



Annual Report 2008

CROATIAN NATIONAL BANK

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Summary

The year behind us was unusual in many ways. The first half of the year saw a surge in the general price level, while the negative effects of the spillover of global financial crisis to the real sector of the economy began to be increasingly felt in its second half. The current account imbalance grew due to an increase in and the high level of prices of key imported raw materials, while external debt indicators worsened on account of a strong and permanent dependence of domestic sectors on non-resident savings. The first indications of a change in capital inflows appeared by the end of the year against a background of the country's growing external exposure, putting into question the coverage of accumulated deficits. In response to such conditions, the CNB took timely action to enable the economy to overcome the difficulties in the easiest possible way. Implementing a series of measures, the CNB contributed to halting the withdrawal of deposits from domestic banks and ensuring smooth government financing in the domestic market. In the course of the year, being aware of negative consequences that may arise from sudden and rapid exchange rate fluctuations in Croatia's highly euroised economy, the CNB first alleviated appreciation pressures, and then, by the end of the year, mounting depreciation pressures. The turbulences in 2008 notwithstanding, the interventions of the central bank proved effective in maintaining exchange rate stability and contributed to attaining its main objective – the preservation of price stability.

The average annual consumer price inflation rate went up to 6.1% in 2008, an increase of 3.2 percentage points from 2007. This was in consequence of a marked pass-through of inflation from 2007 (3.3 percentage points) and a strong growth in the prices of energy and food in the first seven months of 2008 arising from high raw material prices in the world market. In the same period, domestic inflationary pressures also stemmed from the time-lagged effect of the strengthening of domestic demand in the previous year and from rising unit labour costs. These trends reversed around mid-year and, coupled with a drop in world raw material prices and a sharp slowdown in personal consumption, consumer price inflation started to decelerate significantly in the second half of the year, dropping to 2.9% in December.

Other major price indicators in Croatia showed similar trends. The average annual core inflation rate, which excludes agricultural product prices and administrative prices, rose from 3.0% in 2007 to 5.7% in 2008. The acceleration in core inflation in the first seven months of 2008 was primarily due to the price increase in industrial food products, stemming from the price growth of agricultural raw materials and energy in the world market. When these prices fell after July, core inflation decelerated. Industrial producer prices increased at the highest rate compared with other aggregate price indicators, from 3.4% in 2007 to 8.4% in 2008. The steep rise in these prices in the first seven months was also caused by the price growth of crude oil and other raw materials in the world market.

After having surged in the past few years, real estate prices in Croatia started decelerating towards the end of 2007 and were down to 5.8% annually in 2008. The deceleration was predominantly due to a weakening demand for real estate, which was a consequence of a slowdown in real disposable household income and a drop in home loan demand. The latter was influenced by an increase in nominal interest rates on home loans, tightened lending conditions and increased insecurity regarding future economic developments, all contributing to a decline in consumer optimism. In addition, in the expectation that the slowdown in real estate prices would continue, households postponed their decisions to purchase residential real estate.

According to preliminary CBS data, the economic growth rate in 2008 was the lowest since 1999, with real GDP increasing by a slight 2.4%. Economic activity slowed throughout the year, recording a negative rate of change in the third and fourth quarters, according to seasonally adjusted data.

An analysis of aggregate demand components shows that the largest contribution to trends in overall real growth came from a slump in personal consumption. Household consumption weakened because of adverse changes in real disposable household income and growing consumer pessimism. In addition, the sluggish performance of the export sector combined with steady import growth resulted in the negative contribution of net foreign demand to real economic growth. However, public and private sector investments accelerated in 2008, offsetting, to some degree, negative trends in other aggregate demand components.

The prices of final domestic goods and services rose significantly in 2008 as a result of sharp price increases in important raw materials in the world market and the growth of domestic energy prices and enterprise financing costs. The general price level, measured by the GDP implicit deflator, rose 6.4% in 2008, making a significant contribution to nominal GDP growth (HRK 342.2bn in 2008).

Labour market developments were relatively positive in 2008. Average unemployment was lower than in 2007, with the average unemployment rate down to 13.4%. Employment increased by an average of 1% relative to the previous year, as shown by preliminary CBS data. However, in line with the weakening of overall economic activity, the pace of decrease in unemployment and increase in employment decelerated towards the end of the year.

Nominal gross and net wages grew significantly in 2008, among other things as a result of the agreement on initial salaries of public-sector and government employees, amendments to some regulations and the adjustment of the labour price for inflation. The nominal wage dynamics was sufficient to offset the negative impact of the accelerated inflation rate on the dynamics of real wages, which increased slightly.

In response to mounting inflationary pressures in the first seven months of 2008, monetary policy aimed to curb inflation primarily by maintaining the stable nominal exchange rate of the domestic currency. Exposed to mild appreciation pressures in the first nine months of the year, the kuna/euro exchange rate came under depreciation pressures in the following period. However, the CNB intervened only twice in the foreign exchange market in 2008. At the first auction, held in January, a decline in kuna liquidity led to the strengthening of appreciation pressures, and at the second auction, held in October, an increase in foreign exchange demand caused an increase in depreciation pressures. Foreign exchange transactions with banks had an almost neutral effect on money supply at the annual level, while foreign exchange transactions with central government resulted in the issue of HRK 1.2bn. The nominal daily kuna/euro exchange rate fluctuated in a narrow band (between -1.6% and 1.8%) around the average daily exchange rate of HRK 7.22/EUR.

In addition to appreciating slightly versus the euro, the average kuna exchange rate appreciated strongly against the US dollar in the first seven months of the year, with the result that the nominal effective exchange rate of the kuna appreciated by an average of 3.5% relative to the previous

year. These trends, and a faster growth of domestic than foreign prices, show a deterioration in the indicators of export price competitiveness in 2008.

In 2008, the CNB continued to use and implement changes to monetary policy instruments focusing on maintaining exchange rate stability and achieving in this way its main objective – the preservation of price stability. The counter inflationary monetary policy measures included tightening money supply and restricting bank lending. In addition, bank foreign borrowing was until late in the year penalised by the marginal reserve requirement, which prompted banks to substitute domestic deposits and capital for foreign liabilities.

Reverse repo auctions were the main instrument for the creation and withdrawal of reserve money in 2008. They were used less than in the previous year so that the decline in turnover led to an interest rate increase. As a consequence, excessive exchange rate fluctuations and depreciation expectations reduced towards the end of the year.

At the end of the year, under the conditions of economic slowdown and limited net foreign capital inflows, the CNB primarily focused on securing sufficient liquidity for domestic sectors by implementing changes to monetary policy instruments. The collapse of Lehman Brothers and the consequential slump in some European banks' share prices in October led to a drop in optimism among domestic savers and a partial withdrawal of deposits from domestic banks. The central bank responded promptly and resolutely by abolishing the marginal reserve requirement and, by the large amounts of foreign currency thus released, facilitating the payment of foreign currency deposits for banks. The MoF provided support by increasing the insured deposit amount from HRK 100,000 to 400,000 and the deposit withdrawal was quickly and successfully halted. The CNB remained proactive in the rest of the year. The reserve requirement rate was cut from 17% to 14% in December in order to correct money market imbalances and facilitate domestic government financing without squeezing out the private sector.

The growth rate of net domestic assets accelerated, but net foreign assets reduced sharply. This led to a substantial decrease in total liquid assets (M4). Money (M1) decreased in the same period, as a result of the real economic downturn and lending slowdown, but also due to the central bank's tightening of money supply. Savings and time deposits of domestic sectors increased in the course of the year, but the increase was half lower than in 2007. Deposit interest rates trended upwards, while interest rates on corporate time deposits mainly dropped.

Bank placements to the non-banking sector showed moderate growth in 2008, remaining below the 12% limit imposed by the central bank. The slowdown in placements relative to the previous years was due to a decrease in demand for loans caused by tightened financing conditions, an increase in lending interest rates, the overall economic slowdown and pessimistic expectations regarding future economic trends. The trends in placements confirm that CNB measures were not an impediment to lending to the domestic private sector.

The central bank was also very active in the field of banking system supervision, carrying out on-site examinations of 24 banks and 10 savings and loan cooperatives and imposing corrective measures to eliminate the established violations and irregularities. In the second half of 2008, the CNB intensified liquidity risk monitoring, both at the level of individual banks and the system as a whole, in order to ensure adequate monitoring and timely information. The cooperation with foreign supervisors of the banking groups that include domestic banks also intensified. Substantial progress was made in the field of legal regulations. By drafting the Credit Institutions Act, the CNB completed the alignment of domestic banking regulations with relevant EU directives and ensured the conditions for the implementation of Basel II standards.

Central government continued to meet its financing needs in the domestic market in 2008. This tendency was especially strong in the last quarter due to a limited access to foreign capital. The central bank also supported government efforts towards deficit financing from domestic sources by adapting monetary policy measures. In May, the CNB reduced the prescribed minimum

foreign currency liquidity ratio and released funds, which the banks used to grant a syndicated foreign currency loan. In addition, the abolishment of the marginal reserve requirement and the reduction of the reserve requirement rate also contributed to ensuring sufficient liquidity to finance large placements to the government.

As banking system liquidity was good for the most part of 2008, interest rates in interbank overnight trading remained relatively low in the January to September period, jumping, however, and becoming increasingly volatile early in the fourth quarter. This instability was triggered by the INA shareholder payout related to the MOL acquisition of a shareholding in the company, which pushed up demand for kuna and caused the segmentation of the interbank market into banks with substantial liquidity surpluses and those having liquidity shortfalls. Such a money market structure proved to be a fertile soil for an interest rate hike. Money market interest rates returned to their usual levels in early December as a result of the CNB's decision to cut the reserve requirement rate.

The domestic capital market was strongly affected by negative developments in international financial markets, with the result that both the annual share turnover and the prices of most shares listed on the ZSE dropped considerably. Downward trends also prevailed in the Croatian debt security market, as evident from a sharp drop in both the turnover and the value of the bond index CROBIS. As global investors increasingly fled risky investments, required yields on Croatian eurobonds widened significantly on international capital markets, which, in addition to a decrease in required yields on German bonds, resulted in a considerable widening of the spread between these yields.

Stemming from a relatively strong domestic demand, which prevailed throughout most of the year, the increase in the current account deficit was halted as late as in the last quarter, when it held steady at the level reached in the same period in the previous year. However, the current account deficit for the whole of 2008 stood at EUR 4.5bn, or 9.4% of GDP, an increase of EUR 1.2bn, or 1.8 GDP percentage points, from the previous year. The significant worsening of the current account balance is to a large extent attributable to a widening goods trade deficit, primarily caused by surging oil prices. The balance in the factor income account also declined, due to high expenses from direct investments and interest. Only international trade in services recorded positive results, especially in tourism, while the current transfers account mainly held steady relative to 2007.

The balance of foreign trade in goods (at constant US dollars) deteriorated in 2008, with imports rising at the same pace as in the previous year and exports decelerating sharply. Also contributing to this was a decline in competitiveness, arising from an accelerated growth of gross wages, occurring against a background of the appreciation of the effective kuna exchange rate, coupled by a slowdown in labour productivity growth relative to the previous year. The export growth was in 2008 spurred by the strong export performance of trade in other transport equipment and natural and industrial gas. However, if these two divisions and oil and refined petroleum products are excluded, the increase in exports is negligible. The key contribution to a continued strong growth of goods imports in 2008 came from imports of energy products (oil and gas) and other transport equipment, whereas imports of other goods grew at much lower rates, primarily due to a drop in road vehicle imports late in the year.

The current account deficit was financed by strong capital inflows, which, excluding the change in international reserves, amounted to EUR 5.3bn, increasing by 9.1% from 2007. The bulk of the increase in net inflows was accounted for by the growth of external debt by domestic sectors arising from contracted loans and trade credits and currency and deposits of non-residents. Strong inflows also resulted from direct investments, both from direct equity investments and reinvested earnings and from the increase in debt to affiliated enterprises abroad. In contrast, the portfolio investment account recorded an outflow of funds, which was caused not only by the repayment of Samurai bonds but also by the withdrawal of funds invested by non-residents in the domestic capital market and substantial investments of domestic investors in foreign capital markets.

Due to strong debt capital inflows, gross external debt of the RC grew by EUR 5.9bn in 2008, reaching EUR 39.1bn at the end of December. External debt accelerated from the previous year, once again due to strong borrowing by enterprises. Government sector debt dropped only slightly through the year and remained almost unchanged. In contrast with 2007, banks' external liabilities increased. However, the debt was decreasing for most of the year, while the bulk of the increase was generated in the last quarter, when banks borrowed abroad to compensate for an outflow of domestic sectors' deposits and meet substantial central government financing needs. A lion's share of the funds was in that period raised from parent banks, which proves that domestic banks were able to raise finances from their foreign owners despite the crisis in the international financial market. As the increase in external debt in 2008 exceeded nominal GDP growth, the relative indicators of external debt worsened: the gross external debt to GDP ratio was 82.6% at the end of 2008 and the net debt to GDP ratio stood at 44.2%.

Consolidated general government revenues surged for most of the year, while expenditures accelerated following the first three months of the year, when government spending was restricted under the temporary budget then in effect. However, as labour market trends deteriorated towards the end of the year, and the general level of prices and goods imports dropped, total annual revenues fell short of the amount planned in the revised budget. Due to savings on the expenditure side, however, these trends produced no negative effect on the planned deficit.

Net borrowing of consolidated general government (on a cash basis, GFS 2001) amounted to HRK 2.6bn, or 8.0% of GDP, in 2008. It should be noted that the disposal of financial assets failed to generate significant revenues. Government assets in the form of cash and deposit accounts increased in the same period, with the result that general government debt went up by HRK 7.9bn in 2008, reaching HRK 100.2bn, or 29.3% of nominal GDP. The lower level of debt and the lower debt to nominal GDP ratio resulted from the exclusion of Croatian Motorways (CM) from the scope of consolidated general government and a CBS data revision that increased GDP.

1

Macroeconomic Developments

1.1 International Environment

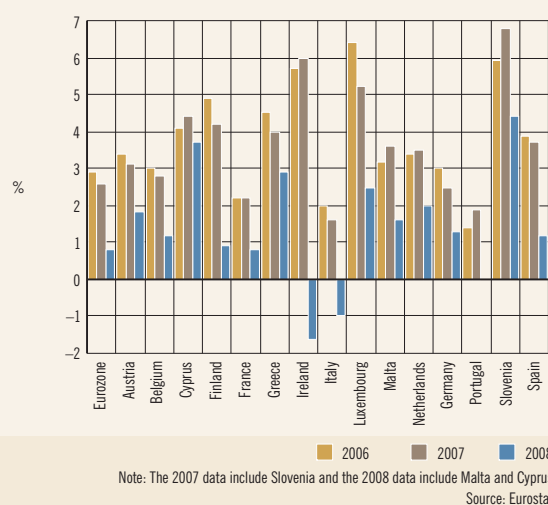
The first half of 2008 was marked by strong inflationary pressures, and the second by deepening of the financial crisis and the global economic slowdown, first in advanced economies and then in developing countries. As a result of negative movements, real global economic growth slowed down to a low of 3.2%,¹ compared to 5.2% in 2007. Despite financial market interventions aimed at providing additional capital to banks and reducing credit risks, and despite expansionary monetary and fiscal policies focused on stimulating economic activity, financial markets have not recovered, many countries moving into recession as early as 2008.

1.1.1 European Union and the Eurozone

Real economic growth in the European Union stood at 0.9% in 2008, slightly below that in the eurozone² (0.8%). Following a slight contraction of GDP in the eurozone, recorded as early as the second and third quarters of 2008, GDP plunged in the last quarter, which resulted in a significant slowdown compared with the previous year's economic growth (2.6%). While all the countries in the eurozone recorded slower growth compared with 2007, only Italy and Ireland saw annual GDP contractions. The largest contribution to a GDP slowdown came from a drop in both domestic and foreign demand, particularly pronounced at year-end. The weakening of personal demand was determined by the movements of real disposable household income, which was adversely affected by a rise in inflation during the first half of the year, but also by a fall in the value of household financial and non-financial assets. Investment growth also decelerated, due, among other things, to a limited access to sources of financing. The economic slowdown halted the upward trend in employment, observed in recent years, and led to a slight increase in the average annual unemployment rate, which reached 7.5% in 2008.

The weakening of economic activity in developed countries and, during the second half of the year, the increasingly noticeable effects of the crisis on developing countries led to a fall in demand for goods and services exports from the eurozone. This was also attributable to the reduced availability of trade credits and other inter-

1.1 Real GDP Growth in Eurozone Countries



¹ IMF estimate, March 2009.

² The eurozone included 12 countries in 2006, 13 in 2007 (after Slovenia's accession), and since 2008, as Malta and Cyprus were added, it has covered 15 countries.

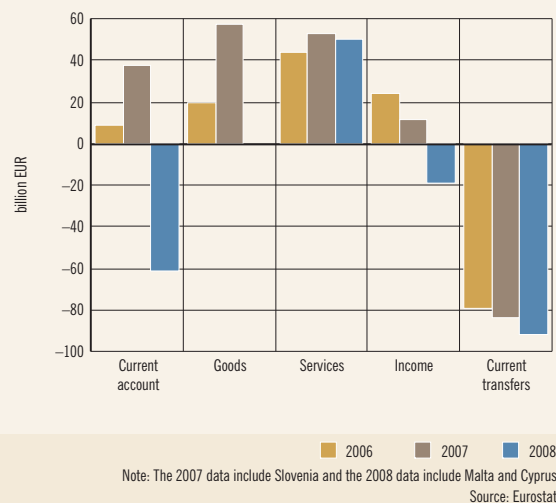
national trade financing instruments. In view of this, unlike the positive results recorded in the previous years, the current account deficit in the eurozone increased to a high of EUR 61.1bn, largely due to a lack of the usual substantial trade surplus and, to a lesser extent, due to net outflows from the factor income account.

The eurozone inflation exceeded the 2% target in 2008, and the harmonised consumer price index rose by 3.3% on average relative to the previous year. Inflationary pressures were particularly noticeable in the first half of the year, primarily due to a rise in energy and food prices, prompting the European Central Bank to increase its key interest rate by 0.25 percentage points in July 2008, to 4.25%. Afterwards, as price pressures eased, monetary policy focused on alleviating the consequences of the global financial crisis and a possible economic slowdown. Therefore, in the post-July period, the ECB reduced its key interest rate on three occasions, bringing it down to 2.50% at the end of the year.

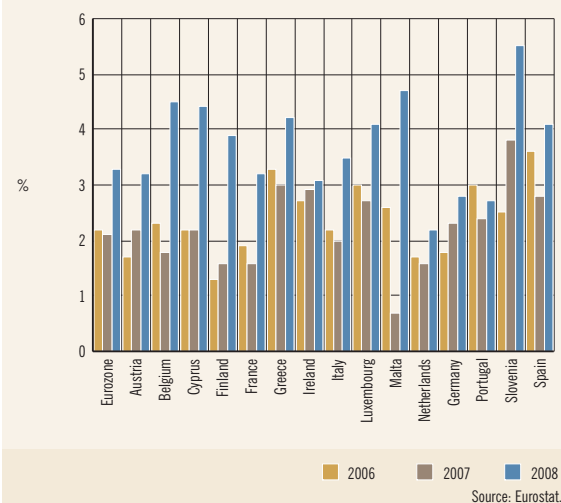
Developments in other EU Member States were similar to those in the eurozone, with all the countries, except Romania, recording lower real growth rates compared with the previous year. The most unfavourable economic movements were those in the Baltic States, Lithuania and Estonia reporting decreases in GDP relative to 2007 (by -4.6% and -3.6% respectively). Apart from these two countries, an annual GDP contraction, although much smaller, was also reported by Sweden (-0.2%). However, most other EU Member States continue to record relatively high annual growth rates (especially Romania and Slovakia), as the spillover effects of the economic crisis only became noticeable late in the year. These effects were primarily reflected in a deteriorated investor perception about the country risk of this group of countries, leading to the tightening of financing conditions, and the weakening of demand for exports. Economic activity slowed down markedly in most of these countries over the fourth quarter, and some of them (e.g. Hungary, Slovenia and Malta) reported GDP contractions relative to the same period in 2007. However, adverse economic activity movements had no significant impact on employment in any of these countries, so the average unemployment rate declined only slightly compared with that in the previous year.

The food and energy price growth also contributed to inflationary build-up in other EU Member States outside the eurozone. Inflation in old EU Member States moved around its average for the eurozone, with the lowest rate recorded in Sweden (3.3%), and much higher inflation reported by new EU Member States. As in the previous year, the highest inflation rate was recorded in Latvia (15.3%), followed by Bulgaria, Lithuania and Estonia, with rates exceeding 10%.

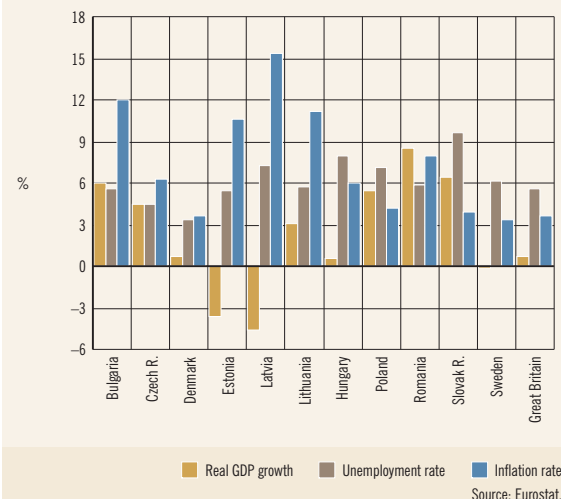
1.2 Current Account Balance in the Eurozone



1.3 HICP Rates of Change in Eurozone Countries



1.4 Real GDP Growth, Unemployment and Inflation Rates in Selected EU Countries in 2008

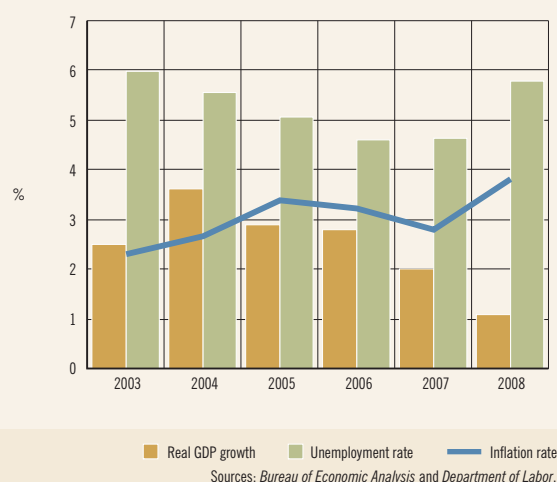


1.1.2 United States of America

The deepening of the real estate market crisis from early 2007, and its spillover from financial markets to the real sector resulted in a marked slowdown in real economic growth in the US, from 2.0% in 2007 to as little as 1.1% in 2008. The first half of the year saw positive economic growth rates, coming very largely from stronger consumption stimulated by the one-off fiscal measures introduced in March 2008. However, as the effects of the said government incentives wore off as early as the third quarter, further escalation of the financial market crisis, lending limitations and a drop in foreign demand led to a drop in GDP during the second half of the year. This was particularly noticeable in the fourth quarter of 2008, when personal consumption and investment dropped sharply. Positive effects of exports, which contributed markedly to economic growth in the previous periods, did not appear at the end of the year, after a fall in demand in most US trading partners caused by an economic slowdown but also by a depreciation of the US dollar vs. their respective national currencies.

In line with the slowdown in economic activity, the second half of the year saw a fall in employment, with a noticeable increase in the unemployment rate at the entire-2008 level relative to the previous year, to 5.8%. In an effort to mitigate the economic crisis effects and stimulate credit market activity, the Fed reduced its Federal Funds Target rate on seven occasions, from 4.25% to a range between 0.0% and 0.25%. The more expansive monetary policy relative to that in the eurozone also accounted for a slightly higher growth rate of consumer prices in 2008 (3.8%). Strong inflationary pressures observed during the first seven months, which were attributable to rapid growth of oil and food prices, eased markedly towards end-2008.

1.5 Real GDP Growth, Unemployment and Inflation Rates in the USA



1.1.3 Japan

Japanese economy reported positive growth rates in the first semi-annual period. The ensuing weakening of economic activity resulted in a contraction of GDP during the second half of 2008. A plunge of as much as 4.6% in the last quarter contributed to a 0.7% decrease in real GDP, in annual terms. The main contributor to Japanese economic growth in the previous years was net exports. Their decline in the fourth quarter, caused by a fall in foreign demand, made the strongest impact on these developments. A decline was also noticeable in investments, particularly in residential construction, accompanied by a slight slowdown in personal consumption. Growing inflationary pressures worldwide also contributed to price growth in Japan, the annual growth of consumer price index exceeding 1% for the first time since 1997.

1.6 Real GDP Growth, Unemployment and Inflation Rates in Japan



1.1.4 Developing and Emerging Market Countries

After having resisted the economic crisis and maintained high real growth rates during the first half of 2008, unlike the advanced economies, developing countries saw an economic slowdown in the second part of the year. The average

real growth in this group of countries stood at 6.1%³ in 2008, falling markedly from 8.3% in 2007. The slowdown was particularly pronounced in the last quarter, mostly due to a reduction in the volume of global trade. A decline in exports in a large number of countries also led to investment weakening, and, given the growing unemployment and tightened financing conditions, personal consumption also shrank.

The Chinese economy grew at a rate of 9%⁴ in 2008, 4.0 percentage points slower than in 2007. This was primarily due to the poorer performance of exports and adverse movements in the real estate market, coupled by a fall in investments in construction. Industrial output weakening, caused by the temporary closing of a large number of factories before and during the Olympics, also impacted negatively on growth. Despite worse export results, net exports went up, owing to an even larger decrease in imports caused by domestic demand weakening, a drop in raw materials prices and the heavy dependence of exports on imports. The easing of inflationary pressures over the second half of the year provided the basis for the implementation of an expansionary monetary policy to stimulate economic activity, which helped to halt the appreciation of the yuan, observed for quite a long period of time.

India also saw a noticeable decline in real economic growth (from 9.3% in 2007 to 7.3%⁵ in 2008), caused by the weakening of previously strong growth of industrial output and personal consumption. Concurrently, the external imbalance widened as a result of an increase in the current account deficit, primarily due to the growing merchandise trade deficit. However, despite a slight slowdown, foreign investment inflows remained relatively strong.

Economic growth in the Russian Federation surpassed expectations, mainly owing to high prices of crude oil and some raw materials that make up the bulk of the Russian exports, and very strong domestic demand. However, due to a drop in the global market prices of these goods and the weakening of foreign demand, the economic growth rate decelerated annually, from 8.1% in 2007 to 5.6% in the second half of 2008. An additional negative impact on growth was made by the erosion of foreign investors' confidence and, consequently, a decline in capital inflows.

Following a marked acceleration of real economic growth in the Southeast European countries⁶ over 2007, their economic performances were relatively weaker in 2008, when some of the countries recorded markedly lower growth rates, while others saw only slight improvements (e.g. Albania and Macedonia). The entire region was marked by a rise in inflation, in annual terms, particularly in Serbia, where it reached 11.6%,⁷ largely due to the depreciation of the Serbian dinar. Stronger domestic demand in most of the countries provided an impetus for a rapid growth of imports, further widening the external imbalance, which was particularly serious in Montenegro. At the same time, foreign investments declined.

Latin American economies recorded high growth rates in 2008, although somewhat lower on average than in the previous year, mainly due to a marked economic slowdown observed at year-end. Such developments were mostly due to the weakening of foreign and, towards the end of the year, domestic demand. A fall in the prices of certain types of goods, being important export products of this group of countries (crude oil and some agricultural crops) also impacted negatively on the movements of exports.

1.1.5 Crude Oil Price Movements

The average crude oil price per barrel increased by 36.4% in 2008 (to USD 97.0, from USD 71.1 in 2007), more than three times the increase recorded in 2006 (10.6%). Strong growth of crude oil prices in the global markets started as early as 2007, and in mid-July 2008, the price of Brent oil reached a maximum of USD 144 per barrel. This was followed by a drop in oil prices, to USD 41.8 per barrel at the end of December. The sharp oil price increase over the first half of the year could be attributed to growing demand, especially in developing countries, but also to various supply-side factors of which the most important are geopolitical tensions in the oil-rich areas and the fact that OPEC did not increase its production despite the surge in oil prices. The price increase was additionally spurred by a drop in the value of the US dollar against the euro, speculations in the forward markets and low US oil reserves.

3 IMF estimate, March 2009.

4 Estimate, *WEO Update*, January 2009.

5 Estimate, *WEO Update*, January 2009.

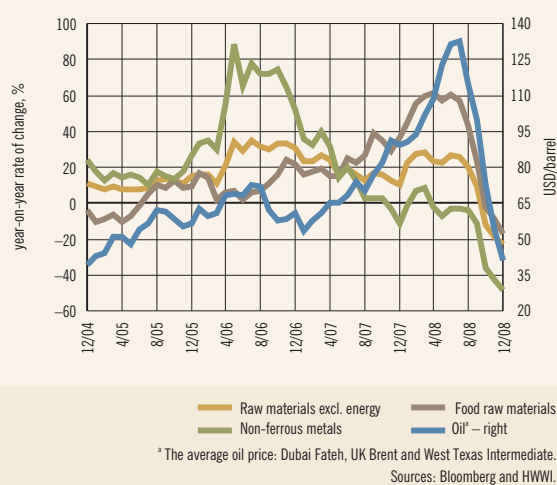
6 Albania, Bosnia and Herzegovina, Montenegro, Macedonia and Serbia.

7 Consensus, February 2009.

The upward trend in crude oil prices was halted in July, due to adverse developments in the real sector and, consequently, a decline in demand for oil, particularly in the USA, the world's largest oil consumer, but also due to a US dollar recovery. Due to a sharp slowdown in global economic activity at the end of 2008, crude oil prices continued to slump, driven by expectations of a further decline in crude oil demand through 2009. Expressing concern about a marked drop in crude oil prices, the OPEC countries reduced their crude oil production on two occasions towards the end of 2008, which helped stabilise the price of this energy resource in early 2009.

The prices of other raw materials (excluding energy resources) continued their strong growth in 2008, yet at a slower pace than in the previous year. The annual rate of change in the HWWI index, which reflects commodity price trends in the world market (excluding energy, in US dollar terms), stood at 12.5% in 2008, compared with 17.6% a year before. As with the price of oil and other energy resources, after having grown strongly over the first half of the year, and after reaching a maximum at mid-year, the prices of other raw materials started to decline. This downturn was particularly intensive in the last months of the year. Among the observed items, the most conspicuous was the jump in food raw material prices, especially in the first half of the year (up 56.6% on the first six months of 2007, expressed in US dollars). The increase is, to the largest part, attributable to a substantial rise in some of the most important agricultural crop prices, like wheat, corn, rice, soya and oil rape. Such price movements stemmed from an interaction among several factors, some of which, e.g. strong economic growth in developing countries and producer demand for bio fuels, influenced the increase in demand, whereas at the supply side, there was a transfer of high energy prices, which fuelled the growth of agricultural production costs, with an additional pressure generated by unfavourable weather conditions. World food prices fell considerably in the post-July period, to a large extent due to a record harvest. Unlike food prices, the prices of metals in the global markets only rose in the first quarter of 2008. After that, reduced demand, as a result of a global economic slowdown, led to a fall, which was particularly pronounced late in the year.

1.7 Crude Oil Price in the World Market



As with the price of oil and other energy resources, after having grown strongly over the first half of the year, and after reaching a maximum at mid-year, the prices of other raw materials started to decline. This downturn was particularly intensive in the last months of the year. Among the observed items, the most conspicuous was the jump in food raw material prices, especially in the first half of the year (up 56.6% on the first six months of 2007, expressed in US dollars). The increase is, to the largest part, attributable to a substantial rise in some of the most important agricultural crop prices, like wheat, corn, rice, soya and oil rape. Such price movements stemmed from an interaction among several factors, some of which, e.g. strong economic growth in developing countries and producer demand for bio fuels, influenced the increase in demand, whereas at the supply side, there was a transfer of high energy prices, which fuelled the growth of agricultural production costs, with an additional pressure generated by unfavourable weather conditions. World food prices fell considerably in the post-July period, to a large extent due to a record harvest. Unlike food prices, the prices of metals in the global markets only rose in the first quarter of 2008. After that, reduced demand, as a result of a global economic slowdown, led to a fall, which was particularly pronounced late in the year.

1.2 Economic Activity

According to preliminary CBS data,⁸ Croatia's real GDP rose by 2.4% over 2008, the lowest rate recorded ever since 1999. Economic activity slowed down continuously throughout the year, with a negative rate of change in GDP recorded in this period, as suggested by seasonally adjusted data for the third and fourth quarters.

It is worth noting that early in 2009, the CBS revised its GDP data for the period 1995-2008. The new calculation method has been harmonised with the European System of National Accounts (ESA 95) methodology, so that GDP now includes a non-observed economy estimate, a new estimation of imputed dwelling rent and a new estimation and distribution of financial intermediation services indirectly measured (FISIM). These changes led to an increase in the annual level of nominal GDP throughout the period by a little more than 15% on average, but without significantly affecting the real growth rates.

1.2.1 Demand

Adverse movements in the real sector were due to a noticeable slowdown in personal consumption, caused by stagnancy in real disposable household income and growing consumer pessimism. Moreover, poor performance of the export sector accompanied by stable import growth resulted in a large negative contribution of net foreign demand to

⁸ The CBS data on GDP for 2006, 2007 and 2008 are based on quarterly GDP estimates and are therefore preliminary.

real economic growth. By contrast, the growth of private sector investment activity accelerated in 2008, mitigating the negative movements in other aggregate demand components.

Last year was also marked by strong inflation growth. A boost in energy and food prices in 2008 thus led to an increase in the personal consumption deflator, whereas a rise in important raw materials prices on the world market and the growth of corporate financing costs resulted in a marked acceleration of the deflator of gross fixed capital formation. The general price level, measured by implicit GDP deflator, rose by 6.4% in 2008, contributing markedly to nominal GDP growth which reached HRK 342.2bn in that year.

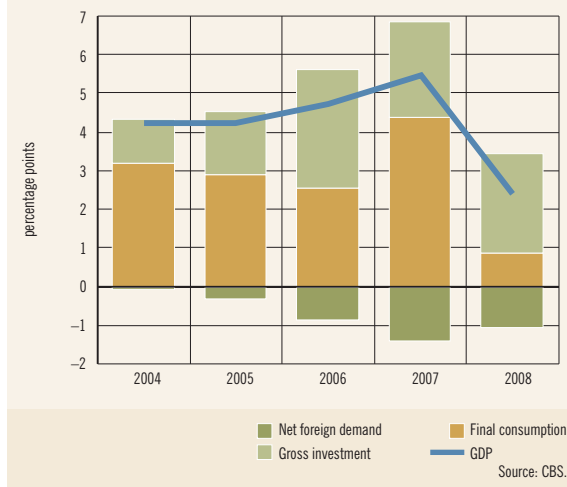
Following its pronounced growth over 2007, driven by favourable labour market movements and a boost in government transfers to households, household demand decelerated markedly in 2008. Personal consumption grew at a low annual rate of 0.8% (compared with 6.2% in 2007), so that its contribution to total economic growth was much below that in the previous year. These movements were in line with the stagnancy in real disposable household income, largely as a result of reduced real transfers to households and a slowdown in the real net wage bill. In fact, due to accelerated inflation in 2008, real current income growth slowed down significantly, despite the relatively stable growth of employment, a slight acceleration of nominal net wages and a rise in the basic personal exemption from employment income tax. In addition to this, the nominal growth of government transfers to households decelerated noticeably during this period, due to significantly lower amounts of debt repayment to pensioners (HRK 1.1bn compared with HRK 3.4bn in 2007). Foreign sources of household consumption financing (real net income and net transfers from abroad) decreased slightly, whereas a slowdown in the real growth of bank placements to households additionally reduced private consumption. Negative labour market movements throughout 2008 and general economic trends, both in the country and abroad, led to an increase in consumer pessimism and consumers refraining from consumption, especially in the last quarter. Moreover, one should also take into account the depreciation of the kuna against the Swiss franc and a rise in interest rates on bank loans, which increased the current loan servicing burden and, to some extent, limited the consumption capacity in the reference period.

Government consumption, another final consumption component, decelerated markedly in 2008. Following a real increase of 3.4% in 2007, current government expenditures went up 1.9% in 2008. The Ministry of Finance data on consolidated general government expenditures show that, despite high inflation measured by the consumer price index, real government consumption growth in 2008 was mainly driven by accelerated government expenditures for the use of goods and services, particularly at year-end. By contrast, due to slightly more moderate employment in public administration, the real dynamics of wages and salaries paid decelerated. However, the nominal growth of this category of government expenditures was stronger, primarily due to an administratively regulated increase in the wage calculation base for budgetary users in 2007 and a rise in severance payments during 2008, which resulted in a huge increase in the implicit government consumption deflator.

Despite a marked slowdown in domestic business entities' investment activity over the second half of the year, this aggregate demand component remained the main generator of economic growth 2008. Its real growth accelerated from 6.5% in 2007 to 8.2% in 2008. Given a slight decline in the general government capital investment during 2008, as suggested by MoF data, the investment activity growth referred to was attributable to the private sector. These developments largely reflect strong activity in non-housing construction, although housing construction also remained intense. In contrast to this, a slowdown in investment activity which marked the second half of the year was due to the weakening of private sector investments in facilities and equipment. This is corroborated by the reduced manufacture and stagnant imports of investment goods, as well as by a reported decline in the purchase of motor vehicles by legal persons.

Foreign goods and services trade in Croatia during 2008 was marked by a stable growth in imports paralleled with a

1.8 Contributions of Domestic and Foreign Demand to Real GDP Growth



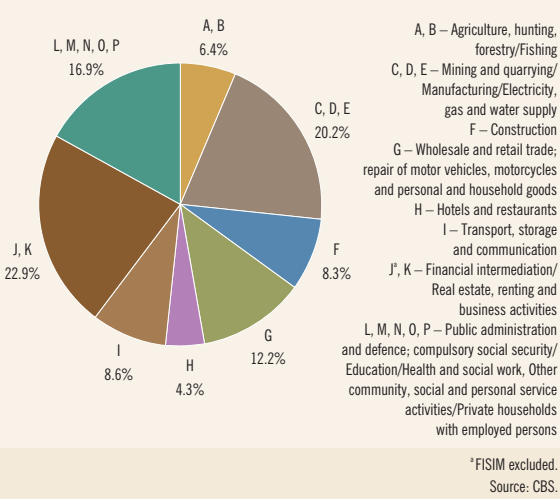
noticeable slowdown in exports. The trend in exports (which grew at a real annual rate of 1.7%) was largely determined by reduced foreign demand for domestically produced goods, due to a slowdown in the economic growth of Croatia's trading partners which led to a continuous decline in business and consumer optimism in these countries over the last year. Moreover, adverse changes were also observed in real services exports. Specifically, moderate real foreign tourist consumption led to stagnation in real services exports during the peak tourist season, adversely impacting real services exports at the entire-2008 level. By contrast, real growth of goods and services imports, although slower relative to 2007, was double the growth of goods and services exports (the annual growth rate reached 3.6%). Such movements were mostly due to strong investment activity during the first half of the year, as over 60% of facilities and equipment come from abroad. Moreover, importers of durable consumer goods and cars responded to the demand contraction with a certain time lag, so a more serious decline in imports was only seen in the last quarter of 2008. As a result of such movements in goods and services exports and imports, the negative contribution of net foreign demand to real GDP growth increased in 2008 (to -1.1 percentage points from -0.8 percentage points in 2007).

1.2.2 Output

As shown by the GDP estimate by production approach, GVA⁹ in the economy went up 2.8% during 2008 relative to the previous year. Compared with 2007, GVA in the economy grew at a much slower pace in 2008, as a result of a sharp growth deceleration in industry, coupled with slower dynamics of most service activities (with the exception of public sector services). These developments resulted from negative changes in both domestic and foreign demand which, on the one hand, reflected the growing inflation and low consumer optimism in the domestic economy and, on the other hand, the beginning of the spillover of global financial crisis effects into the real sector of economy.

Viewed by activity, the strongest GVA growth in 2008 relative to the previous year was recorded in construction. Favourable changes were in line with a sharp increase in the index of total volume of construction works and the strengthening of the private sector's investment activity. By contrast, industry and all market services recorded a decline in GVA formation, with a negative annual rate of change in GVA reported by trade, and an only slight increase in GVA observed in hotels and restaurants, which is attributable to the movements in real tourist services exports.

1.9 Gross Value Added by NCEA Categories in 2008
current prices



Industry and Construction

Gross value added in industry went up only 1.4% in 2008, relative to the previous year. Following a slight recovery of the GVA dynamics early in the year, the second half of 2008 saw negative annual rates of change in this economic branch, as a result of a noticeable weakening of both domestic and foreign demand. Consequently, the contribution of industry, the second most important economic branch, shrank to as little as 0.3 percentage points in 2008, according to the latest CBS data.

Total industrial production growth was largely fuelled by the manufacture of non-durable consumer goods, and, to a much lesser extent, by the manufacture of capital goods. Stronger production of non-durable goods, the demand for which is relatively inelastic in terms of prices and income, was absorbed by final consumption in the domestic market, but also by increasing inventories, as the data on foreign merchandise trade suggested a decrease in non-durable goods exports. In contrast to this, the manufacture of capital goods followed the same dynamics as domestic

⁹ In the national accounts, gross value added (GVA) in the economy is expressed at so-called basic prices, whereas gross domestic product (GDP) is expressed at market prices. The difference between these two values is the total amount of tax on products reduced by subsidies (net indirect taxes). As the 'net indirect taxes' category is not included in the CBS GDP calculation at previous year prices, this value can be calculated as a GDP and GVA residual at previous year prices.

sector investment activity and foreign demand for domestic investment goods. The first half of the year thus saw a moderate positive growth rate, but, as the recession affected the domestic economy and the economies of Croatia's main trading partners in the second half of 2008, production in this product grouping contracted.

Manufacturing which accounts for more than four fifths of total industrial production rose at a rate of 1.5% last year (5.0 percentage points below the rate in 2007). This was due to an increase in the production of pharmaceutical and printing products, as well as finished metal and food products. By contrast, production in energy supply accelerated markedly over 2008, in great part due to a positive base effect. Slower production growth in mining and quarrying was entirely attributable to reduced production in the extraction of crude oil and natural gas. Production in other mining and quarrying increased annually, in line with construction activity movements.

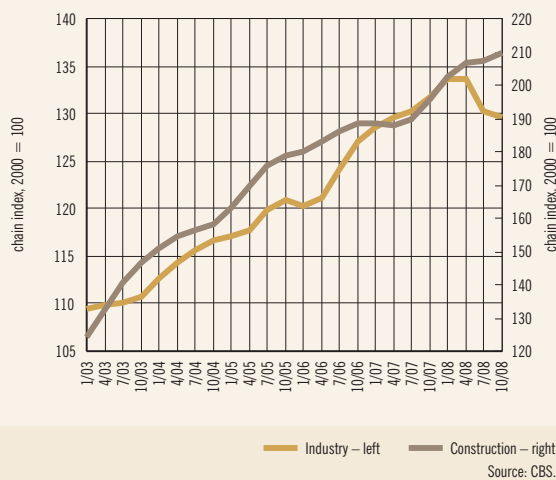
GVA growth in construction (8.5%) accelerated strongly compared with 2007. As a result, its contribution to total GVA growth (0.7 percentage points) was double the contribution made a year before. As shown by the available MoF data on public investments in 2008, the strengthening of construction activity was primarily due to private sector activity, as the public sector's construction activity, mainly related to the construction of road infrastructure, weakened slightly over the year. The private sector's activity in non-housing construction, i.e. the construction of tourist, sport and trading facilities, surged in 2008. Construction works on residential buildings also remained strong, but their contribution to growth in this activity was significantly smaller.

Non-Financial Services

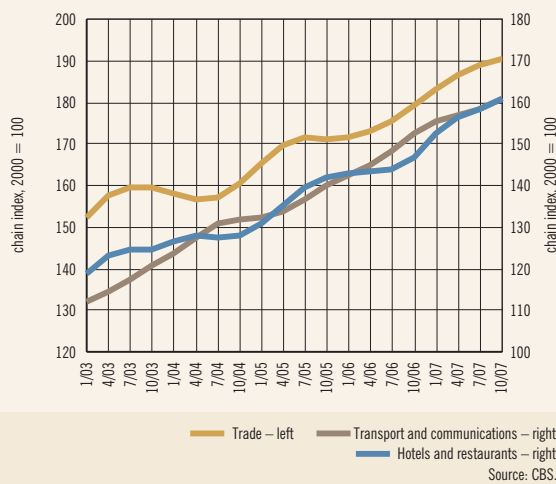
A noticeable slowdown in personal consumption growth and real stagnation in average foreign passenger consumption during the peak tourist season reflected negatively on the value added formation in both wholesale and retail trade. GVA in this division thus declined slightly in 2008 (the realised annual rate of change was negative, -0.3%), with the negative movements intensifying gradually towards the end of the year. Nominal CBS data on distributive trade suggest adverse changes in both retail and wholesale trade turnovers, accompanied by the accumulation of trade inventories.

GVA in hotels and restaurants went up only slightly in 2008. Following a 9.0% increase in 2007, GVA in this activity rose by as little as 2.2% during last year. These movements were in line with the volume indicators of demand for tourist services, suggesting a negligible increase in tourist arrivals (0.9%) and a slightly stronger growth in tourist nights stayed in commercial accommodation facilities (2.0%). In contrast to this, the noticeable growth of the nominal average foreign tourist spending, and, consequently, an increase in tourism revenues recorded in the balance of payments, was largely attributable to a rise in the prices of hotel and restaurant services, food and non-alcoholic beverages. Given these circumstances, the contribution of hotels and restaurants to total GVA growth in the economy decreased markedly in 2008, to 0.1 percentage point (from 0.4 percentage points in 2007). However, it is noteworthy that this activity's contribution somewhat underestimates the direct and indirect effects of tourist spending on real economic developments that are extremely difficult to quantify, given the strong interdependency between tourism and other economic branches.

1.10 Gross Value Added in Industry and Construction
trend-cycle



1.11 Gross Value Added in Trade, Hotels and Restaurants, and Transport and Communications
trend-cycle



As a result of a slowdown in international trade and adverse movements in industry and trade, GVA growth in transport, storage and communications slowed down markedly, by 5.2% in 2008. Apparently, this was mostly due to a slowdown in goods transport, but also due to a deceleration in passenger transport, measured by the number of passengers carried and passenger-kilometres. As concerns telecommunications, the downward trend in minutes spent in the fixed network stopped (after an increase of 2.4% recorded in 2008), whereas minutes spent in the mobile network continued strongly upwards, but still at a somewhat slower pace than in 2007.

1.2.3 Labour Market

As shown by both volume and financial indicators, labour market movements were relatively positive in 2008. The average number of unemployed persons was lower than in 2007, and average employment increased. However, the decline in unemployment and the rise in employment decelerated gradually towards the end of the year, largely due to a continuing economic slowdown during 2008, and the increasingly strong influence of the global economic crisis on the Croatian economy.

Average nominal gross and net wages increased markedly over 2008, partly as a result of an agreement on the wage base in the public and government sectors, the adjustment of labour prices to an increase in the general price level made in a part of the economy, and changes in certain legal regulations. The growth of nominal wages was sufficiently strong to offset the negative impact of inflation increase on the average real wage dynamics, so that they rose slightly at the annual level.

Employment and Unemployment

Following strong annual employment growth during 2006 and 2007 (3.3%), the number of employed persons rose by as little as 1% relative to the year before, as shown by preliminary CBS data.¹⁰ The annual employment dynamics slowed down gradually during the year, largely as a result of movements in employment in legal persons, and, to a lesser extent, in crafts and trades and freelancers. Concurrently, the number of private farmers continued to fall.

As shown by the changes in average employment, almost all economic activities (NCEA 2002) recorded a slowdown or even a decline in employment, except for public administration and electricity, gas and water supply. The most unfavourable movements were observed in manufacturing. The annual employment dynamics of this activity slowed down gradually during 2008, so that the number of employed persons decreased at the end of the year, relative to the same period in 2007. This was attributable to the weakening of both domestic and foreign demand for industrial products, leading to a decline in current production and, consequently, a contraction of corporate demand for labour. Moreover, given the high level of pessimism in manufacturing, some enterprises are likely to have terminated

Table 1.1 Inflows into and Outflows from the CES Register

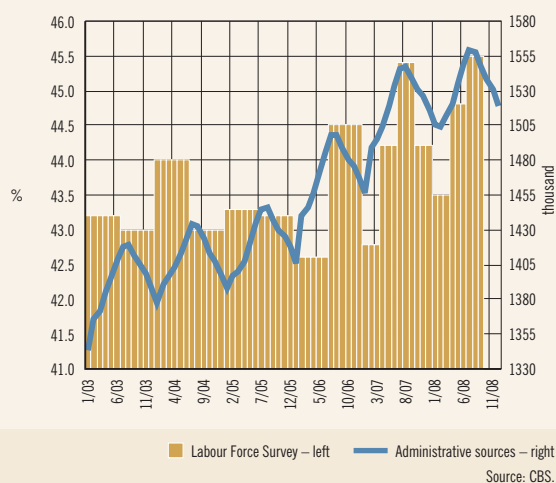
rate of change over the same period last year, in %

	2007 / 2006	1 – 6/2008 / 1 – 6/2007	7 – 12/2008 / 7 – 12/2007	2008 / 2007	Share in total flow		
					1 – 6/2008	7 – 12/2008	2008
1. Newly registered							
1.1. By type of inflow:	-11.5	-6.9	-0.1	-3.1	100.0	100.0	100.0
– Directly from employment	-9.3	-2.7	8.3	3.3	64.8	64.6	64.7
– From private agriculture or similar works	-27.7	-33.3	-15.6	-25.7	0.7	0.4	0.5
– Directly from school	-19.3	2.5	-6.3	-4.6	4.7	13.4	9.7
– From inactivity	-12.3	-15.3	-15.7	-15.5	29.9	21.6	25.1
1.2. By previous work experience:	-11.5	-6.9	-0.1	-3.1	100.0	100.0	100.0
– First-time job seekers	-19.6	-14.4	-12.2	-13.0	17.9	22.7	20.7
– Previously employed	-8.7	-5.1	4.1	-0.1	82.1	77.3	79.3
2. Outflow from the CES register:	-1.1	-13.2	-12.1	-12.7	100.0	100.0	100.0
– Outflow from the register to employment	-1.9	-11.3	-14.4	-12.6	64.9	53.9	59.9
– Cleared for other reasons	0.0	-16.4	-9.2	-12.8	35.1	46.1	40.1

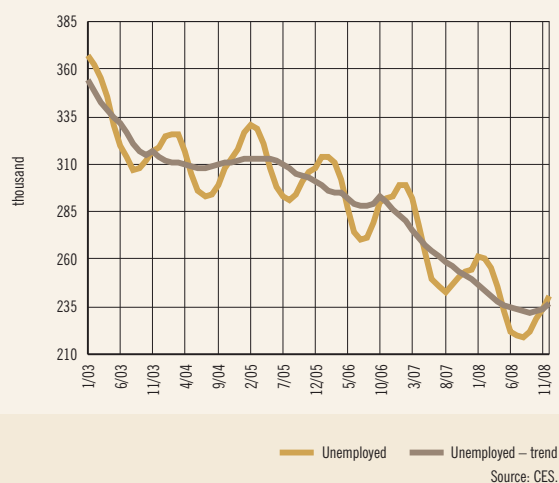
Source: CES.

¹⁰ The data on the number of employed persons for the period February-December 2008 are preliminary. Final data will be published on 10 April 2009.

1.12 Total Employment According to Administrative Sources and Labour Force Survey Employment Rate



1.13 Unemployed Persons Registered with the Croatian Employment Service



their temporary agreements and postponed new hirings. As manufacturing accounts for almost one fifth of the total number of employed persons, such movements greatly contributed to negative changes in the aggregate employment indicator. In addition to this, a decline in real trade turnover, observed in most of 2008, was accompanied by a continuing fall in the annual number of persons employed in this branch towards year-end. However, at the end of 2008, employment in trade was higher than at the end of the previous year. A similar employment trend was observed in construction, despite its strong activity growth.

According to the CES data, registered unemployment stood at 240,455 at the end of 2008, down 14,029 from the end of the previous year, with the average registered unemployment rate dropping from 14.8% in 2007 to 13.4% in 2008. However, as shown by seasonally adjusted monthly data, the number of unemployed persons declined gradually during the first nine months of 2008, yet at an increasingly slow pace, but started to go up again early in the last quarter. The downward trend in unemployment that started early in 2005 was thus halted and reversed.

Despite a decline in total inflows into the CES register of unemployed persons during 2008 relative to the previous year, the second half of the year saw a notable annual pickup in inflows into the register directly from employment. This speaks in favour of established negative changes in the labour market towards end-2008. As concerns outflows from the CES register, negative changes were observed throughout 2008, accompanied by less intensive employment from the records.

According to the CBS Labour Force Survey data on the volume of labour and the number of employed and unemployed persons, the number of jobless persons averaged 147,000 in the first nine months of 2008, the average unemployment rate standing at 8.3%. In the same period, average employment increased by 1.6% or 26,000 in annual terms, the employment rate standing at 44.6%.¹¹ It should be noted that, due to methodological changes, the Labour Force Survey data on employment and unemployment differ from data based on administrative sources.

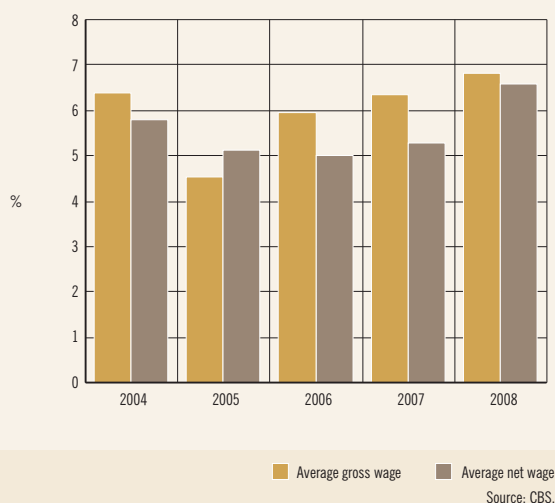
Wages and Labour Costs

Like 2007, last year was marked by a boost in nominal gross and net wages, pushing the annual growth rate of nominal gross wages up to 6.8%, whereas net wages paid increased by 6.6% on average relative to the previous year. The steep growth of average gross and net wages was due to an increase in the wage calculation base for the public sector, the adjustment of wages to the general price acceleration made for a part of the economy and to changes in the Minimum Wage Act. In the second half of 2008, the net wage dynamics were also stimulated by an increase in personal allowance resulting from changes in the Income Tax Act, so that the net wage growth exceeded the growth of gross wages over this period.

¹¹ As the Labour Force Survey results are available with a considerable time lag relative to the period which they cover, the data for the whole of 2008 will be published in May 2009.

1.14 Average Nominal Wages

year-on-year rate of change



1.15 Average Real Wages

year-on-year rate of change



A boost in nominal wages over 2008 offset the negative effects of accelerated inflation on the real gross and net wage dynamics. Consequently, real gross wage and real net wage paid increased on average by 0.7% and 0.4% respectively, relative to the previous year. Given the recorded growth in the average number of employed persons, the real wage bill paid in 2008 exceeded the wage bill in 2007.

Viewed by activity, the strongest growth of average real gross wage was seen in the public and government sectors, as a result of the previously mentioned agreement on an annual increase in the wage calculation base for the public sector. Apart from the public and government sectors, the largest positive contribution to the growth of average real gross wage in 2008 came from retail and wholesale trade. In contrast to this, negative rates of change in average real gross wage relative to 2007 were recorded in hotels and restaurants and financial intermediation services. Labour productivity in industry, measured by real GVA dynamics per employee, grew at a slightly slower pace relative to 2007. This was also attributable to a slowdown in production and a decline in average annual employment in this activity. It is worth noting that the real gross wage growth was significantly lower compared with the labour productivity growth in industry, so that no significant demand-side inflationary pressures came from this sector in 2008, as was also the case in 2007.

1.16 Gross Wage and GVA per Employed

year-on-year rate of change



1.2.4 Prices and the Exchange Rate

Prices

Inflation increased considerably in 2008, with the average annual consumer price inflation rate up to 6.1%, an increase of 3.2 percentage points from 2007. The increase in the general price level was due to a strong growth in consumer prices of energy and food in the first seven months of 2008 and a marked pass-through of inflation from 2007.¹² Other important indicators of price trends in Croatia also deteriorated. Specifically, the average annual core inflation rate, which excludes agricultural product prices and administrative prices, rose from 3.0% in 2007 to 5.7%

¹² The pass-through of inflation from 2007 to 2008 was 3.3 percentage points.

in 2008. Industrial producer prices increased the most of all aggregate price indicators, with their average annual rate of change up from 3.4% in 2007 to 8.4% in 2008.

Consumer Prices

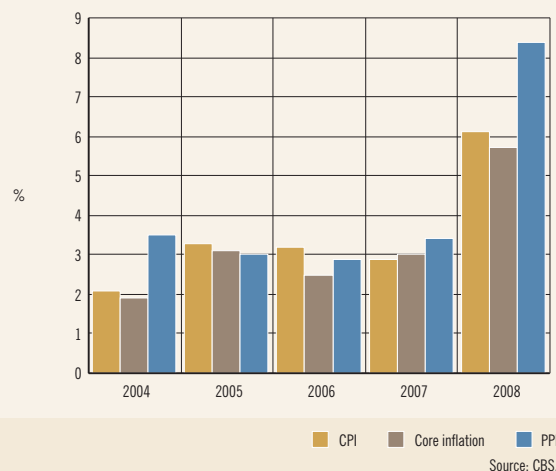
In the first seven months of 2008 consumer prices continued to rise at rates as high as in the second half of 2007, but inflation began to slow down after this period. The annual consumer price inflation rate went up from 5.8% in December 2007 to 8.4% in July 2008, dropping to 2.9% in December. Imported inflationary pressures mainly stemmed from a large increase in world raw material prices, especially those of crude oil and food raw materials. One of the most significant domestic factors spurring inflation was a strong acceleration of real aggregate demand, especially of personal consumption, in 2007, the time-lagged effect also being felt in the first half of 2008. Domestic inflationary pressures also arose from the growth of unit labour costs, caused by a slowdown in labour productivity and the continued relatively high growth of the average nominal gross wage. Inflationary pressures in the domestic economy were alleviated by the slight depreciation of the kuna/euro exchange rate,¹³ which anchored inflationary expectations and stabilised the prices of goods imported from the eurozone.

The marked slowdown in consumer price inflation in the post July period was primarily caused by a reduction in imported inflationary pressures, which was a consequence of a sharp decrease in world prices of crude oil, food raw materials and metals, driven by expectations of a drop in demand for raw materials due to the slowdown in global economic growth. The most important domestic factor attenuating inflationary pressures was a slowdown in personal consumption. Household consumption dropped because of growing consumer pessimism and slowed growth in real disposable household income, caused primarily by the rise in inflation and deceleration in employment. In addition, transfers to households for repayments of debt to pensioners were reduced in 2008 and household lending decelerated. This was among other things due to a decrease in household demand because of an interest rate increase, tightened lending conditions and rising uncertainty regarding future economic trends.

The factors alleviating inflationary pressures prevailed in the second half of 2008, but the effect of the factors that increased these pressures was also felt. For example, a marked depreciation of the kuna/US dollar exchange rate in the second half of 2008 created increasingly strong upward pressures on prices of imported raw materials and final goods paid for in US dollars. Domestic inflationary pressures also continued to stem from the labour market, due to an acceleration of unit labour costs that started in the second half of 2007. Specifically, because of the slowdown in labour productivity resulting from the economic slowdown, and the continued relatively high growth in gross wages, unit labour costs considerably accelerated, especially in the second half of 2008. In addition, the financing costs of enterprises were pushed up by an increase in lending interest rates, which was mainly a consequence of the global financial market crisis leading to a decline in capital inflows and increase in interest rates on new lending. However, estimates are that, with the slowdown in demand, the spillover of rising enterprise costs to consumers was limited.

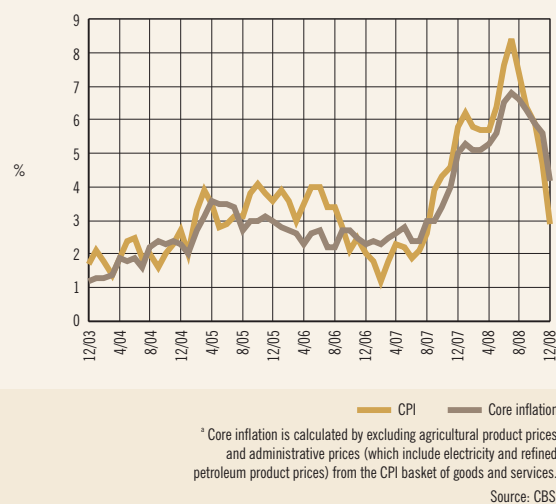
1.17 CPI, Core Inflation and PPI

average year-on-year rate of change



1.18 CPI and Core Inflation*

year-on-year rate of change



¹³ The average kuna/euro appreciated nominally by a slight 1.5% in 2008 relative to 2007.

Table 1.2 Consumer Price Index, the five main categories of products

year-on-year rate of change

	Weight 2008	12/2007	3/2008	6/2008	9/2008	12/2008
Total	100.0	5.8	5.7	7.6	6.4	2.9
Energy	13.6	5.2	6.3	11.6	10.5	-1.7
Fresh food	14.6	9.3	5.9	10.8	5.2	3.7
Processed food (incl. alcoholic drinks and tobacco)	22.8	10.5	11.4	12.6	10.8	4.7
Industrial non-food without energy	28.5	2.8	3.2	2.7	3.2	2.2
Services	20.5	2.8	3.1	4.4	4.2	4.2

Note: In order to analyse the consumer price inflation trends, the ECB uses the classification which divides the product basket into five main categories. In this classification, the basic product groups differ to some extent from those in the Classification of Individual Consumption by Purpose (COICOP). Hence, for example, the price of water is excluded from the index of services prices, calculated in accordance with the product basket divided into five main categories, and included in the index of goods prices.

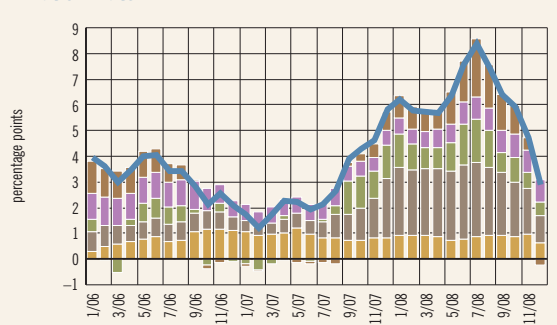
Source: CBS.

Core inflation was in line with overall consumer price inflation trends. Sharply accelerating in the first seven months of 2008, it started to decelerate in the following period. The annual rate of change in the core CPI increased from 5.0% in December 2007 to 6.8% in July 2008, dropping to 4.2% in December 2008. The largest effect on the acceleration of core inflation in the first seven months of 2008 was produced by a price increase in industrial food products, resulting, in turn, from a rise in world prices of agricultural raw materials and energy and from domestic personal consumption growth. This created favourable conditions for producers and traders, enabling them to transfer a large portion of the increased costs to consumers. This trend was halted in August 2008, when domestic food product prices stabilised due to a price decrease in world food raw material and crude oil prices and a slowdown in domestic demand. This and a favourable base effect led to a slowdown in the annual core inflation rate.

For most of 2008, the sharpest increase in the five main consumer price index categories (compiled according to the ECB classification) was recorded by the prices of processed food products, in which the annual rate of change went up from 10.5% in December 2007 to 12.7% in July 2008, dropping to 4.7% in December. In general, the slowdown in the annual growth rate of the prices of this product group was primarily caused by a slowdown in prices of milk and dairy products and oils and fats. Fresh food product prices grew at a slightly slower pace, decelerating sharply in the second half of the year, due primarily to a fall in the price of fruit and vegetables. The opposite effect on trends in fresh food product prices was caused by a price increase in meat, which means that the previous price increase in feedingstuffs (e.g. corn) was having an indirect impact on the growth of domestic meat prices.

Energy prices grew considerably in the first half of the year, peaking in July, but this trend changed in the following period. The annual rate of change in energy prices increased from 5.2% in December 2007 to 16.5% in July 2008, dropping to -1.7% in December. The increase in energy prices in the first seven months of 2008 was primarily due to a growth in refined petroleum products prices, caused by a surge in world crude oil prices. In the same period, developments in domestic energy prices were also influenced by an increase in electricity prices, which were up by an average of 16.1% in July from June. This was the first price rise in this group of products since September 2005, when electricity prices grew at a monthly rate of 4.9%. The increase in domestic electricity prices was due to growing world prices of energy products (oil, gas and coal), which are important input components in electricity production. Trends in some important factors influencing domestic energy prices changed after July 2008, which primarily refers to a break in the upward trend of world crude oil prices. This produced a favourable effect on domestic retail prices of refined petroleum products, with the result that energy prices decreased in the post-July period.

In contrast with the other main CPI categories, service prices increased more in the second half of the year, with their annual rate of change up from 2.8% in December 2007 to 4.2% in December 2008. Broken down by components, the service price index shows that the price

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

^a The contribution is defined as the relative importance of a CPI component for total inflation. The sum of contributions of all components expressed in percentage points in a relevant month is the amount of the annual consumer price inflation rate.

Sources: CBS and CNB calculations.

increase in food products had a spillover effect on the prices of services in whose production they are important components. Consequently, the increase in service prices was for the most part due to a rise in prices of hotel and restaurant services, and above all in prices of restaurant food and beverages. In addition, each increase in refined petroleum products prices indirectly pushes up consumer prices due to the price increase in the goods and services in whose production refined petroleum prices are important input components. These indirect effects, which are, as a rule, time-lagged, can be very well observed in price trends in transport services, which rose considerably in the second quarter and early in the third quarter this year, mainly as a result of the price growth of passenger transport by road.

As the prices of industrial non-food products (excluding energy) were stable, there are no signs that the costs generated by the energy price growth spilled over to the consumer prices of final goods in any large measure. As a consequence, the annual growth rate of prices of industrial non-food products (excluding energy) hovered around 3.0%, as in 2007, dropping to 2.2% as late as in December, primarily due to a seasonal price decrease in clothing and footwear in that month, sharper than in previous years.

Industrial Producer Prices

After a sharp jump in the first seven months of 2008, domestic industrial producer prices were on the decrease in the remaining part of the year. Their annual rate of change went up from 5.8% in December 2007 to 12.0% in July 2008 and dropped to 4.7% in December. The highest growth among industrial producer prices in the first seven months of 2008 was recorded by energy and intermediate goods prices. These developments resulted from the growth in the prices of crude oil and other raw materials in the world market.

However, imported inflationary pressures started to ease at mid-July, which was a result of a break in the upward trend of world raw material prices. This made a favourable impact on the trends in domestic prices of energy and intermediate goods, so that overall producer price inflation decelerated in the period after July. In addition, the prices of durable and non-durable consumer goods increased in 2008, with the prices of durables up at much higher rates. Such trends indicate that the costs generated by previous price increases in energy and intermediate goods spilled over to the prices of final consumption goods. In contrast to these developments, prices in capital goods production rose only slightly.



Real Estate Prices

Real estate prices in Croatia increased significantly from 2004 to 2007, by an average of 12.8% annually. This increase was boosted by a limited supply of residential real estate, a decline in interest rates, higher availability of home

Table 1.3 Croatian Residential Real Estate Price Index

year-on-year rate of change

	Weight	2001	2002	2003	2004	2005	2006	2007	2008	2006		2007		2008	
										1st half	2nd half	1st half	2nd half	1st half	2nd half
Croatia	100,0	6,8	1,8	0,5	12,9	8,8	16,6	13,0	5,8	15,4	17,7	17,6	8,8	5,8	5,8
Zagreb	65,3	-5,1	6,5	0,6	11,5	10,0	17,0	11,7	2,2	16,1	17,8	14,4	9,2	1,8	2,6
Adriatic Coast	22,0	26,7	5,7	8,6	9,1	17,2	15,9	16,3	10,5	15,0	16,8	23,0	10,2	13,5	7,5

Note: The methodology used for compiling the hedonic real estate price index in Croatia is such that each calculation of the new value of the index (at the end of a semi-annual period) involves a reassessment of all the parameters of real estate prices achieved by the given equations, which, in turn, results in a revision of the real estate price index for the previous semi-annual and annual periods. Therefore, the indices from the previous years are altered with each update, but are also more precisely measured, being calculated by a larger number of data.

Sources: *Burza nekretnina* and CNB calculations.

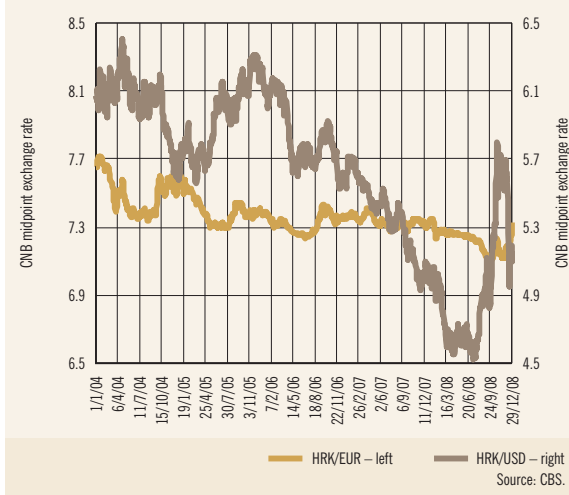
loans, rising household disposable income and favourable macroeconomic developments, which supported optimistic expectations of households regarding their future income. The annual growth rate of real estate prices in Croatia started to slow down in the second half of 2007, a trend that continued in 2008, increasing by 5.8% (compared with 13.0% in 2007). The slowdown in real estate prices was especially pronounced in Zagreb, where these prices went down from 11.7% in 2007 to a low of 2.2% in 2008.

The slowdown in real estate prices was due to a drop in real estate demand, primarily resulting from a deceleration in real household disposable income in 2008. Demand for home loans also declined, with the result that the annual real¹⁴ rate of change in newly granted home loans plummeted from 1.9% in 2007 to –18.1% in 2008. The decline was due to an increase in nominal interest on home loans, tightened lending conditions and a growing uncertainty regarding future economic developments that led to a drop in consumer optimism. In addition, households postponed their decision to purchase residential real estate, expecting its prices to decrease. While real estate demand reduced, real estate supply remained relatively stable, as indicated by the number of building permits for flats issued.

Exchange Rate

Monetary policy responded to the mounting of inflationary pressures in the first seven months of 2008 primarily by maintaining a stable nominal exchange rate for the domestic currency. Exposed to slight appreciation pressures in the first nine months of the year, the kuna/euro exchange rate came under depreciation pressures in the following period. The CNB intervened only twice in the foreign exchange market in 2008. At the first auction, held in January, a decline in kuna liquidity strengthened appreciation pressures, and an increase in foreign exchange demand at the second auction, held in October, increased depreciation pressures. The average daily kuna/euro exchange rate stood at HRK 7.22/EUR in 2008, down by 1.5% from HRK 7.34/EUR in 2007. The kuna/euro exchange rate was kept stable by foreign exchange interventions and by other monetary policy instruments and measures. The nominal daily kuna/euro exchange rate moved between HRK 7.11/EUR and HRK 7.35/EUR, that is, within a small range of –1.6% to 1.8% around the average daily exchange rate in 2008.

1.21. Daily Nominal Exchange Rate – HRK vs. EUR and USD



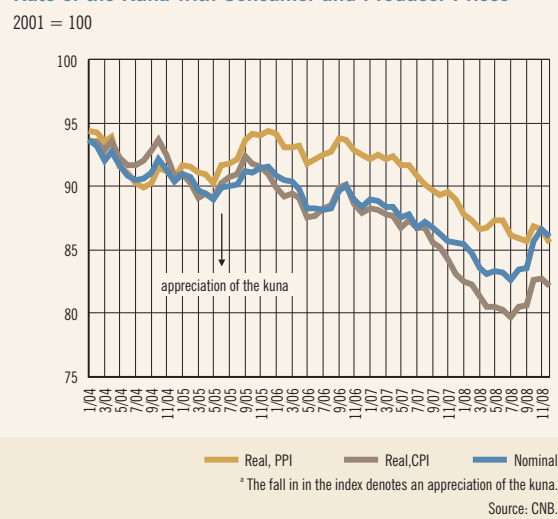
Appreciation pressures on the exchange rate intensified at the beginning of the year due to a drop in kuna liquidity in the financial system. In an effort to curb the nominal appreciation of the kuna, the CNB intervened by purchasing a total of EUR 189.1m from banks on 31 January and releasing HRK 1.4bn. The kuna/euro exchange rate was stable in the following eight months. The seasonal strengthening of the kuna/euro exchange rate in the summer months was more pronounced this year than in the previous years because, due to mounting inflationary pressures, the central bank did not purchase foreign exchange from banks at foreign exchange auctions, aiming to avoid excessive kuna liquidity creation. After the auction in January, central bank auctions were not held for the next eight months and banks met their liquidity needs through regular reverse repo auctions. Mild appreciation pressures in the reference period to a large extent resulted from the inflow of foreign exchange tourism receipts and to a small extent from corporate foreign borrowing. In addition, appreciation pressures on the kuna/euro exchange also arose from expectations of foreign capital inflows for the purchase of INA shares.

In the fourth quarter of 2008, the foreign exchange market was mostly marked by depreciation pressures on the kuna/euro exchange rate that emerged at the same time as the news about problems encountered by some European banks and the opening of bankruptcy proceedings against Lehman Brothers. However, the kuna/euro exchange rate remained at a relatively low level during the first ten days in October, standing at HRK 7.11/EUR on average, due to the sufficient liquidity levels that the central bank secured through reverse repo auctions in order to sterilise strong

¹⁴ Deflated by the hedonic real estate price index.

foreign exchange inflows arising from the acquisition of INA by a foreign investor. With the INA takeover contributing to abundant kuna liquidity, the second half of October witnessed an increase in foreign exchange demand due, among other things, to the withdrawal of foreign currency household deposits from banks and increased demand of institutional investors using foreign currency for foreign security investments. This led to a relatively fast depreciation of the kuna/euro exchange rate, as a result of which the central bank, in an effort to keep the exchange rate stable, abolished the marginal reserve requirement and intervened in the foreign exchange market, selling a total of EUR 270.6m to banks on 27 October and withdrawing from circulation HRK 2.0bn. In addition, the CNB accepted none of the bids submitted at the last repo auction in October. Due to reduced kuna liquidity, the kuna/euro exchange rate slightly appreciated at the end of October and early in November. The demand for foreign exchange rebounded strongly in the last decade of December after the reserve requirement rate had been reduced from 17% to 14%. In order to ease the resulting depreciation pressures, the CNB in early 2009 increased the foreign exchange portion of reserve requirements allocated in kuna from 50% to 75%. At the end of 2008, the nominal kuna/euro exchange rate stood at HRK 7.32/EUR, a small decrease from HRK 7.33/EUR at the end of 2007.

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



Also in 2008, the central bank sold a net EUR 11.5m worth of foreign currency to banks, withdrawing HRK 90.6m,¹⁵ and purchased a net EUR 185.9m from the MoF, creating HRK 1.3bn. The CNB created a total of HRK 1.2bn through foreign exchange market transactions, HRK 3.7bn less than in 2007.

In the first six months of 2008, the US dollar/euro exchange rate continued the depreciation trend started in 2007, coming under appreciation pressures in the following period. The US dollar/euro exchange rate stood at USD 1.42/EUR at the end of 2008, down by 3.3% from the end of 2007. The weakening of the exchange rate for most of the first half of 2008 was predominantly ascribed to negative economic indicators related to a drop in personal consumption, adverse real estate market trends and expectations of monetary policy easing in the US. The international foreign exchange market was in the second half of September marked by the appreciation of the US dollar exchange rate against the euro, predominantly caused by adverse economic indicators and expectations of continued monetary easing in the eurozone, a drop in world raw material prices and a change in the perception of investment risk, which prompted investors to play safe by investing in US treasuries and the dollar. Affected by global foreign exchange market developments, the kuna/US dollar exchange rate stood at HRK 5.16/USD at the end of 2008, increasing by 3.4% from HRK 4.99/USD at the end of 2007.

The data on the index of the real effective exchange rate of the kuna point to a slight worsening of export price competitiveness in 2008. Compared with the previous year, the index of the real effective exchange rate of the kuna appreciated by an average of 6.0% deflated by consumer prices and by 4.7% deflated by producer prices. Price competitiveness of domestic exporters deteriorated mainly due to the appreciation of the nominal effective exchange rate of the kuna, and in a small degree due to a faster growth of domestic relative to foreign prices. The nominal effective exchange rate of the kuna appreciated by an average of 3.5% in 2008, mostly as a result of the strong nominal appreciation of the average kuna exchange rate against the US dollar (8.0%).

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1.2.5 Monetary Developments and Monetary Policy

The continued pursuit of a policy of maintaining a stable exchange rate for the domestic currency in 2008 was essential for the achievement of the main objective of the central bank – maintenance of price stability and thus overall financial stability in the country. The use of existing monetary policy instruments was adjusted to new circumstances

¹⁵ The central bank sold a net EUR 81.5m to banks through foreign exchange interventions in January and October and withdrew HRK 585.4m. Through other foreign exchange transactions with banks, the central bank directly purchased a net EUR 70.0m and created HRK 494.8m.

and challenges that marked 2008. In the first three quarters of the year, the CNB operated in an environment of increased inflationary and appreciation pressures. In contrast, towards the year-end, the global financial and economic crisis spilled over into domestic developments in the form of slower economic growth and reduced net foreign capital inflows, which created downward pressures on the domestic currency.

The CNB continued to regulate lending activities of banks by the Decision on the purchase of compulsory CNB bills under which permissible credit growth was limited to 12%, the same as in 2007. More restrictive money supply and limits on bank credit were also the main means of an anti-inflationary monetary policy. At the same time, the instrument of marginal reserve requirements penalised banks' foreign borrowing almost through to the end of the year, which induced the banks to substitute domestic deposits and capital for foreign liabilities. The rise in bank placements decelerated, which somewhat mitigated the impact of credit expansion on the deterioration of the current account deficit.

