000 Šibenik

Phone: + 385 22/242-242
Fax: + 385 22/335-881
SWIFT: JADR HR 2X

KARLOVAČKA BANKA d.d.

I. G. Kovačića 1
47000 Karlovac

Phone: + 385 47/614-200
Fax: + 385 47/614-206
SWIFT: KALC HR 2X

KREDITNA ZAGREB d.d.

Ul. grada Vukovara 74
10000 Zagreb

Phone: + 385 1/6167-300
Fax: + 385 1/6116-466
SWIFT: KREZ HR 2X

KVARNER BANKA d.d.

Mljekarski trg 3
51000 Rijeka

Phone: + 385 51/353-555
Fax: + 385 51/353-566
SWIFT: KVRB HR 22

MEĐIMURSKA BANKA d.d.

V. Morandinija 37
40000 Čakovec

Phone: + 385 40/370-500
Fax: + 385 40/370-623
SWIFT: MBCK HR 2X

NAVA BANKA d.d.

Tratinska 27
10000 Zagreb

Phone: + 385 1/3656-777
Fax: + 385 1/3656-700
SWIFT: NAVB HR 22

OTP BANKA HRVATSKA d.d.

Domovinskog rata 3
23000 Zadar

Phone: +385 23/20 15 00
Fax: +385 23/20 18 59
SWIFT: DBZD HR 2X

PARTNER BANKA d.d.

Vončinina 2
10000 Zagreb

Phone: + 385 1/4602-260
Fax: + 385 1/4602-288
SWIFT: PAZG HR 2X

PODRAVSKA BANKA d.d.

Opatička 1a
48300 Koprivnica

Phone: + 385 48/65-50
Fax: + 385 48/622-542
SWIFT: PDKC HR 2X

POŽEŠKA BANKA d.d.

Republike Hrvatske 1b
34000 Požega

Phone: + 385 34/254-200
Fax: + 385 34/254-258
SWIFT: POBK HR 2X

PRIMORSKA BANKA d.d.

Scarpina 7
51000 Rijeka

Phone: + 385 51/355-704
Fax: +385 51/332-762
SWIFT: SPRM HR 22

PRIVREDNA BANKA ZAGREB d.d.

Račkoga 6
10000 Zagreb

Phone: + 385 1 /4723-344
Fax: + 385 1/4723-131
SWIFT: PBZG HR 2X

RAIFFEISENBANK AUSTRIA d.d.

Petrinjska 59
10000 Zagreb

Phone: + 385 1/4566-466
Fax: + 385 1/4566-481
SWIFT: RZBH HR 2X

SAMOBORSKA BANKA d.d.

Trg kralja Tomislava 8
10430 Samobor

Phone: + 385 1/3362-530
Fax: + 385 1/3361-523
SWIFT: SMBR HR 22

SLATINSKA BANKA d.d.

Vladimira Nazora 2
33520 Slatina

Phone: + 385 33/551-526
Fax: + 358 33/551-138
SWIFT: SBSL HR 2X

SLAVONSKA BANKA d.d.

Kapucinska 29
31000 Osijek

Phone: + 385 31/231-231
Fax: + 385 31/201-039
SWIFT: SLBO HR 2X

ŠTEDBANKA d.d.

Slavonska avenija 3
10000 Zagreb

Phone: +385 1/6306-666
Fax: +385 1/6187-016
SWIFT: STED HR 22

VOLKSBANK d.d.

Varšavska 9
10000 Zagreb

Phone: + 385 1/4801-300
Fax: + 385 1/4801-365
SWIFT: VBCR HR 22

VABA d.d. BANKA VARAŽDIN

Anina 2
42000 Varaždin

Phone: + 385 42/215-300
Fax: + 385 42/215-315
SWIFT: BROD HR 22

ZAGREBAČKA BANKA d.d.

Paromlinska 2
10000 Zagreb

Phone: + 385 1/6104-000
Fax: + 385 1/6110-555
SWIFT: ZABA HR 2X

Representative Offices of Foreign Banks

BANK FÜR KÄRNTEN UND STEIERMARK AG, Zagreb

COMMERZBANK AKTIENGESELLSCHAFT, Zagreb

DEUTSCHE BANK AG, Zagreb

KOMERCIJALNA BANKA A.D., Zagreb

LHB INTERNATIONALE HANDELSBANK AG, Zagreb

SAN PAOLO IMI S.p.A., Zagreb

Licensed Housing Savings Banks

PBZ STAMBENA ŠTEDIONICA d.d.

Savska 28
10000 Zagreb

Phone: + 385 1/6349-053
Fax: + 385 1/6349-781

RAIFFEISEN STAMBENA ŠTEDIONICA d.d.

Radnička cesta 43
10000 Zagreb

Phone: + 385 1/6006-100
Fax: +385 1/6171-099

PRVA STAMBENA ŠTEDIONICA d.d.

Savska 60
10000 Zagreb

Phone: + 385 1/6065-111
Fax: + 385 1/6065-120

WÜSTENROT STAMBENA ŠTEDIONICA d.d.

Heinzlova 33a
10000 Zagreb

Phone: + 385 1/4803-788
Fax: + 385 1/4803-798

STATISTICAL APPENDIX

NATIONAL BANK
REPORT 2005

Classification and Presentation of Data on Claims and Liabilities

Data on financial institutions' claims and liabilities are classified according to institutional sectors and financial instruments. Institutional sectors are: financial institutions, central government and funds, other domestic sectors and foreign sector. The financial institutions sector includes the following sub-sectors: monetary authorities (the central bank), banks, other banking institutions and non-banking financial institutions. The central bank is the Croatian National Bank (CNB). Banks are institutions to which the Croatian National Bank has issued a license to perform banking business services in accordance with the Banking Act, including savings banks during a transition period. Data on banks do not include claims and liabilities of banks undergoing bankruptcy proceedings, nor former branches of banks headquartered outside the Republic of Croatia. Other banking institutions comprise housing savings banks, savings and loan cooperatives and investment funds. Non-banking financial institutions are financial institutions not classified as banks or other banking institutions (for example insurance companies, pension funds).

The central government and funds consists of two sub-sectors, the Republic of Croatia and central government funds. Until December 2005, the sub-sector the Republic of Croatia included government authorities, including the Croatian Roads and the Croatian Motorways, the State Agency for Deposit Insurance and Bank Rehabilitation and the sub-sector central government funds included the Croatian Institute for Health Insurance, the Croatian Pension Insurance Administration, the Croatian Employment Service, the Croatian Privatisation Fund, the Croatian Waters and the Croatian Bank for Reconstruction and Development.

Since January 2004, the Croatian Roads, the Croatian Motorways, and the State Agency for Deposit Insurance and Bank Rehabilitation have been reclassified, from the sub-sector the Republic of Croatia to the sub-sector central government funds.

Other domestic sectors include local government authorities, public and other enterprises and households, including craftsmen and non-profit institutions providing services to households. The sub-sector other enterprises also comprises banks undergoing bankruptcy proceedings. In some tables other domestic sectors are divided into the following sub-sectors: local government (which comprises units of local and regional self-government), public and other enterprises, and households (including craftsmen and non-profit institutions).

Foreign sector includes foreign legal and natural persons.

All data on claims and liabilities refer to balances at the end of the reporting period. Foreign exchange items are reported in their kuna equivalent at the CNB's midpoint exchange rate at the end of the reporting period.

Table A1: Monetary and Credit Aggregates

end of period, million kuna and %

Year	Month	Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit	Monthly rates of growth					
								Reserve money	Money M1	Money M1a	Broadest money M4	Net domestic assets	Domestic credit
1997	December	10,346.1	13,731.4	13,848.8	50,742.0	33,829.0	48,863.4	7.86	3.93	3.85	2.16	4.98	4.96
1998	December	9,954.2	13,531.4	13,615.2	57,340.3	44,626.8	59,792.0	7.24	6.92	6.59	2.51	3.73	0.25
1999	December	10,310.0	13,858.9	13,965.7	56,659.3	40,003.8	55,875.8	4.53	5.46	5.48	2.28	0.35	-4.58
2000	December	11,717.3	18,030.3	18,256.4	73,061.1	44,043.9	60,883.8	7.32	10.04	9.89	3.66	10.46	2.66
2001	December	17,803.2	23,703.5	23,936.5	106,071.4	57,410.0	74,964.5	8.01	13.00	11.96	11.65	3.40	1.16
2002	December	23,027.9	30,869.8	31,876.7	116,141.8	83,324.4	97,463.7	10.72	6.11	6.79	1.65	7.92	2.15
2003	December	30,586.2	33,888.7	34,630.9	128,893.1	96,121.7	111,661.4	8.90	1.78	1.93	0.14	3.11	0.66
2004	December	33,924.4	34,562.1	35,186.5	139,947.7	108,205.1	127,308.6	8.69	2.86	2.68	0.23	2.15	1.99
2005	January	32,618.7	34,908.8	35,381.4	138,919.6	109,215.0	127,047.2	-3.85	1.00	0.55	-0.73	0.93	-0.21
	February	32,483.7	34,386.9	34,957.3	138,850.4	111,148.3	128,084.1	-0.41	-1.49	-1.20	-0.05	1.77	0.82
	March	33,070.9	34,547.4	35,149.4	137,974.5	115,802.7	128,059.8	1.81	0.47	0.55	-0.63	4.19	-0.02
	April	33,358.8	34,818.5	35,449.7	137,878.6	116,713.4	129,723.4	0.87	0.78	0.85	-0.07	0.79	1.30
	May	33,230.9	36,034.9	36,681.9	140,608.0	119,838.9	131,713.7	-0.38	3.49	3.47	1.98	2.68	1.53
	June	35,529.7	36,735.0	37,395.6	142,609.9	121,230.6	133,670.3	6.92	1.94	1.95	1.42	1.16	1.49
	July	37,057.8	38,304.6	39,027.4	145,578.3	122,331.7	134,993.7	4.30	4.27	4.36	2.08	0.91	0.99
	August	36,828.9	37,768.4	38,601.7	151,113.8	124,090.7	138,196.0	-0.62	-1.40	-1.09	3.80	1.44	2.37
	September	35,658.2	36,708.3	37,779.2	151,609.3	124,482.3	140,748.2	-3.18	-2.81	-2.13	0.33	0.32	1.85
	October	36,784.0	37,105.1	38,243.2	152,518.1	126,970.1	143,067.6	3.16	1.08	1.23	0.60	2.00	1.65
	November	36,927.6	37,204.1	38,371.2	154,677.8	128,971.3	146,322.5	0.39	0.27	0.33	1.42	1.58	2.28
	December	40,390.8	38,817.1	39,855.4	154,647.0	131,343.2	149,168.3	9.38	4.34	3.87	-0.02	1.84	1.94

Table A1: Monetary and Credit Aggregates

The table shows data on some basic monetary and credit aggregates, including their monthly growth rates. In September 1999, all the monetary aggregates were revised. In previous publications of the CNB, data on claims and obligations of savings banks were not included in the compilation of the monetary aggregates.

Reserve money is taken over in its entirety from the Monetary Authorities Accounts (Table C1).

Money (M1) is defined in the same way as the corresponding item in the Monetary Survey (Table B1). It comprises currency outside banks, deposits with the CNB by other banking institutions and other domestic sectors as well as banks' demand deposits. Money (M1a) comprises currency outside banks and banks' demand deposits, increased by the demand deposits of the central government and funds with banks.

Broadest money (M4) comprises Money (M1), savings and time deposits, foreign currency deposits as well as bonds and money market instruments (all components are taken over from the Monetary Survey, Table B1).

Net domestic assets are defined as a difference between total liquid assets and foreign assets (net).

Domestic credit comprises banks' claims on other domestic sectors, other banking institutions and non-banking financial institutions.

In May 1999, bankruptcy proceedings have been initiated against several banks so their assets and liabilities are excluded from monetary statistics. In April 1999, those banks' share in monetary aggregate M1 amounted to 259.3 million kuna and in monetary aggregate M4 amounted to 4,055.8 million kuna. Data for June 1999 are comparable with data for July 1999 if Domestic credit is increased by 3,513.5 million kuna.

Table B1: Monetary Survey

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Foreign assets (net)	31,742.6	29,704.6	27,702.1	22,171.9	21,165.1	20,769.0	21,379.3	23,246.6	27,023.0	27,127.0	25,548.0	25,706.6	23,303.8
2. Domestic credit	141,278.1	142,771.9	144,673.8	149,340.5	150,347.2	153,543.9	155,203.9	156,555.7	159,194.6	160,437.4	163,708.3	166,784.6	168,427.7
2.1. Claims on central government and funds (net)	13,969.6	15,724.7	16,589.7	21,280.7	20,623.8	21,830.3	21,533.6	21,561.9	20,998.6	19,689.2	20,640.7	20,462.1	19,259.4
2.2. Claims on other domestic sectors	125,790.7	125,591.8	126,627.0	126,371.2	127,949.0	130,054.5	132,088.1	133,449.2	136,102.0	138,938.9	141,276.4	144,473.6	147,414.3
2.3. Claims on other banking institutions	624.0	499.0	481.4	537.2	541.9	565.6	588.3	639.6	1,247.6	702.4	562.7	815.4	592.2
2.4. Claims on non-banking financial institutions	893.9	956.4	975.7	1,151.4	1,232.5	1,093.6	993.9	904.9	846.5	1,106.9	1,228.5	1,033.4	1,161.8
Total (1+2)	173,020.7	172,476.6	172,376.0	171,512.3	171,512.4	174,313.0	176,583.2	179,802.3	186,217.6	187,564.4	189,256.3	192,491.2	191,731.5
LIABILITIES													
1. Money	34,562.1	34,908.8	34,386.9	34,547.4	34,818.5	36,034.9	36,735.0	38,304.6	37,768.4	36,708.3	37,105.1	37,204.1	38,817.1
2. Savings and time deposits	22,479.2	22,456.2	22,745.1	22,531.9	23,268.6	24,426.2	24,957.6	25,748.8	27,264.2	27,459.9	28,062.8	29,002.3	27,992.1
3. Foreign currency deposits	81,742.9	80,340.7	80,287.0	79,977.3	78,744.7	78,903.1	79,752.8	80,974.4	85,025.4	86,863.8	86,361.1	87,324.7	86,760.8
4. Bonds and money market instruments	1,163.5	1,214.0	1,431.5	918.0	1,046.8	1,243.8	1,164.5	550.4	1,055.7	577.3	989.1	1,146.7	1,077.0
5. Restricted and blocked deposits	2,067.0	2,102.3	2,230.5	2,408.0	2,341.9	2,333.3	2,023.2	2,148.5	2,121.6	2,039.8	2,095.3	2,256.3	2,092.3
6. Other items (net)	31,006.1	31,454.7	31,295.0	31,129.7	31,291.9	31,371.7	31,950.1	32,075.5	32,982.3	33,915.3	34,642.9	35,557.0	34,992.2
Total (1+2+3+4+5+6)	173,020.7	172,476.6	172,376.0	171,512.3	171,512.4	174,313.0	176,583.2	179,802.3	186,217.6	187,564.4	189,256.3	192,491.2	191,731.5

Table B1: Monetary Survey

The monetary survey shows consolidated data from the Monetary Authorities Accounts (Table C1) and Banks' Accounts (Table D1). Foreign assets (net) are the difference between total foreign assets and total foreign liabilities of the CNB and banks.

Domestic credit is the sum of corresponding items from Monetary Authorities Accounts and Banks' Accounts. Claims on central government and funds are reported on a net basis, i.e. decreased by central government and funds' deposits with the CNB and banks.

Money is the sum of currency outside banks, deposits by other ban-

king institutions with the CNB, deposits by other domestic sectors with the CNB and banks' demand deposits (item Demand deposits in Banks' Accounts, Table D1).

Items Savings and time deposits, Foreign currency deposits as well as Bonds and money market instruments are entirely taken over from the Banks' Accounts, while item Restricted and blocked deposits represents the sum of corresponding items from the Monetary Authorities Accounts (excluding banks' blocked deposits with the CNB) and Banks' Accounts. Other items (net) are unclassified liabilities decreased by unclassified assets.

Table B2: Number of Reporting Banks and Savings Banks and their Classification by Total Assets

Year	Month	Total number of reporting banks	Reporting banks classified according to their total assets						Total number of reporting savings banks	Savings banks classified according to their total assets		
			Less than 100 million kuna	100 million kuna to less than 500 million kuna	500 million kuna to less than 1 billion kuna	1 billion kuna to less than 2 billion kuna	2 billion kuna to less than 10 billion kuna	10 billion kuna and over		Less than 10 million kuna	10 million kuna to less than 100 million kuna	100 million kuna and over
1	2	3	4	5	6	7	8	9	10	11	12	13
1997	December	60	4	28	9	8	9	2	33	12	18	3
1998	December	60	3	26	8	11	10	2	33	4	25	4
1999	December	53	4	23	7	7	10	2	30	5	21	4
2000	December	45	3	15	9	6	10	2	29	5	19	5
2001	December	44	3	13	7	7	10	4	21	4	12	5
2002	December	46	4	13	7	9	8	5	10	3	5	2
2003	December	42	2	13	8	5	8	6	7	3	2	2
2004	December	39	1	12	9	6	5	6	6	3	3	–
2005	January	38	1	12	8	6	5	6	6	3	3	–
	February	38	1	12	8	6	5	6	6	3	3	–
	March	38	2	11	8	6	5	6	3	2	1	–
	April	37	1	11	9	5	5	6	3	2	1	–
	May	37	1	11	9	5	5	6	3	2	1	–
	June	36	1	10	8	6	5	6	3	2	1	–
	July	36	–	11	9	5	5	6	3	2	1	–
	August	36	1	10	9	5	5	6	3	2	1	–
	September	36	1	10	9	5	5	6	3	2	1	–
	October	36	1	10	9	5	5	6	3	2	1	–
	November	36	1	10	9	5	5	6	3	2	1	–
	December	36	1	10	6	8	5	6	3	2	1	–

Table B2: Number of Reporting Banks and Savings Banks and their Classification by Total Assets

The table shows the total number of banks and savings banks during the transition period which report monthly to the CNB. Their operations are shown in the Banks' Accounts. Monetary statistics includes reporting institutions under liquidation and, until February 2005, institutions whose operating licences have been revoked, but which have not initiated liquidation proceedings.

Special reporting requirements applied to savings banks until June 1995. Savings banks were not legally obliged to report on their operations, so that data up to June 1995 relate only to those savings banks that reported voluntarily to the CNB. From July 1995 on, the data cover all registered savings banks. Savings banks that were granted a bank operating license are required to adjust their operations to the provisions of the Banking Act by 31 December 2006. The table also shows the classification of reporting banks and savings banks according to their total assets.

Table C1: Monetary Authorities Accounts

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Foreign assets	49,373.4	49,508.2	49,415.6	49,863.2	49,871.8	51,082.1	51,653.6	51,526.6	52,122.6	52,061.3	52,616.7	53,432.2	54,862.5
1.1. Gold	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Holdings of SDRs	4.8	7.5	5.3	5.3	7.0	4.7	4.8	10.1	6.2	6.3	8.8	6.3	6.3
1.3. Reserve position in the IMF	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
1.4. Currency and demand deposits with foreign banks	5.7	5.9	5.5	5.5	5.9	5.4	5.4	5.3	5.5	5.8	6.7	80.7	7.7
1.5. Time deposits with foreign banks	24,337.7	24,313.4	24,427.0	25,410.2	25,795.7	26,594.8	26,710.8	26,924.7	27,192.5	26,830.3	27,371.4	27,900.1	28,274.1
1.6. Securities in f/c	25,023.7	25,180.0	24,976.3	24,440.9	24,061.8	24,475.8	24,931.1	24,585.1	24,916.9	25,217.4	25,228.4	25,443.6	26,573.0
1.7. Non-convertible foreign exchange	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Claims on central government and funds	3.3	0.6	2.3	1.7	2.2	0.7	-	1.2	0.6	0.5	-	0.6	1.4
2.1. Claims in kuna	3.3	0.6	2.3	1.7	2.2	0.7	-	1.2	0.6	0.5	-	0.6	1.4
2.2. Claims in f/c	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Claims on other domestic sectors	82.9	80.1	80.1	77.5	77.5	77.5	77.5	77.5	77.5	77.4	77.4	73.4	73.4
4. Claims on banks	408.9	15.0	14.7	14.6	15.9	14.4	1,574.1	3,572.7	3,107.4	2,356.1	2,172.7	2,361.8	4,215.6
4.1. Credits to banks	408.9	15.0	14.7	14.6	14.5	14.4	1,574.1	3,572.7	3,107.4	2,356.1	2,172.7	2,361.8	4,215.6
Lombard credits	-	-	-	-	-	-	-	-	-	-	-	-	-
Short-term liquidity credits	-	-	-	-	-	-	-	-	-	-	-	-	-
Other credits	15.0	15.0	14.7	14.6	14.5	14.4	14.5	14.5	14.7	14.8	14.8	14.8	14.5
Reverse repo transactions	394.0	-	-	-	-	-	1,559.6	3,558.2	3,092.7	2,341.3	2,157.9	2,347.0	4,201.1
4.2. Overdue claims	-	-	-	-	1.4	-	-	-	-	-	-	-	-
5. Claims on other banking institutions	-												
Total (1+2+3+4+5)	49,868.5	49,603.9	49,512.7	49,957.1	49,967.4	51,174.7	53,305.2	55,178.0	55,308.1	54,495.3	54,866.8	55,867.9	59,153.0
LIABILITIES													
1. Reserve money	33,924.4	32,618.7	32,483.7	33,070.9	33,358.8	33,230.9	35,529.7	37,057.8	36,828.9	35,658.2	36,784.0	36,927.6	40,390.8
1.1. Currency outside banks	10,955.6	10,789.4	10,905.2	11,061.7	11,408.0	11,535.9	12,161.5	13,142.6	12,659.9	12,247.4	11,948.2	11,719.9	12,163.8
1.2. Banks' cash in vaults	1,871.0	1,807.7	1,663.2	1,665.0	1,805.6	1,908.6	1,855.9	2,063.8	1,975.1	2,021.7	1,956.3	1,741.4	2,210.7
1.3. Banks' deposits	21,082.6	19,963.4	19,889.6	20,344.0	20,124.1	19,767.5	21,503.1	21,851.4	22,193.9	21,389.1	22,879.5	23,466.3	26,016.3
Settlement accounts	6,408.2	5,249.8	5,001.0	5,582.3	4,265.0	5,008.6	5,388.5	5,319.3	5,488.7	4,366.0	5,612.7	6,117.5	8,411.1
Statutory reserves	14,674.4	14,713.6	14,888.6	14,761.7	14,317.7	14,558.1	16,114.6	16,422.1	16,645.2	16,943.1	17,216.8	17,348.8	17,605.2
CNB bills on obligatory basis	-	-	-	-	-	-	-	-	-	-	-	-	-
Overnight deposits	-	-	-	-	1,541.4	200.8	-	110.0	60.0	80.0	50.0	-	-
1.4. Deposits of other banking institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
1.5. Deposits of other domestic sectors	15.1	58.1	25.6	0.3	21.1	18.9	9.2	-	-	-	-	-	-
2. Restricted and blocked deposits	10,777.1	11,248.9	11,901.9	12,301.7	12,094.6	13,219.2	12,770.8	13,149.1	13,291.2	12,752.4	12,852.7	13,002.4	13,551.8
2.1. Statutory reserve in f/c	10,764.7	11,236.9	11,889.7	12,289.7	12,082.6	13,207.4	12,762.1	13,140.6	13,274.7	12,739.4	12,797.3	12,943.3	13,495.9
2.2. Restricted deposits	12.4	12.0	12.2	12.0	12.0	11.8	8.6	8.5	16.4	13.0	55.4	59.1	55.9
2.3. Escrow deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Foreign liabilities	18.1	16.8	16.7	15.2	13.9	19.4	18.7	17.7	16.2	14.9	14.7	21.0	18.9
3.1. Use of IMF credit	-	-	-	-	-	-	-	-	-	-	-	-	-
3.2. Liabilities to international organisations	18.1	16.8	16.7	15.2	13.9	19.4	18.7	17.7	16.2	14.9	14.7	21.0	18.9
3.3. Liabilities to foreign banks	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Central government and funds' deposits	263.2	1,297.5	975.4	590.7	807.8	983.6	872.5	913.3	678.7	1,132.8	640.2	973.9	332.2
4.1. Demand deposits	228.0	1,297.5	975.3	590.7	807.8	983.6	872.5	913.3	678.6	1,125.9	627.9	685.7	319.0
Central government demand deposits	123.0	1,139.6	797.7	186.0	578.8	580.8	552.4	646.4	468.7	770.6	396.7	402.5	246.3
Central government funds' demand deposits	105.0	157.9	177.6	404.7	229.0	402.8	320.1	266.9	210.0	355.3	231.2	283.2	72.7
4.2. Central government f/c deposits	35.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	6.9	12.3	288.2	13.2
4.3. CNB bills	-	-	-	-	-	-	-	-	-	-	-	-	-
5. CNB bills	-												
5.1. CNB bills in kuna	-	-	-	-	-	-	-	-	-	-	-	-	-
5.2. CNB bills in f/c	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Capital accounts	5,096.5	4,869.4	4,583.1	4,426.6	4,134.9	4,181.9	4,580.5	4,511.3	4,959.5	5,406.9	5,043.9	5,419.1	5,357.4
7. Other items (net)	-210.8	-447.4	-448.0	-448.0	-442.7	-460.3	-467.0	-471.1	-466.4	-469.8	-468.7	-476.1	-498.2
Total (1+2+3+4+5+6+7)	49,868.5	49,603.9	49,512.7	49,957.1	49,967.4	51,174.7	53,305.2	55,178.0	55,308.1	54,495.3	54,866.8	55,867.9	59,153.0

Table C1: Monetary Authorities Accounts

The table reports data on claims and liabilities by monetary authorities.

Foreign assets include the following forms of foreign currency and kuna claims on foreign legal and natural persons: monetary gold, holdings of special drawing rights, foreign cash in vault, reserve position in the International Monetary Fund, current account balances with foreign banks, time deposits with foreign banks and accrued interest, foreign currency security investments and other claims.

Claims on central government and funds are loans and overdue claims on the budget of the Republic of Croatia. In accordance with the Croatian National Bank Act that entered into force in April 2001, the Croatian National Bank may not extend credit to the Republic of Croatia. Hence, this item comprises only overdue claims on the budget of the Republic of Croatia based on the payment system operations and the liabilities to the IMF and foreign banks. Until April 2001, Claims in kuna were short-term loans granted for the purpose of overcoming timing differences between incoming revenues and execution of budgetary expenditures, long-term loans granted by special decrees by the government of the Republic of Croatia, and overdue claims on the budgetary central government, while Claims in foreign currency was a counter-entry to the liability to the IMF based on the succession of membership in that institution.

Claims on other domestic sectors are loans and overdue claims on other domestic sectors, including banks in bankruptcy proceedings.

Claims on banks are credits to banks and overdue claims on banks. Credits to banks comprise Lombard credits, short-term liquidity credits, other credits and reverse repo transactions. Item Lombard credits comprises credits to banks for regular maintaining of the day-to-day liquidity, which were replaced by lombard credits in December 1994. Short-term liquidity credits, which have been granted since the beginning of 1999, also serve to bridge liquidity problems. Other credits include intervention credits, special credits for bridging liquidity problems granted in the past (initial credits, pre-rehabilitation credits), due but unpaid credits and banks' deposits with the CNB. From April 2005 on, reverse repo transactions are conducted on a weekly basis. Overdue claims on banks comprise settlement account overdrafts (until mid-1994) and banks' failure to correctly and promptly allocate and maintain statutory reserve requirements. Since May 1999, Claims on other domestic sectors include overdue claims on banks against which bankruptcy proceedings have

been initiated. Due to the reclassification of savings banks from the sub-sector other banking institutions to the sub-sector banks, data for Claims on banks and Claims on other banking institutions have been revised.

Reserve money consists of currency outside banks, cash in banks' vaults, banks' deposits with the CNB, other banking institutions' deposits and other domestic sectors' deposits with the CNB. Banks' deposits are: settlement account balances, statutory reserves deposited on a special account with the CNB, CNB bills on an obligatory basis and overnight deposits. Deposits by other banking institutions included, until September 2005, settlement account balances of housing savings banks. Deposits by other domestic sectors are other domestic sectors' giro account balances which, on the basis of legal acts are deposited with the Croatian National Bank.

Restricted and blocked deposits include required foreign exchange reserves and accrued interest, restricted deposits and blocked foreign exchange deposits. Banks are required to set aside the reserve requirements against certain foreign exchange sources of funds and the marginal reserve requirements (from August 2004 on) in special accounts at the Croatian National Bank. Restricted deposits are kuna funds set aside on the basis of a court order or legal regulation, kuna funds set aside in the period between May 1999 and April 2002 and deposits of banks against which bankruptcy proceedings have been initiated. Blocked foreign exchange deposits are funds that were set aside in special accounts at the Croatian National Bank for repaying unpaid amounts due to foreign creditors.

Foreign liabilities include use of IMF credits, liabilities to international financial institutions and foreign banks and accrued interest.

Central government and funds deposits are demand deposits and foreign currency deposits of the Republic of Croatia and central government funds with the CNB, and CNB bills purchased by central government institutions.

CNB bills are kuna and f/c CNB bills on a voluntary basis, excluding CNB bills voluntarily purchased by central government institutions. Capital accounts include reserves, provisions and the income and cost accounts.

Other items (net) are unclassified liabilities decreased by unclassified assets of the Monetary Authorities Accounts.

Due to the reclassification of savings banks from the sub-sector other banking institutions to the sub-sector banks, data for Currency outside banks, Banks' cash in vaults, Banks' deposits and Deposits of other banking institutions were revised.