Near the end of 2008, the CNB focused more on ensuring sufficient liquidity to finance domestic sectors, while the banks directed most of the released funds to the government sector. The central bank relaxed monetary policy and put an additional emphasis on releasing foreign currency liquidity in efforts to preserve the country's external liquidity position. In addition, the global financial turmoil caused a temporary outflow of household foreign currency deposits from banks in October, which was stopped successfully by the prompt reaction of the CNB and MoF. The central bank abolished the marginal reserve requirement and thus released foreign currency funds, which facilitated the foreign currency deposit run triggered by lack of confidence on the part of some depositors. Further releases of foreign currency reserves in subsequent months also effectively suppressed downward pressures on the domestic currency. This proved that the formation of reserves in previous years of abundant foreign capital inflows was justified as it gave the central bank more leeway to maintain domestic currency stability and ensure the smooth financing of domestic sectors in conditions of impeded capital inflows.

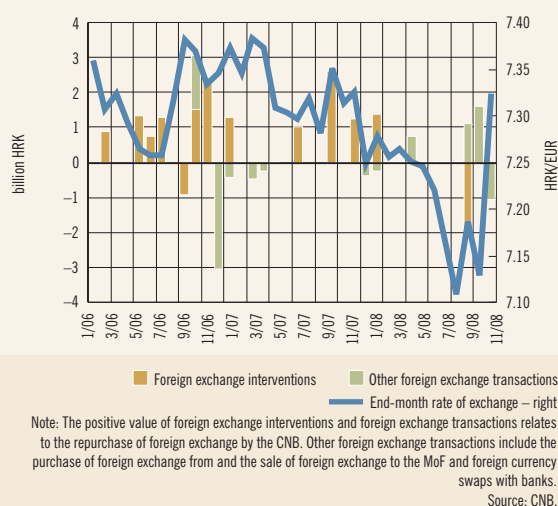
Monetary Policy and Flows of Creating and Withdrawing Reserve Money

The trend of accelerating inflation, which began in mid-2007, continued into early 2008. In efforts to counter inflationary expectations and prevent further price increases, the central bank tightened kuna liquidity. Apart from strong appreciation pressures early in the year, which the CNB mitigated by purchasing foreign currency from the banks (EUR 189.1m), the stable kuna/euro exchange rate in the remainder of the year did not call for central bank interventions until the fourth quarter. As depreciation pressures began to mount at that time, foreign currency (EUR 270.6m) was sold to banks in October. The central bank thus intervened only twice in the foreign exchange market over the whole of 2008, i.e. less than in the preceding years (in 2006 and 2007 there were 12 and 5 interventions respectively). Adding to this the direct November purchase of foreign currency from banks (of EUR 70.0m), in its net foreign exchange transactions with banks, the CNB sold only EUR 11.5m in the whole of 2008, thus withdrawing HRK 90.6m from the system. A much lesser reliance on foreign exchange interventions when compared to previous years was the outcome of restricted kuna liquidity creation against a background of mounting inflationary pressures in the first half of the year and lower capital inflows in the last quarter. Hence, the net monetary effect of transactions with commercial banks on the total money supply was almost neutral in 2008.

Since turnover in foreign exchange transactions with the government was larger, these transactions had a stronger net effect on the kuna liquidity of the monetary system. In 2008, the CNB was a net buyer of foreign currency from the central government, which is also in contrast with previous years when it mostly sold foreign currency to the government. In net foreign exchange transactions with the MoF, the CNB purchased a total of EUR 185.9m in 2008, thus creating HRK 1.3bn.

Regular weekly reverse repo operations were in 2008 the main instrument of reserve money creation and with-

1.23 Foreign Exchange Transactions of the Croatian National Bank and Midpoint HRK/EUR Rate of Exchange



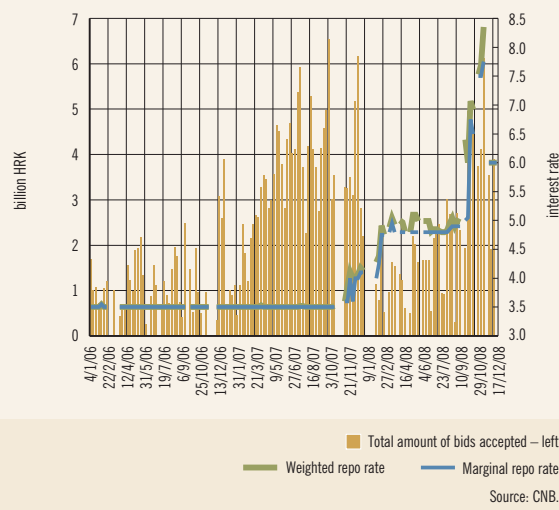
drawal in the short-run. They were less used than in the year before and their lower turnover was accompanied by an increase in interest rates. In line with its anti-inflationary monetary policy, the CNB increased the marginal repo rate from 4.10% at end-2007 to its highest level of 7.75% in mid-November 2008. Due to imbalances in the domestic money market, evident in highly volatile interest rates, from then to the end of 2008, the central bank held auctions solely at a fixed rate of 6.00%, which had a favourable impact on money market trends. Depending on its assessment of conditions in the domestic money and foreign exchange markets, the CNB refused some of the bank offers at several auctions, while some scheduled auctions were not held. This also prevented excessive exchange rate fluctuations and reduced depreciation expectations late in the year.

The average balance of funds placed at reverse repo auctions was HRK 1.7bn in 2008, nearly half as much as in 2007. Bank demand for reserves was higher at auctions held at the beginning of reserve maintenance periods while higher turnover over the year was also affected by seasonal factors, such as greater demand for the kuna during the summer months. In the last quarter, bank demand at auctions strengthened further, partly due to the need to convert foreign exchange funds for the purchase of INA shares from the strategic foreign investor and partly due to more stringent central bank management of kuna liquidity, which was triggered by downward pressures on the domestic currency.

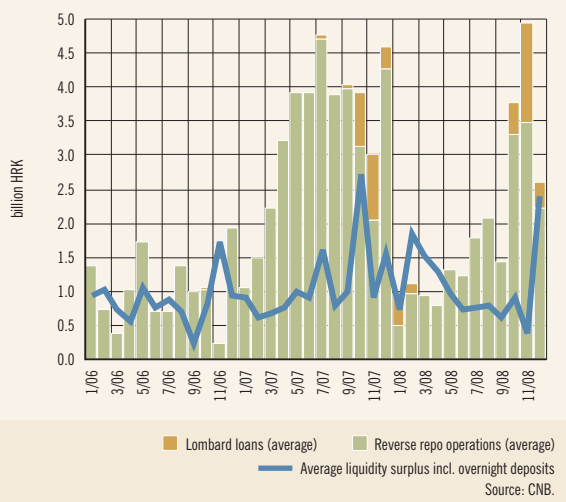
In addition to open market operations of the CNB, banks generated kuna liquidity in the first quarter and particularly in the fourth quarter of 2008 by means of Lombard loans. The interest rate on the Lombard facility was also raised in 2008: from 7.5% to 9.0%, which also implies an increase in the ceiling to the interest rate corridor, whose floor is set by the interest rate on the overnight deposit with the CNB (0.5%). Furthermore, towards the year-end, in line with more restrictive management of money supply, the CNB tightened regulations concerning the amount of collateral which automatically makes additional kuna liquidity available to banks. The amount of Lombard and intraday loans at banks' disposal was reduced from 90% to 50% of the nominal value of collateral (T-bills) used to secure such loans. Also, the scope of securities eligible as collateral was reduced to include only those with an original maturity of up to one year. Lombard loans were used for a total of 46 business days and their average amount was HRK 1.3bn in 2008.

In addition to Lombard loans, within standing facilities, the banks also used intraday loans, most often to increase

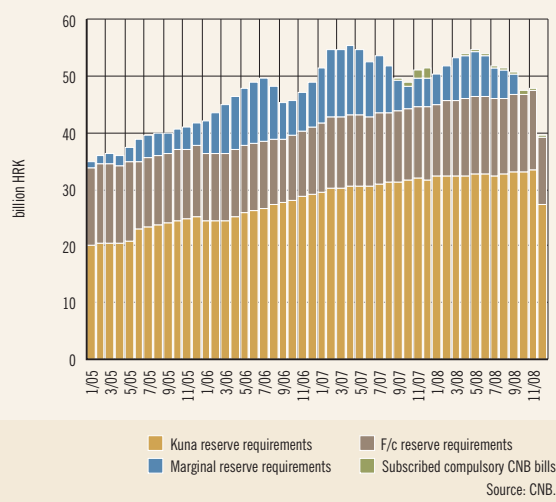
1.24 Regular Reverse Repo Operations



1.25 Reserve Money Creation Through Reverse Repo Operations and Lombard Loans



1.26 Calculated Reserve Requirements and Subscribed Compulsory CNB Bills



limits in their settlement accounts. They also temporarily deposited their excess liquidity with the CNB as overnight deposits. Overnight deposits were used for a total of 90 business days and amounted on average to HRK 0.8bn.

Reserve requirements were the main instrument of reserve money withdrawal until the very end of the year. Steady growth in funding sources of banks almost throughout 2008 led to an increase in the base for the calculation of kuna and foreign currency reserve requirements. Still, under the amended Decision on reserve requirements, this rate was cut from 17% to 14% in December to reduce instability in the money market and enable government borrowing in the domestic market without crowding out the private sector. Calculated reserve requirements thus declined on an annual basis; the kuna component fell by 13.6%, to HRK 27.4bn in December, while the foreign currency component stood at HRK 11.6bn, recording an annual fall of 8.7%. Apart from giving a strong boost to the system's liquidity, the decision was also a step forward in adjusting monetary policy instruments within the process of alignment with ECB standards.

Credit growth of banks over the year was generally below the prescribed limit so that there were no major withdrawals of liquidity associated with the purchase of compulsory CNB bills. Under the new decision regulating bank placement growth in 2008, compulsory CNB bills subscribed in 2007 were repurchased early in the year (HRK 2.0bn), while the amount subscribed over 2008 stood at HRK 0.5bn.

With the abolition of the Decision on the marginal reserve requirement (MRR) in October, total funds formerly allocated with the CNB under this requirement were returned to commercial banks (EUR 532m). The MRR abolition in the midst of the outflow of household foreign currency deposits from banks provided an immediate boost to foreign currency liquidity and enabled banks to meet obligations to their clients smoothly. After that, banks no longer had to allocate MRR with the CNB on the funds they raised abroad to offset the outflow of domestic deposits. Since its introduction in mid-2004, this monetary policy instrument substantially helped reduce the increase in banks' external debt. It also proved to be an effective instrument for sterilising capital inflows used to finance personal consumption by means of credit expansion, which led to the deterioration of the current account deficit.

Reserve Money and International Reserves

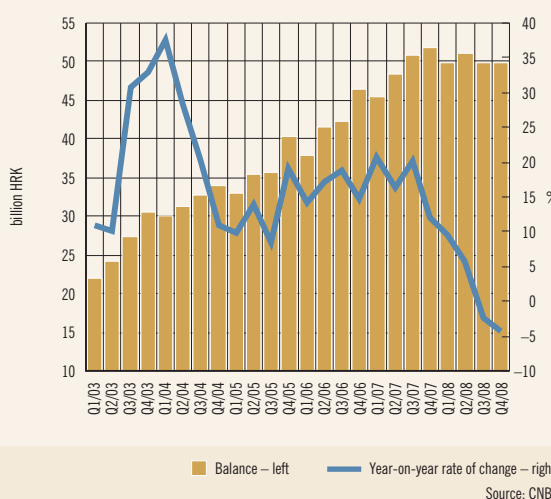
Reserve money (M0) declined by 4.2% or HRK 2.2bn in 2008, which means that the several-year upward trend of this narrow monetary aggregate came to a halt. The fall in reserve money was largely due to changes in the reserve requirement instrument, i.e. the cut in the reserve requirement rate late in the year. Reserve money increased on account of autonomous growth in kuna reserve requirements through to December, though at a much slower pace than in previous years, which was the outcome of more stringent CNB management of the money supply.

The exclusion of banks' vault cash from the reserve requirement maintenance obligation in October led to a one-off increase in reserve money of HRK 2.6bn. By this change, the central bank sterilised excess funds generated in open money operations. More specifically, the takeover of INA led to considerable foreign currency inflows from abroad, the conversion of which required sufficient kuna liquidity. This change in the reserve requirement instrument is also part of the process of alignment with ECB regulations.

Looking at the structure of reserve money in 2008, bank deposits with the CNB declined by HRK 3.2bn or HRK 9.0%, mostly due to a decrease in both kuna reserve requirements set aside and compulsory CNB bills subscribed. The other main component of reserve money, currency outside banks, which moved in line with seasonal trends, increased by HRK 1.0bn or 6.5% in the observed period.

As usual, the most volatile item of banks' deposits with

1.27 Reserve Money



the CNB was transaction accounts i.e. settlement accounts of banks. Balances in these accounts are under a strong seasonal influence of reserve maintenance periods and bank borrowing from the CNB. At the beginning of a maintenance period, banks usually have large liquidity surpluses, while near the period-end, when they have already met the maintenance obligation, they temporarily deposit excess liquidity with the CNB (overnight deposits). Balances in settlement accounts increased in 2008 partly due to the exclusion of banks' vault cash from the reserve requirement maintenance obligation in October. The amount of funds that banks usually hold in vaults thus had to be offset by additionally increasing their liquidity in settlement accounts.

Central government deposits with the CNB had no major impact on the system's overall liquidity position in 2008. Although their average level was somewhat higher than in 2007 (HRK 0.5bn in 2008 vs. HRK 0.3bn in 2007), the balance of government deposits was stable, without major inflows or outflows. Foreign currency government deposits only briefly increased in May when, due to foreign currency inflows under the Programmatic Adjustment Loan – PAL, the central government temporarily deposited EUR 100m. In the remainder of the year, kuna deposits accounted for the bulk of government deposits with the CNB.

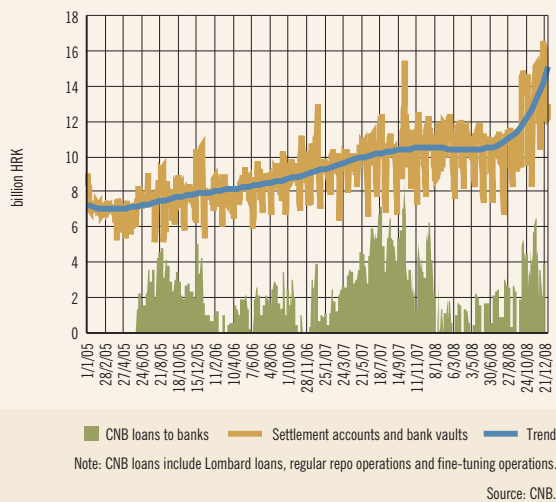
After growing for several years, gross international reserves of the CNB were on a steady downward path since the third quarter of 2008, which led to their decline on an annual basis. This was largely due to the described use of monetary policy instruments to improve the foreign currency liquidity of banks and stabilise the exchange rate. In particular, in view of changes in the external situation, capital inflows slowed down and external financing conditions became much harsher. In addition to the need to finance the large external debt, the depletion of reserves was necessary to support foreign currency liquidity and the exchange rate of the kuna. The fall in gross reserves was largely due to the October abolition of marginal reserve requirements and the December cut in the reserve requirement rate.¹⁶ At end-2008, gross international reserves stood at EUR 9,121m, down EUR 186m relative to the end of 2007.

In contrast, net usable international reserves continued to grow steadily throughout 2008. Their increase was the result of foreign currency purchases from the central government, income from the investment of international reserves, and exchange rate changes. At end-2008, net international reserves stood at EUR 8,020m, up EUR 672m or 9.1% over the end of 2007.

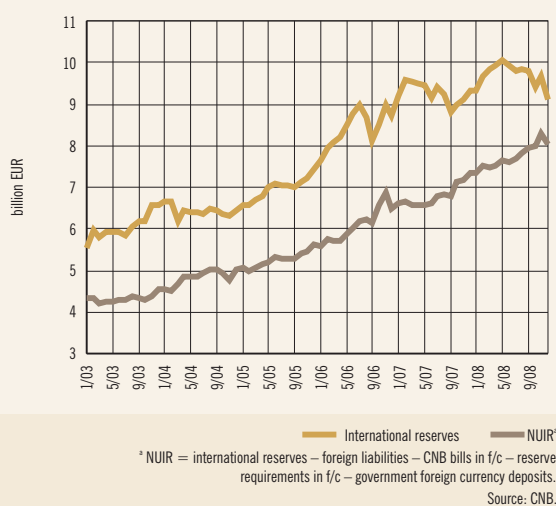
Developments in Monetary and Credit Aggregates

The growth in net domestic assets picked up while net foreign assets fell sharply in 2008, which led to slower growth in total liquid assets (M4). Total liquid assets rose by HRK 9.2bn in 2008, more than three times less than in 2007. Slower growth in this broadest monetary aggregate was equally the result of trends in both its components – non-monetary deposits grew much less on an annual basis and money decreased relative to the year before. At end-2008,

1.28 Bank Settlement Accounts with the CNB and Liquidity Loans



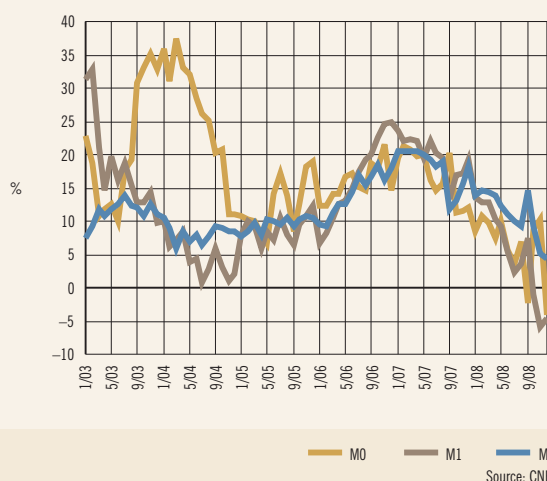
1.29 International Reserves of the CNB



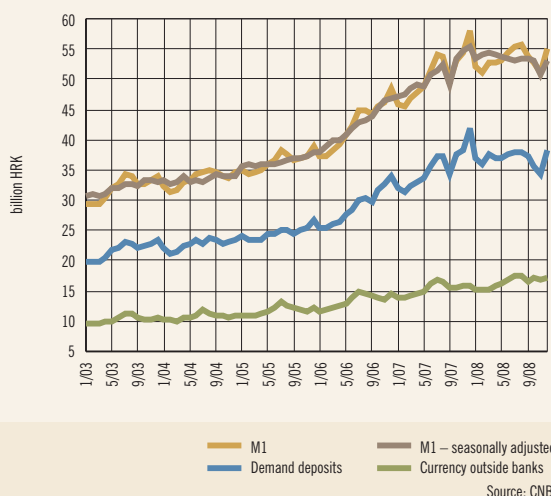
¹⁶ Described in more detail in Section 2.2 International Reserves Management.

1.30 Monetary Aggregates

year-on-year rate of change



1.31 Money (M1)



M4 stood at HRK 225.0bn and its annual growth rate dropped to 4.3%.

The 2008 trends in money (M1), which consists of demand deposits and currency in circulation, were affected by a slowdown in real economic activity and slower growth in bank lending, as well as the central bank's more restrictive management of the total money supply. Against this background, money growth steadily decelerated and became negative in the last quarter. Money stood at HRK 55.2bn at the end of 2008, down 4.6% compared with the end of 2007.

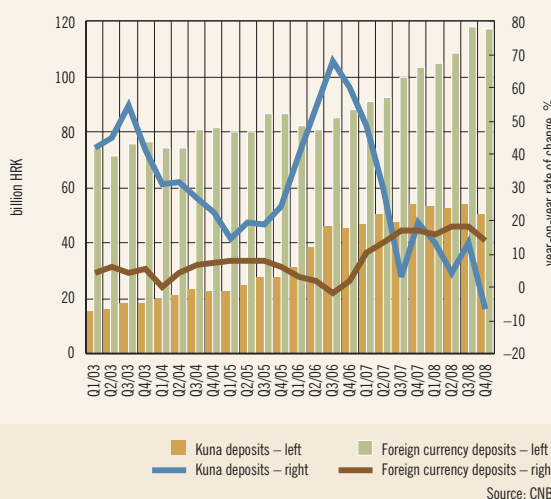
The fall in money (M1) was largely due to the decline in demand deposits, which account for two-thirds of this monetary aggregate. Notwithstanding the seasonal increase over the summer months and at the year-end, balances in current and giro accounts of domestic sectors dropped by 8.8% on an annual basis. Demand deposits of all domestic sectors decreased, the sharpest fall being recorded by the corporate sector. The other component of money, currency outside banks, continued to increase in 2008, but at a slower rate than in previous years. At the end of 2008, this monetary aggregate stood at HRK 17.1bn and its annual growth rate was 6.5%.

Kuna and Foreign Currency Non-Monetary Deposits

Savings and time deposits of domestic sectors rose by HRK 10.5bn in 2008, which is half as much as in 2007. Lower deposit growth was due to the annual decline in savings of almost all domestic sectors, with the exception of the household sector. The withdrawal of household savings in early October when, in view of adverse global financial market trends, some depositors lost confidence in the banking system also contributed to the slowdown in deposit growth. However, the prompt reaction of the central bank and the Croatian government, coupled with stronger foreign borrowing by the banks, soon put an end to the deposit outflow. By abolishing the marginal reserve requirement the CNB provided sufficient liquidity for smooth payment of deposits, while the Croatian government raised the amount of insured deposits from HRK 100 thousand to HRK 400 thousand. As these measures quickly restored depositors' confidence in the banking system, the growth in household savings with banks resumed in mid-October.

Notwithstanding the October outflow, household depo-

1.32 Kuna and Foreign Currency Deposits



sits recorded the highest annual growth rate among non-monetary deposits, of 14.0%, or nearly twice as high as in 2007. Household deposit inflows were further boosted by higher interest rates as well as adverse capital market trends, in view of which bank deposits proved to be a safer form of investment. In contrast, savings and time deposits of other domestic sectors, particularly the corporate sector, were on a steady downward course over the year (apart from the tourist season), which may be attributed to the general economic slump in the country.

Foreign currency deposits remained the most dynamic item of domestic funding sources for banks. They rose by HRK 14.1bn in 2008, only slightly less than the year before. The growth in foreign currency deposits was largely fuelled by abundant inflows of household foreign currency savings in the first half of the year and during the summer months, while their temporary decline in October and November was almost fully offset by robust growth in foreign currency savings deposits in December. Foreign currency deposits stood at HRK 117.2bn at the end of 2008, growing at an annual rate of 13.7%.

In contrast, kuna savings and time deposits shrank by HRK 3.6bn or 6.7% in 2008. Kuna deposits stood at HRK 50.1bn at end-2008, while their share in total non-monetary deposits dropped to less than a third (29.9%). Such trends confirm the still-high level of euroisation of the banking system and the persistent inclination of domestic sectors to opt for foreign currency savings despite more favourable terms for kuna savings.

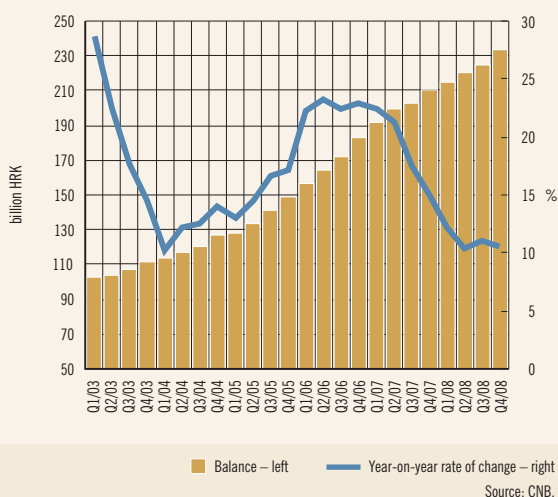
Bank Placements

The growth of bank placements to the non-banking sector was moderate in 2008 and moved within the limits imposed by the central bank. Slower credit growth compared with previous years was affected by the slump in loan demand, which was caused by more stringent financing terms and the rise in banks' lending rates, as well as by the overall economic downturn and pessimistic assumptions about future economic growth.

The annual growth rate of bank placements to the non-banking sector was 10.5% in 2008, 4.4 percentage points less than in 2007. However, the nominal increase in the kuna value of placements was largely due to the depreciation of the kuna against the Swiss franc since a substantial share of total bank loans is indexed to that currency. Excluding the exchange rate effects, the annual growth rate of placements was two percentage points lower, around 8.5% in 2008, which confirms that CNB measures were not an obstacle to lending to the domestic private sector.

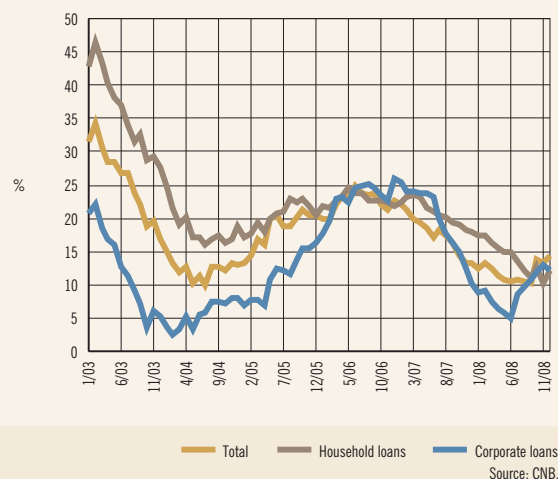
The 2008 slowdown in placement growth was particularly evident in the more moderate lending to the household sector. Household loans increased by HRK 13.6bn in 2008, HRK 3.6bn less than in 2007. Almost all household loan categories recorded slower growth, particularly home and any-purpose loans, which were the main drivers of total credit growth in previous years. Inter alia, such trends reflected the decline in personal consumption and consumer optimism, as well as the end of the upward trend in real estate prices, which provided a major impetus to rapid growth

1.33 Bank Placements to the Non-Banking Sector



1.34 Bank Loans

year-on-year rate of change



in the amount of home loans in recent years. Total bank loans to households amounted to HRK 126.6bn at end-2008 and their annual growth rate dropped to 12.1%.

In contrast with lending to households, which steadily weakened during 2008, corporate lending was stronger than in 2007. The acceleration in corporate loan growth was particularly vigorous in the second half of the year when, in response to adverse conditions in the global financial markets, domestic enterprises increasingly turned to domestic banks for funding. The annual growth rate of corporate loans was 11.4% at the end of 2008, an increase of 0.8 percentage points over 2007.

Total debt of the corporate and household sectors can be estimated as the sum of their euro-denominated liabilities to domestic banks, leasing companies and foreign creditors. As household debt is still mostly determined by domestic bank loans, slower growth in bank loans to households lowered the growth rate of total household debt from 19.8% in 2007 to 12.6% in 2008. Total corporate debt also grew at a slower pace and its structure changed significantly. As access to foreign capital was impeded, particularly in the last quarter, enterprises increasingly turned to domestic banks. By increasing their lending, these banks only partly succeeded in compensating for reduced foreign borrowing opportunities. Notwithstanding the more rapid growth in domestic bank loans, the growth rate of total corporate debt thus dropped from 24.4% in 2007 to 18.2% in 2008.

Banks' Net Claims on the Central Government

In 2008, the central government continued to raise funds on the domestic market. Total bank claims on the central government grew by HRK 8.8bn in 2008. This growth was particularly strong in the last quarter when, because of limited access to foreign capital, the government relied exclusively on domestic banks to meet its growing funding needs.

By adjusting monetary policy measures, the CNB supported government efforts to raise funds to cover the budget deficit on the domestic market. In this context, the CNB cut the prescribed minimum rate of foreign currency liquidity in May, thus releasing the funds that banks used to grant a syndicated foreign currency loan of EUR 760m to the government. In addition, by abolishing the marginal reserve requirement in October and lowering the reserve requirement rate from 17% to 14% in December, the CNB provided the banks with sufficient liquidity to finance substantial loans to the government without crowding out the private sector.

Central government deposits with banks also increased in 2008, but much less than placements. Due to these trends, banks' net claims on the government increased by a total of HRK 6.3bn. At the end of 2008, net bank placements to the central government stood at HRK 21.6bn.

Developments in Foreign Assets and Liabilities

Foreign liabilities of banks increased by HRK 10.1bn in 2008 primarily due to heavy foreign borrowing by the banks in the last quarter. In particular, through to end-September banks reduced their foreign liabilities by capital injections in the first half of the year and robust growth in foreign currency deposits during the tourist season. A decrease in banks' external debt was also due to the effect of the marginal reserve requirement, which was in force until October 2008. In contrast, by borrowing abroad in the last quarter, the banks offset the outflow of domestic sector deposits and met large funding needs of the central government. It should be noted that the bulk of funds raised in that period came from parent banks, which confirms that, notwithstanding the global financial market turmoil, domestic banks could turn to their foreign owners for funding.

In view of the minimum foreign currency liquidity requirement, the foreign claims of banks, which decreased in the first nine months of 2008, grew strongly in the last quarter, leading to a total increase in banks' foreign assets of HRK 3.8bn in 2008. Nevertheless, net foreign assets of banks declined by HRK 6.3bn or 33.6% in 2008, standing at HRK -25.0bn at the end of 2008.

1.2.6 Money Market

Most of 2008 was characterised by good liquidity in the banking system. Interest rates in overnight money trading were thus relatively low in the January to September period of 2008. However, these rates soared and became highly volatile early in the fourth quarter. In this period instability was triggered by the INA shareholder payout occasioned by the takeover transaction of a share package by MOL. In addition to increased demand for kuna, this led to the segmentation of the interbank market into banks with a substantial liquidity surplus or a liquidity shortfall. This money market structure provided fertile soil for an interest rate hike. Furthermore, a withdrawal of deposits from commercial banks in October induced the banks to hold assets in more liquid forms and boosted demand for foreign exchange, which the CNB met by abolishing the marginal reserve requirement. Money market interest rates returned to lower levels at the beginning of December, immediately before the entry into force of the CNB's decision to cut the reserve requirement rate from 17% to 14%. Other instruments of monetary policy implementation were mostly restrictive in kuna liquidity creation. Due to inflationary pressures in the first half of 2008 and downward pressures on the domestic currency towards the year-end, the average amount of funds placed by the central bank through regular reverse repo auctions was HRK 1.7bn in 2008, HRK 1.4bn less than in 2007. The impact of foreign exchange interventions, which were used to create the net money supply in previous years, also changed considerably – their impact on the money supply was neutral in 2008.

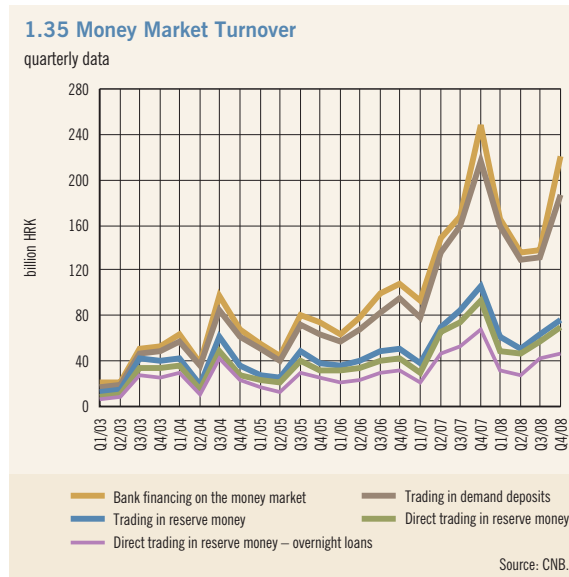
T-bill auctions had less appeal for investors in 2008, but late in the year the government decisively reoriented towards short-term domestic borrowing to finance the budget deficit. Due to the large amounts issued in the last quarter, the total stock of subscribed T-bills grew strongly from HRK 11.7bn at end-December 2007 to HRK 15.2bn at end-December 2008. The need to attract investors led to a jump in interest rates at T-bill auctions, which hit the record high of 2001.

Banks' lending rates increased substantially in 2008. In line with accelerated EURIBOR growth, the rise in interest rates on long-term loans was the strongest, in terms of intensity, through to the fourth quarter of 2008 when some interest rates on short-term corporate loans increased markedly. Interest rates on household time deposits grew steadily in 2008. In contrast, most interest rates on corporate time deposits declined, with the exception of interest rates on kuna time deposits with a maturity of up to one month. These rates exhibited substantial volatility as they closely followed the movements of money market interest rates.

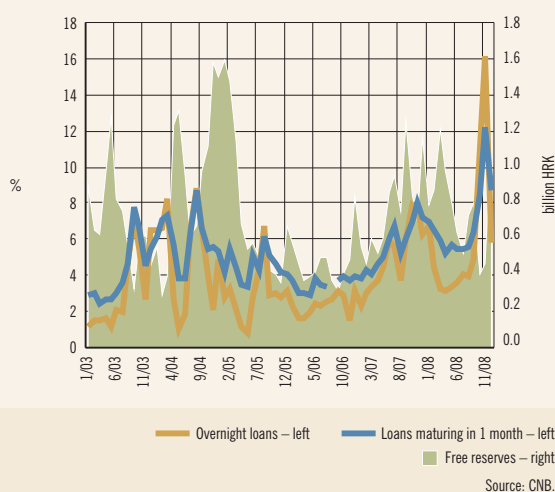
Money Market Interest Rates

Money market turnover decreased due to good liquidity of the banking system throughout most of 2008, but grew noticeably towards the year-end, spurred by increased segmentation of liquidity. The banks met their liquidity needs on this market in the average daily amount of HRK 2.6bn (a total of HRK 660.8bn in the entire year), which was equal to the average daily turnover in the previous year. By far the largest share of total loans received on the money market, as usual, was accounted for by loans in demand deposit trading (HRK 606.2bn), while the banks raised HRK 50.3bn and HRK 4.3bn respectively by purchasing repo agreements and selling securities. Within the structure of demand deposit trading, the share of loans received from banks steadily declined from 50.7% in 2007 to 41.8% in 2008. In contrast, loans from other financial institutions and other legal persons accounted for record high shares of 31.8% and 26.4% respectively.

The dominance of direct interbank trading in reserve money trading continued in 2008 the annual turnover being HRK 222.3bn, while bank trading with Zagreb Money Market (ZMM) intermediation stood at HRK 31.2bn. Overnight loans continued to be the most liquid instrument in direct interbank trading in 2008, accounting for HRK 146.1bn (or 65.7% of direct interbank

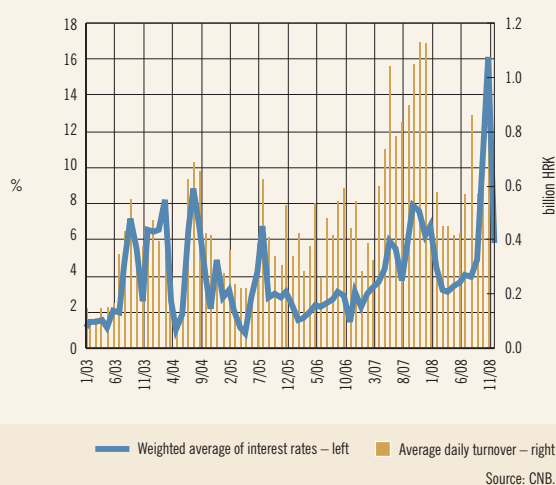


1.36 Interest Rates in Direct Interbank Trading and Bank Free Reserves



1.37 Direct Interbank Trading in Overnight Loans

monthly average on the basis of daily data



trading), which is a decrease of HRK 43.6bn compared with 2007. The average daily turnover in these loans dropped from HRK 758.9m in 2007 to HRK 579.7m in 2008.

Having been stable and relatively low from January to September 2008, money market interest rates grew sharply and were particularly volatile in the last quarter due to the increased segmentation of banking system liquidity as well as the somewhat lower level of banks' free reserves in kuna. The weighted monthly interest rate on overnight loans in direct interbank trading in reserve money thus dropped from 6.23% in December 2007 to an average of around 4.00% and held steady through to September 2008. After leaping to 11.07% in October, it soared to 16.10% in November, hitting the record high level experience in the late 1990s. Due to the cut in the reserve requirement rate from 17% to 14%, this rate fell again in December, to 5.77%, which gave a major boost to banking system liquidity. The daily interest rate on overnight loans in direct interbank trading, which ranged from 0.92% to 14.67% in 2007, was even more volatile in 2008, moving between 0.66% and 20.00%.

The average daily turnover in overnight loans intermediated by the ZMM decreased from HRK 130.7m in 2007 to HRK 109.3m in 2008. The weighted interest rate on these loans, which was relatively stable in the first nine months of 2008, also surged in the fourth quarter. It peaked in November (17.40%) and dropped to 5.18% in December, down 15 basis points from December 2007.

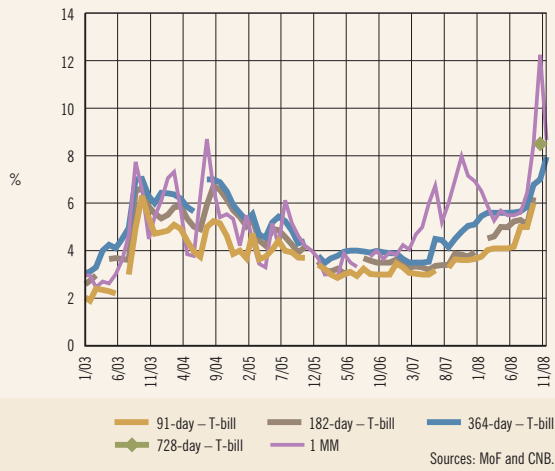
Interest Rates in the Short-Term Securities Market

After growing gradually in the first nine months of 2008, interest rates at T-bill auctions soared in the fourth quarter, partly due to the government's decisive reorientation towards short-term domestic borrowing. Weighted interest rates on 182 and 364-day T-bills rose from 3.95% and 5.10%, respectively, in January to 7.45% and 7.95% in December 2008, hitting the highest levels since 2001. In addition, the weighted interest rate on 91-day T-bills, which were not subscribed in December 2008, went up from 3.65% in January to 6.00% in November 2008. An interest rate of 8.50% attained at the late-November auction of newly-introduced two-year T-bills clearly indicates the need to further stimulate investors.

The Ministry of Finance held 41 T-bill auctions in 2008 (seven more than in 2007), which were mostly marked by lower investor interest and higher government demand for borrowing towards the end of the year. The average amount of bids received per auction was HRK 178.5m lower than in 2007, standing at HRK 472.4m. In contrast, the percentage of bids accepted was as high as 91.3% on average. The total amount of purchased T-bills was as much as HRK 17.7bn, HRK 430.3m more than the planned amount of issue. The stock of subscribed T-bills thus rose sharply from HRK 11.7bn at end-December 2007 to HRK 15.2bn at end-December 2008. Newly-introduced two-year T-bills accounted for 17.4% of total T-bills subscribed at end-December 2008. This means that they held the second largest share in the structure of total T-bills, coming after one-year T-bills, the share of which decreased from 91.1%

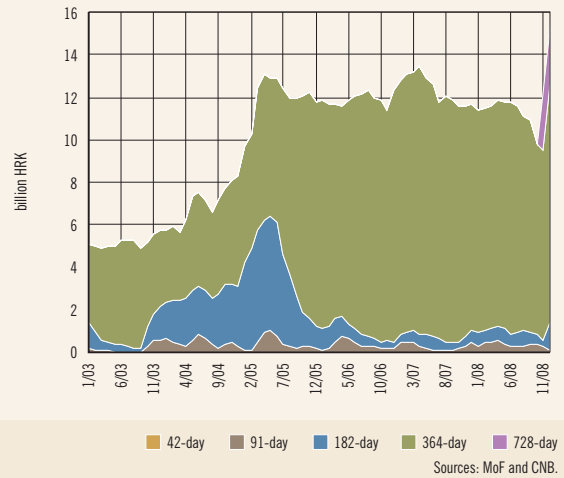
1.38 Interest Rates on T-Bills and in Direct Interbank Trading

maturity structure



1.39 T-Bills Stock

end-month, maturity structure



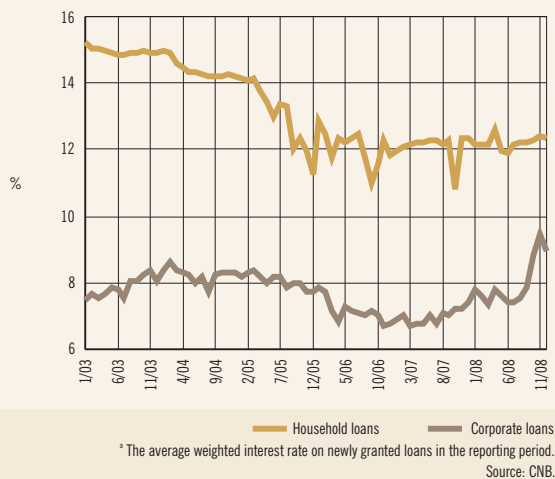
at end-December 2007 to 73.1% at end-December 2008. The shares of 91 and 182-day T-bills stood at 0.3% and 9.2%, respectively, at end-December 2008.

Bank Interest Rates

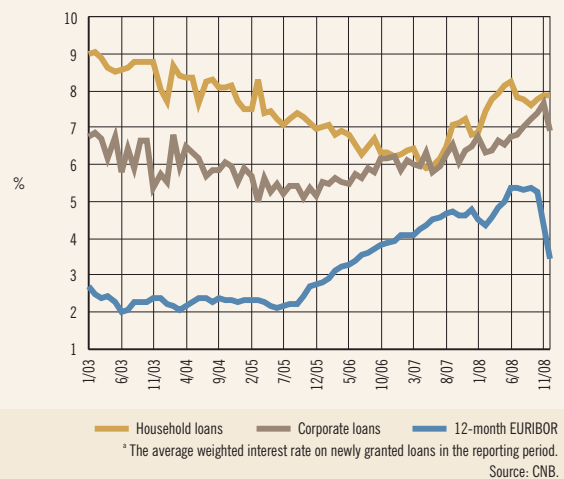
Bank lending rates grew strongly in 2008. In line with accelerated EURIBOR growth, the rise in interest rates on long-term loans was the strongest through to the fourth quarter. However, as the year came to a close, some interest rates on short-term corporate loans rose substantially. The growing trend in the weighted interest rate on short-term corporate loans without a currency clause, which was observed over the last two years, thus gained more momentum. This weighted interest rate increased noticeably from 7.39% in December 2007 to 8.98% in December 2008 on account of a giant leap in interest rates on the most widely represented subcategory, overdraft facilities. In contrast, the weighted interest rate on short-term household loans without a currency clause was stable; decreasing by only 1 basis point compared with December 2007, it stood at 12.33% in December 2008.

With regard to long-term loans, the rise in interest rates on household loans was especially pronounced in the first half of the year, while interest rates on corporate loans grew strongly in the second half of the year. In late 2008, the upward trend in interest rates on long-term corporate loans came to an end, while interest rates on long-term

1.40 Average Bank Interest Rates^a on Short-Term Loans not Indexed to Foreign Currency



1.41 Average Bank Interest Rates^a on Long-Term Loans Indexed to Foreign Currency



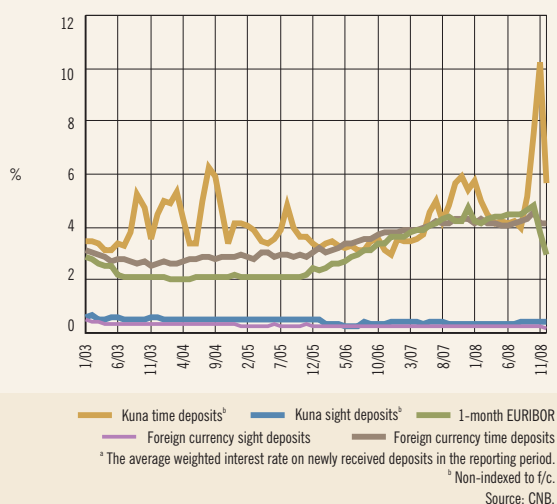
household loans with a currency clause, which drifted lower in the middle of the year, resumed their upward path. The weighted interest rate on long-term corporate loans with a currency clause continued its upward march that began in 2006, rising from 6.51% in December 2007 to 7.65% in November 2008, but plunging to 6.92% in December 2008. Growing from 6.80% in December 2007 to 8.25% in June 2008, the weighted interest rate on long-term household loans with a currency clause reached its highest level since early 2005. Its robust growth in the first half of the year was largely driven by changes in the structure of newly-granted long-term household loans: the share of more expensive, other long-term loans increased while the shares of the cheapest, housing and car loans, as well as the share of loans indexed to the Swiss franc, which are traditionally most favourable, decreased. This weighted interest rate edged down in mid-year and stood at 7.89% in December.

Interest rates on household time deposits trended up throughout 2008, while most interest rates on corporate time deposits decreased. The weighted interest rate on kuna time deposits without a currency clause was extremely volatile; it jumped to 10.24% in November and plunged to 5.65% in December 2008, up 23 basis points over December 2007. This was mostly due to the variability of the interest rate on the most common corporate kuna time deposits with a maturity of up to one month, which closely follows the movements of money market interest rates. Despite the rise in interest rates on household time deposits, the weighted interest rate on foreign currency time deposits drifted down, from 4.32% in December 2007 to 4.14% in December 2008, under the influence of the decline in interest rates on corporate foreign currency deposits. Interest rates on sight deposits were relatively stable. The weighted interest rate on kuna sight deposits without a currency clause went up from 0.36% in December 2007 to 0.41% in December 2008, while the weighted interest rate on foreign currency sight deposits stood at 0.20% in December 2008, gaining 5 basis points over December 2007.

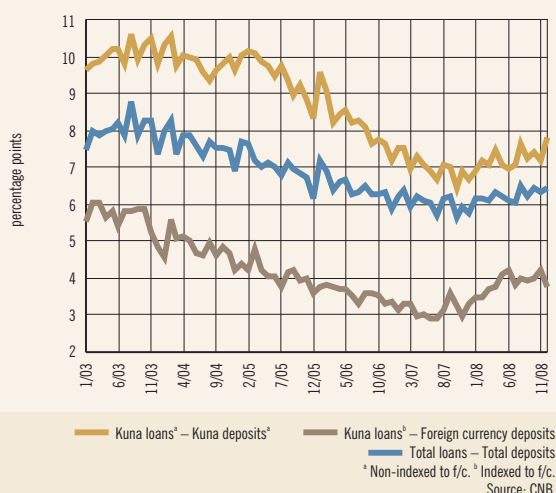
After the years-long trend towards a narrowing of the spread between lending and deposit rates reversed at the end of 2007, most spreads continued to widen in 2008, although their growth pace slowed down noticeably towards the end of the year. The spread between the interest rate on total loans and the interest rate on total deposits thus widened from 5.78 percentage points in December 2007 to 6.43 percentage points in December 2008. The spread between the weighted interest rate on kuna loans without a currency clause and the weighted interest rate on kuna deposits without a currency clause increased more, from 6.65 percentage points in December 2007 to 7.79 percentage points in December 2008. The spread between the weighted interest rate on kuna loans with a currency clause and the weighted interest rate on foreign currency deposits was leading the way until mid-2008 when it started to stagnate. It stood at 3.76 percentage points in December 2008, up 47 basis points over December 2007.

Real interest rates on long-term corporate loans in Croatia, which were relatively low throughout most of 2008 and even turned negative in mid-year, grew sharply towards the year-end due to a parallel rise in nominal interest rates and a fall in the inflation rate. The marked slowdown in inflation was also the main reason for the increase in the real interest rate on long-term corporate loans in the majority of selected Central and Eastern European countries and in EMU Member States. Compared with December 2007, a decrease in this interest rate was seen only in Slovakia.

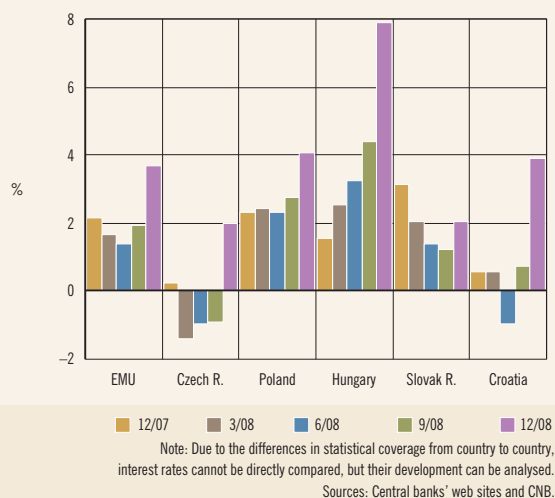
1.42 Average Bank Deposit Interest Rates^a



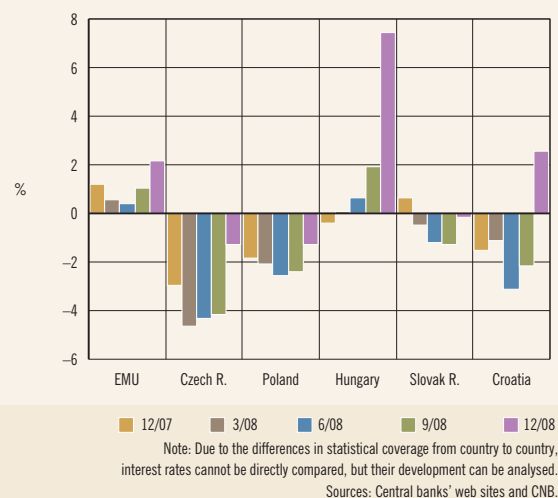
1.43 Spread Between Average Bank Interest Rates on Loans and Deposits



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



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



Due to slower inflation, the real interest rate on three-month household deposits in Croatia turned positive at the end of 2008. The real interest rate on household deposits grew compared with the end of 2007 in most of the countries under review, with the sharpest increase taking place in Hungary. This interest rate declined only in Slovakia.

1.2.7 Capital Market

In 2008, the domestic capital market was strongly influenced by negative developments in the world's financial markets, with negative influences also arising due to some domestic factors. Share turnover was considerably lower than in the previous year (HRK 16.8bn relative to HRK 22.0bn in 2007) and was followed by the strong fall in prices of most shares listed on the ZSE. After two years of intensive growth, the value of the ZSE share index, the CROBEX, reduced by as much as 67.1% in 2008 to 1722 points at the end of December. The price bubble in the domestic capital market in the middle of 2007 was reflected in an extremely high price/earnings ratio for CROBEX constituents. The deflation in 2008 was aided by the strengthening of inflationary pressures in Croatia and most other countries in the first half of the year paired with the deepening of the crisis in the world's financial markets, which led to the failure of some of the world's largest financial institutions and deterioration in investor risk perception, as well as to the spillover of the negative effects of the financial crisis to the real sector in the second half of 2008.

In addition to the equity securities market, the downward trend also marked the Croatian debt securities market in 2008. Bond turnover totaled HRK 13.2bn in 2008, which was the lowest annual turnover in the debt securities market since 2003. This was partly a consequence of the relatively few new debt securities issues in 2008. The value of the ZSE bond index, the CROBIS, declined by 5.9 points in 2008.

Table 1.4 Comparison of Capital Market Indicators

2008	Bratislava	Budapest	Ljubljana	Prague	Warsaw	Zagreb
Average daily turnover, shares (in million EUR)	0.06	83.5	3.8	135.6	375.4	9.4
Average daily turnover, bonds (in million EUR)	96.4	6.5	1.0	102.3	5.7	7.3
Share turnover/GDP, annual level (%)	0.02	20.0	2.6	23.0	26.2	5.0
Bond turnover/GDP, annual level (%)	37.4	1.6	0.7	17.3	0.4	3.9
Turnover velocity ^a	0.4	156.8	11.2	3.1	20.3	12.2
Market capitalisation of shares (in million EUR), end of year	3,881	13,421	8,468	40,540	111,474	19,396
Market capitalisation of bonds (in million EUR), end of year	16,716	37,674	6,795	....	86,987	4,728
Market capitalisation of shares/GDP, end of year (%)	6.0	12.7	22.8	27.3	30.9	41.5
Market capitalisation of bonds/GDP, end of year (%)	25.7	35.8	18.3	....	24.1	10.1
Share index movement from the beginning of the year (%)	-19.4	-53.3	-67.5	-52.7	-51.1	-67.1

^a Annualised monthly share turnover \times 100/ market capitalisation of shares.

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

Table 1.5 Initial Public Offering of Shares

in million HRK

Year	Number of successful issues	Total value of 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	4	231.0
2006	0	0.0
2007	4	46.9
2008	2	24.2

Note: Public offerings are recorded according to the date of HANFA's decision.

Source: HANFA.

other reference stock exchanges in the region, while the bond market capitalisation to GDP ratio lagged behind those of reference CEE countries.

There were three new bond issues and a new tranche of an already existing bond issue in the domestic bond market in 2008, whose total nominal value was some EUR 56.4m. This was a substantial reduction relative to 2007, which saw ten new bond issues and three tranches of already issued bonds in the total nominal value of some EUR 1.25bn. At the end of 2008, a total of 35 bonds were listed on the domestic capital market, one fewer than at the end of 2007. There were no new government bond issues in the domestic debt securities market in 2008, only two corporate bond issues of relatively low nominal value, which made up the lion's share of the total value of newly issued bonds on the domestic market. Nevertheless, they continued to hold a small share in total bond turnover and market capitalisation on the domestic market.

Under the influence of the further deepening of the global financial crisis, caused by problems in the US mortgage market and consequent rising risk-aversion of investors, required yields on Croatian eurobonds went up substantially, which resulted in intensive widening of spreads between yields on Croatian eurobonds and yields on benchmark German bonds.

Equity Securities Market

In 2008, the annual share turnover on the domestic equity securities market registered a substantial decline,¹⁷ totaling HRK 16.8bn or 23.4% less than in 2007. The number of shares listed on the ZSE declined from 383 to 377. The decline in demand for equity securities was a consequence of a pessimistic outlook, caused by unfavourable trends in the world's financial markets and sizable losses sustained by some of the world's largest financial institutions. In addition, stronger inflationary pressures in most countries in the first half of the year and a substantial slowdown in the world's leading economies in the second half of 2008 contributed to the decline in demand on the domestic capital market. Since a large number of inexperienced small investors fled the capital market, the prices of most shares went down. As a result, the ZSE share index, the CROBEX,¹⁸ decreased continuously in 2008 until it reached 1722 at the end of December, down 67.1% on the end of December 2007.

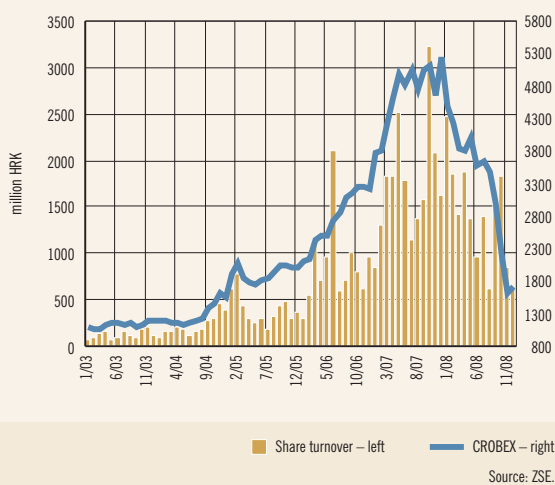
Due to a substantial decline in prices and very low liquidity¹⁹ of equity securities, the market capitalisation of shares

17 The data on the total share turnover from January 2002 to February 2007 are the sum of turnovers of individual shares at the VSE and ZSE. The unified ZSE data have been used since the VSE and ZSE merger in March 2007.

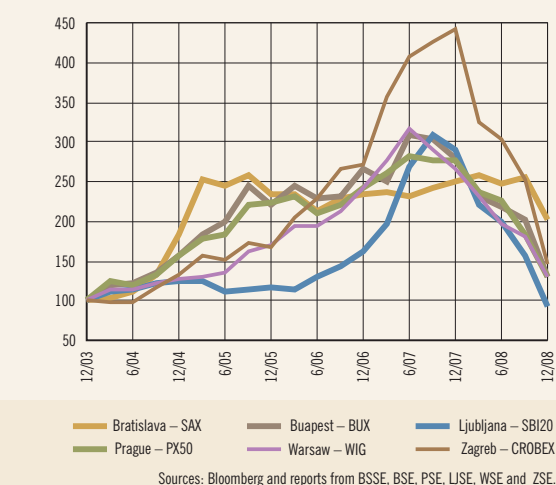
18 As of 21 October 2008, the CROBEX comprised 28 shares. The shares of the following joint stock companies were excluded from the CROBEX relative to September 2007: AD Plastika, Arenaturist, Badel 1862, Croatia osiguranje, HUP Zagreb, Luka Rijeka, Magma, Riviera Poreč and Slatinska banka, and the shares of Atlantic Group, Đuro Đaković Holding, Dioki, T-HT, Konzum, Ledo and Luka Ploče were included.

19 The ZSE market capitalisation is calculated by multiplying the last price of each share by its issue number. However, the calculation also includes the share's liquidity so that the market capitalisation of a share not traded in the previous month is halved. For the shares not traded in the previous three months, the calculation includes only one fourth of its market capitalisation.

1.46 ZSE Monthly Share Turnover and End-Month CROBEX



1.47 Selected Stock Exchange Indices
end of period, December 2003 = 100



listed on the ZSE totalled HRK 142.1bn at the end of December 2008, or 41.5% of GDP for 2008, decreasing by HRK 210.2bn or 59.7% relative to the end of December 2007.

In 2008, shares were traded on four ZSE markets: the Official Market, Closed-End Investment Fund Shares Market, Public Joint-Stock Company Shares Market and Parallel Securities Market. In addition to the already listed common shares of INA, Istraturist d.d., Medika d.d., Pliva d.d., Podravka d.d. and Viro tvornica šećera d.d., and the common and preferential shares of Croatia osiguranje d.d., also listed in the Official Market during the year were the common shares of Institut građevinarstva Hrvatske d.d. and Optima telekom d.d. The most traded shares were the shares of T-HT, which had a turnover of HRK 2.4bn, accounting for 13.5% of the total annual share turnover. They were followed by the shares of INA (10.1%), Atlantska plovidba d.d. (9.1%), Institut građevinarstva Hrvatske d.d. (5.8%) and Ericsson Nikola Tesla d.d. (5.4%).

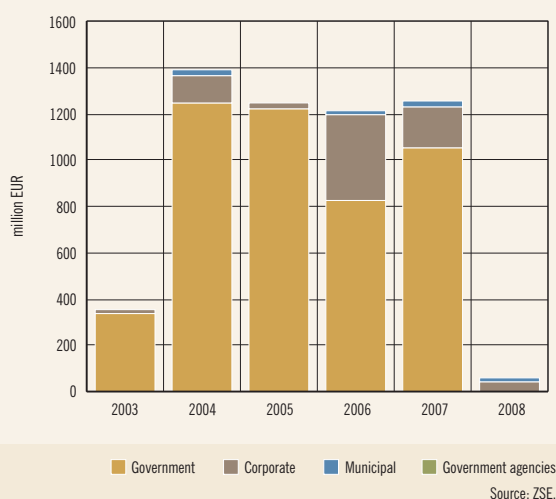
Most of the main world stock exchange indices sizably declined in 2008, and similar trends marked the markets in CEE countries. The Ljubljana Stock Exchange index went down the most in December 2008, relative to December 2007 (-67.5%), followed by the indices of the ZSE (-67.1%), BSE (-53.3%), PSE (-52.7%) and WSE (-51.1%). The Bratislava Stock Exchange index went down the least (-19.4%).

Debt Securities Market

Three new bonds²⁰ were issued on the domestic debt securities market in 2008, including one municipal bond, two corporate bonds and the second tranche of an existing municipal bond. At end-December 2008, 35 bonds²¹ were listed on the domestic capital market, eight of which were government bonds, one was a CBRD bond, with eight municipal bonds and eighteen corporate bonds. This was one municipal and two government bonds more than at the end of December 2007.

There were no new government bond issues in the domestic debt securities market in 2008. However, a kuna

1.48 Bond Issues in the Domestic Market



²⁰ In addition to the newly issued bonds, a corporate bond of the Linjska nacionalna plovidba d.d., issued early in 2007, was listed in the domestic debt securities market in 2008.

²¹ This figure and the market capitalisation calculations exclude the bonds of the Fund for Compensation of Expropriated Property.

government bond, nominally valued at HRK 1.0bn, fell due in May, while a kuna government bond indexed to foreign currency, nominally valued at EUR 200.0m fell due in November. In addition, corporate bonds of Hypo Alpe-Adria-Bank d.d and Medika d.d. fell due in 2008, while the listing of the debt issue of Pliva d.d. on the ZSE was terminated at the end of April due to early redemption.

In 2008, the domestic securities market saw the issue of two new corporate bonds, four fewer than in 2007. In late January 2008, Rijeka promet d.d. issued a ten-year kuna bond, nominally valued at HRK 192m and having a yield to maturity at issue of 6.85%, while early March saw the issue of a five-year kuna bond by Plodine d.d., nominally valued at HRK 100m and with a yield to maturity at issue of 9.08%. The total nominal value of newly issued corporate bonds was HRK 292.0m, which was over a billion kuna less than the value of corporate bond issues in the previous year. In addition to the newly issued corporate debt securities, a three-year kuna corporate bond of Linijska nacionalna plovidba d.d., issued in mid-January 2007, was listed on the ZSE at end-August 2008, with a nominal value of HRK 15m.

In 2008, there was also one new municipal issue and a tranche of the already existing municipal issue. At the end of April, the City of Rijeka issued the third tranche of its ten-year euro bond nominally valued at EUR 8.2m, raising the

Table 1.6 Bond Issues in the Domestic Market, stock as at end-December 2008

Series	Issuer	Issue date	Maturity	Currency	Issue nominal value	Nominal interest rate	Last price ^a	Current yield 31/12/2008
RHMF-0-125A	Republika Hrvatska	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	102.50	6.707%
RHMF-0-142A	Republika Hrvatska	10/2/2004	10/2/2014	EUR	650,000,000	5.500%	98.00	5.612%
RHMF-0-19BA	Republika Hrvatska	29/11/2004	29/11/2019	EUR	500,000,000	5.375%	98.05	5.482%
RHMF-0-103A	Republika Hrvatska	8/3/2005	8/3/2010	HRK	3,000,000,000	6.750%	100.00	6.750%
RHMF-0-157A	Republika Hrvatska	14/7/2005	14/7/2015	EUR	350,000,000	4.250%	87.10	4.879%
RHMF-0-15CA	Republika Hrvatska	15/12/2005	15/12/2015	HRK	5,500,000,000	5.250%	88.50	5.932%
RHMF-0-137A	Republika Hrvatska	11/7/2006	11/7/2013	HRK	4,000,000,000	4.500%	91.00	4.945%
RHMF-0-172A	Republika Hrvatska	8/2/2007	8/2/2017	HRK	5,500,000,000	4.750%	88.00	5.398%
GDKC-0-116A	Grad Koprivnica	29/6/2004	29/6/2011	HRK	60,000,000	6.500%	101.30	6.417%
GDZD-0-119A	Grad Zadar	1/9/2004	1/9/2011	EUR	18,500,000	5.500%	98.00	5.612%
GDRI-0-167A	Grad Rijeka	18/7/2006	18/7/2016	EUR	24,574,513	4.125%	–	–
GDST-0-137A	Grad Split	24/7/2006	24/7/2013	EUR	8,000,000	4.563%	100.30	4.549%
GRVI-0-17AA	Grad Vinkovci	23/10/2007	23/10/2017	HRK	42,000,000	5.500%	–	–
GROS-0-17AA	Grad Osijek	30/10/2007	30/10/2017	HRK	25,000,000	5.500%	–	–
GDST-0-15BA	Grad Split	27/11/2007	27/11/2015	EUR	8,100,000	4.750%	–	–
GDST-0-177A	Grad Split	8/7/2008	8/7/2017	EUR	8,200,000	6.000%	–	–
HBOR-0-112A	Hrvatska banka za obnovu i razvitak	11/2/2004	11/2/2011	EUR	300,000,000	4.875%	–	–
BLSC-0-091A	Belišće d.d.	14/1/2005	14/1/2009	EUR	8,000,000	5.500%	101.60	5.413%
RBA-0-112A	Raiffeisenbank Austria d.d.	10/2/2006	10/2/2011	HRK	600,000,000	4.125%	97.50	4.231%
PODR-0-115A	Podravka d.d.	17/5/2006	17/5/2011	HRK	375,000,000	5.125%	85.00	6.029%
NEXE-0-116A	Nexe grupa d.d.	14/6/2006	14/6/2011	HRK	750,000,000	5.500%	96.00	5.729%
MTEL-0-097A	Metronet telekomunikacije d.d.	28/7/2006	28/7/2009	HRK	120,000,000	8.500%	101.90	8.342%
HOTR-0-941A	Hospitalija trgovina d.o.o.	5/10/2006	5/10/2009	HRK	75,000,000	8.250%	99.00	8.333%
HEP-0-13BA	Hrvatska elektroprivreda d.d.	29/11/2006	29/11/2013	HRK	500,000,000	5.000%	91.70	5.453%
ATGR-0-11CA	Atlantic grupa d.d.	6/12/2006	6/12/2011	HRK	115,000,000	5.750%	89.00	6.461%
INGR-0-11CA	Ingra d.d.	6/12/2006	6/12/2011	HRK	200,000,000	6.125%	94.00	6.516%
OPTE-0-142A	Optima telekom d.o.o.	1/2/2007	1/2/2014	HRK	250,000,000	9.125%	70.00	13.036%
JDGL-0-126A	Jadran Galenski laboratorij d.d.	11/6/2007	11/6/2012	HRK	125,000,000	5.650%	–	–
JDRA-0-129A	Jadranka d.d.	13/9/2007	13/9/2012	HRK	75,000,000	6.475%	–	–
JRLN-0-12AA	Jadrolinija d.d.	25/10/2007	25/10/2012	HRK	70,000,000	6.500%	99.50	–
OIV-0-14BA	Odašiljači i veze d.o.o.	20/11/2007	20/11/2014	HRK	100,000,000	7.250%	84.00	–
HEP-0-17CA	Hrvatska elektroprivreda d.d.	7/12/2007	7/12/2017	HRK	700,000,000	6.500%	–	–
RPRO-0-181A	Rijeka promet d.d.	25/1/2008	25/1/2018	HRK	192,000,000	6.813%	–	–
PLOR-0-133A	Plodine d.d.	4/3/2008	4/3/2013	HRK	100,000,000	9.000%	–	–
SEM-0-101A	Linijska nacionalna plovidba d.d.	12/1/2007	12/1/2010	HRK	15,000,000	7.000%	93.63	7.476%

^a Regularly traded.

Source: ZSE, monthly report, December 2008.

total worth of the issue to EUR 24.6m. At the beginning of July, the City of Split issued a new nine-year euro bond, nominally valued at EUR 8.2m and having a yield to maturity at issue of 6.0%.

The bond turnover²² was HRK 13.2bn in 2008, which was 70.0% less than in 2007. The most liquid kuna bond in the observed period was the foreign currency indexed kuna bond of the Republic of Croatia, due in 2019, which accounted for 18% of the total turnover (HRK 2.3bn). A relatively high turnover was generated by RC bonds due in 2017 (14% or HRK 1.9bn), 2014 (13% or HRK 1.7bn) and 2015 (13% or HRK 1.6bn). Although there were not many newly issued corporate bonds in 2008, their share in total annual bond turnover went up in 2008 on the previous year, accounting for 7.9% of the total annual bond turnover on the ZSE.

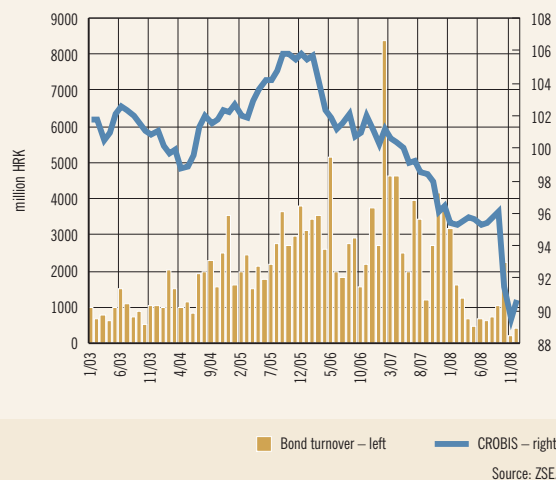
The market capitalisation²³ of all bonds on the domestic capital market was HRK 34.6bn (EUR 4.7bn) at the end of December 2008, accounting for 10.1% of GDP for 2008. The market capitalisation of the government bonds, municipal bonds and the CBRD bond was HRK 30.6bn (EUR 4.2bn), or 8.9% of GDP, whereas the market capitalisation of corporate bonds amounted to HRK 4.0bn (EUR 549m), i.e. 1.2% of GDP.

The sizeable interest rate increase in the domestic money market, especially in the second half of 2008, made debt securities investments less attractive, leading to an increase in their required yields, i.e. a decrease in prices. The bond index, the CROBIS,²⁴ therefore fell throughout most of 2008, standing at 90.6 points at the end of December, which was a drop of 5.9 points relative to the end of 2007.

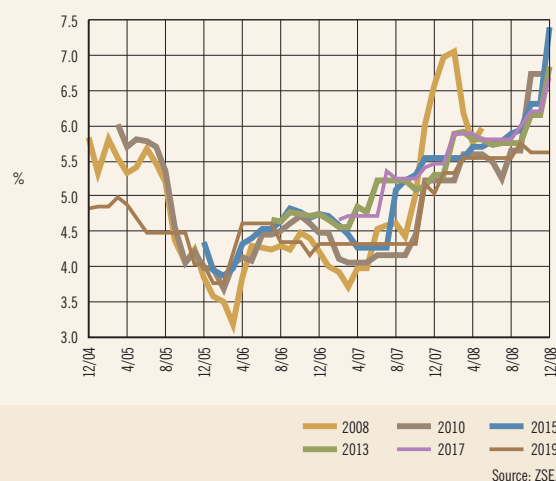
With a Samurai bond issued in 2002 falling due in June 2008, at nominal value of JPY 25bn or some HRK 1.1bn and no new RC bond issues in 2008, the number of Croatian bonds listed on foreign markets stood at six, one fewer than at the end of December 2006. The remaining international bonds of the RC include four euro-denominated bonds, one yen-denominated bond and one US dollar-denominated bond. The total nominal value of all six issues of Croatian bonds in foreign markets was HRK 22.3bn (EUR 3.0bn) at the end of 2008, which was a decline of HRK 634.8m (EUR 86.4m) on the end of the previous year.

Reassessment of investment risk by investors on all global markets, and especially on developing markets, contributed to a growth of investor interest in less risky investments and demand for government bonds of the most developed countries. This, paired with multiple reduction in the ECB's key interest rate, resulted in the fall of the required yields on reference German bonds during most of 2008. In the same period, the required yields on Croatian eurobonds mostly went up, with special intensity during the last quarter of 2008. By the end of December 2008, the spreads between required yields on Croatian eurobonds maturing in 2011 and 2014 and yields on reference German bonds widened to as much as 576 and 445 basis points respectively, which was much more than at the end of 2007, when

1.49 ZSE Monthly Bond Turnover and End-Month CROBIS



1.50 Trends in Yields to Maturity of Government Bonds on the Domestic Market



22 The data on the total bond turnover from January 2004 to February 2007 are the sum of the respective bond turnovers on the VSE and ZSE, with the unified ZSE data used since the VSE and ZSE merger in March 2007. It needs emphasizing that the bond turnover on the VSE had been negligible, standing below 0.4% of the total turnover on both stock exchanges in all the observed years.

23 Excluding the bonds of the Fund for the Compensation of Expropriated Property.

24 At the end of 2008, the CROBIS included eight Republic of Croatia bonds.

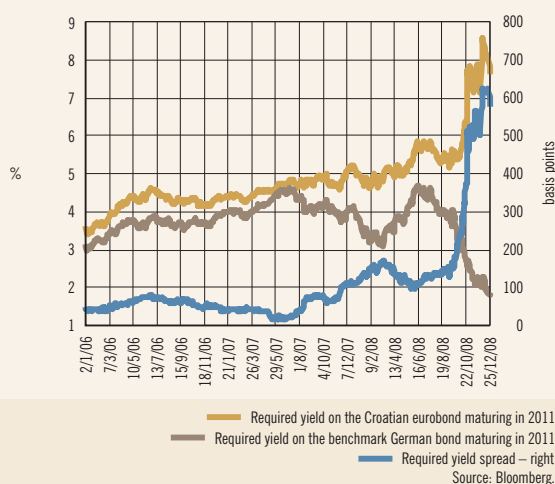
Table 1.7 Republic of Croatia International Bond Issues, stock as at end-2008

Bond	Issue date	Currency	Amount	Nominal interest rate	Yield on issue day	Spread on issue day	Spread ^a 31/3/2008	Spread ^a 30/6/2008	Spread ^a 30/9/2008	Spread ^a 31/12/2008
London Club Series A, 2010	31/7/1996	USD	857,796,000	6-month LIBOR + 81.25 b.p.			176	200	286	827
Eurobonds, 2011	14/3/2001	EUR	750,000,000	6.75%	6.90%	215	157	115	195	576
Eurobonds, 2009	11/2/2002	EUR	500,000,000	6.25%	6.45%	158	154	106	196	....
Eurobonds, 2010	14/2/2003	EUR	500,000,000	4.625%	4.65%	102	126	83	173	606
Eurobonds, 2014	15/4/2004	EUR	500,000,000	5.000%	5.11%	101	178	110	186	445
Samurai bonds, 2008	26/6/2002	JPY	25,000,000,000	2.15%	2.15%	144	101	....	....	....
Samurai bonds, 2009	26/6/2003	JPY	25,000,000,000	1.23%	1.23%	99	96	99	116	188

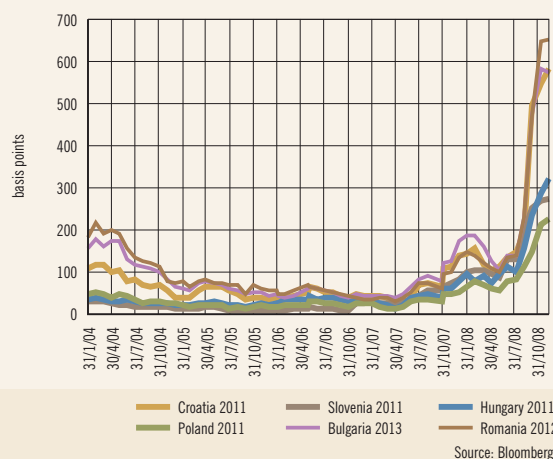
^a In relation to benchmark bond.

Source: Bloomberg.

1.51 Required Yields on Croatian and Benchmark German Eurobonds Maturing in 2011 and Their Spread



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



these spreads stood at 112 and 147 basis points respectively.

In 2008, yields on eurobonds of new EU Member States moved in line with yields on Croatian eurobonds. Following a mild decline in the first quarter 2008, the required yield on the Croatian eurobond and yields on benchmark eurobonds of new EU Member States grew again until the end of the first half of 2008. However, due to the more intensive fall of the required yield on the benchmark German bond in the first quarter their spreads additionally widened by the end of June 2008 over the end of the previous year. The exacerbation of the crisis in the second half of 2008, especially in the last three months, led to an intensive growth of required eurobond yields of all observed countries, except Poland and Slovenia, which paired with the concurrent decrease of yields on the benchmark German bond resulted in sizeable widening of their yield spreads. The highest increase in yield spreads was recorded by Romanian, Croatian and Bulgarian bonds.

1.2.8 Balance of Payments

According to the preliminary data, the current account deficit stood at EUR 4.5bn or 9.4% of GDP in 2008, which is EUR 1.2bn or 1.8 percentage points more than in 2007. To a large extent, the significant deterioration of the current account balance may be attributed to the widening of the goods trade deficit, strongly influenced by high crude oil prices in most of 2008. In addition, a considerable deterioration was also observed in the factor income account, due notably to significant expenses from direct investments and interest. In contrast, positive results were observed in the international trade in services, especially tourism, while the account of current transfers saw no marked changes in 2008 relative to 2007.

Croatia's gross external debt rose by EUR 5.9bn in 2008, ending December at EUR 39.1bn (82.6% of GDP). The growth of external debt accelerated in 2008 relative to 2007, due again mostly to strong foreign borrowing by enterprises. In addition, in contrast to the previous year, 2008 saw a substantial increase in the external debt of banks, notably in the last quarter. This was the result of banks' attempt to compensate for the temporary withdrawal of deposits from the banking system. In contrast to banks, the government continued to decrease its external debt in 2008 as well.

Current Account

The strong increase in the current account deficit in 2008 (37.6%) was to a large extent the consequence of the deterioration in the foreign trade balance. The structure of the trade in goods shows that the weakest results were in the trade in oil and refined petroleum products, with the trade deficit of this energy product increasing by EUR 0.5bn in 2008. The positive balance in the trade in ships (other transport equipment) decreased by EUR 0.1bn, due mostly to the strong and methodology-related²⁵ growth in ship imports in the first half of 2008. The negative balance in the trade in other goods rose by an additional EUR 0.9bn in 2008 relative to 2007 – the growth in exports was twice as low as in the previous year, while the growth in imports slowed down to a lesser degree.

The international trade in services was a significant factor contributing to the narrowing of the goods trade deficit. In 2008, the positive balance in this account rose by 11.1% over the previous year thanks mainly to the growth in tourism revenues (10.3%). Some improvement, as compared with 2007, was also observed in the trade in transportation services, notably sea cargo transport. The trade in other services saw an accelerated growth in both revenues and expenditures, with the balance improving by 9.1% year-on-year. As for individual types of services, the balance improved considerably in the trade in miscellaneous business services (notably architectural services and research and development services) and in construction services, while the weakest results were observed in the trade in telecommunications services.

A fairly strong growth in tourism revenues in 2008 was to a large extent due to the increase in the average spending by foreign visitors and only to a small extent due to the rise in the number of arrivals and nights stayed. Specifically,

Table 1.8 Current Account Structure

as % of GDP

	2004	2005	2006	2007	2008*
Current account balance	-4.4	-5.5	-6.9	-7.6	-9.4
Goods	-20.5	-21.0	-21.3	-22.0	-22.9
Oil and refined petroleum products	-2.0	-2.9	-3.2	-3.2	-3.9
Other transport equipment	1.3	0.7	1.1	0.8	0.6
Other goods	-20.3	-20.0	-20.5	-20.6	-20.4
Adjustments	0.5	1.0	1.3	0.9	0.8
Services	14.6	14.9	14.6	14.6	14.7
Income	-2.0	-2.7	-3.0	-2.6	-3.4
Current transfers	3.6	3.3	2.8	2.4	2.2

* Preliminary data.

Source: CNB.

Table 1.9 Current Account

in million EUR and %

	2006	2007	2008*	Rate of change 2008/2007
A. CURRENT ACCOUNT	-2,715	-3,237	-4,454	37.6
1. Goods	-8,344	-9,434	-10,866	15.2
1.1. Credit	8,464	9,193	9,743	6.0
1.2. Debit	-16,808	-18,626	-20,610	10.6
2. Services	5,705	6,266	6,962	11.1
2.1. Credit	8,529	9,125	10,091	10.6
2.2. Debit	-2,824	-2,859	-3,130	9.5
3. Income	-1,183	-1,112	-1,590	43.0
3.1. Credit	893	1,296	1,346	3.9
3.2. Debit	-2,076	-2,407	-2,936	22.0
4. Current transfers	1,107	1,043	1,040	-0.3
4.1. Credit	1,640	1,576	1,689	7.2
4.2. Debit	-532	-533	-649	21.7

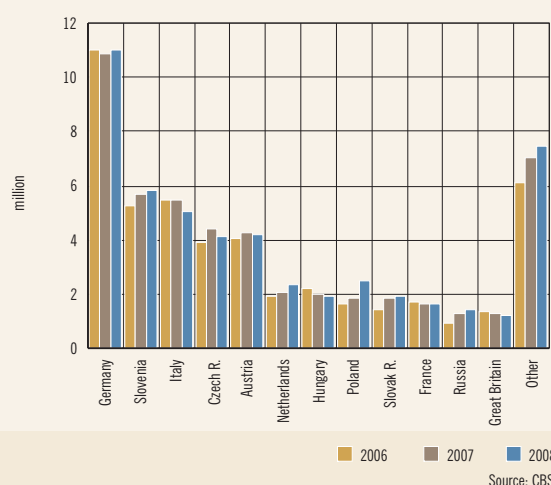
* Preliminary data.

Source: CNB.

²⁵ Ships exported abroad for the purpose of finishing operations or imported from abroad after being finished in the foreign shipyards are reported on a gross basis. This increases the value of ship exports and imports and causes significant year-on-year fluctuations in the trade in other transport equipment.

according to CBS data (the data on commercial accommodation capacities included), foreign tourist nights and arrivals rose by 2.1% and 1.2% respectively over the previous year. The growth of the average spending of foreign tourists was boosted by the rise in the prices of goods which predominated in their spending basket. This notably relates to the rise in the prices of fuel and food products in the peak season. Also, significantly faster growth was seen in 2008 than in 2007 in the prices of catering services, including accommodation services. The structure of tourist nights by country of residence shows the sharpest increase in the number of nights stayed by tourists from the CEE countries (especially Poland and Slovenia) and the sizeable fall in the number of nights stayed by tourists from the Czech Republic. The number of nights stayed by tourists from old EU member states was much the same as that observed in 2007, with the decrease in the number of nights stayed by Italian tourists being compensated for by the increase in the number of nights stayed by Dutch and German tourists.

1.53 Foreign Tourist Nights in Commercial Accommodation Facilities by Country of Residence



Good results in tourism aside, the foreign trade deficit in goods and services grew strongly in 2008, by 23.2% year-on-year or much faster than in 2007. Specifically, the relative indicator of the trade deficit in goods and services deteriorated from 7.4% of GDP in 2007 to 8.2% of GDP in 2008, while the coverage ratio between imports of goods and services and exports of goods and services fell from 85.3% to 83.6%.

In addition to the goods trade deficit, the second important factor contributing to the deterioration of the current account balance was the deterioration of the factor income balance. After a sizeable growth in revenues, the negative balance in this account fell by 6.0% in 2007, whereas in 2008 it grew by a high 43.0%. This was due to the absence of stronger growth in revenues (in 2008, they grew by only 3.9%) and the exceptionally high increase in expenditures (22.0%). The slowdown in the growth of revenues was seen in most items, with the highest decreases being observed in revenues from compensations to employees, revenues from direct resident investment abroad and revenues from foreign assets of banks. The strong growth in expenditures in 2008 was mainly generated by interest payments on accumulated external debt, and, to some extent, by the rise in direct investment-related expenditures (paid out dividends and reinvested earnings of foreign owners of domestic enterprises and banks). As in 2007, foreign owners channelled somewhat more than one half of the previous year's profit into dividends and reinvested the remaining funds. The continued and relatively strong growth in interest expenses (25.2%) was mostly generated by enterprises (other domestic sectors), which reported the fastest growth in interest on foreign borrowing.²⁶

The account of current transfers saw no significant changes in its balance in 2008 relative to the previous year, with both revenues and expenditures growing at a relatively fast rate. The intergovernmental subsidies-based growth of government revenues was the key contributor to total revenue growth, with a slight increase being also observed in revenues of other sectors. In the

1.54 Current Account Balance



²⁶ These indicators reflect to some extent the effects of debt reclassification as well as the fact that CM was reclassified from the government sector to other sectors early in 2008.

reference period, government expenditures also grew at the strongest rate, including pensions, taxes and court fees. Overall, with expenditures growing faster than revenues, the government sector balance of current transfers slightly deteriorated and the balance of other domestic sectors improved about equally.

Trade in Goods

The foreign trade deficit widened further in 2008. According to the balance of payments data expressed in euro terms, it rose by 15.2%, up 2.1 percentage points over 2007. The widening of the foreign trade imbalance was primarily the result of the significant deterioration in the trade in oil and refined petroleum products brought on by the sharp increase in crude oil prices in the world market, notably in the first seven months of 2008. The weaker trade in other transport equipment (mostly ships), largely caused by the reporting of finishing operations on a gross basis that affects the growth of imports, also contributed to the deterioration of the goods trade balance.

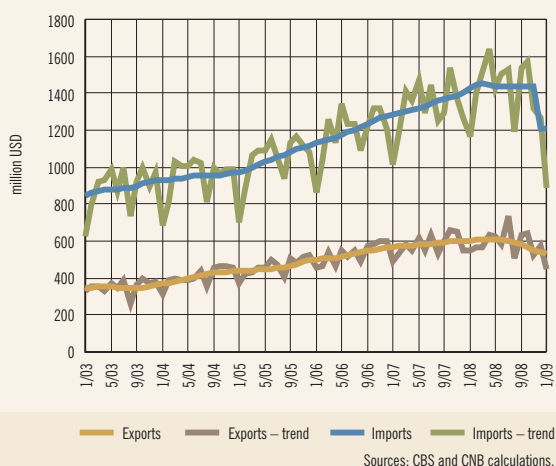
According to the CBS data, total exports of goods reached USD 14.1bn (EUR 9.6bn) in 2008. The year-on-year growth rate of exports stood at 7.8% (in constant US dollars), down 3.7 percentage points over 2007. The fall in exports of cereals and cereal preparations, attributable to the high value of the base period (i.e. the extremely strong growth of exports shortly before the introduction of export taxes on some field crops in September 2007), gave a considerable negative contribution to the slowdown of exports. Exports of miscellaneous manufactured articles also fell in the reference period, and were followed by a substantial deceleration in exports of furniture and parts thereof and general industrial machinery and equipment.

In contrast, the key contributors to the growth of exports were the accelerated exports of other transport equipment, and natural and manufactured gas. Here it should be noted that the reported acceleration of gas exports was to a large extent determined by the very low value of the base period (i.e. the fall in exports of this energy product after the construction of the North Adriatic pipeline). Exports of oil and refined petroleum products – the key contributors to the growth of total exports in the previous periods – slowed down considerably in 2008, notably in the second half of the year due in part to the fall in world prices. Ships, oil, refined petroleum products and gas excluded, total exports grew by only 1.3% in 2008 relative to 2007. Despite relatively weak results, some SITC divisions showed more significant growth of exports (coffee, tea, cacao and spices, electricity and miscellaneous edible products and preparations).

According to the CBS data, total imports of goods amounted to USD 30.7bn (EUR 20.8bn) in 2008. Standing at 13.6% in 2008, the year-on-year growth rate of imports (in constant US dollars) did not change significantly over the previous year (13.0%). This trend was to a great extent the result of the accelerated imports of energy products (i.e. oil, refined petroleum products, and natural and manufactured gas). Specifically, the value of gas imports was determined by the same factors that influenced gas exports, while the value of oil imports was substantially determined by high crude oil prices in the world market. The growth of total imports was also stimulated by the rise in imports of other transport equipment, involving stronger imports of ships and air transportation and similar equipment. Once

1.55 Goods Exports (f.o.b.) and Goods Imports (c.i.f.)

other transport equipment, oil and refined petroleum products excluded, at constant 2002 exchange rate



1.56 Foreign Trade Balance by Selected SITC Divisions

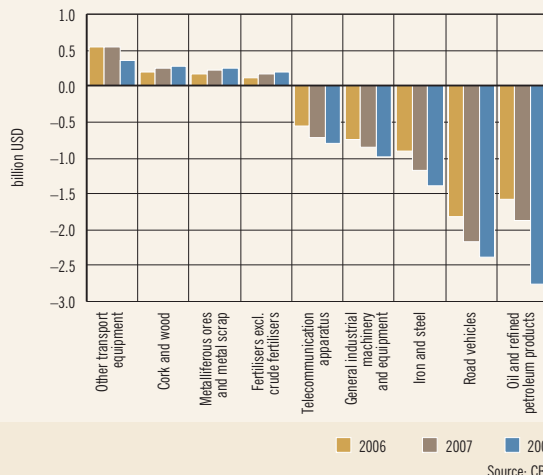


Table 1.10 Imports and Exports by Economic Classification of Countries

in %

Economic classification of countries	Exports			Imports		
	2006	2007	2008 ^a	2006	2007	2008 ^a
Developed countries	71.7	69.3	68.1	72.6	71.8	71.4
EU-25	63.2	59.1	59.7	65.0	63.3	63.0
Slovenia	8.2	8.3	7.8	6.3	5.9	5.6
Hungary	1.7	2.2	2.4	3.0	2.9	3.2
EU-15	48.8	43.6	44.1	50.1	48.7	48.5
Austria	6.0	6.1	5.8	5.4	5.3	4.9
Italy	23.1	19.1	19.1	16.7	16.0	17.1
Germany	10.3	10.0	10.8	14.5	14.4	13.4
EFTA	1.5	1.2	1.2	1.7	1.9	1.7
Developing countries	28.3	30.7	31.9	27.4	28.2	28.6
Bosnia and Herzegovina	12.6	14.4	15.4	2.8	2.8	2.7
Serbia, Montenegro	5.4	6.6	6.8	1.1	1.3	1.4
Russia	1.2	1.3	1.3	10.1	10.2	10.4
China	0.2	0.2	0.2	5.3	6.2	6.1

^a Preliminary data.

Source: CBS.

again, it should be noted that the growth in imports of ships partly arises from the reporting of finishing operations on a gross basis. The mentioned rise in imports of air transportation equipment included the imports of helicopters from Russia (in settlement of a clearing debt) and the imports of passenger aircraft from Canada by Croatia Airlines d.d. (fleet renewal).

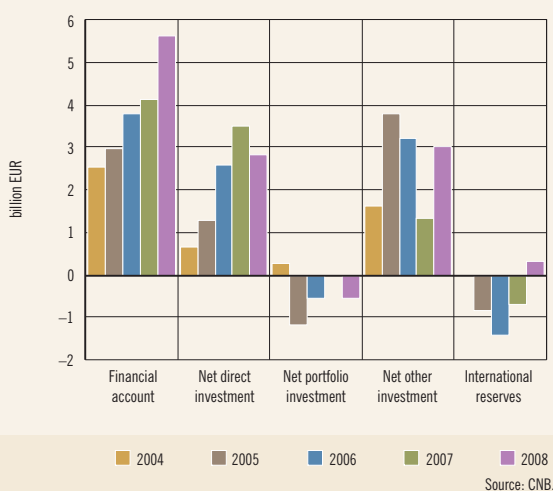
These three SITC divisions excluded, the growth of imports was much lower in 2008 and stood at 6.0%, half the rate achieved in 2007. This was largely due to the slowdown in imports of road vehicles which in previous periods were considerable contributors to the growth of total imports. The noticeable slowdown of imports in this SITC division in 2008 relative to 2007 is attributable to the strong fall in imports of road vehicles in the last quarter of 2008. The same trends were also observed in imports of miscellaneous manufactured articles, wearing apparel and telecommunication apparatus.

The geographic structure of the trade in goods shows the continued growth of exports to and imports from developing countries, with imports being somewhat stronger than exports. The strong growth of exports to neighbouring countries, notably Bosnia and Herzegovina (oil, refined petroleum products and electricity) and Serbia and Montenegro (non-metallic mineral manufactures and electrical machinery, apparatus and appliances) provided the main contribution to the rise in exports to developing countries. Imports from developing countries were largely determined by the growth of imports from Russia which almost entirely comprised energy products (oil, refined petroleum products, and natural and manufactured gas). The trade in goods with developed countries was marked by a two times faster growth of exports to old EU member states in 2008 relative to 2007, which is largely attributable to the reporting of finishing operations and its impact on the growth in the value of ship exports to Italy and Germany. In contrast, exports to new EU member states halved in 2008 as compared with 2007.

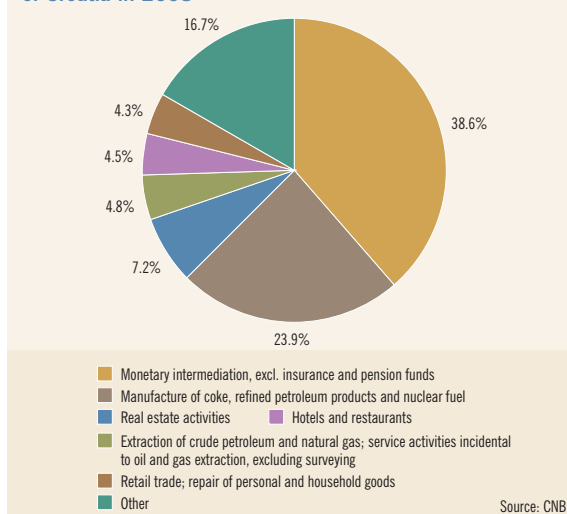
Capital and Financial Account

The capital and financial account recorded somewhat larger net capital inflows in 2008 than in 2007 (the change in international reserves excluded, net capital inflows stood at EUR 5.3bn, up 9.1% over 2007). Other investment, involving the rise in the external debt of domestic sectors on the basis of loans and trade credits and the currency and deposits of non-residents, were the largest source of net inflows in the reference period. Significant inflows were also generated from direct investment, including FDI, reinvested earnings and the growth of debt to the affiliated enterprises abroad. The account of portfolio investment witnessed an outflow of funds due to the repayment of Samurai bonds by the central government and the withdrawal of a portion of funds invested by non-residents in the domestic capital market. In addition, domestic investors invested more strongly in the foreign capital markets which also contributed to the outflow of capital from the account of portfolio investment. After being on an upward trend for several consecutive years, gross international reserves declined in 2008 due mostly to the redesign of monetary policy instruments.

1.57 Financial Account



1.58 Structure of Direct Equity Investment in the Republic of Croatia in 2008



In 2008, FDI into Croatia totalled EUR 2.9bn or one-fifth less than in 2007 which, in addition to exceptionally high recapitalisations of banks, was marked by the sales of Tifon d.o.o., Diners Club Adriatic d.d. and Osiguranje Zagreb d.d. In 2008, as in 2007, the structure of FDI shows that the largest investments were made in banks. Specifically, foreign owners injected EUR 0.4bn of fresh capital into banks, which is considerably less than in 2007 (EUR 1.2bn). The amount of reinvested earnings added, direct investment in banks stood at EUR 1.1bn, accounting for 38.6% of total direct investment. In terms of volume, the second largest investment was made in the production of coke, refined petroleum products and nuclear fuel and mainly related to the investment of the Hungarian MOL which purchased 22.15% of INA shares in the public bid in October. A significant amount of investment was also realised through the purchase of the equity holding in Sunce concern d.d. The analysis of investment by countries shows that Austrians, mostly the owners of domestic banks, were the largest investors in the reference period, with a considerable amount of investment being accounted for by Hungarians who invested in INA.

The investment of Croatian residents abroad were one third lower in 2008 than in 2007 due mainly to the decline in claims on loans granted by residents to foreign enterprises in their ownership. The amount of realised direct investment and the earnings retained by domestic owners of foreign enterprises were much the same as those reported in 2007.

The account of portfolio investment witnessed an outflow of EUR 0.6bn which is attributable to the decline in liabilities and the growth in portfolio assets of residents. The growth of foreign assets included mostly the rise in investments made by banks and investment funds in foreign bonds, while their investment in more risky shares and equity holding decreased. The fall in domestic sectors' liabilities mainly related to the central government – in addition to the regular obligations to the London Club in June it also repaid Samurai bonds worth JPY 25bn (about EUR 150m). Apart from the fall in debt portfolio investment liabilities, the outflow of capital was also the result of the withdrawal of funds by non-residents from the domestic capital market, notably in the last quarter owing to heightened uncertainty in financial markets. Specifically, foreign investors invested an additional EUR 0.3bn in shares and equity holdings in the domestic market in 2007 while they withdrew EUR 0.1bn from the same market in 2008.

The account of other investment (loans, trade credits, and currency and deposits) saw a net inflow of EUR 3.0bn in 2008, which is a considerable rise over the previous year (EUR 1.3bn). In 2008, the rise in foreign assets, mainly currency and deposits, was almost as strong as in 2007 (EUR 1.6bn), but involved different sectors. In contrast to 2007, in which the growth in foreign currency and deposits mainly comprised banks, the growth in foreign currency and deposits in 2008 was mostly generated in the household sector which withdrew a portion of deposits from banks in the third quarter under the impact of the global financial crisis. In an attempt to offset the newly generated deficit by borrowing abroad, banks increased their liabilities by EUR 1.0bn in 2008 as a whole. The growth of liabilities of domestic enterprise in the account of other investment was much higher and stood at EUR 3.5bn. However, with the weakening of economic activity and the lower availability of foreign sources of finance, the growth of their debt decelerated considerably in late 2008. As in 2007, the growth of foreign liabilities of the government sector in this account was relatively small in 2008.

According to the balance of payments data (cross-currency changes excluded), international reserves declined by EUR 0.3bn in 2008. The decline in reserves was reported in the second half of 2008, notably in the last quarter which saw the revocation of the marginal reserve requirement instrument and the cut in the foreign currency reserve requirement rate. Moreover, the fall in reserves was also caused by central bank interventions in 2008 (a total of EUR 189m were purchased from banks in January and a total of EUR 271m were sold to banks in October). Central bank transactions with the central government had an opposite and positive effect on this trend. Cross-currency changes included, the effect of which was also positive, international reserves stood at EUR 9.1bn at the end of 2008 according to the monetary statistics data, which is sufficient to cover 4.6 months of imports of goods and services.

Table 1.11 Composition of CNB Reserve Assets

end of period, in million EUR and %

	2005	2006	2007	2008
Total	7,438	8,725	9,307	9,121
1. Foreign currency reserves	7,337	8,163	8,911	8,625
1.1. Securities	3,603	4,198	4,773	7,118
1.2. Total currency and deposits with:	3,735	3,965	4,138	1,507
– Other national central banks, BIS and IMF	407	199	191	1,397
– Banks headquartered outside Croatia	3,327	3,767	3,948	109
2. IMF reserve position	0	0	0	0
3. SDRs	1	1	1	1
4. Gold	–	–	–	–
5. Reverse repo	100	562	395	495

Note: Expressed at the approximate market value.

Source: CNB.

Debt securities continued to predominate in international reserves at the end of 2008. As compared with the end of 2007 (51.3%), their share rose substantially in 2008, to 78.0%. This was due to the global financial markets crisis and the decision to reduce the exposures to credit risk by re-directing a significant portion of reserves, previously invested in the form of currency and deposits with foreign commercial banks, into more safe assets such as government bonds and deposits with other central banks, BIS and IMF. Concurrently, no significant changes were observed in the share of reverse repo operations.

External Debt

At a somewhat stronger pace than in 2007, Croatia's gross external debt continued to grow in 2008. After reaching EUR 39.1bn, the external debt balance was EUR 5.9bn higher at the end of December, increasing by 17.7% over the end of 2007. Above all, this was due to the continued strong borrowing by enterprises. The debt of the government sector did not change substantially over the year; it only slightly decreased. In contrast to 2007, banks increased their foreign liabilities. Here however it should be noted that banks were reducing their liabilities throughout most of 2008 and that the strongest increase in their debt was realised in the fourth quarter.

The external debt of other sectors (mostly enterprises) rose the most in 2008, by a total of EUR 4.9bn. This however includes the reclassification of CM,²⁷ which led to a one-off increase in the debt of this sector (EUR 1.2bn) early in the year. This correction effect excluded, the external debt of enterprises rose by EUR 3.5bn (CM increased its debt by an additional EUR 0.2bn throughout the year), almost half as much as in 2007. The key contributor to the slowdown of foreign liabilities of this sector was two times smaller growth of debt of public enterprises in 2008 relative to 2007, with similar effects being also produced by the slowdown in borrowing of private and mixed-ownership enterprises. The dynamics of debt growth in 2008 resembled that in 2007, its strongest increase being observed in the third quarter. However, the effects of the financial crisis and the resultant reduced availability of foreign sources of finance impacted the developments in debt at the end of 2008, which even declined slightly in the last two months of the year. Despite this, the foreign liabilities of enterprises accounted for more than a half of total external debt at end-December 2008.

²⁷ The reclassification of the CBRD and CM and its effect on the series of external debt data is described in detail in Bulletin No. 146.

Table 1.12 Gross External Debt by Domestic Sectors

end of period, in million EUR and %

	2005 ^a	2006 ^a	2007 ^a	2007 ^b	2008 ^b	Structure				Indices		
						2005	2006	2007	2008	2006/2005	2007 ^a /2006	2008/2007 ^b
1. Government	6,153	5,670	5,372	5,438	4,197	23.9	19.4	16.4	10.7	92.2	94.7	98.9
2. Croatian National Bank	3	3	2	2	2	0.0	0.0	0.0	0.0	97.2	91.4	96.6
3. Banks	8,979	10,223	8,879	8,918	10,079	34.9	34.9	26.8	25.8	113.9	86.9	113.0
4. Other sectors	8,176	10,500	14,743	14,937	19,836	31.7	35.9	44.9	50.7	128.4	140.4	123.0
5. Direct investment	2,451	2,878	3,933	3,959	5,010	9.5	9.8	11.9	12.8	117.5	136.6	126.6
Total (1+2+3+4+5)	25,761	29,274	32,929	33,254	39,125	100.0	100.0	100.0	100.0	113.6	112.5	117.7

^a In line with the old reporting system, each credit transaction had to be registered with the CNB.

^b The selected sample of enterprises is monitored by the new reporting system.

Note: The end-2007 data (the reclassification of CM to other sectors included) have been used for the calculation of 2008/2007 indices.

Source: CNB.

Similar dynamics was observed in FDI-related debt (including direct debt investment in enterprises and hybrid and subordinated instruments of banks). In 2008, this debt rose by a total of EUR 1.1bn, almost the same growth rate as in 2007, while its share in total external debt reached 12.8%.

After decreasing their debt by EUR 1.3bn in 2007 under the auspices of central bank measures, banks increased their foreign liabilities by a total of EUR 1.2bn in 2008. Moreover, bank foreign liabilities varied throughout the year and after the increase in the first two months of 2008 to compensate for the seasonal fall in domestic sources of funds, they continuously declined in the following months. The withdrawal of foreign currency household deposits under the influence of the global financial crisis led to a substantial increase in the external debt of banks in October 2008. The financing of central government needs in the situation of hindered access to foreign sources of finance was another contributor to this trend. As a result, the external debt of banks grew by EUR 2.1bn in the fourth quarter, ending December 2008 at EUR 10.1bn and accounting for 25.8% of total external debt.

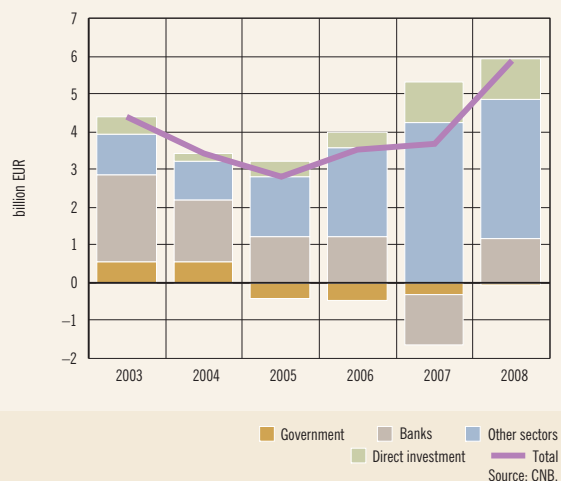
The above-mentioned reclassification of CM also had a sizeable effect on the external debt of the government sector (central government, central government funds and local government), decreasing it by EUR 1.2bn. This effect excluded, the fall in government foreign liabilities in 2008 stood at only EUR 0.1bn. For the most part, it was the result of the fall in central government liabilities – the repayment of Samurai bonds in July and the regular repayment of obligations to the London and Paris Clubs. The debt of the public sector, which in addition to the government sector includes the CBRD and public and mixed-ownership enterprises, slowed down in 2008 due largely to smaller borrowing by public enterprises. The contingent debt of the public sector (i.e. the publicly guaranteed private sector debt) continued its downward trajectory.

The euro predominated in the currency structure of external debt, keeping its share stable at three-fourths (75.9%). The decrease in Swiss francs-denominated debt reduced the share of this currency in total external debt, with the same effect being produced on the yen by the repayment of Samurai bonds. The US dollar share in total debt also declined slightly, while the external debt denominated in kuna rose by 1.4 percentage points due notably to bank borrowing.

According to the maturity structure, the short-term debt continued to trend upward in 2008. Specifically, it rose most in December, due entirely to the rise in bank foreign liabilities on currency and deposits (EUR 1.0bn). As a result, the share of short-term debt in total external debt rose in 2008 relative to 2007, ending December at 13.7%.

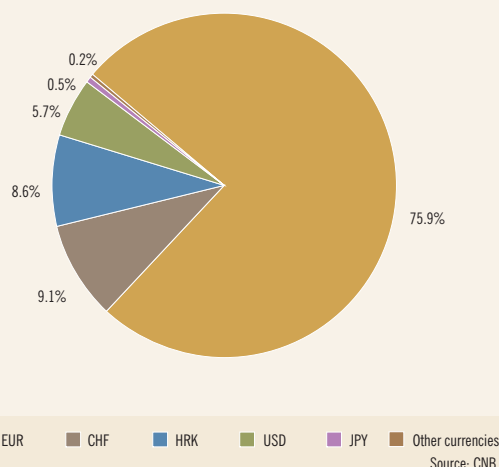
The growth of gross external debt exceeded the growth of nominal GDP and exports of goods and services in

1.59 Contributions of Domestic Sectors to External Debt Growth

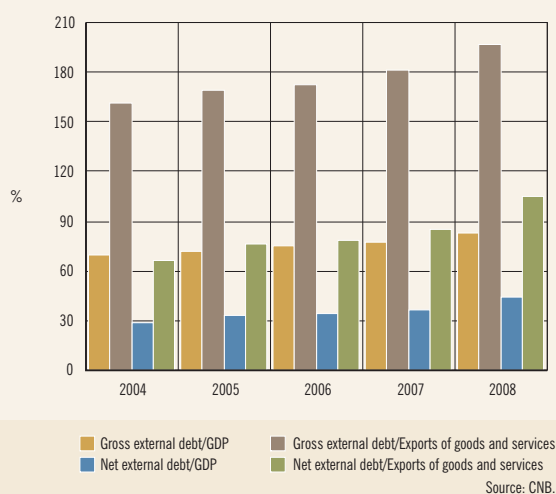


1.60 Currency Structure of External Debt

as at 31 December 2008



1.61 External Debt Indicators

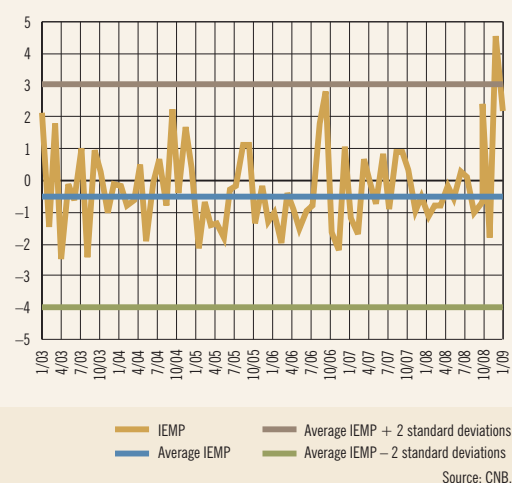


2008, contributing to the deterioration of the relative indebtedness indicators. As a result, the external debt to GDP ratio reached 82.6% in 2008, increasing by 0.5 percentage points over the end of 2007, and the ratio of external debt to exports of goods and services rose in the same period from 181.5% to 197.3%. The relative indicators of net debt showed similar trends, with the debt to GDP ratio increasing from 36.2% to 44.2% and the ratio of net debt to exports of goods and services deteriorating from 84.6% to 105.5%.

International Liquidity

The index of exchange market pressure (IEMP)²⁸ did not depart significantly from its long-term average value in most of 2008. However, the index surged in the last quarter of the year. Two factors were behind this trend: the depreciation of the kuna exchange rate and the fall in international reserves caused by the redesign of monetary policy instruments (i.e. the abolition of the marginal reserve requirement and the decrease in bank foreign currency reserve requirements). Although in December the IEMP exceeded its upper critical value, which indicates potential difficulties in the settlement of international payments, domestic sectors smoothly met their foreign liabilities throughout the whole period.

1.62 Index of Exchange Market Pressure



1.2.9 Government Finance²⁹

Fiscal Policy Features in 2008

The consolidated general government budget was marked by robust revenue growth for most of 2008. In contrast, expenditure growth picked up after the first quarter when provisional financing was applicable, which restricted government consumption. However, as the year came to a close, increasingly adverse trends in the labour market and

²⁸ IEMP is calculated as a weighted average of the monthly growth rate of the kuna/euro exchange rate (at end-period) and the monthly growth rate of gross international reserves (in euro terms), using standard deviations as weights. The value of the index above the critical level (plus two standard deviations) indicates potential difficulties in the settlement of international payments.

²⁹ The section on government finance is based on preliminary data of the Ministry of Finance for 2008.

the fall in the general price level and goods imports led to a shortfall in total annual revenues relative to the amount projected in the revised budget. Nevertheless, due to savings on the expenditure side, such trends had no negative effect on the deficit target.

Net borrowing of the consolidated general government (on a cash basis, GFS 2001) stood at HRK 2.6bn or 0.8% of GDP in 2008. It should be noted that there were no major revenues from the disposal of financial assets in 2008. Still, as government assets in the form of currency and deposits in its accounts increased, general government debt grew by HRK 7.9bn, to HRK 100.3bn or 29.3% of nominal GDP in 2008. The fall in both the debt level and the debt-to-nominal GDP ratio was due to the exclusion of Croatian Motorways (CM) from the consolidated general government and the CBS upward revision of GDP data.

This change in the coverage of general government was due to adjustments in public finance methodology to comply with Eurostat rules, i.e. the ESA 95 methodology. The Ministry of Finance thus excluded CM from consolidated general government in July 2008. Data for the whole of 2008 have been revised accordingly, but data for previous years have not. To enable the analysis of developments in revenues, expenditures and transactions in non-financial and financial assets and liabilities, MoF data for 2007 were adjusted by the CNB to exclude CM from the total aggregate.

Several legal changes in the public finance area also marked the observed period. Under the Act on Amendments to the Income Tax Act,³⁰ applied as of July 2008, the basic personal tax exemption was raised from HRK 1,600 to HRK 1,800 a month, which also changed income tax brackets. As these tax revenues are the main funding source for local and regional self-government units, the Act on Amendments to the Act on the Financing of Local and Regional Self-Government Units,³¹ which also came into force in July, additionally increased the share of income tax revenues allocated to these units.

Consolidated General Government Revenues and Expenditures

According to preliminary MoF data for 2008, consolidated general government revenues stood at HRK 134.7bn, growing by 7.5% on an annual basis. Since nominal GDP growth was somewhat higher, the share of revenues in GDP dropped to 39.4%

As the economic slowdown became more pronounced in the last months of 2008, demand for imports weakened, which led to slower growth in VAT revenues. This was also partly due to a fall in consumer price inflation, which had a positive impact on government revenues in mid-year. Nevertheless, VAT revenues, coupled with revenues from social security contributions, provided a major boost to growth in total consolidated general government revenues. Under the impact of favourable economic developments in the previous year, profit tax revenues grew by 19.7% in 2008, or somewhat less than in 2007. In contrast, excise revenues fell by 2.4% compared with 2007. In line with slower imports of road vehicles, revenues from excises on cars grew only slightly on an annual basis. The sharpest decline was registered in revenues from excises on refined petroleum products. This was largely the outcome of the Croatian government decision of May 2007 under which excises on all types of unleaded petrol were reduced by 25 lipa per litre, as well as of the stagnant growth in real retail trade of motor fuels and lubricants. In contrast, revenues from excises on tobacco products recorded strong growth in the last two months of 2008, which reflected positively on their annual growth rate. It seems that trends in November and December 2008 were affected by the announced increase in excises on tobacco products with effect from 1 January 2009, which is due to the obligation to gradually harmonise the level of excises with those in the EU. This probably spurred both the production and imports of tobacco products so as to put off the increase in sale prices for as long as possible.

Modest annual employment growth and the rise in the average nominal gross wage led to a 9.4% increase in revenues from social security contributions, which stood at HRK 40.7bn. Revenues from employer contributions exceeded expectations, while the largest shortfall was seen in revenues from contributions of self-employed and unemployed persons. Notwithstanding the said legislative changes, income tax revenues were up 8.3% under the impact of labour market developments.

³⁰ OG 73/2008.

³¹ OG 73/2008.

Consolidated general government expenditures stood at HRK 130.0bn in 2008, HRK 1.5 billion less than planned. Nevertheless, although their share in GDP decreased (as did the share of revenues) compared with the previous year, to 38.0%, expenditures grew at a high annual growth rate of 8.5%.

The largest contribution to the annual increase in expenditures came from expenditures on social benefits, which also account for the largest share in the consolidated general government budget. Rising by 9.3%, these expenditures stood at HRK 53.3bn in 2008. The structure of this expenditure category shows that most funds went on expenditures for social security benefits, which include the bulk of pensions and health care expenditures and which grew by 10.0% on an annual basis. Their growth was certainly spurred by the settlement of health sector arrears as well as the increase in the average pension paid and the average number of pension beneficiaries. Somewhat slower growth was seen in social assistance benefits, comprising, among others, expenditures for Croatian war veterans' permanent rights, child allowances, maternity benefits and permanent support.

In addition to social benefits, expenditures for compensation of civil servants and other government employees dominate in the structure of the general government budget. These expenditures stood at HRK 33.6bn in 2008 and their annual growth rate was 9.3%. The increase in this type of expenditures was the result of employment growth in education, health care and social services, and the narrowly defined public administration and defence as well as the increase in the basis for the calculation of wages in the 2007-2009 period, agreed between the government of the Republic of Croatia and the trade unions of public service employees.³²

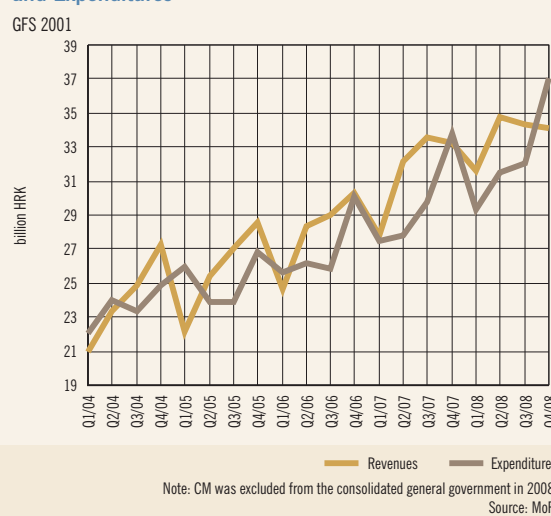
In 2008, large amounts were also spent on the use of goods and services (HRK 16.3bn), subsidies (HRK 8.1bn), and domestic and foreign interest payments (HRK 5bn).

Consolidated General Government Balance and Transactions in Non-Financial and Financial Assets and Liabilities

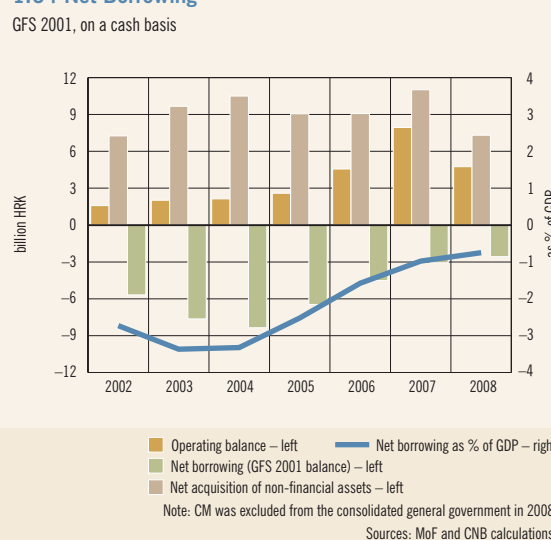
Trends in revenues and expenditures led to the positive operating balance of HRK 4.7bn. At the same time, investments for the acquisition of non-financial assets amounted to HRK 8.8bn in 2008; they were the same as in 2007 but much less than projected in the revised budget. Particularly noticeable was a fall in Croatian Roads (CR) investment in road infrastructure construction and maintenance, which declined by HRK 0.5bn relative to the year before. As the net acquisition of non-financial assets was much larger than the positive operating balance, net borrowing of the consolidated general government (GFS 2001) stood at HRK 2.6bn or 0.8% of GDP.

It should be noted that the exclusion of CM from the consolidated general government had a major impact on both the amount and structure of the balance since CM accounted for a large share of the funds spent on the

1.63 Consolidated General Government Revenues and Expenditures



1.64 Net Borrowing



³² The basis for the calculation of wages was increased under the Agreement on the Wage Base in the Civil Service and the Agreement on Wage Supplements in the Education and Science Sectors, which were signed by the Croatian government and unions of civil servants in November 2006.

acquisition of non-financial assets in previous years, while capital transfers to CM, which were formerly consolidated, became pure expenditures of the consolidated central government.

Financial assets of the consolidated general government rose by HRK 3.2bn in 2008. This was entirely due to the increase in domestic financial assets, while foreign financial assets decreased slightly. The increase in domestic financial assets was largely a result of the rise in currency and deposits. The increase in assets was also due to loans granted, while the sale of 4.2% of T-HT shares and 12.5% of shares of Petrokemija d.d. to employees of these companies produced the opposite effect.

Financial liabilities of the government strongly increased in 2008 in the absence of partial funding of the negative balance through the disposal of financial assets. Having decreased in 2007, financial liabilities of consolidated general government grew by HRK 5.8bn in 2008. Domestic liabilities increased on account of new loans in the domestic market and T-bills issued, while the parallel repayment of due foreign liabilities led to a decline in foreign financial liabilities.

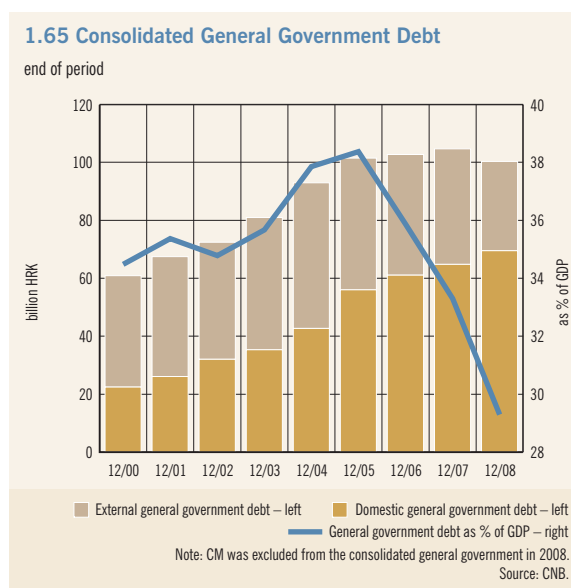
Government Debt

The exclusion of CM from the consolidated general government sector in the CNB debt statistics as of January 2008 considerably reduced the government debt level compared with the previously published data. In addition, the CBS revision of GDP data improved indicators of the government's relative debt burden. At end-2008, general government debt stood at HRK 100.3bn or 29.3% of nominal GDP, up HRK 7.9bn over the end of 2007.³³ Within its structure, the share of domestic debt continued to increase.

On the other hand, contingent government debt arising from guarantees issued nearly doubled in 2008 since the bulk of CM debt was covered by government guarantees. Furthermore, under the Act on the Croatian Bank for Reconstruction and Development,³⁴ the government guarantees for all of this bank's liabilities so that total CBRD debt was added to the amount of guarantees, which thus stood at HRK 44.5bn.

Due to the adverse global financial environment, i.e. impeded access to foreign capital markets, general government units had to borrow mostly on the domestic market in 2008. Domestic debt stood at HRK 69.5bn at the end of 2008 while its share in total debt grew to 69.3%. The funds raised in the domestic market were used to finance the budget deficit and pay previously incurred debt. The obligations falling due over the year included five-year HRK 1bn bonds issued in the domestic market, JPY 25bn worth of Samurai bonds and EUR 200m worth of bonds issued in the domestic market in 2001. In addition, the government repaid this year's instalments payable to the London and Paris Club amounting to around EUR 136m.

The structure of domestic debt shows that in 2008 the government mostly relied on borrowing in the form of bank loans. However, towards the year-end, it intensively used short-term financing through issues of T-bills. At end-November, the MoF held an auction where it issued HRK 2.7bn worth of two-year T-bills, which were mostly purchased by non-banking investors. As another HRK 5.7bn worth of T-bills was issued in December their share in total domestic debt grew from 19.5% at end-2007 to 24.1% at end-2008. Domestic debt of extrabudgetary users increased by HRK 1.0bn mostly due to new CM borrowing that was used to finance road construction investments, while local government debt fell by HRK 0.2bn.



33 To enable the series comparison, CM was also excluded from the general government debt data for December 2007.

34 OG 138/2006.

Refinancing of maturing foreign liabilities in the domestic market, as well as the meeting of new funding needs in that market reduced the external debt of the consolidated general government by HRK 0.4bn. This decrease was entirely made at the level of the Republic of Croatia while the debt of extrabudgetary users increased by HRK 0.4bn. External debt of local government units, which accounts for somewhat more than 10% of their total debt, edged up in 2008.



2

Monetary Policy Instruments and International Reserves Management

2.1 Instruments of Monetary Policy in 2008

In response to new circumstances arising from inflationary pressures in the first half of 2008 and the constrained refinancing of private and government sector debt in the second half of 2008, numerous changes of monetary policy instruments of the Croatian National Bank were made as the financial crisis unfolded. In addition to efforts aimed at slowing down external debt growth so as to reduce the increase in bank placements and prevent a further widening of the current account deficit, the CNB strove to ensure sufficient funds for banks in an environment of the intensified global financial crisis, the direct outcome of which was substantially impeded access to foreign borrowing. By changing some instruments, the CNB freed both kuna and foreign currency liquidity, which facilitated bank operations and the funding of domestic sectors at the time of limited access to foreign capital. As a result of the global financial turmoil, downward pressures on the kuna emerged so that some measures were aimed at reducing kuna liquidity in periods of depreciation pressures.

In 2008, the central bank continued to use marginal reserve requirements, special reserve requirements and compulsory CNB bills, which directly raised the cost of banks' foreign funding sources and limited their credit multiplications. However, due to the spillover effect of the global financial crisis on real sector developments in Croatia, the CNB, particularly in the last quarter of 2008, pursued an active policy of containing banking system kuna and foreign currency liquidity within limits that would not fuel inflation and exchange rate depreciation. Moreover, in May 2008 the minimum required amount of foreign currency claims was reduced from 32% to 28.5% of foreign currency liabilities, which provided banks with foreign currency funds for government financing. Also, the marginal reserve requirement was abolished in October 2008 so as to increase the foreign currency liquidity of banks. The reserve requirement rate was lowered from 17% to 14% in December 2008, which freed a substantial amount of previously immobilised funds.

Open market operations were the main instrument of kuna liquidity creation throughout 2008, while larger volumes of Lombard loans were used in the last quarter. Banks had to use Lombard loans as a secondary source of liquidity to satisfy their liquidity needs since the CNB on several occasions strictly limited the amount of liquidity created at reverse repo auctions. To limit the possibility of liquidity creation on banks' own initiative, the CNB reduced the percentage of the nominal value of collateral used to secure Lombard loans and limited collateral acceptable for such loans to T-bills with an original maturity of up to one year.

In the last quarter of 2008, when demand for foreign exchange was pushed up by the financial needs of the government and private sectors as well as household deposit outflows, the CNB undertook a foreign exchange intervention in which it sold foreign currency to banks and thereby reduced kuna liquidity. Also, in efforts to preserve stability in the domestic money and foreign exchange markets and avoid inflationary pressures, the central bank excluded the banks' vault cash from the reserve requirement maintenance obligation by its late September decision. This means that the kuna component of reserve requirements is maintained only in settlement accounts and in the accounts for covering the negative balance within the National Clearing System (NCS).

Due to the considerably changed circumstances arising from the global financial crisis and CNB efforts simultaneously to maintain kuna and foreign currency liquidity at satisfactory levels and ease depreciation pressures, the last quarter of 2008 witnessed stronger volatility of overnight interest rates, which often crossed the boundaries of the interest rate corridor, as formed by interest rates on the standing facilities in the form of Lombard loans and overnight deposits.

2.1.1 Open Market Operations

The following types of open market operations are at disposal of the Croatian National Bank:

- regular operations,
- fine-tuning operations, and
- structural operations.

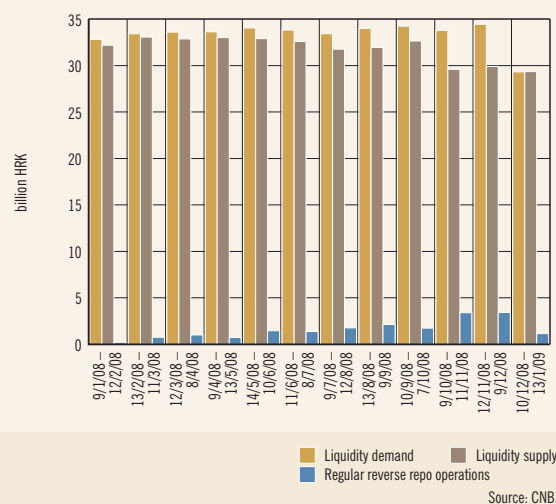
The volume of open market operations affects interest rate developments in the interbank market, where the major share of transactions involves overnight loans. However, interest rates are not the main factor considered by the CNB when deciding on the volume of open market operations.

Demand for reserves is determined by the total amount of the kuna component of reserve requirements and demand for surplus liquidity. Total average demand for reserves stood at HRK 33.5bn in 2008. Of that amount, the kuna component of reserve requirements averaged HRK 32.7bn, with the average surplus liquidity standing at HRK 0.8bn. The average balance of total demand for liquidity rose 5.1% in 2008, compared with 2007, largely due to the increase in the kuna component of reserve requirements. Average surplus liquidity ranged from HRK 0.3bn to HRK 1.4bn during the reserve maintenance periods in 2008. The highest maximum amount of average surplus liquidity of all the maintenance periods was recorded in December when average surplus liquidity is commonly higher.

The supply of reserves is determined by autonomous factors, i.e. CNB balance sheet items that affect banking system liquidity. The most significant autonomous fac-

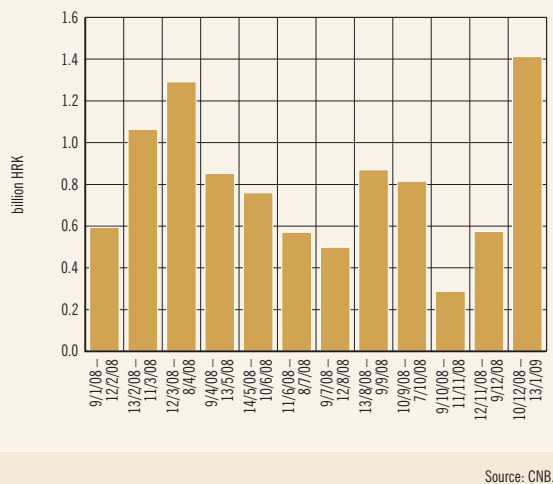
2.1 Liquidity Demand and Supply

average balance in reserve requirement maintenance periods

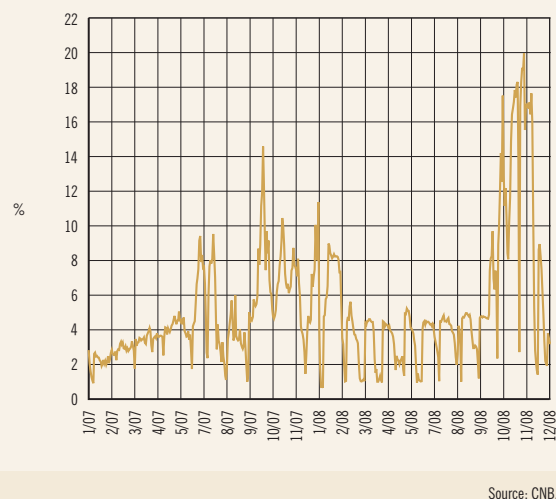


2.2 Average Liquidity Surplus in Reserve Requirement Maintenance Periods

by maintenance periods



2.3 Overnight Interest Rates



tors include net foreign assets, currency outside banks and government kuna deposits. Autonomous factors averaged HRK 31.8bn in 2008, up 11.8% over 2007. Of the autonomous factors, the average daily balance of government kuna deposits increased the most, by 69.9%. The average daily balance of currency outside banks and net foreign assets grew by 7.0% and 3.5% respectively in 2008 compared with the previous year.

The Decision on reserve requirements was amended in September 2008 to exclude the banks' vault cash from liquid kuna claims, average daily balances of which may be used to maintain the kuna component of reserve requirements. Hence, since 9 October 2008, the kuna component of reserve requirements has been maintained by the average daily balance in the settlement account and in the account for covering the negative balance in the clearing account within the NCS. Moreover, the balance in bank vaults ceased to be a part of demand for reserves and became a part of autonomous factors.

Although average surplus liquidity was higher than in the previous year, the average level and variability of overnight interest rates in the money market were greater in 2008 than in 2007. The overnight interest rate ranged from 0.66% to 19.95% in 2008, while it ranged from 0.92% to 14.59% in 2007. As a result, the variation coefficient stood at 79.38% in 2008 and was higher than in 2007 when it was 51.54%.

Regular Operations

Regular operations provide the bulk of funding for the banking sector. They are used to manage the system's liquidity and are conducted at regular weekly reverse repo auctions (on Wednesdays), with a maturity of up to one week. Access to auctions is given to domestic banks and acceptable collateral includes kuna T-bills of the Ministry of Finance. Almost all auctions in 2008 were organised as auctions in which prices are freely determined. The exceptions were two fixed-price auctions held near the end of December. At the latter of the two, the CNB exercised its discretionary right to accept 100 percent of the bids received.

Reverse repo operations of the CNB were the main instrument of liquidity creation in 2008 and banks regularly participated at reverse repo auctions. The banks participated in all but one of the 47 reverse repo auctions held in 2008, while six scheduled auctions were not held.

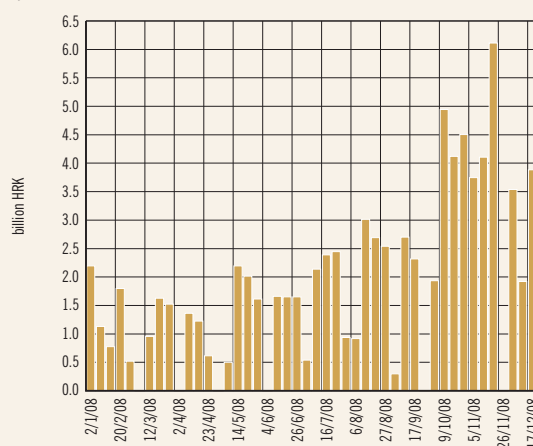
Liquidity creation at regular reverse repo auctions was particularly strong in the first part of each of the reserve maintenance periods, showing that the banks still tend to fulfil most of their reserve requirements somewhat earlier in the maintenance period.

The total amount of funds thus placed to the banks stood at HRK 86.8bn in 2008, nearly half less than in 2007. The amount of funds placed at 2008 auctions ranged from a mere HRK 0.3bn in September to HRK 6.1bn in November. The average daily balance of the funds created at reverse repo auctions during the same period was HRK 1.7bn. The largest average daily balance was HRK 4.3bn recorded in the maintenance period from 9 October to 11 November 2008. Individual amounts of the funds placed at the four auctions during that period ranged from HRK 3.7bn to HRK 4.9bn.

Banks offered various rates at auctions held in 2008 and participated in auctions with several bids. All bank offers were refused at six auctions, while at other auctions the percentage of bids accepted at the marginal repo rate was 100%. The exceptions were two November auctions where 75% and 50% of the bids were accepted. The ratio of bids accepted to total bids received ranged from 39% to 100%, excluding the auctions where all offers were refused. In 2008, five banks, on average, participated in each auction and the average number of bids per bidder was 1.8.

2.4 Regular Operations

by auction dates



Source: CNB.

Fine-Tuning Operations

Unlike regular operations, which are used exclusively to improve the system's liquidity, fine-tuning operations are used to temporarily decrease or increase the system's liquidity. These operations are conducted on an ad hoc basis to manage the liquidity situation in the market and steer interest rates, in particular when it is necessary to smooth the effects of interest rate changes caused by unexpected market fluctuations. Fine-tuning operations may be executed as repo and reverse repo operations, and outright purchases and sales of securities and foreign currency. Frequency and maturity of fine-tuning operations are not standardised, which ensures a high level of flexibility and the possibility to respond quickly to any sudden market fluctuation. These operations are conducted at auctions through non-standardised bids or bilateral procedures with a limited number of participants. Acceptable collateral are kuna denominated T-bills of the Ministry of Finance.

Structural Operations

The third type of open market operations are structural operations, which are carried out when a longer-term liquidity structure adjustment is required. Conducted through outright securities purchase and sale transactions, and repo and reverse repo operations, they are used to increase or reduce the system's liquidity. Their maturity and frequency are not standardised and they are carried out at standard bid auctions in which banks participate. Eligible collateral for these types of operations includes all types of government securities. No structural operations took place in 2008.

2.1.2 Standing Facilities

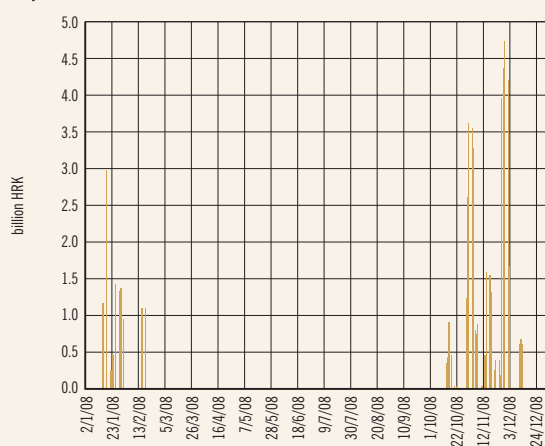
Standing facilities are instruments available to banks on their own initiative for an unlimited number of days in a month to stabilise any unexpected changes in bank liquidity. Standing facilities have an overnight maturity and may take the form of a Lombard loan in case of liquidity shortage or a deposit facility in case of liquidity surplus. 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 the overnight deposit with the CNB setting a floor to that corridor.

Lombard Loan

The Lombard rate provides a ceiling to the interest rate corridor on the money market. In 2008, it was set at 9.0%. The facility is granted against a pledge. Throughout most of 2008, it could be used on a daily basis up to the amount of 90% of the nominal value of the T-bills pledged. The Decision on the terms of granting short-term loans on the basis of pledged securities was amended on two occasions in December 2008. The first amendment, which entered into force on 10 December 2008, limited eligible collateral to kuna T-bills of the Ministry of Finance with an original

2.5 Lombard Loans

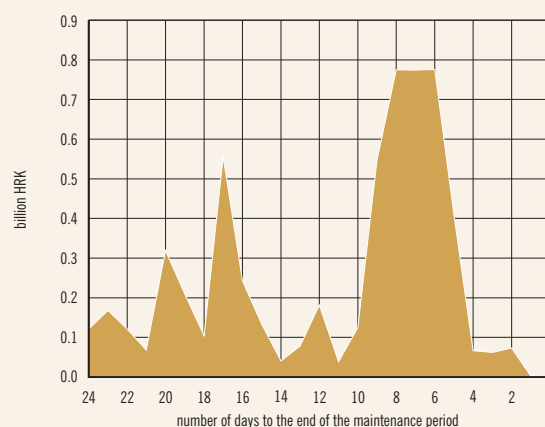
daily balances



Source: CNB.

2.6 Changes in Lombard Loan Balance in Reserve Requirement Maintenance Periods

average daily balances



Source: CNB.

maturity of up to one year, since T-bills maturing in 728 days were issued towards the year end. In addition, with effect from 22 December 2008, the percentage of the nominal value of T-bills serving as collateral for Lombard loans was reduced from 90% to 50%, which limited the possibility of using these loans.

A Lombard loan is used on a bank's request or is granted automatically in the event of default on an intraday loan, and exclusively at the end of a business day. It is repayable on the next business day. The CNB may at its discretion deny the banks, temporarily or permanently, the use of the Lombard facility.

The Lombard facility was used in the first and last quarters of 2008: it was used for 12 business days in January and February and was not used until October when its use again intensified. The amounts granted under the Lombard facility in 2008 ranged from HRK 36.0m to HRK 4.7bn, with the average daily amount standing at HRK 1.3bn. The maximum average amount of the Lombard loan during the days of its use was HRK 1.6bn in December 2008. The largest daily Lombard loan of HRK 4.7bn was granted in November, while its minimum average daily amount of HRK 1.0bn was recorded in February 2008. In 2008, this facility was used for a total of 46 days, of which as many as 34 days took place in the last three months of the year. The banks used the Lombard facility between three and 19 business days within a month, with the largest number of days of its use taking place in November 2008.

Deposit Facility

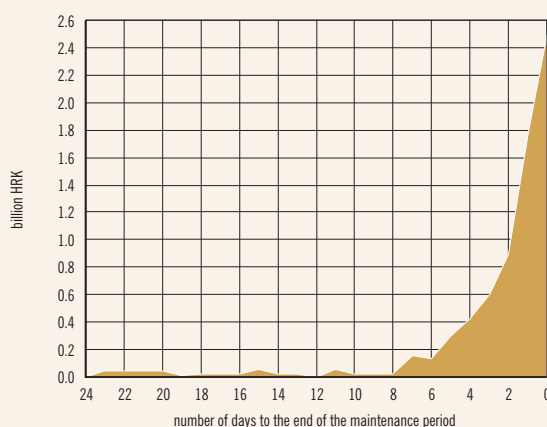
The banks may deposit any end-of-day liquidity surplus with the CNB. It is an overnight deposit that is repayable to the banks at the beginning of the next business day and that is remunerated by the CNB at 0.5% annually, an interest rate that is also the floor of the interest rate corridor on the money market. Funds deposited by banks in the form of overnight deposits with the CNB are not included in reserve requirement maintenance. The CNB may at its discretion deny the banks, either temporarily or permanently, the use of the deposit facility.

Throughout 2008, the banks made use of the overnight deposit facility with the CNB, particularly, in terms of the number of days, in the first half of 2008. Within a reserve maintenance period, the use of overnight deposits is commonly more frequent in the second part of the period, when the banks are more confident that they will meet the reserve requirement. Overnight deposits commonly increased immediately before a new maintenance period.

The average daily balance of the deposit facility was HRK 0.8bn in 2008. The largest daily amount of the overnight deposit was HRK 3.8bn, recorded in November 2008, which was also the maximum average amount of the facility during the days of its use in 2008. Overnight deposits were used for a total of 90 days in 2008, and the banks used this facility between one and 20 business days in a month. The minimum average amount during the days of use was HRK 0.3bn recorded in September 2008. The largest number of days of use of overnight deposits took place in January 2008 when the banks deposited their funds with the central bank for 20 days, with the average deposit standing at HRK 0.7bn.

2.7 Changes in Overnight Deposit Balance in Reserve Requirement Maintenance Periods

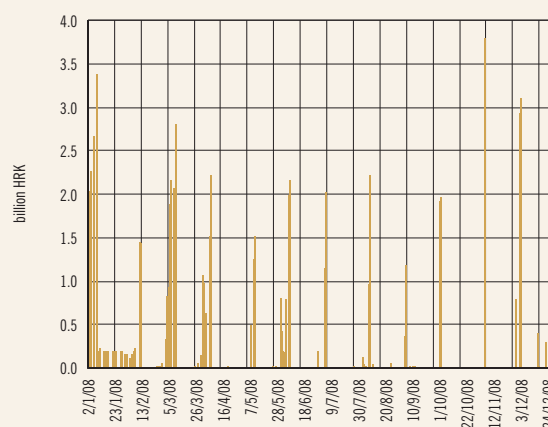
average daily balances



Source: CNB.

2.8 Overnight Deposits

daily balances



Source: CNB.

2.1.3 Reserve Requirements

In 2008, reserve requirements remained the main instrument of sterilising excess liquidity in the banking system. The reserve requirement rate throughout most of the year was 17%. However, starting from the reserve requirement calculation on 10 December 2008, this rate was cut from 17% to 14%. The base for the calculation of reserve requirements consists of the kuna and foreign currency components. Of the calculated foreign currency component of reserve requirements, 50% is included in the calculated kuna component of reserve requirements and is executed in kuna. The calculation period extends from the first to the last day of a calendar month, and the maintenance period begins on the second Wednesday in a month and ends on the day preceding the second Wednesday of the following month. The kuna and foreign currency reserve requirement allocation percentages are 70% and 60%, respectively, of the calculated reserve requirements. However, the foreign currency component of reserve requirements calculated on the basis of non-residents' foreign currency funds and foreign currency funds received from legal persons in a special relationship with a bank is set aside at the rate of 100%. The remaining part of reserve requirements may be maintained by average daily balances in the accounts of liquid claims. Also, under the October amendments to the Decision on reserve requirements, starting from the reserve requirement calculation on 9 October 2008, the banks' vault cash is excluded from liquid kuna claims that may be used to maintain the kuna component of reserve requirements.

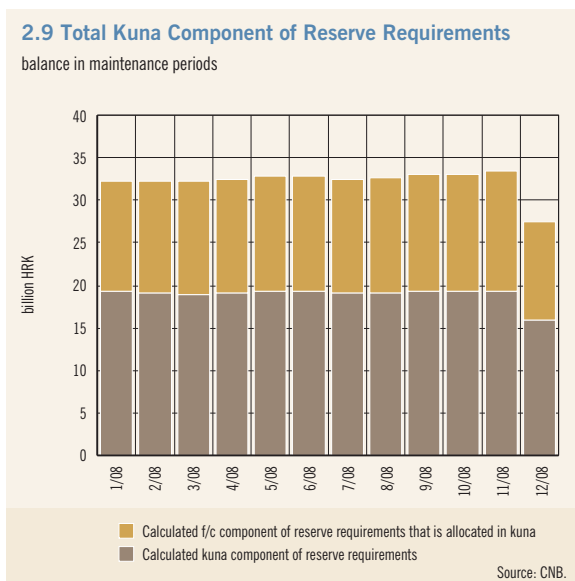
Kuna and Foreign Currency Components of Reserve Requirements

The kuna component of the base fluctuated throughout 2008. It bottomed out at HRK 111.6bn in February and peaked at HRK 114.8bn in December. The growth of the kuna component of the base ranged from 0.2% to 1.3% per month in 2008. In the January-December period of 2008, the kuna component of the base grew by 1.9%.

The kuna component of reserve requirements also fluctuated over the whole of 2008 (except in December), ranging from HRK 32.2bn in the maintenance period that began in January to HRK 33.4bn in November. After the cut in the reserve requirement rate from 17% to 14%, the kuna component of reserve requirements plunged by 17.9% in December relative to November, to HRK 27.4bn, its lowest level in 2008. Thus, the kuna component of reserve requirements fell by 14.7% in the January-December period, primarily on account of the cut in the reserve requirement rate.

The foreign currency component of the base was HRK 154.8bn in January, which was its lowest level in 2008. It recorded steady growth throughout the year (with the exception of a fall in May and June and a slight decrease in November) and reached its annual high of HRK 169.6bn in December, growing annually by 9.5%. The foreign currency component of the base recorded the highest monthly increase of 2.9% in January, while the remaining part of 2008, overall, saw lower monthly growth.

The foreign currency component of reserve requirements fluctuated in 2008 in line with the changes in the foreign



currency component of the base, with the exception of the December maintenance period when the foreign currency component of reserve requirements decreased due to the cut in the reserve requirement rate. The foreign currency component of reserve requirements fell by 9.5%, from HRK 12.8bn in January to HRK 11.6bn in December.

In 2008, the remuneration paid for the allocated kuna component of reserve requirements was 0.75%, while that paid on the foreign currency component of reserve requirements set aside in euros was 50% of the ECB Minimum Bid Refinance Rate, and for funds set aside in US dollars, 50% of the US Federal Funds Target Rate.

2.1.4 Measures to Limit Placement and External Debt Growth

Marginal reserve requirements, special reserve requirements and subscription of compulsory CNB bills were the instruments used in 2008 to slow down external debt growth with a view to reducing the increase in bank placements and preventing a further widening of the balance of payments deficit. However, in response to the spillover effects of the global financial crisis, marginal reserve requirements were abolished in October 2008, which increased foreign currency liquidity of the banks.

Marginal Reserve Requirements

The CNB adopted a decision to abolish the marginal reserve requirement in October 2008. Given the exacerbation of the financial market crisis in the second half of the year and the rising foreign currency liquidity needs of domestic banks, this instrument was abolished, which facilitated foreign currency operations of the banking system.

Marginal reserve requirements were calculated in the first three quarters of 2008 and the base for their calculation consisted of four components.

The first component of the base for the calculation of marginal reserve requirements (MRR I) was the positive difference between the average daily balance of sources of funds received from non-residents and legal persons in a special relationship with the bank in the calculation and initial calculation periods, with the initial calculation period being that from 1 to 30 June 2004.

The second component of the base for the calculation of marginal reserve requirements (MRR II) was calculated in the same way as the first component, with the exception that the initial calculation period was that from 1 to 30 November 2005.

The third component of the base for the calculation of marginal reserve requirements (MRR III) was the positive difference between the average daily balance of funds collected from persons engaged in financial leasing and individual off-balance sheet items comprising guarantees and warranties for the account of non-residents in kuna and foreign currency and serving as a basis for foreign borrowing of domestic natural and legal persons in the calculation and initial calculation periods, with the initial calculation period being that from 1 to 30 November 2005.

And finally, the fourth component of the base for the calculation of marginal reserve requirements (MRR IV) was the positive difference between the average daily balance of funds received from non-residents and legal persons in a special relationship with the bank, which were used for financing domestic legal and natural persons in the form of syndicated loans or for domestic banks' placements to domestic legal and natural persons in the name and for the account of the mandator (mandated operations), with the initial calculation period being that from 1 to 31 May 2006.

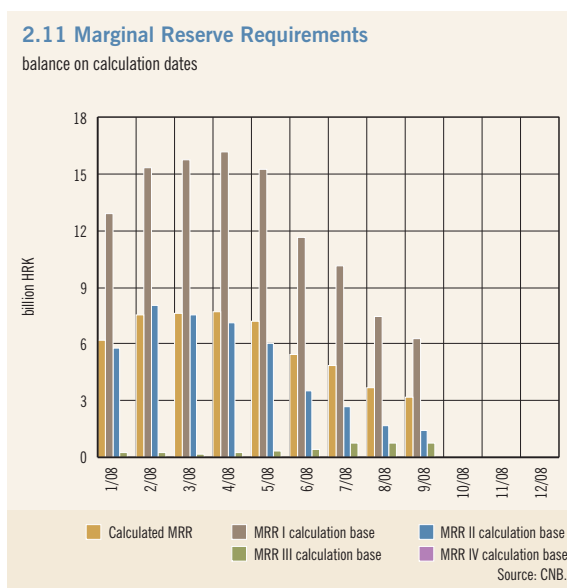
The rates of marginal reserve requirements applied to the MRR I base and the MRR II base were 40% and 15%, respectively, while a 55% rate was applied to both the MRR III and MRR IV base. Marginal reserve requirements were in their entirety set aside in foreign currency to foreign currency accounts with the CNB and were not remunerated by the central bank.

Total calculated marginal reserve requirements fell from HRK 6.2bn in January 2008 to HRK 3.2bn in September 2008, which is a decrease of 48.5%. This trend indicated the efficiency of this measure in limiting foreign borrowing by the banks. In terms of monthly values, marginal reserve requirements grew from HRK 6.2bn in January to the

annual high of HRK 7.7bn in April 2008. Marginal reserve requirements decreased steadily in subsequent calculation periods, falling to an annual low of HRK 3.2bn in the last calculation period in September.

Trends in the base for the calculation of marginal reserve requirements were similar to those in the calculated marginal reserve requirements. Since the most significant input to the base came from the sources of funds of non-residents and legal persons in a special relationship with the bank, their dynamics was the most important factor affecting the dynamics of the calculated marginal reserve requirements.

In January 2008, total sources of funds from non-residents and legal persons in a special relationship with the bank were HRK 68.0bn. They grew steadily until April when they reached HRK 71.0bn. Non-residents' funds steadily decreased in subsequent calculation periods and bottomed out in the last calculation period in September when they stood at HRK 59.1bn, 13.0% less than at the beginning of the year. The base for the calculation of marginal reserve requirements fell from HRK 12.9bn to HRK 6.3bn, simultaneously with the fall in the relevant sources of funds.



The sources of funds received from legal persons engaged in financial leasing decreased from HRK 219.0m in January to HRK 148.5m in September, while guarantees and warranties for the account of non-residents used for foreign borrowing of domestic legal persons increased from HRK 4.1bn to HRK 4.3bn. This caused an increase in the base for the calculation of marginal reserve requirements from HRK 214.9m in January to HRK 783.5m in September.

The funds received from non-residents and legal persons in a special relationship with the bank for financing domestic persons in the form of syndicated loans and mandator funds (mandated operations) for placements to domestic persons totalled HRK 1.6bn in January and fell to HRK 1.5bn in September. The relevant base for the calculation of marginal reserve requirements decreased from HRK 101.8m to HRK 88.3m during the same period.

Special Reserve Requirements

The Decision on the special reserve requirement on banks' liabilities arising from issued securities remained in force in 2008. The special reserve requirement instrument was used as a measure to slow down foreign borrowing by banks based on issued debt securities.

The base for the calculation of special reserve requirements is the positive difference between the average daily balance of issued debt securities in a certain calculation period and the average daily balance of issued debt securities in the initial calculation period, with the initial calculation period being that from 1 to 31 January 2006. The base is calculated separately for securities issued in kuna and for those issued in foreign currency. The balance of issued securities that is included in the calculation of the average daily balance of the sources of funds used for calculating the marginal reserve requirement base is not included in the calculation of special reserve requirements. Special reserve requirements are calculated every second Wednesday in a month, by applying a 55% rate to the prescribed base. The full amount of special reserve requirements is set aside to the accounts with the CNB: the kuna component is set aside to the special reserve requirement account with the central bank and the foreign currency component is set aside in EUR and USD to CNB's foreign currency accounts. The CNB pays no remuneration on special reserve requirements set aside.

Special reserve requirements stood at HRK 31.9m in January 2008 and steadily decreased until May. They held steady at HRK 29.3m from May to September 2008 and then began to decrease rapidly. According to the November calculation, they stood at HRK 9.5m in December 2008.

Subscription of Compulsory CNB Bills

This instrument was introduced with a view to directly limiting banks' credit growth, which was to indirectly curb the rise in banks' external debt and stabilise the current account deficit.

Adopted in December 2007, a new Decision on the purchase of compulsory CNB bills redefined all the key elements of this Decision for 2008. As in 2007, the maximum permissible annual growth in placements was set at 12%, while on- and off-balance sheet items were calculated separately. However, the conditions for the purchase of compulsory CNB bills were tightened for banks whose placement growth was in excess of the permissible limit: the rate of purchase of compulsory CNB bills was raised, while the interest paid on the purchased bills was reduced. The initial date for the calculation of compulsory CNB bills was set at 31 December 2007 and the beginning of each calculation period was 1 January 2008. The permissible growth rate of placements was set at 1% in the first calculation period from 1 to 31 January 2008 and at additional 1 percentage point for each subsequent calculation period. Compulsory CNB bills were purchased at the rate of 75% of the base and issued at the interest rate of 0.25% a year. Compulsory CNB bills were purchased on the 20th day in a month and matured in 360 days.

An amendment to the Decision on the purchase of compulsory CNB bills was made in March 2008 to include in the balance-sheet component of the calculation base loans and credits granted to residents by legal persons. These loans were formerly a separate part of the base.

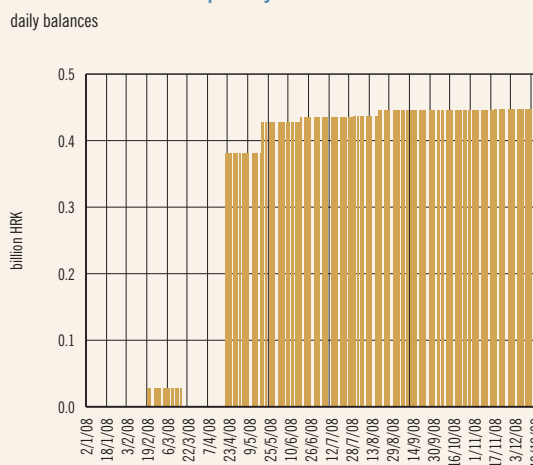
In consequence of this amendment, HRK 27.8m of compulsory CNB bills that were purchased in February came due. Under the new calculation base, which stood at HRK 0.4m, HRK 0.3m worth of compulsory CNB bills was purchased on 20 March 2008. The cumulative purchase of compulsory CNB bills grew steadily afterwards, to HRK 445.8m in August. As no compulsory CNB bills were purchased in September and October, the said amount stayed the same in the months that followed. The cumulative amount of purchased compulsory CNB bills started to grow again in November and stood at HRK 460.6m at end-December 2008. Over the entire observed period, the calculation base was at its maximum of HRK 511.1m in March, while there was no base for the purchase of compulsory CNB bills in September and October 2008.

2.1.5 Other Instruments

Minimum Required Foreign Currency Claims

Minimum required foreign currency claims are an instrument used to maintain foreign currency liquidity of banks. In the first four months of the year, the minimum required amount of foreign currency claims was set at 32% of foreign currency liabilities. Under the new decision of May 2008, this percentage was cut to 28.5%. The banks are obliged to meet the prescribed maintenance percentage on a daily basis, with liquid foreign currency claims being those (with the exception of loan-related claims) maturing in less than three months.

2.12 Purchased Compulsory CNB Bills



Source: CNB.

2.13 Minimum Foreign Currency Liquidity



Source: CNB.

The coverage of foreign currency liabilities by foreign currency claims in 2008 was at its annual maximum of 34.40% on 31 January and at its minimum of 30.41% on 28 November. This ratio stood at 30.76% at the end of the year.

Croatian National Bank Bills in Kuna

Dematerialised negotiable 35-day kuna CNB bills are sold at auctions at a discount and with the same day settlement. The CNB sets auction dates and access to the primary market is open to domestic banks, foreign bank branches and the CBRD. The Central Depository Agency serves as a depository for CNB bills. Though constituting a part of the operating monetary policy framework, CNB bills were not issued in 2008.

Short-Term Liquidity Loans

Although there was no need for their use in 2008, the terms of granting short-term liquidity loans were changed in late November 2008 to provide efficient, flexible and rapid central bank support to solvent institutions with liquidity problems. Granted against financial collateral, short-term liquidity loans take the form of repo transactions (repo loans) or collateralised loans, which greatly simplifies the loan approval procedure. Furthermore, eligible collateral for these loans is now more broadly defined and includes CNB bills, securities issued by the MoF, bonds for whose amortisation the Republic of Croatia has taken legal responsibility or which are guaranteed by the Republic of Croatia, and other collateral debt instruments recognised as eligible by the CNB.

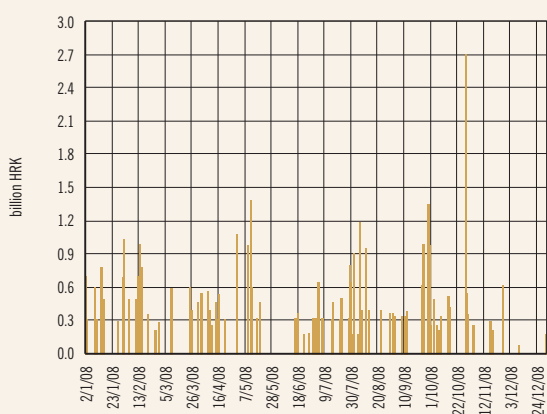
Loans may be used for a period of up to twelve months. The interest rate on this type of loan is equal to the rate charged on a Lombard loan increased by 0.5 percentage points if the loan is used for a period of up to three months, or increased by 1 percentage point if the loan is used for a period of over three months.

Intraday Loans

Intraday loans are payment system instruments which serve to improve the flow of payment transactions during business hours. The banks may use intraday loans on a daily basis in the form of a settlement account limit, with the limit being the permissible negative settlement account balance. These collateralised loans could be used up to 90% of the nominal value of pledged T-bills throughout most of 2008. However, the Decision on the terms of granting intraday loans on the basis of pledged securities was changed late in the year. Under the amended decision with effect from 10 December 2008, eligible collateral for such loans was limited to T-bills in kuna with an original maturity of up to one year. Also, the percentage of the nominal value of T-bills used to secure intraday loans was reduced from 90% to 50% with effect from 22 December 2008.

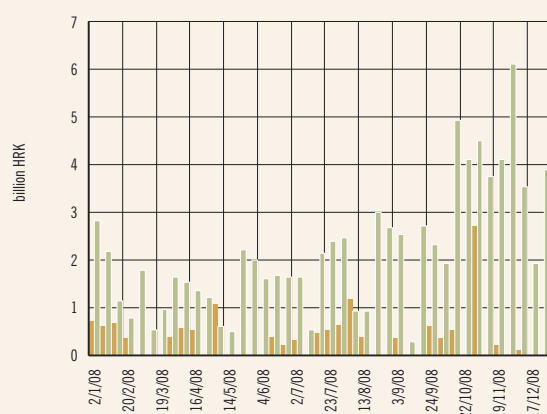
Any unpaid intraday loan at the end of a business day is automatically considered an application for a Lombard loan

2.14 Use of Intraday Loans



Source: CNB.

2.15 Use of Regular Operations



Intraday loans Balance of reverse repo operations on maturity dates

Source: CNB.

to the amount of a negative balance in a bank's settlement account. Denied granting of such loans, or restrictions on the amounts of Lombard loans granted, automatically implies identical restrictions on the use of intraday loans. The CNB charges no interest on intraday loans.