Table D1: Banks' Accounts

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Reserves with the CNB	33,718.2	33,007.3	33,443.4	34,295.8	34,013.4	34,886.7	36,163.5	37,069.9	37,461.9	36,156.3	37,686.9	38,218.2	41,775.2
1.1. In kuna	22,962.9	21,779.2	21,562.5	22,016.4	21,939.1	21,688.8	23,406.7	23,934.6	24,192.9	23,421.8	24,894.9	25,280.4	28,283.1
1.2. In f/c	10,755.3	11,228.0	11,880.9	12,279.5	12,074.2	13,197.9	12,756.8	13,135.4	13,269.0	12,734.5	12,792.0	12,937.8	13,492.1
2. Foreign assets	43,551.0	39,071.1	35,450.1	34,971.7	33,298.1	32,136.8	33,246.2	34,420.9	35,716.1	35,902.0	34,784.0	37,361.8	35,572.5
3. Claims on central government and funds	21,051.3	23,300.7	24,073.2	28,786.7	28,458.0	29,863.6	29,975.8	29,845.0	29,415.7	29,229.4	30,338.5	30,372.5	28,877.2
4. Claims on other domestic sectors	125,707.9	125,511.7	126,546.9	126,293.7	127,871.5	129,977.0	132,010.6	133,371.8	136,024.5	138,861.6	141,199.0	144,400.3	147,340.9
4.1. Claims on local government	1,787.9	1,708.3	1,732.2	1,750.7	1,729.8	1,733.0	1,758.2	1,678.1	1,682.5	1,685.3	1,677.9	1,732.5	1,767.2
4.2. Claims on enterprises	58,643.3	58,723.9	59,252.8	58,215.3	58,946.0	60,035.7	60,490.6	60,577.9	61,333.5	62,206.3	63,407.3	65,372.0	67,017.9
4.3. Claims on households	65,276.7	65,079.5	65,561.8	66,327.7	67,195.6	68,208.3	69,761.9	71,115.8	73,008.4	74,969.9	76,113.8	77,295.7	78,555.7
5. Claims on other banking institutions	624.0	499.0	481.4	537.2	541.9	565.6	588.3	639.6	1,247.6	702.4	562.7	815.4	592.2
6. Claims on non-banking financial institutions	893.9	956.4	975.7	1,151.4	1,232.5	1,093.6	993.9	904.9	846.5	1,106.9	1,228.5	1,033.4	1,161.8
Total (1+2+3+4+5+6)	225,546.2	222,346.2	220,970.7	226,036.5	225,415.3	228,523.2	232,978.3	236,252.1	240,712.2	241,958.5	245,799.6	252,201.5	255,319.8
LIABILITIES													
1. Demand deposits	23,591.3	24,061.2	23,456.0	23,485.4	23,390.0	24,480.0	24,564.3	25,162.0	25,108.5	24,460.9	25,157.0	25,484.2	26,653.3
2. Savings and time deposits	22,479.2	22,456.2	22,745.1	22,531.9	23,268.6	24,426.2	24,957.6	25,748.8	27,264.2	27,459.9	28,062.8	29,002.3	27,992.1
3. Foreign currency deposits	81,742.9	80,340.7	80,287.0	79,977.3	78,744.7	78,903.1	79,752.8	80,974.4	85,025.4	86,863.8	86,361.1	87,324.7	86,760.8
4. Bonds and money market instruments	1,163.5	1,214.0	1,431.5	918.0	1,046.8	1,243.8	1,164.5	550.4	1,055.7	577.3	989.1	1,146.7	1,077.0
5. Foreign liabilities	61,163.7	58,857.9	57,146.8	62,647.9	61,990.9	62,430.5	63,501.8	62,683.2	60,799.5	60,821.4	61,838.0	65,066.3	67,112.3
6. Central government and funds' deposits	6,821.8	6,279.1	6,510.4	6,917.0	7,028.6	7,050.4	7,569.7	7,371.0	7,739.0	8,407.9	9,057.6	8,937.0	9,287.0
7. Credit from central bank	408.9	15.0	14.7	14.6	14.5	14.4	1,574.1	3,572.7	3,107.4	2,356.1	2,172.7	2,361.7	4,215.6
8. Restricted and blocked deposits	2,054.6	2,090.2	2,218.3	2,396.1	2,329.9	2,321.5	2,014.5	2,140.0	2,105.2	2,026.9	2,039.9	2,197.2	2,036.4
9. Capital accounts	28,666.4	29,094.6	29,294.2	29,301.6	29,519.8	29,727.5	29,758.0	30,010.2	30,448.4	31,290.7	32,072.7	32,393.2	32,665.7
10. Other items (net)	-2,546.3	-2,062.6	-2,133.3	-2,153.3	-1,918.3	-2,074.1	-1,879.0	-1,960.7	-1,941.1	-2,306.4	-1,951.2	-1,711.9	-2,480.4
Total (1+2+3+4+5+6+7+8+9+10)	225,546.2	222,346.2	220,970.7	226,036.5	225,415.3	228,523.2	232,978.3	236,252.1	240,712.2	241,958.5	245,799.6	252,201.5	255,319.8

Table D1: Banks' Accounts

Banks' Accounts include data on banks' claims and liabilities. Banks' mutual claims and liabilities are consolidated. In September 1999, the data was revised to include savings banks. The whole data series was revised accordingly.

Required reserves held at the central bank include kuna and foreign exchange reserves. Kuna reserves include vault cash and kuna funds held in accounts at the central bank. Foreign exchange reserves include foreign exchange held in accounts at the central bank.

Foreign assets are the following forms of kuna and foreign currency claims on foreign legal and natural persons: foreign cash in vaults, deposits with foreign banks (including loro letters of credit and other collateral), securities, loans, and equities.

Claims on central government and funds are the following forms of claims in kuna and foreign currency: securities and loans. Bonds issued in accordance with the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia are shown separately. Other claims also included, until July 2000, bonds issued in accordance with the Act on the Issue of Bonds for the Restructuring of the Economy of the Republic of Croatia. These bonds have been replaced, pursuant to a Decree of the Government of the Republic of Croatia on the Issuing of Replacement Bonds for the Restructuring of the Economy, issued in April 2000, by kuna bonds on which interest is paid.

Claims on other domestic sectors include the following claims in kuna and foreign currency: money market instruments, bonds, loans (including acceptances), and equities.

The same forms of kuna and foreign currency claims are included in claims on other banking institutions and non-banking financial institutions, with one difference: Claims on other banking institutions also include deposits with those institutions.

Items Demand deposits, Savings and time deposits, Foreign cu-

rency deposits as well as Bonds and money market instruments comprise banks' liabilities to other domestic sectors, other banking institutions and non-banking financial institutions.

Demand deposits include giro and current accounts balances and banks' obligations arising from kuna payment instruments issued, minus currency in the payment system, i.e. checks in banks' vaults and checks in collection.

Savings and time deposits are kuna sight deposits as well as kuna time and notice deposits.

Foreign currency deposits are foreign currency sight deposits as well as foreign currency time and notice deposits.

Bonds and money market instruments are banks' liabilities for securities issued (net) and loans obtained. Issued subordinated and hybrid instruments, purchased by foreign investors, are excluded from this item.

Foreign liabilities comprise the following forms of kuna and foreign currency liabilities to foreign legal and natural persons: giro and current accounts, savings deposits (including loro letters of credit and other forms of collateral), time deposits, loans received and liabilities due. Issued subordinate and hybrid instruments, purchased by foreign investors, are also included in loans received. Central government and funds' deposits are all forms of banks' kuna and foreign currency liabilities (except restricted and blocked deposits) to the central government and funds.

Credit from central bank comprises loans obtained from the CNB and deposits by the CNB with banks. Repurchase of securities is also considered and treated as a loan.

Restricted and blocked deposits comprise the following banks' liabilities: kuna and foreign currency restricted deposits by other domestic sectors, other banking institutions, non-banking financial institutions, central government and funds as well as foreign legal and natural persons; and households' blocked foreign currency deposits, regulated by the Act on Converting Households' Foreign Exchange

Deposits into the Public Debt of the Republic of Croatia.

Capital accounts are share capital, profit or loss for the previous and current year, retained earnings (loss), legal reserves, reserves provided for by the articles of association and other capital reserves, hedging reserves, unrealised gains (losses) from financial assets classified as available-for-sale assets, value adjustments and specific reserves for unidentified losses.

Other items (net) are unclassified liabilities decreased by unclassified

assets, including the fair value of derivative financial instruments.

Tables: D2 – D12

This group of tables (with the exception of Table D5) represents an elaborate presentation of appropriate items of claims and liabilities of Banks' Accounts (Table D1).

Table D2: Banks' Foreign Assets

end of period. million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Foreign assets in f/c	43,428.1	38,920.6	35,104.0	34,892.1	33,194.3	32,010.5	33,071.4	34,129.2	35,511.8	35,781.4	34,590.6	37,196.7	35,457.9
1.1. Claims on foreign banks	35,911.0	31,573.8	27,810.5	27,732.8	25,909.2	24,949.0	25,440.3	26,023.3	27,147.6	27,510.5	26,353.2	28,886.2	27,228.5
Foreign currencies	1,190.0	918.5	926.6	1,069.4	979.5	1,054.2	1,206.8	1,416.6	1,287.4	1,046.2	1,015.3	1,033.3	1,136.1
Demand deposits	906.2	934.4	711.6	862.9	1,284.8	956.6	972.1	1,000.3	824.7	934.1	1,285.9	969.3	860.2
Time and notice deposits	30,943.7	26,957.5	23,224.4	22,843.4	20,882.9	19,821.0	19,982.1	20,211.7	20,873.2	21,452.3	19,630.5	22,613.4	20,874.6
Securities	2,674.1	2,567.7	2,753.3	2,763.5	2,549.4	2,920.0	3,080.4	3,194.9	3,960.4	3,988.7	4,091.6	4,108.5	4,197.0
Loans and advances	189.0	187.8	186.6	185.7	204.7	189.4	191.2	192.1	194.1	81.4	322.2	154.0	152.9
Shares and participations	8.1	7.9	7.9	7.8	7.7	7.7	7.7	7.7	7.8	7.8	7.8	7.8	7.8
1.2. Claims on foreign non-banks	7,517.1	7,346.8	7,293.5	7,159.3	7,285.1	7,061.5	7,631.1	8,105.9	8,364.3	8,270.8	8,237.3	8,310.5	8,229.4
Claims on foreign governments	7,066.6	6,910.5	6,921.6	6,805.0	6,936.1	6,685.6	7,220.4	7,701.1	7,869.2	7,798.4	7,747.7	7,802.0	7,735.7
Claims on other non-residents	450.2	436.0	371.5	353.9	348.6	375.6	410.2	404.3	494.6	471.9	489.1	507.9	493.1
Securities	77.4	76.0	–	–	–	–	–	–	36.8	37.2	36.9	68.2	68.0
Loans and advances	372.8	360.0	371.5	353.9	348.6	375.6	410.2	404.3	457.8	434.7	452.2	439.7	425.2
Shares and participations	0.3	0.2	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
2. Foreign assets in kuna	122.9	150.5	346.1	79.6	103.7	126.3	174.8	291.6	204.2	120.7	193.4	165.1	114.6
2.1. Claims on foreign banks	77.8	106.0	302.3	33.9	58.6	81.9	133.6	248.4	160.5	76.5	153.0	125.5	71.3
2.2. Claims on foreign non-banks	45.1	44.4	43.8	45.6	45.1	44.4	41.2	43.2	43.7	44.1	40.4	39.6	43.4
o/w: Loans and advances	44.3	43.6	43.0	44.8	44.3	43.6	40.4	42.3	42.9	43.3	39.6	38.8	42.6
Total (1+2)	43,551.0	39,071.1	35,450.1	34,971.7	33,298.1	32,136.8	33,246.2	34,420.9	35,716.1	35,902.0	34,784.0	37,361.8	35,572.5

Table D2: Banks' Foreign Assets

This table shows banks' claims on foreign legal and natural persons. Foreign assets of banks' comprise foreign assets in kuna and foreign

currency.

Claims on foreign banks and Claims on foreign nonbanks (total and by financial instruments) are shown separately within both foreign assets in kuna and in foreign currency.

Table D3: Banks' Claims on the Central Government and Funds

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. In kuna	16,270.2	18,571.3	19,387.3	20,413.0	20,074.4	21,584.7	21,717.2	21,826.0	21,256.3	20,874.4	22,214.9	22,199.2	20,532.7
1.1. Claims on central government	14,465.6	16,673.3	17,509.5	17,673.9	17,390.2	18,295.5	18,014.4	18,040.1	17,492.1	17,005.7	18,053.4	18,046.9	17,352.6
Securities	11,779.1	11,846.9	11,719.9	14,970.1	15,244.8	15,401.6	15,057.0	15,824.6	16,027.9	15,650.7	15,770.6	15,669.4	16,037.7
o/w: Bonds (c'part to f/c savings deposits)	532.0	22.5	22.3	22.3	21.9	21.7	21.7	21.6	21.5	21.1	21.3	20.8	20.6
Loans and advances	2,686.5	4,826.4	5,789.6	2,703.8	2,145.5	2,893.9	2,957.4	2,215.5	1,464.2	1,355.0	2,282.8	2,377.6	1,314.9
1.2. Claims on central government funds	1,804.6	1,898.0	1,877.8	2,739.1	2,684.1	3,289.1	3,702.8	3,786.0	3,764.3	3,868.6	4,161.6	4,152.2	3,180.1
Securities	621.1	605.6	613.8	652.2	687.4	690.4	710.9	579.8	596.8	619.2	595.7	577.8	-
Loans and advances	1,183.5	1,292.4	1,264.0	2,086.9	1,996.7	2,598.7	2,991.9	3,206.2	3,167.5	3,249.4	3,565.9	3,574.4	3,180.1
2. In f/c	4,781.1	4,729.5	4,685.9	8,373.7	8,383.7	8,278.9	8,258.6	8,019.0	8,159.3	8,355.0	8,123.6	8,173.3	8,344.5
2.1. Claims on central government	3,548.4	3,500.8	3,443.9	7,137.3	7,127.9	7,032.4	7,021.4	6,885.0	7,004.4	7,179.0	7,230.1	7,270.4	7,241.0
Securities	1,117.0	1,106.8	1,067.5	1,058.9	1,107.3	1,085.1	997.3	896.0	952.6	1,072.4	1,218.7	1,233.3	1,248.1
Loans and advances	2,431.3	2,394.0	2,376.3	6,078.4	6,020.6	5,947.3	6,024.0	5,989.0	6,051.8	6,106.6	6,011.4	6,037.1	5,992.8
2.2. Claims on central government funds	1,232.8	1,228.6	1,242.0	1,236.4	1,255.8	1,246.5	1,237.3	1,134.0	1,155.0	1,176.0	893.5	902.9	1,103.5
Securities	163.1	187.2	206.7	209.4	203.9	198.8	178.0	157.0	159.9	144.3	144.6	144.7	144.2
Loans and advances	1,069.7	1,041.4	1,035.3	1,026.9	1,051.9	1,047.7	1,059.3	977.1	995.1	1,031.7	748.9	758.2	959.3
Total (1+2)	21,051.3	23,300.7	24,073.2	28,786.7	28,458.0	29,863.6	29,975.8	29,845.0	29,415.7	29,229.4	30,338.5	30,372.5	28,877.2

Table D3: Banks' Claims on the Central Government and Funds

The table shows banks' kuna and foreign currency claims on the

central government and funds. The item Securities, shown under Claims in kuna on the Republic of Croatia, also comprises bonds arising from blocked foreign currency savings deposits issued in accordance with the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

Table D4: Banks' Claims on Other Domestic Sectors

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Claims in kuna	114,635.7	114,594.0	115,476.8	115,132.8	116,435.4	118,038.7	119,920.6	121,376.3	123,860.0	126,225.5	127,628.6	130,293.4	133,603.5
1.1. Money market instruments	2,510.0	2,689.9	2,871.5	1,600.3	1,630.6	1,696.3	1,635.3	1,567.0	1,639.5	1,560.3	1,604.9	1,771.7	2,329.9
1.2. Bonds	559.8	560.5	547.7	554.1	523.1	501.1	457.0	337.3	312.7	277.2	263.9	343.4	361.6
1.3. Loans and advances	109,523.9	109,331.4	110,039.9	110,959.3	112,288.0	113,846.3	115,787.9	117,436.4	119,869.3	122,336.3	123,721.1	126,171.6	128,882.3
1.4. Shares and participations	2,042.0	2,012.2	2,017.6	2,019.1	1,993.7	1,995.0	2,040.4	2,035.5	2,038.5	2,051.7	2,038.7	2,006.7	2,029.6
2. Claims in f/c	11,072.2	10,917.7	11,070.1	11,160.9	11,436.1	11,938.3	12,090.0	11,995.5	12,164.4	12,636.0	13,570.4	14,106.8	13,737.4
2.1. Securities	213.5	243.6	252.0	265.5	253.8	268.8	295.8	314.5	311.0	318.6	313.7	312.7	307.6
2.2. Loans and advances	10,858.6	10,674.2	10,818.1	10,895.4	11,182.4	11,669.5	11,794.1	11,681.0	11,853.5	12,317.4	13,256.7	13,794.1	13,429.8
Total (1+2)	125,707.9	125,511.7	126,546.9	126,293.7	127,871.5	129,977.0	132,010.6	133,371.8	136,024.5	138,861.6	141,199.0	144,400.3	147,340.9

Table D4: Banks' Claims on Other Domestic Sectors

The table shows banks' kuna and foreign currency claims on other domestic sectors, classified according to financial instruments: money market instruments (including factoring and forfaiting since

January 2004), loans and advances (including acceptances and purchased claims), and equities.

Until October 1994, foreign currency loans could be granted only when banks simultaneously borrowed abroad in their own name and for the account of the end-user.

Table D5: Distribution of Banks' Loans by Domestic Institutional Sectors

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
LOANS IN KUNA													
1. Loans to central government and funds	3,870.0	6,118.8	7,053.6	4,790.7	4,142.1	5,492.7	5,949.4	5,421.6	4,631.6	4,604.4	5,848.6	5,952.0	4,495.0
1.1. Loans to central government	2,686.5	4,826.4	5,789.6	2,703.8	2,145.5	2,893.9	2,957.4	2,215.5	1,464.2	1,355.0	2,282.8	2,377.6	1,314.9
1.2. Loans to central government funds	1,183.5	1,292.4	1,264.0	2,086.9	1,996.7	2,598.7	2,991.9	3,206.2	3,167.5	3,249.4	3,565.9	3,574.4	3,180.1
2. Loans to local government	1,701.9	1,635.7	1,661.9	1,666.1	1,647.7	1,646.1	1,673.0	1,616.7	1,621.7	1,586.6	1,577.4	1,588.3	1,613.9
3. Loans to enterprises	42,844.7	42,919.1	43,112.7	43,266.9	43,750.1	44,303.5	44,704.2	45,048.1	45,595.9	46,163.0	46,403.3	47,657.9	49,105.9
4. Loans to households	64,977.2	64,776.5	65,265.3	66,026.2	66,890.2	67,896.7	69,410.7	70,771.6	72,651.7	74,586.7	75,740.4	76,915.3	78,162.4
o/w: Housing loans	21,397.9	21,400.1	21,634.8	21,865.2	22,161.1	22,535.3	23,239.5	23,931.4	24,898.0	25,701.3	26,224.6	26,924.5	27,571.1
5. Loans to other banking institutions	154.5	43.4	28.1	51.8	86.6	42.0	53.8	77.9	68.3	150.9	64.6	286.7	46.5
6. Loans to non-banking financial institutions	558.0	382.3	364.8	525.3	562.0	567.2	517.1	626.8	502.8	619.4	700.5	387.2	591.8
A. Total (1+2+3+4+5+6)	114,106.4	115,875.9	117,486.4	116,327.2	117,078.6	119,948.2	122,308.1	123,562.7	125,688.0	127,711.1	130,334.8	132,797.5	134,015.6
LOANS IN F/C													
1. Loans to central government and funds	3,501.0	3,435.4	3,411.6	7,105.4	7,072.5	6,995.1	7,083.4	6,966.1	7,046.8	7,138.3	6,760.2	6,795.3	6,952.1
1.1. Loans to central government	2,431.3	2,394.0	2,376.3	6,078.4	6,020.6	5,947.3	6,024.0	5,989.0	6,051.8	6,106.6	6,011.4	6,037.1	5,992.8
1.2. Loans to central government funds	1,069.7	1,041.4	1,035.3	1,026.9	1,051.9	1,047.7	1,059.3	977.1	995.1	1,031.7	748.9	758.2	959.3
2. Loans to local government	31.9	23.8	23.7	23.5	23.2	23.0	23.1	15.7	15.9	63.4	63.0	63.2	63.0
3. Loans to enterprises	10,527.3	10,347.3	10,497.9	10,570.4	10,853.7	11,334.9	11,419.9	11,321.1	11,480.9	11,870.8	12,820.4	13,350.5	12,973.5
4. Loans to households	299.5	303.0	296.6	301.5	305.4	311.6	351.2	344.1	356.7	383.2	373.4	380.4	393.3
5. Loans to other banking institutions	52.9	34.0	15.8	6.0	—	8.1	—	55.5	51.9	70.0	51.4	39.7	19.9
6. Loans to non-banking financial institutions	255.3	492.0	523.3	567.8	613.5	470.0	421.7	222.0	287.2	430.6	470.5	588.9	512.3
B. Total (1+2+3+4+5+6)	14,667.8	14,635.6	14,768.8	18,574.6	18,868.4	19,142.7	19,299.2	18,924.6	19,239.4	19,956.3	20,538.9	21,218.0	20,914.1
TOTAL (A+B)	128,774.2	130,511.5	132,255.2	134,901.8	135,947.1	139,090.9	141,607.3	142,487.2	144,927.4	147,667.3	150,873.7	154,015.5	154,929.7

Table D5: Distribution of Banks' Loans by Domestic Institutional Sectors

The table shows data on kuna and foreign currency loans granted by

banks to domestic sectors, including acceptances, financial leases, payments made on the basis of guarantees and similar instruments, purchased claims, and until December 2003 factoring and forfaiting.

Table D6: Demand Deposits with Banks

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Local government	2,020.7	1,943.0	1,924.4	1,878.0	2,069.1	2,070.8	1,913.7	1,739.7	1,812.1	1,837.4	1,890.0	1,899.5	1,688.7
2. Enterprises	12,036.9	12,263.0	11,300.6	11,455.3	10,984.7	11,759.1	11,728.9	12,201.4	12,240.0	11,674.5	12,256.0	12,406.8	13,344.2
3. Households	8,773.0	9,025.1	9,297.7	9,476.7	9,612.9	9,835.3	10,092.5	10,403.4	10,365.6	10,317.2	10,164.2	10,323.3	10,728.3
4. Other banking institutions	245.4	216.6	149.7	139.4	256.0	286.0	265.6	351.1	152.7	163.5	250.3	209.8	322.1
5. Non-banking financial institutions	517.5	615.4	785.5	537.7	469.3	530.8	565.3	468.2	539.8	469.9	598.3	646.3	571.3
6. Less: Checks of other banks and checks in collection	-2.2	-2.0	-1.9	-1.8	-2.0	-1.9	-1.8	-1.8	-1.7	-1.6	-1.8	-1.6	-1.3
Total (1+2+3+4+5+6)	23,591.3	24,061.2	23,456.0	23,485.4	23,390.0	24,480.0	24,564.3	25,162.0	25,108.5	24,460.9	25,157.0	25,484.2	26,653.3

Table D6: Demand Deposits with Banks

The table shows demand deposits with banks, classified by domestic institutional sectors.

Demand deposits are the sum of other domestic sectors', other ban-

king institutions' and non-banking financial institutions' giro and current accounts balances, minus currency in the payment system (i.e. amount of checks in banks' vaults and checks in collection). Banks' obligations arising from kuna payment instruments issued are included in the household sector.

Table D7: Time and Savings Deposits with Banks

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	2,233.9	2,332.5	2,365.0	2,327.6	2,341.6	2,321.5	2,335.8	2,390.6	2,417.4	2,412.9	2,398.6	2,402.0	2,493.6
1.1. Local government	4.6	5.1	4.4	4.7	4.8	4.7	4.8	4.7	4.9	5.0	4.9	3.9	2.7
1.2. Enterprises	38.8	41.0	39.9	45.5	44.2	61.4	62.0	78.0	96.9	96.0	108.0	105.0	101.6
1.3. Households	2,190.5	2,286.4	2,320.7	2,277.4	2,292.6	2,255.4	2,269.1	2,307.9	2,315.5	2,311.8	2,285.7	2,293.1	2,388.3
1.4. Other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
1.5. Non-banking financial institutions	0.0	0.0	0.0	0.0	–	0.0	0.0	0.0	–	–	0.0	–	1.0
2. Time and notice deposits	20,245.4	20,123.6	20,380.1	20,204.3	20,927.0	22,104.7	22,621.8	23,358.2	24,846.8	25,047.1	25,664.1	26,600.3	25,498.4
2.1. Local government	550.8	624.6	680.5	695.6	693.0	676.7	675.8	702.1	749.1	779.1	744.6	708.4	508.7
2.2. Enterprises	8,698.5	8,154.4	7,558.2	7,522.2	7,712.5	8,320.8	8,346.1	8,601.9	9,557.0	9,303.0	9,126.6	9,641.1	8,222.5
2.3. Households	9,321.4	9,715.1	10,164.2	10,455.7	10,660.4	10,884.8	11,190.4	11,508.8	11,822.7	12,180.5	12,433.1	12,874.5	13,254.9
2.4. Other banking institutions	215.9	274.8	418.4	143.7	283.0	571.6	532.4	898.8	906.2	839.5	1,164.5	1,076.1	931.9
2.5. Non-banking financial institutions	1,458.8	1,354.7	1,558.8	1,387.1	1,578.2	1,650.7	1,877.1	1,646.5	1,811.8	1,944.9	2,195.3	2,300.4	2,580.4
Total (1+2)	22,479.2	22,456.2	22,745.1	22,531.9	23,268.6	24,426.2	24,957.6	25,748.8	27,264.2	27,458.9	28,062.8	29,002.3	27,992.1

Table D7: Time and Savings Deposits with Banks

The table shows kuna savings and time deposits by other domestic sectors, other banking institutions and non-banking financial institutions with banks.

Table D8: Foreign Currency Deposits with Banks

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	22,144.6	21,813.5	21,239.2	21,005.7	20,716.7	21,238.6	21,410.7	21,865.7	23,475.5	23,555.7	23,301.6	23,270.7	22,641.0
1.1. Local government	15.6	14.5	14.3	14.6	14.5	14.5	14.8	13.3	13.6	13.3	13.3	12.6	11.9
1.2. Enterprises	4,273.2	4,283.7	4,030.6	3,948.4	3,889.6	4,277.4	4,230.0	4,182.2	4,984.3	4,727.1	4,770.4	4,755.5	4,408.3
1.3. Households	17,708.9	17,320.0	17,036.7	16,864.1	16,675.2	16,834.7	17,069.2	17,407.5	18,226.2	18,504.4	18,233.9	18,221.0	17,933.6
1.4. Other banking institutions	15.4	9.7	9.9	16.2	15.7	11.9	11.1	25.8	37.1	26.7	90.6	69.9	116.0
1.5. Non-banking financial institutions	131.6	185.6	147.8	162.3	121.7	100.2	85.6	236.9	214.4	284.3	193.4	211.7	171.3
2. Time deposits	59,598.3	58,527.2	59,047.7	58,971.7	58,028.0	57,664.5	58,342.1	59,108.7	61,549.9	63,308.1	63,059.5	64,054.0	64,119.7
2.1. Local government	0.3	0.3	0.3	0.3	0.3	0.3	31.8	31.7	32.8	33.1	34.9	35.0	3.2
2.2. Enterprises	8,518.6	7,802.1	8,194.3	8,267.1	7,698.6	7,206.2	7,125.9	6,953.1	7,954.2	8,265.8	8,259.2	8,271.2	8,154.2
2.3. Households	50,636.0	50,322.4	50,364.9	50,298.2	49,936.5	49,977.4	50,617.7	51,304.2	52,703.1	53,913.8	53,762.0	54,329.8	55,036.1
2.4. Other banking institutions	20.7	54.0	100.3	81.8	66.0	94.0	120.2	122.8	159.4	258.5	310.3	275.2	242.0
2.5. Non-banking financial institutions	422.7	348.5	388.0	324.3	326.6	386.7	446.5	696.9	700.3	836.9	693.0	1,142.7	684.2
Total (1+2)	81,742.9	80,340.7	80,287.0	79,977.3	78,744.7	78,903.1	79,752.8	80,974.4	85,025.4	86,863.8	86,361.1	87,324.7	86,760.8

Table D8: Foreign Currency Deposits with Banks

The table shows foreign currency savings and time deposits by other domestic sectors, other banking institutions and non-banking

financial institutions with banks. Foreign currency savings deposits are all foreign currency sight deposits and foreign currency payment instruments issued while foreign currency time deposits also include foreign currency notice deposits.