In 2008, intraday loans were used for 93 days and their average amount was HRK 0.5bn, with individual daily amounts granted ranging from HRK 90.0m to HRK 2.7bn. The maximum average amount of intraday loans during the days of their use was HRK 0.8bn in May and the minimum average amount was HRK 0.1bn in December 2008. The largest number of days of use of such loans took place in July 2008 when the banks used this facility for 14 days, with the average loan amount standing at HRK 0.5bn.

As regards the use of intraday loans on the days of regular operations, of the total of 47 reverse repo auctions held, the loan was used at 23 of them, or at 48.9% of all regular auctions in 2008. Intraday loans on these days averaged HRK 0.6bn, with the individual daily amounts granted ranging from HRK 90.0m to HRK 2.7bn.

2.1.6 Croatian National Bank Interest Rates and Remuneration

Interest rates on standing facilities form the corridor which should limit the range of fluctuations in overnight money market rates. The ceiling of the corridor is the interest rate on the Lombard loan (9.0% a year, with effect from 1 January 2008) and the floor is the interest rate on overnight deposits with the CNB (0.5% a year). The interest rate corridor and its ceiling and floor values remained unchanged throughout 2008.

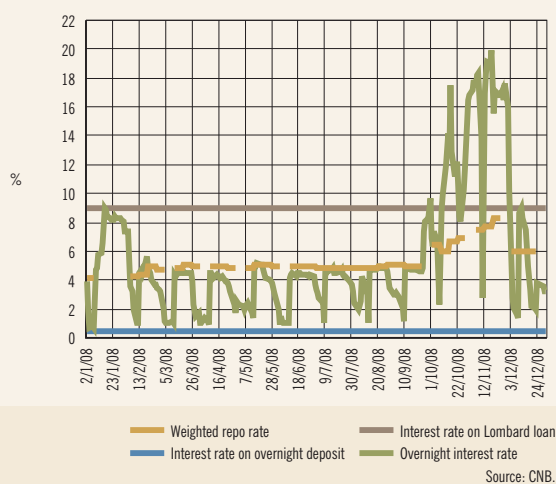
The more active role taken by the central bank in liquidity management in 2008 prompted some banks to participate in reverse repo auctions with several bids and different interest rates, thus causing a more pronounced diversification of the bid repo rates and of the weighted repo rate. The number of bid interest rates at these auctions ranged from one to thirteen in 2008, averaging 3.7 interest rates per auction. The minimum bid repo rate ranged from 3.50% to 7.75% during the observed period and the maximum bid repo rate ranged from 3.50% to 9.15%. Over the year, the weighted repo rate moved between 3.50% and 8.35%. The marginal repo rate ranged from 4.10% in January to 7.75% in November 2008, while the fixed repo rate of 6.00% was applied at the last two auctions held in 2008.

Remuneration paid on the kuna component of reserve requirements was 0.75%, while that paid on the foreign currency component of reserve requirements set aside in US dollars amounted to 50% of the US Federal Funds Target Rate, and for funds set aside in euros, 50% of the ECB Minimum Bid Refinance Rate.

2.2 International Reserves Management

The Croatian National Bank manages the international reserves of the Republic of Croatia, which, under the Act on the Croatian National Bank, constitute a part of the balance sheet of the central bank. The way in which the international reserves are managed is consistent with the established monetary and foreign exchange policies. Management of the international reserves is governed primarily by the principles of liquidity and safety. The international reserves of the Republic of Croatia comprise all claims and banknotes in a convertible foreign currency as well as special drawing rights.

2.16 Interest Rate Spread, Repo Rates and Overnight Interest Rates in 2008



2.2.1 Institutional and Organisational Framework, Principles of Management, Risks and Manner of International Reserves Management

Institutional and Organisational Framework of International Reserves Management

The Council of the CNB formulates the strategy and policy for international reserves management and sets out the risk management framework. The International Reserves Commission is the body responsible for the development of strategies for international reserves investment in accordance with the objectives set by the Council of the CNB and for the adoption of tactical decisions on international reserves management, while taking into account market conditions. The International Reserves and Foreign Exchange Liquidity Department is responsible for the day-to-day investment of the international reserves, liquidity maintenance, risk management and the preparation of reports for the Commission and the Council.

Principles of and Risks in International Reserves Management

Managing the international reserves of the Republic of Croatia, the central bank is guided by the principles of security of investment and liquidity (Article 19 of the Act on the Croatian National Bank). In this context, it maintains high liquidity of reserves and appropriate risk exposure and, with the given restrictions, attempts to ensure favourable rates of return on its investments.

Risks present in international reserves management are primarily financial risks such as credit, interest rate and currency risks, though other risks such as liquidity and operational risks also play a role. The CNB limits exposure to credit risk by investing in highly rated government bonds, collateralised deposits and non-collateralised deposits in banks with the highest credit rating. Interest rate risk, or the risk of a fall in the value of the international reserves portfolio due to unfavourable interest rate changes, can be controlled by means of benchmark portfolios. Currency risk arises from currency fluctuations between the kuna and the euro and the kuna and the US dollar. The currency composition of CNB international reserves is determined in accordance with the currency structure of foreign liabilities of the Republic of Croatia and the currency structure of goods and services imports. Liquidity risk can be controlled by investing reserves into easily marketable bonds and partly into short-term deposit instruments. Operational risk can be controlled by strict separation of functions and responsibilities, precisely defined methodologies and procedures, and regular internal and external audits.

Manner of International Reserves Management

Under the Decision on international reserves management, the Croatian National Bank manages international reserves in two ways: 1) actively – in accordance with its own guidelines and 2) passively – in accordance with foreign currency liabilities assumed.

The CNB actively manages that part of international reserves that is formed through outright purchase of foreign currency from the banks and the MoF at foreign exchange interventions of the CNB, in accordance with the set benchmark portfolios, thus achieving an adequate risk-return profile. The other part of the reserves, formed on the basis of allocated foreign currency reserve requirements of banks, deposits of the MoF, repo transactions and special drawing rights (SDR), is managed passively by the CNB, depending on foreign currency liabilities, and with the aim of ensuring protection against currency and interest rate risks.

The terminology of reporting on international reserves of the CNB includes the terms of gross and net reserves. Gross reserves imply total international reserves. Net reserves imply the share of reserves actively managed by the CNB, and SDRs and foreign cash.

2.2.2 International Reserves in 2008

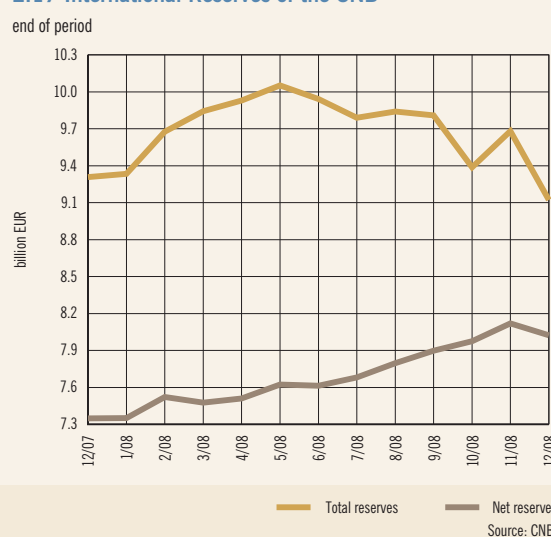
The past year was marked by the worst economic crisis since the 1930s. Stock exchanges around the world plummeted and many of the world's economies entered recession. As investors fled into safer assets, prices of US and euro

Table 2.1 Monthly Changes in Total and Net CNB International Reserves

end of period, in million EUR

Month	Total reserves	Net reserves
December 2007	9,307.21	7,348.07
January 2008	9,332.62	7,350.00
February 2008	9,676.72	7,522.16
March 2008	9,841.51	7,474.92
April 2008	9,928.35	7,509.93
May 2008	10,051.06	7,623.55
June 2008	9,941.03	7,612.38
July 2008	9,788.65	7,679.58
August 2008	9,839.65	7,796.41
September 2008	9,808.56	7,896.77
October 2008	9,387.27	7,975.61
November 2008	9,681.71	8,120.16
December 2008	9,120.74	8,022.26
Change Dec. 2008 – Dec. 2007	-186.47	674.19

Source: CNB.

2.17 International Reserves of the CNB

government bonds grew strongly, which reflected positively on the return on the CNB's foreign currency portfolios.

Total international reserves of the CNB stood at EUR 9.1bn on 31 December 2008, a decrease of EUR 186.5m (2.0%) compared with the end of 2007, when they stood at EUR 9.3bn. This fall in total international reserves was mostly due to the decisions to abolish marginal reserve requirements and cut the reserve requirement rate from 17% to 14%.

In contrast, net international reserves, which do not include foreign currency reserve requirements, marginal reserve requirements and funds of the MoF, grew by EUR 674.2m in 2008, from EUR 7.3bn at end-2007 to EUR 8.0bn.

The main factors leading to changes in the level of total international reserves in 2008 on the inflow side were:

- EUR 456.7m in income from international reserves investment;
 - EUR 409.1m purchased from the banks through foreign exchange interventions of the CNB;
 - EUR 270.9m purchased from the Ministry of Finance; and
 - EUR 46.9m derived from exchange rate gains arising from the strengthening of the US dollar against the euro at the end of 2008 compared with the end of 2007;
- and on the outflow side:
- a fall of EUR 852.4m in total foreign currency reserve requirements set aside (with marginal reserve requirements falling by EUR 685.5m and foreign currency reserve requirements falling by EUR 166.9m);
 - EUR 420.6m sold to the banks through foreign exchange interventions of the CNB; and
 - EUR 85m sold to the Ministry of Finance.

Total CNB Turnover in the Foreign Exchange Market in 2008

In 2008, the central bank engaged in foreign currency purchase and sale transactions with domestic banks, the Ministry of Finance and foreign banks. These transactions led to a net increase in the international reserves of the CNB of EUR 174.4m and an issue of HRK 1.2bn in 2008.

Table 2.2 Total CNB Turnover in the Foreign Exchange Market, 1 January – 31 December 2008

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

	Purchase (1)		Sale (2)		Net (1 – 2)	
	EUR	HRK	EUR	HRK	EUR	HRK
Domestic banks	409.10	2,936.08	420.60	3,026.68	-11.50	-90.60
Ministry of Finance	270.89	1,938.71	84.98	622.25	185.91	1,316.46
Foreign banks	0.00	0.00	0.01	0.07	-0.01	-0.07
Total	679.99	4,874.79	505.59	3,648.99	174.40	1,225.80

Source: CNB.

Table 2.3 CNB Foreign Exchange Interventions with Domestic Banks, 1 January – 31 December 2008

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

Month (number of interventions)	Purchase (1)		Sale (2)		Net (1 – 2)	
	EUR	HRK	EUR	HRK	EUR	HRK
January	0.00	0.00	0.00	0.00	0.00	0.00
February (1)	189.10	1,370.19	0.00	0.00	189.10	1,370.19
March	0.00	0.00	0.00	0.00	0.00	0.00
April	0.00	0.00	0.00	0.00	0.00	0.00
May	0.00	0.00	0.00	0.00	0.00	0.00
June	0.00	0.00	0.00	0.00	0.00	0.00
July	0.00	0.00	0.00	0.00	0.00	0.00
August	0.00	0.00	0.00	0.00	0.00	0.00
September	0.00	0.00	0.00	0.00	0.00	0.00
October (1)	0.00	0.00	270.60	1,955.55	-270.60	-1,955.55
November (2)	220.00	1,565.89	0.00	0.00	220.00	1,565.89
December (1)	0.00	0.00	150.00	1,071.13	-150.00	-1,071.13
Total	409.10	2,936.08	420.60	3,026.68	-11.50	-90.60

Source: CNB.

In three foreign exchange transactions and one swap transaction with domestic banks, the CNB sold a total of EUR 420.6m in 2008, while it purchased EUR 409.1m from the banks. EUR 150m was purchased under a swap contract in November, while the same amount was sold in December. In 2008, the CNB sold to the banks a total of EUR 11.5m (net), thus sterilising HRK 90.6m.

The CNB sold EUR 85m to the Ministry of Finance and purchased from it EUR 270.9m in 2008. The CNB thus purchased EUR 185.9m (net) in its transactions with the MoF and issued HRK 1.3bn.

Risks in International Reserves Management and Structure of International Reserves Investment in 2008

Credit Risk in International Reserves Management

Credit risk is the risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter.

The CNB provides for three levels of protection against credit risk:

- the CNB invests international reserves only in financial institutions and countries with the highest credit rating. When evaluating creditworthiness, special attention is paid to ratings published by internationally recognised rating agencies;
- investments in individual financial institutions and countries are restricted by limits and quotas, which ensures credit risk diversification; and
- a part of reserves invested in reverse repo agreements is collateralised – the CNB requires that security be provided in the form of government bonds of the same or greater market value than the value of the funds placed with an individual financial institution.

Decisions of the International Reserves Commissions tightened credit risk management guidelines in 2008. International reserves invested in non-collateralised deposits were almost entirely redirected to safer forms of assets, such as government bonds and instruments issued by the Bank for International Settlements (BIS) and central banks.

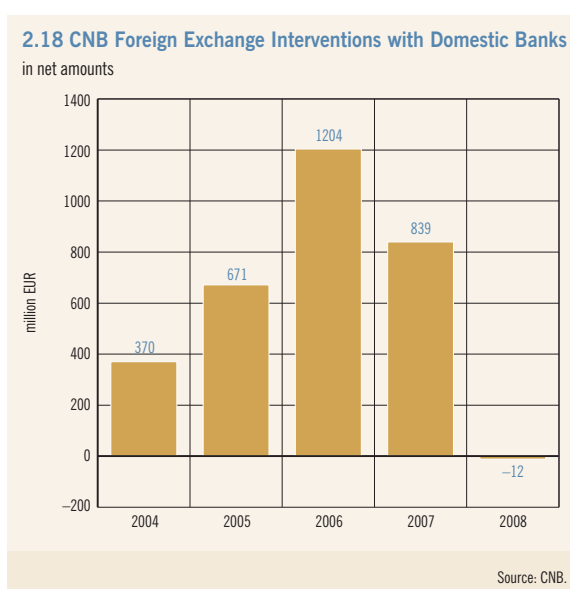


Table 2.4 Structure of International Reserves Investment According to Credit Risk as at 31 December 2008

at market value, in million EUR

Investment	Net reserves	Reserve requirements	Marginal reserve requirements	Ministry of Finance	Total reserves	31/12/2008	31/12/2008
						As % of net reserves	As % of total reserves
Government bonds ^a	6,491.91	1,086.60	–	–	7,578.51	80.92	83.09
International financial institutions	613.84	7.00	–	–	620.84	7.65	6.81
Central banks	812.40	–	–	0.03	812.43	10.13	8.91
Covered bonds	–	–	–	–	–	–	–
Banks	104.11	–	–	4.86	108.96	1.30	1.19
Total	8,022.26	1,093.60	–	4.88	9,120.74	100.00	100.00

^a Also included are reverse repo agreements which are collateralised by government bonds.

Source: CNB.

According to the degree of credit risk exposure, total international reserves are divided into funds invested in government bonds, covered bonds, and instruments issued by international financial institutions, central banks and commercial banks. The share of total international reserves invested in government bonds went up from 55.32% at end-2007 to as much as 83.09% in 2008, standing at EUR 7.6bn as at 31 December 2008. At the same time, investments in commercial banks were reduced so that time deposits with banks stood at only EUR 109m at the end of 2008, accounting for 1.19% of total international reserves. The changes in the structure of international reserves investment were due to the said decisions of the International Reserves Commission, which aimed at reducing credit risk exposure in light of the global financial crisis. The share of total international reserves invested in international financial institutions and central banks stood at 6.81% and 8.91% respectively at the end of 2008.

In terms of credit rating, a high 85.64% of total CNB international reserves was invested in securities of countries and banks with the highest Aaa rating (according to Moody's rating agency) at the end of 2008. Investments in securities of countries and banks rated Aa1 and Aa2 accounted for 5.44% and a mere 2.50% respectively of international reserves. The remaining share (6.42%) of total international reserves was invested in the IMF and the BIS.

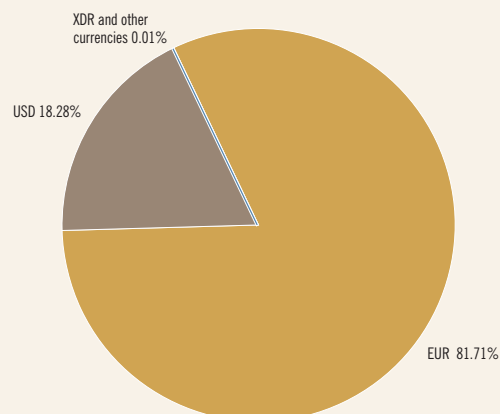
Currency Structure of International Reserves

In its Decision on international reserves management, the CNB Council has precisely defined the principles for the calculation of the currency structure of CNB net international reserves as well as the currency structure of the part of reserves passively managed by the CNB.

The currency structure of net international reserves is adjusted twice a year to reflect the currency structure of the projected external debt service payments (principal and interest) of the Republic of Croatia for the following year and the currency structure of goods and services imports in the past year. The CNB's management of currency risk in international reserves thus has to be observed in a broader context as the currency structure of international reserves of the CNB is used to reduce exposure to currency risk arising from foreign liabilities of the Republic of Croatia.

As at 31 December 2008, euro-denominated reserves accounted for 81.71%, while US-dollar denominated reserves accounted for 18.28% of net international reserves.

A part of the reserves arising from allocated foreign currency reserve requirements and marginal reserve requirements, funds of the MoF, repo transactions and SDR holdings is managed passively by the central bank, depending on the currency structure of assumed foreign currency liabilities.

2.19 Currency Structure of Net International Reserves as at 31 December 2008

Note: XDR is the international three-letter currency code for special drawing rights.
Source: CNB.

Interest Rate Risk in International Reserves Management

Interest rate risk is the risk of a fall in the prices of bonds or the value of foreign currency portfolios of CNB international reserves due to unfavourable interest-rate changes in fixed income markets. Interest rate risk of CNB international reserves is controlled by means of precisely defined benchmark portfolios. Benchmark portfolios meet the required risk-return profile, thus reflecting the long-term investment strategy of the reserves.

Results and Analysis of CNB's Foreign Currency Portfolio Management in 2008

In 2008, the yield on the CNB's net euro portfolio was the highest ever, standing at 5.68%,¹ while the yield on the CNB's net US dollar portfolio during the same period was 4.57%. The average size of the CNB's euro portfolio that was actively managed by the CNB in 2008 stood at EUR 6.3bn and the average size of the US dollar portfolio was USD 2.0bn.

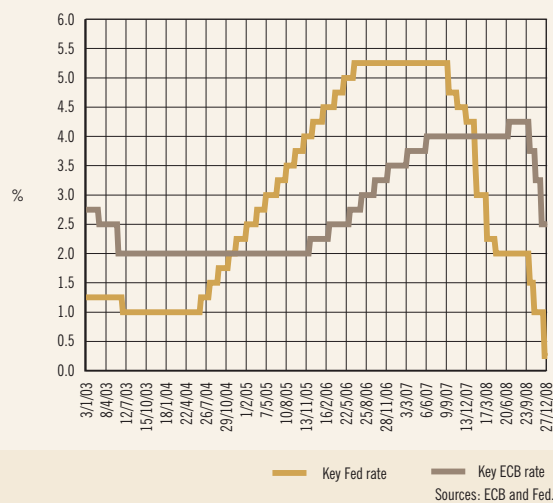
Table 2.5 Realised Income in 2008 and Average Yields on CNB Foreign Currency Portfolios

at market value, in million EUR and USD and %

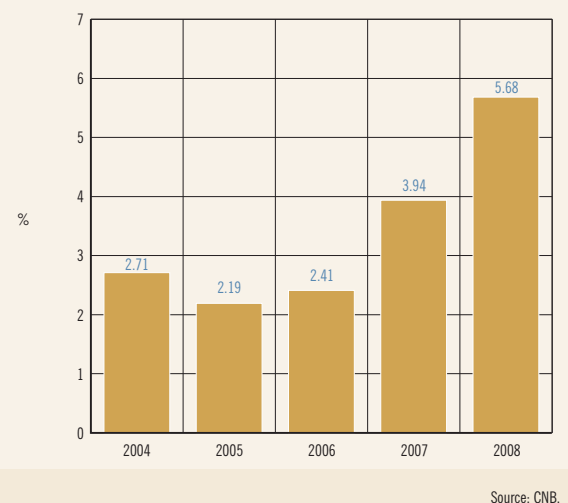
Portfolio	Realised income	Average amount invested	Annual yield rate					
	2008	2008	2003	2004	2005	2006	2007	2008
EUR	350.47	6,295.19	2.61	2.71	2.19	2.41	3.94	5.68
USD	88.03	2,021.09	1.38	1.29	2.78	4.67	6.23	4.57

Source: CNB.

2.20 Changes in Key ECB and Fed Rates



2.21 Yields on the CNB Euro Portfolio



The actively managed euro portfolio generated an income of EUR 350.5m in 2008, while income from the US dollar portfolio was USD 88.0m (around EUR 61.4m).

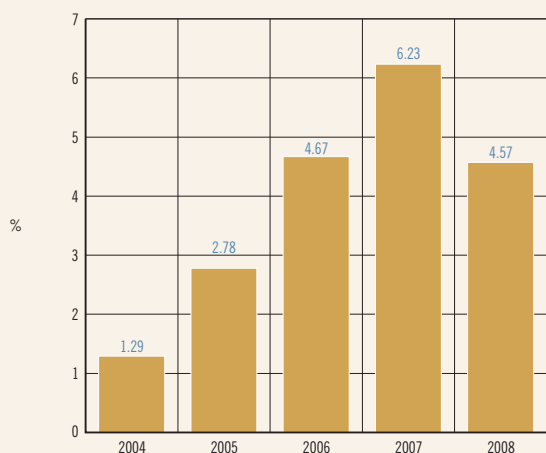
The European Central Bank raised its benchmark repo rate from 4.00% to 4.25% in July 2008. However, in the face of the deepening financial crisis, the ECB cut this rate on three occasions in the period from September to the year-end. By the end of 2008, the ECB's benchmark rate was reduced to 2.50%.

The Fed cut its benchmark rate on seven occasions in 2008. This rate was thus reduced in 2008 from 4.25% to a record low of 0.25%.

The relatively high yields on the CNB's euro and US dollar portfolios in 2008 were largely due to a sharp fall in the yields on long-term euro- and US dollar-denominated government bonds and a steep rise in their prices. Price growth

¹ Annual yields were calculated in accordance with Global Investment Performance Standards (GIPS).

2.22 Yields on the CNB Dollar Portfolio



Source: CNB.

was driven by the large demand for safer investments, which was spurred by the global financial crisis that unfolded in 2008.

The second reason for such relatively high yields is that a share of bonds in the CNB's net portfolio, which was relatively large, grew even larger in 2008. Under the decisions of the International Reserves Commission, the share of non-collateralised deposits was reduced and the share of government bonds was increased, which enhanced the safety and liquidity of international reserves.

3

Banking Sector¹

The slowdown in the growth of bank assets that started in 2007 continued throughout 2008. The growth of bank placements and contingent liabilities also slowed down, primarily due to slower growth of gross loans, which make up the most important constituent of total placements. In contrast to previous years, when bank lending was directed at households, the growth of loans to households slowed down in 2008, with faster growth of loans to government units and enterprises contributing the most to the increase in the total amount of granted loans.

Value adjustments and provisions for total placements and contingent liabilities rose mildly relative to the end of 2007. Due to faster growth in total placements and contingent liabilities, their coverage by value adjustments and provisions reduced in 2008. In contrast to value adjustments and provisions, bad placements, that is, partly recoverable and irrecoverable placements and contingent liabilities grew faster than total placements and contingent liabilities, which contributed to a mild increase in their share in total placements and contingent liabilities at the end of 2008.

Bank profit continued growing in 2008 but at a slower rate than the year before. For the most part these developments were a result of the rise in interest income, especially that of large banks. Although pre-tax profit went up faster than the year before, bank profitability as a whole failed to increase because bank investments resulted in the same return on average assets as at the end of 2007.

Bank recapitalisations in 2008 raised the regulatory capital, but regulatory changes and greater risk exposure also raised capital requirements, which resulted in a reduction of the capital adequacy ratio of banks at the end of 2008 on the end of 2007.

3.1 Business Operations of Banks

The entry of the Obrtnička štedna banka d.d., Zagreb into the banking system of the Republic of Croatia increased the number of banking institutions by one so at the end of 2008 the banking sector of the Republic of Croatia comprised 33 banks, one savings bank and 5 housing savings banks (Table 3.1). Total banking sector assets stood at HRK 377.7bn, or 110.4% of GDP.

In April 2008, authorisation was granted to A štedna banka malog poduzetništva d.d., Zagreb, and in June to Obrtnička banka d.d., Zagreb, the first savings and loan cooperative that managed to transform into a savings bank. At the beginning of 2007, regulations entered into force² pursuant to which savings and loan cooperatives had to transform their operation, that is, decide whether to continue operating as a credit union or a savings bank or terminate their operations. As at 31 December 2008, A štedna banka malog poduzetništva d.d., Zagreb, was not entered in

¹ All financial data for 2008 are based on the preliminary unaudited reports of banks, savings banks and housing savings banks. In contrast, data for previous years are based on the audited reports of banks and housing savings banks.

² The Credit Unions Act (OG 141/2006) and the Act on Amendments to the Banking Act (OG 141/2006).

the register of companies, which means it did not commence operations. Obrtnička štedna banka d.d., Zagreb was entered in the register of companies on 17 July 2008 and it commenced operations and submitting reports to the Croatian National Bank.

According to the criterion of the share of assets in total bank assets,³ Obrtnička štedna banka d.d., Zagreb, was included in the group of small banks, which increased the number of small banks from 23 to 24, while the number of large and medium-sized banks remained unchanged, counting six and four banks respectively.

The slowdown in the growth of bank assets that was observed in 2007 continued through 2008. Lower rates of asset growth were seen in all bank groups, with the most pronounced decline in their growth and lowest growth values at the end of 2008 being realised by medium-sized banks. Large banks, following two years of decline, increased their share in total assets of all banks, while the share of small banks remained unchanged. In contrast to banks, the growth rate of housing savings bank assets doubled (from 2.7% to 6.3%) but this was still not sufficient to increase their share in total assets of the banking sector. The share of housing savings banks in total assets of the banking sector fell from 1.9% at the end of 2007 to 1.8% at the end of 2008.

The only group whose share in total assets of all banks went up compared to the end of 2007 were large banks (Table 3.2). Total assets of all banks grew by 7.4%, while assets of large banks went up 8.0%. Assets of medium-sized banks went up at a below-average rate of only 4.0%, so following their strong growth in 2007 of 20.9% and the related increase in their share, at the end of 2008 their share reduced to 12.5% of bank assets. Assets of small banks went up by 7.4%, which kept their share in the total assets of all banks unchanged from the end of 2007, totalling 8.1%.

Despite the increase in the number of domestic banks due to the commencement of operations of Obrtnička štedna banka d.d., Zagreb, (Figure 3.1), the share of domestic banks in total assets of all banks mildly reduced (from 9.6% to 9.4%). The reason for this is the reduction in the share of assets of banks in majority state ownership to 4.5% (Table 3.3) due to a low rate of asset growth (of only 0.1%) in one of the two banks in majority state ownership.

The share of banks majority owned by foreign shareholders in bank assets totalled 90.6% at the end of

Table 3.1 Number of Banking Institutions

end of period

Banks	2006	2007	2008
Number of banks at the beginning of the year	34	33	33
Banks that merged with other banks	-1	-	-
Number of banks at the end of the year	33	33	33
Savings banks			
Number of savings banks at the beginning of the year	-	-	0
Savings banks that were granted license	-	-	2
Number of savings banks at the end of the year	-	-	1 ^a
Housing savings banks			
Number of housing savings banks at the beginning of the year	4	5	5
Housing savings banks that were granted license	1	-	-
Number of housing savings banks at the end of the year	5	5	5

^a As at 31 December 2008, A štedna banka malog poduzetništva d.d., Zagreb was not entered in the register of companies.

Source: CNB.

Table 3.2 Bank Peer Groups and Their Share in Total Bank Assets

end of period

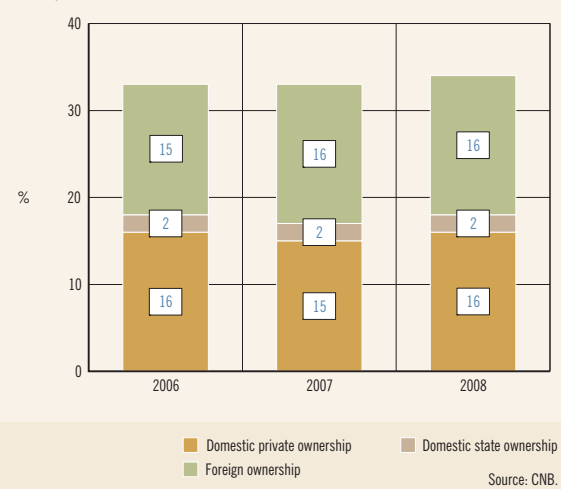
	Number of banks			Share		
	2006	2007	2008	2006	2007	2008
Large banks	6	6	6	80.2	79.0	79.4
Medium-sized banks	4	4	4	12.0	12.9	12.5
Small banks	23	23	24 ^a	7.8	8.1	8.1
Total	33	33	34	100.0	100.0	100.0

^a Obrtnička štedna banka d.d., Zagreb is included in the group of small banks.

Source: CNB.

3.1 Number of Banks by Ownership Residence and Form of Ownership

end of period



³ Depending on the size of the relative share of bank assets in the total assets of all banks at the end of the reporting period, banks (including savings banks) have been divided into three peer groups: large, medium-sized and small banks. Large banks are banks whose assets exceed 5% of the total assets of all banks, medium-sized banks are banks whose assets are greater than 1% and less than 5% of the total assets of all banks, and small banks are banks whose assets are less than 1% of the total assets of all banks.

Table 3.3 Bank Assets by Ownership Residence and Form of Ownership

in %

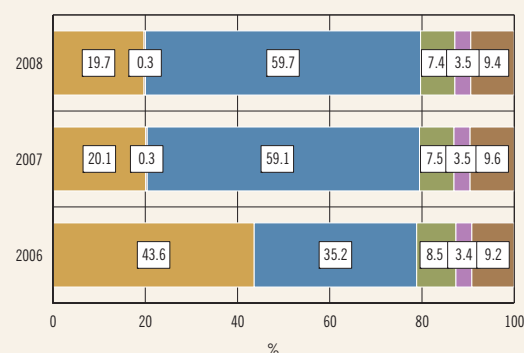
Banks by ownership residence and form of ownership	Share of bank peer group assets in total bank assets		
	2006	2007	2008
Banks in majority ownership of domestic shareholders	5.0	4.9	4.9
Banks in majority state ownership	4.2	4.7	4.5
Banks in majority ownership of foreign shareholders	90.8	90.4	90.6
Total	100.0	100.0	100.0

Source: CNB.

2008, i.e. increased by 0.2 percentage points on the end of 2007. The rise in the share of foreign owned banks is accounted for by the seven banks owned by Austrian shareholders, whose assets realised the highest growth rate (8.5%) and reached the share of 59.7% of total bank assets (Figure 3.2). Next are five banks owned by Italian shareholders with a share of 19.7%, while one bank was owned by a group of shareholders from France, Hungary, San Marino and Luxemburg. Due to reorganisation of its parent undertaking, the largest bank in the Republic of Croatia, according to the domicile of its shareholders, moved from the Italian to the Austrian-owned group of banks in 2007, with the growth of its assets in 2008 predominantly influencing the growth of assets of Austrian banks. Banks owned by Italian shareholders grew at a below-average growth rate of 5.6% (as against 7.4%), which led to the decline in their share in total bank assets in 2008. The movement of their share is predominantly influenced by movements in the second largest bank in the Republic of Croatia, which accounts for the lion's share in the group of Italian banks.

3.2 Bank Assets by Shareholders' Domicile

end of period



Legend: Italy (yellow), Other (grey), Austria (blue), France (green), Hungary (purple), Domestic ownership (brown).

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.

3.1.1 Bank Balance Sheet

Structure of Bank Assets

Limitation of the growth of bank placements had already resulted in a slower growth of bank assets in 2007, when at the end of the year the annual growth rate was much lower than the year before (13.3% as compared to 17.0% at the end of 2006). Continued implementation of the measure on the subscription of compulsory CNB bills in 2008⁴ paired with unfavourable movements in the international and in the domestic environment contributed to a further slowdown in the annual growth rate of bank assets. This totalled 7.4% at the end of 2008, its lowest level in the past decade.

Total bank assets at the end of 2008 were HRK 370.8bn, an increase of HRK 25.7bn over the end-2007 balance (Table 3.4). In the observed period, assets of the majority of banks (29) grew, while the assets of four banks went down. At the end of 2008, the highest annual growth rate (8.0%) was realised by large banks, followed by small banks with a slightly lower rate of 7.5%. After several years in which medium-sized banks realised the largest annual growth rate, at the end of 2008 their assets growth rate was the lowest, totalling 4.0%.

More than a half of the total increase in bank assets during 2008 (HRK 16.4bn of the total HRK 25.7bn) was generated in the last quarter, so the asset growth rate was highest in the fourth quarter, totalling 4.6%. Since the largest share of bank assets was denominated in foreign currency or indexed to foreign currency (60.7% at the end of 2008), a substantial contribution to growth in the last quarter of the year came from the depreciation of the kuna exchange rate against currencies with the largest shares in the currency structure of bank balance sheets (euro, Swiss franc, US dollar).⁵

⁴ Decision on the purchase of compulsory CNB bills (OG 132/2007 and 29/2008).

⁵ By excluding the strengthening effects of these currencies, which account for 99.2% of bank foreign exchange and kuna assets indexed to foreign currency and assuming all foreign currency positions were translated to the CNB midpoint exchange rate, bank asset growth in the last quarter of 2008 would stand at 2.1%.

In contrast to the previous two years, during which the change in the currency structure of bank balance sheets went in favour of the increase in the shares of kuna items, 2008 was marked by opposite movements, which resulted in the increase in the shares of currency risk exposed items in bank balance sheets. Total bank kuna assets reduced by HRK 0.9bn (0.6%) relative to the end-2007 balance. Compared with the growth of total assets, the foreign exchange share and the kuna share indexed to a foreign currency grew at a faster pace (HRK 26.6bn or 13.4%), primarily reflecting the growth of kuna loans indexed to a foreign currency.

Table 3.4 Structure of Bank Assets

end of period, in million HRK and %

	2006			2007			2008		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	49,615.2	16.3	15.7	51,415.9	14.9	3.6	42,678.7	11.6	-17.0
1.1. Money assets	3,931.0	1.3	17.4	4,551.7	1.3	15.8	5,401.8	1.5	18.7
1.2. Deposits with the CNB	45,684.2	15.0	15.5	46,864.2	13.6	2.6	37,276.9	10.1	-20.5
2. Deposits with banking institutions	26,005.6	8.5	12.3	35,118.0	10.2	35.0	35,961.0	9.7	2.4
3. MoF treasury bills and CNB bills	8,077.2	2.7	15.3	8,748.7	2.5	8.3	10,062.5	2.7	15.0
4. Securities and other financial instruments held for trading	7,730.4	2.5	-6.7	8,515.5	2.5	10.2	6,837.1	1.8	-19.7
5. Securities and other financial instruments available for sale	12,678.2	4.2	7.3	11,326.4	3.3	-10.7	12,482.0	3.4	10.2
6. Securities and other financial instruments held to maturity	3,311.9	1.1	-35.1	3,536.7	1.0	6.8	4,798.8	1.3	35.7
7. Securities and other financial instruments not traded in active markets but carried at fair value	460.1	0.2	-58.2	700.0	0.2	52.1	669.0	0.2	-4.4
8. Derivative financial assets	280.9	0.1	90.7	276.0	0.1	-1.8	122.2	0.0	-55.7
9. Loans to financial institutions	4,035.4	1.3	4.3	6,949.8	2.0	72.2	5,796.7	1.5	-16.6
10. Loans to other clients	183,740.0	60.3	24.1	209,319.6	60.7	13.9	240,844.6	65.0	15.1
11. Investments in subsidiaries, associates and joint ventures	1,675.5	0.6	5.0	1,703.9	0.5	1.7	1,791.0	0.5	5.1
12. Foreclosed and repossessed assets	445.6	0.1	25.1	355.7	0.1	-20.2	391.6	0.1	10.1
13. Tangible assets (net of depreciation)	4,434.1	1.5	5.6	4,510.4	1.3	1.7	4,506.3	1.2	-0.1
14. Interest, fees and other assets	4,787.8	1.6	-2.4	5,471.0	1.6	14.3	6,861.4	1.9	25.4
15. Net of: Collectively assessed impairment provisions	2,672.6	0.9	18.1	2,866.2	0.8	7.2	3,046.0	0.8	6.3
Total assets	304,605.3	100.0	17.0	345,081.4	100.0	13.3	370,756.8	100.0	7.4

Source: CNB.

The largest relative change in bank assets at the end of 2008 relative to the end of 2007 was seen by deposits with the CNB, which reduced by 20.5% or HRK 9.6bn. This change was a reflection of CNB efforts to soften the effects of the financial crisis on bank liquidity by repealing the marginal reserve requirement⁶ and reducing the reserve requirement rate from 17% to 14%.⁷ In the first half of 2008, the CNB lowered the minimum required coverage of foreign currency liabilities by foreign currency claims from 32% to 28.5%⁸ in order to enable easier financing of state needs and bank participation in external and domestic public debt refinancing.⁹ The later change contributed to a relatively mild increase in deposits with foreign banks relative to end-2007 (by 2.4%).

The consequence of these changes in bank assets relative to end-2007 was a reduction in the share of money assets and deposits with the CNB by 3.3 percentage points and in the share of deposits with banking institutions by 0.5 percentage points. At the same time, the share of loans went up by 3.8 percentage points to a high 66.5% at the end of 2008 (Figure 3.3).

In 2008, the amount of total loans went up HRK 30.4bn or 14.0%. The increase in loans was more prominent than

6 Pursuant to the Decision on the marginal reserve requirement (OG 146/2005, 69/2006 and 130/2007), banks had to set aside a share of their foreign debt growth in an account with the CNB. The Decision on the termination of the Decision on the marginal reserve requirement (OG 116/2008) entered into force on 10 October 2008.

7 Decision on amendments to the Decision on reserve requirements (OG 137/2008) and a Corrigendum to the Decision on reserve requirements (OG 139/2008).

8 Decision on the minimum required amount of foreign currency claims (OG 29/2008).

9 In May 2008, the Government of the Republic of Croatia adopted a Decision on the borrowing of the Republic of Croatia through a foreign exchange loan of EUR 760m syndicated by domestic banks. Lead underwriters were: Zagrebačka banka d.d., Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d., SG-Splitska banka d.d., Erste & Steiermärkische Bank d.d. and Hypo Alpe-Adria-Bank d.d.

the increase in total assets in 2008, resulting in almost double the growth rate as compared to the growth rate of total assets.

In 2008, loans of large banks went up faster than the annual growth rate of loans by all the banks combined (14.6%). Loans of medium-sized banks went up by 12.7%, while small banks realised the lowest growth rate of 10.8%. In the asset structure of large banks loans accounted for the largest share of 67.0%. Small banks continued to account for the smallest share of loans in the asset structure (62.9%), while in medium-sized banks this share totalled 66.1%.

Despite the high growth of loans, at the end of 2008 banks did not exceed the permitted growth rate (12%) of the share of assets considered as placements in the sense of the Decision on the purchase of compulsory CNB bills, since the growth of that share of assets totalled 10.6%. The reason for this was the increase in loans to the sector of government units, which are deducted from placements pursuant to the aforementioned Decision, while loans to other sectors, apart from enterprises and non-profit institutions, went up slower than over the past years.

Bank securities investments, including T-bills, were 6.2% higher at the end of 2008 than at the end of 2007, totalling HRK 34.8bn. The increase of total investments in securities was a consequence of larger investments in debt securities (by 8.4%), primarily into T-bills of the Ministry of Finance (by 15.0%) and foreign bonds (by 20.2%). At the same time, these instruments made up the most important form of bank investments in securities, so bonds accounted for 53.3% and T-bills of the Ministry of Finance for 29.4% of total investments in securities. At the end of 2008, banks distributed more than a half of the amount of total investments in securities (52.7%) into the available-for-sale portfolio. Bank investments in securities were 52.4% lower at the end of 2008 than at the end of 2007. The decline was evident in almost all sectors, primarily enterprises (66.9%), probably also affected by a fall in the prices of shares. Such a change resulted in a reduction in the share of equity securities in the total amount of investments in securities, from 3.7% at the end of 2007 to 1.7% at the end of 2008.

Structure of Bank Liabilities

At the end of 2008, deposits received by banks were HRK 247.8bn, which is an increase of HRK 14.7bn or 6.3% compared with their end-2007 balance (Table 3.5). After reaching 18.2% in 2006 and 14.9% in 2007, the annual deposit growth rate slowed down substantially, with the growth of deposits being twice as slow as in 2007 (HRK 30.2bn).

A slowdown in the growth of deposits in 2008 was a consequence of the decline in deposits of enterprises and deposits of other banking institutions (investment funds, housing savings banks, etc.), while the growth of household deposits and deposits of majority foreign owners contributed the most to the realised increase in total deposits relative to the end of 2007.

Relative to the end of 2007, received deposits went up the most at large banks (7.0%). The annual growth rate in small banks totalled 6.7% and in medium-sized banks 1.9%. In the observed one-year period, received deposits reduced at eight banks, with the rate of reduction ranging from 1% to a high 34.2%. The share of deposits in liabilities went down at all banks. At the end of 2008, the largest share of deposits in liabilities of 73.6% was realised by small banks, followed by large banks with the lowest share of 65.7%. Due to its low growth rate the share of deposits in the liabilities of medium-sized banks fell the most (by 1.4 percentage points) to 69.6%.

Total bank capital was HRK 6.8bn or 15.8% higher than at the end of 2007. The change in rules pertaining to the

3.3 Structure of Bank Peer Group Assets

end-2008

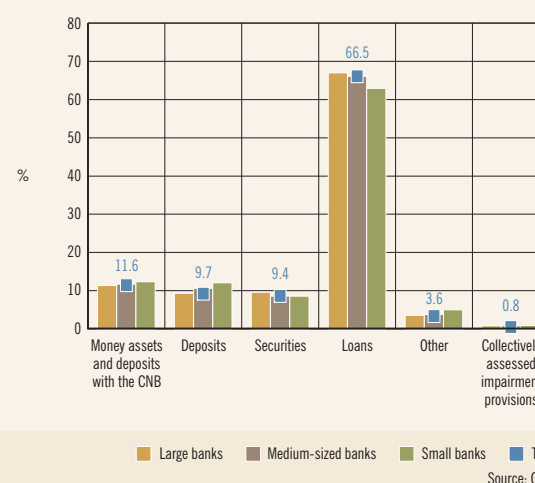


Table 3.5 Structure of Bank Liabilities

end of period, in million HRK and %

	2006			2007			2008		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	15,102.5	5.0	9.1	20,573.0	6.0	36.2	19,270.0	5.2	-6.3
1.1. Short-term loans	7,286.7	2.4	-0.8	11,325.6	3.3	55.4	8,314.0	2.2	-26.6
1.2. Long-term loans	7,815.8	2.6	20.3	9,247.4	2.7	18.3	10,956.0	3.0	18.5
2. Deposits	202,950.5	66.6	18.2	233,108.0	67.6	14.9	247,813.9	66.8	6.3
2.1. Giro account and current account deposits	37,696.5	12.4	29.2	45,284.0	13.1	20.1	41,313.1	11.1	-8.8
2.2. Savings deposits	26,601.4	8.7	1.8	26,859.4	7.8	1.0	25,640.1	6.9	-4.5
2.3. Time deposits	138,652.5	45.5	19.1	160,964.5	46.6	16.1	180,860.7	48.8	12.4
3. Other loans	39,762.9	13.1	9.9	31,738.8	9.2	-20.2	33,230.6	9.0	4.7
3.1. Short-term loans	10,028.1	3.3	22.1	5,528.8	1.6	-44.9	8,323.2	2.2	50.5
3.2. Long-term loans	29,734.8	9.8	6.3	26,210.1	7.6	-11.9	24,907.5	6.7	-5.0
4. Derivative financial liabilities and other financial liabilities held for trading	221.6	0.1	-0.9	367.5	0.1	65.9	1,578.3	0.4	329.4
5. Debt securities issued	3,583.4	1.2	5.5	3,476.7	1.0	-3.0	3,392.3	0.9	-2.4
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	3,583.4	1.2	5.5	3,476.7	1.0	-3.0	3,392.3	0.9	-2.4
6. Subordinated instruments issued	758.1	0.2	-1.6	225.7	0.1	-70.2	53.3	0.0	-76.4
7. Hybrid instruments issued	552.4	0.2	-37.7	636.6	0.2	15.2	2,055.7	0.6	222.9
8. Interest, fees and other liabilities	10,413.5	3.4	6.5	11,781.4	3.4	13.1	13,383.8	3.6	13.6
Total liabilities	273,344.9	89.7	15.4	301,907.8	87.5	10.4	320,778.0	86.5	6.3
Total capital	31,260.3	10.3	33.3	43,173.6	12.5	38.1	49,978.8	13.5	15.8
Total liabilities and capital	304,605.3	100.0	17.0	345,081.4	100.0	13.3	370,756.8	100.0	7.4

Source: CNB.

calculation of the capital adequacy ratio and measures directed at limiting foreign borrowing and maintaining foreign currency liquidity had resulted in a wave of capitalisations over the previous three years. Thanks to capital investments and banks retaining a larger share of realised profit, the share of capital in liabilities was constantly rising in the observed period. At the end of 2008, it totalled 13.5% (Figure 3.4), which was almost one percentage point more than at the end of 2007, with the indicator almost equal in all bank groups. To maintain a minimum capital adequacy ratio, banks issued hybrid instruments during 2008, which raised the amount at the end of 2008 to a level HRK 1.4bn higher than at the end of 2007.

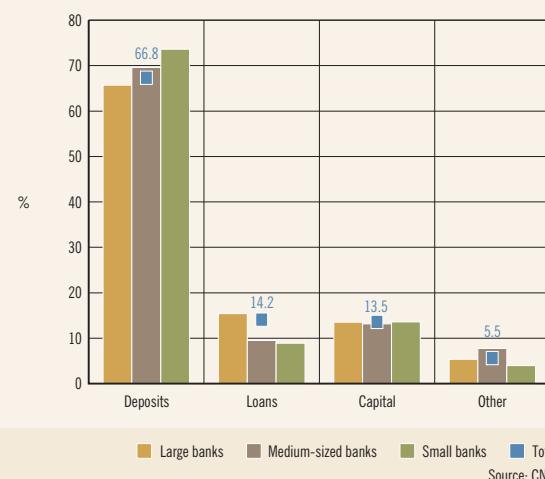
The total amount of received loans did not change much relative to the end-2007 balance. This source of bank financing went up at an annual rate of 0.4%, narrowing its share in bank liabilities from 15.2% at the end of 2007 to 14.2% at the end of 2008. The largest share of the total amount of received loans was accounted for by loans received from non-residents (63.1%), also including foreign majority owners from which banks received 43.3% of the total loans.

Although relative to the end-2007 balance received loans went up the most in small banks (5.8%), at the end of 2008 small banks again used this source of financing the least of all banks and it made up 8.9% of their liabilities. Large banks had a much larger share of received loans in their liabilities (15.4%), while in medium-sized banks this share totalled 9.5%.

Total deposits of enterprises were HRK 4.4bn (8.2%) lower at the end of 2008 than at the end of 2007. Deposits of financial institutions decreased even more than deposits of enterprises (18.0% or HRK 3.5bn), which resulted in the narrowing of both their shares in total deposits. The share of deposits of enterprises in total deposits amounted to 19.9% at the end of 2008 (23.1% at the end of 2007), while the share of deposits of financial institutions totalled 6.4% (8.3% at the end of 2007). Rising by 2.6 percentage points, household deposits,

3.4 Structure of Bank Peer Group Liabilities

end-2008

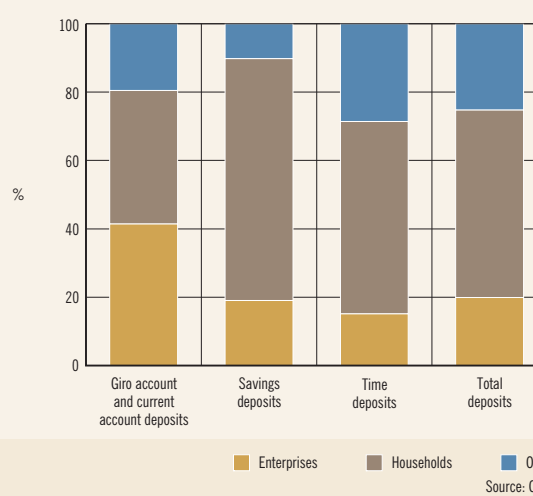


with a share of 54.9% at the end of 2008, continued to account for the lion's share of total deposits (Figure 3.5).

In terms of deposit maturity, it is evident that only time deposits went up on the end of 2007 (HRK 20.0bn or 12.4%), with their share in total deposits amounting to 73.0% at the end of 2008. The overall amount of increase in household deposits and the largest share of the increase in deposits of non-residents were accounted for by time deposits. At the end of 2008, giro and current account deposits went down by 8.8% on the end of the previous year, predominantly due to the reduction of deposits by enterprises, while the 4.5% decline in savings deposits was influenced by the decline in savings deposits of households.

As a result of bank recapitalisations in 2008 and realised current year profit, the kuna share on the bank liabilities side went up by HRK 5.8bn (3.5%). In the same period, items in kuna indexed to a foreign currency reduced by HRK 1.9bn (10.6%), while those in foreign currency went up by HRK 21.8bn (13.7%) thanks to the increase in foreign currency time deposits. As at the end of 2008, households deposited HRK 12.8bn or 15.5% more foreign currency deposits with banks than at the end of 2007. After this increase, household foreign currency deposits totalled HRK 95.5bn, which made up 70.3% of total household deposits at the end of 2008. Spurred by the increase in foreign currency household deposits total foreign currency deposits also went up, by HRK 18.7bn or 15.3%. The amount of the said increase was higher than the growth of total deposits because kuna deposits indexed to a foreign currency of almost all sectors were HRK 4.0bn or 36.4% lower, while kuna deposits maintained their end-2007 balance. As a result, the share of foreign currency deposits in the observed one-year period went up by one percentage point to 56.9% of total deposits at the end of 2008. In the same period, the share of kuna deposits mildly reduced, from 40.9% to 40.3%, as well as the share of kuna deposits indexed to foreign currency (from 3.2% to 2.8%).

3.5 Structure of Bank Deposits by Types and Sectors
end-2008



3.1.2 Bank Capital

The increase in bank balance sheet capital in 2008 of 15.8% was twice lower than the growth observed over the last two years, when annual growth rates exceeded 30% (Table 3.6). Increasing by HRK 6.8bn, bank balance sheet capital reached HRK 50.0bn at the end of last year. A half of the growth, or HRK 3.4bn, was realised in the first quarter, at the rate of 7.9%, while in the remaining part of the year capital growth reduced quarter after quarter, at the rate of 3.2%, 2.5% and 1.5% respectively. Slightly less than a half of the growth in total balance sheet capital was a result of the HRK 3.1bn growth in share capital. After the profit distribution of 2007, items of reserve stipulated by the articles of association and other capital reserves, as well as items of retained earnings, went up by HRK 3.3bn. These two capital items increased their share in total balance sheet capital by growing faster than the share capital.

The largest growth in share capital was seen in the first quarter of 2008, following the HRK 2.4bn recapitalisation of three large banks. In the second quarter, six small banks were recapitalised with a total of HRK 0.5bn, while two small banks were recapitalised with HRK 0.2bn in the last quarter.

By the size of their balance sheet capital, large banks led the way with a growth of 17.0%, while the capital of small banks went up at a slower rate, by 16.5%, while the growth of the balance sheet capital of medium-sized banks was much lower, totalling 7.9%.

Bank regulatory capital went up by HRK 3.7bn (8.8%), totalling HRK 45.9bn at the end of 2008 (Figure 3.6). This increase was almost exclusively a consequence of the developments in the first quarter, i.e. of the 9.2% growth in the first three months of 2008. In the next two quarters its growth was less than 1% and in the last quarter regulatory capital reduced by 0.7%, or HRK 0.3bn. Regulatory capital thus ended the year HRK 0.2bn lower than at the end of the first quarter 2008 (HRK 46.1bn). The rise in core capital (HRK 3.6bn) accounted for almost the entire growth

Table 3.6 Structure of Bank Total Capital

end of period, in million HRK and %

	2006			2007			2008		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	16,584.2	53.1	43.9	25,179.3	58.3	51.8	28,287.6	56.6	12.3
2. Current year profit/loss	3,394.8	10.9	4.5	4,067.4	9.4	19.8	4,694.1	9.4	15.4
3. Retained earnings/loss	3,716.8	11.9	48.7	4,212.0	9.8	13.3	5,694.1	11.4	35.2
4. Legal reserves	882.4	2.8	10.5	1,054.3	2.4	19.5	969.4	1.9	-8.1
5. Total reserves provided for by the articles of association and other capital reserves	6,662.0	21.3	24.5	8,644.2	20.0	29.8	10,511.7	21.0	21.6
6. Unrealised gains/losses on value adjustments of financial assets available for sale	14.6	0.0	-37.8	30.7	0.1	109.9	-142.7	-0.3	-
7. Reserves arising from hedging transactions	8.3	0.0	-	-0.8	0.0	-	0.0	0.0	-
8. Previous year profit/loss	-2.7	0.0	-	-13.6	0.0	396.3	-35.3	-0.1	159.9
Total capital	31,260.3	100.0	33.3	43,173.6	100.0	38.1	49,978.8	100.0	15.8

Source: CNB.

of regulatory capital, while supplementary capital I contributed with only HRK 0.1bn. Although gross value of supplementary capital I (value before deductions) went up by 35.3% in 2008, supplementary capital I which is included in regulatory capital increased by only 6.9% due to the exclusion of collectively assessed impairment provisions from regulatory capital.¹⁰ Supplementary capital II, the amount of which was also negligible over the previous periods, fully disappeared from the total regulatory capital of all banks.

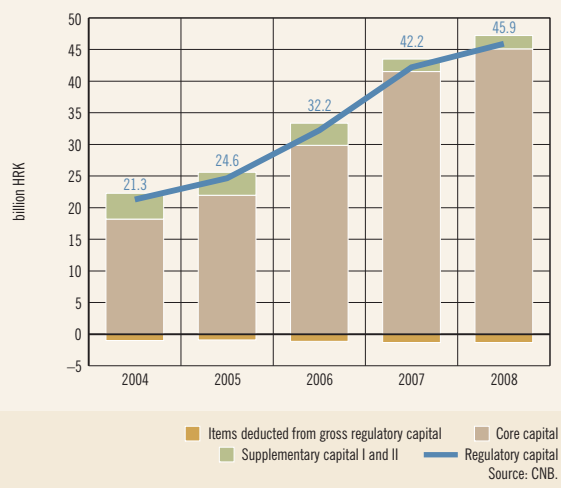
Regulatory capital calculation at the end of 2008 was based on unaudited preliminary data and did not include current year profit. Banks will decide on its inclusion in the capital after completing an audit of their operations and determining last year's final financial results. It is to be expected that after profit distribution, the amount of regulatory capital and consequently its annual growth rate will be higher than previously reported.

At the end of 2008, bank capital adequacy ratio reduced by 2.14 percentage points on the end of 2007, totalling 14.22% (Figure 3.7). This was primarily a consequence of a three times faster growth of risk-weighted balance sheet assets, including off-balance sheet items (27.0%), than the growth of regulatory capital.

As at the end of 2007, the highest capital adequacy ratio of 16.38% (a reduction of 1.45 percentage points) was reported by medium-sized banks. The reduction was mildest in the group of small banks (from 16.32% to 15.15%), while the capital adequacy ratio in large banks went down the most, by 2.3 percentage points, holding the lowest level among that of all bank groups (13.78%). Although no bank reported a capital adequacy ratio below the prescribed level (10%), two banks, one of which was a large bank, reported a capital adequacy level of below 11%.

3.6 Structure of Bank Regulatory Capital

end of period



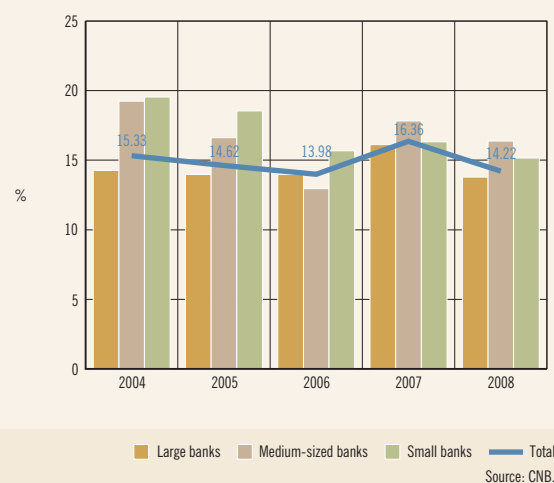
Although risk-weighted net asset value went up 8.0% at the end of 2008 compared to the previous year (which is slightly above the increase in overall assets of 7.4%), the weighted amount of assets rose by as much as 28.4%, or HRK 61.7bn. This increase was largely caused by the increase in the weights for foreign currency claims on clients with an unmatched currency position from 75%, i.e. 125%, to 100%, i.e. 150%, at the beginning of 2008.¹¹ This, paired with the parallel 29.0% increase in the net value of claims weighted with the highest risk-weight of 150% (previously 125%), resulted in the increase of its weighted amount by 54.7%, i.e. by HRK 51.1bn. The remaining share

¹⁰ The obligation to exclude the collectively assessed impairment provisions from the regulatory capital was set forth by the amendments to the Instruction for the uniform implementation of the Decision on the capital adequacy of banks (OG 41/2006). Accordingly, banks undertook gradually to exclude the collectively assessed impairment provisions from their supplementary capital I as of 30 June 2006. This process was completed by the exclusion of collectively assessed impairment provisions from reports relating to 31 December 2008.

¹¹ Decision on amendments to the Decision on the capital adequacy of banks (OG 130/2007).

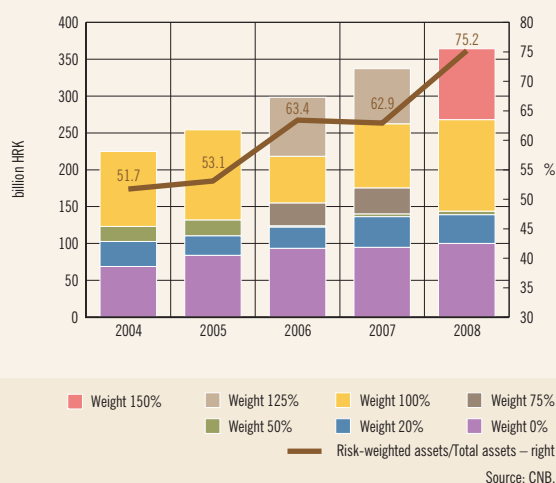
3.7 Capital Adequacy Ratio by Bank Peer Groups

end of period



3.8 Bank Assets Included in Total Risk-Weighted Assets

end of period



of the increase in total risk-weighted amount of HRK 10.6bn was related to the increase in the risk-weighted amount of claims weighted with the weight of 100% (previously 75%), which, despite the rise in their net value of only 1.4%, went up by 9.3%.

The share of capital requirement for market risks of 3.2% at the end of 2007 reduced to 1.8% by the end of 2008. In the same period, the capital requirement for credit risk increased by 27.0%, accounting for 98.2% of the total capital requirement.

3.1.3 Quality of Bank Assets

The annual growth rate of total placements and contingent liabilities¹² went down from 25.4% in 2006¹³ and 13.4% in 2007 to 6.8% in 2008. Loans, the most important constituent of overall placements, went up by 13.8% under the influence of accelerated growth of loans to enterprises and government units, while the growth of loans to households slowed down.

At the end of 2008, bank placements and contingent liabilities totalled HRK 423.2bn, with loans accounting for 59.7%. By size of share, deposits came in the number two position, making up 17.2%, followed by contingent liabilities, which accounted for 16.5% of placements and contingent liabilities. Contingent liabilities went up by only 1.1% in 2008, with their structure being dominated by unused lines of credit (45.2%) and guarantees (32.0%), while the remaining amount was accounted for by uncovered letters of credit, backed bills and all other contingent liabilities. The share of assets available for sale totalled 4.2% of total placements and contingent liabilities, while the remaining 2.4% was accounted for by assets held until maturity, embedded derivatives and other claims. Compared to the end of 2007, in the distribution of placements and contingent liabilities the share of loans granted went up the most (by 3.7 percentage points), while deposits accounted for the largest decline (by 3.4 percentage points).

Of the HRK 26.8bn growth of bank placements and contingent liabilities, the growth of placements and contingent liabilities of large banks accounted for HRK 23.4bn. The growth rate of placements and contingent liabilities in large banks totalled 7.4% and 6.3% in small banks, while it was the lowest in medium-sized banks, only 3.1%.

While total placements and contingent liabilities rose by 6.8% in the observed one-year period, bad placements and contingent liabilities (partly recoverable and irrecoverable placements, i.e. risk categories B and C) went up by 10.4%,

¹² Classification of placements and contingent liabilities into risk categories is carried out pursuant to the Decision on the classification of placements and contingent liabilities of banks (OG 17/2003, 149/2005 and 74/2008).

¹³ The high growth rate of placements and contingent liabilities in 2006 was to an extent influenced by the inclusion of available-for-sale debt securities in the placements and contingent liabilities distributed into risk groups. If available-for-sale securities were excluded from 2006 data, the annual growth rate of placements and contingent liabilities would total 19.4%.

thus increasing their share from 3.1% to 3.2% of total placements and contingent liabilities, which was equal to that of the end of 2006 (Table 3.7). The growth rate of bad placements and contingent liabilities has trended upwards in the last three years,¹⁴ which can partly be attributed to the maturing of bank credit portfolio, i.e. to a substantial share of long-term loans whose quality usually deteriorates with time. At the end of 2008, the share of loans with an original maturity longer than three years totalled 66.9%, while the share of loans with a remaining maturity longer than three years totalled 42.2%.

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

end of period, in million HRK and %

	2006		2007		2008	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements (category A)	338,327.5	96.8	384,204.3	96.9	409,732.6	96.8
Partly recoverable placements (category B)	7,129.1	2.0	7,946.5	2.0	9,223.8	2.2
Irrecoverable placements (category C)	4,173.1	1.2	4,270.3	1.1	4,257.0	1.0
Total	349,629.8	100.0	396,421.2	100.0	423,213.4	100.0

Source: CNB.

Medium-sized banks had a high growth rate of bad placements and contingent liabilities in 2008 (30.0%), followed by large banks with a rate of 8.1% and small banks with a rate of 4.4%. As a result, the ratio of bad to total placements and contingent liabilities went up the most in medium-sized banks (by 0.9 percentage points), totalling 4.1% at the end of 2008. This ratio also deteriorated, increased mildly (to 2.8%) in large banks, while it was highest in small banks, totalling 5.8% despite a decrease.

Bad placements and contingent liabilities are subject to value impairment by the amount of loss due to the impossibility of full recovery (categories B and C), while placements and contingent liabilities classified into risk category A are subject to collectively assessed impairment provisions. The total amount of these value adjustments and provisions went up by 4.3% in 2008; due to the faster growth of total placements and contingent liabilities the coverage of total placements and contingent liabilities by total value adjustments and provisions fell, totalling 2.4% at the end of 2008 (Table 3.8). Collectively assessed bank impairment provisions at the end of 2008 totalled 0.9% of category A placements and contingent liabilities.

Table 3.8 Bank Value Adjustments and Provisions

end of period, in million HRK and %

	2006	2007	2008
Total value adjustments against placements and provisions for contingent liabilities	9,246.9	9,774.6	10,199.5
– Value adjustments against placements and provisions for contingent liabilities	6,195.9	6,290.3	6,520.4
– Collectively assessed impairment provisions	3,051.0	3,484.3	3,679.1
Total placements and contingent liabilities	349,629.8	396,421.2	423,213.4
Relative ratio: total value adjustments and provisions/total placements and contingent liabilities	2.6	2.5	2.4

Source: CNB.

At the end of 2008, small banks continued to have the highest coverage of total bank placements and contingent liabilities by total value adjustments and provisions, totalling 3.5%, although as with other bank groups, this had been reduced by the end of 2007 (Figure 3.9). In medium-sized banks, the coverage totalled 2.5%, while it was smallest in the large-bank group, where it totalled 2.3%.

Bank total gross loans went up by HRK 30.6bn in 2008, ending the year at HRK 252.7bn. The growth rate in 2008 totalled 13.8%, one percentage point less than in 2007. In large banks, loans went up by HRK 25.4bn or 14.4%, while in medium-sized banks loans went up by 12.1% and in small banks by 10.4%.

The growth of loans to enterprises accelerated in 2008 compared to 2007 (from 10.1% to 12.3%), while the growth rate of loans to households reduced from 18.1% to 12.1%. Nevertheless, the comparison of nominal growths showed that households accounted for the most prominent increase in loans (HRK 13.8bn), while loans to enterprises went up by HRK 10.6bn (Figure 3.10). Slower growth of loans to households was primarily a result of a slowdown in the growth of cash loans, overdraft facilities and other loans, which went up by 10.9% (HRK 5.4bn) in 2008. Home

¹⁴ In 2006, the growth rate of bad placements and contingent liabilities totalled 2.5% and in 2007 7.9%.

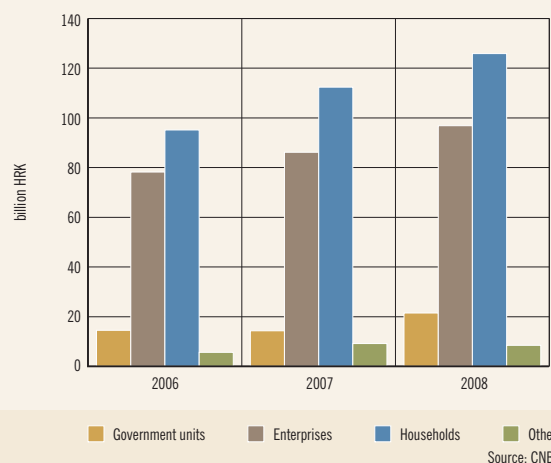
3.9 Ratio of Bank Peer Group Value Adjustments and Provisions to Placements and Contingent Liabilities

end of period



3.10 Bank Loans by Type of User

end of period



loans to households went up by 15.7% (HRK 7.1bn), while credit card loans also saw a high growth rate of 12.3% (HRK 0.6bn). Loans to government units went up by 50.1% (HRK 7.2bn) in 2008, so in the sector distribution of loans, in addition to the slight rise in the share of the non-resident sector, the only other share to go up was that of government units. After having increased by 2.1 percentage points, the share of loans to government units reached 8.5% of total bank loans granted at the end of 2008. Loans to households made up 49.8% and loans to enterprises 38.3% of total loans.

In the observed one-year period, large banks increased the amount of loans granted to government units by HRK 6.4bn (46.6%) so at the end of 2008 this group of banks accounted for 93.4% in total loans to government units, while in the sector distribution of loans government units participated with 10.0%. In medium-sized banks, the increase in loans to households was more prominent than the increase in loans to enterprises, while in small banks loans to enterprises went up the most. Large banks increased loans to households the most, but loans to enterprises went up at a slightly higher rate. Small banks are the only bank group in whose sector distribution of loans the largest share is made up of loans to enterprises (51.9%). In large and medium-sized banks, loans to households led the way with 50.4% and 52.4% respectively.

As the growth of total placements and contingent liabilities is mainly influenced by the growth of loans granted, the growth of bad placements and contingent liabilities mostly depends on the rise of bad loans. In 2008, bad loans went up by 14.0% (compared to 5.9% in 2007) and their share in the distribution of total bad placements and contingent liabilities increased to 90.4%. Viewed by sector, households generated the highest growth of bad loans (HRK 756.0m or 18.0%). Bad loans to enterprises went up by HRK 647.6m or 10.2% and continue to make up the item with the largest share in the sector distribution of bad loans (57.3%).

The growth of bad loans did not cause a deterioration in the basic loan quality indicator. The share of bad loans in total loans thus remained unchanged relative to the end of 2007, totalling 4.8% (Figure 3.11), due to the 13.8% increase in total loans. Viewed by sector, the greatest increase in the ratio of bad to total loans was realised by non-residents, with this indicator reaching the highest level (9.4%) among all sectors. The share of bad loans in total loans granted to households also went up (to 3.9%), predominantly due to the rise in bad cash loans, overdraft facilities and other loans to households (HRK 552.4m or 19.5%), with only bad credit card loans (HRK 42.7m or 70.3%) and bad household home loans (HRK 168.2m or 23.2%) rising at a faster growth rate.

The ratio of bad to total loans went up from 5.2% to 6.0% in medium-sized banks, while other bank groups registered a narrowing of this indicator, which in small banks totalled 8.0% and in large banks 4.3%, the most favourable. The largest growth rate of bad loans was realised by medium-sized banks (31.5%), in which the growth of bad loans to households totalled as much as 50.9% so the ratio of bad loans to total loans to households in this group rose from 3.2% at the end of 2007 to 4.2% at the end of 2008. In large banks the growth of bad loans totalled 12.7% and in small banks 4.2%.

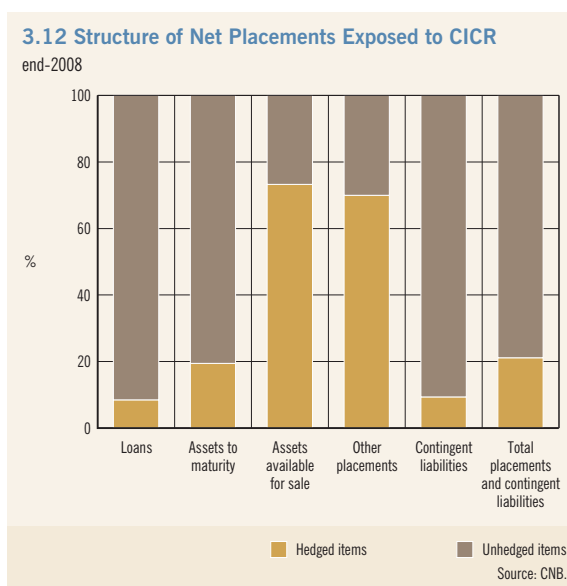
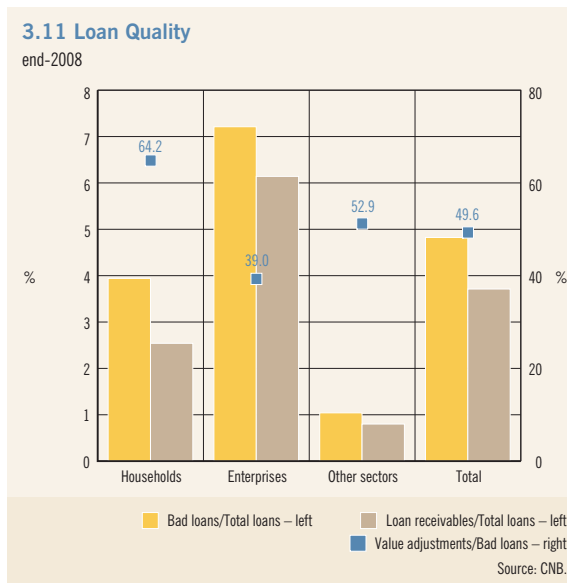
Overdue loan receivables¹⁵ went up by 23.9% in 2008 so their share in loans increased from 3.4% at the end of 2007 to 3.7% at the end of 2008 (Figure 3.11). This reversed a years-long downward trend in this indicator. The steep growth of due but unpaid receivables from enterprises caused a rise in their share in loans to enterprises from 5.0% to 6.1%, while for households this indicator reduced slightly to 2.5%.

For the most part of 2008, the kuna appreciated against the euro, while in the last quarter it weakened, which resulted in a slightly lower exchange rate at the end of the year than at the end of 2007. On the other hand, during the observed one-year period the exchange rate of the kuna against the Swiss franc depreciated 11.3% so repayment instalments for loans denominated in or indexed to the Swiss franc were much higher at the end of 2008 than at the end of 2007. Clients who do not have foreign currency income or whose foreign currency income is insufficient to match their currency position may experience difficulties in the repayment of their foreign currency loans and kuna loans indexed to a foreign currency due to such foreign exchange movements. This currency-induced credit risk (CICR) is especially prominent in highly euroised (dollarised) systems such as the domestic banking system.

In contrast to 2007, when it came to the strengthening of the kuna component of the bank balance sheet, in 2008 the share of placements and contingent liabilities exposed to CICR increased, that is, the share of foreign currency (and foreign currency indexed) placements and contingent liabilities increased. At the end of 2008, placements and contingent liabilities exposed to CICR made up 57.1% of total placements and contingent liabilities, which is the highest value of this indicator recorded since March 2007. Of the total placements and contingent liabilities exposed to CICR, 21.1% were hedged against the effects of CICR, while the remaining 78.8% was made up of unhedged placements, i.e. placements to clients with unmatched foreign exchange positions (Figure 3.12).

Kuna loans indexed to a foreign currency went up by 16.5% in 2008, while their share in total loans increased from 52.6% to 53.7%. The share of foreign currency loans also grew (to 11.7%), while the share of kuna loans reduced to 34.6% of total loans. The growth of foreign currency loans and kuna loans indexed to foreign currency was a consequence of the 25.8% growth of euro loans, including kuna loans indexed to euro. Loans in Swiss francs, including kuna loans indexed to Swiss francs, went up by 10.9%. However, in real terms, when the influence of exchange rate change is excluded, they were lower than at the end of 2007. The share of loans unhedged against CICR totalled 91.5% at the end of 2008, while the year before it totalled 88.8%.

The share of placements (excluding contingent liabilities) covered by quality insurance instruments totalled 45.7% at the end of 2008, while collateral covered 89.2% of the value of placements subject to insurance. Quality instruments of collateral are residential and commercial real estate property, deposits, guarantees or securities of domestic government units and the CNB, government units and central banks of OECD member states, domestic banks and banks of OECD member states but also all other instruments specified as quality collateral



¹⁵ For loans that did not fall due in their entire amount, only the portion that fell due was included.

instruments in internal bank bylaws. The most important instruments of collateral were residential and commercial real estate (37.2% and 22.3% respectively of collateralised receivables), followed by other (internally defined) instruments with a share of 22.7%.

Of all bank groups, large banks boasted the largest share of collateralised placements to total placements (47.9%), for apart from residential real estate and internally defined instruments they use guarantees and securities to a great extent. Small banks followed with a share of collateralised placements of 39.2% and commercial real estate as the predominant collateral instrument. The share of collateralised placements (35.9%) in medium-sized banks was under the influence of an extremely low share of placement collateralisation in one of the banks from this group.

3.1.4 Quality of Bank Earnings

Following the exceptionally strong growth in 2007, profit growth continued in 2008, although at a slower rate than the year before and entirely as a consequence of the rise in profit of large banks. The increase in interest income as the main source of profit growth in 2008 was a result of asset restructuring, i.e. the growth of granted loans paired with the parallel growth of their price. Despite profit growth, bank profitability held steady at the previous year's level because bank investments resulted in the same return on average assets as at the end of 2007.

In 2008, pre-tax profit was HRK 5.8bn (Table 3.9). The rate of pre-tax profit growth was 13.7%, much lower than the year before when it totalled 20.5%.

The increase in total bank profit and maintenance of bank profitability at end-2007 level was exclusively a result of the rise in the profit of large banks. Pre-tax profits of large banks went up by 19.3%, so large banks accounted for 89.2% of the total pre-tax profit of all banks. The profit of medium-sized banks went down by 11.3% and the profit of small banks by 28.8% relative to the end of 2007. These changes additionally reduced the share of profit of medium-sized and small banks in total profit, from 9.1% at the end of 2007 to 7.1% at the end of 2008 in medium-sized banks and from 5.9% to 3.7% at small-banks. The shares of these bank groups in total bank profit were much lower than the shares of their assets in total bank assets. Weaker results of medium-sized and small banks were largely a consequence of loss from trading activities and value adjustments of investments in securities with market prices.

Of 34 banks, 29 achieved a pre-tax profit of HRK 5,928m, while five small banks reported losses totalling HRK 123m. The share of banks operating with losses made up 0.8% in total bank assets.

Table 3.9 Bank Income Statement

in million HRK and %

	2006		2007		2008	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	14,887.9	15.3	18,246.9	22.6	21,755.3	19.2
Total interest expenses	7,197.2	21.8	9,690.8	34.6	11,808.8	21.9
Net interest income	7,690.7	9.8	8,556.1	11.3	9,946.5	16.3
Total income from fees and commissions	3,598.1	8.3	4,207.6	16.9	4,342.8	3.2
Total expenses on fees and commissions	1,374.3	-0.8	1,368.2	-0.4	1,361.8	-0.5
Net income from fees and commissions	2,223.8	14.7	2,839.4	27.7	2,981.0	5.0
Other non-interest income	1,897.8	7.8	2,077.3	9.5	2,303.5	10.9
Other non-interest expenses	899.3	25.1	795.7	-11.5	855.4	7.5
Net other non-interest income	998.5	-4.2	1,281.6	28.4	1,448.1	13.0
Net non-interest income	3,222.2	8.1	4,121.0	27.9	4,429.1	7.5
General administrative expenses and depreciation	5,996.1	10.4	6,607.9	10.2	7,532.6	14.0
Net operating income before loss provisions	4,916.8	7.9	6,069.2	23.4	6,843.0	12.8
Expenses on value adjustments and provisions for identified losses	203.9	9.4	530.6	160.2	843.2	58.9
Expenses on collectively assessed impairment provisions	476.6	40.7	433.4	-9.1	194.9	-55.0
Total expenses on loss provisions	680.5	29.6	964.0	41.7	1,038.0	7.7
Income/loss before taxes	4,236.3	5.1	5,105.1	20.5	5,805.0	13.7
Income tax	841.5	7.6	1,037.7	23.3	1,110.9	7.1
Current year profit/loss	3,394.8	4.5	4,067.4	19.8	4,694.1	15.4

Source: CNB.

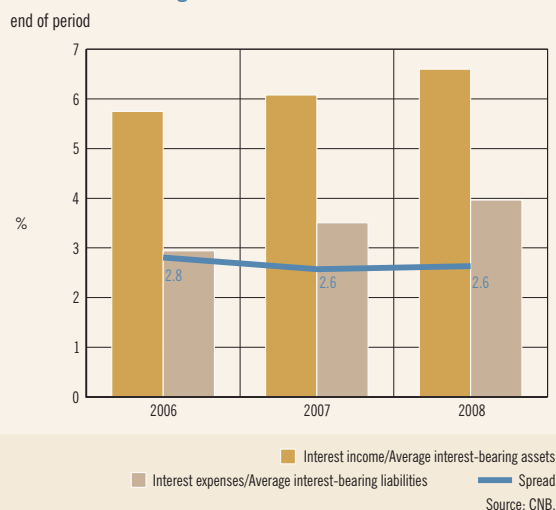
Total net income of banks (the sum of net interest and net non-interest income of banks) rose by 13.4% in 2008 thanks to the growth of all of its constituents, primarily net interest income. While the main source of profit growth in 2007 was the increase in income from fees and commissions for banking products and services (payment services, investment banking, card operations, e-banking, etc.), at the end of 2008 the income from these sources was much lower (5.0% relative to 27.7% in 2007) so the share of net interest income in the structure of net income grew again (from 67.5% in 2007 to 69.2%). In the same period the share of non-interest income, especially net income from fees and commissions fell (from 22.4% at the end of 2007 to 20.7%) while the share of other non-interest income held at the 2007-level of 10.1%.

The rise in bank net income was to the greatest extent a result of the 16.3% rise in net interest income, primarily thanks to the increase in this income in large banks (17.7%), while in medium-sized and small banks it totalled 11.6% and 11.7% respectively. In 2008, the growth of interest expenses totalled HRK 2.1bn (21.9%) and banks increased their interest income by HRK 3.5bn (19.2%), which contributed to the further growth of their ratio from 53.1% at the end of 2007 to 54.3% at the end of 2008. Interest income from loans granted to all sectors, except households and government units, went up at a slower rate than in 2007. In 2008, the growth of interest income from loans granted thus totalled 19.7%, while in 2007 it totalled 21.3%. Greater lending to the government in 2008 reflected itself in the 27.1% increase of interest income from loans to this sector, while in the household sector the rise of interest income was lower, totalling 18.6%. Since the growth of loans to households slowed down in 2008, the increase in interest income from this basis may be attributed to the higher price of loans and especially the increase in interest rates on long-term loans.

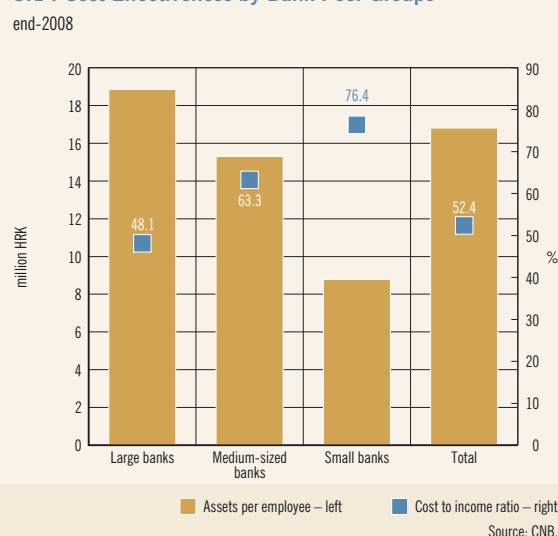
Despite unfavourable changes in the financial market and more difficult conditions of financing, which contributed to an increase in interest rates on deposits and higher average cost of borrowing, the growth of interest expenses slowed down. These developments are a consequence of changes in bank liabilities, which registered a slower growth of received loans and deposits than in 2007, for they generate the lion's share of interest expenses. Expenses on received loans went up by 9.5% in 2008 and expenses on received deposits by 24.4%. Due to the relatively balanced changes in the share of interest income from average interest-bearing assets and interest expenses on average interest-bearing liabilities there was no change in interest spread, which remained at 2.6 percentage points, as at the end of 2007 (Figure 3.13).

Net income from fees and commissions went up by 5.0% at an annual level, which is much less than in 2007, when the annual growth rate totalled 27.7%. Income from fees for payment services continued growing at a moderate rate (2.6%), income from fees and commissions for other banking services (investment banking, cards operations, e-banking, fees for managing deposit accounts, etc.) grew much slower than in 2007, while expenses on fees and commissions declined slightly. The increase in income from other banking services in 2008 totalled HRK 83.5m (3.7%) or several times less than the increase in 2007, which totalled HRK 520.2m or 29.9%. The cause for this is probably to be sought in a lower volume of investment banking operations and possibly in a lower income from cross-selling,

3.13 Income from Interest-Bearing Assets and Expenses on Interest-Bearing Liabilities



3.14 Cost Effectiveness by Bank Peer Groups



that is, in a lower income from selling additional services with the core product, which could have been caused by a slowdown in loan growth but also by market saturation.

Other non-interest income continued its slight growth, with the growth rate totalling 10.9% in 2008. However, the growth of this income is exclusively a result of the growth in large banks (29.3%), while in medium-sized and small banks this income reduced substantially (by 36.1% and 50.8% respectively). In contrast to 2007, when, thanks to favourable developments in the capital market, banks generated profit from trading activity, at the end of 2008, bank loss from trading totalled HRK 2.1bn and was largely caused by the loss from derivatives trading that totalled HRK 2.5bn. These derivatives, although reported as derivatives held for trading due to complex hedge accounting rules, are not used for speculative purposes but as risk hedges; most of them have the exchange rate as the underlying variable and are used as hedges against currency risk. Consequently, losses from derivatives trading should be viewed in the context of the parallel HRK 3.2bn profit from exchange rate fluctuations. Only small banks realised a trading profit, thanks to trading in foreign exchange. All bank groups registered losses from trading in securities which totalled HRK 334.7m. Thanks to profits from the translation of balance sheet positions with a foreign currency clause to the agreed exchange rate, primarily in large banks, in the end banks increased their other non-interest income.

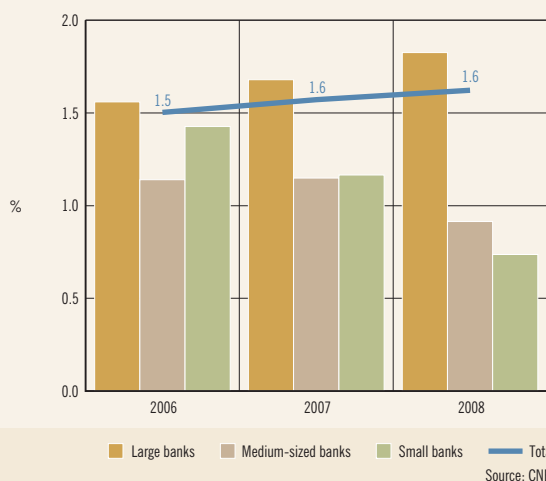
The growth of costs (general administrative expenses and depreciation) in 2008 was slightly faster than in 2008 (14.0% relative to 10.2%), primarily due to the growth of employee expenses by 16.4%. Due to weaker growth of net income, bank cost effectiveness mildly reduced, as evident in the rise in the cost to income ratio, from 52.1% to 52.4% (Figure 3.14). By reviewing the value of this indicator in the peer group of banks it is evident that only large banks raised their cost effectiveness. The value of this indicator reduced only in this bank group, totalling 48.1%. In small and medium-sized banks this indicator deteriorated due to a growth of costs that was faster than that of net income so the value of this indicator continued to be the highest in small banks (76.4%), while in medium-sized banks it totalled 63.3% (Figure 3.14).

The number of employees in banks went up 7.0% in 2008 to 22,065 persons. Assets per employee increased from HRK 16.7m at the end of 2007 to HRK 16.8m at the end of 2008, i.e. went up by 0.4%. No substantial changes were registered in assets per employee in all peer groups of banks relative to the end of 2007. At the end of 2008, large banks continued to have the largest size of assets per employee of HRK 18.9m, while for medium-sized banks this indicator totalled HRK 15.3m and was the lowest for small banks, HRK 8.8m.

Total expenses on loss provisions were 7.7% higher at the end of 2008 than at the end of 2007 due partially to the rise in expenses on value adjustments and provisions for identified losses on an individual basis by 58.9%, while expenses on collectively assessed impairment provisions fell by 55.0%. The increase in expenses on value adjustments and provisions for identified losses on an individual basis may be linked to the decline in quality of total placements and contingent liabilities, i.e. the increase in bad placements and contingent liabilities, primarily bad loans (risk categories B and C) by 14.0%. The more than halved growth rate of risk category A placements and

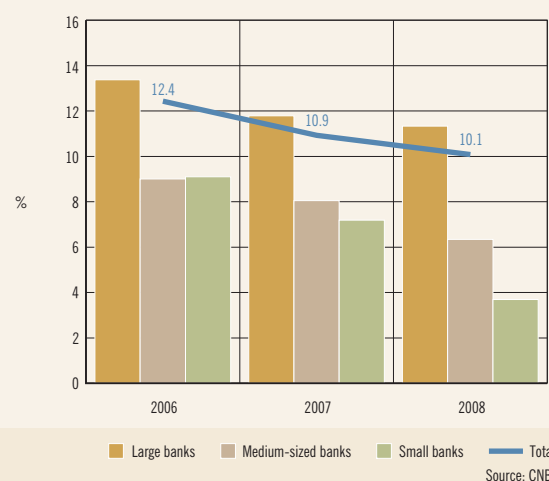
3.15 Return on Average Assets by Bank Peer Groups

end of period



3.16 Return on Average Equity by Bank Peer Groups

end of period



contingent liabilities in 2008, totalling 6.6%, relative to 2007, when it totalled 13.6%, was the reason for the lower expenses on collectively assessed impairment provisions.

Despite the growth of total interest income and net income in 2008, the return on average assets (ROAA)¹⁶ did not go up, and totalled 1.6% (Figure 3.15), as at the end of 2007. The fact that this indicator held to the level of the previous year is a consequence of the growth of ROAA in large banks (from 1.7% to 1.8%), the only group of banks whose profits grew. A fall in profits of medium-sized and small banks resulted in the decline of this indicator to less than 1%. In medium-sized banks ROAA reduced from 1.2% to 0.9% and in small banks from 1.2% to 0.7%.

The downward trend of the return on average equity (ROAE) continued in 2008 under the influence of faster growth of capital over profit growth. ROAE reduced by 0.8 percentage points in all banks and totalled 10.1% (Figure 3.16). In large banks this indicator went down from 11.8% to 11.3%, in medium-sized banks from 8.1% to 6.3% and in small banks from 7.2% to 3.7%.

3.1.5 Bank Liquidity

The deposit growth rate was twice as slow as in the previous year due to the reduction in the deposits of enterprises and deposits of investment funds and other financial institutions.

In the first half of 2008, total deposits decreased slightly (0.3%) due to the reduction in deposits of enterprises, so the increase in deposits in 2008 was a consequence of growth realised in the second half of the year. In the third quarter the seasonal inflow from tourism resulted in a 4.1% growth of deposits, primarily deposits from households. At the beginning of the last quarter, the news of difficulties in the operation of their foreign parent banks prompted a withdrawal of deposits from domestic banks. In order to stop this, the CNB repealed the measure on the marginal reserve requirement and ensured the necessary foreign currency liquidity. Then came amendments to the regulation on deposit insurance scheme, i.e. the increase in the insured amount from HRK 100ths to HRK 400ths.¹⁷ These changes helped halt the outflow of household deposits by the end of October 2008. Despite payments to INA shareholders in the fourth quarter relating to the takeover of INA shares by MOL, in the last three quarters it came to the reduction in deposits of all sectors, except for non-residents. The rise in deposits of non-residents (HRK 11.0bn or 42.0%), primarily deposits of majority foreign owners, made up for the decline in deposits of other sectors and resulted in the quarterly growth rate of total deposits of 2.4%. Viewed on annual basis, the growth of household deposits of 11.7% and deposits by majority foreign owners of 32.3% contributed the most to the increase in total deposits in 2008.

Total deposits went up by 6.3% in 2008, while loans went up by 14.0% so loans granted and deposits received reached an almost equal level, additionally increasing their ratio (by 6.7 percentage points), which totalled 99.5% at the end of 2008 (Table 3.10).

Table 3.10 Bank Liquidity Ratios

end of period, in %

	2006	2007	2008
Loans granted/Deposits received	92.5	92.8	99.5
Loans received/Total assets	18.0	15.2	14.2
Net interbank position	3.3	5.2	2.9

Source: CNB.

Table 3.11 Structure of Received Loans

end of period, in million HRK and %

	2006			2007			2008		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans from government units	272.9	0.5	-48.3	183.3	0.4	-32.8	125.7	0.2	-31.4
Loans from financial institutions	15,102.5	27.5	9.1	20,573.0	39.3	36.2	19,270.0	36.7	-6.3
Loans from enterprises	0.0	0.0	-	189.4	0.4	-	3.5	0.0	-98.1
Loans from foreign financial institutions	39,489.9	72.0	12.4	31,117.8	59.5	-21.2	32,972.0	62.8	6.0
Loans from other non-residents	360.5	0.7	-24.8	248.3	0.5	-31.1	129.3	0.2	-47.9
Total loans received	54,865.4	100.0	9.7	52,311.8	100.0	-4.7	52,500.6	100.0	0.4
Loans from majority foreign owner	22,925.5	41.8	29.5	17,600.8	33.6	-23.2	22,735.6	43.3	29.2

Source: CNB.

¹⁶ ROAA is calculated from pre-tax profit, and ROAE from after-tax profit.

¹⁷ The Act on Amendments to the Deposit Insurance Act (OG 119/2008).

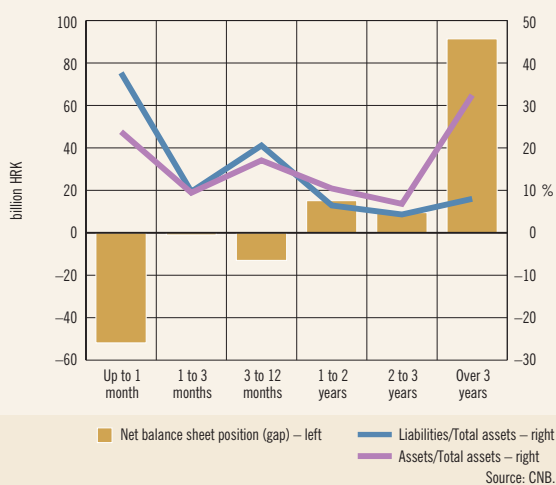
The growth of received loans was low (only 0.4%), which limited the increase in total received loans and deposits to 5.2% (less than a half of the 10.7% increase realised in 2007). Due to asset growth of 7.4% the share of received loans in assets reduced by 1.0 percentage points, with the ratio constantly reducing from the end of 2005. Net interbank position (the difference between the funds placed with financial institutions and the funds received from them relative to total assets) reduced considerably due to the reduction in deposits with the CNB.

The said increase in received loans of 0.4% or HRK 0.2bn was entirely due to the increase in loans received from foreign financial institutions, totalling HRK 1.9bn, since loans from all other creditors declined (Table 3.11). Crucial for this increase in loans received from financial institutions was the contribution of loans worth HRK 5.1bn received from majority foreign owners. It should be noted in this context that deposits of majority foreign owners grew at a high 32.2%. This raised their share in total deposits to 11.8%, while loans received from foreign owners grew to 43.3% of total received loans of banks. The share of total sources of funds received from foreign owners, i.e. of received loans and deposits from foreign owners went up from 15.2% at the end of 2007 to 17.3% at the end of 2008.

The analysis of the maturity (mis)match between assets and liabilities¹⁸ (Figure 3.17) indicates a shortage of assets relative to liabilities (a so-called negative gap) in all three categories of the remaining short-term maturity (of up to one month, one to three months, three to twelve months), with a negative cumulative gap of the short-term period increasing from 16.2% of assets at the end of 2007 to 17.8% of assets at the end of 2008. The reason for this is the increase of the negative gap in the category of the remaining maturity of three to twelve months which arose due to the increase in received time deposits belonging to this category and the change in the gap in the category of the remaining maturity of one to three months from positive into negative gap due to the decline in deposits with the CNB and other banking institutions that belong in this category. The positive cumulative gap of the long-term period (more than a year) also increased under the influence of a substantial increase in the positive gap in the category of the remaining maturity of more than three years. At the end of 2008, this gap reached 24.6% of assets, while at the end of 2007 it amounted to a half of this figure (12.5%). The cause of this growth was the increase in loans granted with remaining maturity more than three years, followed by the decrease in received time deposits and received loans from foreign banks that belong in this category.

3.17 Asset and Liability Maturity (Mis)Match

end-2008



3.2 Business Operations of Housing Savings Banks

At the end of 2008, there were 5 housing savings banks operating in the territory of the Republic of Croatia. Their assets totalled almost HRK 7.0bn, up 6.3% relative to the end of 2007. The assets of only one housing savings bank fell relative to the end of 2007.

In 2008, the downward trend of the share of assets of housing savings banks in total banking system assets that started in 2005 continued, a result of a growth of assets of housing savings bank that continued to be slower than the growth of total bank assets. The share of housing savings banks assets fell from 1.9% at the end of 2007 to 1.8% at the end of 2008.

All but one housing savings bank, which was in majority state ownership, were directly or indirectly majority owned by foreign shareholders, so 98.4% of total housing savings banks assets at the end of 2008 were foreign owned. This was lower than the 99.1% at the end of 2007 as a result of the strong growth of the mentioned housing savings bank

¹⁸ This represents the difference between net assets and liabilities (not including capital) with the same period until maturity.

in state ownership relative to the average growth of all housing savings banks. Three housing savings banks were in majority Austrian ownership, their assets making up 76.2% of total housing savings banks assets at the end of 2008 (reducing by 1.7 percentage points relative to 2007). The housing savings bank in majority Italian ownership held the second largest share, accounting for 22.2% of total housing savings banks assets (rising by one percentage point relative to 2007), while the housing savings bank in state ownership held the remaining share of 1.6%.

3.2.1 Housing Savings Bank Balance Sheet

The growth of assets of housing savings banks in 2008 was to the greatest extent financed by the increase in share capital and issued hybrid instruments, while deposits of housing savings bank depositors (as the main source of financing) went up by a modest 4.3% (Table 3.13). The upward trend of loans granted continued, while the credit activity of housing savings banks was, in addition to new capital, predominantly a result of asset restructuring, i.e. decreased securities investments, as in 2007. At the end of 2008, net loans made up 58.2% of housing savings banks assets, up 8.1 percentage points on the end of 2007 (Table 3.12). The reduction in the securities portfolio was also partly a consequence of the spillover of the world's financial crisis into the domestic market, which led not only to a substantial fall in share value but also to a fall in the value of the government bonds that constitute the major portion of housing savings bank investments.

At the end of 2008, the major portion of the total sources of financing of housing savings banks was made up of household time deposits, which accounted for 90.5% of total liabilities of housing savings banks. Deposits went up by 4.3% relative to the end of 2007, predominantly in the last quarter (the same as over the past few years), which can be attributed to government incentives paid to depositors in housing savings banks.

At the end of the year net loans totalled HRK 4.1bn, HRK 2.8bn of which were used for loans to savers of housing savings banks, while the remaining HRK 1.2bn were placed to central government funds and banks. Loans to savers of housing savings banks went up by 28.6% on average, relative to the end of 2007. All housing savings banks but

Table 3.12 Structure of Housing Savings Bank Assets

end of period, in million HRK and %

	2006			2007			2008		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Money assets and deposits with the CNB	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
1.1. Money assets	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
1.2. Deposits with the CNB	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
2. Deposits with banking institutions	111.5	1.8	–84.5	47.1	0.7	–57.8	259.7	3.7	451.7
3. MoF treasury bills and CNB bills	347.7	5.5	–55.5	255.5	3.9	–26.5	327.7	4.7	28.2
4. Securities and other financial instruments held for trading	284.4	4.5	–27.2	156.8	2.4	–44.9	76.5	1.1	–51.2
5. Securities and other financial instruments available for sale	1,058.3	16.6	49.7	1,246.4	19.0	17.8	1,121.1	16.1	–10.1
6. Securities and other financial instruments held to maturity	1,303.3	20.5	49.9	871.2	13.3	–33.2	695.1	10.0	–20.2
7. Securities and other financial instruments not traded in active markets but carried at fair value	1,260.6	19.8	–8.8	528.4	8.1	–58.1	241.4	3.5	–54.3
8. Derivative financial assets	5.4	0.1	–	6.7	0.1	23.3	0.0	0.0	–100.0
9. Loans to financial institutions	69.9	1.1	–73.5	106.5	1.6	52.4	273.9	3.9	157.2
10. Loans to other clients	1,713.0	26.9	135.4	3,172.3	48.5	85.2	3,780.7	54.3	19.2
11. Investments in subsidiaries, associates and joint ventures	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	–
13. Tangible assets (net of depreciation)	7.0	0.1	–14.4	8.1	0.1	15.1	8.8	0.1	8.7
14. Interest, fees and other assets	250.8	3.9	–22.5	196.0	3.0	–21.9	230.3	3.3	17.5
15. Net of: Collectively assessed impairment provisions	40.5	0.6	9.5	50.1	0.8	23.9	58.0	0.8	15.8
Total assets	6,371.4	100.0	3.8	6,544.8	100.0	2.7	6,957.3	100.0	6.3

Source: CNB.

Table 3.13 Structure of Housing Savings Bank Liabilities

end of period, in million HRK and %

	2006			2007			2008		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Loans from financial institutions	0.0	0.0	–	0.2	0.0	100.0	0.1	0.0	–18.2
1.1. Short-term loans	0.0	0.0	–	0.0	0.0	0.0	0.0	0.0	–
1.2. Long-term loans	0.0	0.0	–	0.2	0.0	100.0	0.1	0.0	–18.2
2. Deposits	5,803.6	91.1	5.2	6,038.4	92.3	4.0	6,298.1	90.5	4.3
2.1. Giro account and current account deposits	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
2.2. Savings deposits	0.0	0.0	–	0.0	0.0	18.2	0.0	0.0	2.6
2.3. Time deposits	5,803.6	91.1	5.2	6,038.3	92.3	4.0	6,298.1	90.5	4.3
3. Other loans	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	–
3.2. Long-term loans	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
4. Derivative financial liabilities and other financial liabilities held for trading	0.0	0.0	–	0.0	0.0	–	0.0	0.0	–
5. Debt securities issued	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	–
5.2. Long-term debt securities issued	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	–
7. Hybrid instruments issued	61.7	1.0	497.5	39.9	0.6	–35.3	91.3	1.3	128.6
8. Interest, fees and other liabilities	312.5	4.9	–19.7	223.9	3.4	–28.4	252.7	3.6	12.9
Total liabilities	6,177.8	97.0	4.4	6,302.3	96.3	2.0	6,642.3	95.5	5.4
Total capital	193.6	3.0	–12.1	242.5	3.7	25.3	315.1	4.5	29.9
Total liabilities and capital	6,371.4	100.0	3.8	6,544.8	100.0	2.7	6,957.3	100.0	6.3

Source: CNB.

one registered high growth rates of home loans in 2008; due to their low significance in the total amount of banking sector home loans, this resulted in an only insignificant rise in the share of housing savings banks in total banking sector home loans, from 4.7% to 5.2%.

Sizeable changes in the housing savings bank balance sheet in 2008 were also registered in the segment of securities investments, which fell by 19.5% on 2007; in addition, their share in total assets of housing savings banks declined, going down by 11.3 percentage points (from 46.7% of assets at the end of 2007 to 35.4% of assets at the end of 2008). The securities portfolio was composed of two instruments: MoF T-bills, accounting for 13.3% of investments, and government bonds, accounting for 86.7% of total investments in securities.

At the end of 2008, securities were mainly classified in the available-for-sale portfolio (54.9%), which was the only portfolio to go up at the end of 2008 relative to the end of 2007, by 3.1%. Other securities portfolios declined in the reference period, especially the portfolio of securities and other financial instruments carried at fair value through profit and loss and not traded in active markets (by 66.2%), accounting for only 9.8% of all securities at the end of 2008. The portfolio of securities and other financial instruments held to maturity went down by 9.6%, accounting for 32.2% of all securities. Only 3.1% of securities were classified into the held-for-trading portfolio, which decreased by 51.2% on the end of 2007.

Assets denominated in kuna and indexed to foreign currency comprised the largest share of housing savings bank assets again in 2008, standing at 91.0% at the end of the year.

The ratio of received deposits to loans granted by housing savings banks totalled 64.4% at the end of 2008. Compared with the end of 2007 (54.3%) this ratio went up due to the higher loan than deposit growth. If this ratio is viewed at the household sector level, it is evident that almost a half of housing savings deposits (45.2%) was channelled into loans at the end of 2008. At the end of 2007 the ratio was 36.7%.

3.2.2 Housing Savings Bank Capital

Total capital of housing savings banks was HRK 315.1m at the end of 2008, which was an increase of 29.9% compared with the end of 2007 (Table 3.14). The main contributor to the increase in total capital was the increase in share capital by 26.3%, following recapitalisations which were carried out at four housing savings banks in 2008.

The overall capital of housing savings banks in 2008 went up relative to the end of 2007 due to the HRK 93.8m rise in share capital and HRK 9.9m rise in current year profit. The overall capital trends were negatively impacted by the increase in value adjustment losses on available-for-sale financial assets in the total amount of HRK 31.1m. The rise in total capital made a mild impact on its share in total housing savings bank liabilities, which at the end of 2008 stood at 4.5%.

Table 3.14 Structure of Housing Savings Bank Total Capital

end of period, in million HRK and %

	2006			2007			2008		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1. Share capital	287.5	148.5	41.4	357.1	147.3	24.2	450.9	143.1	26.3
2. Current year profit/loss	-54.5	-28.2	-204.2	-44.7	-18.4	-17.9	9.9	3.1	-122.2
3. Retained earnings/loss	-37.1	-19.2	-30.8	-15.9	-6.6	-57.1	-61.6	-19.5	286.5
4. Legal reserves	2.3	1.2	19.6	2.5	1.0	8.1	3.4	1.1	37.0
5. Total reserves provided for by the articles of association and other capital reserves	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
6. Unrealised gains/losses on value adjustments of financial assets available for sale	-13.1	-6.8	-143.9	-56.5	-23.3	330.5	-87.6	-27.8	55.1
7. Reserves arising from hedging transactions	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
8. Previous year profit/loss	8.5	4.4	-162.6	0.0	0.0	-	0.0	0.0	-
Total capital	193.6	100.0	-12.1	242.5	100.0	25.3	315.1	100.0	29.9

Source: CNB.

Regulatory capital of housing savings banks totalled HRK 382.1m at the end of 2008, increasing by 35.0% over the end of 2007. Recapitalisations contributed to the growth of gross core capital of housing savings banks by 26.4%, while their supplementary capital I was impacted in two ways. The increase arising from the issue of hybrid instruments made up for the decrease due to the exclusion of some of the collectively assessed impairment provisions from regulatory capital.¹⁹ As a result, supplementary capital I went up by 85.9%. The increase in core capital was reduced by a substantial increase in items deducted, predominantly due to higher capital loss, i.e. unrealised value adjustment losses on available-for-sale assets accounting for HRK 87.6m at the end of 2008. Unrealised value adjustment losses on available-for-sale assets were reported by three housing savings banks. However, the lion's share of these losses were a result of operations of one housing savings bank whose assets were almost entirely made up of investments in securities, predominantly classified into the available-for-sale portfolio. Viewed by the ratio of the reported unrealised loss to the portfolio value as at the balance sheet date, the loss in the mentioned housing savings bank accounts for 8.3% of the underlying portfolio.

Notwithstanding the increase in regulatory capital, the capital adequacy ratio of housing savings banks fell from 14.51% at the end of 2007 to 12.74% at the end of 2008. The main reason for this was the increase in foreign-currency-indexed home loans to the household sector, i.e. to borrowers mostly with unmatched foreign exchange positions. As a result, the exposure of housing savings banks to currency-induced credit risk increased. In addition, the CNB increased its weightings in 2007 and consequently the capital requirement.²⁰ The net value of weighted assets thus went up by 6.5% at the end of 2008, while concurrently its weighted amount rose by 63.1% relative to the end of 2007. Total capital requirements grew at a lower rate (53.8%), on account of the smaller capital requirements for market risk, a consequence of the lower investments made in securities by housing savings banks.

¹⁹ Decision on amendments to the Instruction for the uniform implementation of the Decision on the capital adequacy of banks (OG 41/2006).

²⁰ Decision on amendments to the Instruction for the uniform implementation of the Decision on the capital adequacy of banks (OG 14/2008).

3.2.3 Quality of Housing Savings Bank Assets

Total placements and contingent liabilities of housing savings banks grew by 16.5% in 2008 relative to the end of 2007, with the majority of this growth being accounted for by fully recoverable placements (category A placements), which went up by 16.3%. In the same period, bad placements (category B and C) went up 74.4%. However, their growth, although relatively important, had only a minimum impact on the deterioration of the quality of placements (Table 3.15). The reason for this was still the relatively low amount of bad placements (HRK 31.0m) and their share in total placements and contingent liabilities of housing savings banks (0.5%). Bad placements were reported by only two housing savings banks.

Table 3.15 Classification of Housing Savings Bank Placements and Contingent Liabilities by Risk Categories

end of period, in million HRK and %

	2006		2007		2008	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements (category A)	4,540.7	99.8	5,670.3	99.7	6,595.7	99.5
Partly recoverable placements (category B)	5.7	0.1	14.9	0.3	24.6	0.4
Irrecoverable placements (category C)	1.4	0.0	2.9	0.1	6.5	0.1
Total	4,547.8	100.0	5,688.1	100.0	6,626.7	100.0

Source: CNB.

Table 3.16 Housing Savings Bank Value Adjustments and Provisions

end of period, in million HRK and %

	2006	2007	2008
Total value adjustments against placements and provisions for contingent liabilities	44.8	57.6	69.8
– Value adjustments against placements and provisions for contingent liabilities	3.6	6.4	10.7
– Collectively assessed impairment provisions	41.2	51.2	59.0
Total placements and contingent liabilities	4,547.8	5,688.1	6,626.7
Relative ratio: total value adjustments and provisions/total placements and contingent liabilities	1.0	1.0	1.1

Source: CNB.

The largest share of housing savings bank net placements, HRK 6.0bn or 89.8% of net placements at the end of 2008, was exposed to currency-induced credit risk. This is a consequence of the sectoral distribution of placements, i.e. of regulatory limitations based on which savings banks may place their funds with two sectors – households and government units. Since the foreign exchange positions of these sectors are largely unmatched, net placements of housing savings banks exposed to CICR are mainly unhedged (90.0%), i.e. only 10.0% of exposed placements were hedged against that risk.

Total placement value adjustments and provisions for contingent liabilities continued rising significantly faster than placements and contingent liabilities (69.1%), which continued the trend of a gentle rise in the ratio of value adjustments and provisions to total placements and contingent liabilities. Due to the structure of total placements and contingent liabilities, with fully recoverable placements predominant, collectively assessed impairment provisions continued to account for the major share of total value adjustments and provisions.

3.2.4 Quality of Housing Savings Bank Earnings

In contrast to the previous two years, housing savings banks ended 2008 with pre-tax profits of HRK 17.2m (Table 3.17), primarily due to the increase in income from loans granted. Two housing savings banks reported income totaling HRK 31.8m, while three housing savings banks reported a total loss of HRK 14.6m.

Net income of housing savings banks was HRK 158.6m at the end of 2008, 61.6% more than at the end of 2007. The largest contribution to the increase in total net income came from a 27.9% increase in net interest income. Loss on securities carried at fair value through profit and loss went down substantially by 72.7% to HRK 9.2m (at the end of 2007 it amounted to HRK 33.9m). However, the increase in the available-for-sale securities portfolio contributed to a concurrent increase in unrealised value adjustment losses on available-for-sale assets (from HRK 3.2m to HRK 8.3m

Table 3.17 Housing Savings Bank Income Statement

in million HRK and %

	2006		2007		2008	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	264.9	9.9	301.4	13.8	344.2	14.2
Total interest expenses	186.8	10.1	195.2	4.5	208.3	6.7
Net interest income	78.0	9.5	106.2	36.1	135.9	27.9
Total income from fees and commissions	78.6	3.5	77.2	-1.8	76.6	-0.7
Total expenses on fees and commissions	10.0	25.2	11.4	14.2	9.6	-15.9
Net income from fees and commissions	68.6	1.0	65.8	-4.1	67.0	1.9
Other non-interest income	-50.5	-177.4	-43.5	-13.9	-18.7	-57.0
Other non-interest expenses	34.3	10.5	30.4	-11.5	25.6	-15.8
Net other non-interest income	-84.8	-347.8	-73.9	-12.9	-44.3	-40.0
Net non-interest income	-16.2	-115.9	-8.1	-50.2	22.7	-
General administrative expenses and depreciation	113.7	4.5	128.4	12.9	127.9	-0.4
Net operating income before loss provisions	-51.9	-180.4	-30.3	-41.6	30.7	-
Expenses on value adjustments and provisions for identified losses	2.9	338.5	3.4	16.1	5.7	66.7
Expenses on collectively assessed impairment provisions	3.8	-73.6	10.0	166.1	7.8	-21.5
Total expenses on loss provisions	6.7	-55.0	13.4	100.2	13.5	1.0
Income/loss before taxes	-58.6	-217.9	-43.7	-25.4	17.2	-
Income tax	-4.1	61.0	1.0	-	7.3	620.9
Current year profit/loss	-54.5	-204.2	-44.7	-17.9	9.9	-

Source: CNB.

or by 158.4%). Net income from fees and commissions went up meagrely (1.9%), exclusively due to the reduction of expenses arising on this basis.

Net interest income of housing savings banks was 27.9% higher at the end of 2008 than at the end of 2007. The lion's share of that income was a result of the growth of income from granted home loans (by 46.4%) but also from income from loans granted to central government funds and partly banks in the form of overnight loans (which were granted at relatively high interest rates in the last quarter of 2008). Due the decline in investments in securities, housing savings banks income from these investments reduced by 16.0%. As a result, interest income from loans (HRK 200.1m) was for the first time higher than interest income from investments in securities (HRK 138.2m) and made up the major portion of interest income (58.1%).

Total interest expenses in the observed period went up by 6.7%, due mainly to higher liabilities on housing savings deposits (5.9%), but for the first time also due to loans received from financial institutions (short-term repo loan of the parent bank to one of the housing savings banks). A substantial decrease in expenses on fees and commissions of 15.9% relative to 2007 was partly compensated by the decline in income from fees for banking services (0.8%) so net income from fees and commissions grew by 1.9% on the end of 2007. A slight decrease in general administrative expenses and depreciation of 0.4% had a slight positive influence on the end operating results, due to the 9.2% decrease in other administrative expenses. Total expenses on loss provisions saw an increase in expenses on value adjustments and provisions for identified losses on an individual basis relative to the end of 2007, while expenses on collectively assessed impairment provisions decreased by almost the same amount. Therefore the end effect of provision expenses was small (the expenses rose by some 1.0%).

3.3 Report on Prudential Regulation and Supervision

In order to protect savers and depositors and maintain the stability and safety of the banking system, the Croatian National Bank supervises banks, savings banks, housing savings banks and credit unions. The supervisory tasks of the CNB also comprise the issuance and withdrawal of authorisations of the stated institutions and other authorisations and approvals in accordance with the relevant acts,²¹ the adoption of relevant subordinate legislation and the supervi-

²¹ The statutory powers of the CNB in the field of supervision derive from the Act on the Croatian National Bank, the Banking Act, the Act on Housing Savings and State Incentives for Housing Savings and the Credit Unions Act.

sion of operations of the stated institutions. The lawfulness and regularity of bank operations and risk management are assessed through on-site supervision, specialised on-site supervision and off-site supervision.

3.3.1 On-Site Supervision

In 2008, on-site examinations were performed in 24 banks whose assets accounted for 82.3% of the banking sector of the Republic of Croatia under the preliminary unaudited data as at 31 December 2008. In addition, on-site examinations were carried out in 10 non-banking financial institutions, to be more accurate in 10 savings and loan cooperatives.

A total of 34 on-site examinations of banks and 15 on-site examinations of savings and loan cooperatives were conducted in 2008. Examinations of savings and loan cooperatives were conducted within the framework of the authorisation procedure, based on their application for authorisation. Concurrently, targeted on-site examinations of IT systems were carried out in five savings and loan cooperatives.

Based on on-site examinations carried out in 2008 and violations and irregularities that were established in issued reports, the CNB imposed measures for the elimination of established violations and irregularities and the improvement of the situation. In 2008, 19 decisions on supervisory measures were issued and two additional decisions on on-site examinations carried out in 2008 are under way, which altogether makes up 21 decisions issued.

In 2008, full-scope on-site examinations were carried out in small and medium-sized banks, while targeted on-site examinations were carried out in large banks. A total of nine full-scope on-site examinations and four targeted on-site examinations were carried out in the course of 2008. Liquidity and market risks were evaluated in three targeted on-site examinations, and one on-site examination targeted recapitalisation.

Specialised on-site examinations in 2008 covered 19 banks and in 2 banks specialised on-site examination was carried out twice. A total of 21 specialised on-site examinations were carried out in the course of 2008. Two on-site examinations included the oversight of IT systems and six the oversight of internal control systems, while 13 on-site examinations were focused on the implementation of monetary and foreign exchange policy measures.

3.3.2 Off-Site Analysis

The main task of off-site analysis is to monitor the risk profile of banks' business operations. The assessment is based mainly on the analysis of the prescribed financial statements and other reports submitted by banks to the CNB upon request.

The existing methodology for preparing written analyses was expanded in the first half of 2008 to include in addition to current assessment of the four components of business operations of banks (capital, assets, earnings and liquidity) market risks and bank management as additional two components. Each of the said analysed areas is assigned an appropriate component rating, and ultimately an overall composite rating for each specific bank. The quality of bank management, which combines the assessment of adequacy of management of all the risks in a bank, is the most important component in the assessment of the risk profile of the entire operations of a bank. In addition to off-site analysis of individual banks, continuous efforts are made to improve off-site analysis of consolidated financial statements of banking groups.

Based on an analysis of financial statements in the first half of 2008, eighteen reports on established irregularities were drafted and submitted and fifteen decisions issued requiring the implementation of measures. The most frequent reason for drafting reports were excess exposures towards one person or persons in a special relationship.

Table 3.18 Total Number of On-Site Examinations and the Amount of Examined Assets

	2007	2008
Full-scope on-site examinations	4	9
Targeted on-site examinations	27	25
Total number of on-site examinations	31	34
Assets examined on-site (in thousand HRK)	192,555,478	310,966,446
Assets per employee examined on-site (in thousand HRK)	4,813,887	7,774,161

Source: CNB.

Developments in the global financial markets in 2008 and the possibility of their influence on the domestic banking system indicated the necessity of increasing the monitoring of bank liquidity risks. For the purpose of adequate monitoring and timely informing of the CNB, the monitoring of liquidity risks at both individual bank level and system level intensified in the second half of 2008 with the introduction of the liquidity reports banks submit to the CNB on daily basis.

To improve communication and cooperation with the banks and ensure timely reporting to the CNB about the planned activities of banks, regular annual meetings with the banks have been held since the 2008. These activities encompassed all banks.

During 2008, based on signed memoranda of understanding, cooperation with foreign supervisors of banking groups to which domestic banks belong intensified. A series of meetings was held with representatives of relevant parent bank regulators. Some of the meetings were held as previously arranged regular meetings at which information was exchanged regarding the business operations and the quality of the operations of the parents or their subsidiaries operating in Croatia. Plans regarding supervision were also exchanged, ranging from the planned regulatory amendments to specific plans related to on-site examination. Other meetings held related to the enactment of new CNB regulations implementing the *acquis communautaire*. At these meetings, participants exchanged experiences in the practical application of individual segments of these regulations. One of the examples of this cooperation is participation of the representatives of the CNB at meetings associated with advanced approaches to measuring credit and operational risk, i.e. prevalidation procedures in case of banking groups with members operating in Croatia.

Within the framework of intensifying activities in the segment of risk assessment on the consolidated basis of an EU parent bank, which is supported and required by the Committee of European Banking Supervisors, six supervisory reports were drafted for submission to the relevant regulators.

In addition, cooperation with the Croatian Financial Services Supervisory Agency (HANFA) intensified in 2008, within which information on common subjects of supervision is regularly exchanged.

As over the previous years, meetings were held with external bank auditors in order to ensure timely exchange of information on bank operations. During the meetings, external auditors presented the results of their pre-audits and were briefed on those areas of bank operations they were expected to control (audit) more closely in order to provide qualitative opinions on the financial position of a respective institution.

3.3.3 Licensing and Market Competition

In 2008, a total of 98 decisions were issued in the area of licensing and market competition, which relate to decision-taking on applications for issuing prior approval for the appointment of management board members of a bank, for the acquisition of a qualifying holding in the share capital of a bank, internal audit outsourcing, for the acquisition of holdings in the share capital of an undertaking by a bank, for acquisitions of banks and other undertakings, for changes in general operating conditions of housing savings banks and decision-taking on applications for issuing authorisations for the provision of financial services by banks and authorisations for the operation of savings banks and credit unions. Because of the obligation of savings and loan cooperatives, pursuant to the Credit Unions Act, to submit to the Croatian National Bank until 31 December 2007 an application for authorisation as a credit union or until 1 March 2008 an application for authorisation as a savings bank, in 2008, 28 authorisations were granted for the operation of credit unions and two authorisations were granted for the operation of a savings bank (one of which emerged as a result of transformation from a savings and loan cooperative and the other was a newly-established savings bank), while 20 applications for the operations of a savings bank were refused. In addition, a decision was issued granting concentration in the banking market.

3.3.4 New Regulations on Business Operations and Supervision of Credit Institutions and Credit Unions

In September 2008, the Croatian Parliament adopted the Credit Institutions Act²² (hereinafter: the Act), which amended the Banking Act²³ of 2002. The new Act was adopted primarily in order fully to harmonise the domestic banking regulations with relevant EU directives²⁴ regulating this area and ensure the conditions for application of the Basel II²⁵ standard. The Act entered into force on 1 January 2009. However, since the new departures in certain segments are extremely important, credit institutions were provided with an additional adjustment period until 1 July 2009 to adjust their operation. The provisions in question regulate capital adequacy, large exposures, holdings in non-financial institutions and tangible assets, powers of procurators, the composition of supervisory boards, internal capital, analyses of alternative scenarios related to liquidity risk management, contingency planning and business continuity planning, outsourcing of business activities, public disclosure, the compliance function and the use of the advanced electronic signature. In addition, the Act contains certain provisions which can be implemented when the Republic of Croatia becomes a full member of the European Union and therefore these provisions will enter into force upon the accession of the Republic of Croatia to the European Union.

Amendments to the Act initiated amendments to subordinate legislation so in January 2009 the Official Gazette published a set of twenty-two decisions which (except for the Decision on the effective interest rate of credit institutions and credit unions and on service contracts with consumers and the Decision on the criteria and procedure for granting prior approval of the Croatian National Bank for the appointment of the chairperson or a member of the management board of a credit institution) will enter into force on 1 July 2009.

The capital adequacy segment is regulated by three subordinate legislations: the Decision on own funds of credit institutions, the Decision on the capital adequacy of credit institutions and the Decision on reports on own funds and capital requirements of credit institutions.

The areas of risk management and internal control systems in credit institutions are also prescribed in more detail in new subordinate legislation, in the Decision on risk management, the Decision on liquidity risk management, the Decision on the management of interest rate risk in the non-trading book, the Decision on internal control systems, the Decision on limits on credit institutions' holdings in non-financial institutions and holdings of tangible assets, the Decision on the obligation to make provisions for litigation conducted against a credit institution, the Decision on outsourcing and the Decision on the internal capital adequacy assessment process for credit institutions.

Due to its importance, credit risk is prescribed in more detail in the Decision on the classification of placements and off-balance sheet liabilities of credit institutions, the Decision on submitting reports about borrowers whose debt to a credit institution exceeds a specified amount and the Decision on large exposures of credit institutions.

Years-long experience in supervision indicated a need to improve decisions which thus far regulated supervision, consolidation and external audit. As a result the following were adopted: the new Decision on the method of exercising supervision of credit institutions and imposing supervisory measures, the new Decision on the supervision of a group of credit institutions on a consolidated basis, the Decision on the criteria and procedure for granting prior approval of the Croatian National Bank for the appointment of the chairperson or a member of the management board of a credit institution, the Decision on detailed conditions for the establishment, operation and dissolution of branches of third-country credit institutions in the Republic of Croatia, the Decision on representative offices of credit institutions with registered offices outside the Republic of Croatia and the Decision on the contents of audits of credit institutions.

The application of Basel II standards in the supervision of credit institutions provided the public an important role to supplement that of the competent authority in the risk management of credit institutions and the supervision exercised over them. As a result, the Decision on public disclosure of compliance with prudential requirements by credit

²² OG 117/2008.

²³ OG 84/2002 and 141/2006.

²⁴ Directives 2006/48/EC and 2006/49/EC adopted by the European Parliament and the Council on 14 June 2006 and published in the Official Journal of the European Union of 30 June 2006.

²⁵ Basel II is the commonly used term for the document *International Convergence of Capital Measurement and Capital Standards, A Revised Framework* of the Basel Committee on Banking Supervision.

institutions was adopted, providing for market discipline.

The entire new body of regulations was publicly discussed prior to final adoption. The Credit Institutions Act was under public discussion twice; within the framework of the discussions a presentation of the draft Act was held for the members of credit institutions' management boards as well as a two-day seminar for senior and middle management in June 2008. The Act and subordinate legislation, which had been harmonised with the *acquis*, were also presented to the European Commission in June. Following a positive review by the European Commission, the final proposal of the Credit Institutions Act was submitted to the Ministry of Finance on 25 June 2008 for further procedure. Considering the complexity and scope of the amended subordinate legislation, a three-day workshop for credit institutions was held in November 2008 during which the most important decisions were presented.

In addition to the Credit Institutions Act, the Croatian National Bank also prepared a proposal of the Act on Electronic Money Institutions, transposing the Directive 2000/46/EC²⁶ on the taking up, pursuit of and prudential supervision of the business of electronic money institutions. The Act on Electronic Money Institutions regulates the area which has so far not been regulated by a special law and introduces for the first time a definition of electronic money that is to contribute to a uniform identification of electronic money institutions in the Republic of Croatia. The final proposal of the Act on Electronic Money Institutions was sent to the Ministry of Finance on 25 June 2008 and adopted by the Croatian Parliament on 26 September 2008. The Act on Electronic Money Institutions was published in the Official Gazette²⁷ and entered into force on 1 January 2009.

In addition to these two laws, the Financial Conglomerates Act²⁸ was adopted in December 2008, transposing the Directive 2002/87/EC.²⁹ For the purpose of the drafting of this Act, a mixed working group was established consisting of representatives of the MoF, HANFA and the CNB.

²⁶ Directive 2000/46/EC adopted by the European Parliament and the Council on 18 September 2000.

²⁷ OG 117/2008.

²⁸ OG 147/2008.

²⁹ Directive 2002/87/EC adopted by the European Parliament and the Council on 16 December 2002.



4

Payment Operations

4.1 Interbank Payment Systems

In 2008, interbank payment transactions were cleared through the Croatian Large Value Payment System (CLVPS) and the National Clearing System (NCS) according to the rules on settlement in bank accounts in interbank payment systems.

In 2008, interbank payment systems operated without any major deviations from the payment execution schedule and there were no serious situations that could in any way compromise the operational safety of interbank payment systems as the basic infrastructure of domestic payment operations. The accessibility of the CLVPS to payment system participants was as high as 99.45%, and minor difficulties in its use were due to technical and technological reasons or problems with the SWIFT telecommunication network.

Statistical indicators on domestic interbank payment operations point to an upward trend in the number and value of payment transactions carried out through the NCS and the CLVPS in 2008 relative to 2007.

Croatian Large Value Payment System

A total of 275,844 payment transactions were settled through the CLVPS in 2008, with the average transaction value standing at HRK 11.9m. The number of payment transactions settled through the CLVPS increased by 10.5% from 2007 whereas the value of the transactions decreased by 12.8%. The largest number and value of payment transactions were recorded in October.

Table 4.1 CLVPS – Payment Transactions Executed in 2008

Month	CLVPS	
	Transaction number	Transaction value (in million HRK)
January	22,126	291,731
February	20,965	244,407
March	20,214	228,772
April	22,152	243,668
May	21,910	226,250
June	22,323	239,686
July	24,413	285,638
August	19,687	244,728
September	23,508	251,688
October	27,583	379,331
November	23,619	346,252
December	27,344	308,555
Total	275,844	3,290,706

Source: CNB.

Table 4.2 CLVPS – Overview of Payment Transactions Executed

	2007	2008
Transaction number	249,541	275,844
Transaction value (in million HRK)	3,775,688	3,290,706
Transaction average value (in million HRK)	15	12

Source: CNB.

Table 4.3 CLVPS – Concentration Index

	Transaction number	Transaction value (in million HRK)
5 banks ^a	164,562	1,688,494
Share (in %)	59,66	51,31
Total	275,844	3,290,706

^a Banks accounting for the largest shares in terms of transaction number and value.

Source: CNB.

As regards the structure of the exchanged payment messages, as much as 61.6% of total messages were payment messages mainly used by bank clients (MT103). Payment messages used by banks (MT202) and direct transfers accounted for 32.1% and 6.4% of the total respectively. Direct transfers are payment messages used by the central bank to carry out its legal obligations and manage payment systems, as well as to execute payments ordered by banks encountering communication difficulties.

The concentration index shows that five banks accounted for over 50% of the total number and value of payment transactions settled through the CLVPS.

National Clearing System

A total of 127.8m payment transactions were executed through the NCS in 2008, with an average value of HRK 6,319. The number and value of payment transactions executed through the NCS rose by 4.4% and 1.3% respectively from 2007. The largest value of transactions (51%) was cleared in the third clearing cycle. In relation to the total number of transactions executed through the NCS, the same number of payment transactions (36%) was cleared in the prescribed duration of the second and third clearing cycles. The largest number and value of payment transactions executed through the NCS were recorded in July.

Table 4.4 NCS – Payment Transactions Executed in 2008

Month	NCS	
	Transaction number	Transaction value (in million HRK)
January	9,827,199	61,213
February	9,762,186	60,506
March	10,291,496	62,242
April	11,048,691	70,711
May	10,684,103	64,376
June	10,870,721	68,077
July	11,794,965	79,259
August	9,693,960	61,860
September	11,040,815	68,813
October	11,180,776	75,572
November	9,956,726	57,989
December	11,630,749	76,835
Total	127,782,387	807,453

Source: FINA.

Table 4.5 NCS – Overview of Payment Transactions Executed

	2007	2008
Transaction number (in million)	122.43	127.78
Transaction value (in million HRK)	797,195	807,453
Transaction average value (in HRK)	6,511	6,319

Source: FINA.

Table 4.6 NCS – Total Value and Number of Payment Transactions by Clearing Cycles in 2008

	I clearing cycle	II clearing cycle	III clearing cycle	Total
Transaction number	35,184,371	46,540,715	46,057,301	127,782,387
Share (in %)	28	36	36	100
Transaction value (in million HRK)	148,025	246,875	412,553	807,453
Share (in %)	18	31	51	100

Note: I clearing cycle – from 18.15 T-1 to 8.30 TO
 II clearing cycle – from 8.30 TO to 12.30 TO
 III clearing cycle – from 12.30 TO to 18.15 TO

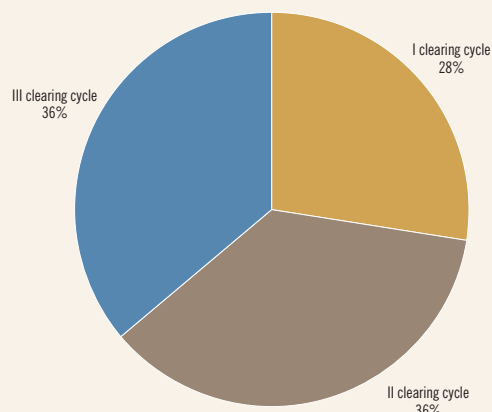
Source: FINA.

Table 4.7 NCS – Concentration Index

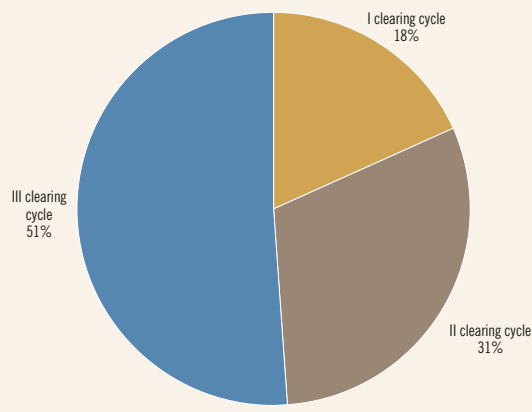
	Transaction number	Transaction value (in million HRK)
5 banks ^a	91,150,812	498,564
Share (%)	71.33	61.75
Total	127,782,387	807,453

^a Banks accounting for the largest shares in terms of transaction number and value.

Source: FINA.

4.1 NCS – Number of Payment Transactions by Clearing Cycles in 2008

Source: FINA.

4.2 NCS – Value of Payment Transactions by Clearing Cycles in 2008

Source: FINA.

The concentration index shows that five banks account for 71.33% of the total number and 61.75% of the total value of payment transactions executed through the NCS.

4.2 Interbank/Interinstitutional Cooperation in the Area of Payment Operations

At a meeting of the National Payment System Committee (NPSC), the members (the Croatian National Bank, Ministry of Finance and Croatian Bank Association) were presented with a new regulation in the area of payment operations, the Act on Settlement Finality in Payment and Financial Instruments Settlement Systems. The members of the NPSC were also introduced to the draft of the Act on Payment Services, which is planned to be adopted by the end of the second quarter 2009. Also discussed at this meeting were some issues related to the adoption and implementation of the Personal Identification Number Act, since the PIN will also be used in payment operations. The members of the NPSC were also presented with a CNB document entitled “Guidelines to Banks and Other Professional Cash Handlers”, whose aim is to ensure that the reissuing of banknotes (the recycling of the banknotes which are received from circulation and not only via cash centres) is carried out on condition that such banknotes are checked for fitness and authenticity. This ensures a uniform processing of currency and counterfeiting protection in all users.

The Council of NCS Participants, consisting of representatives of the CNB, banks and FINA, held one annual theme session. The session featured a review of the NCS operation in 2008. FINA representatives held a presentation on the operation and reengineering of the NCS and informed the participants on the successfully completed project and transfer to the new NCS information application system.

4.3 Reports on Payment Statistics

In line with the Decision on the obligation to submit reports on payment statistics, the CNB received payment statistics from the entities subject to the reporting obligation (all banks and credit card issuers) within the prescribed deadlines, processed them and made them publicly available.

Table 4.8 Number of Transaction Accounts

as at 31 December 2008

Business entities' accounts	413,513
Business entities' regular operating accounts	381,145
Business entities' sub-accounts	32,368
Citizens' accounts	5,109,742
Giro accounts	953,421
Current accounts	4,035,838
Other citizens' accounts ^a	120,483
Total	5,523,255

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

Source: CNB.

Business entities and citizens had 5,523,255 accounts opened with banks. Out of the total number of business entities' accounts opened with banks, as much as 92.2% were accounts for regular operations, whereas only 7.8% were business entities' sub-accounts.

Citizens had 5,109,742 accounts opened with banks, which made up 92.5% of the total number of accounts opened with banks. Of this, 78.98% were current accounts, 18.66% giro accounts and 2.36% "other citizens' accounts".

Table 4.9 Number of Bank Operating Units, ATMs and POS (EFTPOS) Terminals

as at 31 December 2008

	Total
1. Operating units	1,252
2. ATMs	3,342
2.1. ATMs owned by banks	2,761
2.2. ATMs owned by other legal persons	581
3. POS (EFTPOS) terminals	79,994
3.1. POS (EFTPOS) owned by banks	53,331
3.2. POS (EFTPOS) owned by other legal persons	26,663

Source: CNB.

As at 31 December 2008, there were 1,252 bank operating units in the Republic of Croatia. Of the total number of ATMs in the country, 82.6% were owned by banks and the remaining 17.4% by other legal entities. Of the total of 79,994 POS (EFTPOS) terminals, 66.7% were owned by banks and the rest was owned by other legal entities.

Table 4.10 shows available technical and technological services enabling bank clients to use additional methods of payment against their transaction accounts with banks.

As at 31 December 2008, there were 8,463,984 valid payment cards in circulation in the Republic of Croatia. Of this total, 94.9% were general payment cards (issued to the names of citizens) and 5.1% were business cards (issued to the names of business entities). As regards payment card types, debit cards accounted for the largest share in the total number of cards, 74.40%.

Table 4.10 Number of Users by Type of Service

as at 31 December 2008

Citizens	
Internet	559,711
Telebanking	0
Mobile phones	209,358
Fixed line phones	239,858
Direct debit transfers	391,973
Permanent transfer order	1,015,750
POS (EFTPOS)	3,652,936
Other	25,577
Business entities	
Internet	150,668
Telebanking	6,413
Mobile phones	8,647
Fixed line phones	11,575
Direct debit transfers	4,616
Permanent transfer order	6,548
POS (EFTPOS)	193,368
Other	58,053

Source: CNB.

Table 4.11 Issued Payment Cards and Payment Transactions According to Card Types

Type	Valid general and business payment cards			
	Number of payment cards in circulation ^a	Share (in%)	Total transactions	
			Number	Value (in HRK)
Credit card	192,727	2.3	3,019,382	1,148,441
Revolving card	743,355	8.8	29,917,684	7,953,340
Deferred debit cards	559,137	6.6	29,567,562	12,358,325
Charge card	574,679	6.8	29,557,737	10,198,315
Debit card	6,297,301	74.4	161,927,393	81,190,527
Prepaid card	93,060	1.1	76,442	34,181
Other	3,725	0.0	34,986	14,364
Total	8,463,984	100.0	254,101,186	112,897,493

^a As at 31 December 2008.

Source: CNB.

Table 4.12 Payment Cards by Function

as at 31 December 2008

Function	General		Business	
	Number of payment cards by function	Share of individual cards in total number of payment cards (in %)	Number of payment cards by function	Share of individual cards in total number of payment cards (in %)
Total number of payment cards in circulation				
Point-of-sale payments	8,016,117	99.81	432,706	100.00
Cash withdrawal	7,903,732	98.41	432,138	99.87
Checking guarantee	4,365,295	54.35	20,800	4.81
E-money	0	0.00	0	0.00
Chip	5,782,185	72.00	308,037	71.19
Co-branding	77,756	0.97	3,000	0.69
Affinity	47,710	0.59	0	0.00
International (accepted worldwide)	7,960,524	99.12	293,300	67.78
Other	70,310	0.88	184	0.04

Note: Payment cards may have more than one function.

Source: CNB.

As at 31 December 2008, there were 8,031,278 general payment cards in circulation in the RC. Of the total number of payment cards in circulation, 99.81% enabled point-of-sale payments for goods or services. Likewise, 98.41% of all the payment cards enabled cash withdrawals and almost all (99.12%) were accepted internationally.

There were no registered payment cards with the function of e-money in the Republic of Croatia.

All (100%) of 432,706 business payment cards in circulation in the Republic of Croatia enabled payments, and almost all (99.87%) enabled cash withdrawals. Internationally accepted were 67.78% of all business payment cards.

4.4 Alignment of Domestic Payment System Regulations with the *Acquis Communautaire*

The alignment of Croatian legislation with the *acquis communautaire* also involved the adoption of the Act on Settlement Finality in Payment and Financial Instruments Settlement Systems,¹ by which national legislation became aligned with the provisions of Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems. The Act came into force on 1 January 2009, except for some provisions which are to come into force on the day of Croatia's accession to the European Union.

The Act governs settlement finality of transfer orders in settlement systems, the consequences of insolvency proceedings against a system participant, the rights and obligations arising from or related to the participation of participants in the system, and the rights of collateral recipients in the event of insolvency proceedings against a collateral provider. The Act also defines systems participants and the obligations of competent bodies of the RC related to keeping a record of the system and notifying the European Commission.

The Act was drafted in cooperation with the Croatian Financial Service Supervisory Agency and the Central Depository Agency, since, in addition to settlement finality in payment systems, it also governs settlement finality in financial instrument settlement systems.

¹ OG 117/2008.



5

Currency Department Operations

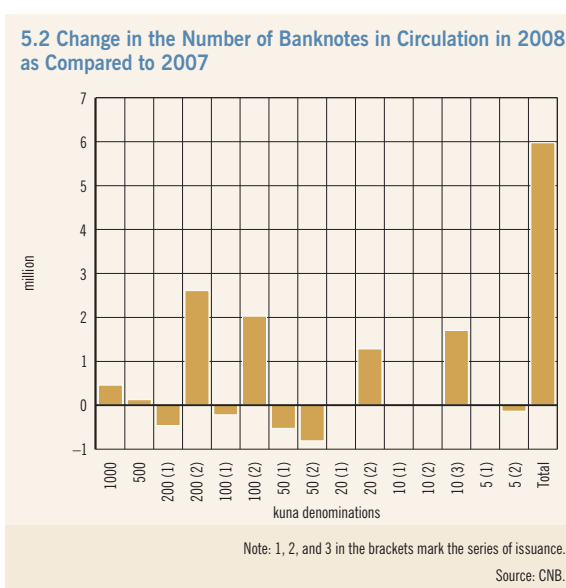
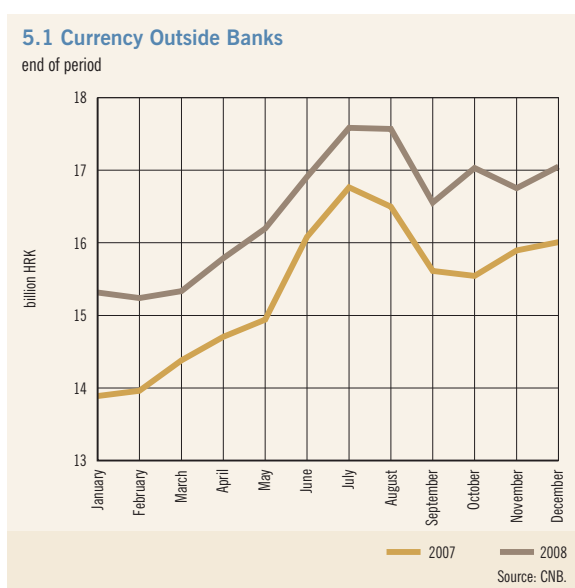
5.1 Currency Outside Banks

As at 31 December 2008, currency outside banks amounted to HRK 1.7bn, which is an increase of 6.5% over the end of 2007. The 6.5% increase in currency in circulation in 2008 was 3.1 percentage points lower than in 2007.

On 31 December 2008, there were 141.2m banknotes, worth HRK 16.2bn, in circulation, that is, outside the CNB vault and cash centres. In comparison with the end of 2007, the number of banknotes outside the CNB had risen by 4.4%, while the total value of all banknotes outside the CNB vault and cash centres had risen by 6.5%.

The total number of banknotes in circulation increased by 6.0 million in 2008 from 2007, with 2.6m 200 kuna banknotes accounting for 43.3% of the total. Banknotes in denominations of 1000, 500, 100, 50, 20 and 10 kuna increased in number by 3.4m (56.7%), with the number of 100 kuna banknotes rising at the highest rate (up by 2.0 million or 58.8%). The total number of 5 kuna banknotes in circulation declined by 0.1 million because the need for these banknotes was met by coins of the same denomination.

In October and November 2008, a procedure was initiated to withdraw from circulation 50, 100 and 200 kuna banknotes with an issue date of 31 October 1993.¹ This was because, according to the data on the condition and circula-



¹ OG 135/2008.

tion of banknotes in these denominations and with these issue dates as at 31 October 2008, 3.4m banknotes (2.4% of the total number of banknotes in circulation) remained in circulation.

The procedure was also initiated due to data on the quality of these banknotes in circulation and concerning the adequacy of reserves of banknotes in the same denominations with an issue date of 7 March 2002 and updated protection against counterfeiting.

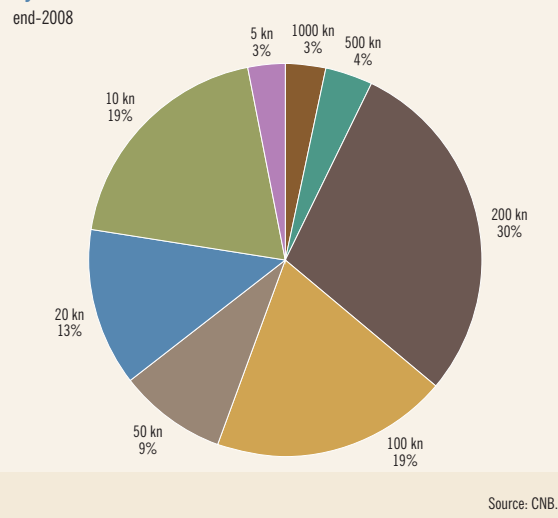
Accordingly, in November 2008, the CNB Council adopted a Decision on the withdrawal from circulation of 50, 100 and 200 kuna banknotes with an issue date of 31 October 1993. The withdrawal process started on 1 December 2008 and it will be completed on 31 December 2009. The mentioned denominations and issues will cease to be legal tender as of 1 January 2010.

Of banknotes in circulation, 200 kuna banknotes, with a share of 30%, and 100 kuna banknotes, with a share of 19%, were the most numerous and accounted for HRK 10.8bn or 66.6% of the total value of banknotes in circulation in 2008. The large share of 200 and 100 kuna banknotes in total banknotes in circulation is attributed to their widespread use in ATM payments.

As at 31 December 2008, there were 1.49bn coins outside the CNB vault, worth a total of HRK 0.82bn. At the end of 2008, the number of coins in circulation had increased by 8.1% from the end of 2007, while their total value had risen by 7.9%. The total number of coins in circulation increased by 112 million in 2007, with the coin denomination of 10 lipa accounting for the largest share of the increase, up by 25.0 million coins or 22.3%.

Of coins in circulation, the most numerous in 2008 were 10 lipa coins (352 million items or 23.6% of the total number of coins in circulation). In terms of value, 5 kuna coins accounted for the largest share, HRK 288.3m or 35.0% of the total value of coins in circulation.

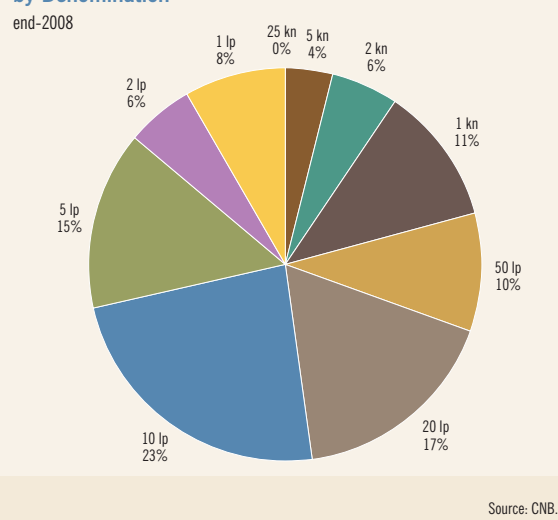
5.3 Structure of Total Volume of Banknotes in Circulation by Denomination



5.4 Change in the Number of Coins in Circulation in 2008 as Compared to 2007



5.5 Structure of Total Volume of Coins in Circulation by Denomination



5.2 Cash Supply

A total of 6.5 billion worth of kuna banknotes (57.0 million pieces) and 64.0m worth of coins (112.6 million pieces) was issued from the CNB vault to cash centres in 2008 to meet the needs of banks for cash based on their orders, and to maintain adequate reserves in cash centres. The total value of issued banknotes was HRK 0.9bn, a drop of 14.1% from 2007, while their number increased by 5.1m or 9.7%. However, the total value and total number of issued coins reduced by 29.1% and 11.6% respectively.

As the requirements of cash supply centres for coins were partly covered by the transfer of the excess number of coins from one cash supply centre to another, 5.8 million coins (worth HRK 9.0m) were transferred among cash supply centres in 2008.

Despite a growth of 6.5% in currency in circulation at the end of 2008 relative to the end of 2007, the total value of currency from the CNB vault fell by 14.2% in 2008.

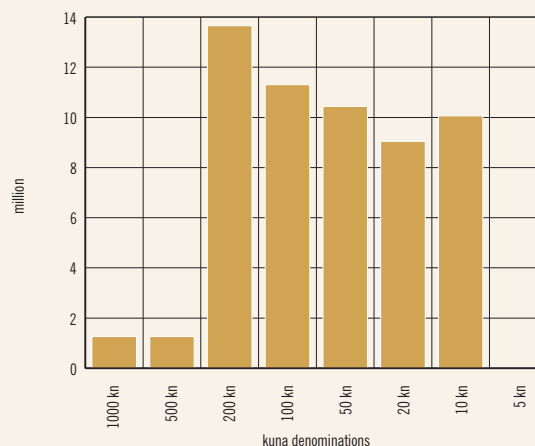
The decrease in the total value of currency issued in 2008 from the CNB vault, which occurred despite the increase in currency in circulation, was a result of the rationalisation of the cash centre network in the period from January to May 2007, which resulted in the number of cash centres being reduced from 22 to 10. As a consequence, the currency from the closed cash centres was issued into circulation and its turnover increased, especially in credit institutions.

5.3 Withdrawal and Processing of Worn-Out Banknotes

In 2008, the Currency Department withdrew 48.2 million banknotes with a total face value of HRK 4.9bn from cash centres. The banknote processing system processed 53.5 million banknotes (5.3 million pieces of banknotes were withdrawn in 2007), of which 52.2 million banknotes, or 97.4%, worth HRK 5.6bn, were destroyed as they failed to meet the quality standards set for circulation banknotes.

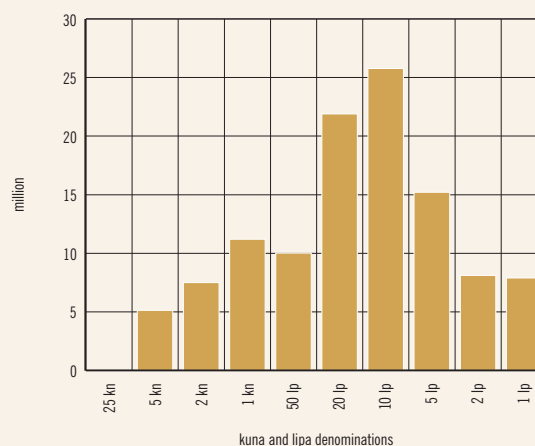
The renewal index in 2008 was 37 (destroyed banknotes/banknotes in circulation × 100), with the number of banknotes in circulation and the number of destroyed banknotes totalling 141.2 million and 52.2 million respectively on 31 December 2008.

5.6 Banknotes Issued to Cash Supply Centres in 2008



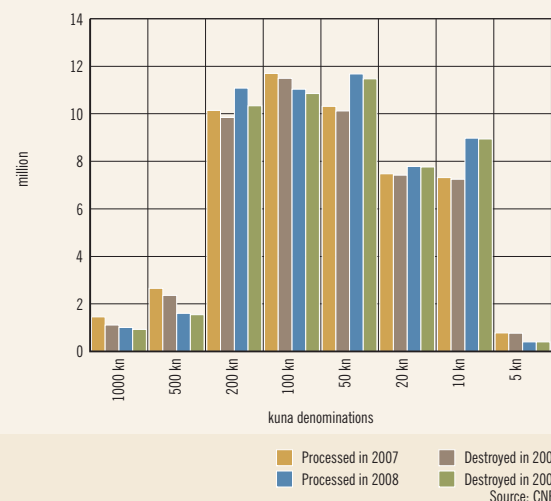
Source: CNB.

5.7 Coins Issued to Cash Supply Centres in 2008



Source: CNB.

5.8 Processed and Destroyed Banknotes



Source: CNB.

5.4 Banknote Authentication

In 2008, 717 counterfeit banknotes with a face value of HRK 132,770 were registered in banknote authentication procedures. Compared with the end of 2007, the number of counterfeits registered fell by 1.8%, with 200 kuna banknotes continuing to account for the largest share of counterfeit banknotes (305 items or 42.5%). As shown by the relevant indicators, 5 counterfeits were detected per 1 million banknotes in circulation in 2008.

In 2008, and pursuant to the Decision on the establishment of the National Counterfeit Centre, National Analysis Centre and Coin National Analysis Centre,² the Croatian National Bank established these centres in order to adopt and implement measures to prevent counterfeiting and detect counterfeits.

Table 5.1 Registered Counterfeit Banknotes in 2008

Denomination	1000	500	200	100	50	20	10	5	Total
Number	33	44	305	96	100	78	61	0	717
Percent	4.6	6.1	42.5	13.4	13.9	10.9	8.5	0.0	100.0

Source: CNB.

The centres were established in accordance with the obligations assumed under the International Convention for the Suppression of Counterfeiting and the agreement concluded in 2008 between the Croatian National Bank and the European Central Bank on the protection of the euro against counterfeiting, and with the European Commission/OLAF on the protection of euro coins against counterfeiting.

The implementation of the decision on the establishment of the national centres involved a separate project which included the adaptation of premises, hiring and training of experts, acquisition of equipment, setting up a system for the analysis and monitoring of suspected counterfeit banknotes and coins and preparing authentication reports. The national centres started trial operations in November and December 2008.

By putting into operation the national centres, the CNB is also fulfilling the obligation to implement the conclusion of the RC Government, dated 12 July 2007,³ related to the fifth benchmark to be fulfilled before the closure of accession negotiations between the RC and the European Union related to Chapter 32 – Financial control (legislative and administrative harmonisation with the Council Regulation No 1338/2001 laying down measures necessary for the protection of the euro against counterfeiting).

5.5 Commemorative Coin Issues

In 2008, the CNB issued 1 000 numismatic sets of kuna and lipa circulation coins, with the year of issue 2008. Also in 2008, the CNB issued a 1000 kuna commemorative gold coin entitled “500th Anniversary of the Birth of Marin Držić” (2000 items).

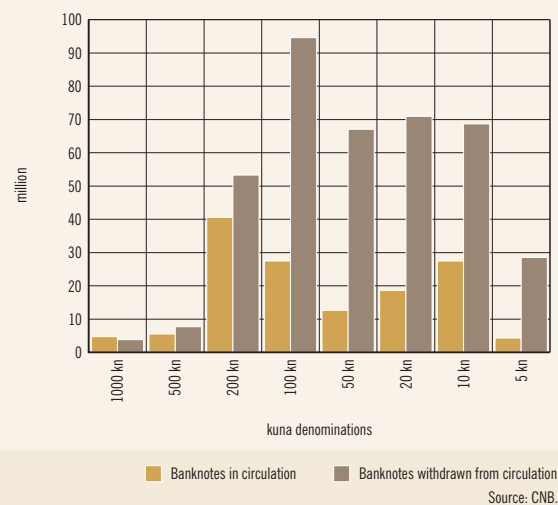
In addition, in cooperation with the Croatian Monetary Institute, to which it contractually assigned the financing of the manufacture, manufacture and sale, the CNB issued the following commemorative coins:

- a 150 kuna silver coin “Old Croatian Ships – Dubrovnik Karaka”, 5000 items;
- a 150 kuna silver coin “Benedikt Kotruljević”, 2000 items;
- a 1000 kuna gold coin “Andrija Mohorovičić”, 2000 items.

² OG 37/2008.

³ Class 910-04/00-03/06, Reg. No.: 5030109-07-20.

5.9 Ratio of Withdrawn Banknotes and Banknotes in Circulation in 2008



6

Publicness

The Croatian National Bank considers the publicness of its work an important precondition for the credibility of its actions. Therefore it pays special attention to providing the fullest and most complete information possible to the domestic and international publics on its goals, measures to attain them and the results of its activities.

Through various information channels, the CNB in 2008 continued to inform the public on all important aspects of its actions. Press releases on the decisions of the CNB Council, the highest body of the central bank, were published immediately after the sessions at which they were enacted. Press releases also reported on open market operations, foreign exchange market interventions and other measures implemented with a view to achieving CNB tasks.

The CNB website www.hnb.hr presents the latest legislation and subordinate legislation related to central bank actions and the instructions and forms for the application of regulations. In addition, the website also features the drafts of acts and subordinate legislation so that they are available for public debate.

In addition to its regular and occasional publications, the CNB in 2008 launched a new publication: "Financial Stability." All the publications were posted on the central bank website and the most important issues, in print, in Croatian and English, were sent to interested government institutions, political parties, banks and other financial institutions and companies, educational institutions, libraries and institutes, international organisations and scientists.

After the adoption of especially important decisions related to the implementation of monetary policy and other central bank tasks, press conferences were organised with journalists covering the finances and banking sector in order to give the fullest possible information on the effected changes and enable them to be reported to the public in the fullest and clearest possible manner.

In 2008, the CNB also organised conferences providing an opportunity to the interested public (the representatives of banks, government institutions, etc.) to address in detail the issues related to legal regulations, in force or in draft, on bank operations and other areas within the fields of competence of the central bank in direct contact with CNB representatives. Contributing to the international reputation of CNB work was the organisation of the Dubrovnik Economic Conference held for the fourteenth time in 2008.

In 2008, the CNB received over three thousand written and oral inquiries from members of the public, companies, media representatives, government institutions, embassies and so on, sent by email, telefax, mail or telephone. These requests for information were related to all CNB areas of operation and the bank made maximum efforts to reply in the shortest possible period.

Two groups of secondary school students from Zagreb, Zagreb university students, and undergraduate and post-graduate students from seventeen European countries joining the Summer School of the Faculty of Economics in Rijeka visited the CNB and attended lectures on topics of their choice. Future experts were thus enabled a deeper insight into CNB activities.



7

International Relations

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

In 2008, further progress was achieved in accession negotiations between the EU and Republic of Croatia. The CNB participated in the negotiations as competent or co-competent authority for the following four chapters: Free movement of capital, Financial services, Economic and monetary policy and Financial control.

The most progress was made in the negotiations on Chapter 17 – Economic and monetary policy. Specifically, the preconditions for fulfilling the benchmarks for the closure of this chapter were created by the coming into effect of the new Act on the Croatian National Bank. Following a positive evaluation by the European Commission and a discussion on the preparedness to close this chapter at the Enlargement Working Group of the Council of the EU, this chapter was provisionally closed at the Intergovernmental Conference on 19 December 2008.

Chapter 9 – Financial services sets benchmarks to be met by the Republic of Croatia in order for this chapter to be temporarily closed. They are primarily related to the alignment of legislation with the *acquis* in the area of credit institutions, insurance, financial market infrastructure, investment services and the security market. In this regard, in 2008 the Croatian Parliament adopted a number of new acts (or amendments to existing acts): the Act on Amendments to the Insurance Act, the Credit Institutions Act, the Act on Electronic Money Institutions, the Act on Settlement Finality in Payment and Financial Instruments Settlement Systems, the Act on Amendments to the Deposit Insurance Act and the Financial Conglomerates Act.