Table D9: Bonds and Money Market Instruments

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Money market instruments (net)	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Bonds (net)	170.5	176.7	175.6	170.3	166.7	167.1	159.6	161.4	160.1	160.8	173.8	167.8	164.9
3. Other domestic borrowing	993.0	1,037.3	1,255.9	747.6	880.2	1,076.7	1,005.0	389.0	895.6	416.5	815.3	978.9	912.1
3.1. Local government	-	-	-	-	-	-	-	-	0.0	-	-	-	-
3.2. Enterprises	40.3	40.7	52.0	49.3	49.3	81.3	80.3	91.8	74.8	74.8	59.9	56.4	40.8
3.3. Other banking institutions	842.8	683.5	854.4	494.2	515.4	565.1	623.4	226.6	772.1	317.7	695.7	867.9	828.1
3.4. Non-banking financial institutions	109.9	313.2	349.5	204.2	315.5	430.3	301.2	70.7	48.6	24.0	59.7	54.6	43.2
Total (1+2+3)	1,163.5	1,214.0	1,431.5	918.0	1,046.8	1,243.8	1,164.5	550.4	1,055.7	577.3	989.1	1,146.7	1,077.0

Table D9: Bonds and Money Market Instruments

The table shows banks' liabilities for securities issued (net) and loans received from other domestic sectors, other banking institutions and non-banking financial institutions.

Money market instruments (net) comprise banks' net liabilities for CNB bills, bills of exchange (issued and accepted) and other securities issued.

rities issued.

Bonds (net) comprise banks' net liabilities for kuna and foreign currency bonds issued, as well as issued subordinated and hybrid instruments, excluding those purchased by foreign investors.

Other domestic borrowing comprises loans received, reported total and classified by institutional sectors.

Table D10: Banks' Foreign Liabilities

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Foreign liabilities in f/c	54,536.7	51,469.0	49,614.7	53,735.4	52,424.1	52,238.8	52,808.8	51,219.1	49,711.8	49,145.4	49,270.9	50,837.2	52,073.3
1.1. Liabilities to foreign banks	48,967.5	45,870.3	44,078.4	47,936.1	46,644.1	46,445.7	46,774.5	45,103.7	43,517.4	42,943.1	43,046.3	44,553.3	45,747.7
Demand deposits	127.6	120.8	108.0	96.2	118.6	95.7	106.6	112.6	96.8	133.6	103.5	107.6	156.3
Time and notice deposits	16,056.8	12,358.4	12,458.5	14,254.3	13,426.6	13,647.9	13,554.8	12,410.9	10,261.5	10,454.4	10,636.6	11,369.9	12,523.1
Loans and advances	29,369.5	30,027.3	28,167.0	30,269.7	29,804.5	29,432.6	29,841.7	29,314.6	29,856.8	29,025.7	29,002.3	29,770.7	29,775.6
o/w: Subordinated and hybrid instruments	2,399.4	2,119.1	2,106.9	2,088.4	1,917.0	1,902.1	1,902.9	1,899.3	1,920.6	1,820.6	1,168.3	1,171.3	1,167.4
Bonds	3,413.6	3,363.8	3,344.8	3,315.9	3,294.5	3,269.4	3,271.4	3,265.5	3,302.2	3,329.4	3,303.9	3,305.2	3,292.6
1.2. Liabilities to foreign non-banks	5,569.2	5,598.7	5,536.3	5,799.3	5,780.0	5,793.2	6,034.3	6,115.4	6,194.5	6,202.3	6,224.6	6,283.9	6,325.6
Savings and time deposits	5,002.2	5,072.4	5,013.0	5,280.5	5,264.5	5,280.9	5,516.2	5,641.5	5,714.6	5,718.3	5,744.7	5,802.3	5,846.3
Sight deposits	1,052.5	1,160.6	1,066.7	1,073.3	1,064.6	1,131.1	1,156.6	1,197.8	1,275.0	1,195.7	1,146.6	1,133.2	1,172.9
Time and notice deposits	3,949.6	3,911.8	3,946.4	4,207.1	4,199.9	4,149.8	4,359.7	4,443.7	4,439.5	4,522.6	4,598.1	4,669.1	4,673.4
Loans and advances	567.1	526.3	523.2	518.8	515.4	512.2	518.1	473.9	479.9	484.0	479.9	481.6	479.3
o/w: Subordinated and hybrid instruments	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	-	-	-
2. Foreign liabilities in kuna	6,627.0	7,388.9	7,532.1	8,912.5	9,566.8	10,191.7	10,693.0	11,464.1	11,087.6	11,676.0	12,567.1	14,229.1	15,039.1
2.1. Liabilities to foreign banks	6,103.9	6,826.4	6,942.4	8,293.2	8,931.3	9,524.8	9,992.7	10,755.2	10,363.8	10,822.6	11,739.4	13,377.9	14,099.6
Demand deposits	145.1	191.8	203.3	199.8	248.0	162.0	223.4	159.0	176.8	163.6	191.7	112.8	179.6
Time and notice deposits	2,846.9	3,571.6	3,693.6	4,471.8	4,225.7	4,097.8	4,136.9	4,978.4	5,098.7	5,312.0	6,234.5	6,297.3	6,979.5
Loans and advances	3,111.9	3,063.1	3,045.5	3,621.6	4,457.6	5,265.0	5,632.3	5,617.9	5,088.2	5,347.0	5,313.1	6,967.9	6,940.5
o/w: Subordinated and hybrid instruments	-	-	-	-	-	-	-	-	-	223.2	221.4	407.0	405.7
2.2. Liabilities to foreign non-banks	523.1	562.5	589.8	619.3	635.5	666.9	700.4	708.9	723.9	853.4	827.7	851.2	939.5
Demand deposits	95.9	106.4	98.1	108.3	111.6	119.8	121.6	113.2	103.2	147.1	110.8	118.5	180.3
Time and notice deposits	419.2	448.3	483.8	503.2	519.9	543.1	574.8	591.7	616.7	702.3	713.0	728.7	755.2
Loans and advances	8.0	7.9	7.8	7.7	4.0	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.0
o/w: Subordinated and hybrid instruments	8.0	7.9	7.8	7.7	4.0	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.0
Total (1+2)	61,163.7	58,857.9	57,146.8	62,647.9	61,990.9	62,430.5	63,501.8	62,683.2	60,799.5	60,821.4	61,838.0	65,066.3	67,112.3

Table D10: Banks' Foreign Liabilities

The table shows banks' total foreign currency and kuna liabilities to foreign legal and natural persons, with the exception of restricted kuna and foreign currency deposits by foreign legal and natural persons.

Banks' foreign liabilities comprise foreign currency liabilities and

foreign kuna liabilities.

Within foreign kuna and foreign currency liabilities, liabilities to foreign banks are reported separately from liabilities to foreign non-banks (total and by financial instruments). Loans and advances also include issued subordinated and hybrid instruments purchased by foreign investors.

Table D11: Central Government and Funds' Deposits with Banks

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. In kuna	5,627.2	5,290.9	5,414.7	5,961.7	5,897.0	5,864.9	6,105.4	6,205.3	6,633.0	6,912.1	7,628.8	7,580.4	7,596.1
1.1. Central government deposits	445.1	395.0	398.1	426.4	454.3	512.0	554.8	502.2	529.3	710.9	512.5	531.5	605.0
Demand deposits	373.3	309.7	309.5	330.4	372.8	390.4	428.4	376.9	397.2	529.8	318.5	334.3	458.1
Savings deposits	4.2	4.1	4.1	3.3	3.2	2.9	2.1	2.0	2.1	2.1	1.9	1.9	1.8
Time and notice deposits	66.5	80.1	83.4	91.7	77.3	117.7	123.2	122.2	129.1	178.0	191.1	194.3	144.0
Loans and advances	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
1.2. Central government funds' deposits	5,182.2	4,895.8	5,016.6	5,535.4	5,442.7	5,352.9	5,550.6	5,703.1	6,103.6	6,201.2	7,116.4	7,048.9	6,991.1
Demand deposits	266.3	221.0	286.5	271.9	279.7	275.6	241.5	345.9	436.1	541.1	819.6	832.9	580.2
Savings deposits	3.5	6.0	2.5	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Time and notice deposits	262.3	180.1	143.8	638.9	428.7	176.9	251.0	143.0	270.1	177.2	477.1	363.9	251.7
Loans and advances	4,650.0	4,488.7	4,583.8	4,622.7	4,732.5	4,898.6	5,056.2	5,212.4	5,395.6	5,481.1	5,817.7	5,850.2	6,157.3
2. In f/c	1,194.6	988.2	1,095.7	955.3	1,131.6	1,185.5	1,464.3	1,165.6	1,106.0	1,495.7	1,428.8	1,356.6	1,690.9
2.1. Central government deposits	891.0	828.9	808.3	818.6	787.3	816.9	887.7	761.5	732.0	915.5	858.5	804.5	906.2
Savings deposits	189.7	212.9	200.6	206.5	188.5	189.0	236.6	224.2	193.8	370.2	315.3	243.9	340.6
Time and notice deposits	23.2	23.6	23.6	23.7	17.1	30.1	30.1	26.6	27.4	23.6	29.7	31.1	38.7
Refinanced loans and advances	678.1	592.4	584.0	588.3	581.7	597.8	620.9	510.6	510.8	521.6	513.6	529.6	527.0
2.2. Central government funds' deposits	303.6	159.3	287.3	136.7	344.3	368.5	576.6	404.2	374.0	580.3	570.3	552.1	784.7
Savings deposits	156.5	139.6	201.8	136.7	148.9	138.4	172.1	205.7	189.5	177.1	186.5	215.7	139.4
Time and notice deposits	147.1	19.6	85.5	–	195.4	120.6	240.8	–	73.8	180.0	162.4	114.4	25.8
Loans	–	–	–	–	–	109.6	163.8	198.5	110.7	223.2	221.4	222.0	619.6
Total (1+2)	6,821.8	6,279.1	6,510.4	6,917.0	7,028.6	7,050.4	7,569.7	7,371.0	7,739.0	8,407.9	9,057.6	8,937.0	9,287.0

Table D11: Central Government and Funds' Deposits with Banks

The table reports total banks' kuna and foreign currency liabilities to the central government and funds, with the exception of restricted (kuna and foreign currency) deposits by the central government and

funds with banks.

Kuna and foreign currency deposits by the Republic of Croatia and central government funds are shown separately. Kuna deposits comprise demand deposits, savings deposits, time and notice deposits, and loans obtained from the central government and funds. Foreign currency deposits comprise savings deposits, time and notice deposits, and refinanced loans.

Table D12: Restricted and Blocked Deposits with Banks

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Restricted deposits	2,014.6	2,089.8	2,218.2	2,396.0	2,329.9	2,321.4	2,014.5	2,140.0	2,105.2	2,026.9	2,039.9	2,197.2	2,036.4
1.1. In kuna	1,267.4	1,439.2	1,475.0	1,473.5	1,515.3	1,344.4	1,221.6	1,190.1	1,179.0	1,186.6	1,215.4	1,153.3	1,277.1
1.2. In f/c	747.2	650.7	743.3	922.5	814.6	977.0	792.9	949.9	926.2	840.2	824.5	1,043.9	759.3
2. Blocked f/c deposits of households	40.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	–	–	–	–	–
Total (1+2)	2,054.6	2,090.2	2,218.3	2,396.1	2,329.9	2,321.5	2,014.5	2,140.0	2,105.2	2,026.9	2,039.9	2,197.2	2,036.4

Table D12: Restricted and Blocked Deposits with Banks

The table shows households' restricted deposits (kuna and foreign currency) and blocked deposits.

Restricted and blocked deposits include two categories of deposits:

restricted (kuna and foreign currency) deposits and blocked foreign currency deposits.

Blocked foreign currency deposits include households' foreign currency deposits regulated by the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia.

Table E1: Housing Savings Banks' Accounts

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Reserves with the CNB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Claims on central government and funds	3,779.1	3,813.9	3,759.2	3,660.1	3,644.2	3,646.5	3,666.1	3,676.3	3,759.5	3,842.0	4,021.2	4,068.7	4,274.3
3. Claims on other domestic sectors	373.2	375.7	386.3	557.4	571.1	588.6	610.9	627.8	653.0	673.0	676.3	692.1	575.5
o/w: Claims on households	373.2	375.7	386.3	403.0	418.2	436.5	458.9	476.6	499.0	518.8	523.3	538.7	575.5
4. Claims on banks	824.2	759.8	902.4	666.0	663.7	659.1	693.0	684.6	716.0	693.7	798.9	807.2	994.4
5. Claims on other banking institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
Total (1+2+3+4+5)	4,976.6	4,949.4	5,048.0	4,883.5	4,879.0	4,894.3	4,970.1	4,988.7	5,128.6	5,208.7	5,496.4	5,568.0	5,844.2
LIABILITIES													
1. Time deposits	4,728.2	4,731.4	4,713.5	4,686.9	4,663.4	4,647.9	4,678.9	4,696.9	4,793.0	4,878.2	5,166.0	5,226.0	5,514.7
2. Bonds and money market instruments	10.7	10.6	10.5	10.4	10.3	10.2	10.2	10.2	10.3	10.4	10.3	10.4	10.3
3. Capital accounts	206.7	191.6	188.6	172.4	206.3	228.5	238.1	243.3	262.0	286.0	279.4	260.0	258.0
4. Other items (net)	30.8	15.9	135.4	13.8	-1.0	7.7	42.9	38.3	63.3	34.1	40.7	71.7	61.1
Total (1+2+3+4)	4,976.6	4,949.4	5,048.0	4,883.5	4,879.0	4,894.3	4,970.1	4,988.7	5,128.6	5,208.7	5,496.4	5,568.0	5,844.2

Table E1: Housing Savings Banks' Accounts

Housing savings banks' accounts include data on claims and liabilities of the Croatian housing savings banks. All housing savings banks' claims and liabilities refer exclusively to domestic sectors.

Housing savings banks' required reserves held at the central bank include funds in vaults. Until September 2003, they also included kuna funds held in accounts at the central bank.

Claims on central government and funds are claims in kuna on the Republic of Croatia and central government funds.

Claims on other domestic sectors include kuna loans to local government and households.

Claims on banks include loans extended to banks, as well as deposits with banks, including, since October 2003, accounts for regular

operations with banks.

Claims on other banking institutions include investments in investment funds.

Item Time deposits includes local government and households' time deposits.

Bonds and money market instruments are housing savings banks' liabilities for securities issued (net) and loans obtained.

Capital accounts are share capital, profit or loss for the previous and current year, retained earnings (loss), legal reserves, reserves provided for by the articles of association and other capital reserves, hedging reserves, unrealised gains (losses) from financial assets classified as available-for-sale assets, value adjustments and specific reserves for unidentified losses. Other items (net) are unclassified liabilities decreased by unclassified assets.

Table F1: Credit Rates of the Croatian National Bank

in percentage, on annual basis

Year	Month	CNB discount rate	CNB repo rate ^a	Credit rates					
				On lombard credits ^b	On intervention credits	On intra-day refinancing facility ^b	On short-term liquidity credits	On inaccurately calculated statutory reserves ^b	On arrears
1	2	3	4	5	6	7	8	9	10
1997	December	5.90	–	9.50	19.00	17.00	–	19.00	18.00
1998	December	5.90	–	12.00	19.00	7.00	14.00	19.00	18.00
1999	December	7.90	–	13.00	19.00	–	14.00	19.00	18.00
2000	December	5.90	–	12.00	18.00	–	13.00	18.00	18.00
2001	December	5.90	–	10.00	–	–	11.00	15.00	18.00
2002	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2003	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2004	December	4.50	–	9.50	–	–	10.50	15.00	15.00
2005	January	4.50	–	9.50	–	–	10.50	15.00	15.00
	February	4.50	–	9.50	–	–	10.50	15.00	15.00
	March	4.50	–	9.50	–	–	10.50	15.00	15.00
	April	4.50	4.75	9.50	–	–	10.50	15.00	15.00
	May	4.50	–	9.50	–	–	10.50	15.00	15.00
	June	4.50	3.61	9.50	–	–	10.50	15.00	15.00
	July	4.50	3.52	9.50	–	–	10.50	15.00	15.00
	August	4.50	3.50	9.50	–	–	10.50	15.00	15.00
	September	4.50	3.50	9.50	–	–	10.50	15.00	15.00
	October	4.50	3.50	9.50	–	–	10.50	15.00	15.00
	November	4.50	3.50	9.50	–	–	10.50	15.00	15.00
	December	4.50	3.50	7.50 ^c	–	–	8.50 ^c	15.00	15.00

^a Weighted averages of weighted repo rates achieved at regular reverse repo auctions of the CNB in the reporting month.^b Breaks in the series of data are explained in notes on methodology.^c Since 14 December 2005.**Table F1: Credit Rates of the Croatian National Bank**

The table shows interest rates used by the CNB to calculate and charge interest on credits from the primary issue and on all other claims.

Credit rates of the CNB are set by decisions of the Council of the Croatian National Bank, on annual basis. Exceptionally, from June 1995 interest rate charged by the CNB on Lombard credits was 1.5 percentage point higher than the weighted average interest rate on CNB bills on a voluntary basis (which serve as collateral for Lombard credits) in cases when the weighted average interest rate was higher than 16.5%. Congruently, from June 1995 to August 1996 the table reports the weighted average interest rate on Lombard credits.

Data shown in column 4 refer to weighted interest rates of weighted repo rates achieved at regular reverse repo auctions of the CNB in the reporting month.

Time series presented in the table contain certain breaks, due to changes in the CNB's monetary policy instruments.

Data shown in column 7 refer, until September 1994, to interest

rates on special credits for savings deposits' payments and for payments from households' current accounts, and from October 1994 until September 1997 to interest rates on daily credits for savings deposits and households' current accounts in kuna. Daily credits, as opposed to special credits, are paid back on the same day. In October 1997, this instrument was replaced by daily credits for overcoming short-term liquidity problems that are collateralized by CNB bills. Since December 1998 until April 1999, this credit is incorporated in Lombard credit, applying different interest rate for its usage within one day.

Data shown in column 8 refer, until December 1994, to interest rate on initial credits, and since 18 March 1998, to credits for overcoming liquidity problems of banks under evaluation for entry into rehabilitation and restructuring procedures and since February 1999, to interest rates on short-term liquidity credits. Since December 1999, data show interest rates on short-term liquidity credit with a maturity over 3 months which is 1 percentage point higher than interest rate on Lombard credits. Interest rate on short-term liquidity credit up to 3 months is 0.5 percentage point higher than interest rate on Lombard credits.

Table F2: Deposit Rates of the Croatian National Bank

in percentage, on annual basis

Year	Month	Interest rates on statutory reserves dep. with the CNB ^a	Interest rates on CNB bills on an obligatory basis	Interest rates on CNB bills on a voluntary basis ^a				Interest rates on f/c CNB bills on a voluntary basis					Interest rates on overnight deposits
				Due in 7 days	Due in 35 days	Due in 70 days	Due in 105 days	Due in 35 days	Due in 63 days	Due in 91 days	Due in 182 days	Due in 364 days	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1997	December	4.50	–	–	8.00	9.00	10.00	–	–	–	–	–	–
1998	December	5.90	–	–	9.50	10.50	11.00	–	4.60	3.12	3.08	–	–
1999	December	5.90	–	–	10.50	11.55	12.50	–	4.83	3.56	–	–	–
2000	December	4.50	–	–	6.65	7.00	7.70	–	5.51	4.83	–	–	–
2001	December	2.00	–	–	3.36	4.26	4.85	–	2.62	3.06	–	–	–
2002	December	1.75	–	–	2.08	–	–	2.30	2.68	–	–	–	–
2003	December	1.25	0.50	–	–	–	–	1.75	1.48	–	–	–	–
2004	December	1.25	–	–	–	–	–	–	–	–	–	–	–
2005	January	1.25	–	–	–	–	–	–	–	–	–	–	–
	February	1.25	–	–	–	–	–	–	–	–	–	–	–
	March	1.25	–	–	–	–	–	–	–	–	–	–	–
	April	1.25	–	–	–	–	–	–	–	–	–	–	0.50
	May	1.25	–	–	–	–	–	–	–	–	–	–	0.50
	June	0.75 ^b	–	–	–	–	–	–	–	–	–	–	0.50
	July	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	August	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	September	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	October	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	November	0.75	–	–	–	–	–	–	–	–	–	–	0.50
	December	0.75	–	–	–	–	–	–	–	–	–	–	0.50

^a Breaks in the series of data are explained in notes of methodology.^b Since 8 June 2005.**Table F2: Deposit Rates of the Croatian National Bank**

The table shows interest rates used by the CNB to calculate and pay interest on funds deposited with the CNB and on issued securities. Interest rates paid by the CNB for appropriated statutory reserve funds are set by a decision of the Council of the CNB. Until April 2005, the appropriated statutory reserve funds included the calculated statutory reserve funds that were deposit in a special statutory reserve account with the CNB, or maintained (in average) in bank's settlement accounts, or deposited in a special account with the CNB for the settlement of net positions in the NCS. From April 2005, they include the calculated statutory reserve funds allocated to a special statutory reserve account with the CNB (column 3). Interest rates on CNB bills on an obligatory basis are set by a de-

cision of the Council of the CNB. Interest rates on CNB bills on a voluntary basis are set at CNB bills' auction sales. Congruently, columns 5, 6 and 7 report weighted average interest rates attained at auctions of CNB bills.

From November 1994 through January 2001, columns 7 and 8 report interest rates on CNB bills on a voluntary basis due in 91 and 182 days respectively.

Since April 1998 columns 9 through 13 report weighted average interest rates on CNB bills on a voluntary basis in EUR and USD (until December 1998 in DEM and USD) attained at CNB bills' auctions as a weighted average of subscribed amounts in those two currencies.

Column 14 reports the interest rate on overnight deposits with the CNB.

Table F3: Banks' Reserve Requirements

daily averages and percentages, million kuna and %

Year	Month	Weighted average res. requirement in % on res. base	Reserve requirement (RR)			Other obligatory deposits with the CNB	Statutory reserves deposited with the CNB		Weighted avg. remuneration rate on immobilized in kuna	Weighted avg. remuneration rate on allocated funds in f/c
			Total	In kuna	In f/c		In kuna	In f/c		
1	2	3	4=5+6	5	6	7	8	9	10	11
1997	December	32.02	4,348.8	4,348.8	–	0.0	3,914.2	–	4.05	–
1998	December	29.57	13,112.7	3,967.2	9,145.4	57.4	3,469.8	1,467.6	5.28	....
1999	December	30.50	13,579.0	4,210.1	9,368.9	37.3	3,695.1	4,606.5	5.62	....
2000	December	23.22	16,245.8	4,646.8	11,599.0	5.0	4,191.6	5,544.6	4.05	....
2001	December	19.67	21,187.1	8,691.5	12,495.5	–	6,287.8	5,950.0	1.97	2.73
2002	December	19.00	25,985.1	11,447.1	14,538.0	–	8,156.7	7,139.9	1.72	2.16
2003	December	19.00	31,009.4	18,023.8	12,985.6	109.4	12,459.8	6,850.2	1.17	1.47
2004	December	18.00	33,615.7	20,040.9	13,574.8	430.1	14,664.1	10,171.3	1.22	1.36
2005	January	18.00	33,813.7	20,138.1	13,675.7	844.2	14,702.2	10,263.1	1.22	1.49
	February	18.00	34,231.3	20,353.1	13,878.2	1,341.2	14,844.8	10,444.8	1.21	1.41
	March	18.00	34,369.6	20,506.3	13,863.3	1,752.0	14,790.3	10,436.4	1.21	1.30
	April	18.00	34,273.3	20,475.9	13,797.4	1,769.2	14,421.3	10,403.7	0.95	1.41
	May	18.00	34,619.1	20,713.2	13,905.9	2,426.0	14,496.1	10,542.8	0.87	1.24
	June	18.00	34,918.4	22,506.3	12,412.1	3,447.3	15,751.4	9,427.2	0.61	0.86
	July	18.00	35,414.2	23,365.0	12,049.2	3,921.7	16,352.7	9,151.9	0.52	0.74
	August	18.00	35,792.5	23,710.5	12,082.0	4,024.6	16,594.8	9,150.1	0.52	0.68
	September	18.00	36,249.8	24,107.1	12,142.7	3,710.2	16,873.6	9,130.9	0.52	0.75
	October	18.00	36,832.9	24,483.3	12,349.6	3,542.4	17,137.4	9,233.1	0.52	0.74
	November	18.00	37,147.1	24,741.3	12,405.8	3,631.8	17,318.0	9,254.3	0.52	0.68
	December	18.00	37,424.5	24,997.9	12,426.6	3,940.2	17,497.7	9,271.4	0.52	0.92

Table F3: Banks' Reserve Requirements

This table shows data on monthly averages of day-to-day balances of banks' kuna and foreign currency reserve requirements with the CNB. Savings banks are included beginning in July 1999.

Column 3 shows the weighted average reserve requirement ratio as a percentage of the kuna and foreign currency reserve requirement in the reserve base.

Reserve requirement (column 4) represents the prescribed amount of funds banks are required to deposit in a special statutory reserve account with the CNB, or to maintain (in average) in their settlement accounts and in vaults, or in accounts of liquid foreign exchange claims (which include foreign currency cash and checks in foreign exchange, liquid foreign exchange claims maintained in the accounts with the high-grade foreign banks and foreign currency CNB bills).

Column 5 shows the amount of kuna reserve requirements. Between January 1995 and December 2000, this amount corresponded with the statutory reserve requirement instrument, while until December 1994 it comprised two instruments: statutory reserves and liquid assets requirement – LAR (except for the part in which banks were conforming to this requirement by registering CNB bills on a voluntary basis). In December 2000, reserve requirements in kuna and in foreign currency were unified, i.e. reserve requirements rate, periods for calculating, allocating and maintaining reserve requirements were unified, as well as a minimum percentage of the total reserve requirements deposited with the Croatian National Bank. Starting from September 2001, column 5 includes also the f/c component of reserve requirements that is set aside/maintained in kuna.

Column 6 shows the amount of foreign currency reserve requirements, i.e. the prescribed amount of funds banks are required to deposit in the CNB's foreign exchange accounts, or to maintain (in average) in accounts of liquid claims. Until November 2000, the calculation base consisted of average daily balances of household foreign exchange savings deposits with a remaining maturity of up to 3 months, while starting from December 2000 the base consists of foreign exchange sources of funds, including: ordinary foreign exchange accounts, special foreign exchange accounts, sight foreign

exchange accounts and savings deposits, received foreign exchange deposits and received foreign exchange loans, as well as obligations arising from securities issued in foreign exchange (excluding the bank's equity securities). Starting from November 2001, the base includes also hybrid and subordinated instruments.

Column 7 shows the total amount of other obligatory deposits with the CNB, including CNB bills on an obligatory basis, those CNB bills on a voluntary basis used by banks to maintain the prescribed minimal liquidity (LAR), special statutory reserves (until July 1995), statutory reserves on f/c deposits, f/c credits from foreign banks and guarantees for such credits, and marginal reserve requirements (from August 2004 on).

Column 8 shows the portion of the kuna reserve requirement which banks deposit in a statutory reserve account with the CNB (until December 1994 this amount corresponded with the statutory reserve instrument, while since January 1995 a minimum percentage of the total reserve requirement banks are required to deposit in a special statutory reserve account with the CNB has been prescribed). In April 2005, this percentage was set at 70%.

Column 9 shows the portion of the foreign currency reserve requirement which banks deposit in the CNB's foreign exchange accounts. The percentage for allocating the foreign currency component of reserve requirements calculated on the basis of foreign exchange funds of non-residents and foreign exchange funds received from legal persons in a special relationship with a bank amounts to 100%, while the percentage for allocating the remaining portion of the foreign currency component of reserve requirements amounts to 60%.

Column 10 shows the weighted average remuneration rate on all forms of immobilized kuna funds which include reserve requirements and other obligatory deposits with the CNB.

Column 11 shows the weighted average remuneration rate on allocated funds in foreign currency, including the marginal reserve requirement funds (from August 2004 on). From June 2005 the CNB pays remuneration equalling 50% of the US Federal Funds Target Rate for the funds allocated in US dollars and 50% of the ECB Minimum Bid Refinance Rate for the funds allocated in euros. In both cases the rate in effect on the day of allocation is applied.

Table F4: Banks' Liquidity Indicators

daily averages and percentages, million kuna and %

Year	Month	Free reserves		Primary liquidity ratio (in %)	Secondary liquidity sources	Kuna CNB bills	F/c CNB bills	Kuna treasury bills
		In kuna	In f/c					
1	2	3	4	5	6	7	8	9
1997	December	396.3	....	2.92	32.7	728.9	–	260.7
1998	December	221.9	....	1.65	445.5	850.4	1,377.4	141.3
1999	December	179.6	....	1.30	1,183.6	1,311.1	1,507.6	373.9
2000	December	638.8	10,721.4	3.32	80.1	2,485.3	1,692.7	2,006.5
2001	December	794.4	17,247.4	3.23	2.6	2,656.2	2,630.8	3,360.9
2002	December	1,225.0	10,398.0	3.53	0.6	4,965.5	1,273.9	4,279.5
2003	December	451.6	20,561.4	0.98	501.6	0.0	4,316.0	3,073.2
2004	December	1,495.5	26,126.1	2.64	0.0	0.0	0.0	4,581.7
2005	January	1,592.1	24,923.7	2.80	0.0	0.0	0.0	4,859.1
	February	1,472.0	23,212.0	2.57	0.0	0.0	0.0	5,266.7
	March	1,132.5	21,380.6	1.95	0.0	0.0	0.0	6,050.3
	April	683.1	19,812.8	1.17	1.1	0.0	0.0	7,164.1
	May	542.2	18,697.5	0.92	0.0	0.0	0.0	7,253.5
	June	577.5	19,221.1	0.95	0.0	0.0	0.0	5,476.5
	July	504.7	20,669.4	0.80	0.0	0.0	0.0	4,370.8
	August	605.3	21,540.2	0.94	0.0	0.0	0.0	3,639.2
	September	424.6	21,862.5	0.64	0.0	0.0	0.0	4,666.5
	October	409.1	21,124.8	0.61	0.0	0.0	0.0	4,721.6
	November	354.4	20,976.2	0.52	0.0	0.0	0.0	5,014.3
	December	672.5	20,493.4	0.96	0.2	0.0	0.0	4,163.3

Table F4: Banks' Liquidity Indicators

The table reports monthly averages of day-to-day balances of some indicators of banks' liquidity. Savings banks are included beginning in July 1999.

Column 3 shows free reserves in kuna, defined as bank's total reserves (in settlement accounts and in vaults) decreased by the minimal average settlement account and vault balance, as prescribed by instruments of the CNB.

Column 4 shows free reserves in foreign currency, defined as funds for the maintenance of foreign currency reserve requirements (foreign currency cash and checks in foreign exchange, liquid foreign exchange claims maintained in the accounts with the high-grade foreign banks and foreign currency CNB bills) decreased by the minimal required balance of these funds in the same period.

Column 5 shows the primary liquidity ratio as a percentage of mon-

thly day-to-day kuna free reserves averages (column 3) in monthly day-to-day averages of deposits which constitute the reserve base.

Column 6 shows the monthly average of day-to-day balances of secondary liquidity sources used. Secondary liquidity sources comprise: Lombard credits (since December 1994), short-term liquidity credits (since February 1999), and overdue liabilities to the CNB.

Column 7 reports the monthly average of day-to-day balances of kuna CNB bills on a voluntary basis (until December 1994, this amount is decreased by the portion of voluntarily registered CNB bills used by banks to maintain the prescribed minimal liquidity).

Column 8 reports the monthly average of day-to-day balances of foreign currency CNB bills on a voluntary basis (EUR and USD).

Column 9 reports the monthly average of day-to-day balances of kuna treasury bills. Until September 2002, it shows the discounted value of treasury bills, while starting from October 2002, it shows their nominal value.

Table G1: Banks' Interest Rates on Kuna Credits Not Indexed to Foreign Currency

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Money market interest rates		Interest rates on kuna credits not indexed to foreign currency									
		On overnight credits	On other credits	Total average	On short-term credits						On long-term credits		
					Total average	Enterprises	Households			Total average	Enterprises	Households	
							Total average	Credit lines	Other				
1	2	3	4	5	6	7	8	9	10	11	12	13	
1997	December	8.46	9.49	14.06	14.12	13.17	19.26	19.34	18.11	13.24	12.98	13.75	
1998	December	10.00	15.91	16.06	16.22	14.89	20.77	20.80	19.92	11.73	11.48	13.16	
1999	December	9.92	12.78	13.54	13.52	10.55	20.83	20.84	20.39	15.14	15.31	14.16	
2000	December	2.39	4.45	10.45	10.45	6.81	20.30	20.33	19.05	9.90	9.64	12.97	
2001	December	2.49	2.18	9.51	9.49	5.43	18.81	18.85	14.88	11.42	10.06	13.14	
2002	December	1.58	1.89	10.91	11.24	7.44	15.16	15.28	9.84	7.32	6.48	7.88	
2003	December	5.47	7.02	11.45	11.80	8.02	14.89	15.01	12.38	8.51	6.14	10.69	
2004	December	3.55	6.02	11.44	11.71	8.33	14.19	14.27	12.29	9.31	6.90	11.16	
2005	January	2.26	4.21	11.80	11.95	8.21	14.16	14.26	12.09	10.39	6.63	11.15	
	February	2.55	4.94	11.88	12.03	8.31	14.05	14.27	9.81	9.97	6.68	10.88	
	March	2.04	5.60	11.82	12.08	8.37	14.16	14.25	11.93	9.24	6.42	11.33	
	April	0.89	5.14	11.57	11.79	8.21	13.74	14.02	9.50	10.07	6.30	11.62	
	May	0.77	4.50	11.38	11.44	7.95	13.43	14.15	6.96	10.66	6.13	11.63	
	June	1.96	5.01	11.21	11.26	8.19	13.00	13.86	6.59	10.71	6.75	11.74	
	July	3.38	4.50	11.42	11.52	8.16	13.39	13.89	7.51	10.21	7.43	11.25	
	August	5.55	5.19	11.17	11.32	7.85	13.32	13.88	7.26	9.38	5.38	11.34	
	September	1.83	4.21	10.66	10.72	8.01	12.04	13.86	5.47	9.98	6.26	11.32	
	October	2.12	3.84	10.95	10.98	7.98	12.35	13.92	5.41	10.30	6.89	11.22	
	November	2.29	3.95	10.54	10.56	7.71	11.96	13.77	5.37	10.08	7.61	11.02	
	December	2.29	4.03	9.91	9.99	7.71	11.26	13.18	5.35	8.75	6.48	10.35	
	Relative significance ^a	-	-	59.96	55.86	19.98	35.8*	27.08	8.80	4.10	1.70	2.41	

^a Relative significance is calculated as a percentage of corresponding credit category in total credits disbursed in the reporting month (according to data for the last period included in the table).

Note: A break in the time series occurred due to changes in the methodology used in interest rate statistics as of 1 January 2001. This especially refers to interest rates shown in columns 5, 6 and 7. Interbank credits, which bear relatively low interest rates, were, among others, excluded from short-term credits to enterprises. The increase in interest rates was also caused by the weighting method: all categories are weighted by the amounts of newly-granted credits, except credit lines whose relative share grew in the new coverage, which are weighted by book balances.

Table G1: Banks' Interest Rates on Kuna Credits Not Indexed to Foreign Currency

The table contains weighted averages of banks' and savings banks' monthly interest rates on kuna credits not indexed to f/c, reported on a yearly basis.

Up to December 2001, data refer to weighted averages of banks' monthly interest rates on kuna credits not indexed to f/c granted to legal persons (which included enterprises, the public sector, financial institutions, non-profit institutions and non-residents) and households, reported on a yearly basis. Savings banks are not covered. Starting from January 2002, data refer to weighted averages of banks' and savings banks' monthly interest rates on kuna credits not indexed to f/c granted only to enterprises (public and other) and households, reported on a yearly basis.

Up to February 1996, columns 3 and 4 showed interest rates on the interbank money market, according to information published by the Zagreb Money Market (ZMM). Starting from March 1996, interest rates on the money market are calculated as weighted monthly averages of weighted daily interest rates and shown separately

for trading in overnight credits and trading in other credits on the ZMM. In the period between May 1998 and January 2001, the repayment of credits granted on the interbank overnight market was guaranteed by banks' required reserves with the CNB. Columns 5 through 13 show weighted averages of banks' and savings banks' monthly interest rates classified by maturity and sectors. Interest rates on short-term credits to enterprises also include interest rates on callable loans.

Data on banks' and savings banks' interest rates on kuna credits not indexed to f/c are based on banks' and savings banks' periodic reports. The basis for calculation of weighted averages are amounts of credits bearing corresponding interest rates, which were disbursed during the reporting month, with the exception of interest rates on giro and current account credit lines, for which weighted averages were calculated based on the balance of these loans at the end of the reporting month.

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of the corresponding credit category (to which exchange rates apply) in total credits included in the calculation of weighted averages for that period.

Table G2: Banks' Interest Rates on Kuna Credits Indexed to Foreign Currency and on Credits in Euros

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on kuna credits indexed to foreign currency									Interest rates on credits in euros		
		Total average	On short-term credits			On long-term credits			Total average	On short-term credits	On long-term credits		
			Total average	Enterprises	Households	Total average	Enterprises	Households					
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1997	December	14.40	16.92	17.00	14.02	12.25	13.00	11.02	....	....	13.61	14.95	9.71
1998	December	13.04	14.28	14.25	13.64	11.15	10.55	12.12	....	....	6.95	8.37	5.71
1999	December	12.53	13.66	13.54	17.21	10.81	10.46	11.65	....	....	6.75	7.43	6.07
2000	December	10.74	11.17	11.10	13.59	10.52	9.41	11.64	....	....	7.70	7.49	8.05
2001	December	9.29	9.45	9.45	11.30	9.20	7.52	10.79	....	....	5.94	5.70	7.27
2002	December	8.25	9.34	8.72	11.37	7.98	6.37	9.50	7.42	10.11	5.91	6.66	5.44
2003	December	7.07	7.21	7.00	8.66	7.03	5.76	8.04	6.02	9.70	5.62	6.22	5.18
2004	December	6.89	7.25	7.09	8.47	6.77	5.55	7.73	5.71	8.79	5.34	5.92	4.83
2005	January	6.97	7.03	6.86	8.13	6.95	5.91	7.52	5.71	8.51	5.45	5.63	5.29
	February	6.89	6.95	6.80	7.92	6.87	5.66	7.52	5.52	8.42	5.46	6.22	4.65
	March	7.44	6.86	6.72	7.65	7.55	4.97	8.31	5.44	8.79	5.47	5.80	5.03
	April	6.92	7.11	7.04	7.50	6.89	5.64	7.38	6.33	8.41	5.53	5.85	5.21
	May	6.71	6.73	6.62	7.54	6.70	5.24	7.43	5.30	8.34	5.31	5.33	5.25
	June	6.60	6.56	6.49	6.94	6.62	5.47	7.22	5.14	8.21	5.20	5.62	4.64
	July	6.29	6.09	5.96	7.16	6.36	5.22	7.06	5.02	8.05	5.13	5.14	5.09
	August	6.67	6.78	6.77	6.84	6.63	5.40	7.22	5.03	8.51	4.71	6.10	4.15
	September	6.68	6.69	6.59	7.37	6.68	5.42	7.40	5.14	8.56	5.01	5.78	4.33
	October	6.46	6.27	6.22	6.87	6.54	5.09	7.27	5.04	8.36	4.94	5.28	4.38
	November	6.49	6.73	6.64	7.38	6.42	5.36	7.12	5.01	8.20	4.84	4.94	4.70
	December	6.17	6.48	6.34	7.65	6.07	5.18	6.95	5.00	8.10	5.29	5.28	5.30
Relative significance^a		34.66	8.13	7.26	0.88	26.53	13.20	13.33	4.92	8.41	5.37	2.42	2.96

^a Relative significance is calculated as a percentage of corresponding credit category in total credits disbursed in the reporting month (according to data for the last period included in the table).

Table G2: Banks' Interest Rates on Kuna Credits Indexed to Foreign Currency and on Credits in Euros

The table contains weighted averages of banks' and savings banks' monthly interest rates on kuna credits indexed to f/c and on credits in euros, reported on a yearly basis.

Up to December 2001, data refer to weighted averages of banks' monthly interest rates on kuna credits indexed to f/c and on credits in euros (or German marks) granted to legal persons (which included enterprises, the public sector, financial institutions, non-profit institutions and non-residents) and households, reported on a yearly basis. Savings banks are not covered.

Starting from January 2002, data refer to weighted averages of banks' and savings banks' monthly interest rates on kuna credits indexed to f/c and on credits in euros granted only to enterprises (public and other) and households, reported on a yearly basis.

Data on banks' and savings banks' interest rates on kuna credits indexed to f/c and on credits in euros are based on banks' and savings

banks' periodic reports. The basis for calculation of weighted averages are amounts of credits bearing corresponding interest rates, which were disbursed during the reporting month.

Columns 3 through 11 show weighted averages of banks' and savings banks' monthly interest rates classified by maturity and sectors. Interest rates on short-term credits to enterprises also include interest rates on callable loans.

Up to December 2001, interest rates on credits in euros (columns 12, 13 and 14) refer to credits released in German marks in the reporting month, and starting from January 2002, they refer to credits released in euros, while weighted averages are calculated based on their kuna equivalent using current exchange rate. Credits released in other currencies are not included in this table.

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of the corresponding credit category (to which exchange rates apply) in total credits included in the calculation of weighted averages for that period.

Table G3: Banks' Interest Rates on Kuna Deposits Not Indexed to Foreign Currency

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on kuna deposits not indexed to foreign currency								
		Total average	In giro and current accounts	On time deposits						
				Total average	On short-term deposits			On long-term deposits		
					Total average	Households	Enterprises	Total average	Households	Enterprises
1	2	3	4	5	6	7	8	9	10	11
1997	December	4.35	2.19	9.10	9.08	9.30	8.96	9.48	11.24	8.06
1998	December	4.11	2.31	7.73	7.63	9.47	7.15	10.19	10.72	9.56
1999	December	4.27	2.24	8.87	8.79	9.62	8.38	10.96	11.56	10.18
2000	December	3.40	1.64	7.20	7.13	7.44	7.03	8.89	9.19	8.63
2001	December	2.76	1.40	5.68	5.60	6.35	5.38	7.35	7.93	6.70
2002	December	1.55	0.94	3.64	3.53	4.39	2.86	6.05	7.24	3.23
2003	December	1.66	0.75	4.46	4.46	3.62	4.69	4.58	4.90	2.82
2004	December	1.83	0.74	4.11	4.11	3.93	4.13	4.10	4.65	3.30
2005	January	1.79	0.74	4.13	4.13	4.06	4.14	3.87	4.28	3.17
	February	1.73	0.74	4.05	4.06	4.04	4.06	3.73	4.39	2.74
	March	1.75	0.74	3.87	3.87	3.90	3.86	4.03	4.93	2.99
	April	1.70	0.73	3.46	3.44	3.98	3.32	4.09	4.97	2.78
	May	1.66	0.72	3.34	3.31	3.94	3.17	4.53	5.17	4.01
	June	1.72	0.70	3.55	3.54	4.01	3.45	4.04	4.88	3.34
	July	1.68	0.62	3.92	3.91	4.00	3.90	4.18	5.29	2.93
	August	1.83	0.63	4.78	4.79	3.99	4.90	4.09	4.97	2.95
	September	1.73	0.63	3.93	3.93	4.01	3.92	4.04	5.03	2.94
	October	1.69	0.64	3.66	3.65	3.98	3.60	3.91	4.95	3.01
	November	1.71	0.63	3.60	3.56	3.97	3.47	4.86	5.73	3.70
	December	1.58	0.61	3.36	3.34	3.89	3.23	4.12	5.04	3.49
Relative significance^a		45.72	32.58	9.80	9.56	1.6^a	7.95	0.25	0.10	0.15

^a Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

Table G3: Banks' Interest Rates on Kuna Deposits Not Indexed to Foreign Currency

The table contains weighted averages of banks' and savings banks' monthly interest rates on kuna deposits not indexed to f/c, reported on a yearly basis.

Up to December 2001, data refer to weighted averages of banks' monthly interest rates on kuna deposits not indexed to f/c received from legal persons (which included enterprises, the public sector, financial institutions, non-profit institutions and non-residents) and households, reported on a yearly basis. Savings banks are not covered.

Starting from January 2002, data refer to weighted averages of banks' and savings banks' monthly interest rates on kuna deposits not indexed to f/c received from enterprises (public and other) and households, reported on a yearly basis.

Data on banks' and savings banks' interest rates on kuna deposits not indexed to f/c are based on banks' and savings banks' periodic reports.

Column 3 reports weighted averages of monthly interest rates on total kuna deposits (giro and current accounts, household savings deposits and time deposits) not indexed to f/c. Column 4 shows

weighted averages of monthly interest rates on deposits in giro and current accounts not indexed to f/c received from enterprises (until December 2001, all legal persons) and households, and column 5 shows weighted averages of monthly interest rates on total time deposits not indexed to f/c.

The basis for calculation of weighted averages for kuna time deposits not indexed to f/c are the amounts of those deposits received during the reporting month. The basis for calculation of weighted averages for deposits in giro and current accounts are the end-of-month book balances of those deposits. Weighted averages of interest rates on total kuna deposits not indexed to f/c (column 5) are weighted by the end-of-month balances of all categories included in the calculation.

Kuna and foreign currency deposits used as collateral for credit are included, while restricted deposits (deposits used for payment of imports and other restricted deposits) are not included into the calculation of weighted averages.

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of the corresponding deposit category (to which exchange rates apply) in total deposits included in the calculation of weighted averages for that period.

Table G4a: Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on savings and time deposits indexed to f/c			Interest rates on foreign currency deposits					
		Total average	On short-term deposits	On long-term deposits	Total average	Savings deposits				
						Total average	Households		Enterprises	
							EUR	USD	EUR	USD
1	2	3	4	5	6	7	8	9	10	11
1997	December	7.63	7.24	11.77	4.77	1.75	1.89	2.43	0.83	1.40
1998	December	7.47	7.67	5.58	3.98	2.09	2.38	2.40	0.72	0.74
1999	December	6.62	6.91	1.10	4.23	1.80	1.95	2.04	0.78	1.30
2000	December	5.54	5.94	2.16	3.47	1.03	0.99	1.23	0.65	1.29
2001	December	4.58	4.92	2.56	2.60	0.71	0.71	0.81	0.82	0.40
2002	December	2.92	3.45	1.48	2.55	0.50	0.52	0.41	0.52	0.38
2003	December	3.48	3.74	5.55	2.22	0.31	0.35	0.23	0.23	0.15
2004	December	4.17	3.61	5.19	2.65	0.31	0.34	0.22	0.22	0.21
2005	January	4.27	3.65	5.02	2.59	0.29	0.32	0.21	0.24	0.30
	February	4.24	3.74	4.98	2.65	0.29	0.32	0.21	0.24	0.27
	March	4.31	3.69	5.27	2.67	0.29	0.31	0.21	0.24	0.31
	April	4.19	3.61	4.80	2.70	0.29	0.31	0.21	0.24	0.40
	May	4.13	3.66	4.64	2.67	0.29	0.30	0.21	0.27	0.41
	June	3.86	3.54	3.82	2.55	0.30	0.30	0.21	0.31	0.47
	July	4.00	3.41	4.53	2.53	0.27	0.27	0.18	0.31	0.47
	August	4.05	3.59	4.83	2.53	0.28	0.27	0.18	0.33	0.50
	September	4.03	3.54	4.66	2.45	0.26	0.26	0.18	0.29	0.59
	October	4.01	3.51	4.71	2.54	0.26	0.26	0.18	0.25	0.58
	November	4.06	3.71	4.68	2.50	0.30	0.32	0.17	0.30	0.59
	December	3.99 ^a	3.63	4.77	2.61	0.27	0.27	0.17	0.27	0.76
Relative significance ^a		2.41	1.92	0.48	51.87	27.75	19.40	3.19	4.33	0.83

^a Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

^b Of the total amount of deposits to which this interest rate refers, 16.34 percent refers to enterprises.

Table G4a and b: Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits

The table contains weighted averages of banks' and savings banks' monthly interest rates on kuna deposits indexed to f/c and on foreign currency deposits, reported on a yearly basis.

Up to December 2001, data refer to weighted averages of banks' monthly interest rates on kuna deposits indexed to f/c and on foreign currency deposits received from legal persons (which included enterprises, the public sector, financial institutions, non-profit institutions and non-residents) and households, reported on a yearly basis. Savings banks are not covered.

Starting from January 2002, data refer to weighted averages of banks' and savings banks' monthly interest rates on kuna deposits indexed to f/c and on foreign currency deposits received from enterprises (public and other) and households, reported on a yearly basis.

Data on banks' and savings banks' interest rates on kuna deposits indexed to f/c and on foreign currency deposits are based on banks' and savings banks' periodic reports.

Column 3 reports weighted averages of monthly interest rates on total kuna savings and time deposits indexed to f/c received from enterprises (until December 2001, all legal persons) and households, whereas weighted averages of monthly interest rates on time deposits are shown in columns 4 (short-term deposits) and 5 (long-term deposits) respectively.

Up to December 2001, interest rates on foreign currency deposits refer to deposits received in German marks or US dollars, and star-

ting from January 2002, they refer to deposits received in euros and US dollars, while weighted averages are calculated based on their kuna equivalent using current exchange rate. Deposits received in other currencies are not included in this table.

The basis for calculation of weighted averages for kuna time deposits indexed to f/c and foreign currency time deposits are the amounts of those deposits received during the reporting month. The basis for calculation of weighted averages for savings deposits indexed to f/c are the end-of-month book balances of those deposits. Starting from January 2002, weighted averages of interest rates on total kuna deposits indexed to f/c (column 3) are weighted by the end-of-month balances of all categories included in the calculation.

The average interest rate on total foreign currency deposits (column 6) refers to the weighted average of monthly interest rates on savings and time deposits, which are weighted by the end-of-month balances of all categories included in the calculation.

The basis for calculation of weighted averages of monthly interest rates on total foreign currency savings deposits (column 7) are the end-of-month balances of those deposits.

The basis for calculation of weighted averages of monthly interest rates on total foreign currency time deposits (column 12) are the amounts of those deposits received during the reporting month. The same basis is applied in calculating weighted averages of monthly interest rates on total short-term foreign currency deposits (column 13) and on total long-term foreign currency deposits (column 18).

Relative significance of particular interest rates (reported in the last line of the table) refers to data for the last period included in the table. It is calculated as a percentage of the corresponding deposit category (to which exchange rates apply) in total deposits included in the calculation of weighted averages for that period.

Table G4b: Banks' Interest Rates on Kuna Deposits Indexed to Foreign Currency and on Foreign Currency Deposits

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on foreign currency deposits										
		On time deposits										
		Total average	On short-term deposits						On long-term deposits			
			Total average	Households		Enterprises		Total average	Households		Enterprises	
EUR	USD	EUR		USD	EUR	USD	EUR		USD			
1	2	12	13	14	15	16	17	18	19	20	21	22
1997	December	6.36	6.07	6.03	6.42	5.09	7.10	7.32	7.87	8.71	5.09	6.76
1998	December	4.89	4.49	5.42	6.16	2.84	5.37	7.29	7.68	8.59	4.93	6.92
1999	December	5.43	5.17	4.93	6.39	3.97	6.00	6.59	6.64	8.09	3.66	6.77
2000	December	4.57	4.36	3.65	5.15	4.59	6.62	5.56	5.17	6.61	5.97	8.53
2001	December	3.54	3.35	3.42	3.23	3.60	2.44	4.59	4.72	4.42	4.58	0.23
2002	December	3.13	2.96	3.27	2.21	2.89	1.43	4.59	4.69	3.84	3.46	2.30
2003	December	2.64	2.46	2.83	1.65	2.29	1.08	3.69	4.71	3.13	2.85	1.64
2004	December	2.85	2.65	3.01	1.69	2.46	2.28	4.20	4.85	3.13	3.61	2.65
2005	January	2.97	2.71	3.03	1.72	2.48	2.26	4.16	4.82	2.93	3.74	2.33
	February	2.89	2.72	3.05	1.76	2.47	2.50	4.60	4.84	3.23	3.39	1.57
	March	2.82	2.67	3.03	1.73	2.37	2.73	4.47	4.79	2.92	2.95	3.47
	April	3.05	2.83	3.02	1.75	2.45	3.30	4.18	4.81	2.83	3.77	4.69
	May	3.02	2.87	3.05	1.70	2.69	3.04	4.60	4.78	3.00	3.71	5.95
	June	2.86	2.79	3.02	1.74	2.42	3.12	3.61	3.91	1.62	3.65	2.20
	July	2.93	2.79	3.04	1.75	2.40	3.32	3.63	4.05	1.54	3.47	3.20
	August	2.99	2.91	3.11	1.73	2.44	3.60	3.71	4.01	1.52	3.40	0.79
	September	2.88	2.84	3.02	1.71	2.36	3.72	3.22	3.26	2.64	3.31	4.02
	October	2.95	2.84	3.04	1.93	2.40	3.96	3.47	4.08	0.91	3.67	4.01
	November	2.91	2.86	3.02	1.80	2.51	3.98	3.45	3.48	3.05	3.13	4.31
	December	3.07	2.94	2.99	1.76	2.63	4.34	3.69	4.25	0.48	4.39	–
	Relative significance ^a	24.12	20.03	9.35	1.03	7.45	2.21	4.09	1.92	0.66	1.51	–

^a Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

Table G5: Banks' Trade with Foreign Exchange

million euros, current exchange rate

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
A. Purchase of foreign exchange													
1. Legal persons	7,465.3	561.5	546.2	705.1	650.8	655.8	762.0	685.6	626.3	723.4	687.4	701.4	1,137.9
2. Natural persons	3,934.4	268.0	254.1	298.0	326.9	375.6	436.3	456.0	511.3	505.7	447.3	568.4	484.2
2.1. Residents	3,586.1	262.3	249.5	289.5	316.6	356.2	407.8	399.8	432.6	475.2	433.9	560.8	478.2
2.2. Non-residents	348.3	5.6	4.6	8.5	10.2	19.4	28.5	56.2	78.7	30.5	13.3	7.6	6.0
3. Domestic banks	10,799.3	943.5	625.8	724.4	560.8	630.5	546.6	724.3	902.0	695.6	712.2	881.9	1,122.5
4. Foreign banks	1,426.2	165.7	130.9	421.8	218.3	126.3	146.5	386.0	153.8	173.9	133.8	310.8	234.5
5. Croatian National Bank	33.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4)	24,110.1	1,938.7	1,557.1	2,149.2	1,756.7	1,788.2	1,891.4	2,251.9	2,251.9	2,098.7	1,980.6	2,462.5	2,979.1
B. Sale of foreign exchange													
1. Legal persons	11,280.3	823.6	749.1	1,230.7	885.3	959.3	1,188.6	1,292.1	1,300.4	1,283.0	1,056.8	1,013.5	1,239.9
2. Natural persons	1,671.1	119.8	138.8	153.7	147.4	209.4	232.5	208.9	240.0	329.2	241.4	384.4	317.2
2.1. Residents	1,654.5	118.3	137.8	152.9	145.2	207.2	231.0	205.1	233.4	325.9	239.7	382.3	315.1
2.2. Non-residents	16.6	1.4	1.0	0.8	2.1	2.2	1.5	3.7	6.6	3.3	1.8	2.1	2.1
3. Domestic banks	10,799.3	943.5	625.8	724.4	560.8	630.5	546.6	724.3	902.0	695.6	712.2	881.9	1,122.5
4. Foreign banks	1,001.1	130.3	190.5	122.4	80.6	74.7	74.9	76.5	163.6	55.6	99.5	100.4	238.0
5. Croatian National Bank	543.2	108.5	0.0	108.5	90.8	0.0	85.4	0.0	0.0	0.0	115.7	0.0	161.9
Total (1+2+3+4)	25,295.0	2,125.7	1,704.2	2,339.6	1,764.9	1,873.9	2,127.9	2,301.8	2,605.9	2,363.6	2,225.6	2,380.2	3,079.5
C. Net purchase (A-B)													
1. Legal persons	-3,815.1	-262.0	-202.9	-525.5	-234.6	-303.5	-426.5	-606.5	-674.0	-559.6	-369.4	-312.1	-102.1
2. Natural persons	2,263.3	148.2	115.4	144.2	179.5	166.3	203.8	247.1	271.3	176.5	205.9	184.0	167.1
2.1. Residents	1,931.6	144.0	111.7	136.6	171.4	149.1	176.8	194.7	199.2	149.3	194.3	178.5	163.1
2.2. Non-residents	331.7	4.2	3.6	7.7	8.1	17.2	27.0	52.5	72.1	27.2	11.6	5.5	3.9
3. Foreign banks	425.1	35.3	-59.6	299.4	137.7	51.6	71.6	309.5	-9.8	118.3	34.3	210.4	-3.5
4. Croatian National Bank	-510.2	-108.5	0.0	-108.5	-90.8	0.0	-85.4	0.0	0.0	0.0	-115.7	0.0	-161.9
Total (1+2+3)	-1,636.9	-187.0	-147.1	-190.4	-8.2	-85.7	-236.5	-49.9	-412.5	-264.9	-245.0	82.3	-100.4
Memo items: Other Croatian National Bank transactions													
Purchase of foreign exchange	145.1	-	-	-	-	0.0	0.0	-	-	-	-	-	-
Sale of foreign exchange	239.3	78.3	9.0	13.3	0.7	-	4.8	61.4	-	-	-	-	-

Table G5: Banks' Trade with Foreign Exchange

Data on trade with foreign exchange between banks comprise spot transactions of the purchase and sale of foreign exchange in domestic foreign currency market. Spot transactions are contracted obligations to buy/sell foreign currency within maximally 48 hours.

The transactions are classified by category of participants (legal and natural persons, domestic and foreign banks and the CNB). Sources of data are banks' reports on trading with foreign exchange and statistical data on foreign payment operations.

Other Croatian National Bank transactions include foreign exchange sales and purchases on behalf of the Ministry of Finance.