Two benchmarks had to be met for the opening of Chapter 4 – Free movement of capital: one related to the acquisition of real property by non-residents (EU member state citizens) and the other related to the prevention of money laundering and terrorist financing. In April 2008, the European Commission concluded that the Republic of Croatia was ready to open this chapter and the negotiating position was submitted in June to the EU Council Presidency. However, although it was expected that negotiations would be opened at an intergovernmental conference in October, and then again in December, they were not opened in 2008.

One of the five benchmarks to be met to close negotiations on Chapter 32 – Financial control falls within the scope of the CNB. This benchmark involves the implementation of measures to protect the euro against counterfeiting. In line with this, in March 2008 the CNB established the National Counterfeit Centre, the National Analysis Centre and the Coin National Analysis Centre. Having completed their trial run in late February 2009, the centres became fully operational at the beginning of March.

As regards the fulfilling of the obligations under the 2008 National Programme for the Integration of the Republic of Croatia into the European Union, in 2008 the CNB adopted all the implementation measures within its competence as laid down by the Programme. CNB experts also participated in the drafting of the 2009 National Programme for the Integration of the Republic of Croatia into the European Union, in the part relating to economic criteria, free

movement of capital, financial services, economic and monetary policy and financial control. Presenting accession-related activities in the forthcoming period, the Programme especially focuses on the measures related to the alignment of Croatian legislation with the *acquis* in 2009. The Programme was approved at the Government session held in December 2008.

In 2008, CNB experts participated in the drafting of the part of the fifth Pre-accession Economic Programme 2009-2010 (PEP) relating to current macroeconomic developments, the medium-term macroeconomic programme and the financial sector. This document is prepared annually by each EU candidate country in order for it to prepare for participation in multilateral supervision and EU economic policy coordination procedures.

In 2008, CNB representatives also participated either in the work of or in the preparation of materials for the bodies set up pursuant to the Stabilisation and Association Agreement, such as the Subcommittee on Economic and Financial Matters and Statistics and the Subcommittee on the Internal Market and Market Competition. The two bodies reviewed current macroeconomic developments in the RC, focusing on monetary and exchange rate policies and the external sector, and also discussed financial sector developments. CNB experts also prepared relevant materials for the meetings of the Stabilisation and Association Council and the Stabilisation and Association Committee.

Further progress in accession negotiations was also confirmed by the European Commission Progress Report on the RC 2008, published in November 2008. The Report assesses that, up to the time of its writing, the international financial crisis made only a minor impact on the Croatian economy and financial sector, but warns of substantial external financing needs generated by a widening current account deficit and high external debt. The external imbalances thus make the Croatian economy vulnerable to a possible break in capital inflows. The Report also estimates that the CNB made a very good progress in improving its analytical capacity to compile long-term financial sector stability assessments. In reference to the chapters falling within the competence of the CNB, the Report states that some progress was made regarding Chapter 4 – Free movement of capital, mainly as regards the processing of applications for permits for the acquisition of real property for EU citizens, the payment systems and the adoption of the action plan and new laws on the fight against money laundering. However, the Report stresses the need for the further strengthening of administrative capacities, improving legislation and investing additional effort into the application and implementation of laws. As regards Chapter 9 – Financial services, the overall assessment points to strong progress in that area. Moreover, the progress made in the area of banking and financial conglomerates, especially as regards the adoption of relevant laws, is assessed as substantial. Although the Supervisory Framework is still under development, the supervisory techniques in place pose no risk to the successful implementation of Basel II, and the cooperation between domestic and foreign supervisory bodies improved. As regards Chapter 17 – Economic and monetary policy, the Report stresses the considerable progress made in their alignment with the *acquis*, especially regarding the adoption of the new Act on the Croatian National Bank. Sufficient progress was achieved by further restrictions imposed on the privileged access of government bodies to financial institutions. Regarding economic policy, the Report warns of the slow pace of reforms and the gap between the adopted legislative measures and their implementation. Finally, as regards Chapter 32 – Financial control, the Report states that good progress was made in protecting the euro against counterfeiting. However, it stresses that further efforts are needed to ensure an efficient application of regulations and strengthen the capacities of the newly established anti-counterfeiting centres.

In 2008, with a view to exchanging experiences, the CNB continued the contacts with the representatives of EU member states' central banks, the European Central Bank and other EU institutions. For example, during the stay of an Austrian National Bank representative in Zagreb information was exchanged on the economic and institutional aspects of EU integration and the central bank's role in maintaining financial stability.

7.2 International Monetary Fund (IMF)

The Republic of Croatia's quota in the IMF remained unchanged in 2008 (SDR 365.1m), and so did its voting rights (0.18% of the total voting rights). The Republic of Croatia continued to exercise its interests within the IMF through the Dutch constituency, which in addition to Croatia includes another 12 countries (Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Georgia, Israel, Macedonia, Moldova, Montenegro, the Netherlands, Romania and Ukraine). The voting power of the Constituency is 4.8% of the total votes in the IMF. The Constituency is headed by a Dutch representative acting as Executive Director.

The cooperation and exchange of opinions with IMF experts continued in 2008, the main occasion being the visit of Deputy Managing Director Murilo Portugal and his associates. During his two-day stay, the Deputy Managing Director met with the highest representatives of the Ministry of Finance and CNB.

The regular annual Article IV consultations with the Republic of Croatia were concluded on 9 May 2008. Based on the report of the IMF Mission that visited the RC in late February and early March 2008, and the discussions held, the IMF Executive Board commended Croatia for its strong economic growth and accompanying increase in employment. Also commended was the progress in policy implementation, especially as regards the general government deficit reduction since 2003, and the ongoing strengthening of financial supervision. At the same time, concerns were raised about a growing current account deficit, the external debt level and inflation rate growth. As regards exchange rate policy, the Executive Board stated that the real exchange rate is broadly in line with fundamentals and confirmed the advantages of maintaining a stable exchange rate in a situation of high euroisation and vulnerability to balance sheet mismatches. Emphasising that this policy, in order to continue successfully, needs to be supported by other economic policies, the Board welcomed the intention of the authorities to continue reducing the general government deficit to reach the targeted fiscal balance planned for 2011. In the opinion of the Board, the bulk of the fiscal adjustment (including the saving of surplus revenue) should be front-loaded and the fiscal deficit should be targeted to 1% of GDP or less in 2009. This would directly facilitate the reduction of large external imbalances, while increasing confidence in the achievement of recommended objectives. As concerns other policies, it was stressed that it was important to accelerate structural reforms, which should contribute to reducing vulnerabilities, raising the standard of living and successfully concluding accession negotiations with the EU, and to implement tight prudential policies and high quality supervision of the financial sector. IMF mission members also compiled two studies, one of which assesses Croatia's external stability, the other dealing with the efficiency of healthcare, education and social spending. The conclusions of these studies were presented to CNB and MoF representatives and expert audiences.

In parallel with the Mission report on the 2008 Article IV consultations, the Executive Board accepted the Financial Sector Stability Assessment (FSSA) Update by the joint IMF – World Bank mission within the Financial Sector Assessment Program (FSAP), which visited Croatia in late 2007 at the invitation of Croatian authorities. The Executive Board stressed that the Croatian financial system was sound and commended the measures implemented by Croatian authorities to strengthen the supervision of the banking and non-banking sectors and their plan to compile a financial sector stability report for the future period. However, the ongoing tensions in global financial markets and balance sheet vulnerabilities require the maintenance of high prudential standards and close monitoring of bank lending and risk management practices. The said Report, in a somewhat shortened form, entitled Financial Sector Assessment, was accepted by the Board of Executive Directors of the World Bank in July 2008. It should be noted that more than two thirds of member countries have participated in the joint IMF – World Bank Financial Sector Assessment Program since its inception in 2000, and that in half of them, including Croatia, a reassessment has been or is being conducted.

The visits of CNB delegations to the IMF in 2008 included discussions on the mentioned topics related to Article IV consultations and the FSSA Update and participation in the work of the IMF's governing bodies (the Constituency, the International Monetary and Financial Committee and the Board of Governors). This provided opportunities to Croatian representatives to get a deeper insight into IMF activities.

In addition to carrying out its regular tasks, in the first half of 2008 the IMF focused on completing the tasks established within the medium-term development strategy, planned as early as in 2006. In this connection, the Board of Governors adopted two resolutions (Resolution No 63-2 and Resolution No 63-3), initiating the procedure of adopting the amendments to the IMF Articles of Association in member countries. The amendment to the Articles of Association proposed by Resolution No 63-2 provide for an increase in basic votes of member countries and the appointment of another deputy to the executive directors elected by at least 19 member countries. The acceptance of this amendment would enforce the second increase (9.6%) in the quota of member countries, which would increase the total IMF quota, inclusive of the first increase implemented pursuant to Resolution No 61-5 from 2006 (the so-called Singapore Resolution) by 11.5%. A second round of quota increases would address 54 underrepresented countries, not including the RC. The amendment to the Articles of Association proposed by Resolution No 63-3 relates to the expansion of the IMF's investment authority, which is one of the elements of the new long-term IMF financing model. Croatia accepted the proposed amendments to the IMF Articles of Association by relevant Government regulations published in the Official Gazette – International Treaties No 5 of 13 August 2008. In accordance with the provisions of the IMF Articles of Association these amendments will come into force once they are approved by at least three fifths of member countries, possessing at least 85% of the total voting power.

Early 2008 saw the completion of the initiative to provide financial assistance to Liberia for the payment of arrears to the IMF, in which Croatia also participated.

When the global crisis reached emergency proportions in the second half of 2008, IMF priorities turned to providing financial and advisory assistance to a growing number of member countries. In the period from October 2008 to the end of January 2009, the IMF granted, primarily in the form of stand-by arrangements, SDR 32.0bn from the General Resources Account to the hardest hit countries. At the same time, the IMF also intensified research into the cause of the crisis and specified the reforms necessary to establish a new global financial system and prevent the recurrence of such crises.

Croatia continued to use the IMF's technical assistance in 2008. In this regard, note should be taken of the technical assistance provided to CNB experts in the area of macroeconomic modelling and forecasting.

As the fiscal agent of the RC and a depository of the International Monetary Fund (as regulated 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 Succession), the CNB is responsible for keeping deposit accounts of the IMF and, in the name and for the account of the Republic of Croatia, for regular servicing of succession-related obligations arising from the allocation of special drawing rights (a total of SDR 1.3m in 2008).

7.3 Bank for International Settlements (BIS)

At its Annual General Meeting, held on 30 June 2008, the BIS adopted its Annual Report and decided on dividend payouts of SDR 265 per share.

The regular meetings of central bank governors from BIS member countries at which topical issues in the area of international banking and finance are discussed continue to provide a strong incentive to central bank cooperation in this area. Committees and expert bodies operating within the BIS, which include CNB representatives, are also important in the context of promoting this cooperation.

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

7.4 Cooperation with Other International Financial Institutions

The bulk of CNB's cooperation with other international financial institutions entails its cooperation with development banks of which the Republic of Croatia is a member, such as the World Bank Group, the European Bank for Reconstruction and Development (EBRD) and the Inter-American Development Bank (IDB). RC membership in these banks is regulated by special acts, pursuant to which the Ministry of Finance of the RC is the authority responsible for cooperation with the World Bank Group, EBRD and IDB, and is as such authorised to perform all operations and transactions in the name of the RC 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 their name and for their account, and performs financial transactions with these organisations as the payment agent of the Republic of Croatia. It is also responsible for the execution of withdrawals and repayments of funds based on structural loans granted by the IBRD to the Republic of Croatia.

In addition to these legally prescribed tasks, in 2008 CNB representatives exchanged information at meetings with World Bank and EBRD representatives on the macroeconomic situation in Croatia and the planned strategy of these development banks for the Republic of Croatia in the forthcoming period.

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

The legal basis for the foreign exchange system in the Republic of Croatia is provided by the Foreign Exchange Act.¹ The measures for the implementation of foreign exchange policy, defined by relevant subordinate legislation, determine the degree of free movement of capital between residents and non-residents and the terms and manner of using foreign means of payment and kuna in transactions between residents and between residents and non-residents.

7.5.1 Free Movement of Capital

Under the Stabilisation and Association Agreement, which entered into force on 1 February 2005, Croatia has undertaken to abolish restrictions on payments and transfers of funds associated with current and capital transactions. Restrictions on payments and transfers of funds were retained only for some capital transactions. The Act on Amendments to the Foreign Exchange Act,² which came into effect in December 2006, provided for the abolishment of the remaining restrictions on capital transactions as of 1 January 2009. However, pursuant to the Regulation on Amendments to the Foreign Exchange Act,³ this was postponed until 1 January 2010 in order to protect Croatia from undesired consequences of capital flows under the conditions of the global financial and economic crisis. The only exception was made in granting financial loans with a maturity of up to one year to non-residents, the abolishment of which was postponed until 1 August 2009.

Against a background of the existing restrictions of capital transactions, 355 approvals for the opening of accounts and keeping funds in accounts abroad were issued to residents in 2008, with the total balance of these accounts standing at approximately USD 20m. Domestic banks were granted 631 approvals for cross-border transfer of kuna cash for purchase and sale transactions with foreign banks. 108 approvals were granted for cashless transfers of funds related to gifts and grants and 23 approvals were granted for cash payments and collections in cash in transactions with non-residents. 20 approvals were granted to resident natural persons for taking foreign cash out of the Republic of Croatia.

7.5.2 Authorised Exchange Offices

Pursuant to the Foreign Exchange Act, the CNB issues authorisations to conduct exchange transactions to legal persons and crafts. In 2008, authorised exchange offices were issued 66 authorisations to conduct exchange transactions so that the total number of active authorisations at the end of 2008 stood at 1,255. As concerns their legal form, 63% of authorised exchange offices are limited liability companies, 26% are tradesmen, 9% are joint stock companies and 2% are other legal persons. Also in 2008, 22 authorisations to conduct exchange transactions were withdrawn from authorised exchange offices.

The revision procedure for the authorisations issued in 2006 was also completed in 2008. The revision was conducted due to the coming into effect of the Act on Amendments to the Foreign Exchange Act⁴ in December 2006 since it expands the scope of criminal offences taken into consideration in assessing the fulfilment of the fitness and properness criteria. Therefore the revision process included an expanded verification of the fulfilment of the fitness and properness criteria for all natural and legal persons related to authorised exchange offices whose authorisations were issued in 2006.

Authorised exchange offices have to use protected computer programs certified by the CNB. The use of such programs was introduced for the purpose of strengthening fiscal and financial discipline and is directly related to the pursuit of anti-money laundering policy. Two certificates were issued in 2008.

According to the data on the turnover of authorised exchange offices, received and processed by the CNB, their total

1 OG 96/2003, 140/2005 and 132/2006.

2 OG 132/2006.

3 OG 150/2008.

turnover in transactions with natural persons was around HRK 27.5bn in 2008. Of that amount, HRK 17.0bn went to the purchase of foreign cash and checks denominated in foreign currency and HRK 10.5bn went to the sale of foreign cash. The bulk of authorised exchange offices' transactions (92%) was in euro. HRK 6.5bn worth of the balance between purchase and sale of foreign cash was sold to banks.

7.5.3 Activities Related to Anti-Money Laundering, Terrorist Financing and Counterfeiting of Foreign Cash

March 2007 saw the establishment of a Croatian National Bank committee for the prevention of money laundering and terrorist financing, whose main task is to cooperate with other competent government bodies for the purpose of monitoring and implementing the *acquis* in this field. Two working groups were established to achieve this goal: an inter-institutional working group for the prevention of money laundering and terrorist financing and an inter-departmental working group for the suppression of terrorism, which includes a CNB representative.

The Report on the third assessment round for the legislative, financial and repressive system of the RC was defended at the 26th plenary session of the special committee of the Council of Europe – MONEYVAL, held at the beginning of April in Strasbourg. The representatives of the standing delegation at the session were accompanied by five CNB representatives.

In 2008, the Committee cooperated intensively with the Office for Money Laundering Prevention on drafting the new Act on the Prevention of Money Laundering and Terrorist Financing⁵ and on the adoption of the ordinance for the implementation of this Act. In cooperation with the Croatian Chamber of Commerce and the Office for Money Laundering Prevention, in October 2008 a seminar was organised for banks, savings banks and housing savings banks on the interpretation of the new Act and its implementation.

To implement measures against counterfeiting of foreign cash, throughout 2008 the CNB provided information to banks about withdrawals and putting into circulation of genuine foreign banknotes and to banks, the MoF and FINA about the characteristics of counterfeit foreign banknotes detected in the Republic of Croatia.

4 OG 132/2006.

5 OG 87/2008.



Financial Statements of the Croatian National Bank

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Croatian National Bank (the Bank) which comprise the balance sheet as at 31 December 2008 and the statement of income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 3 to 42)

Management Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Croatian accounting regulations and in line with the Act on the Croatian National Bank. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to the fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2008, and of its financial performance and its cash-flows for the year then ended in accordance with the Croatian accounting regulations and in line with the Act on the Croatian National Bank.



Ernst & Young d.o.o.
M. Sachsa 1
Zagreb, Republic of Croatia
March 2, 2009



Ernst & Young KFT
Vaci ut 20
Budapest, Republic of Hungary,
March 2, 2009

Statement of Income

(All amounts are expressed in thousands of kunas)

	Notes	2008	2007
Interest and similar income	3	2,084,696	2,510,132
Interest and similar expense	4	(568,102)	(614,766)
Net interest income		1,516,594	1,895,366
Fee and commission income		6,104	6,632
Fee and commission expense		(4,641)	(3,591)
Net fee and commission income		1,463	3,041
Dividend income		4,852	5,111
Net result from investment – equity method		1,758	2,416
Net result from financial operations	5	1,723,143	756,132
Precious metals revaluation	5	(338)	249
		1,722,805	756,381
Net foreign exchange differences	6	451,185	(1,116,607)
Other income	7	17,823	6,674
Operating income		3,716,480	1,552,382
Operating expenses	8	(330,565)	(319,314)
Decrease/(Increase) in provisions	9	1,105	(425)
Operating surplus		3,387,020	1,232,643
– Allocated to general reserves		(2,044,525)	(747,935)
– Allocated to the State Budget		(1,342,495)	(484,708)

Balance Sheet

(All amounts are expressed in thousands of kunas)

	Notes	31/12/2008	31/12/2007
Assets			
Cash and current accounts with other banks	10	1,473,516	8,212
Deposits with other banks	11	13,186,457	33,130,840
Trading securities	12	52,136,879	34,959,337
Loans	13	111	4,163,719
Balances with the International Monetary Fund	14	2,904,533	2,878,705
Equity investments	15	57,441	55,372
Accrued interest and other assets	16	174,046	227,577
Tangible and intangible assets	17	581,531	557,526
TOTAL ASSETS		70,514,514	75,981,288
Liabilities			
Banknotes and coins in circulation	18	20,479,274	19,313,241
Due to banks and other financial institutions	19	37,298,672	46,888,780
Due to the State and State institutions	20	249,323	216,468
Due to the International Monetary Fund	21	2,897,961	2,871,894
Accrued interest and other liabilities	22	1,477,831	624,288
Total liabilities		62,403,061	69,914,671
Equity			
Initial capital	23	2,500,000	2,500,000
Reserves	23	5,611,453	3,566,617
Total equity		8,111,453	6,066,617
Total equity and liabilities		70,514,514	75,981,288

The financial statements set out on pages 140 to 164 were approved on March 2, 2009 by:

Director of Accounting Department:

Ivan Branimir Jurković



Governor:

Željko Rohatinski, D.Sc.



Statement of Changes in Equity

(All amounts are expressed in thousands of kunas)

	Initial capital	General reserves	Revaluation reserves	Unrealised gains/losses	Operating surplus	Total equity
Balance at 1 January 2007						
Transferred to general reserves from revaluation reserves		5,390	(5,390)			
Revaluation of buildings			134,620			134,620
Exchange differences on available-for-sale financial assets				(2,672)		(2,672)
Transferred to general reserves from unrealised gains		5,113		(5,113)		
General reserves for apartments sold		1,461				1,461
Operating surplus					1,232,643	1,232,643
Operating surplus transferred to general reserves		747,935			(747,935)	
Operating surplus allocated to the State Budget					(484,708)	(484,708)
Balance at 31 December 2007/1 January 2008	2,500,000	3,199,309	371,103	(3,795)	0	6,066,617
Exchange differences on available-for-sale financial assets				311		311
Transferred to general reserves from revaluation reserves		6,252	(6,252)			0
Operating surplus					3,387,020	3,387,020
Operating surplus transferred to general reserves		2,044,525			(2,044,525)	0
Operating surplus allocated to the State Budget					(1,342,495)	(1,342,495)
Balance at 31 December 2008	2,500,000	5,250,086	364,851	(3,484)	0	8,111,453

Statement of Cash Flows

(All amounts are expressed in thousands of kunas)

	2008	2007
Cash flows from operating activities		
Interest received	2,164,805	2,437,797
Interest paid	(585,716)	(624,906)
Fees and commissions received	6,029	6,463
Fees and commissions paid	(4,209)	(3,604)
Dividends received	4,855	5,111
Other receipts	16,086	22,077
Expenses paid	(255,632)	(242,825)
	1,346,218	1,600,113
Changes in operating assets and liabilities		
Decrease/(Increase) in deposits with other banks	19,688,136	(578,384)
Decrease/(Increase) in loans	4,163,608	(266,592)
(Purchases) of trading securities	(14,431,815)	(4,039,350)
(Increase)/Decrease in other assets	(56,220)	360,859
Increase in other liabilities	9,934	89
(Decrease) in amounts due to the International Monetary Fund	(24)	(18)
Increase of currency in circulation	1,166,098	2,006,514
(Decrease) in amounts due to banks and other financial institutions	(8,373,863)	(439,718)
Increase/(Decrease) in amounts due to the State	37,065	(437,365)
	2,202,919	(3,393,965)
Net cash from operating activities	3,549,137	(1,793,852)
Cash flows from investing activities		
Purchase of property and equipment	(60,817)	(42,632)
Net cash from investing activities	(60,817)	(42,632)
Cash flows from financing activities		
Net issuance of CNB bills	(1,530,514)	1,991,118
Payments to the State Budget	(484,935)	(104,911)
Net cash from financing activities	(2,015,449)	1,886,207
Effect of exchange differences	(7,816)	(49,487)
Net increase in cash	1,465,055	236
Cash at beginning of year	13,788	13,552
Cash at end of year (Note 25)	1,478,843	13,788

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

Notes to the Financial Statements for the Year Ended 31 December 2008

Note 1 – General Information and Accounting Standards

1.1 General Information

The Croatian National Bank is the central bank of the Republic of Croatia with headquarters in Zagreb, Trg hrvatskih velikana 3. Its status has been defined by the Act on the Croatian National Bank. The Croatian National Bank is owned by the Republic of Croatia, which guarantees for all its obligations. The Croatian National Bank is autonomous and independent in fulfilling its objectives.

The primary objective of the Croatian National Bank is maintaining price stability. The Croatian National Bank supports economic policy of the Republic of Croatia and, without jeopardizing the achievement of its objective, acts in accordance with principles of open market economy and free competition.

The Croatian National Bank reports to the Croatian Parliament on the financial condition, degree of maintenance of price stability and fulfilment of monetary policy goals, and is represented by the Governor of 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 exchange policies;
- Maintaining and managing international reserves of the Republic of Croatia;
- Issuing banknotes and coins;
- Issuing and withdrawing authorisations and approvals in accordance with laws regulating credit institutions, credit unions, institutions for payment transactions and settlement systems, and foreign currency operations and operations of authorised foreign exchange companies;
- Supervision in accordance with regulations which define operations of credit institutions, credit unions, institutions for payment transactions and settlement systems;
- Maintaining accounts of credit institutions and performing payment transactions on those accounts, issuing loans to credit institutions and receiving deposit funds from credit institutions;
- Regulating, improving and supervising the payment system;
- Performing other 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

These financial statements are prepared in accordance with the Act on the Croatian National Bank and accounting standards accepted and published by the Croatian Financial Reporting Standards Board.

In 2007, these standards comprised International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) and implementation guidance as published by the International Accounting Standards Board (IASB) until 31 March 2004. (Decision on publication of International Financial Reporting Standards adopted by the Croatian Financial Reporting Standards Board and published in the Official Gazette No 140 of 23 December 2006).

In 2008, the Croatian Financial Reporting Standards Board has adopted:

- Decision on publication of the Interpretations issued by the International Financial Reporting Interpretations Committee 1, 2, 4, 5, 6, 7, 8, 9, 10, 11 (Official Gazette No 30 of 12 March 2008) which relate to:
 - Interpretation 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities (IFRIC 1);
 - Interpretation 2 – Members' Shares in Co-operative Entities and Similar Instruments (IFRIC 2);
 - Interpretation 4 – Determining Whether an Arrangement Contains a Lease (IFRIC 4);
 - Interpretation 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (IFRIC 5);

- Interpretation 6 – Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (IFRIC 6);
- Interpretation 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (IFRIC 7);
- Interpretation 8 – Scope of IFRS 2 (IFRIC 8);
- Interpretation 9 – Reassessment of Embedded Derivatives (IFRIC 9);
- Interpretation 10 – Interim Financial Reporting and Impairment (IFRIC 10);
- Interpretation 11 – IFRS 2 – Group and Treasury Share Transactions (IFRIC 11);
- Decision on publication of IFRS 6 and IFRS 7 (Official Gazette No 30 of 12 March 2008)
 - IFRS 6 – Exploration of and Evaluation of Mineral Resources;
 - IFRS 7 – Financial Instruments – Disclosures;
- Decision amending the Decision on publication of IFRS (Official Gazette No 130 of 10 November 2008), related to:
 - IAS 21 – Effect of Changes in Foreign Currencies, paragraph 30;
 - IAS 39 – Financial Instruments: Recognition and Measurement, paragraph 67;
- Decision amending the Decision on publication of IFRS (Official Gazette No 137 of 26 November 2008), related to:
 - Changes in IAS 39 - Financial Instruments: Recognition and Measurement, paragraph 50;
 - Changes and Additions to IAS 39 and IFRS 7 (permitted reclassifications).

The Croatian National Bank has adopted in the current year International Financial Reporting Standard 7 “Financial Instruments: Presentation” (hereinafter: IFRS 7). The effect of this new standard is the expansion of disclosure of financial instruments of the Croatian National Bank in these financial statements, with an emphasis on risks. IFRS 7 requires disclosure of quantitative and qualitative information on exposures to risks (credit, foreign exchange, interest rate, liquidity risk, sensitivity analysis for foreign exchange and interest rate risk and methods of measurement and management of risks). Other changes in standards have not resulted in a change in the accounting policies of the Croatian National Bank, or had any influence on the amounts in the financial statements for the current and preceding periods.

The financial statements have been prepared under the accruals principle and on the historical cost basis, except for certain financial instruments and properties that were carried at fair value.

The financial statements are presented in thousands of Croatian kunas.

The preparation of the financial statements 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 recognised in the income statement on an accruals basis.

Interest income on financial instruments with a coupon has been presented in the statement of income within the position “Interest and similar income”, while interest income from instruments not carrying a coupon (discount) has been presented in the statement of income within the position “Net result from financial operations”.

2.2 Fee and Commission Income and Expense

Fee and commission income earned on financial services provided by the Croatian National Bank is recognised 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 recognised in the statement of income 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 statement of income for the period in which they occur. They are translated at the midpoint exchange rate of the Croatian National Bank, except for Special Drawing Rights (XDRs), which are translated to Croatian kunas 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 statement of income as unrealised gains or losses in the period when they occur. Foreign exchange gains and losses arising from equity instruments available-for-sale are recognised directly in equity. Gains and losses arising from trading in foreign currencies are included in realised income or expenditure in the period in which they occur.

The exchange rates of major foreign currencies at 31 December 2008 were as follows:

- 1 USD = 5.155504 HRK (2007: 4.985456 HRK)
- 1 EUR = 7.324425 HRK (2007: 7.325131 HRK)
- 1 XDR = 7.940868 HRK (2007: 7.878267 HRK).

2.5 Provision Charge and Release

Provisions based on value adjustments for identified losses are recognised in the statement of income at the end of the related reporting period. If the debt is settled, provisions are decreased and shown as income of the reporting period in which they were settled. There are no provisions for financial assets measured at fair value.

Provisions are also recognised as a potential obligation. The Croatian National Bank recognises a provision when it has a present legal or derivative 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. No provision is recognised unless all of these conditions are met.

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 and Derecognition

The Croatian National Bank recognises and derecognises financial assets on a settlement date basis. Any gains and losses arising from changes in the fair value of financial assets are recognised as of the last day of the reporting period.

The Croatian National Bank derecognises financial assets (in total or partially) when its rights to the financial instrument cash receipts expire or when it loses control over the contractual rights over the financial instrument. This occurs when the Croatian National Bank transfers all risks and ownership benefits to a different subject or when this right is realised, when it is abandoned by the Croatian National Bank or when it expires. The Croatian National Bank derecognises a financial liability only when this financial liability ceases to exist by being settled, cancelled or expired.

2.6.3 Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or financial liability not measured at fair value through profit and loss, transaction costs.

Subsequent to initial recognition, financial assets held for trading are measured at fair value, which corresponds to the quoted market price in an active financial market. Gains and losses from changes in the fair value of financial assets held for trading are recognised in the income statement in the position “Net result from financial operations”. Foreign exchange gains and losses are presented in the position “Net foreign exchange differences”.

Financial instruments with no quoted market price and with fixed maturities are stated at amortised cost, by applying the effective interest rate method.

Those financial instruments that do not have a fixed maturity and no prices quoted in an active market, 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 impairment loss is recognised. Primary criteria for assessment of impairment is past due status of the receivable.

2.8 Repurchase and Reverse Repurchase Agreements

The Croatian National Bank enters into securities purchase/sale agreements 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 recognised in the balance sheet.

Outflows arising from these agreements are recognised as due from banks or other financial institutions, and are collateralised 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 recognised 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 Deposits with Other Banks

Deposits with domestic and foreign banks are amounts on non-transactional accounts and are recognised at nominal value.

2.10 CNB Bills

CNB bills include bills in Croatian kunas and are recognised at nominal value.

2.11 Balances with the International Monetary Fund

Balances with the International Monetary Fund (IMF) are denominated in Special Drawing Rights (XDR).

2.12 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 recognised in the income statement in the period when they occur.

2.13 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.

2.14 Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash and current accounts with foreign banks, and balances with the International Monetary Fund.

2.15 Taxation

The Croatian National Bank is not subject to Croatian income tax.

2.16 Tangible and Intangible Assets

Tangible and intangible assets are stated in the balance sheet at cost, except for buildings carried at revalued amounts, less accumulated depreciation. Depreciation is provided under the straight-line method.

Gains on revaluation are included as a separate component of equity. Losses on revaluation are recorded against revaluation reserves to the extent of previously recognised gains. Losses in excess of previously recorded gains are recognised as an impairment charge in the income statement of the reporting period.

The following annual rates are used:

in %

	2008	2007
Business buildings	2.5	2.5
Apartments	5.0	5.0
Garages	2.5	2.5
Air-conditioning system	20.0	20.0
Fire alarm system	20.0	20.0
Mobile phones	50.0	50.0
Fixed telephony	25.0	25.0
Office equipment	25.0	25.0
Restaurant equipment	25.0	25.0
Machinery and other equipment	20.0	20.0
Furniture	20.0	20.0
Safes	10.0	10.0
Motor vehicles	25.0	25.0
Servers and other hardware	25.0	25.0
Software and PC	33.33	33.33
Intangible assets	25.0	25.0
Security system and video surveillance equipment	25.0	25.0

2.17 Appropriations

The surplus of income over expenditures is transferred in accordance with Article 57 of the Act on the Croatian National Bank.

Note 3 – Interest and Similar Income

(All amounts are expressed in thousands of kunas)

	2008	2007
Deposits	1,320,364	1,755,621
Trading securities	643,154	606,726
International Monetary Fund	47	70
Loans to domestic banks	120,577	141,894
Other	554	5,821
	2,084,696	2,510,132

Note 4 – Interest and Similar Expense

(All amounts are expressed in thousands of kunas)

	2008	2007
Kuna reserve requirements	169,721	161,386
Foreign currency reserve requirements	148,806	179,857
Compulsory CNB bills in kuna	803	2,016
Repurchase arrangements	247,442	269,557
Other	1,330	1,950
	568,102	614,766

Note 5 – Net Result from Financial Operations and Precious Metal Revaluation

(All amounts are expressed in thousands of kunas)

	2008	2007
Net result from sale and changes in fair value of trading securities	1,723,143	756,132
Precious metals revaluation	(338)	249
	1,722,805	756,381

Note 6 – Net Foreign Exchange Differences

(All amounts are expressed in thousands of kunas)

	2008	2007
Net foreign exchange differences	451,185	(1,116,607)
	451,185	(1,116,607)

Note 7 – Other Income

(All amounts are expressed in thousands of kunas)

	2008	2007
Gains on sales of numismatics	1,164	2,549
Other income	16,659	4,125
	17,823	6,674

Note 8 – Operating Expenses

(All amounts are expressed in thousands of kunas)

	2008	2007
Staff costs (Note 8.1)	164,229	155,799
Materials, services and administrative expenses	86,353	92,962
Costs of production of banknotes and coins in Croatian kunas	48,153	42,877
Depreciation and amortisation	31,830	27,676
	330,565	319,314

Operating expenses include staff costs in the amount of HRK 164,229 thousand (2007: HRK 155,799 thousand), out of which HRK 5,397 thousand relates to the Croatian National Bank management (2007: HRK 4,689 thousand). Compensations to the members of the Croatian National Bank Council are HRK 3,146 thousand (2007: HRK 3,054 thousand), out of which HRK 1,348 thousand (2007: HRK 1,303 thousand) relates to the Croatian National Bank management.

Note 8.1 – Staff Costs

(All amounts are expressed in thousands of kunas)

	2008	2007
Net salaries	68,770	64,847
Contributions from and on salaries	40,950	39,034
Taxes and local taxes	20,461	20,066
Other staff costs	34,048	31,852
	164,229	155,799

The average number of employees during the year was 601 (2007: 593).

Note 9 – Decrease/Increase in Provisions

(All amounts are expressed in thousands of kunas)

	2008	2007
a) Accrued interest and receivables		
New value adjustment	–	6,005
Amounts collected	–	(11,425)
b) Provisions for risks and charges		
New provisions made	5,567	12,332
Provisions released	(6,672)	(6,487)
	(1,105)	425

Note 10 – Cash and Current Accounts with Other Banks

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Cash in the cashier's office	823	1,000
Foreign cash currency in CNB's vault	1,467,845	3,372
Current accounts with foreign banks	4,848	3,840
	1,473,516	8,212

Note 11 – Deposits with Other Banks

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Deposits with foreign central banks	4,475,949	298,629
Deposits with foreign commercial banks	8,696,933	32,817,899
Deposits with domestic commercial banks	13,575	14,312
	13,186,457	33,130,840

Geographical concentration of deposits at other banks:

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Croatia	13,575	14,312
Europe	12,916,653	32,817,899
USA	256,229	298,629
	13,186,457	33,130,840

The largest individual exposure to credit risk as at 31 December 2008 amounted to HRK 3,932,368 thousand (31 December 2007: HRK 3,050,471 thousand). No collateral was taken for those deposits.

Note 12 – Trading Securities

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Securities denominated in EUR	37,839,659	28,605,007
Securities denominated in USD	14,297,220	6,354,330
	52,136,879	34,959,337

Note 13 – Loans

a) By type of loan

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Loans to domestic banks		
– Repo loans	–	2,814,500
– Lombard loans	–	1,349,100
– Intervention loans	59,804	63,228
Other loans	792	800
Gross loans	60,596	4,227,628
Less: provisions for loan impairment	(60,485)	(63,909)
	111	4,163,719

b) Movements in provisions for loan impairment

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Balance at 1 January	63,909	63,909
Write off	(3,424)	–
Balance at 31 December	60,485	63,909

The Croatian National Bank did not have any past due but not impaired loans. Provision for loan impairment was formed in previous periods against receivables from banks in bankruptcy or liquidation.

Note 14 – Balances with the International Monetary Fund

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Membership quota	2,899,206	2,873,129
Special Drawing Rights (XDR) and deposits	5,327	5,576
	2,904,533	2,878,705

Note 15 – Equity Investments

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Membership in other international institutions	39,546	39,235
Investments in domestic companies	17,895	16,137
	57,441	55,372

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 Telecommunications). Investments in domestic companies represent the share of the Croatian National Bank in the equity capital of the Croatian Monetary Institute.

Note 16 – Accrued Interest and Other Assets

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Accrued interest	33,575	106,782
Prepaid expenses	102,968	94,857
Numismatics	12,302	9,005
Gold and other precious metals	3,345	3,627
Other assets	88,396	80,060
	240,586	294,331
Impairment allowance	(66,540)	(66,754)
	174,046	227,577

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Movements in impairment allowance		
Balance at 1 January	(66,754)	(77,888)
Increase in impairment allowance	–	(6,005)
Amounts collected	–	11,426
Write-offs	214	5,713
Balance at 31 December	(66,540)	(66,754)

The major portion of prepaid expenses in the amount of HRK 99,363 thousand (2007: HRK 91,704 thousand) relates to the prepaid costs of printing banknotes and minting coins.

Note 17 – Tangible and Intangible Assets

(All amounts are expressed in thousands of kunas)

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Investments in course of construction	Software and licenses	Total
Balance at 31 December 2006								
Cost or revaluation	308,430	65,665	39,892	7,088	3,495	83,621	17,159	525,350
Accumulated depreciation	(36,042)	(50,713)	(26,163)	(5,854)	–	–	(10,193)	(128,965)
Net book value	272,388	14,952	13,729	1,234	3,495	83,621	6,966	396,385
Year ended 31 December 2007								
Opening net book amount	272,388	14,952	13,729	1,234	3,495	83,621	6,966	396,385
Additions	–	–	–	–	162	54,051	–	54,213
Assets brought into use	234	9,834	4,292	4,827	94	(27,281)	8,000	–
Revaluation	134,620	–	–	–	–	–	–	134,620
Net write-offs	–	(9)	(7)	–	–	–	–	(16)
Charge for the year	(6,277)	(10,481)	(4,388)	(1,738)	–	–	(4,792)	(27,676)
Closing net book amount	400,965	14,296	13,626	4,323	3,751	110,391	10,174	557,526
Balance at 31 December 2007								
Cost or revaluation	403,921	73,992	43,717	9,798	3,751	110,391	25,160	670,730
Accumulated depreciation	(2,956)	(59,696)	(30,091)	(5,475)	–	–	(14,986)	(113,204)
Net book value	400,965	14,296	13,626	4,323	3,751	110,391	10,174	557,526

(All amounts are expressed in thousands of kunas)

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other assets	Investments in course of construction	Software and licenses	Total
Balance at 31 December 2007								
Cost or revaluation	403,921	73,992	43,717	9,798	3,751	110,391	25,160	670,730
Accumulated depreciation	(2,956)	(59,696)	(30,091)	(5,475)	–	–	(14,986)	(113,204)
Net book value	400,965	14,296	13,626	4,323	3,751	110,391	10,174	557,526
Year ended 31 December 2008								
Opening net book amount	400,965	14,296	13,626	4,323	3,751	110,391	10,174	557,526
Additions	–	–	–	–	159	55,687	–	55,846
Assets brought into use	6,959	18,721	32,211	1,168	18	(69,977)	10,900	–
Revaluation	–	–	–	–	–	–	–	–
Net write-offs	–	(1)	(10)	–	–	–	–	(11)
Charge for the year	(7,299)	(9,137)	(6,392)	(1,594)	–	–	(7,408)	(31,830)
Closing net book amount	400,625	23,879	39,435	3,897	3,928	96,101	13,666	581,531
Balance at 31 December 2008								
Cost or revaluation	410,880	91,969	74,757	10,967	3,928	96,101	36,059	724,661
Accumulated depreciation	(10,255)	(68,090)	(35,322)	(7,070)	–	–	(22,393)	(143,130)
Net book value	400,625	23,879	39,435	3,897	3,928	96,101	13,666	581,531

Assets (land and buildings) were last revalued by independent experts in 2007. Fair values were determined based on market values. If land and buildings were carried at cost less depreciation, their net book value as at 31 December 2008 would be HRK 35,774 thousand. The tangible fixed assets of the Bank are neither subject to a mortgage nor to a fiduciary relationship.

Note 18 – Banknotes and Coins in Circulation

(All amounts are expressed in thousands of kunas)

	2008	2007
Banknotes and coins put into circulation as of January 1	19,313,241	17,307,271
Increase in circulation during year	1,166,033	2,005,970
Banknotes and coins put into circulation – total as of December 31	20,479,274	19,313,241

Type	Nominal value	31/12/2008		31/12/2007	
		Pieces	Value (000 kuna)	Pieces	Value (000 kuna)
Coins	0.01	125,312,129	1,253	116,509,963	1,165
Coins	0.02	83,118,680	1,662	74,540,728	1,491
Coins	0.05	216,729,762	10,836	200,743,987	10,037
Coins	0.10	352,870,548	35,287	327,784,875	32,779
Coins	0.20	255,419,423	51,084	231,459,045	46,292
Coins	0.50	146,703,782	73,352	138,337,727	69,169
Coins	1	168,676,952	168,677	158,650,236	158,650
Coins	2	82,390,927	164,782	75,734,044	151,468
Coins	5	57,647,532	288,238	52,793,744	263,969
Coins	25	1,117,556	27,939	1,120,969	28,024
Banknotes	5	4,281,755	21,409	4,435,879	22,179
Banknotes	10	27,391,199	273,912	25,713,301	257,133
Banknotes	20	18,582,564	371,651	17,330,715	346,614
Banknotes	50	12,590,842	629,542	13,930,108	696,505
Banknotes	100	27,477,540	2,747,754	25,671,780	2,567,178
Banknotes	200	40,604,879	8,120,976	38,457,970	7,691,594
Banknotes	500	5,510,439	2,755,220	5,383,573	2,691,787
Banknotes	1,000	4,735,700	4,735,700	4,277,207	4,277,207
Total		1,631,162,209	20,479,274	1,512,875,851	19,313,241

Note 19 – Due to Banks and Other Financial Institutions

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Kuna reserve requirements	19,222,748	22,275,561
Foreign currency reserve requirements	8,005,097	14,249,760
Other deposits of domestic banks	9,590,210	8,352,233
Foreign banks and other financial institutions	16,622	17,210
Court-mandated deposits	3,391	2,898
Compulsory CNB bills in kuna	460,604	1,991,118
	37,298,672	46,888,780

Note 20 – Due to the State and State Institutions

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Domestic currency account balances	213,552	143,151
Foreign currency account balances	35,771	73,317
	249,323	216,468

Note 21 – Due to the International Monetary Fund

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Bills of exchange denominated in HRK	2,890,695	2,864,694
Other IMF's accounts	7,266	7,200
	2,897,961	2,871,894

The bills of exchange denominated in the Croatian kuna relate to the membership of the Republic of Croatia in the International Monetary Fund.

Note 22 – Accrued Interest and Other Liabilities

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Accrued interest	17,040	24,044
Due to employees	6,519	5,924
Taxes and contributions	6,141	5,668
Due to the Ministry of Finance	1,347,661	490,160
Amounts due to suppliers	15,563	20,320
Other liabilities	84,907	78,172
	1,477,831	624,288

Other liabilities include long-term provisions for risks and charges, out of which HRK 19,110 thousand (2007: HRK 18,310 thousand) are in respect of legal actions and HRK 14,275 thousand (2007: HRK 16,180 thousand) in respect of provisions for employee benefits.

Note 23 – Equity

The equity 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.

Reserves comprise general and specific reserves. General reserves are formed for the purpose of covering general risks of operations of the Croatian National Bank, their size is not limited, and they are formed in accordance with the Act on the Croatian National Bank. Specific reserves are formed for the purpose of covering identified losses in accordance with decisions of the Council of the Croatian National Bank.

The increase in the general reserves of the Croatian National Bank in 2008 resulted from the transfer of operating surplus in the amount of HRK 2,044,525 thousand.

Note 24 – Contingencies and Commitments and Treasury Inventory System

Legal actions: As at 31 December 2008, 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 19,110 thousand (see Note 22).

Capital commitments: As at 31 December 2008, the Croatian National Bank had capital commitments in the amount of HRK 27,124 thousand (2007: HRK 33,414 thousand).

Treasury inventory system:

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Non-issued banknotes and coins	85,606,614	84,762,350
Stamp duties and bills of exchange	406,879	244,349
	86,013,493	85,006,699

Note 25 – Cash and Cash Equivalents

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Cash in the cashier's office	823	1,000
Foreign cash currency in CNB's vault	1,467,845	3,372
Current account balances with foreign banks	4,848	3,840
Special Drawing Rights (XDR) and deposits with the IMF	5,327	5,576
	1,478,843	13,788

Note 26 – Appropriations

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Operating surplus	3,387,020	1,232,643
Transfer of surplus to general reserves	(2,044,525)	(747,935)
Transfer of surplus to the State Budget	(1,342,495)	(484,708)
	-	-

Note 27 – Fair Value of Financial Assets and Liabilities

Fair value of assets and liabilities of the Croatian National Bank approximates book values due to the short term nature of the instruments, except for financial instruments held for trading which are accounted for at quoted market values and therefore their book value equals fair value.

Note 28 – Risk Management

The Croatian National Bank manages international reserves of the Republic of Croatia based on the principles of liquidity and safety. The Bank maintains high liquidity of international reserves and appropriate risk exposure and within defined limits aims to realize adequate returns for its investments.

Risks which exist within international reserves management are primarily financial risks such as credit risk, interest rate risk and foreign exchange risk. However, attention is given also to liquidity and operating risk.

Note 28.1 – Credit Risk

Credit risk represents risk that counterparty will not settle its liability i.e. risk that invested funds will not be fully recovered.

The Croatian National Bank observes credit risk exposure based on type and quality of instrument, credibility of issuer and country of issuer, and uses several means of protection from credit risk:

- the CNB places funds only to the counterparties of high credit rating. Credit ability is based on ratings published by large international rating agencies (Moody's, Standard & Poor's and Fitch); placements to individual counterparties and countries are limited, which diversifies the risk;
- part of placements is secured in a way that the CNB requires government bonds of same or higher market value when depositing funds with certain financial institutions.

Credit risk exposure is limited by investing in governments bonds of countries rated Aaa to Aa3 (Moody's), reverse repo agreements with commercial banks with ratings of Aaa to A3, in deposits with central banks rated Aaa to Aa3 and deposits with international financial institutions, and in deposits placed with commercial banks rated Aaa to A1.

The Croatian National Bank can invest foreign reserves into commercial banks whose short term obligations have been rated by at least 2 rating agencies by one of the 2 highest grades.

28.1.1 Credit Risk Concentration by Type of Assets

(All amounts are expressed in thousands of kunas)

	2008	2007
Government securities	52,136,879	34,812,532
Guaranteed securities	–	146,805
Total securities	52,136,879	34,959,337
Reverse repo agreements	3,885,855	3,200,450
Deposits	5,019,732	28,909,605
Foreign currency current accounts	4,848	3,840
Deposits with international financial institutions	4,289,046	1,099,954
Total deposits	13,199,481	33,213,849
Loans (to banks in RC)	2,204	4,167,279
Total loans	2,204	4,167,279
Total overall	65,338,564	72,340,465

28.1.2 Credit Risk by Counterparty Credit Rating

(All amounts are expressed in thousands of kunas)

	31/12/2008	31/12/2007
Rating (Moody's)		
	Government securities	Government securities
Aaa	50,565,847	34,135,442
Aa1	695,192	–
Aa2	875,840	677,090
Total	52,136,879	34,812,532
	Guaranteed securities	Guaranteed securities
Aaa	–	146,805
Total	–	146,805
TOTAL SECURITIES	52,136,879	34,959,337
	Reverse repo agreements	Reverse repo agreements
Aaa	953,083	298,641
Aa1	2,932,772	2,901,809
Total	3,885,855	3,200,450
	Deposits	Deposits
Aaa	4,226,505	2,688
Aa1	3,680	13,329,156
Aa2	794,319	12,481,230
Aa3	60	2,292,917
A1	–	807,454
Not rated	16	–
Total	5,024,580	28,913,445
	Deposits with international financial institutions	Deposits with international financial institutions
Not rated	4,289,046	1,099,954
Total	4,289,046	1,099,954
TOTAL DEPOSITS	13,199,481	33,213,849
	Loans (to banks in RC)	Loans (to banks in RC)
Not rated	2,204	4,167,279
TOTAL LOANS	2,204	4,167,279
TOTAL OVERALL	65,338,564	72,340,465

28.1.3 Geographical Concentration of Credit Risk

(All amounts are expressed in thousands of kunas)

Instrument	Eurozone	Other	Total
Balance 31 Dec. 2008			
Government securities	49,180,129	2,956,750	52,136,879
Total securities	49,180,129	2,956,750	52,136,879
Reverse repo agreements	2,932,771	953,084	3,885,855
Deposits	4,434,340	590,240	5,024,580
Deposits with international financial institutions	–	4,289,046	4,289,046
Total deposits	7,367,111	5,832,370	13,199,481
Loans (to banks in RC)	–	2,204	2,204
Total loans	–	2,204	2,204
TOTAL OVERALL 31 Dec. 2008	56,547,240	8,791,324	65,338,564
Balance 31 Dec. 2007			
Government securities	32,012,504	2,800,028	34,812,532
Guaranteed securities	–	146,805	146,805
Total securities	32,012,504	2,946,833	34,959,337
Reverse repo agreements	700,571	2,499,879	3,200,450
Deposits	17,868,670	11,044,775	28,913,445
Deposits with international financial institutions	–	1,099,954	1,099,954
Total deposits	18,569,241	14,644,608	33,213,849
Loans (to banks in RC)	–	4,167,279	4,167,279
Total loans	–	4,167,279	4,167,279
TOTAL OVERALL 31 Dec. 2007	50,581,745	21,758,720	72,340,465

Note 28.2 – Foreign Exchange Risk

The Croatian National Bank holds most of its assets in foreign currencies, which exposes it to foreign exchange risk in terms of fluctuation of foreign exchange rates of the kuna versus the euro and the kuna versus the US dollar. Those changes in foreign exchange rates are effected in the statement of income and consequently affect the financial result of the Croatian National Bank.

The foreign currency structure of net international reserves is aligned twice a year with the foreign currency structure of projected amounts of repayment of external debt (principal and interest) of the RC one year in advance, as well as with the foreign currency structure of import of goods and services over the past year. Consequently, management of foreign exchange risk of international reserves of the CNB has to be observed within a wider context as the foreign currency structure of international reserves of the CNB is aimed at reducing exposure to foreign exchange risk which is based on external debt of the RC. Part of the international reserves collected based on the allocated foreign exchange reserve requirement and marginal reserve requirement, Ministry of Finance funds, repo liabilities and funds in special drawing rights (XDRs) is managed passively based on the foreign currency structure of contracted foreign currency liabilities.

The CNB has exposure to foreign exchange risk only based on net international reserves while other foreign currency reserves are invested in the same currency in which funding is received, thereby not creating exposure to foreign exchange risk on that basis.

28.2.1 Sensitivity Analysis – Effect of Change in Foreign Currency Rates for a Certain Percentage on the Financial Result for the Year

Sensitivity Analysis for 2008

(All amounts are expressed in thousands of kunas)

2008	USD	EUR
	±5%	±1%
Effect of change in exchange rate on the financial result for the year	537,000/(537,000)	465,000/(465,000)

The table above shows sensitivity of the financial result for the year of the CNB in case of increase/decrease in the EUR/HRK exchange rate by $\pm 1\%$ and in case of increase/decrease in the USD/HRK exchange rate by $\pm 5\%$. Historically, the yearly volatility of the USD/HRK exchange rate has been 5 times higher than the EUR/HRK exchange rate volatility.

A positive number denotes an increase in the financial result for the year in the case of kuna depreciation against the relevant currency, while a negative number denotes a reduction in financial result for the year of the CNB in case kuna rate appreciates.

In case of a decrease in the EUR/HRK exchange rate of 1% as at 31 December 2008, the financial result for the year of the CNB would be lower by approximately HRK 465,000 thousand, while in the case of the USD/HRK exchange rate decreasing by 5%, it would be lower by approximately HRK 537,000 thousand.

Methodology of the Calculation

The amount of net euro and net US dollar international reserves as at balance sheet date is multiplied by difference between the EUR/HRK exchange rate or the USD/HRK exchange rate valid at the date of the balance sheet and these rates increased/decreased by a certain percentage.

Sensitivity Analysis for 2007

(All amounts are expressed in thousands of kunas)

2007	USD	EUR
	±5%	±1%
Effect of change in the rate on the financial result for the year	494,000/(494,000)	440,000/(440,000)

28.2.2 Exposure of the CNB to Foreign Exchange Risk – Analysis of Assets and Liabilities per Currency

(All amounts are expressed in thousands of kunas)

	EUR	USD	XDR	Other foreign currencies	HRK	Total
As at 31 December 2008						
Assets						
Cash and current accounts with other banks	1,467,479	1,699	–	4,300	38	1,473,516
Deposits with other banks	12,349,837	823,045	–	–	13,575	13,186,457
Trading securities	37,839,659	14,297,220	–	–	–	52,136,879
Loans	–	–	–	–	111	111
Balances with the International Monetary Fund	–	–	2,904,533	–	–	2,904,533
Equity investments	77	–	39,469	–	17,895	57,441
Accrued interest and other assets	16,360	62	2	–	157,622	174,046
Tangible and intangible assets	–	–	–	–	581,531	581,531
TOTAL ASSETS	51,673,412	15,122,026	2,944,004	4,300	770,772	70,514,514
Liabilities						
Banknotes and coins in circulation	–	–	–	–	20,479,274	20,479,274
Due to banks and other financial institutions	3,625,935	4,379,162	–	–	29,293,575	37,298,672
Due to the State and State institutions	32,390	196	–	3,185	213,552	249,323
Due to the International Monetary Fund	–	–	2,897,961	–	–	2,897,961
Accrued interest and other liabilities	2,506	1,041	–	115	1,474,169	1,477,831
Total liabilities	3,660,831	4,380,399	2,897,961	3,300	51,460,570	62,403,061
Net position	48,012,581	10,741,627	46,043	1,000	(50,689,798)	8,111,453
As at 31 December 2007						
Assets						
Cash and current accounts with other banks	3,484	1,718	–	2,958	52	8,212
Deposits with other banks	29,506,939	3,575,584	–	34,005	14,312	33,130,840
Trading securities	28,605,007	6,354,330	–	–	–	34,959,337
Loans	–	–	–	–	4,163,719	4,163,719
Balances with the International Monetary Fund	–	–	2,878,705	–	–	2,878,705
Equity investments	77	–	39,158	–	16,137	55,372
Accrued interest and other assets	77,285	10,606	9	5	139,672	227,577
Tangible and intangible assets	–	–	–	–	557,526	557,526
TOTAL ASSETS	58,192,792	9,942,238	2,917,872	36,968	4,891,418	75,981,288
Liabilities						
Banknotes and coins in circulation	–	–	–	–	19,313,241	19,313,241
Due to banks and other financial institutions	14,184,516	65,245	–	–	32,639,019	46,888,780
Due to the State and State institutions	37,155	573	–	35,588	143,152	216,468
Due to the International Monetary Fund	–	–	2,871,894	–	–	2,871,894
Accrued interest and other liabilities	7,752	64	–	–	616,472	624,288
Total liabilities	14,229,423	65,882	2,871,894	35,588	52,711,884	69,914,671
Net position	43,963,369	9,876,356	45,978	1,380	(47,820,466)	6,066,617

Note 28.3 – Interest Rate Risk

Interest rate risk is the risk of decline in the value of foreign currency portfolios, i.e. in the value of foreign currency portfolios of international reserves of the CNB due to adverse changes in interest rates on the market of instruments with fixed interest yield. Interest rate risk of international reserves of the CNB is controlled by applying precisely defined reference portfolios. Reference portfolios adhere to the required ratio of risk and profit and reflect the long term strategy of investment of the reserves.

As with foreign currency risk, the CNB has an open interest rate position only with net international reserves due to the fact that other assets are managed based on the duration of liabilities assumed.

Interest rate risk of net international reserves of the CNB is limited by setting strategic modified average remaining term to maturity (strategic duration) to less than one year.

28.3.1 Analysis of Sensitivity due to Exposure of Net International Reserves of the CNB to Changes in Interest Rates

Sensitivity Analysis for 2008

(All amounts are expressed in thousands of kunas)

2008	USD	EUR
Increase/decrease in yield curve	± 50 BPS	± 50 BPS
Effect of change of yield curve on the financial result for the year	(45,000)/45,000	(194,000)/194,000

Should as at 31 December 2008 the entire USD yield curve increase by 50 basis points (0.5%), the financial result for the year of the CNB would be lower by approximately HRK 45,000 thousand, while in the case of the EUR yield curve increasing by 50 basis points, the result would be lower by approximately HRK 194,000 thousand.

In the case of the yield curves decreasing by 50 basis points, the result would be higher by approximately the same amounts.

Methodology of the Calculation

The net amount of dollar and euro reserves as at 31 December 2008 multiplied by modified duration and by 50 basis points (0.5%). Modified duration denotes by how many basis points the value of the portfolio will decrease should the interest rate curve increase by 1 percentage point.

Sensitivity Analysis for 2007

(All amounts are expressed in thousands of kunas)

2007	USD	EUR
Increase/decrease in yield curve	± 50 BPS	± 50 BPS
Effect of change of yield curve on the financial result for the year	(41,000)/41,000	(183,000)/183,000

28.3.2 Analysis of Interest Rate Risk

The following tables present the Croatian National Bank assets and liabilities analysed according to re-pricing periods determined as the earlier of remaining maturity and contractual re-pricing.

(All amounts are expressed in thousands of kunas)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Interest free	Total
As at 31 December 2008						
Assets						
Cash and current accounts with other banks	–	–	–	–	1,473,516	1,473,516
Deposits with other banks	10,887,093	2,285,789	–	–	13,575	13,186,457
Trading securities	52,136,879	–	–	–	–	52,136,879
Loans	111	–	–	–	–	111
Balances with the International Monetary Fund	1,204	–	–	–	2,903,329	2,904,533
Equity investments	–	–	–	–	57,441	57,441
Accrued interest and other assets	–	–	–	–	174,046	174,046
Tangible and intangible assets	–	–	–	–	581,531	581,531
TOTAL ASSETS	63,025,287	2,285,789	–	–	5,203,438	70,514,514
Liabilities						
Banknotes and coins in circulation	–	–	–	–	20,479,274	20,479,274
Due to banks and other financial institutions	27,227,846	331	460,273	–	9,610,222	37,298,672
Due to the State and State institutions	4,227	–	–	–	245,096	249,323
Due to the International Monetary Fund	–	–	–	–	2,897,961	2,897,961
Accrued interest and other liabilities	–	–	–	–	1,477,831	1,477,831
Total liabilities	27,232,073	331	460,273	–	34,710,384	62,403,061
Net position	35,793,214	2,285,458	(460,273)	–	(29,506,946)	8,111,453
As at 31 December 2007						
Assets						
Cash and current accounts with other banks	–	–	–	–	8,212	8,212
Deposits with other banks	26,240,588	6,875,940	–	–	14,312	33,130,840
Trading securities	34,959,337	–	–	–	–	34,959,337
Loans	4,163,719	–	–	–	–	4,163,719
Balances with the International Monetary Fund	1,486	–	–	–	2,877,219	2,878,705
Equity investments	–	–	–	–	55,372	55,372
Accrued interest and other assets	–	–	–	–	227,577	227,577
Tangible and intangible assets	–	–	–	–	557,526	557,526
TOTAL ASSETS	65,365,130	6,875,940	–	–	3,740,218	75,981,288
Liabilities						
Banknotes and coins in circulation	–	–	–	–	19,313,241	19,313,241
Due to banks and other financial institutions	37,282,101	–	1,991,118	–	7,615,561	46,888,780
Due to the State and State institutions	13,206	–	–	–	203,262	216,468
Due to the International Monetary Fund	–	–	–	–	2,871,894	2,871,894
Accrued interest and other liabilities	–	–	–	–	624,288	624,288
Total liabilities	37,295,307	–	1,991,118	–	30,628,246	69,914,671
Net position	28,069,823	6,875,940	(1,991,118)	–	(26,888,028)	6,066,617

Note 28.4 – Liquidity Risk

Liquidity risk is risk of inability of repayment of liabilities of the Croatian National Bank as they fall due. Due to this risk, the Croatian National Bank has to ensure, on a daily basis, sufficient liquid funds available for settling all due and contracted liabilities.

Liquidity risk is controlled by investing international reserves into easily marketable securities and partially into deposit instruments with short maturities.

Liquid funds include all assets which can be liquidated within a period of 1 to 3 days. CNB invests total international reserves into deposits with maturities of up to 3 months as well as into securities with maturities up to 5 years on the condition that all securities can be liquidated at any moment.

During 2008, an average 90% of net international reserves was liquid.

Minimum liquidity during 2008 was 72.9%.

Maximum liquidity during 2008 was 94.2%

As at 31 December 2008, share of liquid funds as part of net international reserves of the CNB was as follows:

- 1) Securities 81.36%
- 2) Daily maturity of deposits 2.70%
- 3) FIXBIS and FRIBIS deposits 7.20%
- 4) Cash in vault 2.50%.
- 5) Repo pool with the Fed 0.44%

The following table show financial liabilities of the Croatian National Bank based on remaining time from the balance sheet date to contracted maturity date. The analysis is based on undiscounted cash flows of financial liabilities based on the earliest possible due date and includes cash flows from principal and interest.

(All amounts are expressed in thousands of kunas)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2008						
Liabilities						
Banknotes and coins in circulation	20,479,274	–	–	–	–	20,479,274
Due to banks and other financial institutions	36,821,447	331	460,273	–	16,621	37,298,672
Due to the State and State institutions	249,323	–	–	–	–	249,323
Due to the International Monetary Fund	–	–	–	–	2,897,961	2,897,961
Accrued interest and other liabilities	59,111	1,353,058	34,516	38,126	2,347	1,487,158
Liabilities	57,609,155	1,353,389	494,789	38,126	2,916,929	62,412,388
As at 31 December 2007						
Liabilities						
Banknotes and coins in circulation	19,313,241	–	–	–	–	19,313,241
Due to banks and other financial institutions	46,871,570	–	–	–	17,210	46,888,780
Due to the State and State institutions	216,468	–	–	–	–	216,468
Due to the International Monetary Fund	–	–	–	–	2,871,894	2,871,894
Accrued interest and other liabilities	66,322	493,141	34,490	38,126	2,574	634,653
Liabilities	66,467,601	493,141	34,490	38,126	2,891,678	69,925,036



Management and Internal
Organisation of the
Croatian National Bank

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

BORIS COTA
DAVOR HOLJEVAC
VLADO LEKO
BRANIMIR LOKIN
ŽELJKO LOVRINČEVIĆ
RELJA MARTIĆ
ADOLF MATEJKA
SILVIJE ORSAG
TOMISLAV PRESEČAN
JURE ŠIMOVIĆ
SANDRA ŠVALJEK
MLADEN VEDRIŠ
BORIS VUJČIĆ

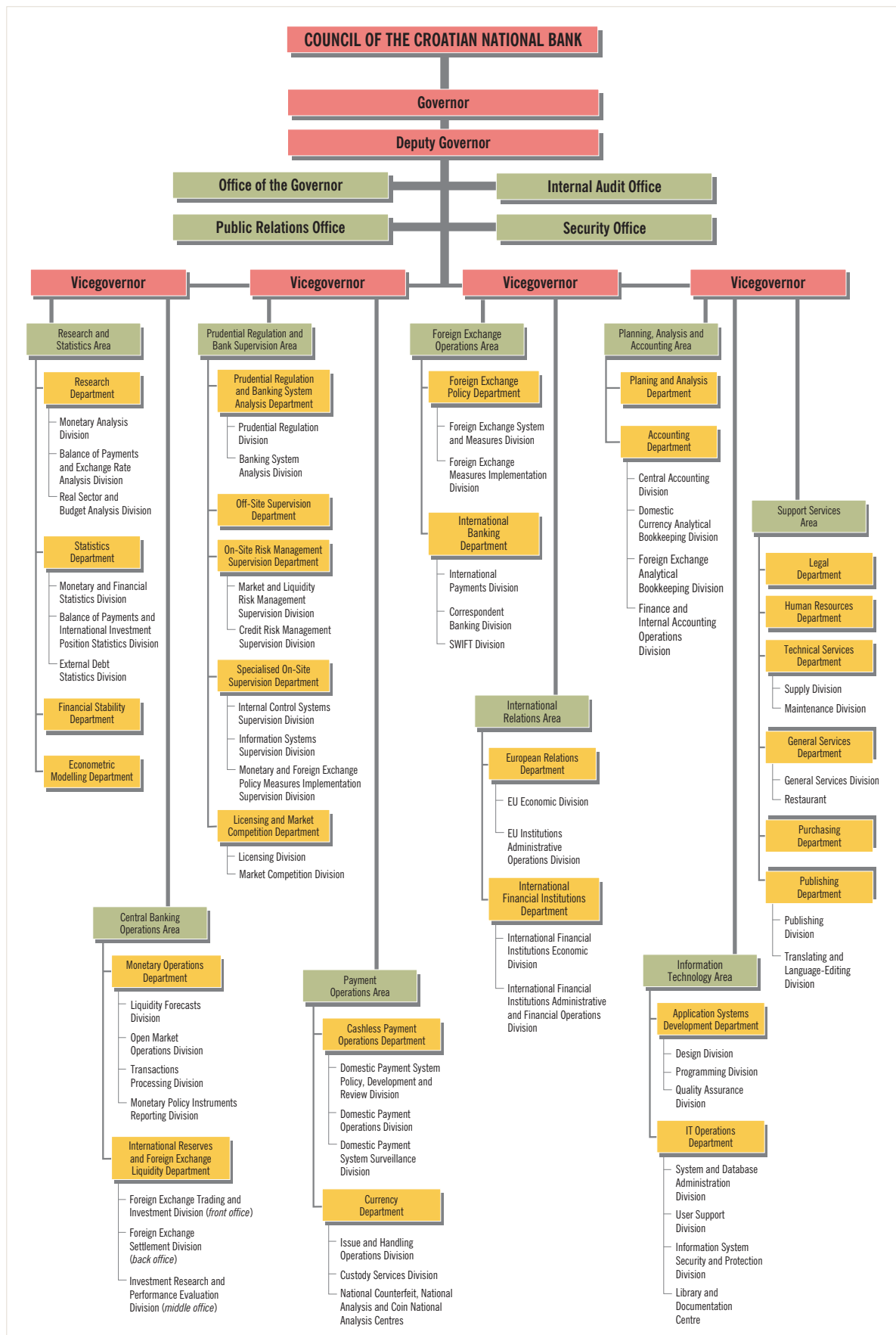
Management of the Croatian National Bank

ŽELJKO ROHATINSKI, Governor
BORIS VUJČIĆ, Deputy Governor
DAVOR HOLJEVAC, 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 – ŽELJKO JAKUŠ
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

Internal Organisation of the Croatian National Bank





List of Banking Institutions
31 December 2008

Licensed Banks

BANCO POPOLARE CROATIA d.d.

Petrovaradinska 1
10000 Zagreb
Phone: + 385 1/6345-666
Fax: + 385 1/6190-615
SWIFT: BPCRHR22

BANKA BROD d.d.

I. pl. Zajca 21
35000 Slavonski Brod
Phone: + 385 35/ 445-711
Fax: + 385 35/ 445-755
SWIFT: BBRDHR22

BANKA KOVANICA d.d.

P. Preradovića 29
42000 Varaždin
Phone: + 385 42/403-403
Fax: + 385 42/212-148
SWIFT: SKOVHR22

BANKA SPLITSKO-DALMATINSKA d.d.

114. brigade 9
21000 Split
Phone: + 385 21/540-280
Fax: + 385 21/540-290
SWIFT: DALMHR22

CENTAR BANKA d.d.

Amruševa 6
10000 Zagreb
Phone: + 385 1 /4803-444
Fax: + 385 1/4803-441
SWIFT: CBZGHR2X

CREDO BANKA d.d.

Zrinsko-Frankopanska 58
21000 Split
Phone: + 385 21/380-655
Fax: + 385 21/380-682
SWIFT: CDBSHR22

CROATIA BANKA d.d.

Kvaternikov trg 9
10000 Zagreb
Phone: + 385 1/2391-111
Fax: + 385 1/2391-470
SWIFT: CROAHR2X

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IMEX BANKA d.d.

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ISTARSKA KREDITNA BANKA UMAG d.d.

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KREDITNA BANKA ZAGREB d.d.

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SWIFT: KREZHR2X

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SWIFT: BFKKHR22

MEĐIMURSKA BANKA d.d.

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Fax: + 385 40/340-010
SWIFT: MBCKHR2X

NAVA BANKA d.d.

Tratinska 27
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SWIFT: NAVBHR22

OTP BANKA HRVATSKA d.d.

Domovinskog rata 3
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Telefax: + 385 23/201-859
SWIFT: OTPVHR2X

PARTNER BANKA d.d.

Vončinina 2
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Phone: + 385 1/4602-260
Fax: + 385 1/4602-288
SWIFT: PAZGHR2X

PODRAVSKA BANKA d.d.

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Fax: + 385 48/622-542
SWIFT: PDKCHR2X

PRIMORSKA BANKA d.d.

Scarpina 7
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Fax: + 385 51/332-762
SWIFT: SPRMHR22

PRIVREDNA BANKA ZAGREB d.d.

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Fax: + 385 1/4723-131
SWIFT: PBZGHR2X

RAIFFEISENBANK AUSTRIA d.d.

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SWIFT: RZBHHR2X

SAMOBORSKA BANKA d.d.

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SWIFT: SMBRHR22

SLATINSKA BANKA d.d.

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Fax: + 385 33/551-138
SWIFT: SBSLHR2X

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SWIFT: SLBOHR2X

SOCIÉTÉ GÉNÉRALE – SPLITSKA BANKA d.d.

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SWIFT: SOGEHR22

ŠTEDBANKA d.d.

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SWIFT: STEDHR22

VABA d.d. BANKA VARAŽDIN

Aleja kralja Zvonimira 1
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Fax: + 385 42/659-401
SWIFT: VBVZHR22

VENETO BANKA d.d.

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Fax: + 385 1/4802-685
SWIFT: CCBZHR2X

ZAGREBAČKA BANKA d.d.

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Phone: + 385 1/6104-000
Fax: + 385 1/6110-555
SWIFT: ZABHR2X

VOLKSBANK d.d.

Varšavska 9
10000 Zagreb
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Fax: + 385 1/4801-365
SWIFT: VBCRHR22

Licensed Savings Banks

OBRTNIČKA ŠTEDNA BANKA d.d.

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Fax: +385 1/6401-819
SWIFT: OBANHR22

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
UNION DE BANQUES ARABES ET FRANÇAISES – UBAF, Zagreb

Licensed Housing Savings Banks

HPB – STAMBENA ŠTEDIONICA d.d.

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Fax: + 385 1/4888-164

RAIFFEISEN STAMBENA ŠTEDIONICA d.d.

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PBZ STAMBENA ŠTEDIONICA d.d.

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Phone: + 385 1/6363-730
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WÜSTENROT STAMBENA ŠTEDIONICA d.d.

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PRVA STAMBENA ŠTEDIONICA d.d.

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Statistical Appendix

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 subsectors: 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 (e.g. insurance companies, pension funds).

The central government and funds consists of two subsectors, the Republic of Croatia and central government funds. Until December 2005, the subsector Republic of Croatia included government authorities, comprising the Croatian Roads, the Croatian Motorways and the State Agency for Deposit Insurance and Bank Rehabilitation. The subsector central government funds includes 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 subsector Republic of Croatia to the subsector 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 subsector other enterprises also comprises banks undergoing bankruptcy proceedings. In some tables other domestic sectors are divided into the following subsectors: 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 currency 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
1999	December ^a	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	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
2006	December	46,331.2	48,521.0	49,141.7	182,458.6	154,844.1	183,379.5	3.17	4.75	4.07	1.57	3.38	2.99
2007	December	51,923.9	57,878.3	58,663.4	215,822.1	166,375.5	210,828.4	3.73	6.71	6.62	3.95	3.54	2.65
2008	January	47,405.3	52,247.9	53,025.1	208,400.5	164,016.4	209,357.2	-8.70	-9.73	-9.61	-3.44	-1.42	-0.70
	February	49,095.1	51,224.9	51,909.7	209,602.6	165,568.9	211,926.6	3.56	-1.96	-2.10	0.58	0.95	1.23
	March	49,977.8	52,807.2	53,387.0	211,620.2	168,073.0	215,026.9	1.80	3.09	2.85	0.96	1.51	1.46
	April	49,011.4	52,720.0	53,290.5	212,882.5	168,815.9	216,245.9	-1.93	-0.17	-0.18	0.60	0.44	0.57
	May	51,169.9	53,193.2	53,789.3	212,929.3	168,417.3	217,536.4	4.40	0.90	0.94	0.02	-0.24	0.60
	June	51,173.5	54,400.5	55,022.9	216,046.6	170,686.6	220,228.6	0.01	2.27	2.29	1.46	1.35	1.24
	July	50,631.4	55,452.9	56,207.8	221,249.4	171,529.8	221,589.9	-1.06	1.93	2.15	2.41	0.49	0.62
	August	52,228.3	55,652.7	56,462.4	226,435.4	171,626.0	222,951.4	3.15	0.36	0.45	2.34	0.06	0.61
	September	49,771.0	53,677.3	54,458.2	226,852.5	172,079.4	224,512.8	-4.70	-3.55	-3.55	0.18	0.26	0.70
	October	52,549.8	52,693.8	53,325.5	223,451.1	174,031.6	228,871.1	5.58	-1.83	-2.08	-1.50	1.13	1.94
	November	55,204.1	51,053.7	51,658.3	218,114.2	173,421.1	228,500.3	5.05	-3.11	-3.13	-2.39	-0.35	-0.16
	December	49,743.0	55,222.3	56,044.6	225,018.5	183,279.1	232,982.1	-9.89	8.17	8.49	3.17	5.68	1.96

^a Domestic credit decreased by a one-off 2,759.4 million kuna.**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 HRK 259.3m and in monetary aggregate M4 amounted to HRK 4,035.8m. Data for June 1999 are comparable with data for July 1999 if Domestic credit is increased by HRK 3,513.5m.

Table B1: Monetary Survey

end of period, million kuna

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Foreign assets (net)	49,446.5	44,384.1	44,033.7	43,547.2	44,066.5	44,512.0	45,360.0	49,719.6	54,809.4	54,773.1	49,419.5	44,693.1	41,739.4
2. Domestic credit	226,076.1	224,205.6	226,518.9	231,039.6	231,348.9	232,210.1	234,626.1	235,855.3	237,539.4	239,395.1	244,488.2	242,065.6	254,569.8
2.1. Claims on central government and funds (net)	15,247.7	14,848.4	14,592.3	16,012.7	15,103.0	14,673.6	14,397.5	14,265.5	14,588.0	14,882.3	15,617.1	13,565.2	21,587.7
2.2. Claims on other domestic sectors	207,398.7	207,881.5	210,287.5	213,428.2	214,562.7	215,937.1	218,495.7	219,932.4	221,150.7	222,686.4	227,261.8	226,600.3	231,472.7
2.3. Claims on other banking institutions	1,640.0	509.8	644.1	657.6	695.5	598.1	691.5	554.3	702.5	688.1	539.2	809.3	441.9
2.4. Claims on non-banking financial institutions	1,789.7	965.9	995.1	941.1	987.8	1,001.2	1,041.4	1,103.1	1,098.1	1,138.3	1,070.1	1,090.7	1,067.4
Total (1+2)	275,522.6	268,589.7	270,552.6	274,586.8	275,415.4	276,722.1	279,986.1	285,575.0	292,348.8	294,168.2	293,907.7	286,758.7	296,309.2
LIABILITIES													
1. Money	57,878.3	52,247.9	51,224.9	52,807.2	52,720.0	53,193.2	54,400.5	55,452.9	55,652.7	53,677.3	52,693.8	51,053.7	55,222.3
2. Savings and time deposits	53,644.9	53,463.8	53,551.9	53,120.9	53,674.0	52,624.4	52,001.2	52,990.8	54,223.1	53,976.0	52,774.4	51,019.0	50,070.3
3. Foreign currency deposits	103,090.1	101,837.9	103,849.8	104,760.9	105,536.8	106,374.2	108,678.4	111,967.5	115,547.7	117,937.6	115,314.4	113,422.8	117,194.8
4. Bonds and money market instruments	1,208.8	850.9	975.9	931.1	951.6	737.5	966.5	838.2	1,011.9	1,261.5	2,668.5	2,618.7	2,531.1
5. Restricted and blocked deposits	2,280.9	2,557.9	2,644.9	2,388.8	2,624.1	3,204.8	2,890.2	2,982.0	3,491.9	4,005.1	3,666.3	3,319.4	3,094.2
6. Other items (net)	57,419.6	57,631.3	58,305.2	60,577.8	59,908.9	60,588.0	61,049.3	61,343.6	62,421.5	63,310.6	66,790.3	65,325.1	68,196.5
Total (1+2+3+4+5+6)	275,522.6	268,589.7	270,552.6	274,586.8	275,415.4	276,722.1	279,986.1	285,575.0	292,348.8	294,168.2	293,907.7	286,758.7	296,309.2

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 banking 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
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	December	36	1	10	6	8	5	6	3	2	1	–
2006	December	35	2	6	5	10	4	8	3	2	1	–
2007	December	35	2	5	2	12	5	9	2	1	1	–
2008	January	35	2	5	3	11	5	9	2	1	1	–
	February	35	2	5	4	10	5	9	2	1	1	–
	March	35	2	5	3	11	5	9	2	1	1	–
	April	35	2	5	3	11	5	9	2	1	1	–
	May	35	2	5	3	11	5	9	2	1	1	–
	June	35	2	5	3	11	5	9	2	1	1	–
	July	35	2	5	3	10	6	9	2	1	1	–
	August	36	2	7	2	10	6	9	2	1	1	–
	September	36	2	7	2	10	6	9	2	1	1	–
	October	36	2	7	2	10	6	9	2	1	1	–
	November	36	2	7	1	11	6	9	2	1	1	–
	December	36	2	7	1	11	6	9	2	1	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 winding-up and, until February 2005, institutions whose operating licences have been revoked, but which have not initiated winding-up 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.