Table H1: Balance of Payments – Summary

million euros

	2001	2002	2003	2004	2005	2005			
						Q1	Q2	Q3	Q4
A. CURRENT ACCOUNT (1+6)	-817.7	-2,097.2	-1,866.2	-1,458.0	-1,963.6	-1,542.0	-1,153.6	2,261.2	-1,529.2
1. Goods, services, and income (2+5)	-1,917.2	-3,249.4	-3,110.7	-2,649.8	-3,139.9	-1,841.6	-1,474.7	1,991.7	-1,815.2
1.1. Credit	11,272.5	11,583.7	13,588.3	14,897.2	15,947.5	2,310.2	3,871.6	6,712.3	3,053.4
1.2. Debit	-13,189.7	-14,833.1	-16,699.0	-17,547.0	-19,087.4	-4,151.8	-5,346.3	-4,720.6	-4,868.6
2. Goods and services (3+4)	-1,301.0	-2,675.6	-2,041.2	-2,012.8	-2,165.7	-1,565.0	-956.9	2,118.9	-1,762.8
2.1. Credit	10,800.1	11,125.4	13,137.6	14,239.8	15,296.1	2,176.1	3,682.2	6,542.0	2,895.7
2.2. Debit	-12,101.1	-13,801.0	-15,178.7	-16,252.6	-17,461.8	-3,741.1	-4,639.1	-4,423.1	-4,658.6
3. Goods	-4,603.8	-5,960.3	-6,974.2	-6,727.8	-7,482.9	-1,569.2	-2,084.8	-1,849.0	-1,979.9
3.1. Credit	5,318.8	5,293.1	5,571.7	6,603.1	7,244.3	1,523.5	1,891.2	1,871.2	1,958.4
3.2. Debit	-9,922.6	-11,253.5	-12,545.9	-13,330.9	-14,727.1	-3,092.7	-3,975.9	-3,720.3	-3,938.3
4. Services	3,302.8	3,284.8	4,933.0	4,715.0	5,317.1	4.2	1,127.9	3,968.0	217.1
4.1. Credit	5,481.3	5,832.3	7,565.9	7,636.7	8,051.8	652.6	1,791.1	4,670.8	937.3
4.2. Debit	-2,178.5	-2,547.5	-2,632.8	-2,921.7	-2,734.7	-648.4	-663.2	-702.8	-720.3
5. Income	-616.2	-573.8	-1,069.5	-637.0	-974.2	-276.7	-517.8	-127.3	-52.4
5.1. Credit	472.4	458.3	450.7	657.4	651.4	134.1	189.4	170.3	157.7
5.2. Debit	-1,088.6	-1,032.1	-1,520.2	-1,294.4	-1,625.6	-410.8	-707.2	-297.6	-210.1
6. Current transfers	1,099.5	1,152.2	1,244.5	1,191.8	1,176.3	299.6	321.1	269.5	286.1
6.1. Credit	1,333.3	1,453.2	1,538.7	1,584.6	1,624.6	401.1	427.1	388.0	408.3
6.2. Debit	-233.8	-301.1	-294.2	-392.8	-448.3	-101.5	-106.0	-118.5	-122.3
B. CAPITAL AND FINANCIAL ACCOUNT	1,051.1	2,732.0	2,996.5	2,342.3	2,896.0	1,180.2	1,279.0	-542.5	979.4
B1. Capital account	154.1	501.2	72.4	23.1	50.9	2.3	2.0	3.8	42.8
B2. Financial account, excl. reserves	2,446.0	2,972.7	4,159.5	2,362.3	3,666.9	1,365.9	1,559.4	-613.8	1,355.4
1. Direct investment	1,326.9	597.2	1,695.4	709.0	1,184.9	174.6	638.0	308.2	64.1
1.1. Abroad	-175.6	-597.8	-93.0	-280.3	-142.9	-29.9	-63.1	-14.3	-35.6
1.2. In Croatia	1,502.5	1,195.1	1,788.4	989.3	1,327.8	204.5	701.1	322.5	99.7
2. Portfolio investment	666.0	-440.2	868.8	244.5	-1,049.0	-433.8	-165.9	-415.5	-33.7
2.1. Assets	-143.2	-650.6	121.3	-752.5	-475.4	24.6	-174.5	-301.6	-23.9
2.2. Liabilities	809.2	210.4	747.5	997.1	-573.5	-458.4	8.6	-113.9	-9.8
3. Financial derivatives	0.0	0.0	0.0	0.0	-88.4	-88.4	0.0	0.0	0.0
4. Other investment	453.2	2,815.6	1,595.3	1,408.7	3,619.4	1,713.5	1,087.4	-506.6	1,325.1
4.1. Assets	394.3	451.9	-2,214.0	-420.8	971.4	1,005.3	296.9	-261.0	-69.8
4.2. Liabilities	58.9	2,363.8	3,809.3	1,829.5	2,647.9	708.1	790.4	-245.5	1,394.9
B3. Reserve assets (CNB)	-1,549.0	-741.9	-1,235.5	-43.0	-821.8	-188.1	-282.4	67.6	-418.9
C. NET ERRORS AND OMISSIONS	-233.4	-634.8	-1,130.3	-884.3	-932.5	361.8	-125.4	-1,718.7	549.8

Note: The item net errors and omissions also comprises the counter entry of a part of revenues from travel services which relates to such revenues not stated in the banks' records.

Table H1-H6: Balance of Payments

The balance of payments of the Republic of Croatia represents a systematic overview of the value of economic transactions performed by the Croatian residents with foreign countries within a particular period. It is compiled in accordance with the recommendations of the International Monetary Fund (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: 1. reports of the government institutions (Central Bureau of Statistics and Croatian Institute for Health Insurance), 2. special reports of the Croatian National Bank (International Transaction Reporting System (ITRS), external debt relations, monetary statistics and reserve assets) and 3. estimates and statistical research carried out by the Croatian National Bank. Balance of payments of the Republic of Croatia data are reported in three currencies: in euros (EUR), US dollars (USD) and domestic currency (HRK). In all cases, the same data sources are used and the same principles regarding the scope of transactions and the procedures for compiling particular items are applied. Since the original data are reported in different currencies, the transaction values are converted from the original currency into the reporting currency by applying the exchange rate from the CNB exchange rate list in one of the following manners:

- by applying the midpoint exchange rate on the date of the transaction;
- by applying the average monthly or quarterly midpoint exchange rate in the case the transaction date is not available;
- by applying the end-of-period exchange rate for the calculation of a change in the transaction value between the two periods; the end-of-period balances reported in the original currency serve as a basis for calculating the change in the original currency value, which is converted, by applying the average midpoint exchange rate in the observed period, into the value of change in the reporting currency.

The Report of the Central Bureau of Statistics on merchandise foreign trade of the Republic of Croatia represents the basic data source for the balance of payments items related to exports and imports. These data are adjusted, in accordance with the recommended compilation method, for coverage and classification. Accordingly, goods exports and imports in the balance of payments are reported at f.o.b. parity. The value of exports at this parity is already contained in the previously mentioned CBS Report, whereas the value of imports f.o.b. is estimated on the basis of research studies of the CNB on the stratified sample of importers. The resulting value serves as a basis for the estimate of the share of transportation and insurance

Table H2: Balance of Payments – Goods and Services

million euros

	2001	2002	2003	2004	2005	2005			
						Q1	Q2	Q3	Q4
Goods	-4,603.8	-5,960.3	-6,974.2	-6,727.8	-7,482.9	-1,569.2	-2,084.8	-1,849.0	-1,979.9
1. Credit	5,318.8	5,293.1	5,571.7	6,603.1	7,244.3	1,523.5	1,891.2	1,871.2	1,958.4
1.1. Exports (f.o.b.) in trade statistics	5,214.1	5,188.2	5,464.4	6,453.8	7,097.1	1,492.8	1,845.5	1,832.3	1,926.5
1.2. Adjustments for coverage	104.7	105.0	107.3	149.3	147.2	30.7	45.6	38.9	31.9
2. Debit	-9,922.6	-11,253.5	-12,545.9	-13,330.9	-14,727.1	-3,092.7	-3,975.9	-3,720.3	-3,938.3
2.1. Imports (c.i.f.) in trade statistics	-10,244.8	-11,327.0	-12,538.0	-13,354.4	-14,937.9	-3,097.1	-4,054.0	-3,778.3	-4,008.5
2.2. Adjustments for coverage	-405.3	-348.9	-475.6	-474.7	-346.4	-111.1	-73.1	-82.9	-79.3
2.3. Adjustments for classification	727.4	422.5	467.7	498.1	557.2	115.5	151.2	140.9	149.5
Services	3,302.8	3,284.8	4,933.0	4,715.0	5,317.1	4.2	1,127.9	3,968.0	217.1
1. Transportation	186.1	172.0	252.2	245.5	376.3	71.0	107.4	127.1	70.9
1.1. Credit	658.6	622.8	696.3	791.3	880.3	172.6	237.7	265.4	204.6
1.2. Debit	-472.5	-450.8	-444.1	-545.8	-504.0	-101.7	-130.4	-138.2	-133.7
2. Travel	3,072.9	3,138.6	4,976.6	4,822.3	5,394.9	53.4	1,128.3	3,889.9	323.3
2.1. Credit	3,749.3	3,960.8	5,572.7	5,505.6	5,998.9	214.4	1,274.3	4,075.5	434.7
2.1.1. Business	305.8	341.2	260.9	328.2	504.0	43.5	157.7	211.3	91.5
2.1.2. Personal	3,443.6	3,619.7	5,311.8	5,177.4	5,494.9	170.9	1,116.6	3,864.3	343.2
2.2. Debit	-676.5	-822.2	-596.1	-683.3	-604.1	-161.0	-146.0	-185.6	-111.4
2.2.1. Business	-322.7	-482.6	-292.3	-297.3	-267.4	-66.2	-72.7	-77.2	-51.3
2.2.2. Personal	-353.8	-339.6	-303.8	-386.0	-336.7	-94.8	-73.3	-108.5	-60.1
3. Other services	43.9	-25.9	-295.8	-352.7	-454.0	-120.1	-107.8	-49.1	-177.1
3.1. Credit	1,073.4	1,248.6	1,296.9	1,339.8	1,172.6	265.6	279.0	329.9	298.1
3.2. Debit	-1,029.5	-1,274.5	-1,592.7	-1,692.5	-1,626.6	-385.7	-386.8	-378.9	-475.2

services by which the original value of imports c.i.f., stated in the CBS Report, is reduced. In the 1993-2001 period, this share stood at 7.10% (estimated only on the basis of the largest and large exporters), while from 2002 on it has amounted to 5.73%. In the period from 1993 to 1996, the value of imports was modified by estimates of imports in duty free zones, which have been included in the merchandise trade statistics since 1997. Starting from 1996, goods exports and imports have been modified by the data on repairs on goods and goods procured in ports by carriers. In addition, since 1999, based on the Survey on Consumption of Foreign Travellers in Croatia and Domestic Travellers Abroad, the item of goods exports has been modified by the estimated value of goods sold to foreign travellers and tourists and taken out of the Republic of Croatia. The item of goods imports is adjusted for the estimated value of goods imported personally by the Croatian citizens from the neighbouring countries (shopping expenditures).

Transportation, travel and other services are reported separately under service account. Income and expenditures on the basis of transportation, in the 1993-1998 period, were adopted from the ITRS. Starting from 1999, income and expenditures arising from transportation of goods and passengers, as well as the value of accompanying services, which together constitute the total value of these services, have been compiled on the basis of the results of the Research on transactions related to international transportation services, carried out by the CNB. Owing to an exceptionally large population of road carriers, income and expenditures on the basis of road transportation are not adopted from this research. They are compiled by using ITRS data. As regards transportation of goods, expenditures are supplemented by a portion of transportation and insurance costs related to imports of goods which belongs to non-residents and which is estimated by adjusting the value of imports at c.i.f. parity to the value of imports f.o.b.

Income from services rendered to foreign travellers and tourists, as well as expenditures incurred by domestic travellers and tourists abroad are shown under the position Travel. In the 1993-1998 period, this position was assessed by using various data sources which did not provide for a full coverage in accordance with the recom-

mended methodology. Accordingly, in the second half of 1998, the Croatian National Bank started to carry out the Survey on Consumption of Foreign Travellers in Croatia and Domestic Travellers Abroad and use its results for compiling the Travel position. Since early 1999, the results of this Survey, based on carrying out a survey of travellers (stratified sample) at border crossings, have been combined with the Ministry of the Interior data on total number of foreign and domestic travellers, along with the data on distribution of foreign travellers by countries contained in the CBS Report on tourism, in order to assess the corresponding balance of payment items.

Other services position is compiled by using different data sources: apart from income and expenditures related to insurance and communication services, which have been determined by the CNB special statistical research since 2001, the values of all other services are adopted from the ITRS.

Transactions in the income account are classified into four main groups. Compensation of employees item is compiled on the basis of the ITRS. Income from direct investment, portfolio investment and other investment are reported separately. Data on reinvested earnings are reported separately, under direct investment income, calculated on the basis of the CNB Research on direct and other equity investment. In contrast to data on dividends, these data are not available for the 1993-1996 period, since at that time they were not reported separately. On the basis of statistical data on external debt relations, starting from 1997, income from direct investment includes data on interest arising from credit relations between residents and non-residents directly related through ownership. Income from equity portfolio investment is compiled on the basis of the same research, whereas data on debt portfolio investment income have been compiled since 1999, based on income reported in statistics on foreign credit relations, which also encompass payments related to debt securities owned by non-residents. Income from other investments includes all payments and collections of interest in accordance with the foreign credit relations statistics.

Current transfers are reported separately for the general government sector and other sectors. The ITRS is used as the main data

Table H3: Balance of Payments – Income and Current Transfers

million euros

	2001	2002	2003	2004	2005	2005			
						Q1	Q2	Q3	Q4
Income	-616.2	-573.8	-1,069.5	-637.0	-974.2	-276.7	-517.8	-127.3	-52.4
1. Compensation of employees	143.1	167.6	183.9	233.9	259.7	61.1	68.5	59.8	70.3
1.1. Credit	157.4	187.2	217.3	268.3	289.2	66.1	74.0	71.7	77.4
1.2. Debit	-14.3	-19.5	-33.4	-34.4	-29.5	-5.0	-5.5	-11.9	-7.1
2. Direct investment income	-357.8	-353.4	-839.9	-431.6	-741.3	-107.8	-462.8	-123.7	-47.0
2.1. Credit	22.8	23.6	37.9	174.7	90.2	9.7	56.3	22.4	1.7
o/w: Reinvested earnings	17.1	7.4	34.8	165.8	44.3	9.0	33.2	1.6	0.5
2.2. Debit	-380.6	-377.1	-877.8	-606.3	-831.5	-117.5	-519.1	-146.1	-48.8
o/w: Reinvested earnings	-188.4	-161.8	-588.9	-291.4	-567.8	-83.4	-408.2	-70.7	-5.5
3. Portfolio investment income	-241.8	-214.8	-239.6	-256.6	-306.4	-190.4	-53.8	-35.7	-26.5
3.1. Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2. Debit	-241.9	-214.9	-239.6	-256.6	-306.4	-190.4	-53.8	-35.7	-26.5
4. Other investment income	-159.6	-173.2	-173.9	-182.8	-186.2	-39.5	-69.8	-27.7	-49.2
4.1. Credit	292.2	247.4	195.5	214.3	272.0	58.3	59.0	76.2	78.5
4.2. Debit	-451.8	-420.6	-369.4	-397.1	-458.2	-97.8	-128.8	-103.9	-127.7
Current transfers	1,099.5	1,152.2	1,244.5	1,191.8	1,176.3	299.6	321.1	269.5	286.1
1. General government	65.3	32.2	70.5	2.6	2.2	35.8	0.6	-18.8	-15.5
1.1. Credit	142.7	143.4	213.1	180.1	215.8	80.3	49.9	44.4	41.2
1.2. Debit	-77.4	-111.2	-142.6	-177.5	-213.6	-44.5	-49.3	-63.2	-56.6
2. Other sectors	1,034.2	1,120.0	1,174.0	1,189.2	1,174.1	263.9	320.5	288.2	301.5
2.1. Credit	1,190.6	1,309.8	1,325.6	1,404.5	1,408.8	320.8	377.2	343.5	367.2
2.2. Debit	-156.4	-189.8	-151.6	-215.3	-234.6	-56.9	-56.7	-55.3	-65.6

source on current transfers for both sectors. In addition to taxes and excise duties, pensions, monetary support and donations, which are included in current transfers of both sectors, the government sector also encompasses data on multilateral co-operation, whereas other sectors include data on workers' remittances. Current transfers of the general government sector also include data on exports and imports of goods without a payment obligation, provided by the CBS. In the 1993-1998 period, current transfers of other sectors also encompassed an estimate of unregistered foreign currency remittances, which accounted for 15% of the positive difference between unclassified inflows and outflows of the household sector. From 1993 to the second quarter of 1996, the CNB also assessed a portion of the outflow based on current transfers. Since 2002, inflows and outflows based on current transfers of other sectors are supplemented by the data of the CNB special statistical research on international transactions related to insurance services. Capital account is compiled on the basis of the ITRS, particularly on their part related to transfers of migrants. In addition, capital account includes transfers that cannot be classified into current transfers, such as allocation of gold of the former SFRY or investments in patents and rights.

Foreign direct investments include equity capital, reinvested earnings and debt relations between ownership-related residents and non-residents. Direct investments are investments whereby a foreign owner acquires a minimum of 10% interest in equity capital of a company, regardless of whether a resident invests abroad or a non-resident invests in Croatian residents. The CNB Research on foreign direct investments started in 1997 when companies included in the survey also delivered data on direct investments for the 1993-1996 period. For the same period, no data are available on reinvested earnings and other capital under direct investment position, where all debt relations between related residents and non-residents are classified (excluding the banking sector). Such data actually became available only after the stated research has been launched. Since 1999 data on debt relations within direct investments have been collected on the basis of external debt relations statistics.

Data on equity portfolio investments are collected from the same

data source as the data on direct investments. Debt portfolio investments include all investments in short-term and long-term debt securities that cannot be classified under direct investments. In the 1997-1998 period, these data were collected through the CNB Research on direct and portfolio investments, and since 1999 data on external debt relations and monetary statistics data for bank investment have been used. Starting from 2002 and 2004, this position has also been compiled for investment funds and pension funds, respectively.

Other investment encompasses all other debt investments that have not been mentioned, apart from investment constituting reserve assets. Other investments are classified by instruments, maturity and sectors. Trade credits, in the 1996-2002 period, included the CNB estimates of advance payment and deferred payments, made on the basis of the sample of the largest and large importers and exporters. Data on advance payments have been estimated since 1996, while data on short-term deferred payments (first up to 90 days, then up to 150 days, and today from 8 days to 1 year) have been collected since 1999. In 2003 this research was replaced by a new one, where the selected companies, regardless of their size (stratified sample), are obliged to submit data. Data on deferred payments with the original maturity of more than one year are adopted from the CNB foreign credit relations statistics. Credits granted by residents to non-residents, i.e. foreign loans utilised by residents and granted by non-residents, which cannot be classified into direct investments or trade credits, are classified by the institutional sector and maturity under the corresponding positions of other investment. The CNB foreign credit relations statistics represent the data source for these positions. Currency and deposit position shows residents' claims on foreign countries for foreign cash and deposits with foreign banks, as well as obligations of the Croatian banks for deposits owned by non-residents. Monetary statistics represent a data source for the general government sector and banks sector. Data on balance and currency structure of foreign assets and liabilities, contained in monetary statistics, are used to assess transactions from which the exchange rate effect was eliminated. In the 1993-1998 period, data on other sectors' claims under this position were compiled on

Table H4: Balance of Payments – Direct and Portfolio Investments

million euros

	2001	2002	2003	2004	2005	2005			
						Q1	Q2	Q3	Q4
Direct investment	1,326.9	597.2	1,695.4	709.0	1,184.9	174.6	638.0	308.2	64.1
1. Abroad	-175.6	-597.8	-93.0	-280.3	-142.9	-29.9	-63.1	-14.3	-35.6
1.1. Equity capital and reinvested earnings	-139.4	-594.1	-101.9	-259.4	-90.2	-19.2	-43.7	-12.5	-14.9
1.1.1. Claims	-139.4	-597.0	-101.9	-259.7	-90.2	-19.2	-43.7	-12.5	-14.9
1.1.2. Liabilities	0.0	2.9	0.0	0.4	0.0	0.0	0.0	0.0	0.0
1.2. Other capital	-36.2	-3.7	8.9	-20.9	-52.7	-10.7	-19.4	-1.9	-20.7
1.2.1. Claims	5.5	-6.4	-12.8	-25.6	-42.3	-1.8	-19.3	-2.4	-18.7
1.2.2. Liabilities	-41.7	2.7	21.7	4.7	-10.4	-8.9	-0.1	0.6	-2.0
2. In Croatia	1,502.5	1,195.1	1,788.4	989.3	1,327.8	204.5	701.1	322.5	99.7
2.1. Equity capital and reinvested earnings	1,087.8	873.8	1,345.1	605.1	1,263.9	380.6	535.5	201.6	146.2
2.1.1. Claims	-8.0	0.0	-1.2	-25.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Liabilities	1,095.8	873.8	1,346.4	630.1	1,263.9	380.6	535.5	201.6	146.2
2.2. Other capital	414.7	321.2	443.3	384.2	63.9	-176.1	165.5	121.0	-46.5
2.2.1. Claims	0.1	-0.3	-1.5	-17.4	1.5	-34.5	0.0	36.0	0.0
2.2.2. Liabilities	414.5	321.6	444.8	401.6	62.4	-141.6	165.6	85.0	-46.5
Portfolio investment	666.0	-440.2	868.8	244.5	-1,049.0	-433.8	-165.9	-415.5	-33.7
1. Assets	-143.2	-650.6	121.3	-752.5	-475.4	24.6	-174.5	-301.6	-23.9
1.1. Equity securities	0.3	-78.4	-58.0	-32.9	-140.5	-13.8	-60.8	-65.9	-0.1
1.1.1. General government	0.0	-2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1. Banks	0.4	-2.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2. Other sectors	-0.1	-72.7	-58.3	-32.9	-140.5	-13.8	-60.8	-65.9	-0.1
1.2. Debt securities	-143.5	-572.2	179.4	-719.6	-334.9	38.4	-113.8	-235.7	-23.9
1.2.1. Bonds	-128.8	-586.9	165.9	-585.0	-359.0	30.9	-127.4	-229.5	-33.0
1.2.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.2. Banks	-128.8	-566.6	180.1	-592.9	-322.8	25.6	-113.7	-201.6	-33.0
1.2.1.3. Other sectors	0.0	-20.3	-14.1	7.9	-36.2	5.3	-13.6	-27.9	0.0
1.2.2. Money market instruments	-14.8	14.7	13.5	-134.6	24.1	7.5	13.6	-6.2	9.1
1.2.2.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2.2. Banks	-14.8	20.9	7.3	-134.7	24.1	7.5	13.6	-6.2	9.1
1.2.2.3. Other sectors	0.0	-6.2	6.2	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	809.2	210.4	747.5	997.1	-573.5	-458.4	8.6	-113.9	-9.8
2.1. Equity securities	15.1	44.2	13.5	141.6	81.7	45.1	10.2	10.8	15.6
2.1.1. Banks	-5.2	4.7	-2.1	-0.4	-13.6	-10.3	-6.5	4.0	-0.8
2.1.2. Other sectors	20.3	39.5	15.6	142.0	95.3	55.4	16.7	6.8	16.4
2.2. Debt securities	794.1	166.2	734.0	855.5	-655.3	-503.5	-1.6	-124.7	-25.4
2.2.1. Bonds	774.2	197.2	700.0	889.3	-655.3	-503.5	-1.6	-124.7	-25.4
2.2.1.1. General government	774.2	67.2	527.3	417.8	-645.2	-513.9	8.1	-114.7	-24.8
2.2.1.2. Banks	0.0	0.0	0.0	444.4	4.5	2.5	2.0	0.0	0.0
2.2.1.3. Other sectors	0.0	130.0	172.6	27.2	-14.6	7.8	-11.7	-10.1	-0.6
2.2.2. Money market instruments	19.9	-30.9	34.0	-33.8	0.0	0.0	0.0	0.0	0.0
2.2.2.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.2. Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.3. Other sectors	19.9	-30.9	34.0	-33.8	0.0	0.0	0.0	0.0	0.0

the basis of the CNB estimate of a portion of net foreign currency inflows of the household sector which is not classified under current transfers. Since 1999 this position has included only the data based on the Bank for International Settlement quarterly data, while data in the fourth quarter of 2001 and in the first two quarters of 2002 relate to the effect of the EMU countries' currencies changeover to the euro.

In the period from 1993 to 1998, the estimate of reserve assets transactions was made by converting the changes in the original currencies into the US dollars by applying the average monthly exchange rate of the currencies contained in the reserves. Since 1999 the changes in reserve assets balance have been calculated on the basis of the CNB accounting data.

Table H5: Balance of Payments – Other Investment

million euros

	2001	2002	2003	2004	2005	2005			
						Q1	Q2	Q3	Q4
Other investment (net)	453.0	2,815.5	1,595.2	1,408.7	3,619.4	1,713.5	1,087.4	-506.6	1,325.1
1. Assets	394.3	451.9	-2,214.0	-420.8	971.4	1,005.3	296.9	-261.0	-69.8
1.1. Trade credits	57.9	-88.4	-167.2	-188.6	-145.2	37.5	-16.9	-113.7	-52.0
1.1.1. General government	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	-0.3	0.0
1.1.1.1. Long-term	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	-0.3	0.0
1.1.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2. Other sectors	57.9	-88.4	-167.2	-188.6	-144.9	37.5	-16.9	-113.5	-52.1
1.1.2.1. Long-term	9.2	-16.3	-23.0	17.5	15.1	13.2	4.2	-1.8	-0.5
1.1.2.2. Short-term	48.7	-72.1	-144.1	-206.1	-160.0	24.2	-21.1	-111.6	-51.5
1.2. Loans	39.2	-54.7	-84.7	43.9	-104.2	3.5	-19.1	-21.5	-67.1
1.2.1. General government	-3.4	0.6	-1.0	-1.7	-1.6	0.1	0.0	0.6	-2.3
1.2.1.1. Long-term	-3.4	0.6	-1.0	-1.7	-1.6	0.1	0.0	0.6	-2.3
1.2.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2. Banks	-10.0	-22.0	4.3	3.8	-16.8	1.3	-7.8	-6.5	-3.7
1.2.2.1. Long-term	-3.4	-16.5	5.0	-0.1	-8.8	1.3	-6.7	0.4	-3.7
1.2.2.2. Short-term	-6.6	-5.5	-0.6	3.9	-8.0	0.0	-1.1	-6.9	0.0
1.2.3. Other sectors	52.6	-33.3	-88.1	41.9	-85.8	2.1	-11.3	-15.6	-61.1
1.2.3.1. Long-term	52.6	-33.2	-88.2	43.2	-87.0	1.8	-11.6	-15.8	-61.5
1.2.3.2. Short-term	0.0	-0.1	0.1	-1.3	1.2	0.3	0.3	0.2	0.4
1.3. Currency and deposits	297.3	594.9	-1,962.1	-276.1	1,220.8	964.4	332.9	-125.8	49.3
1.3.1. General government	-18.1	-24.2	30.3	72.7	-44.4	-68.6	53.3	-9.7	-19.4
1.3.2. Banks	-1,790.9	1,516.5	-1,964.5	-368.7	1,313.5	1,019.2	339.2	-113.7	68.8
1.3.3. Other sectors	2,106.3	-897.4	-27.9	19.8	-48.2	13.7	-59.5	-2.5	0.0
1.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	58.7	2,363.6	3,809.2	1,829.5	2,648.0	708.2	790.4	-245.5	1,394.9
2.1. Trade credits	96.3	501.3	-226.9	-54.5	-52.2	-7.2	105.3	-77.9	-72.4
2.1.1. General government	1.2	-0.1	1.5	-0.3	-0.5	-0.2	-0.1	-0.2	-0.1
2.1.1.1. Long-term	1.2	-0.1	1.5	-0.3	-0.5	-0.2	-0.1	-0.2	-0.1
2.1.1.2. Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	95.1	501.4	-228.4	-54.3	-51.7	-7.0	105.4	-77.7	-72.4
2.1.2.1. Long-term	-22.1	-1.2	-47.4	-16.7	25.6	7.6	2.5	9.8	5.6
2.1.2.2. Short-term	117.2	502.6	-181.0	-37.5	-77.2	-14.6	102.9	-87.5	-77.9
2.2. Loans	-260.5	653.8	2,896.1	1,636.5	2,329.9	542.7	783.2	98.5	905.6
2.2.1. Croatian National Bank	-4.1	-177.2	354.2	-369.6	0.0	0.0	0.0	0.0	0.0
2.2.1.1. o/w: IMF	-34.3	-129.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.1.1. Drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.1.2. Repayments	-34.3	-129.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.2. Short-term	30.3	-47.6	354.2	-369.6	0.0	0.0	0.0	0.0	0.0
2.2.2. General government	-212.2	433.9	502.9	411.7	232.4	-0.1	117.9	66.6	47.9
2.2.2.1. Long-term	185.4	433.9	502.9	411.7	232.4	-0.1	117.9	66.6	47.9
2.2.2.1.1. Drawings	363.2	598.2	697.8	706.8	475.1	59.4	179.0	127.8	108.9
2.2.2.1.2. Repayments	-177.8	-164.3	-194.9	-295.1	-242.7	-59.5	-61.1	-61.2	-60.9
2.2.2.2. Short-term	-397.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	87.2	79.3	1,005.7	647.4	842.2	327.1	306.3	-231.3	440.1
2.2.3.1. Long-term	93.0	81.6	927.2	737.9	276.5	8.8	109.6	-166.0	324.1
2.2.3.1.1. Drawings	829.3	656.9	1,644.7	1,165.8	1,135.6	250.8	407.8	53.3	423.6
2.2.3.1.2. Repayments	-736.3	-575.3	-717.5	-427.8	-859.0	-242.0	-298.3	-219.3	-99.5
2.2.3.2. Short-term	-5.8	-2.3	78.5	-90.6	565.7	318.3	196.7	-65.3	116.0
2.2.4. Other sectors	-131.5	317.8	1,033.4	947.0	1,255.4	215.7	359.0	263.2	417.5
2.2.4.1. Long-term	-133.6	335.4	983.0	909.0	1,024.3	161.2	283.4	141.7	438.2
2.2.4.1.1. Drawings	818.1	1,326.0	1,962.1	2,046.4	2,156.2	333.3	537.2	451.2	834.4
2.2.4.1.2. Repayments	-951.7	-990.7	-979.1	-1,137.4	-1,131.9	-172.2	-253.9	-309.6	-396.2
2.2.4.2. Short-term	2.1	-17.6	50.4	38.0	231.0	54.5	75.6	121.5	-20.6
2.3. Currency and deposits	223.0	1,209.4	1,140.7	244.5	367.5	172.0	-98.8	-266.9	561.2
2.3.1. General government	0.0	0.0	0.0	0.0	-0.1	50.0	-50.0	0.0	0.0
2.3.2. Banks	223.0	1,209.4	1,140.7	244.5	367.5	122.0	-48.8	-266.9	561.2
2.4. Other liabilities	-0.1	-0.9	-0.7	3.0	2.8	0.7	0.7	0.7	0.6

Table H6: Balance of Payments – Summary

million kuna

	2001	2002	2003	2004	2005	2005			
						Q1	Q2	Q3	Q4
A. CURRENT ACCOUNT (1+6)	-6,083.1	-15,509.0	-14,210.5	-11,022.5	-14,363.5	-11,473.0	-8,389.4	16,695.9	-11,197.0
1. Goods, services, and income (2+5)	-14,276.1	-24,285.8	-23,915.9	-20,308.0	-23,451.2	-13,816.8	-10,843.6	14,614.7	-13,405.5
1.1. Credit	84,083.8	85,563.6	102,470.1	111,108.2	117,680.0	17,345.6	28,422.5	49,365.1	22,546.8
1.2. Debit	-98,359.9	-109,849.4	-126,386.0	-131,416.2	-141,131.2	-31,162.5	-39,266.1	-34,750.4	-35,952.3
2. Goods and services (3+4)	-9,950.0	-20,004.4	-15,694.7	-15,516.8	-16,253.6	-11,740.5	-7,038.5	15,542.9	-13,017.6
2.1. Credit	80,321.0	82,188.2	99,169.2	106,198.2	112,864.1	16,337.8	27,032.0	48,112.0	21,382.3
2.2. Debit	-90,270.9	-102,192.6	-114,863.9	-121,715.0	-129,117.8	-28,078.3	-34,070.5	-32,569.1	-34,399.9
3. Goods	-34,323.1	-44,135.8	-52,782.7	-50,354.9	-55,309.3	-11,768.2	-15,306.8	-13,614.3	-14,620.0
3.1. Credit	39,695.8	39,198.3	42,167.2	49,480.4	53,574.2	11,439.2	13,893.7	13,780.0	14,461.3
3.2. Debit	-74,018.9	-83,334.1	-94,949.9	-99,835.3	-108,883.5	-23,207.4	-29,200.5	-27,394.2	-29,081.4
4. Services	24,373.1	24,131.4	37,088.0	34,838.1	39,055.7	27.7	8,268.4	29,157.1	1,602.5
4.1. Credit	40,625.2	42,989.9	57,002.0	56,717.8	59,289.9	4,898.7	13,138.3	34,332.0	6,921.0
4.2. Debit	-16,252.1	-18,858.5	-19,914.0	-21,879.7	-20,234.3	-4,870.9	-4,870.0	-5,174.9	-5,318.5
5. Income	-4,326.1	-4,281.4	-8,221.2	-4,791.2	-7,197.6	-2,076.4	-3,805.1	-928.1	-388.0
5.1. Credit	3,762.9	3,375.4	3,300.8	4,910.0	4,815.9	1,007.8	1,390.4	1,253.1	1,164.5
5.2. Debit	-8,089.0	-7,656.8	-11,522.1	-9,701.2	-12,013.5	-3,084.2	-5,195.6	-2,181.3	-1,552.5
6. Current transfers	8,192.9	8,776.7	9,705.4	9,285.6	9,087.7	2,343.8	2,454.2	2,081.2	2,208.5
6.1. Credit	9,934.0	10,761.2	11,639.9	11,872.9	12,018.6	3,010.9	3,136.6	2,856.6	3,014.5
6.2. Debit	-1,741.1	-1,984.4	-1,934.6	-2,587.4	-2,930.9	-667.1	-682.4	-775.4	-805.9
B. CAPITAL AND FINANCIAL ACCOUNT	7,345.0	20,662.7	23,316.6	17,940.9	21,297.5	8,788.4	9,267.9	-3,940.8	7,182.1
B1. Capital account	1,145.1	3,695.6	546.9	172.8	375.8	17.5	14.7	27.6	315.9
B2. Financial account, excl. reserves	17,696.9	22,455.6	32,122.1	18,104.6	26,997.1	10,181.6	11,326.7	-4,471.5	9,960.3
1. Direct investment	9,839.3	4,888.5	13,293.9	5,547.5	8,471.1	1,176.5	4,557.3	2,300.9	436.3
1.1. Abroad	-1,278.4	-4,419.4	-713.8	-2,086.9	-1,050.1	-224.1	-460.1	-103.1	-262.9
1.2. In Croatia	11,117.7	9,307.9	14,007.7	7,634.4	9,521.2	1,400.6	5,017.4	2,404.0	699.3
2. Portfolio investment	4,978.9	-3,227.3	6,669.8	1,747.5	-7,717.5	-3,202.9	-1,215.2	-3,048.4	-251.0
2.1. Assets	-1,081.7	-4,839.8	936.8	-5,688.0	-3,481.8	185.7	-1,277.3	-2,213.5	-176.7
2.2. Liabilities	6,060.6	1,612.6	5,733.0	7,435.4	-4,235.7	-3,388.6	62.1	-834.9	-74.3
3. Financial derivatives	0.0	0.0	0.0	0.0	-659.4	-659.4	0.0	0.0	0.0
4. Other investment	2,878.7	20,794.4	12,158.4	10,809.6	26,903.0	12,867.4	7,984.7	-3,724.1	9,775.0
4.1. Assets	2,569.6	3,261.5	-16,835.7	-3,086.3	7,344.4	7,584.2	2,186.4	-1,915.0	-511.2
4.2. Liabilities	309.0	17,532.9	28,994.0	13,895.9	19,558.6	5,283.2	5,798.3	-1,809.0	10,286.1
B3. Reserve assets (CNB)	-11,497.0	-5,488.5	-9,352.4	-336.5	-6,075.4	-1,410.8	-2,073.6	503.1	-3,094.1
C. NET ERRORS AND OMISSIONS	-1,261.9	-5,153.7	-9,106.1	-6,918.5	-6,934.0	2,684.7	-878.5	-12,755.1	4,014.9

Note: The item net errors and omissions also comprises the counter entry of a part of revenues from travel services which relates to such revenues not stated in the banks' records.

Table H7: International Reserves and Banks' Foreign Exchange Reserves

end of period, million euros

Year	Month	International reserves of the Croatian National Bank							Banks' foreign exchange reserves
		Total	Special drawing rights	Reserve position in the Fund	Gold	Foreign exchange			
						Total	Currency and deposits	Bonds and notes	
1997	December	2,303.7	133.4	0.1	–	2,170.2	1,825.2	345.0	2,078.9
1998	December	2,400.2	197.1	0.1	–	2,203.0	1,642.6	560.4	1,607.0
1999	December	3,012.7	188.7	0.2	–	2,823.7	2,449.8	373.9	1,344.7
2000	December	3,783.2	158.5	0.2	–	3,624.5	2,763.0	861.5	2,310.7
2001	December	5,333.6	122.9	0.2	–	5,210.5	3,469.7	1,740.7	4,056.0
2002	December	5,651.3	2.3	0.2	–	5,648.8	3,787.8	1,861.0	2,581.6
2003	December	6,554.1	0.7	0.2	–	6,553.2	3,346.0	3,207.2	3,927.1
2004	December	6,436.2	0.6	0.2	–	6,435.4	3,173.3	3,262.0	4,220.1
2005	January	6,556.4	1.0	0.2	–	6,555.3	3,220.6	3,334.6	3,718.0
	February	6,582.1	0.7	0.2	–	6,581.3	3,254.4	3,326.8	3,235.6
	March	6,700.5	0.7	0.2	–	6,699.6	3,415.3	3,284.3	3,298.1
	April	6,772.0	0.9	0.2	–	6,770.8	3,503.5	3,267.3	3,021.9
	May	6,990.6	0.6	0.2	–	6,989.8	3,640.3	3,349.5	2,937.7
	June	7,065.7	0.7	0.2	–	7,064.8	3,654.5	3,410.3	2,974.7
	July	7,061.6	1.4	0.2	–	7,060.0	3,690.7	3,369.3	3,051.0
	August	7,064.3	0.8	0.2	–	7,063.2	3,686.2	3,377.0	3,084.6
	September	6,998.7	0.8	0.2	–	6,997.7	3,607.6	3,390.0	3,064.9
	October	7,128.5	1.2	0.2	–	7,127.1	3,709.2	3,417.9	2,864.8
	November	7,220.4	0.8	0.2	–	7,219.3	3,781.1	3,438.2	3,242.7
	December	7,438.4	0.9	0.2	–	7,437.3	3,834.5	3,602.8	2,938.4

Table H7: International Reserves and Banks' Foreign Exchange Reserves

The international reserves of the Croatian National Bank are shown according to the methodology contained in the Balance of Payments Manual (International Monetary Fund, 1993), and include those foreign claims of the Croatian National Bank that can be used to

bridge imbalances in international payments. International reserves include special drawing rights, reserve position in the International Monetary Fund, gold, foreign currency and deposits with foreign banks, as well as bonds and debt instruments.

The foreign exchange reserves of banks include foreign currency and domestic banks' deposits with foreign banks. These foreign exchange reserves represent an additional source of liquidity for bridging imbalances in international payments.

3. Undrawn, unconditional credit lines provided by:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– BIS (+)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– IMF (+)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Aggregate short and long positions of options in f/c vis-a-vis the domestic currency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Total contingent short-term net drains on f/c assets (1 + 2 + 3 + 4)	-1,772.9	-1,815.9	-2,012.0	-2,091.4	-2,050.4	-2,164.0	-2,201.0	-2,214.3	-2,225.9	-2,087.6	-2,162.1	-2,176.1	-2,273.1	
IV. Memo items														
(a) short-term domestic currency debt indexed to the exchange rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
o/w: Central government (excl. central government funds)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(c) pledged assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(d) securities lent and on repo														
– lent or repod and included in Section I	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– lent or repod but not included in Section I	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– borrowed or acquired and included in Section I	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– borrowed or acquired but not included in Section I	180.7	89.1	271.6	244.2	185.5	279.4	310.3	276.0	180.5	176.6	100.0	100.0	88.5	
(e) financial derivative assets (net, marked to market)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(f) currency composition of official reserves assets														
– currencies in SDR basket	6,436.2	6,556.4	6,582.1	6,700.4	6,772.0	6,990.6	7,065.7	7,061.6	7,064.2	6,998.7	7,128.3	7,220.1	7,438.1	
– currencies not in SDR basket	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.3	
– by individual currencies														
USD	1,609.1	1,349.1	1,337.4	1,379.1	1,117.9	1,146.6	1,104.1	1,089.3	1,079.8	1,100.5	1,093.8	1,131.5	1,104.5	
EUR	4,826.3	5,206.2	5,243.8	5,320.4	5,652.9	5,843.2	5,960.7	5,970.7	5,983.4	5,897.1	6,033.1	6,087.5	6,332.5	
Other	0.8	1.2	0.9	0.9	1.2	0.9	0.9	1.6	1.0	1.1	1.6	1.3	1.3	

Table H8: International Reserves and Foreign Currency Liquidity

International reserves and foreign currency liquidity are shown in accordance with a Template on international reserves and foreign currency liquidity, drawn up by the IMF. A detailed explanation of the Template is given in “International Reserves and Foreign Currency Liquidity – Guidelines for a Data Template, 2001”.

The first part of the Template shows total assets of the Croatian National Bank in convertible foreign currency. Official reserve assets (I.A.) show those types of assets that are readily available to the CNB at any moment for bridging imbalances in international payments. Official international reserves include: short-term foreign negotiable debt securities, foreign cash, foreign currency sight deposits, foreign currency time deposits which can be withdrawn before maturity, foreign currency time deposits with a remaining maturity of up to 1 year, reserve position with the IMF, special drawing rights, gold, and reverse repos with foreign negotiable debt securities.

The second part of the Template shows fixed predetermined foreign currency net liabilities of the Croatian National Bank and the central government (excluding central government funds) that fall due in the next 12 months. Foreign currency loans, securities and deposits (II.1.) include future interest payments on banks' foreign currency reserve requirements with the CNB (only interest payments for the next month are included), payments of future maturities of foreign currency CNB bills, future principal and interest payments on loans from the IMF, and future principal and interest payments on the central government's foreign currency debts (excluding central government funds). Aggregate short and long positions in forwards and futures in foreign currencies (II.2.) include future collections (+) or payments (-) arising from currency swaps between the CNB and domestic banks (temporary sale or purchase of foreign currency). Item Other (II.3.) includes future payments arising from repo

agreements with foreign negotiable debt securities.

The third part of the Template shows predetermined contingent foreign currency net liabilities of the Croatian National Bank and the central government (excluding central government funds), which fall due in the following 12 months. Contingent liabilities in foreign currency (III.1.) include future principal and interest payments on foreign loans guaranteed by the central government, and banks' foreign currency reserve requirements. (The inclusion of reserve requirements in foreign currency is based on the assumption that there will be no changes in ratios or in the base of foreign currency reserve requirements, which comprises foreign exchange sources of funds, including ordinary foreign exchange accounts, special foreign exchange accounts, sight foreign exchange accounts and savings deposits, received foreign exchange deposits and received foreign exchange loans, as well as obligations arising from securities issued in foreign exchange (excluding the bank's equity securities) and hybrid and subordinated instruments). Undrawn credit lines show potential inflows (+) or outflows (-) which would arise from draw-downs under these credits.

The fourth part of the Template lists memo items. Short-term, domestic currency debt indexed to foreign currency (IV.a) shows obligations arising from the Act on Converting Households' Foreign Exchange Deposits into the Public Debt of the Republic of Croatia, which fall due in the next 12 months. Pledged assets (IV.c) show time deposits in foreign currency with a maturity over 3 months listed in item I.B. which are also a pledge. Repo transactions with securities show the value of collateral that is the subject of repo agreements and reverse repo transactions with securities as well as how these transactions are registered in the Template. Until December 2000, the currency structure of international and other foreign currency reserves showed the currency structure of the total foreign currency assets of the CNB (section I.). From January 2001, the currency structure refers to official reserve assets (section I.A.).

Table H9: Midpoint Exchange Rates of the Croatian National Bank (period average)

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
1997		6.959708	0.505322	1.056355	0.361942	4.246962	10.081567	6.157050	3.555932
1998		7.136608	0.514421	1.079581	0.366683	4.395149	10.539883	6.362292	3.619321
1999		7.579622	0.550834	1.155501	0.391455	4.738375	11.504100	7.112441	3.875409
2000		7.634973	0.554855	1.163944	0.394313	4.901679	12.529639	8.276819	3.903700
2001		7.468966	0.542791	1.138637	0.385740	4.946376	12.010492	8.339074	3.818822
2002		7.406773				5.050089	11.788895	7.863712	
2003		7.563414				4.977823	10.945665	6.701390	
2004		7.495169				4.855608	11.048232	6.035494	
2005		7.400185				4.780459	10.819398	5.947999	
2005	January	7.563796				4.891373	10.811869	5.741322	
	February	7.516931				4.849005	10.904242	5.780433	
	March	7.459512				4.814920	10.770658	5.653121	
	April	7.395276				4.778072	10.818158	5.716584	
	May	7.327121				4.743797	10.714655	5.758623	
	June	7.313364				4.755423	10.937565	6.006567	
	July	7.304871				4.690760	10.635671	6.062091	
	August	7.348095				4.732522	10.723305	5.975191	
	September	7.431614				4.799039	10.960855	6.051621	
	October	7.386248				4.767000	10.830645	6.136078	
	November	7.374972				4.775183	10.863376	6.251617	
	December	7.388962				4.774591	10.879743	6.234090	

Table H10: Midpoint Exchange Rates of the Croatian National Bank (end of period)

Year	Month	HRK/EUR	HRK/ATS	HRK/FRF	HRK/100 ITL	HRK/CHF	HRK/GBP	HRK/USD	HRK/DEM
1997		6.947200	0.499445	1.050510	0.357700	4.332003	10.475600	6.303100	3.511000
1998		7.329100	0.531546	1.114954	0.377700	4.567584	10.451000	6.247500	3.739700
1999		7.679009	0.558055	1.170657	0.396588	4.784268	12.340257	7.647654	3.926215
2000		7.598334	0.552192	1.158359	0.392421	4.989712	12.176817	8.155344	3.884966
2001		7.370030	0.535601	1.123554	0.380630	4.977396	12.101856	8.356043	3.768237
2002		7.442292				5.120256	11.451442	7.145744	
2003		7.646909				4.901551	10.860544	6.118506	
2004		7.671234				4.971314	10.824374	5.636883	
2005		7.375626				4.744388	10.753209	6.233626	
2005	January	7.551070				4.882683	10.924580	5.784488	
	February	7.507513				4.873743	10.888344	5.702630	
	March	7.441756				4.794019	10.808651	5.744312	
	April	7.364438				4.792060	10.870019	5.679807	
	May	7.307220				4.728980	10.648820	5.837370	
	June	7.310503				4.728045	11.003165	6.062782	
	July	7.296747				4.679202	10.588807	6.040353	
	August	7.378355				4.762380	10.804444	6.042879	
	September	7.438696				4.773291	10.897592	6.170631	
	October	7.381207				4.773772	10.829236	6.075067	
	November	7.400190				4.783575	10.803197	6.264446	
	December	7.375626				4.744388	10.753209	6.233626	

Table H11: Indices of the Effective Exchange Rate of the Kuna

indices 2001 = 100

Year	Month	Nominal effective exchange rate of the kuna	Real effective exchange rate of the kuna; deflator	
			Producer price index	Consumer price index
1997	December	87.73	93.01	98.79
1998	December	91.08	95.99	95.39
1999	December	99.23	102.76	102.08
2000	December	101.51	99.96	101.79
2001	December	99.07	98.63	98.89
2002	December	95.97	95.63	96.24
2003	December	94.09	94.46	94.62
2004	December	90.43	90.61	90.85
2005	January	91.00	91.70	91.00
	February	90.76	91.56	90.21
	March	89.73	91.06	89.10
	April	89.44	91.03	89.40
	May	89.01	90.26	89.13
	June	89.91	91.67	90.22
	July	90.06	91.73	90.66
	August	90.08	92.10	90.97
	September	91.16	93.58	92.34
	October	91.10	94.12	91.72
	November	91.47	93.96	91.59
	December	91.52	94.33	90.98

Note: From 1 January 2001, the euro zone related price series includes Greece as well.

Table H11: Indices of the Effective Exchange Rate of the Kuna

The index of the nominal effective exchange rate of the kuna is a weighted geometric average of the index of bilateral nominal exchange rates of the kuna against the euro, US dollar, Swiss franc, pound sterling and Slovenian tolar. The series of the indices of the effective exchange rate of the kuna, calculated in accordance with the modified CNB methodology for calculating the nominal and real effective kuna exchange rate (for the basic CNB methodology, see Bulletin No. 64, Box: 2, October 2001), were first published in the CNB Bulletin No. 94 (June 2004). The weights are determined based on the average share of a particular foreign currency in the structure of the current account – ITRS data between January 2000 and December 2003 (between July 1996 and January 2000 in the previous version of notes on methodology under Table H10). The new weights have been assigned to the euro (70.6%), US dollar (27.2%), Swiss franc (1.0%) and pound sterling (1.0%) and thus replaced the old weights: euro (66.2%), US dollar (30.7%), Swiss franc (1.6%) and pound sterling (1.2%). The weight assigned to the Slovenian tolar remained unchanged at 0.2%. The year 2001 is a

base period for calculating the indices of the effective exchange rate of the kuna (1995 in the previous version of notes on methodology under Table H10). The index of the nominal effective exchange rate is an aggregate indicator of the average value of the domestic currency against a basket of currencies. An increase in the index of the nominal effective exchange rate of the kuna in a certain period indicates that the kuna has depreciated against the basket of currencies, and vice versa. The index of the real effective exchange rate is a weighted geometric average of the index of bilateral exchange rates of the kuna adjusted for the relevant relative price indices (the ratio of price indices in partner countries and domestic prices). Producer price and consumer price indices, and the total harmonized consumer price index for the eurozone countries are used as deflators. The time series for consumer prices in Croatia is constructed in the following manner: retail price indices are used until December 1997 inclusive, and consumer price indices are used as of January 1998. Data for the last two months are preliminary. The historical data may be corrected for the subsequent changes in the data published by the statistical offices of the countries whose prices are included in the calculation of the index of the real effective exchange rate of the kuna.

Table H12: Gross External Debt by Domestic Sectors

million euros

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Government	7,251.8	7,240.5	7,217.6	6,730.7	6,784.5	6,879.1	7,003.0	7,069.6	6,923.2	6,982.3	6,935.0	6,997.1	7,047.4
Short-term	2.6	2.5	2.6	1.4	2.2	1.6	1.6	165.5	1.8	1.8	2.1	2.1	2.1
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	163.7	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	2.6	2.5	2.6	1.4	2.2	1.6	1.6	1.8	1.8	1.8	2.1	2.1	2.1
Principal arrears	2.4	2.2	2.4	1.2	1.9	1.3	1.3	1.5	1.5	1.5	1.8	1.7	1.7
Interest arrears	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	7,249.2	7,238.1	7,215.0	6,729.3	6,782.3	6,877.6	7,001.4	6,904.1	6,921.4	6,980.5	6,932.9	6,995.1	7,045.3
Bonds	4,648.1	4,639.9	4,573.7	4,036.2	4,063.3	4,107.8	4,163.0	4,094.8	4,100.9	4,064.9	4,033.9	4,057.4	4,065.5
Credits	2,599.0	2,595.2	2,638.3	2,690.1	2,716.1	2,766.8	2,835.4	2,806.5	2,817.7	2,912.8	2,896.3	2,935.0	2,977.2
Trade credits	2.1	3.0	3.0	3.0	3.0	3.0	2.9	2.7	2.7	2.7	2.7	2.7	2.6
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Croatian National Bank	2.4	2.2	2.2	2.0	1.9	2.7	2.5	2.4	2.2	2.0	2.0	2.8	2.6
Short-term	0.0	2.2	2.2	2.0	1.9	2.7	2.5	2.4	2.2	2.0	2.0	2.8	2.6
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	2.2	2.2	2.0	1.9	2.7	2.5	2.4	2.2	2.0	2.0	2.8	2.6
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Banks	7,701.6	7,568.9	7,391.7	8,188.5	8,202.4	8,349.4	8,485.4	8,389.1	8,033.8	7,974.3	8,270.1	8,608.0	8,993.5
Short-term	1,964.8	1,992.6	1,813.7	2,278.6	2,271.1	2,305.7	2,275.8	2,197.3	2,159.7	2,030.9	2,071.3	2,130.8	2,512.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	513.6	694.4	496.7	832.1	868.5	890.1	1,029.7	959.9	1,035.1	963.1	942.8	967.2	1,079.7
Currency and deposits	1,438.9	1,294.6	1,313.4	1,442.9	1,399.6	1,412.5	1,243.1	1,233.8	1,121.6	1,064.8	1,125.4	1,160.5	1,429.3
Other debt liabilities	12.4	3.5	3.6	3.5	3.0	3.0	3.0	3.6	3.0	3.0	3.0	3.1	3.0
Principal arrears	12.4	3.5	3.6	3.5	3.0	3.0	3.0	3.6	3.0	3.0	3.0	3.0	3.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	5,736.7	5,576.3	5,578.0	5,909.9	5,931.2	6,043.7	6,209.5	6,191.7	5,874.1	5,943.3	6,198.8	6,477.2	6,481.5
Bonds	444.4	444.7	444.7	446.9	448.5	448.5	448.8	449.8	451.5	453.1	454.7	455.3	456.7
Credits	3,512.3	3,530.0	3,508.5	3,558.1	3,635.0	3,730.5	3,688.8	3,685.6	3,553.3	3,512.7	3,654.0	3,866.7	3,844.8
Currency and deposits	1,780.1	1,601.6	1,624.8	1,904.9	1,847.7	1,864.7	2,071.9	2,056.3	1,869.3	1,977.5	2,090.1	2,155.2	2,180.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Other sectors	5,809.2	5,840.7	5,983.9	6,104.0	6,167.4	6,346.2	6,478.8	6,615.2	6,792.4	6,772.4	6,769.0	6,937.6	7,156.4
Short-term	530.3	546.2	568.6	604.7	642.1	668.5	728.0	859.7	885.5	895.6	803.2	798.1	856.2
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	100.2	101.0	122.2	141.8	144.8	162.4	205.7	336.4	362.3	322.3	264.9	256.7	291.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	23.2	22.3	24.9	29.7	28.0	29.1	30.8	33.8	29.5	29.2	27.2	26.6	27.8
Other debt liabilities	407.0	423.0	421.5	433.2	469.3	477.0	491.5	489.5	493.7	544.0	511.2	514.9	537.2
Principal arrears	376.6	393.8	392.2	402.6	438.8	446.1	457.7	454.7	458.7	506.2	472.8	475.6	490.6
Interest arrears	30.3	29.2	29.3	30.6	30.5	31.0	33.8	34.8	35.0	37.8	38.4	39.3	46.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	5,278.8	5,294.5	5,415.4	5,499.3	5,525.3	5,677.7	5,748.8	5,755.5	5,906.9	5,876.8	5,965.8	6,139.4	6,300.1
Bonds	380.6	383.1	385.9	398.5	375.7	378.8	371.3	374.7	378.8	371.5	374.5	378.0	378.1
Credits	4,769.7	4,783.6	4,902.7	4,963.4	5,009.0	5,164.0	5,234.3	5,234.9	5,379.8	5,353.1	5,437.3	5,610.0	5,764.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	128.5	127.8	126.7	137.4	140.6	134.9	143.2	145.9	148.2	152.2	154.0	151.4	158.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Direct investment	2,015.7	2,019.1	2,077.5	2,119.9	2,167.4	2,252.5	2,293.9	2,319.6	2,348.3	2,376.2	2,311.9	2,369.4	2,340.9
Short-term	120.3	128.2	126.1	130.9	145.6	168.3	181.5	177.8	176.2	178.6	191.1	187.2	206.2
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	36.1	40.5	36.7	37.8	42.3	53.7	60.6	58.8	55.0	53.1	63.3	65.1	59.8
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	84.2	87.8	89.4	93.1	103.3	114.6	120.9	119.0	121.2	125.5	127.8	122.1	146.4
Principal arrears	76.5	80.1	81.7	85.1	95.3	106.5	112.3	110.0	110.7	114.5	116.6	110.5	132.6
Interest arrears	7.6	7.6	7.7	7.9	8.0	8.1	8.5	9.0	10.5	11.0	11.2	11.5	13.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	1,895.5	1,890.9	1,951.4	1,989.0	2,021.8	2,084.2	2,112.5	2,141.8	2,172.1	2,197.6	2,120.8	2,182.2	2,134.7
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,866.5	1,861.8	1,922.0	1,955.2	1,987.1	2,049.2	2,079.2	2,108.4	2,139.2	2,165.1	2,088.8	2,150.3	2,104.0
Trade credits	28.9	29.1	29.4	33.9	34.7	35.0	33.3	33.4	32.9	32.5	32.0	31.9	30.7
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	22,780.6	22,671.5	22,672.9	23,145.3	23,323.6	23,829.9	24,261.6	24,395.7	24,099.9	24,107.1	24,287.9	24,914.9	25,540.8

Table H12: Gross External Debt by Domestic Sectors

External debt is defined as the external debt liabilities of residents on the basis of debt securities issued in foreign markets (at face value), credits (repo agreements included) regardless of their contractual maturity, deposits of non-residents, and trade credits granted by non-residents with contractual maturity of more than 180 days (90 days up to 11 July 2001 and 150 days up to 31 December 2002).

External debt by domestic sectors is shown in the same manner as in the Capital and Financial Account of the BOP. Item Government shows external debt of the general government, which includes the Republic of Croatia, central government funds (including the Croatian Bank for Reconstruction and Development, the State Agency for Deposit Insurance and Bank Rehabilitation, the Croatian Roads and the Croatian Motorways), and local government. Item Croatian National Bank shows the central bank debts. Item Banks shows debts of banks. Item Other sectors shows debts of other banking

institutions, non-banking financial institutions, enterprises, non-profit institutions and households, including craftsmen. Item Direct investment shows borrower – lender transactions of other sectors that are interrelated by ownership (borrower or lender owns more than 10 percent of the other).

Each sector data are further shown by contractual maturity (short-term and long-term) and by debt instrument. From the beginning of 2004, instruments included in item Currency and deposits (3. Banks) are reported in accordance with their maturity. Data for the previous periods are reported only on a long-term basis.

Outstanding gross external debt includes principal and interest arrears, as well as accrual interest and future principal payments.

Outstanding debt data are shown at the CNB's midpoint exchange rate at the end of the period.

Data are considered preliminary until after publication of the final BOP data for the reporting quarter.