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

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Foreign assets	68,177.8	67,661.5	70,423.3	71,417.7	72,118.4	72,875.9	72,036.6	70,686.3	70,469.3	69,718.0	67,457.1	69,013.5	66,805.5
1.1. Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2. Holdings of SDRs	5.6	7.5	4.4	8.3	8.3	6.0	6.0	7.1	4.7	4.7	7.9	5.5	5.3
1.3. Reserve position in the IMF	1.3	1.2	1.2	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3
1.4. Currency and demand deposits with foreign banks	7.2	9.5	9.4	9.3	9.2	6.4	8.9	9.2	9.1	9.0	1,459.4	1,447.1	1,472.7
1.5. Time deposits with foreign banks	33,204.4	32,813.1	32,818.5	35,943.9	35,984.8	32,127.8	25,421.8	23,793.3	24,138.5	21,856.9	17,496.3	15,758.5	13,189.3
1.6. Securities in f/c	34,959.3	34,830.1	37,589.7	35,454.9	36,114.7	40,734.4	46,598.6	46,875.5	46,315.8	47,846.1	48,492.3	51,801.0	52,136.9
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	1.0	–	–	–	0.0	–	1.0	–	0.9	–	–	–	2.2
2.1. Claims in kuna	1.0	–	–	–	0.0	–	1.0	–	0.9	–	–	–	2.2
2.2. Claims in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Claims on other domestic sectors	67.9	67.9	67.9	67.8	67.8	65.3	65.3	65.2	65.2	65.2	65.2	64.2	64.2
4. Claims on banks	4,178.3	15.7	538.0	1,538.0	14.4	1,627.4	1,666.5	953.0	2,570.2	13.7	3,629.9	4,745.1	13.9
4.1. Credits to banks	4,178.3	14.6	533.2	1,538.0	14.4	1,627.4	1,666.5	953.0	2,556.4	13.7	3,629.9	4,745.1	13.9
Lombard credits	1,349.1	–	–	–	–	–	–	–	–	–	3,616.2	4,731.5	–
Short-term liquidity credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Other credits	14.7	14.6	14.5	14.4	14.4	14.2	14.1	14.0	13.8	13.7	13.7	13.6	13.9
Reverse repo transactions	2,814.5	0.0	518.7	1,523.6	–	1,613.2	1,652.4	939.0	2,542.6	–	–	–	–
4.2. Overdue claims	–	1.2	4.8	–	–	–	–	–	13.8	–	–	–	–
5. Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	72,425.1	67,745.2	71,029.2	73,023.5	72,200.5	74,568.5	73,769.3	71,704.6	73,105.7	69,796.8	71,152.3	73,822.8	66,885.8
LIABILITIES													
1. Reserve money	51,923.9	47,405.3	49,095.1	49,977.8	49,011.4	51,169.9	51,173.5	50,631.4	52,228.3	49,771.0	52,549.8	55,204.1	49,743.0
1.1. Currency outside banks	16,007.5	15,316.2	15,239.2	15,336.6	15,787.5	16,197.4	16,908.8	17,586.9	17,567.4	16,556.3	17,032.7	16,752.6	17,051.0
1.2. Banks' cash in vaults	3,305.8	2,835.2	2,802.4	2,959.3	2,825.5	3,036.8	3,340.4	3,276.2	3,323.8	3,117.4	3,121.4	2,877.6	3,428.3
1.3. Banks' deposits	32,610.6	29,253.8	31,053.5	31,681.9	30,398.4	31,935.7	30,924.4	29,768.4	31,337.0	30,097.3	32,395.8	35,573.9	29,263.7
Settlement accounts	7,553.9	6,550.7	8,320.8	8,913.8	7,237.0	8,467.4	7,508.6	6,577.7	7,996.5	6,559.3	8,812.2	11,726.0	9,520.3
Statutory reserves	22,275.6	22,553.2	22,659.9	22,623.7	22,780.0	23,022.2	22,981.1	22,753.5	22,894.7	23,092.0	23,137.5	23,399.5	19,222.7
CNB bills on obligatory basis	1,991.1	–	27.8	0.3	381.5	429.1	434.7	437.1	445.8	446.0	446.0	448.4	460.6
Overnight deposits	790.0	150.0	45.0	144.0	–	17.0	–	–	–	–	–	–	60.0
1.4. Deposits of other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
1.5. Deposits of other domestic sectors	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Restricted and blocked deposits	14,286.0	14,351.6	15,654.1	17,056.6	17,548.6	17,613.2	16,890.8	15,253.9	14,652.0	13,372.7	10,002.3	10,007.1	8,064.1
2.1. Statutory reserve in f/c	14,257.5	14,298.2	15,613.8	17,001.4	17,495.0	17,556.0	16,829.1	15,197.7	14,597.3	13,314.5	9,945.8	9,946.6	8,008.3
2.2. Restricted deposits	28.6	53.4	40.3	55.2	53.6	57.2	61.7	56.2	54.7	58.2	56.4	60.5	55.8
2.3. Escrow deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Foreign liabilities	17.2	15.9	14.1	12.6	11.5	16.8	14.7	14.8	14.1	13.0	12.8	18.2	16.6
3.1. Use of IMF credit	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2. Liabilities to international organisations	17.2	15.9	14.1	12.6	11.5	16.8	14.7	14.7	14.1	13.0	12.8	18.2	16.6
3.3. Liabilities to foreign banks	–	–	–	–	–	–	0.1	0.0	–	0.0	0.0	0.0	–
4. Central government and funds' deposits	199.1	172.2	177.5	307.7	321.9	524.5	596.7	463.2	513.0	441.2	619.3	547.7	206.9
4.1. Demand deposits	125.8	131.2	136.0	266.1	285.8	505.2	576.3	450.4	500.2	436.2	442.2	495.3	171.1
Central government demand deposits	100.3	71.4	105.6	120.4	135.3	127.4	130.9	102.9	94.4	110.6	79.7	134.0	43.0
Central government funds' demand deposits	25.4	59.9	30.4	145.6	150.5	377.8	445.4	347.6	405.8	325.6	362.4	361.3	128.2
4.2. Central government f/c deposits	73.3	41.0	41.5	41.6	36.1	19.3	20.4	12.8	12.8	5.0	177.1	52.4	35.8
4.3. CNB bills	–	–	–	–	–	–	–	–	–	–	–	–	–
5. CNB bills	–	–	–	–	–	–	–	–	–	–	–	–	–
5.1. CNB bills in kuna	–	–	–	–	–	–	–	–	–	–	–	–	–
5.2. CNB bills in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
6. Capital accounts	6,664.5	6,484.8	6,772.4	6,250.5	5,994.5	5,930.1	5,788.1	6,034.8	6,388.9	6,640.2	8,672.6	8,776.7	9,562.4
7. Other items (net)	–665.6	–684.6	–684.0	–581.7	–687.4	–686.0	–694.5	–693.5	–690.5	–441.4	–704.4	–731.0	–707.1
Total (1+2+3+4+5+6+7)	72,425.1	67,745.2	71,029.2	73,023.5	72,200.5	74,568.5	73,769.3	71,704.6	73,105.7	69,796.8	71,152.3	73,822.8	66,885.8

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 regulations 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, prerehabilitation credits), due but unpaid credits and deposits of the CNB with banks. 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 subsector other banking institutions to the subsector 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 (including, from March 2006, special reserve requirement on liabilities arising from issued securities), CNB bills on an obligatory basis and overnight deposits. Deposits by other banking institutions included, until September 2003, settlement account balances of housing savings banks. Deposits by other domestic sectors are other domestic sectors' giro account balances which are deposited with the Croatian National Bank in accordance with law or other regulation.

Restricted and blocked deposits include required foreign currency reserves and accrued interest, restricted deposits and blocked foreign currency deposits. Banks are required to set aside the reserve requirements against certain foreign currency 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 regulations, 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 currency 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 subsector other banking institutions to the subsector 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

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1. Reserves with the CNB	50,178.9	46,391.8	49,462.9	51,640.1	50,717.4	52,530.1	51,102.5	48,246.7	49,246.9	46,531.4	45,459.7	48,400.9	40,705.6
1.1. In kuna	35,929.1	32,102.7	33,854.7	34,645.7	33,229.6	34,979.4	34,279.1	33,056.1	34,655.0	33,223.2	35,521.1	38,458.1	32,700.5
1.2. In f/c	14,249.8	14,289.1	15,608.2	16,994.4	17,487.7	17,550.7	16,823.4	15,190.6	14,591.8	13,308.2	9,938.6	9,942.8	8,005.1
2. Foreign assets	46,438.5	44,246.3	43,847.3	41,544.2	40,137.1	37,082.4	37,562.2	40,669.6	41,684.1	42,645.4	46,636.5	45,344.9	50,246.6
3. Claims on central government and funds	28,971.5	28,291.9	28,323.1	29,984.5	29,620.7	28,788.1	30,658.5	31,048.2	30,859.8	31,003.4	32,029.7	32,408.7	37,801.1
4. Claims on other domestic sectors	207,330.7	207,813.5	210,219.6	213,360.3	214,494.9	215,871.9	218,430.4	219,867.2	221,085.5	222,621.2	227,196.6	226,536.1	231,408.6
4.1. Claims on local government	2,140.8	2,103.8	2,031.3	2,029.2	2,067.4	2,035.6	2,022.3	1,990.9	2,012.8	1,969.1	1,980.8	1,984.3	2,077.4
4.2. Claims on enterprises	92,265.1	91,793.5	92,928.9	94,325.3	94,718.4	95,177.8	96,311.7	97,521.1	98,191.1	98,914.2	99,961.4	101,145.0	102,779.8
4.3. Claims on households	112,924.9	113,916.2	115,259.5	117,005.8	117,709.1	118,658.5	120,096.3	120,355.1	120,881.6	121,737.8	125,254.4	123,406.8	126,551.4
5. Claims on other banking institutions	1,640.0	509.8	644.1	657.6	695.5	598.1	691.5	554.3	702.5	688.1	539.2	809.3	441.9
6. Claims on non-banking financial institutions	1,789.7	965.9	995.1	941.1	987.8	1,001.2	1,041.4	1,103.1	1,098.1	1,138.3	1,070.1	1,090.7	1,067.4
Total (1+2+3+4+5+6)	336,349.4	328,219.2	333,492.0	338,127.9	336,653.3	335,871.8	339,486.6	341,489.1	344,676.9	344,627.8	352,931.8	354,590.6	361,671.2
LIABILITIES													
1. Demand deposits	41,870.8	36,931.7	35,985.7	37,470.7	36,932.5	36,995.9	37,491.7	37,866.1	38,084.7	37,121.0	35,661.1	34,301.1	38,171.2
2. Savings and time deposits	53,644.9	53,463.8	53,551.9	53,120.9	53,674.0	52,624.4	52,001.2	52,990.8	54,223.1	53,976.0	52,774.4	51,019.0	50,070.3
3. Foreign currency deposits	103,090.1	101,837.9	103,849.8	104,760.9	105,536.8	106,374.2	108,678.4	111,967.5	115,547.7	117,937.6	115,314.4	113,422.8	117,194.8
4. Bonds and money market instruments	1,208.8	850.9	975.9	931.1	951.6	737.5	966.5	838.2	1,011.9	1,261.5	2,668.5	2,618.7	2,531.1
5. Foreign liabilities	65,152.6	67,507.8	70,222.8	69,402.1	68,177.4	65,429.4	64,224.1	61,621.5	57,330.0	57,577.3	64,661.4	69,647.1	75,296.1
6. Central government and funds' deposits	13,525.8	13,271.3	13,553.3	13,664.1	14,195.8	13,590.0	15,665.3	16,319.5	15,759.7	15,679.9	15,793.3	18,295.8	16,007.5
7. Credit from central bank	4,178.3	14.6	533.2	1,538.0	14.4	1,627.4	1,666.5	953.1	2,556.4	13.7	3,630.0	4,745.1	14.0
8. Restricted and blocked deposits	2,252.3	2,504.5	2,604.6	2,333.7	2,570.5	3,147.7	2,828.5	2,925.8	3,437.2	3,946.9	3,609.9	3,258.9	3,038.4
9. Capital accounts	53,178.9	53,361.2	53,747.4	56,451.5	56,761.9	57,271.9	57,883.3	58,394.6	58,851.9	59,225.1	59,475.8	59,691.1	60,317.4
10. Other items (net)	-1,753.2	-1,524.4	-1,532.5	-1,545.1	-2,161.7	-1,926.5	-1,918.9	-2,387.9	-2,125.7	-2,111.1	-657.0	-2,409.0	-969.7
Total (1+2+3+4+5+6+7+8+9+10)	336,349.4	328,219.2	333,492.0	338,127.9	336,653.3	335,871.8	339,486.6	341,489.1	344,676.9	344,627.8	352,931.8	354,590.6	361,671.2

Table D1: Banks' Accounts

Banks' Accounts include data on banks' claims and liabilities. Banks' mutual claims and liabilities are consolidated.

Required reserves held at the central bank include kuna and foreign currency reserves. Kuna reserves include vault cash and kuna funds held in accounts at the central bank. Foreign currency reserves include foreign currency held in the CNB's foreign currency accounts.

Foreign assets are the following forms of kuna and foreign currency claims on foreign legal and natural persons: foreign cash in vaults, current account balances with foreign banks and time deposits with foreign banks (including loro letters of credit and other forms of 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.

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 currency 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 received. 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 received 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 Currency 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 collectively assessed impairment provisions.

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) provides a detailed analysis of the relevant asset and liability items from Table D1 (Banks' Accounts).

Table D2: Banks' Foreign Assets

end of period, million kuna

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Foreign assets in f/c	45,837.2	43,817.8	43,420.9	40,997.4	39,779.2	36,722.3	37,071.2	40,167.7	41,099.8	42,067.0	46,040.7	44,781.4	49,705.1
1.1. Claims on foreign financial institutions	37,824.9	36,270.9	35,711.4	33,070.0	31,768.8	28,849.4	29,468.5	33,213.5	34,181.6	34,694.9	36,464.0	34,700.3	38,038.3
Foreign currencies	1,245.5	1,073.2	1,024.3	1,254.3	1,168.8	1,222.9	1,571.4	1,648.7	1,505.4	1,200.8	2,444.2	1,601.5	1,973.2
Demand deposits	1,305.2	812.8	1,014.8	879.0	805.2	919.3	930.6	875.9	839.9	784.9	937.7	918.2	2,109.8
Time and notice deposits	31,726.1	30,994.3	30,522.0	27,877.8	26,752.1	24,265.8	24,390.6	27,996.5	29,205.3	30,163.4	30,636.8	29,596.6	31,444.5
Securities	3,210.4	3,061.5	2,823.7	2,739.2	2,696.7	2,084.6	2,221.2	2,341.5	2,278.5	2,203.8	2,225.3	2,364.4	2,307.1
Loans and advances	195.9	188.6	185.5	179.0	173.0	183.5	182.8	182.1	182.7	178.6	180.7	180.5	166.3
Shares and participations	141.9	140.5	141.0	140.7	172.9	173.3	171.8	168.7	169.8	163.4	39.4	39.2	37.4
1.2. Claims on foreign non-banks	8,012.3	7,546.9	7,709.5	7,927.3	8,010.5	7,872.9	7,602.8	6,954.2	6,918.2	7,372.1	9,576.6	10,081.1	11,666.8
Claims on foreign governments	6,696.1	6,197.4	6,344.7	6,436.7	6,474.4	6,359.3	6,042.8	5,443.8	5,391.7	5,791.5	7,917.7	8,433.4	9,976.8
Claims on other non-residents	1,295.2	1,327.2	1,342.7	1,448.1	1,456.9	1,433.0	1,460.6	1,416.4	1,428.4	1,497.6	1,576.4	1,564.5	1,613.5
Securities	180.9	178.6	187.5	193.7	205.1	233.0	245.2	220.9	207.1	186.7	206.3	206.3	235.1
Loans and advances	1,114.3	1,148.6	1,155.2	1,254.5	1,251.7	1,200.0	1,215.4	1,195.5	1,221.3	1,310.9	1,370.1	1,358.1	1,378.4
Shares and participations	20.9	22.2	22.1	42.4	79.2	80.6	99.4	94.0	98.1	82.9	82.6	83.3	76.5
2. Foreign assets in kuna	601.3	428.5	426.4	546.8	357.9	360.1	491.0	501.9	584.4	578.4	595.8	563.5	541.5
2.1. Claims on foreign financial institutions	408.1	235.7	234.1	327.7	139.6	145.1	240.7	281.6	294.0	249.9	235.5	206.7	144.1
2.2. Claims on foreign non-banks	193.3	192.9	192.2	219.2	218.3	215.1	250.3	220.3	290.3	328.6	360.4	356.8	397.4
o/w: Loans and advances	192.7	192.3	191.6	218.6	217.7	214.5	249.7	219.7	289.7	328.0	359.8	356.2	396.8
Total (1+2)	46,438.5	44,246.3	43,847.3	41,544.2	40,137.1	37,082.4	37,562.2	40,669.6	41,684.1	42,645.4	46,636.5	45,344.9	50,246.6

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 non-banks (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

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. In kuna	24,081.8	23,534.9	23,562.3	24,396.2	23,690.2	22,637.5	22,801.0	22,488.0	22,047.8	22,107.0	21,658.9	21,927.6	24,901.6
1.1. Claims on central government	19,057.3	18,556.4	18,535.1	18,977.9	18,274.6	17,402.9	17,267.0	17,382.6	17,011.2	17,026.6	16,623.4	16,659.3	19,899.5
Securities	16,099.8	15,641.5	15,233.2	15,258.8	15,341.9	14,535.4	14,547.8	14,659.9	14,195.8	14,080.7	13,757.2	13,873.5	16,969.0
o/w: Bonds (c/part to f/c savings deposits)	6.4	5.9	5.7	5.3	6.2	5.9	5.5	7.0	6.8	6.4	6.3	6.1	6.1
Loans and advances	2,957.5	2,914.9	3,302.0	3,719.1	2,932.7	2,867.6	2,719.2	2,722.8	2,815.4	2,945.9	2,866.1	2,785.8	2,930.4
1.2. Claims on central government funds	5,024.5	4,978.5	5,027.2	5,418.2	5,415.6	5,234.5	5,534.0	5,105.4	5,036.6	5,080.4	5,035.5	5,268.3	5,002.1
Securities	–	–	–	–	4.2	4.2	4.2	10.3	6.1	–	–	6.0	6.1
Loans and advances	5,024.5	4,978.5	5,027.2	5,418.2	5,411.5	5,230.3	5,529.7	5,095.1	5,030.5	5,080.4	5,035.5	5,262.3	4,996.1
2. In f/c	4,889.7	4,757.1	4,760.8	5,588.3	5,930.5	6,150.7	7,857.5	8,560.3	8,812.0	8,896.4	10,370.8	10,481.1	12,899.5
2.1. Claims on central government	4,388.6	4,297.3	4,298.1	5,128.9	5,471.3	5,692.4	7,047.1	7,526.5	7,784.9	7,877.8	9,342.6	9,319.6	9,843.6
Securities	268.4	249.7	250.0	227.7	228.3	226.6	209.3	202.0	203.0	207.9	246.2	295.2	300.7
Loans and advances	4,120.1	4,047.6	4,048.1	4,901.2	5,243.0	5,465.9	6,837.8	7,324.5	7,581.8	7,669.9	9,096.4	9,024.4	9,542.9
2.2. Claims on central government funds	501.2	459.7	462.7	459.4	459.2	458.2	810.4	1,033.7	1,027.1	1,018.6	1,028.2	1,161.5	3,055.9
Securities	82.1	66.4	66.7	65.8	65.8	64.9	63.7	63.9	64.1	63.1	62.9	62.1	50.9
Loans and advances	419.1	393.3	396.0	393.7	393.4	393.3	746.6	969.8	963.1	955.5	965.3	1,099.4	3,005.1
Total (1+2)	28,971.5	28,291.9	28,323.1	29,984.5	29,620.7	28,788.1	30,658.5	31,048.2	30,859.8	31,003.4	32,029.7	32,408.7	37,801.1

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 Currency Deposits into the Public Debt of the Republic of Croatia.

Table D4: Banks' Claims on Other Domestic Sectors

end of period, million kuna

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Claims in kuna	194,476.7	194,923.8	197,186.1	200,365.0	201,282.0	202,891.0	205,478.4	207,110.4	208,122.1	209,653.9	213,688.6	212,112.4	216,530.8
1.1. Money market instruments	2,147.4	2,167.2	2,200.2	2,384.7	2,516.4	2,419.9	2,440.1	2,446.5	2,353.4	2,492.4	2,683.9	2,673.0	2,674.5
1.2. Bonds	1,366.0	1,685.8	1,648.4	1,575.2	1,331.7	1,360.7	1,388.8	1,356.6	1,446.2	1,419.0	1,398.1	1,359.1	1,341.4
1.3. Loans and advances	188,462.5	188,701.1	191,007.0	194,078.4	195,112.5	196,761.3	199,333.3	200,936.9	201,968.3	203,527.2	207,522.8	205,994.3	210,424.0
1.4. Shares and participations	2,500.8	2,369.8	2,330.5	2,326.8	2,321.5	2,349.1	2,316.3	2,370.4	2,354.2	2,215.3	2,083.7	2,086.1	2,090.8
2. Claims in f/c	12,854.0	12,889.7	13,033.5	12,995.3	13,212.9	12,980.9	12,952.0	12,756.8	12,963.4	12,967.3	13,508.0	14,423.7	14,877.8
2.1. Securities	249.2	213.0	198.0	180.6	173.1	166.2	164.5	107.2	108.6	104.6	117.2	112.4	109.3
2.2. Loans and advances	12,604.9	12,676.7	12,835.5	12,814.7	13,039.8	12,814.7	12,787.6	12,649.7	12,854.8	12,862.7	13,390.9	14,311.2	14,768.5
Total (1+2)	207,330.7	207,813.5	210,219.6	213,360.3	214,494.9	215,871.9	218,430.4	219,867.2	221,085.5	222,621.2	227,196.6	226,536.1	231,408.6

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 forfeiting since January 2004), loans and advances (including acceptances and purchased claims), and equities.

Table D5: Distribution of Banks' Loans by Domestic Institutional Sectors

end of period, million kuna

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
LOANS IN KUNA													
1. Loans to central government and funds	7,982.0	7,893.3	8,329.1	9,137.3	8,344.1	8,097.9	8,248.9	7,817.9	7,846.0	8,026.3	7,901.7	8,048.0	7,926.5
1.1. Loans to central government	2,957.5	2,914.9	3,302.0	3,902.1	2,932.7	2,867.6	2,719.2	2,722.8	2,815.4	2,945.9	2,866.1	2,785.8	2,930.4
1.2. Loans to central government funds	5,024.5	4,978.5	5,027.2	5,235.2	5,411.5	5,230.3	5,529.7	5,095.1	5,030.5	5,080.4	5,035.5	5,262.3	4,996.1
2. Loans to local government	1,867.5	1,841.2	1,776.4	1,776.6	1,778.4	1,748.7	1,737.8	1,709.2	1,732.1	1,690.4	1,698.4	1,704.9	1,786.9
3. Loans to enterprises	74,001.7	73,287.0	74,311.7	75,635.8	75,963.8	76,691.7	77,841.2	79,202.9	79,696.9	80,435.1	80,894.5	81,211.9	82,431.7
4. Loans to households	112,593.3	113,572.9	114,918.9	116,666.0	117,370.4	118,320.9	119,754.3	120,024.8	120,539.3	121,401.7	124,930.0	123,077.5	126,205.3
o/w: Housing loans	45,218.6	45,937.2	46,663.6	47,476.4	47,345.7	47,532.1	48,271.9	48,205.4	48,455.6	48,904.3	51,197.2	49,929.8	52,305.5
5. Loans to other banking institutions	213.6	40.5	89.5	95.2	141.1	45.3	177.6	63.7	172.7	144.1	142.6	420.5	36.1
6. Loans to non-banking financial institutions	947.6	614.9	672.2	654.5	712.1	735.9	736.8	825.4	787.0	832.0	776.9	799.4	741.4
A. Total (1+2+3+4+5+6)	197,605.7	197,249.7	200,097.8	203,965.4	204,309.8	205,640.4	208,496.7	209,643.9	210,774.0	212,529.6	216,344.0	215,262.2	219,128.0
LOANS IN F/C													
1. Loans to central government and funds	4,539.2	4,440.9	4,444.1	5,294.8	5,636.4	5,859.2	7,584.4	8,294.4	8,544.9	8,625.3	10,061.7	10,123.8	12,548.0
1.1. Loans to central government	4,120.1	4,047.6	4,048.1	4,901.2	5,243.0	5,465.9	6,837.8	7,324.5	7,581.8	7,669.9	9,096.4	9,024.4	9,542.9
1.2. Loans to central government funds	419.1	393.3	396.0	393.7	393.4	393.3	746.6	969.8	963.1	955.5	965.3	1,099.4	3,005.1
2. Loans to local government	8.7	7.4	7.4	7.4	7.4	7.4	7.4	6.1	6.1	6.0	6.7	6.6	5.5
3. Loans to enterprises	12,264.5	12,326.0	12,487.5	12,467.5	12,693.7	12,469.7	12,438.2	12,313.2	12,506.4	12,520.7	13,059.8	13,975.3	14,416.8
4. Loans to households	331.6	343.3	340.6	339.8	338.7	337.6	342.0	330.3	342.3	336.0	324.4	329.4	346.1
5. Loans to other banking institutions	74.0	45.2	0.0	0.0	10.9	62.4	48.0	17.3	27.2	34.0	26.7	36.9	1.2
6. Loans to non-banking financial institutions	668.0	174.4	154.1	104.4	98.1	87.1	105.4	86.3	122.5	120.2	114.0	116.4	143.5
B. Total (1+2+3+4+5+6)	17,886.0	17,337.2	17,433.8	18,214.0	18,785.2	18,823.3	20,525.4	21,047.7	21,549.4	21,642.2	23,593.3	24,588.2	27,461.1
TOTAL (A+B)	215,491.7	214,586.9	217,531.6	222,179.4	223,095.0	224,463.7	229,022.1	230,691.5	232,323.4	234,171.8	239,937.3	239,850.5	246,589.1

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

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Local government	2,689.4	2,304.8	2,062.5	1,974.4	1,992.5	1,992.9	1,776.0	1,812.0	2,106.6	1,997.9	2,177.3	2,327.0	2,441.1
2. Enterprises	19,599.3	15,676.4	15,021.2	16,179.8	15,552.8	15,479.5	15,914.6	16,576.5	16,393.9	16,203.9	14,319.7	14,097.0	16,896.1
3. Households	17,896.7	17,477.3	17,182.8	17,418.4	17,597.3	17,559.2	17,904.5	18,089.0	18,054.9	17,806.2	17,584.4	17,024.0	17,620.1
4. Other banking institutions	481.1	329.4	365.2	556.9	661.1	409.7	426.5	316.2	402.9	312.3	305.0	183.8	293.6
5. Non-banking financial institutions	1,205.2	1,145.0	1,354.6	1,342.1	1,133.2	1,555.3	1,472.6	1,073.3	1,127.2	801.6	1,275.6	670.0	921.1
6. Less: Checks of other banks and checks in collection	-0.9	-1.2	-0.7	-0.9	-4.4	-0.8	-2.5	-0.9	-0.8	-0.8	-0.8	-0.7	-0.7
Total (1+2+3+4+5+6)	41,870.8	36,931.7	35,985.7	37,470.7	36,932.5	36,995.9	37,491.7	37,866.1	38,084.7	37,121.0	35,661.1	34,301.1	38,171.2

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 banking institutions' and non-banking financial institutions' giro and current accounts balances, minus currency in the payment system (i.e. 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

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	3,086.1	3,055.2	3,119.0	3,022.1	3,033.3	3,014.4	2,983.3	2,937.3	2,959.5	2,929.8	2,826.5	2,744.5	2,770.3
1.1. Local government	2.5	2.8	2.7	2.4	2.0	2.0	2.0	1.9	1.5	1.6	0.4	0.4	0.0
1.2. Enterprises	154.7	115.6	160.8	158.7	182.7	159.6	139.3	131.7	137.6	124.1	146.6	109.2	108.8
1.3. Households	2,929.0	2,936.8	2,955.5	2,860.9	2,848.5	2,847.8	2,838.0	2,799.7	2,816.4	2,800.0	2,670.5	2,622.0	2,657.7
1.4. Other banking institutions	–	–	–	–	–	5.0	4.0	4.0	4.0	4.0	9.0	9.0	–
1.5. Non-banking financial institutions	–	–	–	–	–	–	–	–	–	–	–	3.9	3.7
2. Time and notice deposits	50,558.8	50,408.6	50,432.9	50,098.8	50,640.7	49,610.0	49,017.9	50,053.5	51,263.7	51,046.3	49,947.9	48,274.5	47,300.1
2.1. Local government	549.5	1,110.1	1,209.3	1,336.8	1,405.6	1,439.4	1,534.6	1,676.2	1,746.5	1,787.1	1,773.7	1,728.3	726.0
2.2. Enterprises	18,414.8	17,861.2	17,476.3	16,543.1	16,506.9	14,491.9	13,987.1	14,727.1	15,557.7	16,129.1	16,287.8	16,534.2	16,268.0
2.3. Households	20,479.1	21,134.4	21,959.1	22,779.2	23,278.6	23,221.2	23,412.0	23,452.5	23,486.6	23,074.2	22,177.8	22,306.1	22,721.6
2.4. Other banking institutions	6,386.5	5,190.8	4,435.5	4,537.5	4,105.7	4,456.2	3,983.3	4,154.6	4,461.5	3,901.7	3,262.1	2,527.5	2,563.4
2.5. Non-banking financial institutions	4,728.9	5,112.1	5,352.7	4,902.2	5,343.8	6,001.2	6,100.9	6,043.1	6,011.3	6,154.2	6,446.4	5,178.4	5,021.1
Total (1+2)	53,644.9	53,463.8	53,551.9	53,120.9	53,674.0	52,624.4	52,001.2	52,990.8	54,223.1	53,976.0	52,774.4	51,019.0	50,070.3

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

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Savings deposits	22,845.0	23,430.9	22,187.5	22,321.8	21,416.5	22,406.3	22,797.1	22,564.7	23,410.4	23,772.6	22,467.3	21,361.5	21,262.2
1.1. Local government	27.5	14.5	14.5	9.8	9.8	9.8	26.1	12.9	11.6	9.2	9.4	9.2	22.1
1.2. Enterprises	5,543.6	6,472.8	5,176.3	5,326.3	4,795.8	5,459.1	5,896.7	5,413.1	5,601.6	5,910.0	5,409.2	5,027.9	5,132.0
1.3. Households	16,720.8	16,409.5	16,300.3	16,139.1	16,091.2	16,404.7	16,265.5	16,667.6	17,267.6	17,154.5	16,529.0	16,055.2	15,682.8
1.4. Other banking institutions	251.7	231.7	261.6	355.8	249.8	242.2	224.0	286.7	208.9	176.0	156.5	105.5	121.4
1.5. Non-banking financial institutions	301.5	302.4	434.7	490.8	270.0	290.6	384.9	184.2	320.8	522.9	363.2	163.6	303.9
2. Time deposits	80,245.1	78,407.1	81,662.3	82,439.1	84,120.3	83,967.9	85,881.3	89,402.9	92,137.3	94,165.0	92,847.1	92,061.3	95,932.6
2.1. Local government	2.1	2.0	2.0	1.9	3.9	3.9	2.0	2.0	2.1	2.1	2.4	2.4	2.3
2.2. Enterprises	10,391.9	8,218.5	9,708.7	9,597.6	9,929.1	9,589.6	9,959.0	10,694.9	11,476.4	11,617.3	12,059.4	11,719.6	11,215.5
2.3. Households	66,465.7	67,096.1	68,665.8	69,660.4	70,853.9	71,820.5	73,044.5	75,183.7	77,040.3	79,055.2	77,261.5	77,120.0	80,419.6
2.4. Other banking institutions	1,038.6	899.7	940.9	1,039.3	1,160.0	776.3	764.6	1,022.5	1,078.3	1,062.1	980.5	912.9	808.2
2.5. Non-banking financial institutions	2,346.8	2,190.7	2,344.9	2,139.9	2,173.4	1,777.5	2,111.2	2,499.8	2,540.2	2,428.3	2,543.3	2,306.4	3,487.0
Total (1+2)	103,090.1	101,837.9	103,849.8	104,760.9	105,536.8	106,374.2	108,678.4	111,967.5	115,547.7	117,937.6	115,314.4	113,422.8	117,194.8

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

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Money market instruments (net)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
2. Bonds (net)	632.0	629.7	619.4	637.8	638.5	472.9	452.4	460.3	461.0	434.3	482.6	501.1	609.5
3. Other domestic borrowing	576.0	220.4	355.7	292.5	312.3	263.8	513.3	377.1	550.1	826.4	2,185.2	2,116.8	1,920.8
3.1. Local government	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2. Enterprises	152.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9	3.7	3.6	3.8	3.5
3.3. Other banking institutions	266.4	202.4	336.0	265.8	285.3	236.8	496.3	377.1	546.2	820.7	2,073.8	2,094.7	1,719.2
3.4. Non-banking financial institutions	156.6	18.0	19.7	26.6	27.0	27.0	17.0	–	–	2.0	107.7	18.3	198.0
Total (1+2+3)	1,208.8	850.9	975.9	931.1	951.6	737.5	966.5	838.2	1,011.9	1,261.5	2,668.5	2,618.7	2,531.1

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.

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, which are reported in the total amount and classified by institutional sectors.

Table D10: Banks' Foreign Liabilities

end of period, million kuna

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Foreign liabilities in f/c	48,461.3	50,261.8	52,465.8	51,479.8	49,905.3	48,386.1	47,828.7	46,211.3	42,005.2	41,487.8	46,963.4	50,855.1	54,726.8
1.1. Liabilities to foreign financial institutions	41,483.1	43,509.4	45,611.0	44,727.4	43,127.7	41,592.7	41,061.5	39,387.6	35,025.5	34,684.4	40,152.9	44,159.7	47,878.5
Demand deposits	258.8	211.7	207.4	245.8	227.8	202.3	223.3	214.8	161.6	152.3	158.9	245.3	176.6
Time and notice deposits	10,562.9	13,014.2	14,405.6	12,694.1	10,093.1	9,341.5	9,302.1	8,306.5	7,648.7	7,527.4	9,912.2	13,479.4	14,016.4
Loans and advances	27,373.0	27,028.5	27,730.5	28,528.7	29,544.4	28,791.9	28,280.3	27,621.4	23,996.9	23,810.4	26,869.4	27,245.2	30,408.3
o/w: Subordinated and hybrid instruments	405.9	401.8	403.3	1,396.3	1,368.6	1,366.1	1,568.2	1,562.8	1,549.9	1,538.2	1,555.2	1,542.6	1,585.1
Bonds	3,288.4	3,255.1	3,267.5	3,258.7	3,262.4	3,257.0	3,255.8	3,244.8	3,218.3	3,194.3	3,212.4	3,189.8	3,277.1
1.2. Liabilities to foreign non-banks	6,978.2	6,752.5	6,854.9	6,752.5	6,777.6	6,793.4	6,767.3	6,823.8	6,979.7	6,803.4	6,810.5	6,695.4	6,848.4
Savings and time deposits	6,729.9	6,559.8	6,662.3	6,562.9	6,588.4	6,604.6	6,579.0	6,691.5	6,848.2	6,672.8	6,676.6	6,564.9	6,719.0
Sight deposits	1,537.2	1,532.9	1,574.3	1,582.6	1,541.4	1,588.9	1,643.6	1,589.4	1,730.0	1,560.7	1,605.9	1,441.5	1,374.5
Time and notice deposits	5,192.7	5,026.9	5,087.9	4,980.2	5,047.0	5,015.7	4,935.4	5,102.1	5,118.2	5,112.1	5,070.8	5,123.3	5,344.6
Loans and advances	248.3	192.7	192.6	189.6	189.2	188.8	188.3	132.3	131.5	130.6	133.9	130.5	129.3
o/w: Subordinated and hybrid instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
2. Foreign liabilities in kuna	16,691.3	17,246.0	17,756.9	17,922.2	18,272.1	17,043.3	16,395.4	15,410.1	15,324.8	16,089.4	17,698.0	18,792.0	20,569.2
2.1. Liabilities to foreign financial institutions	16,093.8	16,494.8	17,071.1	17,198.1	17,592.8	16,416.1	15,756.2	14,804.8	14,695.6	15,523.5	17,166.6	18,252.3	20,061.0
Demand deposits	519.0	373.2	829.5	640.3	925.1	747.2	537.8	688.8	371.0	397.4	563.2	603.9	898.1
Time and notice deposits	11,423.7	11,970.4	12,090.4	12,406.6	12,489.6	11,491.2	11,069.6	9,967.2	10,175.8	10,977.4	12,454.6	13,499.7	15,014.2
Loans and advances	4,151.2	4,151.2	4,151.2	4,151.2	4,178.2	4,177.8	4,148.8	4,148.8	4,148.8	4,148.8	4,148.8	4,148.8	4,148.8
o/w: Subordinated and hybrid instruments	0.4	0.4	0.4	0.4	29.4	29.0	–	–	–	–	–	–	–
2.2. Liabilities to foreign non-banks	597.5	751.2	685.8	724.1	679.3	627.2	639.2	605.3	629.2	565.9	531.4	539.6	508.2
Demand deposits	253.2	301.7	254.2	250.7	294.9	298.7	302.9	276.8	314.1	277.2	266.4	269.1	257.0
Time and notice deposits	340.6	445.8	427.9	469.7	382.2	327.0	334.8	327.0	313.5	287.2	263.5	267.0	245.7
Loans and advances	3.7	3.7	3.7	3.7	2.2	1.5	1.5	1.5	1.5	1.5	1.5	3.5	5.5
o/w: Subordinated and hybrid instruments	3.7	3.7	3.7	3.7	2.2	1.5	1.5	1.5	1.5	1.5	1.5	3.5	5.5
Total (1+2)	65,152.6	67,507.8	70,222.8	69,402.1	68,177.4	65,429.4	64,224.1	61,621.5	57,330.0	57,577.3	64,661.4	69,647.1	75,296.1

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

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. In kuna	11,535.0	11,346.7	11,515.6	11,746.5	13,203.4	12,535.2	14,142.6	14,958.8	14,454.3	14,247.3	14,566.0	16,756.9	14,185.1
1.1. Central government deposits	666.4	684.0	661.1	590.0	1,706.9	709.4	1,391.5	2,249.4	1,638.2	1,305.2	1,414.6	3,381.4	429.5
Demand deposits	454.9	457.5	436.4	352.8	337.6	222.7	233.4	238.2	234.6	293.1	208.8	207.3	176.7
Savings deposits	1.2	1.2	1.1	1.1	1.0	0.9	0.9	0.9	0.8	0.8	0.8	1.4	1.1
Time and notice deposits	209.3	224.2	222.5	235.1	1,367.4	484.7	1,156.2	2,009.4	1,401.8	1,011.3	1,205.0	3,172.7	251.6
Loans and advances	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	–	–	–	–
1.2. Central government funds' deposits	10,868.6	10,662.8	10,854.5	11,156.5	11,496.4	11,825.9	12,751.1	12,709.4	12,816.0	12,942.1	13,151.4	13,375.4	13,755.5
Demand deposits	330.1	319.7	248.4	227.0	232.9	373.4	389.1	516.7	575.2	487.8	422.9	397.3	645.6
Savings deposits	2.4	2.3	2.2	2.2	2.2	2.2	2.2	4.0	4.0	4.0	3.9	4.0	0.0
Time and notice deposits	413.6	273.7	438.5	481.9	462.8	578.4	712.6	615.8	635.9	791.3	740.3	676.3	385.8
Loans and advances	10,122.4	10,067.1	10,165.5	10,445.5	10,798.5	10,871.9	11,647.2	11,572.9	11,600.9	11,659.1	11,984.2	12,297.9	12,724.1
2. In f/c	1,990.8	1,924.5	2,037.7	1,917.6	992.4	1,054.7	1,522.7	1,360.7	1,305.4	1,432.6	1,227.3	1,538.9	1,822.5
2.1. Central government deposits	759.4	600.4	580.7	686.8	678.9	876.9	729.4	656.1	583.9	642.3	698.8	638.6	1,122.5
Savings deposits	527.4	275.6	269.9	264.7	262.8	321.7	325.7	379.6	357.7	381.7	341.9	455.8	666.8
Time and notice deposits	49.7	175.6	163.8	282.1	273.9	412.6	263.7	163.5	107.7	139.6	223.4	47.7	330.0
Refinanced loans and advances	182.3	149.2	147.0	140.0	142.2	142.6	140.0	113.0	118.5	121.0	133.4	135.1	125.7
2.2. Central government funds' deposits	1,231.4	1,324.1	1,457.0	1,230.8	313.5	177.8	793.3	704.6	721.5	790.3	528.5	900.4	699.9
Savings deposits	85.7	91.3	93.1	125.7	71.3	163.3	167.2	138.5	97.3	136.2	151.6	157.7	107.1
Time and notice deposits	153.8	170.4	355.2	174.2	242.2	14.5	65.2	76.6	140.0	512.0	376.9	386.2	519.6
Loans and advances	991.8	1,062.5	1,008.7	931.0	–	–	560.9	489.6	484.1	142.2	–	356.4	73.2
Total (1+2)	13,525.8	13,271.3	13,553.3	13,664.1	14,195.8	13,590.0	15,665.3	16,319.5	15,759.7	15,679.9	15,793.3	18,295.8	16,007.5

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 received from the central government and funds. Foreign currency deposits comprise savings deposits, time and notice deposits, and refinanced loans and advances.

Table D12: Restricted and Blocked Deposits with Banks

end of period, million kuna

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Restricted deposits	2,252.3	2,504.5	2,604.6	2,333.7	2,570.5	3,147.7	2,828.5	2,925.8	3,437.2	3,946.9	3,609.9	3,258.9	3,038.4
1.1. In kuna	1,322.8	1,295.0	1,520.6	1,296.2	1,457.5	1,690.2	1,551.8	1,383.4	1,382.5	1,364.7	1,634.0	1,479.3	1,478.8
1.2. In f/c	929.5	1,209.5	1,084.0	1,037.5	1,113.0	1,457.5	1,276.6	1,542.4	2,054.8	2,582.2	1,975.9	1,779.6	1,559.6
2. Blocked f/c deposits of households	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2)	2,252.3	2,504.5	2,604.6	2,333.7	2,570.5	3,147.7	2,828.5	2,925.8	3,437.2	3,946.9	3,609.9	3,258.9	3,038.4

Table D12: Restricted and Blocked Deposits with Banks

The table shows households' restricted (kuna and foreign currency) deposits and blocked deposits.

Blocked foreign currency deposits include households' foreign currency deposits, regulated by the Act on Converting Households' Foreign Currency Deposits into the Public Debt of the Republic of Croatia.

Table E1: Housing Savings Banks' Accounts

end of period, million kuna

	2007	2008											
	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	4,036.5	3,835.2	3,772.9	3,750.6	3,712.5	3,664.3	3,658.2	3,642.2	3,617.0	3,586.2	3,560.6	3,521.8	3,395.5
3. Claims on other domestic sectors	2,220.4	2,265.7	2,339.0	2,389.9	2,454.3	2,490.5	2,545.3	2,586.5	2,601.7	2,643.9	2,719.6	2,734.9	2,857.9
o/w: Claims on households	2,220.4	2,265.7	2,339.0	2,389.9	2,454.3	2,490.5	2,545.3	2,586.5	2,601.7	2,643.9	2,719.6	2,734.9	2,857.9
4. Claims on banks	133.6	112.5	94.7	78.6	68.8	93.9	187.5	181.6	197.0	217.6	204.5	233.4	533.7
5. Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	6,390.5	6,213.5	6,206.7	6,219.1	6,235.6	6,248.7	6,391.1	6,410.3	6,415.7	6,447.7	6,484.7	6,490.1	6,787.1
LIABILITIES													
1. Time deposits	6,037.9	5,904.2	5,881.1	5,886.8	5,900.5	5,895.0	5,906.0	5,901.0	5,872.2	5,853.3	5,902.0	5,810.9	6,297.6
2. Bonds and money market instruments	40.1	39.7	39.8	44.8	44.9	44.8	91.0	105.4	125.6	153.8	190.7	252.5	91.5
3. Capital accounts	303.0	287.3	292.4	298.7	309.5	299.1	348.3	364.0	365.4	389.0	336.1	363.4	390.6
4. Other items (net)	9.6	-17.7	-6.7	-11.2	-19.3	9.9	45.8	39.8	52.4	51.6	55.8	63.3	7.4
Total (1+2+3+4)	6,390.5	6,213.5	6,206.7	6,219.1	6,235.6	6,248.7	6,391.1	6,410.3	6,415.7	6,447.7	6,484.7	6,490.1	6,787.1

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 to banks, as well as deposits with banks, including, from October 2003 on, 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 received.

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 refinance 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
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	December	4.50	3.50	7.50 ^c	–	–	8.50 ^c	15.00	15.00
2006	December	4.50	3.50	7.50	–	–	8.50	15.00	15.00
2007	December	9.00 ^d	4.06	7.50	–	–	8.50	15.00	15.00
2008	January	9.00	4.13	9.00	–	–	10.00	15.00	15.00
	February	9.00	4.63	9.00	–	–	10.00	15.00	15.00
	March	9.00	4.96	9.00	–	–	10.00	15.00	15.00
	April	9.00	4.95	9.00	–	–	10.00	15.00	15.00
	May	9.00	5.05	9.00	–	–	10.00	15.00	15.00
	June	9.00	4.99	9.00	–	–	10.00	15.00	15.00
	July	9.00	4.83	9.00	–	–	10.00	15.00	15.00
	August	9.00	4.92	9.00	–	–	10.00	15.00	15.00
	September	9.00	4.98	9.00	–	–	10.00	15.00	15.00
	October	9.00	6.60	9.00	–	–	10.00	15.00	15.00
	November	9.00	7.94	9.00	–	–	10.00	15.00	15.00
	December	9.00	6.00	9.00	–	–	10.00	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 of methodology.^c Since 14 December 2005.^d Since 31 December 2007.**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 a yearly basis. Exceptionally, from June 1995 interest rate charged by the CNB on Lombard credits was 1.5 percentage points 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.

Time series presented in the table contain certain breaks, due to changes in the CNB's monetary policy instruments.

Data shown in column 4 refer to the weighted averages of the weighted repo rates achieved at regular reverse repo auctions of the CNB in the reporting month.

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 collateralised by CNB bills. From December 1998 to 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. From December 1999 on, 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	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
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	December	0.75	–	–	–	–	–	–	–	–	–	–	0.50
2006	December	0.75	–	–	–	–	–	–	–	–	–	–	0.50
2007	December	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
2008	January	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	February	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	March	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	April	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	May	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	June	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	July	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	August	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	September	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	October	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	November	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50
	December	0.75	0.75	–	–	–	–	–	–	–	–	–	0.50

^a Breaks in the series of data are explained in notes of methodology.**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 Croatian National Bank. 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 banks' settlement accounts, or deposited in a special account with the CNB for the settlement of net positions in the National Clearing System (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 decision of the Council of the Croatian National Bank.

Interest rates on CNB bills on a voluntary basis are set at CNB bills' auction sales. Congruently, columns 5, 6 and 7 report the 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.

From April 1998 on, columns 9 through 13 report the 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 immobilised funds 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
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	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
2006	December	17.00	40,736.4	28,966.1	11,770.4	7,332.5	20,257.0	8,780.9	0.52	1.06
2007	December	17.00	44,465.9	31,809.1	12,656.8	6,641.1	22,266.4	9,203.5	0.53	1.29
2008	January	17.00	44,828.6	32,068.2	12,760.4	5,207.2	22,447.7	9,274.6	0.52	1.17
	February	17.00	45,269.3	32,262.1	13,007.2	5,521.6	22,580.7	9,482.8	0.52	1.41
	March	17.00	45,550.5	32,293.9	13,256.6	6,778.8	22,604.0	9,701.4	0.52	1.05
	April	17.00	45,815.3	32,440.9	13,374.4	7,654.2	22,708.6	9,794.0	0.52	0.84
	May	17.00	46,172.4	32,701.9	13,470.5	8,075.3	22,891.3	9,851.7	0.52	1.00
	June	17.00	46,264.6	32,807.9	13,456.7	7,906.1	22,965.5	9,806.9	0.52	0.83
	July	17.00	45,952.0	32,547.1	13,404.9	6,627.5	22,783.0	9,695.6	0.52	0.80
	August	17.00	46,045.8	32,586.8	13,459.0	5,733.9	22,810.8	9,688.3	0.52	1.08
	September	17.00	46,495.1	32,862.2	13,632.9	4,741.9	23,003.5	9,731.1	0.52	0.99
	October	17.00	46,766.9	32,996.1	13,770.8	2,046.7	23,097.3	9,731.9	0.52	1.17
	November	17.00	47,233.1	33,267.0	13,966.1	463.5	23,286.9	9,917.4	0.52	1.43
	December	14.87	41,474.4	29,179.7	12,294.7	461.9	20,425.8	8,807.0	0.52	0.81

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 requirements (column 4) 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 currency claims (which include foreign cash and checks in foreign currency, liquid foreign currency 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. From September 2001 on, 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 currency accounts, or to maintain (in average) in accounts of liquid claims. Until November 2000, the calculation base consisted of the average daily balances of household foreign currency savings deposits with a remaining maturity of up to 3 months, while starting from December 2000 the base consists of foreign currency sources of funds, including: ordinary foreign currency accounts, special foreign currency accounts, foreign currency accounts and foreign currency sight deposits, received foreign currency deposits and received foreign currency loans, as well as obligations arising from securities issued in foreign currency (excluding banks' equity securities). From November 2001 on, 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, special reserve requirement on liabilities arising from issued securities from March 2006, statutory reserves on f/c deposits, f/c credits from foreign banks and guarantees for such credits and marginal reserve requirement (from August 2004).

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 currency accounts. The percentage for allocating the foreign currency component of reserve requirements calculated on the basis of foreign currency funds of non-residents and foreign currency 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 immobilised 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 on, 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	Secondary liquidity sources	Kuna CNB bills	F/c CNB bills	Kuna MoF treasury bills
		In kuna	In f/c					
1	2	3	4	5	6	7	8	9
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	December	672.5	20,493.4	0.96	0.2	0.0	0.0	4,163.3
2006	December	840.8	20,239.1	0.83	0.0	0.0	0.0	5,993.7
2007	December	1,161.5	30,412.6	1.03	330.4	0.0	0.0	4,449.4
2008	January	791.6	29,493.9	0.70	670.3	0.0	0.0	7,990.6
	February	866.1	28,898.6	0.76	251.0	0.0	0.0	7,100.2
	March	1,209.2	27,133.6	1.08	1.7	0.0	0.0	6,771.8
	April	970.7	24,928.8	0.87	0.0	0.0	0.0	6,934.5
	May	799.1	23,353.8	0.71	0.0	0.0	0.0	6,463.4
	June	633.7	22,088.0	0.56	0.0	0.0	0.0	6,266.8
	July	517.9	24,730.7	0.46	0.0	0.0	0.0	5,786.2
	August	733.5	27,287.8	0.65	2.7	0.0	0.0	5,280.1
	September	802.7	28,409.0	0.71	0.0	0.0	0.0	6,014.5
	October	411.7	28,675.2	0.36	366.6	0.0	0.0	3,542.4
	November	469.2	26,975.7	0.41	1,711.2	0.0	0.0	3,728.7
	December	1,168.7	28,101.4	1.03	289.1	0.0	0.0	6,171.2

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 cash and checks in foreign currency, liquid foreign currency 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 monthly 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 (in EUR and USD).

Column 9 reports the monthly average of day-to-day balances of kuna MoF 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	
1	2	3	4	5	6	7	8	9	10	11	12	13	
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	December	2.29	3.61	9.91	9.99	7.71	11.26	13.18	5.35	8.75	6.48	10.35	
2006	December	2.02	3.52	9.07	9.37	6.75	11.84	13.21	4.67	7.53	5.86	9.44	
2007	December	5.33	6.71	9.32	9.74	7.39	12.34	13.19	4.95	7.50	6.66	8.01	
2008	January	6.67	6.97	9.90	10.21	7.81	12.17	12.89	4.91	8.16	7.40	8.42	
	February	4.07	6.42	9.95	10.27	7.62	12.18	12.92	5.29	8.43	7.55	8.99	
	March	2.69	5.78	9.69	9.92	7.36	12.15	12.90	4.92	8.40	7.20	9.02	
	April	2.44	5.85	10.11	10.45	7.78	12.59	13.42	5.66	8.43	7.30	9.03	
	May	2.66	5.20	9.66	9.90	7.58	11.93	12.72	5.36	8.36	7.17	9.28	
	June	3.20	5.31	9.47	9.65	7.38	11.91	12.68	5.56	8.43	7.32	9.32	
	July	3.40	5.30	9.63	9.79	7.44	12.16	12.91	5.34	8.72	7.96	9.45	
	August	3.49	5.14	10.01	10.16	7.56	12.25	12.91	4.50	8.85	7.89	9.71	
	September	4.51	5.42	10.07	10.21	7.84	12.20	12.91	5.22	8.90	7.74	9.66	
	October	9.87	9.60	10.66	10.82	8.81	12.27	12.93	4.57	9.23	8.22	9.76	
	November	17.14	15.03	10.97	11.15	9.45	12.41	13.02	4.49	9.19	8.33	9.93	
	December	5.21	7.59	10.71	10.89	8.98	12.33	12.97	4.96	9.05	8.10	10.35	
	Relative significance ^a	–	–	69.67	62.84	26.93	35.90	33.01	2.89	6.84	3.95	2.89	

^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 the weighted averages of banks' monthly interest rates on kuna credits not indexed to f/c, reported on a yearly basis.

Up to December 2001, data refer to the 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.

From January 2002 on, data refer to the weighted averages of 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 show interest rates on the interbank money market, according to information published by the Zagreb Money Market (ZMM). From March 1996 on, interest rates on the money

market are calculated as the weighted monthly averages of the 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 the weighted averages of 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' interest rates on kuna credits not indexed to f/c are based on banks' periodic reports. The basis for the calculation of the 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 the weighted averages were calculated based on the balance of these loans at the end of the reporting month.

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					
								Total average	Housing credits	Other			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
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	December	6.18	6.52	6.34	7.91	6.07	5.18	6.98	4.95	8.10	5.29	5.28	5.30
2006	December	6.30	6.56	6.29	8.33	6.22	6.21	6.22	4.75	7.57	5.65	6.19	5.34
2007	December	6.73	6.86	6.86	6.84	6.66	6.51	6.80	5.12	8.24	6.79	6.59	7.10
2008	January	6.86	6.99	7.01	6.92	6.83	6.75	6.87	4.82	8.47	6.51	6.83	6.23
	February	6.97	6.98	7.09	6.15	6.97	6.35	7.45	5.44	8.65	7.11	7.23	6.82
	March	7.16	6.83	6.91	6.46	7.26	6.39	7.75	5.65	8.79	6.83	7.00	6.63
	April	7.31	7.21	7.06	8.35	7.34	6.62	7.90	5.75	8.92	6.96	7.06	6.82
	May	7.60	7.32	7.21	8.26	7.68	6.53	8.16	5.84	9.23	6.77	7.05	6.37
	June	7.67	7.47	7.35	8.70	7.73	6.74	8.25	5.85	9.46	6.97	7.22	6.69
	July	7.42	7.45	7.37	8.52	7.41	6.83	7.79	5.90	8.92	7.15	7.18	7.13
	August	7.57	7.77	7.63	8.81	7.51	7.00	7.75	5.96	8.70	7.14	7.18	7.10
	September	7.54	7.67	7.57	8.69	7.49	7.21	7.63	5.98	8.47	7.36	7.51	7.11
	October	7.79	8.26	8.23	8.68	7.62	7.40	7.74	6.04	8.52	7.61	7.87	7.13
	November	8.04	8.42	8.38	9.00	7.81	7.65	7.88	6.06	9.01	7.58	7.59	7.58
	December	7.73	8.20	8.18	8.65	7.43	6.92	7.89	6.08	9.02	7.08	7.17	6.83
	Relative significance ^a	24.59	9.72	9.29	0.43	14.87	7.08	7.79	2.99	4.80	5.74	4.22	1.52

^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 the weighted averages of 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 the 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.

From January 2002 on, data refer to the weighted averages of 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' interest rates on kuna credits indexed to f/c and on credits in euros are based on banks' periodic reports. The basis for the calculation of the weighted averages are amounts of credits bearing corresponding interest rates, which were disbursed during the reporting month.

Columns 3 through 11 show the weighted averages of 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 the weighted averages are calculated based on their kuna equivalent using the current exchange rate. Credits released in other currencies are not included in this table.

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
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	December	1.58	0.61	3.36	3.34	3.89	3.23	4.12	5.04	3.49
2006	December	1.91	0.56	2.98	2.94	4.10	2.69	4.32	4.98	3.11
2007	December	2.67	0.49	5.42	5.34	4.47	5.48	6.28	5.45	6.45
2008	January	3.00	0.47	5.79	5.63	4.57	5.80	7.84	5.56	8.49
	February	2.79	0.46	5.01	4.92	4.80	4.95	5.92	5.35	6.04
	March	2.62	0.46	4.48	4.32	4.69	4.22	5.82	5.43	5.91
	April	2.62	0.45	4.11	3.98	4.69	3.82	5.78	5.45	5.92
	May	2.57	0.44	4.20	4.08	4.68	3.93	5.28	5.41	5.26
	June	2.52	0.44	4.16	4.16	4.64	4.02	4.17	5.46	3.86
	July	2.57	0.44	4.23	4.24	4.65	4.12	4.11	5.36	3.81
	August	2.39	0.42	4.01	4.31	4.61	4.23	1.96	5.26	1.37
	September	2.82	0.43	5.20	4.88	4.53	4.97	7.12	5.21	7.59
	October	3.24	0.43	7.52	7.55	4.97	8.07	7.28	5.91	7.87
	November	3.78	0.47	10.25	10.60	5.30	11.60	7.32	5.85	7.68
	December	2.92	0.43	5.65	5.60	5.34	5.64	6.58	5.88	6.85
	Relative significance ^a	60.28	27.43	30.56	29.11	3.47	25.63	1.45	0.40	1.06

^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 the weighted averages of banks' monthly interest rates on kuna deposits not indexed to f/c, reported on a yearly basis.

Up to December 2001, data refer to the 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.

From January 2002 on, data refer to the weighted averages of 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' interest rates on kuna deposits not indexed to f/c are based on banks' periodic reports.

Column 3 reports the 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 the 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 the weighted averages of monthly interest rates on total time deposits not indexed to f/c.

The basis for the calculation of the 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 the calculation of the weighted averages for deposits in giro and current accounts are the end-of-month book balances of those deposits. The averages of interest rates on total kuna deposits not indexed to f/c (column 3) 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 the weighted averages.

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
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	December	3.99	3.63	4.77	2.61	0.27	0.27	0.17	0.27	0.76
2006	December	3.67	3.30	4.07	2.94	0.25	0.23	0.17	0.32	0.44
2007	December	3.98	3.76	4.35	3.44	0.25	0.22	0.15	0.36	0.43
2008	January	4.00	3.66	4.47	3.36	0.26	0.22	0.15	0.38	0.36
	February	4.25	3.91	5.36	3.49	0.25	0.23	0.15	0.36	0.49
	March	4.12	3.84	4.57	3.46	0.27	0.22	0.16	0.43	0.36
	April	3.89	4.27	4.34	3.56	0.25	0.22	0.15	0.38	0.32
	May	4.03	3.98	5.15	3.50	0.25	0.21	0.15	0.41	0.28
	June	4.13	4.02	5.32	3.45	0.28	0.21	0.15	0.53	0.26
	July	3.95	3.80	4.49	3.57	0.24	0.21	0.15	0.38	0.26
	August	3.81	3.79	4.95	3.56	0.25	0.21	0.15	0.37	0.40
	September	4.18	3.77	4.71	3.61	0.25	0.21	0.15	0.41	0.21
	October	3.71	4.08	4.41	3.79	0.24	0.21	0.15	0.36	0.24
	November	3.75	3.94	4.35	3.79	0.23	0.20	0.15	0.34	0.32
	December	4.09 ^b	4.05	4.42	3.97	0.21	0.20	0.15	0.26	0.13
Relative significance^a		0.47	0.39	0.08	39.24	16.12	10.84	1.38	3.36	0.54

^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, 19.70 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 the weighted averages of 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 the 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.

From January 2002 on, data refer to the weighted averages of 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' interest rates on kuna deposits indexed to f/c and on foreign currency deposits are based on banks' periodic reports.

Column 3 reports the 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 the weighted averages of monthly interest rates on time deposits are shown in column 4 (short-term deposits) and column 5 (long-term deposits) respectively.

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										
		Total average	On time deposits									
			Total average	On short-term deposits				Total average	On long-term deposits			
				Households		Enterprises			Households		Enterprises	
1	2	12	13	14	15	16	17	18	19	20	21	22
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	December	3.07	2.94	2.99	1.76	2.63	4.34	3.69	4.25	0.48	4.39	–
2006	December	3.82	3.76	3.16	2.05	4.24	5.84	4.25	4.47	2.26	4.79	4.61
2007	December	4.32	4.25	3.47	2.60	5.10	5.33	4.80	4.83	3.84	5.13	2.19
2008	January	4.17	4.09	3.45	2.60	4.83	5.01	4.70	4.75	3.69	4.31	5.92
	February	4.32	4.25	3.53	2.60	5.11	4.34	4.79	4.84	3.88	4.52	4.87
	March	4.18	4.10	3.51	2.53	4.93	3.97	4.73	4.78	3.46	4.99	2.70
	April	4.15	4.06	3.62	2.56	4.64	3.81	4.83	4.88	3.82	4.22	2.29
	May	4.06	3.98	3.63	2.56	4.51	3.55	4.71	4.72	3.96	5.61	3.01
	June	4.05	3.95	3.51	2.60	4.60	3.70	4.73	4.77	3.75	4.60	2.95
	July	4.14	4.01	3.65	2.75	4.82	3.35	5.00	4.80	3.76	6.77	5.19
	August	4.24	4.17	3.68	2.66	5.01	3.52	4.72	4.76	3.94	4.57	3.15
	September	4.29	4.17	3.71	2.74	4.89	3.42	4.94	4.98	4.04	4.96	1.82
	October	4.54	4.37	3.88	2.80	5.00	4.07	5.32	5.33	3.94	6.38	3.13
	November	4.17	3.96	3.87	2.62	4.15	3.66	5.34	5.41	3.85	4.91	3.01
	December	4.15	3.95	4.33	2.69	4.13	1.84	5.51	5.57	3.58	5.52	2.38
Relative significance ^a		23.12	20.27	8.34	0.52	9.46	1.95	2.85	2.73	0.08	0.04	0.00

^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).

Up to December 2001, interest rates on foreign currency deposits refer to deposits received in German marks or US dollars, and starting from January 2002, they refer to deposits received in euros and US dollars, while the weighted averages are calculated based on their kuna equivalent using the current exchange rate. Deposits received in other currencies are not included in this table.

The basis for the calculation of the 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 the calculation of the weighted averages for savings deposits indexed to f/c are the end-of-month book balances of those deposits. From January 2002 on, the 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 foreign currency time deposits, which are weighted by the end-of-month balances of all categories included in the calculation.

The basis for the calculation of the 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 the calculation of the 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 the 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).

Table G5: Banks' Trade with Foreign Exchange

million euros, current exchange rate

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
A. Purchase of foreign exchange													
1. Legal persons	3,217.9	2,880.1	2,168.1	2,776.6	3,892.2	3,559.5	2,394.9	3,019.2	2,193.7	2,775.4	2,715.4	1,962.8	2,720.4
2. Natural persons	292.1	314.2	278.8	327.0	356.8	378.3	436.1	548.8	502.3	438.9	469.5	330.6	373.9
2.1. Residents	281.1	302.1	264.7	306.3	327.1	333.0	375.3	449.7	395.8	391.4	447.2	309.8	350.6
2.2. Non-residents	11.0	12.1	14.1	20.7	29.7	45.3	60.8	99.1	106.5	47.5	22.3	20.8	23.4
3. Domestic banks	2,862.9	2,547.3	2,361.8	1,339.1	1,302.2	954.3	872.4	1,080.4	1,371.8	1,683.8	2,637.1	1,843.1	2,024.1
4. Foreign banks	516.3	382.1	384.6	427.1	180.2	675.0	576.1	706.0	671.1	807.4	907.5	672.8	952.5
5. Croatian National Bank	–	–	–	–	–	–	–	–	–	–	270.6	–	150.0
Total (1+2+3+4)	6,889.2	6,123.8	5,193.3	4,869.8	5,731.4	5,567.1	4,279.6	5,354.5	4,738.9	5,705.5	7,000.2	4,809.3	6,220.9
B. Sale of foreign exchange													
1. Legal persons	3,023.8	2,897.0	2,319.9	2,860.6	3,799.3	3,817.2	2,620.9	3,452.7	2,471.6	3,262.7	3,027.4	2,134.8	2,784.6
2. Natural persons	320.1	302.1	435.7	307.6	260.4	296.7	262.1	444.8	346.7	485.8	636.4	263.4	324.7
2.1. Residents	318.6	300.1	433.5	305.9	259.0	294.2	259.9	441.6	343.0	482.1	632.5	262.0	321.5
2.2. Non-residents	1.5	2.0	2.2	1.8	1.4	2.5	2.2	3.2	3.7	3.7	3.9	1.5	3.1
3. Domestic banks	2,862.9	2,547.3	2,361.8	1,339.1	1,302.2	954.3	872.4	1,080.4	1,371.8	1,683.8	2,637.1	1,843.1	2,024.1
4. Foreign banks	395.9	392.8	267.9	206.9	266.1	657.3	480.7	616.1	623.2	758.7	907.5	654.7	783.7
5. Croatian National Bank	167.8	–	189.1	–	–	–	–	–	–	–	–	220.0	–
Total (1+2+3+4)	6,770.5	6,139.3	5,574.5	4,714.2	5,628.1	5,725.6	4,236.1	5,594.0	4,813.2	6,191.0	7,208.5	5,116.0	5,917.1
C. Net purchase (A-B)													
1. Legal persons	194.1	–16.9	–151.8	–84.0	92.9	–257.8	–226.0	–433.5	–277.9	–487.3	–312.0	–172.0	–64.3
2. Natural persons	–28.0	12.2	–156.9	19.4	96.4	81.6	174.0	104.0	155.6	–46.9	–166.8	67.1	49.3
2.1. Residents	–37.5	2.0	–168.9	0.4	68.1	38.8	115.4	8.1	52.8	–90.7	–185.3	47.8	29.0
2.2. Non-residents	9.6	10.1	11.9	18.9	28.3	42.8	58.5	95.9	102.8	43.7	18.5	19.4	20.2
3. Foreign banks	120.4	–10.7	116.6	220.3	–86.0	17.7	95.5	89.9	47.9	48.7	–	18.1	168.8
4. Croatian National Bank	–167.8	–	–189.1	–	–	–	–	–	–	–	270.6	–220.0	150.0
Total (1+2+3)	118.7	–15.5	–381.2	155.6	103.3	–158.5	43.5	–239.5	–74.3	–485.5	–208.2	–306.7	303.8
Memo items: Other Croatian National Bank transactions													
Purchase of foreign exchange	2.5	0.1	0.1	0.2	0.9	102.2	0.4	1.5	0.1	1.3	155.4	3.0	0.3
Sale of foreign exchange	5.0	50.7	33.0	–	–	–	–	–	–	0.0	–	–	–

Table G5: Banks' Trade with Foreign Exchange

Data on trade with foreign exchange between banks comprise the spot purchase and sale of foreign exchange in domestic foreign exchange 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 external 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^a

million euros

	2004	2005	2006	2007	2008 ^b	2008			
						Q1	Q2	Q3	Q4 ^b
A. CURRENT ACCOUNT (1+6)	-1,433.7	-1,975.6	-2,715.2	-3,236.7	-4,454.2	-2,550.3	-1,822.5	1,859.0	-1,940.4
1. Goods, services, and income (2+5)	-2,625.5	-3,159.5	-3,822.6	-4,279.6	-5,494.4	-2,771.7	-2,103.3	1,592.1	-2,211.4
1.1. Credit	14,952.8	15,990.2	17,884.8	19,612.9	21,180.5	3,404.4	5,412.9	8,446.7	3,916.5
1.2. Debit	-17,578.3	-19,149.7	-21,707.3	-23,892.5	-26,674.8	-6,176.2	-7,516.2	-6,854.6	-6,127.9
2. Goods and services (3+4)	-1,955.3	-2,200.2	-2,639.6	-3,168.1	-3,904.5	-2,466.0	-1,300.8	1,855.8	-1,993.5
2.1. Credit	14,243.5	15,272.9	16,992.1	18,317.3	19,834.6	3,072.6	5,043.1	8,090.5	3,628.3
2.2. Debit	-16,198.8	-17,473.2	-19,631.7	-21,485.4	-23,739.1	-5,538.6	-6,343.9	-6,234.7	-5,621.8
3. Goods	-6,724.2	-7,518.0	-8,344.2	-9,434.0	-10,866.2	-2,565.0	-3,106.6	-2,731.6	-2,463.1
3.1. Credit	6,606.8	7,220.3	8,463.6	9,192.5	9,743.4	2,226.2	2,491.9	2,679.3	2,346.0
3.2. Debit	-13,330.9	-14,738.3	-16,807.8	-18,626.5	-20,609.6	-4,791.2	-5,598.5	-5,410.9	-4,809.0
4. Services	4,768.9	5,317.7	5,704.6	6,265.9	6,961.7	99.0	1,805.7	4,587.4	469.6
4.1. Credit	7,636.7	8,052.6	8,528.5	9,124.8	10,091.2	846.5	2,551.2	5,411.2	1,282.4
4.2. Debit	-2,867.8	-2,734.9	-2,823.9	-2,858.9	-3,129.5	-747.4	-745.4	-823.9	-812.8
5. Income	-670.2	-959.2	-1,182.9	-1,111.6	-1,589.8	-305.7	-802.5	-263.7	-217.9
5.1. Credit	709.3	717.3	892.7	1,295.6	1,345.9	331.8	369.8	356.1	288.2
5.2. Debit	-1,379.6	-1,676.5	-2,075.6	-2,407.1	-2,935.7	-637.5	-1,172.3	-619.8	-506.1
6. Current transfers	1,191.8	1,183.8	1,107.4	1,043.0	1,040.2	221.4	280.9	266.9	271.0
6.1. Credit	1,584.6	1,628.4	1,639.5	1,576.1	1,689.1	349.7	418.1	408.5	512.8
6.2. Debit	-392.8	-444.6	-532.1	-533.1	-649.0	-128.3	-137.2	-141.6	-241.8
B. CAPITAL AND FINANCIAL ACCOUNT	2,560.4	3,013.5	3,670.4	4,139.5	5,634.4	1,998.7	1,730.8	0.4	1,904.5
B1. Capital account	31.4	53.8	-133.8	34.5	32.1	4.8	12.0	8.9	6.3
B2. Financial account, excl. reserves	2,529.0	3,781.6	5,216.4	4,826.6	5,272.0	2,689.8	1,814.5	-391.5	1,159.2
1. Direct investment	670.8	1,276.1	2,556.6	3,482.8	2,811.2	1,081.9	859.5	239.8	630.0
1.1. Abroad	-278.8	-191.8	-208.2	-184.1	-118.9	138.9	-151.1	-57.5	-49.3
1.2. In Croatia	949.6	1,467.9	2,764.8	3,666.9	2,930.1	943.0	1,010.6	297.3	679.3
2. Portfolio investment	287.1	-1,177.9	-542.3	-2.9	-554.9	152.1	-28.3	-64.0	-614.7
2.1. Assets	-736.1	-571.2	-472.5	-413.7	-204.1	270.4	60.7	-8.0	-527.1
2.2. Liabilities	1,023.2	-606.7	-69.8	410.8	-350.7	-118.3	-89.0	-55.9	-87.5
3. Financial derivatives	0.0	-88.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Other investment	1,614.1	3,771.8	3,202.1	1,346.7	3,015.7	1,455.8	983.3	-567.3	1,143.9
4.1. Assets	-498.3	982.0	-692.3	-1,653.4	-1,576.5	334.4	125.1	-779.1	-1,256.9
4.2. Liabilities	2,112.4	2,789.7	3,894.4	3,000.1	4,592.2	1,121.4	858.2	211.8	2,400.8
B3. Reserve assets	-43.0	-821.8	-1,412.2	-721.6	330.4	-695.9	-95.8	383.0	739.1
C. NET ERRORS AND OMISSIONS	-1,126.7	-1,037.9	-955.2	-902.8	-1,180.2	551.6	91.7	-1,859.4	35.9

^a The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from January 1999 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

^b Preliminary data.

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;

Table H2: Balance of Payments – Goods and Services

million euros

	2004	2005	2006	2007	2008 ^a	2008			
						Q1	Q2	Q3	Q4 ^b
Goods	-6,724.2	-7,518.0	-8,344.2	-9,434.0	-10,866.2	-2,565.0	-3,106.6	-2,731.6	-2,463.1
1. Credit	6,606.8	7,220.3	8,463.6	9,192.5	9,743.4	2,226.2	2,491.9	2,679.3	2,346.0
1.1. Exports (f.o.b.) in trade statistics	6,453.8	7,069.4	8,251.6	9,001.6	9,514.4	2,176.7	2,441.8	2,601.9	2,294.1
1.2. Adjustments for coverage	153.0	150.9	212.0	191.0	228.9	49.5	50.1	77.4	51.9
2. Debit	-13,330.9	-14,738.3	-16,807.8	-18,626.5	-20,609.6	-4,791.2	-5,598.5	-5,410.9	-4,809.0
2.1. Imports (c.i.f.) in trade statistics	-13,354.4	-14,949.5	-17,104.7	-18,826.6	-20,819.0	-4,860.0	-5,657.8	-5,447.0	-4,854.2
2.2. Adjustments for coverage	-474.7	-346.4	-341.1	-370.4	-421.4	-78.5	-112.2	-128.9	-101.9
2.3. Adjustments for classification	498.1	557.6	638.0	570.4	630.8	147.3	171.4	165.0	147.1
Services	4,768.9	5,317.7	5,704.6	6,265.9	6,961.7	99.0	1,805.7	4,587.4	469.6
1. Transportation	299.3	376.1	443.5	487.6	508.5	95.8	135.8	180.3	96.6
1.1. Credit	791.3	880.3	1,006.7	1,122.4	1,209.4	246.8	320.4	371.5	270.7
1.2. Debit	-492.0	-504.2	-563.2	-634.8	-700.9	-150.9	-184.6	-191.2	-174.1
2. Travel	4,822.3	5,394.9	5,708.7	6,035.2	6,686.7	118.9	1,723.1	4,396.4	448.4
2.1. Credit	5,505.6	5,998.9	6,293.3	6,752.6	7,449.2	307.8	1,886.6	4,612.5	642.2
2.1.1. Business	328.2	504.0	388.4	389.2	386.4	46.6	147.6	106.8	85.4
2.1.2. Personal	5,177.4	5,494.9	5,904.9	6,363.4	7,062.8	261.3	1,738.9	4,505.7	556.8
2.2. Debit	-683.3	-604.1	-584.6	-717.3	-762.4	-189.0	-163.5	-216.2	-193.8
2.2.1. Business	-297.3	-267.4	-229.5	-266.9	-261.3	-61.7	-62.8	-66.3	-70.4
2.2.2. Personal	-386.0	-336.7	-355.1	-450.4	-501.2	-127.2	-100.7	-149.9	-123.4
3. Other services	-352.7	-453.3	-447.6	-256.9	-233.5	-115.7	-53.1	10.7	-75.4
3.1. Credit	1,339.8	1,173.4	1,228.5	1,249.8	1,432.7	291.9	344.2	427.2	369.4
3.2. Debit	-1,692.5	-1,626.6	-1,676.0	-1,506.7	-1,666.2	-407.5	-397.3	-416.5	-444.8

^a Preliminary data.

- 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 foreign trade in goods 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 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 importers), while from 2002 on it has amounted to 3.73%. The same research study, conducted by the CNB at the end of 2006 (comprising the imports in the previous year), showed that the share of transportation and insurance costs, after continuing to decrease, has reached 3.03%. This share was first applied in the calculations for the first quarter of 2007. 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. From 1996 on, goods exports and imports are 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. Revenues and expenditures on the basis of transportation, in the 1993-1998 period, were adopted from the ITRS. From 1999 on, revenues 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, are 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, revenues 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.

Revenues 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

Table H3: Balance of Payments – Income and Current Transfers

million euros

	2004	2005	2006	2007	2008 ^a	2008			
						Q1	Q2	Q3	Q4 ^b
Income	-670.2	-959.2	-1,182.9	-1,111.6	-1,589.8	-305.7	-802.5	-263.7	-217.9
1. Compensation of employees	233.9	259.7	373.2	494.2	564.1	130.4	138.5	140.1	155.1
1.1. Credit	268.3	289.2	404.3	527.8	599.7	137.4	147.4	149.1	165.7
1.2. Debit	-34.4	-29.5	-31.1	-33.6	-35.5	-7.0	-8.9	-9.0	-10.5
2. Direct investment income	-441.6	-739.0	-1,002.0	-920.7	-1,157.5	-228.8	-715.2	-156.6	-56.9
2.1. Credit	175.6	112.7	80.7	177.1	188.7	42.8	81.0	61.8	3.1
o/w: Reinvested earnings	165.8	63.8	64.0	125.3	126.4	29.4	64.2	31.9	0.8
2.2. Debit	-617.3	-851.8	-1,082.7	-1,097.8	-1,346.1	-271.7	-796.1	-218.4	-59.9
o/w: Reinvested earnings	-291.7	-570.5	-717.5	-483.3	-509.5	-37.8	-392.6	-86.6	7.5
3. Portfolio investment income	-250.0	-217.6	-175.9	-162.9	-145.1	-38.1	-38.2	-37.1	-31.7
3.1. Credit	32.7	46.2	57.4	74.5	74.6	16.9	16.6	17.8	23.4
3.2. Debit	-282.7	-263.8	-233.3	-237.4	-219.8	-55.1	-54.8	-54.9	-55.1
4. Other investment income	-212.5	-262.3	-378.2	-522.2	-851.4	-169.2	-187.6	-210.1	-284.5
4.1. Credit	232.6	269.1	350.3	516.2	483.0	134.6	124.8	127.5	96.1
4.2. Debit	-445.2	-531.5	-728.6	-1,038.4	-1,334.3	-303.8	-312.4	-337.6	-380.6
Current transfers	1,191.8	1,183.8	1,107.4	1,043.0	1,040.2	221.4	280.9	266.9	271.0
1. General government	2.6	9.7	-8.6	-16.7	-50.4	-24.7	-22.7	0.8	-3.8
1.1. Credit	180.1	219.6	255.7	260.2	347.4	48.3	57.4	81.9	159.7
1.2. Debit	-177.5	-209.9	-264.4	-276.8	-397.7	-72.9	-80.1	-81.2	-163.5
2. Other sectors	1,189.2	1,174.1	1,116.0	1,059.6	1,090.5	246.1	303.5	266.1	274.8
2.1. Credit	1,404.5	1,408.8	1,383.8	1,316.0	1,341.7	301.5	360.6	326.6	353.1
2.2. Debit	-215.3	-234.6	-267.7	-256.3	-251.2	-55.4	-57.1	-60.4	-78.3

^a Preliminary data.

assessed by using various data sources which did not provide for a full coverage in accordance with the recommended 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 revenues 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 statistics on foreign credit relations, which also encompass income related to debt securities owned by non-residents. Income from other investments includes the calculation of interest in accordance with the foreign credit relations statistics. The methodology for compiling the statistics on debt investment income has been changed in 2007 to include the reporting of income on an accrual basis. This basically means that income from debt investment and interest are reported at the point in time when they accrue and not at the point in time when they mature or when they are paid. As a result, the historical data for the 1999-2006 period have been revised.