Table H13: Public Sector Gross External Debt, and Publicly Guaranteed and Non-Publicly Guaranteed Private Sector Gross External Debt

million euros

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Public sector	8,560.2	8,539.6	8,527.3	8,050.1	8,105.3	8,224.8	8,341.9	8,479.4	8,332.0	8,396.9	8,246.9	8,325.2	8,428.2
Short-term	26.8	28.0	21.3	20.1	21.0	28.3	30.4	294.9	129.9	172.7	75.1	69.1	69.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.7	7.7	1.5	1.5	1.5	8.6	9.5	111.4	110.3	111.6	54.7	48.2	48.1
Currency and deposits	0.0	2.2	2.2	2.0	1.9	2.7	2.5	166.1	2.2	2.0	2.0	2.8	2.6
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	26.1	18.1	17.5	16.5	17.6	17.0	18.3	17.4	17.4	59.1	18.5	18.1	18.3
Principal arrears	25.8	17.8	17.3	16.2	17.3	16.7	18.0	17.1	17.1	58.3	17.7	17.3	16.9
Interest arrears	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.8	0.8	0.8	1.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	8,533.2	8,511.4	8,505.8	8,029.8	8,084.0	8,196.3	8,311.3	8,184.3	8,201.9	8,224.0	8,171.6	8,255.9	8,359.2
Bonds	4,648.1	4,639.9	4,573.7	4,036.2	4,063.3	4,107.8	4,163.0	4,094.8	4,100.9	4,064.9	4,033.9	4,057.4	4,065.5
Credits	3,829.0	3,815.7	3,860.6	3,875.5	3,947.8	4,019.4	4,072.4	4,008.8	4,016.7	4,068.6	4,042.8	4,104.1	4,188.7
Currency and deposits	2.4	0.0	15.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	53.7	55.8	56.5	68.1	72.9	69.0	75.8	80.7	84.3	90.5	94.9	94.5	105.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0
2. Publicly guaranteed private sector	320.0	325.0	324.6	323.9	324.7	328.0	329.9	305.4	305.8	304.8	305.1	307.9	306.1
Short-term	26.5	34.4	33.7	34.5	35.0	35.4	37.1	36.8	36.6	36.8	37.8	38.1	39.9
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	26.5	34.4	33.7	34.5	35.0	35.4	37.1	36.8	36.6	36.8	37.8	38.1	39.9
Principal arrears	18.8	26.2	25.4	26.3	26.6	26.9	28.4	27.7	27.5	27.7	28.5	28.8	30.5
Interest arrears	7.7	8.2	8.2	8.2	8.4	8.5	8.7	9.1	9.1	9.1	9.3	9.3	9.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	293.5	290.5	290.9	289.4	289.6	292.7	292.8	268.6	269.3	268.0	267.3	269.7	266.2
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	292.0	289.0	289.5	288.1	288.3	291.4	290.5	266.4	267.2	266.0	265.4	267.8	264.4
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	1.5	1.5	1.4	1.4	1.3	1.3	2.3	2.2	2.1	2.0	1.9	1.9	1.8
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Non-publicly guaranteed private sector	13,900.4	13,806.9	13,821.1	14,771.2	14,893.7	15,277.1	15,589.8	15,611.0	15,462.0	15,405.4	15,735.9	16,281.8	16,806.5
Short-term	2,444.5	2,481.0	2,332.2	2,832.2	2,861.2	2,914.7	2,940.5	2,893.2	2,882.8	2,720.8	2,765.7	2,826.5	3,264.1
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	613.0	787.7	617.4	972.4	1,011.7	1,043.9	1,225.8	1,184.9	1,287.1	1,173.8	1,153.0	1,175.7	1,322.8
Currency and deposits	1,438.9	1,294.6	1,313.4	1,442.9	1,399.6	1,412.5	1,243.1	1,233.8	1,121.6	1,064.8	1,125.4	1,160.5	1,429.3
Trade credits	23.2	22.3	24.9	29.7	28.0	29.1	30.8	33.8	29.5	29.2	27.2	26.6	27.8
Other debt liabilities	369.4	376.4	376.5	387.2	421.9	429.2	440.7	440.7	444.6	452.9	460.1	463.7	484.2
Principal arrears	346.8	355.5	355.5	364.8	399.8	406.7	415.6	415.1	418.6	424.6	431.4	434.2	448.0
Interest arrears	22.6	21.0	21.1	22.4	22.0	22.5	25.1	25.7	25.9	28.3	28.7	29.5	36.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	9,440.4	9,307.0	9,411.6	9,819.3	9,865.3	10,110.1	10,355.6	10,398.4	10,231.1	10,308.6	10,658.5	11,086.0	11,201.5
Bonds	824.9	827.9	830.7	845.4	824.3	827.3	820.2	824.5	830.3	824.6	829.1	833.3	834.8
Credits	6,760.0	6,804.0	6,884.3	6,998.0	7,123.8	7,350.3	7,395.5	7,451.7	7,466.8	7,444.0	7,679.4	8,039.7	8,132.9
Currency and deposits	1,780.1	1,601.6	1,624.8	1,904.9	1,847.7	1,864.7	2,071.9	2,056.3	1,869.3	1,977.5	2,090.1	2,155.2	2,180.0
Trade credits	75.4	73.5	71.9	71.0	69.5	67.7	68.1	65.9	64.7	62.5	59.9	57.8	53.8
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	2,015.5	2,018.9	2,077.3	2,119.7	2,167.2	2,252.3	2,293.7	2,319.4	2,348.1	2,376.0	2,311.7	2,369.2	2,340.9
Total (1+2+3)	22,780.6	22,671.5	22,672.9	23,145.3	23,323.6	23,829.9	24,261.6	24,395.7	24,099.9	24,107.1	24,287.9	24,914.9	25,540.8

Table H13: Public Sector Gross External Debt, and Publicly Guaranteed and Non-Publicly Guaranteed Private Sector Gross External Debt

The gross external debt position presented in this Table highlights the role of the public sector.

Public sector includes the general government (including the Republic of Croatia, central government funds and local government), the central bank, public enterprises and mixed ownership companies. Public enterprises are defined as enterprises in 100% ownership of business entities from the public sector. Mixed ownership com-

panies are defined as companies in which business entities from the public sector have a share larger than 50%.

Publicly guaranteed private sector gross external debt is defined as the external debt liabilities of business entities not covered by the definition of the public sector, the servicing of which is guaranteed by a business entity from the public sector.

Non-publicly guaranteed private sector gross external debt is defined as the external debt liabilities of business entities not covered by the definition of the public sector, the servicing of which is not guaranteed by the public sector.

Items are valued in the same manner as in Table H12.

Table H14: Gross External Debt by Domestic Sectors and Projected Future Payments

million euros

	Gross External Debt 31/12/2005	Immediate	Projected future principal payments												
			Q1/06	Q2/06	Q3/06	Q4/06	2006	2007	2008	2009	2010	2011	2012	2013	Other
1. Government	7,047.4	2.1	740.5	72.9	118.7	84.9	1,017.0	688.5	739.2	1,032.8	823.8	1,397.5	214.5	166.8	965.3
Short-term	2.1	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	2.1	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	1.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	7,045.3	0.0	740.5	72.9	118.7	84.9	1,017.0	688.5	739.2	1,032.8	823.8	1,397.5	214.5	166.8	965.3
Bonds	4,065.5	0.0	651.4	0.0	57.5	0.0	708.9	344.5	250.3	712.2	556.5	1,009.8	16.2	0.0	467.0
Credits	2,977.2	0.0	88.9	72.8	61.0	84.7	307.4	343.3	488.3	320.4	267.3	387.6	198.1	166.7	498.0
Trade credits	2.6	0.0	0.2	0.1	0.2	0.2	0.7	0.7	0.5	0.1	0.1	0.1	0.1	0.1	0.2
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Croatian National Bank	2.6	0.0	2.6	0.0	0.0	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	2.6	0.0	2.6	0.0	0.0	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2.6	0.0	2.6	0.0	0.0	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Banks	8,993.5	3.0	1,693.8	1,179.1	437.8	569.7	3,880.4	1,191.9	938.9	833.8	538.4	67.0	128.1	58.1	1,353.8
Short-term	2,512.0	3.0	1,515.5	380.9	312.5	300.1	2,508.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	1,079.7	0.0	986.3	80.9	12.5	0.1	1,079.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	1,429.3	0.0	529.2	300.0	300.0	300.0	1,429.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	3.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	3.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	6,481.5	0.0	178.3	798.2	125.3	269.6	1,371.5	1,191.9	938.9	833.8	538.4	67.0	128.1	58.1	1,353.8
Bonds	456.7	0.0	9.1	0.0	0.0	0.0	9.1	0.0	0.0	448.8	0.0	0.0	0.0	0.0	-1.2
Credits	3,844.8	0.0	109.3	738.3	65.4	209.7	1,122.6	581.6	742.7	385.0	538.4	67.0	128.1	58.1	221.4
Currency and deposits	2,180.0	0.0	59.9	59.9	59.9	59.9	239.8	610.4	196.2	0.0	0.0	0.0	0.0	0.0	1,133.6
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Other sectors	7,156.4	537.2	326.2	312.3	337.5	400.4	1,376.4	1,049.6	923.3	819.8	576.4	350.0	233.0	194.1	1,096.6
Short-term	856.2	537.2	88.4	39.0	116.7	74.9	319.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	291.2	0.0	88.4	39.0	88.9	74.9	291.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	27.8	0.0	0.0	0.0	27.8	0.0	27.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	537.2	537.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	490.6	490.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	46.6	46.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	6,300.1	0.0	237.8	273.3	220.8	325.5	1,057.4	1,049.6	923.3	819.8	576.4	350.0	233.0	194.1	1,096.6
Bonds	378.1	0.0	19.8	0.0	0.0	0.0	19.8	182.5	5.7	5.7	6.5	6.5	8.2	8.2	134.9
Credits	5,764.1	0.0	209.9	237.6	211.2	298.3	957.1	832.7	897.7	795.3	565.8	343.2	224.8	185.8	961.6
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	158.0	0.0	8.1	35.7	9.5	27.2	80.5	34.4	19.8	18.8	4.1	0.2	0.1	0.1	0.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Direct investment	2,340.9	146.4	73.8	93.6	42.6	275.8	485.8	259.0	223.1	220.5	269.2	59.3	32.9	37.3	607.5
Short-term	206.2	146.4	23.6	24.6	5.5	6.2	59.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	59.8	0.0	23.6	24.6	5.5	6.2	59.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	146.4	146.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	132.6	132.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	13.8	13.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	2,134.7	0.0	50.3	69.0	37.1	269.6	426.0	259.0	223.1	220.5	269.2	59.3	32.9	37.3	607.5
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	2,104.0	0.0	49.4	68.0	36.3	268.3	422.0	254.2	218.7	213.4	262.5	58.0	32.0	36.7	606.4
Trade credits	30.7	0.0	0.9	1.0	0.8	1.3	4.0	4.8	4.4	7.1	6.6	1.3	1.0	0.6	1.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (1+2+3+4+5)	25,540.8	688.7	2,837.0	1,657.8	936.6	1,330.8	6,762.2	3,189.0	2,824.4	2,906.9					

Table H14: Gross External Debt by Domestic Sectors and Projected Future Payments

The Table shows outstanding gross external debt, projected principal payments and estimated interest payments according to the CNB's midpoint exchange rate at the end of the period. Principal payments on Currency and deposits of non-residents are projected according to the available monetary statistics data on original and remaining maturity.

Estimated interest payments do not include interest on deposits from non-residents, repo transactions and hybrid and subordinated instruments, as well as late interest on these instruments. Future interest payments are estimated at the interest rates at the contracting time and do not reflect changes of variable interest rates.

Projected payments of accrual interest, which are an integral part of the gross external debt, increase the projected principal payments in the first quarter period and, consequently, decrease the interest payments estimated for the same period.

Table H15: International Investment Position – Summary

million EUR

	2001	2002	2003	2004	2005	2005			
						Q1	Q2	Q3	Q4
1. International investment position (net)	-4,544.7	-7,905.4	-11,731.6	-15,556.3	-17,702.1	-17,227.9	-17,125.6	-17,758.8	-17,702.1
2. Assets	12,793.2	12,550.4	14,804.8	14,954.6	15,476.2	14,437.6	14,784.5	15,068.9	15,476.2
2.1. Direct investment abroad	1,095.9	1,753.2	1,646.4	1,631.3	1,831.5	1,760.9	1,867.2	1,899.8	1,831.5
2.2. Portfolio investment	253.0	810.1	603.1	1,317.5	1,666.8	1,324.5	1,448.9	1,630.3	1,666.8
2.2.1. Equity securities	25.5	39.3	40.6	39.8	42.2	41.0	42.3	43.2	42.2
2.2.2. Debt securities	227.5	770.9	562.5	1,277.7	1,624.6	1,283.5	1,406.6	1,587.1	1,624.6
Bonds	196.4	761.0	560.0	1,142.5	1,508.4	1,151.8	1,286.2	1,462.8	1,508.4
Money market instruments	31.1	9.9	2.4	135.1	116.2	131.7	120.4	124.3	116.2
2.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4. Other investment	6,110.7	4,335.8	6,001.2	5,569.7	4,539.5	4,651.7	4,402.7	4,540.1	4,539.5
2.4.1. Trade credits	206.1	181.0	178.1	183.3	188.7	177.3	183.5	185.6	188.7
2.4.2. Loans	121.6	128.7	113.9	100.9	138.2	105.7	116.5	131.7	138.2
2.4.3. Currency and deposits	5,782.9	4,026.0	5,709.2	5,285.6	4,212.6	4,368.7	4,102.8	4,222.8	4,212.6
2.4.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.5. Reserve assets (CNB)	5,333.6	5,651.3	6,554.1	6,436.1	7,438.4	6,700.5	7,065.7	6,998.7	7,438.4
3. Liabilities	17,337.8	20,455.8	26,536.3	30,510.9	33,178.3	31,665.4	31,910.1	32,827.7	33,178.3
3.1. Direct investment in Croatia	4,806.1	6,634.4	8,398.2	9,462.6	9,746.0	10,325.9	9,685.1	10,827.4	9,746.0
3.2. Portfolio investment	4,495.2	4,282.3	4,862.0	5,756.5	5,158.0	5,190.1	5,233.6	5,176.8	5,158.0
3.2.1. Equity securities	164.8	173.6	172.3	283.4	259.7	308.5	250.4	287.3	259.7
3.2.2. Debt securities	4,330.4	4,108.7	4,689.7	5,473.1	4,898.3	4,881.6	4,983.2	4,889.5	4,898.3
Bonds	4,299.3	4,108.7	4,656.2	5,473.1	4,898.3	4,881.6	4,983.2	4,889.5	4,898.3
Money market instruments	31.1	0.0	33.5	0.0	0.0	0.0	0.0	0.0	0.0
3.3. Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.4. Other investment	8,036.5	9,539.1	13,276.1	15,291.8	18,274.2	16,149.4	16,991.4	16,823.5	18,274.2
3.4.1. Trade credits	268.4	258.4	176.1	153.8	183.7	169.1	174.6	181.7	183.7
3.4.2. Loans	6,722.9	6,981.2	9,949.9	11,494.7	13,931.3	12,196.9	13,016.5	13,059.4	13,931.3
3.4.3. Currency and deposits	719.9	1,898.6	2,738.7	3,221.4	3,611.9	3,349.9	3,317.6	3,044.4	3,611.9
3.4.4. Other liabilities	325.3	400.9	411.3	421.9	547.4	433.5	482.8	538.2	547.4

Table H15: International Investment Position – Summary

This table is made in accordance with the recommendations of the IMF (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: reports from banks, enterprises, the Croatian National Bank, and the Zagreb Stock Exchange.

Data on international investments of the Republic of Croatia and international investments into the Republic of Croatia are recorded in euros (EUR) and US dollars (USD). Depending on the sources of data available, the conversion of values from the original currencies into the reporting currencies is performed:

- by applying the current rate of exchange or the average monthly midpoint exchange rate of the Croatian National

Bank to transactions;

- by applying the midpoint exchange rate of the Croatian National Bank on the reporting date to balances.

The source of data on foreign direct and portfolio equity investment is the statistical research of the Croatian National Bank. The equity investments have been monitored since the beginning of 2001 and are corrected for changes in the official index of the Zagreb Stock Exchange (CROBEX).

Portfolio debt investment and other investment are classified according to the following institutional sectors: the Croatian National Bank, government, banks and other sectors. The government sector comprises central government and funds and local government authorities. The banking sector comprises banks.

Item Portfolio debt investment – Assets and liabilities comprises data on investments of residents into debt securities issued by non-resi-

dents (assets) and investments of non-residents into debt securities issued by residents (liabilities). The source of data is the register of foreign credit relations kept by the Croatian National Bank, which also comprises claims and liabilities arising from bonds and money market instruments.

Item Other investment – Trade credits – Assets and liabilities comprises foreign claims and foreign liabilities of the said sectors arising from trade credits. The source of data is the register of foreign credit relations kept by the Croatian National Bank.

Item Other investment – Loans – Assets and liabilities comprises data on loans granted and received between residents and non-residents classified according to institutional sectors. The source of data is the register of foreign credit relations kept by the Croatian National Bank.

Item Other investment – Currency and deposits – Assets shows the

total liquid foreign exchange of banks authorized to do business abroad reduced by the amount of foreign exchange deposited by banks with the CNB in fulfilment of a part of their reserve requirements. In addition to banks' foreign claims, foreign claims of the government sector are also shown. The sources of data are reports from the government and banks.

Item Other investment – Currency and deposits – Liabilities shows the total foreign exchange and kuna liabilities of the said sectors abroad arising from current accounts, time and notice deposits, sight deposits and demand deposits. The sources of data for this item are reports from banks.

Item International reserves of the CNB is compiled on the basis of the CNB Accounting Department reports which contain data on their balances and changes.

Table H16: International Investment Position – Direct Investment

million euros

	2001	2002	2003	2004	2005	2005			
						Q1	Q2	Q3	Q4
Direct investment (net)	-3,710.2	-4,881.2	-6,751.8	-7,831.3	-7,914.5	-8,565.0	-7,817.8	-8,927.6	-7,914.5
1. Abroad	1,095.9	1,753.2	1,646.4	1,631.3	1,831.5	1,760.9	1,867.2	1,899.8	1,831.5
1.1. Equity capital and reinvested earnings	1,050.2	1,712.8	1,583.2	1,526.9	1,683.8	1,616.8	1,697.4	1,758.9	1,683.8
1.1.1. Claims	1,050.2	1,712.8	1,583.2	1,526.9	1,683.8	1,616.8	1,697.4	1,758.9	1,683.8
1.1.2. Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2. Other capital	45.6	40.4	63.2	104.4	147.8	144.1	169.9	140.9	147.8
1.2.1. Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2. Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. In Croatia	4,806.1	6,634.4	8,398.2	9,462.6	9,746.0	10,325.9	9,685.1	10,827.4	9,746.0
2.1. Equity capital and reinvested earnings	3,714.7	5,227.4	6,553.4	7,446.8	7,411.0	8,213.8	7,399.5	8,460.0	7,411.0
2.1.1. Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Liabilities	3,714.7	5,227.4	6,553.4	7,446.8	7,411.0	8,213.8	7,399.5	8,460.0	7,411.0
2.2. Other capital	1,091.4	1,407.0	1,844.8	2,015.7	2,335.0	2,112.1	2,285.5	2,367.4	2,335.0
2.2.1. Claims	....	....	....	....	....	....	....	....	....
2.2.2. Liabilities	....	....	....	....	....	....	....	....	....
2.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table H17: International Investment Position – Portfolio Investment

million euros

	2001	2002	2003	2004	2005	2005			
						Q1	Q2	Q3	Q4
Portfolio investment (net)	-4,242.2	-3,472.2	-4,258.9	-4,439.0	-3,491.2	-3,865.6	-3,784.7	-3,546.5	-3,491.2
1. Assets	253.0	810.1	603.1	1,317.5	1,666.8	1,324.5	1,448.9	1,630.3	1,666.8
1.1. Equity securities	25.5	39.3	40.6	39.8	42.2	41.0	42.3	43.2	42.2
1.1.1. Banks	8.0	8.1	4.2	4.5	4.6	4.5	4.7	4.8	4.6
1.1.2. Other sectors	17.5	31.1	36.4	35.3	37.6	36.5	37.6	38.5	37.6
1.2. Debt securities	227.5	770.9	562.5	1,277.7	1,624.6	1,283.5	1,406.6	1,587.1	1,624.6
2. Liabilities	4,495.2	4,282.3	4,862.0	5,756.5	5,158.0	5,190.1	5,233.6	5,176.8	5,158.0
2.1. Equity securities	164.8	173.6	172.3	283.4	259.7	308.5	250.4	287.3	259.7
2.1.1. Banks	41.1	36.2	40.4	44.4	39.2	45.1	38.7	44.1	39.2
2.1.2. Other sectors	123.8	137.3	132.0	239.1	220.5	263.4	211.7	243.1	220.5
2.2. Debt securities	4,330.4	4,108.7	4,689.7	5,473.1	4,898.3	4,881.6	4,983.2	4,889.5	4,898.3
2.2.1. Bonds	4,299.3	4,108.7	4,656.2	5,473.1	4,898.3	4,881.6	4,983.2	4,889.5	4,898.3
2.2.1.1. General government	4,268.2	3,947.6	4,310.9	4,648.1	4,074.4	4,036.2	4,163.0	4,064.9	4,074.4
2.2.1.2. Banks	0.0	0.0	0.0	444.4	457.9	446.9	448.8	453.1	457.9
2.2.1.3. Other sectors	31.2	161.2	345.3	380.6	366.0	398.5	371.3	371.5	366.0
2.2.2. Money market instruments	31.1	0.0	33.5	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.1. Other sectors	31.1	0.0	33.5	0.0	0.0	0.0	0.0	0.0	0.0

Table H18: International Investment Position – Other Investment

million euros

	2001	2002	2003	2004	2005	2005			
						Q1	Q2	Q3	Q4
Other investment (net)	-1,849.1	-5,180.2	-6,909.9	-9,720.3	-13,732.7	-11,496.3	-12,586.8	-12,282.1	-13,732.7
1. Assets	6,110.7	4,335.8	6,000.5	5,569.1	4,538.9	4,651.1	4,402.1	4,539.5	4,538.9
1.1. Trade credits	206.1	181.0	178.1	183.3	188.7	177.3	183.5	185.6	188.7
1.1.1. General government	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.3	0.3
Long-term	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.3	0.3
1.1.2. Other sectors	206.1	181.0	178.1	183.3	188.5	177.3	183.4	185.2	188.5
Long-term	180.2	169.6	173.5	178.9	183.6	172.7	178.6	180.5	183.6
Short-term	25.9	11.4	4.6	4.4	4.8	4.6	4.8	4.8	4.8
1.2. Loans	121.6	128.7	113.3	100.3	137.5	105.1	115.8	131.1	137.5
1.2.1. General government	6.1	5.6	5.2	6.8	8.8	6.8	7.0	6.4	8.8
Long-term	6.1	5.6	5.2	6.8	8.8	6.8	7.0	6.4	8.8
1.2.2. Banks	82.7	93.6	79.9	81.0	100.7	80.7	90.0	96.4	100.7
Long-term	46.9	60.2	57.5	61.9	72.8	61.4	69.2	68.6	72.8
Short-term	35.8	33.4	22.4	19.0	27.9	19.3	20.9	27.8	27.9
1.2.3. Other sectors	32.8	29.5	28.2	12.5	28.1	17.6	18.8	28.3	28.1
Long-term	32.8	29.4	28.2	11.2	28.0	16.6	18.1	27.8	28.0
Short-term	0.0	0.1	0.0	1.3	0.1	1.0	0.7	0.5	0.1
1.3. Currency and deposits	5,782.9	4,026.0	5,709.2	5,285.6	4,212.6	4,368.7	4,102.8	4,222.8	4,212.6
1.3.1. General government	94.7	115.7	81.9	8.9	54.2	77.8	25.0	34.6	54.2
1.3.2. Banks	4,438.8	2,754.3	4,551.9	4,317.0	3,110.4	3,333.8	3,049.4	3,159.6	3,110.4
1.3.3. Other sectors	1,249.4	1,156.0	1,075.4	959.7	1,048.0	957.2	1,028.4	1,028.6	1,048.0
1.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	7,959.7	9,515.9	12,910.4	15,289.5	18,271.6	16,147.4	16,988.8	16,821.6	18,271.6
2.1. Trade credits	268.4	258.4	176.1	153.8	183.7	169.1	174.6	181.7	183.7
2.1.1. General government	1.3	1.1	2.3	2.1	1.6	2.0	1.9	1.8	1.6
Long-term	1.3	1.1	2.3	2.1	1.6	2.0	1.9	1.8	1.6
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2. Other sectors	267.1	257.4	173.8	151.7	182.1	167.1	172.7	179.9	182.1
Long-term	226.7	209.9	151.7	128.5	155.8	137.4	141.9	150.7	155.8
Short-term	40.4	47.5	22.2	23.2	26.3	29.7	30.8	29.2	26.3
2.2. Loans	6,647.8	6,959.7	9,586.8	11,494.7	13,931.3	12,196.9	13,016.5	13,059.4	13,931.3
2.2.1. Croatian National Bank	138.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	138.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2. General government	1,672.7	1,950.8	2,286.4	2,599.0	2,983.8	2,705.7	2,849.7	2,922.5	2,983.8
Long-term	1,672.7	1,950.8	2,286.4	2,599.0	2,983.8	2,705.7	2,849.7	2,922.5	2,983.8
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.3. Banks	1,813.5	1,878.7	3,372.0	4,025.8	4,909.7	4,375.7	4,703.7	4,461.1	4,909.7
Long-term	1,810.8	1,878.4	2,767.7	3,512.3	3,830.0	3,543.5	3,674.0	3,498.0	3,830.0
Short-term	2.6	0.3	604.2	513.6	1,079.7	832.1	1,029.7	963.1	1,079.7
2.2.4. Other sectors	3,022.9	3,130.1	3,928.5	4,869.9	6,037.8	5,115.5	5,463.0	5,675.8	6,037.8
Long-term	2,969.0	3,103.0	3,858.3	4,769.7	5,720.9	4,961.7	5,239.7	5,330.2	5,720.9
Short-term	53.9	27.2	70.1	100.2	316.9	153.8	223.3	345.6	316.9
2.3. Currency and deposits	718.3	1,896.9	2,736.2	3,219.0	3,609.2	3,347.9	3,315.0	3,042.4	3,609.2
2.3.1. Banks	718.3	1,896.9	2,736.2	3,219.0	3,609.2	3,347.9	3,315.0	3,042.4	3,609.2
2.4. Other liabilities	325.3	400.9	411.3	421.9	547.4	433.5	482.8	538.2	547.4

Table I1: Consolidated Central Government According to Government Level

million kuna

	2004		2005										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec. ^a
1. REVENUE (A+B)	10,158.0	6,395.4	6,324.5	7,041.1	7,430.8	7,576.9	7,698.8	7,710.2	8,580.4	8,261.9	7,734.8	7,816.1	10,074.2
A) Budgetary central government	9,515.2	5,928.1	5,884.3	6,623.4	7,027.6	6,975.7	7,167.6	7,101.8	7,660.2	7,624.4	7,113.6	7,197.2	9,350.9
B) Extrabudgetary users	642.7	467.3	440.1	417.7	403.1	601.1	531.1	608.4	920.1	637.5	621.2	618.9	723.3
1. Croatian Pension Insurance Administration	7.7	4.8	3.1	1.7	2.9	4.5	3.0	4.0	2.7	2.4	2.3	1.6	5.4
2. Croatian Institute for Health Insurance	39.3	59.4	44.1	88.7	42.9	58.8	58.2	101.1	47.4	77.3	80.0	78.0	128.1
3. Croatian Employment Service	0.4	1.2	1.5	2.4	2.4	1.0	2.0	0.6	1.2	2.3	1.5	0.6	2.1
4. Croatian Waters	191.0	119.2	60.1	34.6	70.9	67.9	107.2	100.4	118.6	102.3	135.2	151.8	158.0
5. Fund for Environmental Protection and Energy Efficiency	16.6	13.5	11.0	15.6	21.4	23.0	22.4	18.3	22.1	16.7	15.3	18.9	16.6
6. Croatian Motorways Ltd.	236.6	149.4	158.0	163.4	155.2	217.4	208.3	250.2	312.5	259.9	230.0	185.5	258.7
7. Croatian Roads Ltd.	124.1	105.1	87.4	99.8	102.7	122.0	126.5	122.1	165.1	151.4	139.4	118.9	134.1
8. State Agency for Deposit Insurance and Bank Rehabilitation	23.4	13.0	71.2	10.8	4.2	80.3	1.4	2.6	84.6	7.3	15.3	62.4	14.3
9. Croatian Privatization Fund	3.6	1.6	3.6	0.7	0.5	26.3	2.3	9.3	165.8	17.8	2.2	0.9	6.0
2. EXPENSE (A+B)	8,133.8	7,723.1	7,670.7	8,835.2	7,026.2	7,456.1	7,249.4	7,733.2	7,023.8	7,194.9	8,136.6	7,474.5	8,807.1
A) Budgetary central government	7,407.0	7,221.0	7,351.5	8,516.9	6,685.7	6,895.7	6,816.1	7,290.5	6,567.5	6,723.6	7,657.0	6,999.9	7,991.4
B) Extrabudgetary users	726.8	502.1	319.3	318.3	340.5	560.4	433.2	442.7	456.3	471.3	479.5	474.6	815.7
1. Croatian Pension Insurance Administration	30.7	26.9	30.5	30.5	30.6	30.0	31.5	34.1	26.6	31.2	31.4	30.5	47.4
2. Croatian Institute for Health Insurance	100.8	68.3	65.7	74.9	81.9	214.5	-82.2	84.9	70.6	66.8	77.6	86.8	104.4
3. Croatian Employment Service	13.0	11.9	11.6	11.0	11.4	11.7	10.9	13.1	13.2	10.2	13.7	13.2	14.1
4. Croatian Waters	314.9	154.5	51.8	48.3	75.4	70.7	97.5	109.1	116.5	144.2	140.7	182.8	304.8
5. Fund for Environmental Protection and Energy Efficiency	5.7	33.8	30.5	12.1	7.1	5.8	6.9	11.5	15.7	12.3	5.5	5.1	24.6
6. Croatian Motorways Ltd.	103.5	63.3	63.7	79.5	63.0	103.0	85.0	85.4	77.1	98.0	124.3	82.7	161.3
7. Croatian Roads Ltd.	76.7	134.3	59.1	50.7	62.2	114.9	110.6	94.8	85.0	102.5	92.7	66.5	89.5
8. State Agency for Deposit Insurance and Bank Rehabilitation	68.6	0.8	1.5	1.7	0.9	1.9	63.4	4.2	46.8	1.0	-11.6	1.5	62.0
9. Croatian Privatization Fund	12.9	8.3	4.9	9.5	8.0	7.9	109.6	5.6	4.8	5.2	5.2	5.5	7.7
NET/GROSS OPERATING BALANCE (1-2)	2,024.2	-1,327.7	-1,346.3	-1,794.0	404.6	120.8	449.4	-23.0	1,556.6	1,067.0	-401.8	341.6	1,267.1
3. CHANGE IN NET WORTH: TRANSACTIONS (3.1.+3.2.-3.3.)	2,024.2	-1,327.7	-1,346.3	-1,794.0	404.6	120.8	449.4	-23.0	1,556.6	1,067.0	-401.8	341.6	1,267.1
3.1. CHANGE IN NET ACQUISITION OF NON-FINANCIAL ASSETS	711.3	313.5	329.3	821.2	574.4	538.7	472.2	755.4	539.5	489.9	516.8	298.0	1,008.1
Acquisition	743.4	333.6	349.8	844.6	604.8	558.8	529.6	775.1	558.7	529.5	539.3	321.7	1,035.8
A) Budgetary central government	368.7	129.6	74.1	137.4	115.8	88.6	85.7	156.4	155.0	127.8	170.9	223.4	363.9
B) Extrabudgetary users	374.7	204.1	275.6	707.2	488.9	470.2	443.9	618.6	403.7	401.7	368.4	98.2	671.9
Disposals	32.2	20.1	20.5	23.4	30.3	20.1	57.4	19.6	19.2	39.6	22.5	23.6	27.7
A) Budgetary central government	28.6	19.3	20.2	20.8	17.8	18.4	54.3	19.4	18.7	15.7	19.9	23.1	27.3
B) Extrabudgetary users	3.6	0.8	0.3	2.6	12.5	1.7	3.1	0.2	0.5	23.9	2.6	0.5	0.3
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING) (3.3.-3.2.)	-1,312.9	1,641.2	1,675.6	2,615.2	169.8	417.8	22.9	778.4	-1,017.1	-577.1	918.6	-43.5	-259.0
3.2. CHANGE IN NET ACQUISITION OF FINANCIAL ASSETS	-420.8	965.0	-201.9	152.8	-5.3	-65.1	-21.3	393.5	-4.4	464.4	174.5	93.3	-291.9
3.2.1. Domestic	-420.8	972.6	-201.9	152.8	-5.3	-65.1	-24.0	393.5	-4.4	464.4	174.5	93.3	-291.9
A) Budgetary central government	-119.4	1,021.2	-333.1	-358.0	224.3	135.0	30.8	415.4	-128.3	550.4	-293.7	-110.1	595.8
B) Extrabudgetary users	-301.4	-48.6	131.2	510.8	-229.6	-200.1	-54.9	-21.9	123.9	-86.1	468.2	203.4	-887.7
3.2.2. Foreign	0.0	-7.6	0.0	0.0	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0
A) Budgetary central government	0.0	-7.6	0.0	0.0	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0
B) Extrabudgetary users	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2.3. Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3. CHANGE IN NET INCURRENCE OF LIABILITIES	-1,733.7	2,606.2	1,473.7	2,768.1	164.6	352.7	1.5	1,171.9	-1,021.5	-112.7	1,093.0	49.8	-550.9
3.3.1. Domestic	-1,966.5	3,125.7	1,398.4	6,319.4	45.5	346.5	32.6	1,608.5	-1,153.2	-249.0	924.6	36.8	-394.3
A) Budgetary central government	-2,061.6	2,998.8	1,243.5	5,533.2	77.8	274.1	-63.2	1,329.3	-1,077.6	-299.4	548.8	32.6	-6.3
B) Extrabudgetary users	95.1	126.9	154.9	786.2	-32.3	72.4	95.8	279.2	-75.6	50.4	375.9	4.2	-388.0
3.3.2. Foreign	232.7	-519.5	75.3	-3,551.4	119.1	6.2	-31.1	-436.6	131.7	136.2	168.4	13.0	-156.6
A) Budgetary central government	113.2	-513.7	22.7	-3,775.3	2.5	-73.1	-159.5	-498.7	45.0	125.0	-21.2	-39.1	-195.1
B) Extrabudgetary users	119.5	-5.8	52.6	223.9	116.5	79.2	128.4	62.2	86.8	11.2	189.6	52.1	38.6

^a Preliminary data.

Note: On cash basis.

Source: Ministry of Finance.

The Notes on Methodology can be found in the Ministry of Finance Monthly Statistical Review.

Table 12: Budgetary Central Government Operations

million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.*
1. REVENUE	9,515.2	5,928.1	5,884.3	6,623.4	7,027.6	6,975.7	7,167.6	7,101.8	7,660.2	7,624.4	7,113.6	7,197.2	9,350.9
1.1. Taxes	4,484.8	3,336.2	3,097.0	3,897.0	4,360.6	4,250.8	4,384.7	4,231.6	4,896.4	4,789.7	4,327.8	4,458.0	4,657.9
1.2. Social contributions	2,767.9	2,485.6	2,463.7	2,516.9	2,539.9	2,543.5	2,619.3	2,691.4	2,619.7	2,634.5	2,602.4	2,611.7	2,972.8
1.3. Grants	8.0	0.0	0.1	3.2	4.2	5.7	0.9	0.0	3.3	3.3	6.8	0.0	0.1
1.4. Other revenue	2,254.5	106.3	323.5	206.4	122.9	175.8	162.8	178.8	140.9	196.9	176.6	127.5	1,720.1
2. EXPENSE	7,558.8	7,289.4	7,429.7	8,622.7	6,777.3	6,971.5	6,879.7	7,379.9	6,619.6	6,787.5	7,783.9	7,099.2	8,217.0
2.1. Compensation of employees	2,120.9	1,875.9	1,860.8	1,880.7	1,904.4	1,882.0	1,879.4	2,162.4	1,875.3	1,883.8	1,939.7	1,926.8	2,111.5
2.2. Use of goods and services	409.7	378.2	436.0	621.6	294.2	401.1	368.0	409.7	337.4	353.9	378.6	330.6	642.5
2.3. Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4. Interest	256.3	241.7	700.9	971.3	300.3	342.9	271.9	252.1	271.0	303.7	198.5	315.1	217.6
2.5. Subsidies	435.1	582.2	402.2	831.0	283.5	373.9	286.1	469.3	264.7	235.6	640.0	334.5	545.6
2.6. Grants	504.4	493.0	234.9	293.6	234.8	240.1	202.2	283.2	236.6	253.3	443.2	284.4	597.5
2.7. Social benefits	3,199.5	3,328.7	3,300.9	3,612.3	3,472.3	3,426.2	3,571.3	3,419.1	3,358.7	3,528.1	3,420.7	3,417.1	3,503.1
2.8. Other expense	632.8	389.7	493.9	412.1	287.7	305.3	300.8	384.3	276.0	229.2	763.2	490.6	599.1
3. CHANGE IN NET WORTH: TRANSACTIONS	1,956.5	-1,361.3	-1,545.3	-1,999.3	250.3	4.2	288.0	-278.2	1,040.6	836.9	-670.3	98.0	1,133.9
3.1. Change in net acquisition of non-financial assets	340.1	110.2	54.0	116.6	98.0	70.2	31.4	137.0	136.3	112.1	151.0	200.3	336.6
3.1.1. Fixed assets	329.2	109.1	51.4	115.6	94.9	68.0	30.0	133.5	136.0	107.8	149.3	199.2	322.0
3.1.2. Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.1.3. Valuables	0.0	0.2	1.6	0.9	0.8	0.7	0.5	0.7	0.0	0.1	1.0	0.6	0.1
3.1.4. Non-produced assets	10.8	1.0	1.0	0.1	2.3	1.5	0.9	2.8	0.2	4.1	0.7	0.4	14.5
3.2. Change in net acquisition of financial assets	-332.0	1,013.6	-333.1	-358.0	232.6	135.0	33.9	415.4	-128.3	550.4	-293.7	-108.8	595.8
3.2.1. Domestic	-332.0	1,021.2	-333.1	-358.0	232.6	135.0	31.2	415.4	-128.3	550.4	-293.7	-108.8	595.8
3.2.2. Foreign	0.0	-7.6	0.0	0.0	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0
3.2.3. Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3. Change in net incurrence of liabilities	-1,948.3	2,485.1	1,266.2	1,757.9	80.3	201.0	-222.7	830.6	-1,032.6	-174.4	527.5	-6.5	-201.5
3.3.1. Domestic	-2,061.6	2,998.8	1,243.5	5,533.2	77.8	274.1	-63.2	1,329.3	-1,077.6	-299.4	548.8	32.6	-6.3
3.3.2. Foreign	113.2	-513.7	22.7	-3,775.3	2.5	-73.1	-159.5	-498.7	45.0	125.0	-21.2	-39.1	-195.1

* Preliminary data.

Note: On cash basis.

Source: Ministry of Finance.

The Notes on Methodology can be found in the Ministry of Finance Monthly Statistical Review.

Table I3: Central Government Debt

end of period, million kuna

	2004	2005											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Domestic debt of central government	41,517.0	44,300.0	45,386.4	51,545.6	51,333.3	52,078.3	52,552.1	53,839.3	53,125.3	53,870.4	54,754.1	54,980.4	55,028.8
1.1 Domestic debt of the Republic of Croatia	37,223.7	39,928.9	41,040.2	46,375.7	46,253.1	46,419.0	46,495.7	47,675.8	46,958.4	47,583.2	48,447.0	48,650.7	50,559.5
Treasury bills	9,022.5	10,482.2	10,891.8	13,021.3	13,648.4	13,449.1	13,442.1	12,977.0	12,780.0	12,820.5	12,859.8	13,035.0	12,533.4
Money market instruments	–	–	–	–	–	–	–	0.7	0.7	0.7	0.7	1.0	0.9
Bonds	23,080.1	22,225.7	21,980.2	24,570.5	24,436.4	24,127.9	24,072.1	26,492.4	26,661.2	27,299.9	27,292.4	27,199.5	30,716.0
Credits from the CNB	3.3	0.6	2.3	1.7	2.2	0.7	0.0	1.2	0.6	0.5	0.0	0.6	1.4
Credits from banks	5,117.8	7,220.4	8,165.9	8,782.3	8,166.1	8,841.3	8,981.5	8,204.5	7,515.9	7,461.6	8,294.1	8,414.6	7,307.8
1.2. Domestic debt of central government funds	4,293.3	4,371.1	4,346.2	5,169.9	5,080.2	5,659.3	6,056.4	6,163.5	6,166.9	6,287.2	6,307.1	6,329.7	4,469.2
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	2,040.1	2,037.2	2,046.9	1,901.7	1,878.7	1,860.7	1,853.2	1,829.1	1,850.4	1,851.9	1,839.3	1,843.6	176.9
Credits from banks	2,253.2	2,333.8	2,299.3	3,268.2	3,201.5	3,798.6	4,203.3	4,334.4	4,316.5	4,435.3	4,467.8	4,486.1	4,292.3
2. External debt of central government	55,384.4	54,452.3	53,967.3	49,876.6	49,754.5	50,059.1	50,991.0	51,406.8	50,902.4	51,716.5	50,967.1	51,557.8	51,760.6
2.1 External debt of the Republic of Croatia	42,095.7	41,552.0	40,883.1	36,414.2	36,232.4	36,428.8	36,836.8	36,141.9	36,648.6	36,884.0	36,314.0	36,710.6	36,433.6
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	32,899.3	32,346.7	31,676.1	27,258.8	27,159.2	27,257.4	27,652.2	27,069.1	27,405.0	27,335.0	26,883.4	27,113.6	27,112.3
Credits	9,196.4	9,205.3	9,207.0	9,155.3	9,073.2	9,171.4	9,184.5	9,072.7	9,243.6	9,549.0	9,430.7	9,597.0	9,321.2
2.2 External debt of central government funds	13,288.7	12,900.3	13,084.3	13,462.4	13,522.2	13,630.3	14,154.2	15,264.9	14,253.8	14,832.4	14,653.0	14,847.3	15,327.0
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	2,757.7	2,689.2	2,660.8	2,777.9	2,764.7	2,759.4	2,781.5	2,809.6	2,853.2	2,902.8	2,891.5	2,912.0	2,873.3
Credits	10,531.0	10,211.1	10,423.5	10,684.5	10,757.5	10,870.9	11,372.7	12,455.3	11,400.6	11,929.7	11,761.5	11,935.3	12,453.7
3. Total (1 + 2)	96,901.5	98,752.3	99,353.8	101,422.2	101,087.9	102,137.4	103,543.1	105,246.0	104,027.7	105,586.8	105,721.1	106,538.2	106,789.4
Supplement: Central government guaranteed debt													
– guarantees for domestic debt	4,632.4	4,746.8	4,780.6	4,823.6	5,245.0	5,340.9	5,177.4	4,711.0	5,118.4	5,138.1	6,033.0	6,206.7	5,345.9
– guarantees for external debt	7,671.4	7,601.4	7,609.8	7,550.1	7,508.7	7,582.8	7,526.9	7,173.2	7,264.0	7,323.4	7,309.2	7,276.1	7,179.6

The Notes on Methodology can be found in the Ministry of Finance Monthly Statistical Review.

Table I3: Central Government Debt

Data on the central government debt are gathered from available data and are not reconciled with the Ministry of Finance of the Republic of Croatia. The central government debt consists of domestic and external debt. The sources of data on domestic debt of the central government are the following: the Ministry of Finance Monthly

Statistical Review, Monetary Authorities Accounts and Banks' Accounts. The source of data on the central government external debt is the external debt statistics collected by the CNB. The supplement provides data on the central government guaranteed debt. Banks are the source of data on guarantees for domestic debt, while the external debt statistics collected by the CNB are the source of data on guarantees for external debt.

Table J1: Consumer Price and Producer Price Indices

Year	Month	Basic indices, 2001 = 100			Chain indices				Monthly year-on-year indices			
		Consumer price indices			Consumer price indices ^a			Producer prices	Consumer price indices ^b			Producer prices
		Total	Goods	Services	Total	Goods	Services		Total	Goods	Services	
1997	December	....	....	....	100.7	100.3	102.3	99.9	103.8	102.7	108.2	101.6
1998	December	89.6	90.6	86.2	100.3	100.4	100.0	100.0	105.4	104.3	109.2	97.9
1999	December	93.1	93.4	91.8	100.6	100.8	100.0	100.3	103.9	103.1	106.5	105.9
2000	December	98.2	98.5	96.9	100.4	100.4	100.1	100.2	105.5	105.5	105.5	111.2
2001	December	100.5	99.8	103.5	100.4	100.4	100.5	99.0	102.4	101.3	106.8	96.9
2002	December	102.4	100.9	108.3	100.4	100.6	99.6	99.9	101.8	101.1	104.6	102.3
2003	December	104.1	102.5	110.6	100.3	100.2	100.5	100.0	101.7	101.6	102.2	101.0
2004	December	106.9	105.0	114.6	100.7	100.9	100.2	99.3	102.7	102.5	103.6	104.8
2005	January	107.3	105.3	114.8	100.3	100.3	100.2	100.0	102.0	101.6	103.5	104.4
	February	108.5	106.8	115.2	101.1	101.4	100.3	100.3	103.3	103.2	103.3	105.1
	March	109.3	107.8	115.3	100.7	100.9	100.1	100.3	103.9	104.1	103.2	105.1
	April	109.0	107.3	115.8	99.8	99.6	100.3	100.3	103.5	103.5	103.5	104.5
	May	109.0	107.2	116.2	100.0	99.9	100.4	100.1	102.8	102.9	102.4	102.3
	June	108.8	106.8	116.8	99.9	99.7	100.5	99.8	102.9	103.1	102.2	102.4
	July	108.6	106.1	118.1	99.8	99.4	101.1	100.8	103.1	103.4	102.1	102.3
	August	108.7	106.2	118.2	100.1	100.1	100.1	100.1	103.1	103.4	102.1	101.5
	September	109.2	107.3	117.0	100.5	101.0	99.0	100.8	103.8	104.5	101.8	102.1
	October	110.0	108.0	117.8	100.7	100.7	100.7	100.5	104.1	104.4	103.1	101.8
	November	110.2	108.1	118.7	100.2	100.1	100.7	100.0	103.8	103.8	103.8	102.3
	December	110.8	108.7	119.3	100.5	100.5	100.5	99.7	103.6	103.5	104.1	102.7

^a Data from January 1992 to December 1997 relate to the retail price index.

^b Data from January 1992 to December 1998 relate to the retail price index.

Source: Central Bureau of Statistics.

Table J1: Consumer Price and Producer Price Indices

The Central Bureau of Statistics (CBS) introduced the consumer price index (CPI) in early 2004. This indicator of price movements was compiled in accordance with the methodological principles laid down by the ILO and Eurostat. In its First Release, issued on 17 February 2004, the CBS published the data on movements in the CPI in January 2004 and the time series for the CPI as of January 2001. The CBS subsequently constructed the time series for the

consumer price index encompassing the period from January 1998 to December 2000. As expected following the introduction of the new index, the CBS has stopped publishing the retail price index (RPI) and the cost of living index whose calculation methodologies have not been adequately harmonised with internationally accepted standards. The main characteristic of the CPI are discussed in Box 1 in the CNB Bulletin No. 91 (2004). The data on the average year-on-year consumer price inflation rate are shown in the Bulletin table on Economic Indicators.

Table J2: Core Consumer Price Indices

Year	Month	Basic indices, 2001 = 100			Chain indices			Monthly year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
1998	December	93.2	93.7	90.6	99.9	99.9	100.0	....	....	....
1999	December	95.9	96.4	93.3	100.1	100.1	100.1	102.9	102.9	103.0
2000	December	99.1	99.3	98.0	100.4	100.4	100.2	103.3	103.0	105.0
2001	December	100.3	100.1	101.8	99.8	99.7	100.3	101.2	100.8	103.8
2002	December	101.5	101.1	104.2	100.0	100.1	99.4	101.2	101.0	102.4
2003	December	102.7	102.0	107.3	100.2	100.1	101.0	101.2	100.9	103.0
2004	December	105.1	104.2	110.4	100.1	100.1	100.4	102.3	102.2	102.9
2005	January	104.7	103.8	110.7	99.6	99.5	100.2	102.0	101.9	102.4
	February	105.2	104.2	111.2	100.5	100.5	100.5	102.7	102.7	102.5
	March	105.7	104.9	110.8	100.5	100.6	99.6	103.1	103.3	102.0
	April	106.4	105.5	111.6	100.7	100.6	100.8	103.6	103.7	102.9
	May	106.8	105.9	112.6	100.4	100.3	100.9	103.5	103.6	103.0
	June	107.2	106.1	113.7	100.4	100.2	101.0	103.5	103.7	102.6
	July	107.3	105.8	116.4	100.1	99.7	102.3	103.4	103.5	103.1
	August	107.1	105.6	116.7	99.9	99.8	100.3	102.7	102.6	103.3
	September	107.3	106.2	114.1	100.2	100.6	97.7	103.0	103.1	102.6
	October	107.8	106.9	113.9	100.5	100.6	99.9	103.0	102.9	103.7
	November	108.2	107.3	114.0	100.3	100.4	100.0	103.1	103.0	103.6
	December	108.3	107.2	114.5	100.1	100.0	100.5	103.0	102.9	103.7

Source: Central Bureau of Statistics.

Table J2: Core Consumer Price Indices

The Central Bureau of Statistics calculates the core consumer price index in the manner that agricultural products prices and administrative prices (which among others include the prices of electricity and refined petroleum products) are excluded from the basket of go-

ods and services used in the calculation of the total consumer price index. A total of 111 goods and services are excluded and their share in the consumer price basket stood at 30.06% in 2005 (of which: agricultural products accounted for 6.93 percentage points, and administrative prices for 23.13 percentage points). The zero weighting method is used to exclude the prices of goods and services.

Table J3: Average Monthly Net Wages

in current prices, in kuna

Year	Month	Nominal amount in kuna	Chain indices	Monthly year-on-year indices	Cumulative year-on-year indices
1997	December	2,544.0	100.8	114.8	116.9
1998	December	2,935.0	104.6	115.4	112.8
1999	December	3,262.0	100.9	111.2	114.0
2000	December	3,499.0	99.9	107.3	108.9
2001	December	3,582.0	96.6	102.4	106.5
2002	December	3,839.0	98.0	107.2	105.0
2003	December	4,045.0	99.8	105.4	105.9
2004	December	4,312.0	99.1	106.6	105.9
2005	January	4,236.0	98.2	104.1	104.1
	February	4,193.0	99.0	104.8	104.4
	March	4,390.0	104.7	105.7	104.9
	April	4,287.0	97.7	103.8	104.6
	May	4,436.0	103.5	106.4	105.0
	June	4,432.0	99.9	104.9	104.9
	July	4,352.0	98.2	103.4	104.7
	August	4,417.0	101.5	105.7	104.8
	September	4,352.0	98.5	105.3	104.9
	October	4,339.0	99.7	105.1	104.9
	November	4,595.0	105.9	105.6	105.0
	December	4,473.0	97.3	103.7	104.9

Source: Central Bureau of Statistics.

Table J4: Consumer Confidence Index, Consumer Expectations Index and Consumer Sentiment Index

index points, original data

Year	Month	Composite indices			Response indices (I)						
		Consumer confidence index	Consumer expectations index	Consumer sentiment index	I1	I2	I3	I4	I7	I8	I11
1999	October	-33.7	-14.9	-46.3	-38.4	-12.1	-49.9	-17.6	35.5	-50.7	-69.7
2000	October	-20.9	3.5	-32.2	-26.2	1.2	-22.0	5.7	26.9	-48.3	-63.6
2001	October	-27.0	-11.4	-35.6	-29.6	-10.0	-35.9	-12.7	22.9	-41.3	-62.3
2002	January	-12.9	6.2	-24.4	-14.7	3.7	-21.4	8.6	3.9	-37.1	-60.1
	April	-30.8	-12.8	-39.1	-31.2	-9.7	-42.7	-15.9	28.1	-43.4	-69.3
	July	-29.7	-15.1	-35.7	-29.1	-12.1	-38.3	-18.1	21.4	-39.7	-67.2
	October	-25.2	-8.3	-29.3	-22.6	-5.1	-31.2	-11.5	20.1	-34.1	-64.0
2003	January	-20.6	-4.0	-25.4	-23.1	-2.8	-26.5	-5.1	14.7	-26.7	-59.6
	April	-20.4	-4.3	-26.6	-24.5	-3.0	-27.9	-5.6	9.9	-27.3	-63.0
	July	-18.6	-1.8	-20.8	-20.0	-1.1	-22.0	-2.5	12.6	-20.4	-58.0
	October	-22.2	-4.5	-25.0	-21.5	-2.6	-26.5	-6.4	14.7	-27.1	-65.2
2004	January	-10.5	11.4	-12.5	-12.3	11.2	-12.1	11.6	5.5	-13.0	-59.2
	April	-23.0	-4.0	-22.8	-20.6	-3.0	-20.2	-4.9	20.4	-27.6	-63.6
	July	-21.7	-5.8	-22.4	-19.6	-2.8	-23.4	-8.8	16.4	-24.3	-58.8
	October	-23.9	-7.9	-22.0	-19.1	-4.1	-30.5	-11.6	22.5	-16.5	-57.3
2005	January	-19.4	-1.9	-22.4	-17.9	0.2	-27.1	-4.0	15.6	-22.3	-58.2
	April	-27.2	-10.7	-29.3	-26.6	-6.0	-36.1	-15.3	25.1	-25.3	-62.3
	May	-26.4	-13.1	-28.6	-20.8	-7.1	-37.8	-19.1	25.0	-27.1	-54.4
	June	-26.2	-11.7	-29.1	-23.8	-7.2	-36.7	-16.1	23.9	-26.8	-57.6
	July	-28.1	-15.4	-27.7	-20.3	-7.3	-38.7	-23.5	25.6	-24.2	-56.1
	August	-27.4	-13.6	-27.0	-19.3	-7.9	-35.2	-19.2	26.7	-26.5	-55.8
	September	-29.4	-14.7	-28.7	-19.9	-7.8	-38.8	-21.6	34.3	-27.4	-54.0
	October	-22.9	-9.1	-24.7	-19.1	-4.3	-29.2	-13.9	23.6	-25.8	-49.8
	November	-23.0	-9.1	-23.1	-17.0	-4.0	-28.8	-14.1	23.1	-23.5	-50.6
	December	-26.4	-13.7	-25.6	-16.4	-5.9	-34.4	-21.5	27.6	-25.9	-50.6

Table J4: Consumer Confidence Index, Consumer Expectations Index and Consumer Sentiment Index

The CNB Consumer Confidence Survey has been carried out regularly since April 1999 in accordance with the methodology of the European Commission, the Joint Harmonised EU Programme of Business and Consumer Surveys. Until April 2005 the CNB conducted the survey once a quarter (in January, April, July and October). As of May 2005 the CNB carries out the survey in monthly frequency in co-operation with the European Commission, using its technical and financial assistance. The Croatian National Bank bears sole responsibility for the creation and conduct of the survey. The questionnaire contains 23 questions, examining consumer perception of the changes as regards every-day economic issues. The value of the response index is determined in line with the set methodology, based on the responses to the questions from the Consumer Confidence Survey. The movements of three composite indices, consumer confidence index (CCI), consumer sentiment index (CSI) and consumer expectations index (CEI), are calculated and monitored based on the value of the response indices. Each of the said composite indices is calculated as the arithmetic average of the response indices (I), i.e. as the average of previously quantified responses to individual questions from the survey:

$$I_i = \sum_{z=1}^k r_i \cdot w_i$$

where: r is the value of the response, w is the share of respondents opting for a particular response (weight), i question from the questi-

onnaire, z is the offered/chosen response, k is the number of offered responses to a particular question.

The value of the said indices ranges $-100 < I_i < 100$. Higher index values than those recorded over the previous period point to an increase in expectations (optimism) as regards the specific segment covered by the particular question.

The table shows the values of chosen response indices for the following questions:

I1: How has the financial situation of your household changed over the last 12 months?

I2: How do you expect the financial position of your household to change over the next 12 months?

I3: How do you think the general economic situation in Croatia has changed over the past 12 months?

I4: How do you expect the general economic situation in Croatia to develop over the next 12 months?

I7: How do you expect the number of people unemployed in Croatia to change over the next 12 months?

I8: In view of the general economic situation, do you think now is the right moment for people to make major purchases such as furniture, electrical/electronic devices, etc.?

I11: Over the next 12 months, how likely is it that you will save any money?

The components of composite indices are as follows:

CCI: I2, I4, I7x(-1), I11

CEI: I2, I4

CSI: I1, I3, I8

List of Abbreviations and Symbols

BIS	– Bank for International Settlements	MoF	– Ministry of Finance
bn	– billion	MRR	– marginal reserve requirement
BOP	– balance of payments	NCEA	– National Classification of Economic Activities
c.i.f.	– cost, insurance and freight	NCS	– National Clearing System
CBRD	– Croatian Bank for Reconstruction and Development	o/w	– of which
CBS	– Central Bureau of Statistics	OPEC	– Organization of the Petroleum Exporting Countries
CDA	– Central Depository Agency	PAL	– Programmatic Adjustment Loan
CEFTA	– Central European Free Trade Agreement	PEP	– Pre-accession Economic Programme
CES	– Croatian Employment Service	PPI	– producer price index
CIHI	– Croatian Institute for Health Insurance	RR	– reserve requirement
CLVPS	– Croatian Large Value Payment System	SAA	– Stabilisation and Association Agreement
CM	– Croatian Motorways	SDR	– special drawing rights
CNB	– Croatian National Bank	SITC	– Standard International Trade Classification
CPF	– Croatian Privatization Fund	SWIFT	– Society for Worldwide Interbank Financial Payments
CPI	– consumer price index	VAT	– value added tax
CPIA	– Croatian Pension Insurance Administration	VSE	– Varaždin Stock Exchange
CR	– Croatian Roads	WTO	– World Trade Organization
DAB	– State Agency for Deposit Insurance and Bank Rehabilitation	ZMM	– Zagreb Money Market
EBRD	– European Bank for Reconstruction and Development	ZSE	– Zagreb Stock Exchange
ECB	– European Central Bank		
EFSAL	– Enterprise and Financial Sector Adjustment Loan		
EFTA	– European Free Trade Association		
EIB	– European Investment Bank		
EMU	– European Monetary Union		
EU	– European Union		
excl.	– excluding		
f/c	– foreign currency		
FDI	– foreign direct investment		
FED	– Federal Reserve System		
FINA	– Financial Agency		
FISIM	– financial intermediation services indirectly measured		
f.o.b.	– free on board		
GDP	– gross domestic product		
GVA	– gross value added		
HEP	– Hrvatska elektroprivreda (Croatian Electrical Utility)		
HICP	– harmonised index of consumer prices		
HT	– Hrvatske telekomunikacije (Croatian Telecom)		
IBAN	– international bank account number		
IBRD	– International Bank for Reconstruction and Development		
IDB	– Inter-American Development Bank		
IIF	– Institute for International Finance		
ILO	– International Labour Organization		
IMF	– International Monetary Fund		
m	– million		
MIGs	– main industrial groupings		

Abbreviations for currencies

ATS	– Austrian schilling
CHF	– Swiss franc
DEM	– German mark
EUR	– euro
FRF	– French franc
GBP	– pound sterling
HRK	– Croatian kuna
ITL	– Italian lira
JPY	– Japanese yen
SIT	– Slovenian tolar
USD	– US dollar
XDR	– Special Drawing Rights

Symbols

–	– no entry
....	– data not available
0	– value is less than 0.5 of the unit of measure being used
ø	– average
a, b, c, ...	– indicates a note beneath the table and figure
*	– corrected data
()	– incomplete or insufficiently verified data