Current transfers are reported separately for the general government sector and other sectors. The ITRS is used as the main data 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 cooperation, 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. From 2002 on, inflows and

Table H4: Balance of Payments – Direct and Portfolio Investments^a

million euros

	2004	2005	2006	2007	2008 ^b	2008			
						Q1	Q2	Q3	Q4 ^b
Direct investment	670.8	1,276.1	2,556.6	3,482.8	2,811.2	1,081.9	859.5	239.8	630.0
1. Abroad	-278.8	-191.8	-208.2	-184.1	-118.9	138.9	-151.1	-57.5	-49.3
1.1. Equity capital and reinvested earnings	-259.6	-121.0	-211.9	-239.7	-235.6	121.1	-172.1	-99.6	-85.0
1.1.1. Claims	-260.0	-122.2	-211.9	-243.0	-235.6	121.1	-172.1	-99.6	-85.0
1.1.2. Liabilities	0.4	1.3	0.0	3.3	0.0	0.0	0.0	0.0	0.0
1.2. Other capital	-19.2	-70.9	3.7	55.6	116.7	17.8	21.0	42.1	35.7
1.2.1. Claims	-23.6	-59.8	-13.9	21.7	117.8	17.4	17.2	48.0	35.2
1.2.2. Liabilities	4.4	-11.1	17.6	33.9	-1.1	0.4	3.8	-5.9	0.5
2. In Croatia	949.6	1,467.9	2,764.8	3,666.9	2,930.1	943.0	1,010.6	297.3	679.3
2.1. Equity capital and reinvested earnings	611.4	1,363.5	2,460.9	2,682.3	2,310.1	403.2	768.2	361.7	777.1
2.1.1. Claims	-22.4	0.0	-0.1	0.0	-7.7	0.0	0.0	-0.1	-7.5
2.1.2. Liabilities	633.8	1,363.5	2,461.0	2,682.3	2,317.8	403.2	768.2	361.8	784.6
2.2. Other capital	338.2	104.4	303.8	984.6	620.0	539.8	242.4	-64.4	-97.8
2.2.1. Claims	-17.8	0.0	16.6	-2.6	-24.0	-2.2	-2.0	16.2	-36.1
2.2.2. Liabilities	356.0	104.4	287.3	987.2	644.0	541.9	244.4	-80.6	-61.7
Portfolio investment	287.1	-1,177.9	-542.3	-2.9	-554.9	152.1	-28.3	-64.0	-614.7
1. Assets	-736.1	-571.2	-472.5	-413.7	-204.1	270.4	60.7	-8.0	-527.1
1.1. Equity securities	-39.1	-193.0	-320.5	-843.5	152.7	192.4	-38.8	-8.1	7.3
1.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1.1. Banks	0.0	0.0	2.6	-0.6	6.8	-0.3	3.9	3.2	0.0
1.1.1.2. Other sectors	-39.1	-193.0	-323.1	-842.8	145.9	192.7	-42.7	-11.4	7.3
1.1.2. Debt securities	-696.9	-378.2	-152.0	429.7	-356.9	78.0	99.5	0.1	-534.5
1.1.2.1. Bonds	-567.1	-396.5	98.7	323.0	-310.3	21.8	104.4	-18.8	-417.8
1.1.2.1.1. General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2.1.2. Banks	-575.0	-360.2	142.4	261.1	-115.9	28.9	123.1	-3.7	-264.2
1.1.2.1.3. Other sectors	7.9	-36.3	-43.7	61.9	-194.4	-7.1	-18.7	-15.1	-153.6
1.1.2.2. Money market instruments	-129.9	18.3	-250.6	106.7	-46.6	56.2	-4.9	18.8	-116.7
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
1.1.2.2.2. Banks	-129.9	18.3	-250.6	106.7	-46.7	56.2	0.9	13.0	-116.7
1.1.2.2.3. Other sectors	0.0	0.0	0.0	0.0	0.1	0.0	-5.8	5.8	0.0
1.2. Liabilities	1,023.2	-606.7	-69.8	410.8	-350.7	-118.3	-89.0	-55.9	-87.5
2.1. Equity securities	141.6	89.2	325.7	315.7	-110.1	-34.5	61.4	-39.1	-98.0
2.1.1. Banks	0.8	-12.8	41.7	10.4	25.6	-5.1	16.0	4.4	10.4
2.1.2. Other sectors	140.7	102.0	284.0	305.3	-135.7	-29.4	45.5	-43.4	-108.4
2.2. Debt securities	881.6	-695.9	-395.6	95.1	-240.6	-83.8	-150.4	-16.9	10.4
2.2.1. Bonds	915.6	-695.9	-395.6	95.1	-240.6	-84.7	-149.5	-16.9	10.4
2.2.1.1. General government	429.6	-690.5	-463.7	-276.4	-208.0	-96.6	-139.3	6.9	21.1
2.2.1.2. Banks	453.2	3.2	1.2	1.0	-1.6	4.8	4.8	-14.3	3.2
2.2.1.3. Other sectors	32.8	-8.6	66.9	370.5	-31.1	7.1	-15.0	-9.4	-13.8
2.2.2. Money market instruments	-34.0	0.0	0.0	0.0	0.0	0.9	-0.9	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	-34.0	0.0	0.0	0.0	0.0	0.9	-0.9	0.0	0.0

^a The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from January 1999 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

^b Preliminary data.

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 Croatia 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

Table H5: Balance of Payments – Other Investment^a

million euros

	2004	2005	2006	2007	2008 ^b	2008			
						Q1	Q2	Q3	Q4 ^b
Other investment (net)	1,614.1	3,771.8	3,202.1	1,346.6	3,007.0	1,455.8	963.6	-566.4	1,154.0
1. Assets	-498.3	982.0	-692.3	-1,653.4	-1,576.5	334.4	125.1	-779.1	-1,256.9
1.1. Trade credits	-188.1	-134.8	-33.3	-99.6	-132.4	-34.7	-168.7	-44.6	115.6
1.1.1. General government	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.1.1. Long-term	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	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	-188.1	-134.6	-33.3	-99.6	-132.4	-34.7	-168.7	-44.6	115.6
1.1.2.1. Long-term	18.1	10.7	-4.9	-63.5	26.7	3.7	3.2	12.0	7.8
1.1.2.2. Short-term	-206.1	-145.3	-28.4	-36.1	-159.0	-38.4	-171.8	-56.6	107.8
1.2. Loans	43.8	-116.8	-153.1	-4.5	-108.2	-25.7	-21.4	-37.0	-24.2
1.2.1. General government	-1.8	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.1. Long-term	-1.8	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	3.7	-28.5	-80.4	-32.6	-67.1	-4.6	-7.2	-28.7	-26.6
1.2.2.1. Long-term	-0.1	-20.5	-58.9	-25.4	-27.0	-4.1	-3.2	-16.2	-3.5
1.2.2.2. Short-term	3.9	-8.0	-21.5	-7.3	-40.2	-0.5	-4.1	-12.5	-23.1
1.2.3. Other sectors	41.8	-86.8	-72.7	28.1	-41.1	-21.1	-14.2	-8.2	2.4
1.2.3.1. Long-term	43.2	-87.8	-73.0	28.1	-37.3	-20.8	-11.4	-6.8	1.7
1.2.3.2. Short-term	-1.3	1.0	0.3	0.0	-3.8	-0.3	-2.8	-1.5	0.7
1.3. Currency and deposits	-354.1	1,233.6	-505.9	-1,549.4	-1,335.9	394.8	315.2	-697.6	-1,348.3
1.3.1. General government	72.7	-44.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.3.2. Banks	-446.7	1,313.7	-462.1	-1,317.1	-136.4	498.1	428.3	-757.8	-305.0
1.3.3. Other sectors	19.8	-35.6	-43.8	-232.3	-1,199.5	-103.4	-113.1	60.2	-1,043.2
1.4. Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	2,112.4	2,789.7	3,894.4	3,000.1	4,592.2	1,121.4	858.2	211.8	2,400.8
2.1. Trade credits	-54.5	15.1	18.5	313.5	-3.2	-158.0	454.5	-175.9	-123.8
2.1.1. General government	-0.3	0.4	-0.7	-0.6	-0.5	-0.3	-0.2	-0.1	-0.1
2.1.1.1. Long-term	-0.3	0.4	-0.7	-0.6	-0.5	-0.3	-0.2	-0.1	-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	-54.2	14.7	19.2	314.2	-2.6	-157.8	454.7	-175.8	-123.7
2.1.2.1. Long-term	-16.7	27.4	-3.7	165.0	34.9	10.0	39.8	-3.9	-11.0
2.1.2.2. Short-term	-37.5	-12.7	22.9	149.2	-37.5	-167.8	414.9	-171.9	-112.7
2.2. Loans	1,676.4	2,405.8	3,059.2	2,890.3	3,703.9	871.7	1,019.7	647.1	1,165.4
2.2.1. Croatian National Bank	-367.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.1. o/w IMF	0.0	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.1.2. Short-term	-367.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2. General government	425.8	248.1	165.0	161.0	96.7	-32.4	90.1	-21.8	60.7
2.2.2.1. Long-term	425.8	248.1	165.0	161.0	65.0	-32.4	90.1	-21.8	29.0
2.2.2.1.1. Drawings	795.5	590.1	477.8	523.5	330.1	30.7	152.3	41.5	105.6
2.2.2.1.2. Repayments	-369.7	-342.0	-312.8	-362.5	-265.2	-63.1	-62.2	-63.3	-76.7
2.2.2.2. Short-term	0.0	0.0	0.0	0.0	31.7	0.0	0.0	0.0	31.7
2.2.3. Banks	650.4	826.0	541.2	-1,065.0	115.2	32.4	-50.3	-582.8	716.0
2.2.3.1. Long-term	741.7	281.1	419.5	-630.8	-276.1	-56.2	-162.9	-198.8	141.9
2.2.3.1.1. Drawings	1,260.0	1,236.1	2,833.6	1,216.2	609.4	47.6	62.3	144.1	355.4
2.2.3.1.2. Repayments	-518.3	-955.0	-2,414.1	-1,847.0	-885.4	-103.8	-225.2	-342.9	-213.4
2.2.3.2. Short-term	-91.2	544.9	121.7	-434.2	391.3	88.6	112.6	-384.0	574.0
2.2.4. Other sectors	967.9	1,331.7	2,353.0	3,794.4	3,492.0	871.7	979.9	1,251.7	388.7
2.2.4.1. Long-term	932.4	1,277.2	2,264.1	3,184.9	3,175.7	805.6	826.5	1,130.6	413.0
2.2.4.1.1. Drawings	2,232.5	2,686.4	4,266.4	5,960.8	6,700.9	1,467.6	1,741.1	2,170.3	1,321.9
2.2.4.1.2. Repayments	-1,300.1	-1,409.2	-2,002.3	-2,775.9	-3,525.2	-661.9	-914.6	-1,039.7	-908.9
2.2.4.2. Short-term	35.5	54.5	88.9	609.5	316.2	66.0	153.3	121.2	-24.3
2.3. Currency and deposits	487.5	366.1	814.0	-206.4	890.2	406.9	-616.4	-259.2	1,358.8
2.3.1. General government	0.0	0.0	0.1	-0.1	-0.1	-0.6	0.3	-0.3	0.5
2.3.2. Banks	487.5	366.1	813.9	-206.4	881.6	407.5	-636.4	-258.0	1,368.5
2.3.3. Other sectors	0.0	-0.1	0.1	0.1	8.7	0.0	19.7	-0.9	-10.2
2.4. Other liabilities	3.0	2.8	2.7	2.7	1.3	0.8	0.3	-0.3	0.4

^a The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from January 1999 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

^b Preliminary data.

Table H6: Balance of Payments – Summary^a

million kuna

	2004	2005	2006	2007	2008 ^b	2008			
						Q1	Q2	Q3	Q4 ^b
A. CURRENT ACCOUNT (1+6)	-11,167.9	-14,828.6	-20,050.6	-23,878.5	-32,436.0	-18,572.7	-13,281.6	13,366.3	-13,948.1
1. Goods, services, and income (2+5)	-20,094.6	-23,586.7	-28,159.6	-31,529.4	-39,779.5	-20,185.4	-15,263.8	11,504.3	-15,834.6
1.1. Credit	111,525.2	117,995.0	130,768.8	143,733.6	152,874.9	24,803.9	39,267.5	60,747.3	28,056.2
1.2. Debit	-131,619.8	-141,581.7	-158,928.4	-175,263.0	-192,654.4	-44,989.2	-54,531.4	-49,243.0	-43,890.8
2. Goods and services (3+4)	-15,083.2	-16,508.1	-19,521.1	-23,353.0	-28,262.3	-17,960.4	-9,435.7	13,407.8	-14,274.0
2.1. Credit	106,225.6	112,693.7	124,229.1	134,230.9	143,154.5	22,387.8	36,585.4	58,191.3	25,990.1
2.2. Debit	-121,308.8	-129,201.8	-143,750.2	-157,583.9	-171,416.8	-40,348.2	-46,021.1	-44,783.5	-40,264.1
3. Goods	-50,327.5	-55,568.1	-61,083.9	-69,218.6	-78,503.3	-18,688.4	-22,543.4	-19,621.3	-17,650.2
3.1. Credit	49,507.8	53,397.7	61,988.6	67,424.8	70,350.1	16,219.9	18,080.6	19,252.6	16,797.1
3.2. Debit	-99,835.3	-108,965.8	-123,072.5	-136,643.4	-148,853.4	-34,908.2	-40,624.0	-38,873.9	-34,447.3
4. Services	35,244.3	39,060.0	41,562.8	45,865.6	50,241.0	728.0	13,107.7	33,029.1	3,376.2
4.1. Credit	56,717.8	59,296.0	62,240.6	66,806.1	72,804.4	6,167.9	18,504.8	38,938.7	9,193.0
4.2. Debit	-21,473.5	-20,236.0	-20,677.7	-20,940.5	-22,563.4	-5,439.9	-5,397.1	-5,909.6	-5,816.8
5. Income	-5,011.4	-7,078.6	-8,638.5	-8,176.4	-11,517.2	-2,225.0	-5,828.1	-1,903.5	-1,560.6
5.1. Credit	5,299.6	5,301.3	6,539.7	9,502.7	9,720.4	2,416.1	2,682.1	2,556.0	2,066.1
5.2. Debit	-10,311.0	-12,379.9	-15,178.1	-17,679.1	-21,237.6	-4,641.1	-8,510.3	-4,459.5	-3,626.7
6. Current transfers	8,926.8	8,758.1	8,109.0	7,650.9	7,343.5	1,612.7	1,982.2	1,862.0	1,886.5
6.1. Credit	11,872.9	12,047.2	12,005.6	11,562.1	11,937.7	2,548.1	2,948.5	2,846.7	3,594.4
6.2. Debit	-2,946.1	-3,289.1	-3,896.5	-3,911.1	-4,594.2	-935.4	-966.2	-984.7	-1,707.9
B. CAPITAL AND FINANCIAL ACCOUNT	18,727.4	22,064.2	26,919.8	30,251.9	40,808.4	14,575.5	12,578.4	5.0	13,649.5
B1. Capital account	235.5	396.8	-980.5	253.4	231.4	35.2	87.4	64.2	44.6
B2. Financial account, excl. reserves	18,828.5	27,742.8	38,213.6	35,313.4	38,268.9	19,599.5	13,186.8	-2,814.1	8,296.8
1. Direct investment	4,452.8	9,093.0	18,726.0	25,591.1	20,344.9	7,867.2	6,238.5	1,726.8	4,512.4
1.1. Abroad	-2,077.2	-1,415.4	-1,525.6	-1,353.7	-855.7	1,008.7	-1,097.6	-413.1	-353.7
1.2. In Croatia	6,530.0	10,508.5	20,251.6	26,944.8	21,200.6	6,858.5	7,336.1	2,139.9	4,866.2
2. Portfolio investment	2,097.8	-8,725.0	-4,008.6	-29.7	-3,909.0	1,123.3	-190.8	-449.4	-4,392.1
2.1. Assets	-5,563.8	-4,195.8	-3,483.3	-3,050.8	-1,412.1	1,972.7	440.0	-52.0	-3,772.8
2.2. Liabilities	7,661.6	-4,529.2	-525.3	3,021.2	-2,496.9	-849.4	-630.8	-397.4	-619.3
3. Financial derivatives	0.0	-659.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Other investment	12,277.9	28,034.2	23,496.2	9,752.0	21,833.0	10,609.1	7,139.1	-4,091.6	8,176.4
4.1. Assets	-3,680.4	7,419.8	-5,121.6	-12,079.4	-11,269.9	2,441.9	909.5	-5,610.0	-9,011.3
4.2. Liabilities	15,958.3	20,614.4	28,617.9	21,831.4	33,103.0	8,167.2	6,229.6	1,518.4	17,187.7
B3. Reserve assets (CNB)	-336.5	-6,075.4	-10,313.4	-5,315.0	2,308.1	-5,059.2	-695.8	2,754.9	5,308.1
C. NET ERRORS AND OMISSIONS	-7,559.5	-7,235.6	-6,869.2	-6,373.4	-8,372.4	3,997.1	703.2	-13,371.3	298.6

^a The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from January 1999 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

^b Preliminary data.

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.

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. From 2007 on, the CNB Statistics Department conducts the research on the purchase and sale of the real estate by non-residents on the territory of the Republic of Croatia. Persons obliged to submit reports are the public notaries who learn about these transactions in the course of their business. Data on the purchase and sale of the real estate by Croatian non-residents abroad are compiled on the basis of the ITRS. These purchase and sale transactions are also a constituent part of direct investments.

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 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 H7: International Reserves and Banks' Foreign Currency Reserves^a

end of period, million euros

Year	Month	International reserves of the Croatian National Bank							Banks' foreign currency reserves
		Total	Special drawing rights	Reserve position in the Fund	Gold	Foreign currency			
						Total	Currency and deposits	Bonds and notes	
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	December	7,438.4	0.9	0.2	–	7,437.3	3,834.5	3,602.8	2,938.4
2006	December	8,725.3	0.7	0.2	–	8,724.4	4,526.9	4,197.5	3,315.0
2007	December	9,307.4	0.8	0.2	–	9,306.5	4,533.9	4,772.5	4,388.9
2008	January	9,332.8	1.0	0.2	–	9,331.6	4,527.3	4,804.2	4,316.4
	February	9,676.9	0.6	0.2	–	9,676.1	4,510.9	5,165.2	4,112.5
	March	9,841.7	1.1	0.2	–	9,840.4	4,954.5	4,885.9	3,904.5
	April	9,928.5	1.1	0.2	–	9,927.2	4,955.3	4,971.9	3,711.8
	May	10,051.2	0.8	0.2	–	10,050.2	4,432.0	5,618.2	3,485.7
	June	9,941.2	0.8	0.2	–	9,940.2	3,509.5	6,430.7	3,542.5
	July	9,788.8	1.0	0.2	–	9,787.7	3,296.2	6,491.4	4,027.1
	August	9,839.8	0.7	0.2	–	9,839.0	3,371.8	6,467.2	4,220.4
	September	9,808.7	0.7	0.2	–	9,807.9	3,076.3	6,731.6	4,304.8
	October	9,387.5	1.1	0.2	–	9,386.2	2,637.9	6,748.3	4,551.8
	November	9,682.0	0.8	0.2	–	9,681.0	2,413.8	7,267.2	4,342.4
	December	9,120.9	0.7	0.2	–	9,120.0	2,001.8	7,118.2	4,644.5

^a International reserves of the Republic of Croatia consist only of the Croatian National Bank's foreign currency reserves.

Table H7: International Reserves and Banks' Foreign Currency Reserves

Data on the international reserves of the Croatian National Bank are compiled in accordance with the methodology set out 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 Fund, gold, foreign currency and deposits with foreign banks, as well as bonds and debt instruments.

The foreign currency reserves of banks include foreign currency and deposits of domestic banks with foreign banks. These foreign currency reserves represent an additional source of liquidity for bridging imbalances in international payments.

Table H8: International Reserves and Foreign Currency Liquidity

end of period, million euros

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
I. Official reserve assets and other f/c assets (approximate market value)													
A. Official reserve assets	9,307.4	9,332.8	9,676.9	9,841.7	9,928.5	10,051.2	9,941.2	9,788.8	9,839.8	9,808.7	9,387.5	9,682.0	9,120.9
(1) Foreign currency reserves (in convertible f/c)	8,911.0	8,431.6	9,176.1	9,040.4	8,927.2	9,050.2	9,040.2	8,952.5	9,033.6	9,041.1	8,515.7	9,064.9	8,625.0
(a) Securities	4,772.5	4,804.2	5,165.2	4,885.9	4,971.9	5,618.2	6,430.7	6,491.4	6,467.2	6,731.6	6,748.3	7,267.2	7,118.2
o/w: Issuer headquartered in reporting country but located abroad	–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Total currency and deposits with:	4,138.4	3,627.3	4,010.9	4,154.5	3,955.3	3,432.0	2,609.5	2,461.1	2,566.4	2,309.6	1,767.4	1,797.6	1,506.7
(i) Other national central banks, BIS and IMF	190.7	190.4	189.3	199.7	186.9	1,112.9	265.9	181.3	190.5	540.0	1,116.0	1,468.6	1,397.3
(ii) Banks headquartered in the reporting country	–	–	–	–	–	–	–	–	–	–	–	–	–
o/w: Located abroad	–	–	–	–	–	–	–	–	–	–	–	–	–
(iii) Banks headquartered outside the reporting country	3,947.7	3,437.0	3,821.6	3,954.9	3,768.4	2,319.2	2,343.6	2,279.8	2,375.9	1,769.5	651.4	329.1	109.5
o/w: Located in the reporting country	–	–	–	–	–	–	–	–	–	–	–	–	–
(2) IMF reserve position	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
(3) SDRs	0.8	1.0	0.6	1.1	1.1	0.8	0.8	1.0	0.7	0.7	1.1	0.8	0.7
(4) Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
(5) Other reserve assets	395.5	900.0	500.0	800.0	1,000.0	1,000.0	900.0	835.2	805.4	766.8	870.5	616.2	495.0
– Reverse repo	395.5	900.0	500.0	800.0	1,000.0	1,000.0	900.0	835.2	805.4	766.8	870.5	616.2	495.0
B. Other foreign currency assets (specify)	–	–	–	–	–	–	–	–	–	–	–	–	–
– Time deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
C. Total (A + B)	9,307.4	9,332.8	9,676.9	9,841.7	9,928.5	10,051.2	9,941.2	9,788.8	9,839.8	9,808.7	9,387.5	9,682.0	9,120.9
II. Predetermined short-term net drains on f/c assets (nominal value)													
1. F/c loans, securities, and deposits (total net drains up to one year)													
	–521.1	–526.8	–1,018.2	–1,032.1	–1,011.6	–1,020.8	–1,015.0	–1,017.5	–1,034.0	–1,052.6	–1,095.7	–1,090.6	–1,084.1
(a) Croatian National Bank	–2.0	–2.5	–1.8	–1.8	–2.1	–1.6	–1.5	–1.9	–1.5	–1.6	–1.9	–1.1	–0.9
Up to 1 month	Principal	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–2.0	–2.5	–1.8	–1.8	–2.1	–1.6	–1.5	–1.9	–1.5	–1.6	–1.9	–1.1	–0.9
More than 1 and up to 3 months	Principal	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	Principal	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Central government (excl. central government funds)	–519.1	–524.4	–1,016.4	–1,030.3	–1,009.5	–1,019.2	–1,013.5	–1,015.6	–1,032.5	–1,051.0	–1,093.8	–1,089.5	–1,083.2
Up to 1 month	Principal	–47.6	–0.7	–11.2	–13.0	–2.6	–174.9	–49.6	–5.8	–11.7	–12.0	–8.8	–50.8
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	Principal	–133.2	–150.2	–102.6	–227.4	–252.5	–97.5	–65.4	–82.1	–96.0	–120.5	–176.4	–656.7
Interest	–	–11.0	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	Principal	–284.5	–326.0	–815.9	–648.6	–614.3	–615.9	–776.7	–815.8	–825.6	–822.7	–820.0	–339.0
Interest	–53.8	–36.4	–86.7	–141.3	–140.1	–130.9	–121.8	–111.8	–99.1	–95.9	–88.6	–69.4	–67.4
2. Aggregate short and long positions in forwards and futures in f/c vis-a-vis the domestic currency (including the forward leg of currency swaps)													
(a) Short positions (–)	–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Long positions (+)	–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	–	–	–	–	–	–	–	–	–	–	–	–	–
3. Other													
– Outflows related to repos (–)	–	–	–	–	–	–	–	–	–	–	–	–	–
Up to 1 month	Principal	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	Principal	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	Principal	–	–	–	–	–	–	–	–	–	–	–	–
Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
4. Total predetermined short-term net drains on f/c assets (1+2+3)	–521.1	–526.8	–1,018.2	–1,032.1	–1,011.6	–1,020.8	–1,015.0	–1,017.5	–1,034.0	–1,052.6	–1,095.7	–1,090.6	–1,084.1
III. Contingent short-term net drains on f/c assets (nominal value)													
1. Contingent liabilities in foreign currency													
	–2,607.4	–2,627.8	–2,844.9	–3,071.0	–2,974.9	–2,988.1	–2,919.3	–2,708.8	–2,772.9	–2,651.4	–2,166.5	–2,180.4	–1,896.1

(a) Collateral guarantees on debt falling due within 1 year	-662.1	-656.9	-700.2	-729.1	-567.3	-567.5	-597.6	-605.2	-735.4	-779.1	-783.4	-785.5	-803.2
– Croatian National Bank	-	-	-	-	-	-	-	-	-	-	-	-	-
– Central government (excl. central government funds)	-662.1	-656.9	-700.2	-729.1	-567.3	-567.5	-597.6	-605.2	-735.4	-779.1	-783.4	-785.5	-803.2
Up to 1 month	-54.3	-7.9	-15.4	-187.2	-29.4	-39.2	-51.3	-12.5	-50.3	-34.7	-27.1	-175.9	-91.8
More than 1 and up to 3 months	-42.4	-219.7	-224.5	-117.2	-130.8	-94.0	-83.4	-108.3	-96.5	-261.6	-336.2	-153.5	-58.4
More than 3 months and up to 1 year	-565.3	-429.2	-460.2	-424.7	-407.1	-434.3	-463.0	-484.3	-588.6	-482.7	-420.2	-456.1	-652.9
(b) Other contingent liabilities	-1,945.3	-1,970.9	-2,144.7	-2,341.9	-2,407.5	-2,420.6	-2,321.7	-2,103.6	-2,037.5	-1,872.4	-1,383.1	-1,394.9	-1,092.9
– Croatian National Bank	-1,945.3	-1,970.9	-2,144.7	-2,341.9	-2,407.5	-2,420.6	-2,321.7	-2,103.6	-2,037.5	-1,872.4	-1,383.1	-1,394.9	-1,092.9
Up to 1 month	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 1 and up to 3 months	-1,945.3	-1,970.9	-2,144.7	-2,341.9	-2,407.5	-2,420.6	-2,321.7	-2,103.6	-2,037.5	-1,872.4	-1,383.1	-1,394.9	-1,092.9
More than 3 months and up to 1 year	-	-	-	-	-	-	-	-	-	-	-	-	-
– Central government (excl. central government funds)	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Foreign currency securities issued with embedded options (puttable bonds)	-	-	-	-	-	-	-	-	-	-	-	-	-
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)	-2,607.4	-2,627.8	-2,844.9	-3,071.0	-2,974.9	-2,988.1	-2,919.3	-2,708.8	-2,772.9	-2,651.4	-2,166.5	-2,180.4	-1,896.1
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 repoed and included in Section I	-	-5.3	-0.4	-0.2	-3.1	-3.0	-1.5	-1.1	-1.3	-2.3	-7.7	-5.7	-6.1
– Lent or repoed but not included in Section I	-	-	-	-	-	-	-	-	-	-	-	-	-
– Borrowed or acquired and included in Section I	-	-	-	-	-	-	-	-	-	-	-	-	-
– Borrowed or acquired but not included in Section I	389.7	876.8	492.1	788.9	996.9	1,004.3	913.3	848.6	794.8	780.8	865.8	594.2	478.6
(e) Financial derivative assets (net, marked to market)	-	-	-	-	-	-	-	-	-	-	-	-	-
(f) Currency composition of official reserves assets													
– Currencies in SDR basket	9,307.1	9,332.7	9,676.8	9,841.6	9,928.4	10,051.2	9,941.1	9,788.7	9,839.7	9,808.7	9,385.5	9,680.1	9,120.8
– Currencies not in SDR basket	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.9	1.8	0.1
– By individual currencies													
USD	1,357.2	1,360.5	2,123.4	2,680.3	2,725.0	2,724.1	2,719.9	2,592.7	2,597.6	2,497.4	1,910.8	2,245.6	2,064.6
EUR	7,944.2	7,970.3	7,552.0	7,159.4	7,201.5	7,325.9	7,219.7	7,194.3	7,240.7	7,309.8	7,472.8	7,433.0	7,054.9
Other	6.0	2.0	1.5	2.0	2.0	1.3	1.7	1.8	1.5	1.5	3.8	3.4	1.5

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 transactions 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 with the CNB. (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 currency sources of funds, including ordinary foreign currency accounts, special foreign currency accounts, foreign currency accounts and foreign currency sight deposits, received foreign currency deposits and received foreign currency loans, as well as obligations arising from securities issued in foreign currency (excluding banks' equity securities) and hybrid and subordinated instruments). Undrawn credit lines show potential inflows (+) or outflows (–) which would arise from drawdowns 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 Currency 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 used as collateral. Repo transactions with securities show the value of collateral that is subject to repo and reverse repo transactions with securities as well as how these transactions are registered in the Template.

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
1999		7.581823	0.550993	1.155840	0.391568	4.739965	11.514804	7.122027	3.876528
2000		7.633852	0.554774	1.163773	0.394256	4.903244	12.530514	8.287369	3.903127
2001		7.471006	0.542939	1.138947	0.385845	4.946810	12.010936	8.339153	3.819865
2002		7.406976				5.049125	11.793108	7.872490	
2003		7.564248				4.978864	10.943126	6.704449	
2004		7.495680				4.854986	11.048755	6.031216	
2005		7.400047				4.780586	10.821781	5.949959	
2006		7.322849				4.656710	10.740292	5.839170	
2007		7.336019				4.468302	10.731537	5.365993	
2008		7.223178				4.553618	9.101622	4.934417	
2008	January	7.326929				4.516125	9.821601	4.987008	
	February	7.266515				4.516712	9.689673	4.933374	
	March	7.266614				4.623619	9.389891	4.689464	
	April	7.265563				4.558372	9.128528	4.606358	
	May	7.254953				4.467798	9.161309	4.663891	
	June	7.247010				4.487972	9.154517	4.665242	
	July	7.229828				4.469877	9.111242	4.580458	
	August	7.196063				4.437266	9.088553	4.797094	
	September	7.126375				4.465702	8.911952	4.955398	
	October	7.158248				4.703842	9.080911	5.355413	
	November	7.141435				4.726069	8.634967	5.609362	
	December	7.196956				4.669888	8.015481	5.377415	

Table H9: Midpoint Exchange Rates of the Croatian National Bank (period average)

The annual averages of CNB midpoint exchange rates are calculated based on the midpoint exchange rates effective on the working days in a year, using CNB exchange rate lists whose application dates pertain to the calculation period.

The monthly averages of CNB midpoint exchange rates are calculated based on the midpoint exchange rates effective on the working days in a month, using CNB exchange rate lists whose application dates pertain to the calculation period.

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
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	6.23626	
2006		7.345081				4.571248	10.943208	5.578401	
2007		7.325131				4.412464	9.963453	4.985456	
2008		7.324425				4.911107	7.484595	5.155504	
2008	January	7.249864				4.492696	9.752306	4.896241	
	February	7.277476				4.536797	9.547987	4.823034	
	March	7.256652				4.612377	9.160126	4.593981	
	April	7.263753				4.498794	9.241416	4.665224	
	May	7.250440				4.453861	9.231525	4.677703	
	June	7.246264				4.509187	9.127427	4.594968	
	July	7.221125				4.427965	9.180758	4.633084	
	August	7.161648				4.431987	8.895352	4.858978	
	September	7.107741				4.480139	8.929323	4.961427	
	October	7.185881				4.844850	9.097203	5.469956	
	November	7.128034				4.600512	8.531459	5.539349	
	December	7.324425				4.911107	7.484595	5.155504	

Table H10: Midpoint Exchange Rates of the Croatian National Bank (end of period)

The table shows CNB midpoint exchange rates applied on the last day of the observed period.

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
1999	December	99.25	102.78	102.09
2000	December	101.63	100.07	101.91
2001	December	99.07	98.63	98.89
2002	December	95.99	95.65	96.26
2003	December	94.18	94.55	94.71
2004	December	90.42	90.61	90.85
2005	December	91.52	94.33	90.99
2006	December	88.42	92.44	87.96
2007	December	85.58	88.97	83.10
2008	January	85.50	87.75	82.55
	February	84.74	87.36	82.25
	March	83.57	86.65	81.32
	April	83.12	86.77	80.57
	May	83.30	87.36	80.50
	June	83.25	87.34	80.28
	July	82.69	86.10	79.67
	August	83.45	85.93	80.55
	September	83.60	85.66	80.62
	October	85.71	86.82	82.58
	November	86.62	86.52	82.79
	December	86.03	85.28 ^a	82.12 ^a

^a Preliminary data.

Note: The eurozone related price series includes Greece from 1 January 2001, Slovenia from 1 January 2007, and Cyprus and Malta from 1 January 2008. Slovenia became an EMU member on 1 January 2007. Accordingly, the weight assigned to the Slovenian tolar (0.2%) has been added to the euro weight (70.6%), which now amounts to 70.8%

The weights assigned to the US dollar, pound sterling and Swiss franc have been kept at 27.2%, 1.0% and 1.0% respectively.

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 rates (see Box 2, Bulletin No. 64, October 2001), were first published in the CNB Bulletin No. 94 (June 2004). The weights are determined on the basis of the average share of a particular foreign currency in the structure of the current account – ITRS data between January 2000 and December 2003 (i.e. between July 1996 and January 2000 in the previous version of the 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 of 66.2%, 30.7%, 1.6% and 1.2% for the euro, US dollar, Swiss franc and pound sterling respectively. 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 the 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 corresponding indices of relative price (the ratio of price indices in partner countries and domestic prices). Producer price and consumer price indices, and the total harmonised 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^a

million euros

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Government	5,438.0	4,208.4	4,166.4	4,105.0	4,081.8	4,218.4	4,038.8	3,999.0	4,044.1	4,080.0	4,163.3	4,200.8	4,197.3
Short-term	1.0	0.3	0.0	0.1	0.3	0.6	0.5	0.5	0.5	0.4	0.8	0.7	35.7
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	31.7
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	1.0	0.3	0.0	0.1	0.3	0.6	0.5	0.5	0.5	0.4	0.8	0.7	4.0
Principal arrears	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	3.9
Interest arrears	0.8	0.0	0.0	0.1	0.3	0.6	0.5	0.5	0.5	0.4	0.7	0.6	0.1
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	5,437.0	4,208.1	4,166.4	4,104.8	4,081.6	4,217.7	4,038.3	3,998.5	4,043.6	4,079.6	4,162.5	4,200.2	4,161.6
Bonds	2,784.5	2,780.5	2,730.7	2,695.0	2,675.1	2,685.4	2,537.6	2,523.5	2,547.6	2,569.2	2,614.6	2,631.5	2,621.9
Credits	2,651.3	1,426.7	1,434.7	1,408.9	1,405.6	1,531.5	1,499.9	1,474.2	1,495.3	1,509.7	1,547.1	1,568.0	1,538.9
Trade credits	1.2	0.9	1.0	1.0	0.9	0.8	0.8	0.7	0.7	0.7	0.8	0.8	0.7
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
2. Croatian National Bank	2.3	2.2	1.9	1.7	1.6	2.3	2.0	2.0	2.0	1.8	1.8	2.6	2.3
Short-term	2.3	2.2	1.9	1.7	1.6	2.3	2.0	2.0	2.0	1.8	1.8	2.6	2.3
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	2.3	2.2	1.9	1.7	1.6	2.3	2.0	2.0	2.0	1.8	1.8	2.6	2.3
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	0.0	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	0.0	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	8,918.1	9,341.1	9,687.4	9,456.9	9,276.0	8,915.8	8,726.4	8,376.8	7,854.5	7,947.7	8,855.9	9,639.3	10,079.1
Short-term	2,358.2	2,525.6	2,714.5	2,932.6	3,057.6	2,864.9	2,453.3	2,315.9	2,060.2	1,897.8	2,467.7	2,842.9	3,793.3
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	708.2	703.6	789.9	801.6	1,075.0	1,004.2	913.9	873.7	641.1	544.0	925.3	1,050.7	1,121.1
Currency and deposits	1,648.8	1,820.9	1,923.6	2,129.4	1,981.3	1,858.5	1,537.1	1,440.9	1,418.1	1,352.7	1,540.7	1,790.2	2,670.3
Other debt liabilities	1.2	1.1	1.0	1.6	1.4	2.2	2.3	1.3	1.0	1.2	1.8	2.0	2.0
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	1.2	1.1	1.0	1.6	1.4	2.2	2.3	1.3	1.0	1.2	1.7	2.0	2.0
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	6,559.9	6,815.5	6,972.9	6,524.2	6,218.4	6,050.9	6,273.2	6,060.9	5,794.4	6,049.9	6,388.2	6,796.4	6,285.8
Bonds	459.0	460.6	462.2	463.8	465.4	467.0	468.6	451.0	452.7	454.2	453.4	455.4	456.8
Credits	3,607.0	3,600.6	3,601.3	3,570.8	3,436.6	3,410.9	3,400.4	3,356.1	3,123.6	3,222.0	3,231.1	3,199.5	3,373.9
Currency and deposits	2,493.9	2,754.3	2,909.5	2,489.7	2,316.5	2,173.0	2,404.2	2,253.7	2,218.1	2,373.7	2,703.7	3,141.5	2,455.0
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	14,936.8	16,369.5	16,696.4	16,991.6	17,149.7	17,564.7	17,996.2	18,546.0	18,911.4	19,390.7	19,924.7	19,873.3	19,835.7
Short-term	587.2	637.8	631.9	665.1	776.2	941.3	973.8	916.6	920.4	982.3	999.3	950.6	925.2
Money market instruments	0.0	0.8	1.5	0.9	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	311.3	336.1	397.7	415.4	460.8	532.2	537.6	568.0	580.4	662.6	696.9	667.3	652.9
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	34.2	32.9	30.8	34.5	32.8	31.0	35.3	44.0	46.6	39.4	36.6	38.1	39.5
Other debt liabilities	241.7	268.0	201.8	214.4	282.0	378.0	400.9	304.6	293.4	280.4	265.7	245.2	232.9
Principal arrears	198.0	215.0	160.9	167.3	232.3	334.6	348.7	252.6	243.8	229.2	214.5	197.5	170.4
Interest arrears	43.7	53.1	40.9	47.1	49.7	43.4	52.2	52.0	49.6	51.2	51.2	47.7	62.5
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	14,349.5	15,731.7	16,064.5	16,326.5	16,373.5	16,623.4	17,022.4	17,629.4	17,991.0	18,408.3	18,925.4	18,922.8	18,910.5
Bonds	1,212.4	1,219.7	1,212.4	1,220.0	1,205.1	1,211.9	1,204.8	1,186.6	1,192.1	1,195.8	1,200.1	1,202.1	1,186.4
Credits	12,855.0	14,241.1	14,564.0	14,822.2	14,870.5	15,117.7	15,507.4	16,135.9	16,477.1	16,882.9	17,388.6	17,417.0	17,401.9
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	282.1	270.9	288.2	284.3	297.9	293.7	310.2	306.9	321.8	329.6	336.8	303.7	322.2
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
5. Direct investment	3,958.6	4,028.4	4,175.5	4,408.0	4,446.2	4,515.2	4,639.1	4,706.5	4,742.2	4,826.3	4,904.2	4,792.1	5,010.2
Short-term	311.9	305.0	433.4	475.4	560.3	476.4	562.3	574.4	548.6	548.6	547.4	488.2	590.0

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	232.2	226.3	328.7	373.6	456.7	382.6	410.9	452.3	479.6	474.7	480.4	422.6	488.4
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	79.7	78.7	104.7	101.8	103.6	93.8	151.4	122.1	69.0	73.9	67.0	65.6	101.6
Principal arrears	60.7	61.6	89.7	87.2	88.9	80.0	134.9	111.4	56.6	60.3	53.8	51.8	85.8
Interest arrears	19.1	17.1	14.9	14.6	14.7	13.8	16.5	10.7	12.4	13.5	13.2	13.9	15.8
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	3,646.7	3,723.4	3,742.2	3,932.6	3,885.9	4,038.8	4,076.8	4,132.1	4,193.6	4,277.7	4,356.8	4,304.0	4,420.2
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	3,634.8	3,712.5	3,731.0	3,921.7	3,875.1	4,029.3	4,068.4	4,124.8	4,186.7	4,271.3	4,350.4	4,297.7	4,414.7
Trade credits	11.9	10.9	11.2	10.9	10.8	9.4	8.5	7.4	6.9	6.4	6.4	6.3	5.5
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)	33,253.8	33,949.6	34,727.7	34,963.2	34,955.3	35,216.4	35,402.6	35,630.3	35,554.2	36,246.5	37,849.8	38,508.1	39,124.6

^a The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from December 1998 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

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 the 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 the external debt of the general government, comprising the Republic of Croatia, central government funds (including the State Agency for Deposit Insurance and Bank Rehabilitation, the Croatian Roads and, until 31 December 2007, the Croatian Motorways; from this date on, the Croatian Motorways is shown within the subsector public enterprises under item Other sectors), and local government. Item Croatian National Bank shows the debt of the central bank. Item Banks shows the debt of banks. Item Other sectors shows the debt of other banking institutions, non-banking financial institutions (including the Croatian Bank for Reconstruction and Development), 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% of the other).

Each sector data are further shown by contractual (short-term or long-term) maturity 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

The gross external debt position presented in this Table highlights the role of the public sector.

Public sector includes the general government (comprising the Republic of Croatia, central government funds and local government), the central bank, public enterprises, mixed enterprises and the CBRD. Public enterprises are defined as enterprises in 100% ownership of business entities from the public sector. Mixed enterprises are defined as enterprises 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 H13: Public Sector Gross External Debt, and Publicly Guaranteed and Non-Publicly Guaranteed Private Sector Gross External Debt^a

million euros

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Public sector	9,399.7	9,390.0	9,350.7	9,332.3	9,192.2	9,450.5	9,545.7	9,575.0	9,780.3	10,060.4	10,309.7	10,371.3	10,247.8
Short-term	56.9	112.9	93.2	97.7	83.8	118.9	111.4	121.9	114.8	105.8	121.1	129.3	184.6
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	35.6	89.5	74.4	74.6	54.4	86.0	76.2	88.9	89.6	90.3	105.2	105.9	164.1
Currency and deposits	2.3	2.2	1.9	1.7	1.6	2.3	2.0	2.0	2.0	1.8	1.8	2.6	2.3
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	19.0	21.3	16.9	21.3	27.9	30.6	33.2	31.0	23.2	13.7	14.1	20.9	18.2
Principal arrears	17.3	17.1	12.9	12.9	19.9	26.7	29.4	26.7	21.6	12.7	12.9	20.0	17.1
Interest arrears	1.7	4.2	4.0	8.4	8.0	3.9	3.8	4.3	1.6	0.9	1.2	0.9	1.1
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	9,341.0	9,275.3	9,255.7	9,232.8	9,106.7	9,329.9	9,432.6	9,451.4	9,663.8	9,952.8	10,186.9	10,240.3	10,061.5
Bonds	3,890.9	3,893.7	3,834.0	3,803.1	3,787.7	3,802.7	3,647.4	3,614.7	3,643.7	3,670.2	3,720.4	3,742.3	3,714.5
Credits	5,235.5	5,177.6	5,201.2	5,210.4	5,073.3	5,283.4	5,514.7	5,579.3	5,748.6	5,992.8	6,177.5	6,241.5	6,068.5
Currency and deposits	0.0	0.0	0.0	0.0	9.6	9.7	19.7	9.6	10.2	19.5	11.4	11.7	10.6
Trade credits	214.6	203.9	220.5	219.4	236.1	234.1	250.9	247.7	261.3	270.3	277.6	244.9	267.9
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	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
2. Publicly guaranteed private sector	138.1	113.1	111.6	109.3	109.8	110.4	106.5	81.8	83.2	82.7	85.2	85.6	80.3
Short-term	9.8	9.7	8.4	8.1	8.2	8.2	8.1	6.6	6.9	7.0	7.6	7.7	7.1
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	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	9.8	9.7	8.4	8.1	8.2	8.2	8.1	6.6	6.9	7.0	7.6	7.7	7.1
Principal arrears	8.4	8.4	7.2	7.0	7.0	7.1	7.0	6.6	6.9	7.0	7.5	7.7	7.1
Interest arrears	1.4	1.3	1.2	1.1	1.1	1.1	1.1	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	128.3	103.4	103.3	101.2	101.7	102.2	98.4	75.2	76.3	75.6	77.6	78.0	73.2
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	128.3	103.4	103.3	101.2	101.7	102.2	98.4	75.2	76.3	75.6	77.6	78.0	73.2
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	0.0	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
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	23,716.0	24,446.5	25,265.4	25,521.6	25,653.3	25,655.5	25,750.4	25,973.6	25,690.7	26,103.5	27,455.0	28,051.2	28,796.5
Short-term	2,882.1	3,043.2	3,246.8	3,493.9	3,743.6	3,682.1	3,310.1	3,106.6	2,861.4	2,769.5	3,340.9	3,659.7	4,564.9
Money market instruments	0.0	0.8	1.5	0.9	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	983.9	950.2	1,113.2	1,142.3	1,481.3	1,450.4	1,375.3	1,352.9	1,131.8	1,116.2	1,517.0	1,612.1	1,641.6
Currency and deposits	1,648.8	1,820.9	1,923.6	2,129.4	1,981.3	1,858.5	1,537.1	1,440.9	1,418.1	1,352.7	1,540.7	1,790.2	2,670.3
Trade credits	34.2	32.9	30.8	34.5	32.8	31.0	35.3	44.0	46.6	39.4	36.6	38.1	39.5
Other debt liabilities	215.2	238.4	177.6	186.8	247.6	342.2	362.5	268.8	264.8	261.2	246.6	219.3	213.5
Principal arrears	172.7	189.8	140.7	147.5	205.4	300.8	312.4	219.4	215.4	209.4	194.1	169.9	150.2
Interest arrears	42.5	48.6	36.9	39.3	42.2	41.3	50.1	49.4	49.5	51.8	52.5	49.4	63.3
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	16,877.1	17,376.6	17,844.9	17,621.5	17,465.2	17,459.9	17,802.8	18,162.2	18,088.9	18,509.4	19,211.6	19,601.0	19,223.1
Bonds	565.0	567.1	571.3	575.7	557.8	561.6	563.6	546.5	548.6	549.0	547.7	546.6	550.6
Credits	13,749.5	13,987.3	14,295.5	14,490.3	14,528.1	14,664.9	14,774.9	15,302.0	15,260.9	15,526.6	15,900.3	15,853.3	16,162.4
Currency and deposits	2,493.9	2,754.3	2,909.5	2,489.7	2,316.5	2,173.0	2,404.2	2,253.7	2,218.1	2,373.7	2,703.7	3,141.5	2,455.0
Trade credits	68.6	67.9	68.6	65.8	62.7	60.5	60.0	59.9	61.3	60.1	60.0	59.6	55.0
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
Direct investment	3,956.9	4,026.6	4,173.8	4,406.2	4,444.5	4,513.5	4,637.4	4,704.8	4,740.5	4,824.6	4,902.5	4,790.4	5,008.5
Total (1+2+3)	33,253.8	33,949.6	34,727.7	34,963.2	34,955.3	35,216.4	35,402.6	35,630.3	35,554.2	36,246.5	37,849.8	38,508.1	39,124.6

^a The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from December 1998 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

Table H14: Gross External Debt by Domestic Sectors and Projected Future Payments^a

million euros

	Gross external debt 31/12/2008	Immediate	Projected future principal payments												
			Q1/2009	Q2/2009	Q3/2009	Q4/2009	2009	2010	2011	2012	2013	2014	2015	2016	Other
1. Government	4,197.3	4.0	689.9	251.1	85.6	58.0	1,084.6	697.1	937.3	136.4	128.7	603.0	236.1	73.9	296.2
Short-term	35.7	4.0	8.7	8.7	8.7	5.8	31.7	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	31.7	0.0	8.7	8.7	8.7	5.8	31.7	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	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	0.0
Principal arrears	3.9	3.9	0.0	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	0.1	0.1	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
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	4,161.6	0.0	681.2	242.5	76.9	52.3	1,052.9	697.1	937.3	136.4	128.7	603.0	236.1	73.9	296.2
Bonds	2,621.9	0.0	624.7	195.3	26.3	0.0	846.4	540.1	740.4	0.0	0.0	495.1	0.0	0.0	0.0
Credits	1,538.9	0.0	56.5	47.1	50.6	52.2	206.4	156.9	196.9	136.3	128.6	107.9	236.1	73.8	296.2
Trade credits	0.7	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	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
2. Croatian National Bank	2.3	0.0	2.3	0.0	0.0	0.0	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	2.3	0.0	2.3	0.0	0.0	0.0	2.3	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	2.3	0.0	2.3	0.0	0.0	0.0	2.3	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	10,079.1	2.0	3,501.9	862.1	762.0	224.3	5,350.3	1,347.5	1,278.5	378.0	357.8	92.1	44.9	53.6	1,174.5
Short-term	3,793.3	2.0	3,341.1	203.6	108.5	138.1	3,791.3	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	1,121.1	0.0	995.9	95.1	0.0	30.1	1,121.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2,670.3	0.0	2,345.1	108.5	108.5	108.0	2,670.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	2.0	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	0.0
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	2.0	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	0.0
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	6,285.8	0.0	160.8	658.5	653.5	86.2	1,558.9	1,347.5	1,278.5	378.0	357.8	92.1	44.9	53.6	1,174.5
Bonds	456.8	0.0	9.0	0.0	447.9	0.0	456.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	3,373.9	0.0	45.2	623.3	170.5	53.0	892.0	621.3	816.3	378.0	357.8	92.1	44.9	53.6	118.0
Currency and deposits	2,455.0	0.0	106.7	35.2	35.2	33.1	210.1	726.2	462.2	0.0	0.0	0.0	0.0	0.0	1,056.5
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	19,835.7	232.9	1,391.5	1,364.5	902.8	1,211.1	4,870.0	2,600.0	2,832.1	2,163.9	942.8	817.7	729.1	743.4	3,904.0
Short-term	925.2	232.9	365.3	130.0	155.7	41.3	692.4	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	652.9	0.0	365.3	130.0	116.2	41.3	652.9	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	39.5	0.0	0.0	0.0	39.5	0.0	39.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	232.9	232.9	0.0	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	170.4	170.4	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
Interest arrears	62.5	62.5	0.0	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	18,910.5	0.0	1,026.3	1,234.5	747.1	1,169.7	4,177.6	2,600.0	2,832.1	2,163.9	942.8	817.7	729.1	743.4	3,904.0
Bonds	1,186.4	0.0	31.0	0.0	0.0	17.4	48.5	17.4	410.6	47.1	29.7	29.7	29.7	29.7	544.0
Credits	17,401.9	0.0	960.3	1,181.7	698.4	1,071.3	3,911.7	2,512.2	2,391.7	2,112.6	912.6	788.0	699.4	713.7	3,360.1
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	0.0	0.0
Trade credits	322.2	0.0	34.9	52.7	48.7	81.0	217.4	70.3	29.8	4.2	0.6	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
5. Direct investment	5,010.2	101.6	477.0	394.8	358.9	353.9	1,584.6	652.3	555.3	528.8	297.6	114.3	396.9	215.5	563.3

Short-term	590.0	101.6	231.5	161.2	40.5	55.2	488.4	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	488.4	0.0	231.5	161.2	40.5	55.2	488.4	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	101.6	101.6	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
Principal arrears	85.8	85.8	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
Interest arrears	15.8	15.8	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	4,420.2	0.0	245.5	233.6	318.5	298.7	1,096.2	652.3	555.3	528.8	297.6	114.3	396.9	215.5	563.3
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	4,414.7	0.0	245.2	233.4	318.2	297.6	1,094.3	651.4	554.4	528.1	297.1	113.8	397.0	215.5	563.1
Trade credits	5.5	0.0	0.3	0.2	0.3	1.1	1.9	0.8	0.9	0.7	0.5	0.5	0.0	0.0	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
Total (1+2+3+4+5)	39,124.6	340.5	6,062.5	2,872.5	2,109.4	1,847.3	12,891.7	5,296.8	5,603.2	3,207.1	1,726.9	1,627.2	1,407.1	1,086.3	5,937.9
Supplement: Projected interest payments			25.2	319.7	262.0	375.1	982.1	1,007.6	814.4	553.7	486.9	394.3	320.1	276.3	1,126.8

^a The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from December 1998 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

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 on the basis of contractual interest rates 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: Gross External Debt by Other Sectors^a

million euros

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Other sectors	14,936.8	16,369.5	16,696.4	16,991.6	17,149.7	17,564.7	17,996.2	18,546.0	18,911.4	19,390.6	19,924.7	19,873.3	19,835.7
Short-term	587.2	637.8	631.9	665.1	776.2	941.3	973.8	916.6	920.4	982.3	999.3	950.6	925.3
Money market instruments	0.0	0.8	1.5	0.9	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	311.3	336.1	397.7	415.4	460.7	532.2	537.6	568.0	580.4	662.6	696.9	667.3	652.9
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	34.2	32.9	30.8	34.5	32.8	31.0	35.3	44.0	46.6	39.4	36.6	38.1	39.5
Other debt liabilities	241.7	268.0	201.8	214.4	282.0	378.0	400.9	304.6	293.4	280.3	265.7	245.2	232.9
Principal arrears	198.0	215.0	160.9	167.3	232.3	334.6	348.7	252.6	243.8	229.2	214.5	197.5	170.4
Interest arrears	43.7	53.1	40.9	47.1	49.7	43.5	52.2	52.0	49.6	51.2	51.2	47.7	62.5
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	14,349.5	15,731.7	16,064.5	16,326.5	16,373.5	16,623.4	17,022.4	17,629.4	17,991.0	18,408.3	18,925.4	18,922.8	18,910.5
Bonds	1,212.4	1,219.7	1,212.4	1,220.0	1,205.1	1,211.9	1,204.8	1,186.6	1,192.1	1,195.8	1,200.1	1,202.1	1,186.4
Credits	12,855.0	14,241.1	14,564.0	14,822.2	14,870.5	15,117.7	15,507.4	16,135.8	16,477.1	16,882.9	17,388.6	17,417.0	17,401.9
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	282.1	270.9	288.2	284.3	297.9	293.7	310.2	306.9	321.8	329.6	336.8	303.7	322.2
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
1.1. Other banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-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
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
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	0.0	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	0.0	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
1.2. Non-banking financial institutions	4,070.3	4,149.5	4,228.6	4,370.6	4,261.6	4,348.0	4,622.7	4,722.4	4,795.8	4,893.3	4,947.0	4,922.5	4,949.7
Short-term	140.9	58.0	47.8	51.7	76.4	107.6	124.4	129.6	133.1	143.5	149.4	145.4	155.4
Money market instruments	0.0	0.8	1.5	0.9	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	111.9	26.9	37.0	39.3	62.4	100.5	114.1	121.6	123.1	136.3	142.1	137.7	144.5
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	29.0	30.4	9.4	11.4	13.4	7.1	10.3	8.0	10.0	7.2	7.3	7.7	10.9
Principal arrears	14.7	19.1	6.1	6.3	7.6	2.2	3.6	2.3	4.3	2.5	2.4	2.7	4.2
Interest arrears	14.3	11.3	3.3	5.2	5.8	4.9	6.7	5.7	5.7	4.7	4.9	5.0	6.7
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	3,929.4	4,091.5	4,180.8	4,318.9	4,185.3	4,240.3	4,498.3	4,592.8	4,662.7	4,749.8	4,797.6	4,777.1	4,794.3
Bonds	806.7	812.1	800.8	804.2	807.5	810.9	802.0	798.2	801.8	805.1	808.6	811.9	791.5
Credits	3,122.7	3,279.4	3,379.5	3,514.2	3,377.3	3,429.4	3,696.3	3,794.6	3,860.8	3,944.8	3,989.0	3,965.2	4,002.8
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	0.5	0.5	0.5	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
1.3. Public enterprises	2,079.6	3,301.2	3,319.2	3,334.0	3,362.0	3,494.8	3,564.6	3,574.3	3,676.4	3,814.3	3,906.6	3,910.8	3,945.4
Short-term	52.3	106.4	87.1	90.6	69.8	99.7	93.8	104.3	101.8	102.4	117.2	117.8	145.1
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	35.6	89.5	74.4	74.7	54.4	86.0	76.2	88.9	89.6	90.3	105.2	105.9	132.4
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	16.7	16.9	12.8	16.0	15.4	13.6	17.6	15.4	12.2	12.1	12.0	11.9	12.7
Principal arrears	15.9	15.6	11.7	11.7	11.7	11.7	14.5	11.7	11.7	11.7	11.7	11.8	11.8
Interest arrears	0.9	1.3	1.1	4.3	3.7	1.9	3.2	3.7	0.5	0.4	0.3	0.1	0.9
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	2,027.3	3,194.8	3,232.1	3,243.3	3,292.2	3,395.1	3,470.7	3,470.0	3,574.6	3,711.9	3,789.3	3,793.0	3,800.4
Bonds	299.8	301.2	302.4	303.8	305.1	306.4	307.8	293.0	294.3	296.0	297.2	298.9	301.2
Credits	1,544.4	2,715.0	2,735.2	2,749.0	2,775.9	2,876.5	2,936.9	2,954.0	3,043.6	3,170.3	3,240.5	3,273.8	3,254.7
Trade credits	183.1	178.7	194.5	190.5	211.2	212.2	226.1	223.1	236.6	245.6	251.7	220.3	244.5
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

1.4. Mixed enterprises	586.7	581.7	576.4	559.5	567.7	566.6	559.6	624.5	677.9	717.2	806.8	823.2	741.6
Short-term	1.2	4.1	4.1	3.9	11.0	15.1	15.1	15.1	8.1	1.2	1.3	8.2	1.2
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	0.0	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	1.2	4.1	4.1	3.9	11.0	15.1	15.1	15.1	8.1	1.2	1.3	8.2	1.2
Principal arrears	1.1	1.2	1.2	1.2	8.2	15.0	15.0	15.0	8.0	1.0	1.1	8.1	1.1
Interest arrears	0.1	2.9	2.9	2.8	2.8	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
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	585.5	577.6	572.3	555.6	556.8	551.6	544.5	609.4	669.9	716.0	805.5	814.9	740.4
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	555.2	553.3	547.2	527.6	532.8	530.5	520.5	585.5	645.9	692.0	780.4	791.1	717.7
Trade credits	30.3	24.3	25.1	27.9	24.0	21.1	24.0	24.0	24.0	24.0	25.1	23.8	22.7
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
1.5. Other enterprises	7,954.8	8,092.8	8,330.7	8,486.8	8,713.6	8,902.3	8,997.2	9,373.2	9,490.6	9,694.7	9,990.6	9,942.9	9,933.4
Short-term	380.3	456.7	480.3	506.3	607.4	707.4	732.9	659.5	668.9	726.8	722.3	670.1	619.2
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	152.2	207.8	274.5	289.5	333.1	334.9	341.0	351.4	361.2	429.5	442.6	416.8	373.8
Trade credits	34.2	32.9	30.8	34.5	32.8	31.0	35.3	44.0	46.6	39.4	36.6	38.1	39.5
Other debt liabilities	193.9	216.0	174.9	182.3	241.5	341.6	356.7	264.2	261.2	257.9	243.1	215.2	205.9
Principal arrears	165.5	178.4	141.2	147.5	204.2	305.0	314.4	221.7	217.9	212.0	197.3	172.8	151.2
Interest arrears	28.5	37.5	33.7	34.8	37.4	36.5	42.2	42.5	43.2	45.9	45.8	42.4	54.7
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	7,574.5	7,636.1	7,850.5	7,980.5	8,106.2	8,194.9	8,264.2	8,713.7	8,821.6	8,967.9	9,268.3	9,272.8	9,314.2
Bonds	106.0	106.5	109.1	111.9	92.5	94.6	95.1	95.4	95.9	94.8	94.3	91.3	93.8
Credits	7,405.0	7,466.6	7,677.8	7,807.7	7,955.8	8,044.0	8,113.1	8,562.2	8,668.2	8,816.6	9,117.4	9,125.2	9,168.7
Trade credits	63.5	63.0	63.5	60.8	57.9	56.3	56.1	56.1	57.6	56.5	56.5	56.3	51.7
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
1.6. Non-profit institutions	3.3	3.3	3.3	3.2	3.2	3.2	3.1	3.1	3.2	3.0	3.1	4.1	3.8
1.7. Craftsmen and sole traders	24.0	23.3	22.4	21.4	21.5	21.1	20.2	19.7	19.3	18.8	18.4	18.0	17.1
1.8. Households	218.1	217.7	215.8	216.2	220.0	228.7	228.9	228.8	248.2	249.4	252.3	251.9	244.7

^aThe CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from December 1998 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

Table H16: International Investment Position – Summary^a

million euros

	2004	2005	2006	2007	2008 ^b	2008			
						Q1	Q2	Q3	Q4 ^b
1. International investment position (net)	-15,371.4	-20,246.8	-29,972.2	-39,924.6	-35,492.2	-38,950.6	-37,643.7	-36,999.8	-35,492.2
2. Assets	15,118.2	16,042.5	18,242.8	21,148.7	21,057.8	20,480.4	20,486.3	21,048.7	21,057.8
2.1. Direct investment abroad	1,563.4	1,729.8	1,833.1	2,315.9	2,558.3	2,236.5	2,481.5	2,555.4	2,558.3
2.2. Portfolio investment	1,506.0	2,136.8	2,575.9	3,021.2	2,413.4	2,413.4	2,355.8	2,042.5	2,413.4
2.2.1. Equity securities	176.8	418.0	720.4	1,601.6	543.1	1,075.7	1,116.3	817.3	543.1
2.2.2. Debt securities	1,329.1	1,718.8	1,855.4	1,419.6	1,870.4	1,337.7	1,239.5	1,225.2	1,870.4
Bonds	1,168.7	1,571.6	1,464.0	1,139.2	1,488.0	1,116.3	1,018.6	1,024.6	1,488.0
Money market instruments	160.4	147.1	391.4	280.4	382.4	221.4	221.0	200.6	382.4
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	5,612.7	4,737.6	5,108.5	6,504.2	6,965.1	5,988.9	5,707.8	6,642.1	6,965.1
2.4.1. Trade credits	222.2	262.9	230.5	248.9	224.7	233.2	233.0	231.2	224.7
2.4.2. Loans	102.2	146.2	239.5	296.4	435.9	325.1	362.3	412.3	435.9
2.4.3. Currency and deposits	5,288.2	4,328.5	4,638.3	5,958.9	6,304.5	5,430.6	5,112.4	5,998.7	6,304.5
2.4.4. Other assets	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
2.5. Reserve assets (CNB)	6,436.1	7,438.4	8,725.3	9,307.4	9,120.9	9,841.7	9,941.2	9,808.7	9,120.9
3. Liabilities	30,489.5	36,289.4	48,215.0	61,073.3	56,550.0	59,431.1	58,130.0	58,048.6	56,550.0
3.1. Direct investment in Croatia	9,114.2	12,332.4	20,782.0	30,660.4	21,862.9	27,769.5	26,363.0	25,756.5	21,862.9
3.2. Portfolio investment	5,981.5	5,530.4	5,442.4	5,840.7	4,837.9	5,486.0	5,214.5	5,091.1	4,837.9
3.2.1. Equity securities	488.1	646.5	1,037.5	1,416.6	572.7	1,106.4	1,003.5	871.9	572.7
3.2.2. Debt securities	5,493.4	4,883.8	4,404.8	4,424.2	4,265.2	4,379.7	4,211.0	4,219.2	4,265.2
Bonds	5,493.4	4,883.8	4,404.8	4,424.2	4,265.2	4,378.8	4,211.0	4,219.2	4,265.2
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.9	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	15,393.9	18,426.6	21,990.6	24,572.2	29,849.2	26,175.5	26,552.5	27,201.0	29,849.2
3.4.1. Trade credits	155.5	194.1	183.3	322.1	362.4	319.7	346.3	369.8	362.4
3.4.2. Loans	11,578.7	14,047.4	16,896.6	19,332.1	24,120.3	21,018.8	21,859.2	22,821.1	24,120.3
3.4.3. Currency and deposits	3,242.7	3,635.6	4,398.3	4,145.0	5,127.6	4,620.8	3,943.3	3,728.2	5,127.6
3.4.4. Other assets	417.0	549.5	512.5	773.0	238.8	216.1	403.7	281.9	238.8

^a The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from December 1998 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

^b Preliminary data.

Table H16: International Investment Position

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 (ZSE).

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 the 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-residents (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 currency assets of banks authorised to do business abroad reduced by the amount of foreign currency 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 currency 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 H17: International Investment Position – Direct Investment

million euros

	2004	2005	2006	2007	2008 ^a	2008			
						Q1	Q2	Q3	Q4 ^b
Direct investment (net)	-7,550.7	-10,602.7	-18,948.9	-28,344.5	-19,304.6	-25,533.0	-23,881.5	-23,201.1	-19,304.6
1. Abroad	1,563.4	1,729.8	1,833.1	2,315.9	2,558.3	2,236.5	2,481.5	2,555.4	2,558.3
1.1. Equity capital and reinvested earnings	1,502.3	1,610.4	1,725.0	2,214.9	2,368.5	2,078.1	2,301.0	2,370.4	2,368.5
1.1.1. Claims	1,502.3	1,610.4	1,725.0	2,214.9	2,368.5	2,078.1	2,301.0	2,370.4	2,368.5
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	61.2	119.3	108.2	101.0	189.7	158.4	180.5	185.0	189.7
1.1.1. Claims	89.6	138.0	144.8	175.4	220.2	189.8	215.5	214.1	220.2
1.2.2. Liabilities	28.4	18.7	36.6	74.4	30.5	31.4	35.1	29.1	30.5
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	9,114.2	12,332.4	20,782.0	30,860.4	21,862.9	27,769.5	26,363.0	25,756.5	21,862.9
2.1. Equity capital and reinvested earnings	7,116.4	9,920.6	17,961.3	26,826.1	16,907.4	23,420.8	21,788.9	20,973.0	16,907.4
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	7,116.4	9,920.6	17,961.3	26,826.1	16,907.4	23,420.8	21,788.9	20,973.0	16,907.4
2.2. Other capital	1,997.8	2,411.8	2,820.7	3,834.3	4,955.5	4,348.7	4,574.1	4,783.5	4,955.5
2.2.1. Claims	19.9	20.1	21.1	24.2	24.3	28.0	30.0	13.7	24.3
2.2.2. Liabilities	2,017.7	2,431.9	2,841.8	3,858.5	4,979.8	4,376.7	4,604.1	4,797.2	4,979.8
2.3. Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

^a Preliminary data.

Table H18: International Investment Position – Portfolio Investment^a

million euros

	2004	2005	2006	2007	2008 ^a	2008			
						Q1	Q2	Q3	Q4 ^b
Portfolio investment (net)	-4,475.5	-3,393.6	-2,866.5	-2,819.5	-2,424.5	-3,072.7	-2,858.7	-3,048.6	-2,424.5
1. Assets	1,506.0	2,136.8	2,575.9	3,021.2	2,413.4	2,413.4	2,355.8	2,042.5	2,413.4
1.1. Equity securities	176.8	418.0	720.4	1,601.6	543.1	1,075.7	1,116.3	817.3	543.1
1.1.1. Banks	5.1	5.9	6.7	8.3	9.7	6.6	15.2	10.7	9.7
1.1.2. Other sectors	171.8	412.1	713.7	1,593.3	533.4	1,069.0	1,101.1	806.6	533.4
1.2. Debt securities	1,329.1	1,718.8	1,855.4	1,419.6	1,870.4	1,337.7	1,239.5	1,225.2	1,870.4
2. Liabilities	5,981.5	5,530.4	5,442.4	5,840.7	4,837.9	5,486.0	5,214.5	5,091.1	4,837.9
2.1. Equity securities	488.1	646.5	1,037.5	1,416.6	572.7	1,106.4	1,003.5	871.9	572.7
2.1.1. Banks	64.7	84.0	156.7	168.0	68.5	141.5	113.3	93.2	68.5
2.1.2. Other sectors	423.4	562.6	880.8	1,248.5	504.3	964.8	890.2	778.6	504.3
2.2. Debt securities	5,493.4	4,883.8	4,404.8	4,424.2	4,265.2	4,379.7	4,211.0	4,219.2	4,265.2
2.2.1. Bonds	5,493.4	4,883.8	4,404.8	4,424.2	4,265.2	4,378.8	4,211.0	4,219.2	4,265.2
2.2.1.1. General government	4,291.2	3,663.4	3,109.1	2,756.9	2,621.9	2,695.0	2,537.6	2,569.2	2,621.9
2.2.1.2. Banks	453.2	456.6	457.9	459.0	456.8	463.8	468.6	454.2	456.8
2.2.1.3. Other sectors	749.0	763.9	837.8	1,208.3	1,186.4	1,220.0	1,204.8	1,195.8	1,186.4
2.2.2. Money market instruments	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0
2.2.2.1. Other sectors	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0

^a The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from December 1998 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

^b Preliminary data.

Table H19: International Investment Position – Other Investment^a

million euros

	2004	2005	2006	2007	2008 ^b	2008			
						Q1	Q2	Q3	Q4 ^b
Other investment (net)	-9,781.2	-13,689.0	-16,882.1	-18,068.0	-22,884.1	-20,186.6	-20,844.7	-20,558.9	-22,884.1
1. Assets	5,612.7	4,737.6	5,108.5	6,504.2	6,965.1	5,988.9	5,707.8	6,642.1	6,965.1
1.1. Trade credits	222.2	262.9	230.5	248.9	224.7	233.2	233.0	231.2	224.7
1.1.1. General government	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
1.1.2. Other sectors	222.2	262.9	230.5	248.9	224.7	233.2	233.0	231.2	224.7
Long-term	181.4	190.9	177.5	228.8	202.6	216.6	213.6	210.6	202.6
Short-term	40.8	72.0	53.0	20.1	22.1	16.6	19.4	20.5	22.1
1.2. Loans	102.2	146.2	239.5	296.4	435.9	325.1	362.3	412.3	435.9
1.2.1. Croatian National Bank	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6
Long-term	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6
1.2.2. General government	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
1.2.3. Banks	81.6	113.2	188.5	214.8	285.3	220.6	226.7	258.8	285.3
Long-term	62.6	85.3	140.0	160.0	193.6	168.6	171.2	190.4	193.6
Short-term	19.0	27.9	48.5	54.8	91.7	52.0	55.5	68.4	91.7
1.2.4. Other sectors	20.0	32.3	50.4	81.1	150.0	104.0	135.1	152.9	150.0
Long-term	18.7	32.0	50.2	81.0	146.8	103.6	132.0	148.3	146.8
Short-term	1.3	0.3	0.2	0.1	3.3	0.3	3.1	4.6	3.3
1.3. Currency and deposits	5,288.2	4,328.5	4,638.3	5,958.9	6,304.5	5,430.6	5,112.4	5,998.7	6,304.5
1.3.2. General government	8.9	54.2	26.4	69.8	90.8	62.9	74.7	101.5	90.8
1.3.3. Banks	4,319.7	3,112.2	3,499.9	4,715.1	4,863.6	4,171.1	3,739.0	4,558.3	4,863.6
1.3.4. Other sectors	959.7	1,162.1	1,111.9	1,174.0	1,350.0	1,196.5	1,298.7	1,338.8	1,350.0
1.4. Other assets	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
2. Liabilities	15,393.9	18,426.6	21,990.6	24,572.2	29,849.2	26,175.5	26,552.5	27,201.0	29,849.2
2.1. Trade credits	155.5	194.1	183.3	322.1	362.4	319.7	346.3	369.8	362.4
2.1.1. General government	2.1	2.6	1.9	1.2	0.7	1.0	0.8	0.7	0.7
Long-term	2.1	2.6	1.9	1.2	0.7	1.0	0.8	0.7	0.7
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	153.5	191.5	181.3	320.9	361.7	318.8	345.5	369.0	361.7
Long-term	129.8	163.7	145.4	289.8	322.2	284.3	310.2	329.6	322.2
Short-term	23.7	27.8	35.9	31.1	39.5	34.5	35.3	39.4	39.5
2.2. Loans	11,578.7	14,047.4	16,896.6	19,332.1	24,120.3	21,018.8	21,859.2	22,821.1	24,120.3
2.2.1. Croatian National Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2. General government	2,250.6	2,484.8	2,557.8	2,608.4	1,570.6	1,408.9	1,499.9	1,509.7	1,570.6
Long-term	2,250.6	2,484.8	2,557.8	2,608.4	1,538.9	1,408.9	1,499.9	1,509.7	1,538.9
Short-term	0.0	0.0	0.0	0.0	31.7	0.0	0.0	0.0	31.7
2.2.3. Banks	4,037.3	4,887.5	5,367.8	4,275.8	4,495.0	4,372.4	4,314.3	3,765.9	4,495.0
Long-term	3,517.4	3,822.7	4,217.3	3,565.1	3,373.9	3,570.8	3,400.4	3,222.0	3,373.9
Short-term	519.9	1,064.8	1,150.4	710.8	1,121.1	801.6	913.9	544.0	1,121.1
2.2.4. Other sectors	5,290.8	6,675.1	8,971.0	12,447.9	18,054.8	15,237.6	16,045.0	17,545.4	18,054.8
Long-term	5,192.3	6,542.1	8,816.1	11,766.9	17,401.9	14,822.2	15,507.4	16,882.9	17,401.9
Short-term	98.5	133.0	155.0	681.0	652.9	415.4	537.6	662.6	652.9
2.3. Currency and deposits	3,242.7	3,635.6	4,398.3	4,145.0	5,127.6	4,620.8	3,943.3	3,728.2	5,127.6
2.3.1. Croatian National Bank	2.4	2.6	2.6	2.3	2.3	1.7	2.0	1.8	2.3
2.3.2. Banks	3,240.3	3,632.9	4,395.7	4,142.6	5,125.3	4,619.1	3,941.3	3,726.4	5,125.3
2.4. Other liabilities	417.0	549.5	512.5	773.0	238.8	216.1	403.7	281.9	238.8

^a The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions. The reclassification covers the entire statistical series (from December 1998 onwards). Moreover, CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

^b Preliminary data.

Table I1: Consolidated Central Government According to the Government Level^a

million kuna

	2007	2008								
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.
1. REVENUE (A + B)	10,233.2	10,061.0	9,117.2	8,983.3	11,736.2	9,681.1	9,802.8	11,690.9	9,307.9	9,802.1
A) Budgetary central government	9,758.1	9,849.9	8,765.5	8,729.1	11,427.8	9,329.9	9,467.2	11,353.7	8,977.1	9,447.3
B) Extrabudgetary users	475.1	211.1	351.6	254.2	308.4	351.2	335.6	337.2	330.8	354.9
1. Croatian Pension Insurance Administration	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Croatian Institute for Health Insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Croatian Employment Service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Croatian Waters	279.7	105.7	133.4	174.3	186.2	158.2	170.2	195.3	145.2	229.1
5. Fund for Environmental Protection and Energy Efficiency	119.3	76.2	119.3	66.3	66.5	132.3	72.5	113.0	99.8	111.2
6. Croatian Motorways Ltd.	33.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7. Croatian Roads Ltd.	29.6	3.3	28.1	3.0	2.7	9.5	3.0	3.0	3.1	3.0
8. State Agency for Deposit Insurance and Bank Rehabilitation	4.6	24.2	65.4	1.9	46.6	50.3	82.0	23.5	73.2	9.8
9. Croatian Privatisation Fund	8.4	1.7	5.5	8.7	6.4	0.9	8.0	2.4	9.4	1.8
2. EXPENSE (A + B)	11,460.1	7,986.8	9,281.1	9,209.2	9,695.6	9,470.5	9,524.9	10,612.3	9,077.2	9,870.4
A) Budgetary central government	10,527.3	7,712.2	9,075.1	8,963.0	9,380.9	9,151.2	8,984.7	10,193.9	8,706.8	9,317.7
B) Extrabudgetary users	932.8	274.6	205.9	246.2	314.8	319.3	540.2	418.4	370.3	552.7
1. Croatian Pension Insurance Administration	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Croatian Institute for Health Insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Croatian Employment Service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Croatian Waters	369.6	137.7	28.2	87.1	131.7	167.7	275.9	164.9	174.7	243.7
5. Fund for Environmental Protection and Energy Efficiency	115.3	46.5	102.6	73.1	67.1	72.8	58.2	89.1	76.1	119.1
6. Croatian Motorways Ltd.	217.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7. Croatian Roads Ltd.	218.7	82.2	70.0	65.2	103.3	69.9	196.1	154.9	112.8	171.1
8. State Agency for Deposit Insurance and Bank Rehabilitation	1.4	1.2	0.8	14.5	4.5	3.7	1.0	1.6	1.1	9.5
9. Croatian Privatisation Fund	10.9	7.0	4.3	6.3	8.1	5.2	9.0	7.8	5.6	9.4
NET/GROSS OPERATING BALANCE (1–2)	-1,226.9	2,074.2	-163.9	-225.9	2,040.5	210.6	277.9	1,078.6	230.7	-68.2
3. CHANGE IN NET WORTH: TRANSACTIONS (3.1.+3.2.-3.3.)	-1,226.9	2,074.2	-163.9	-225.9	2,040.5	210.6	277.9	1,078.6	230.7	-68.2
3.1. CHANGE IN NET ACQUISITION OF NON-FINANCIAL ASSETS	1,373.0	111.4	118.9	70.7	361.4	280.6	313.0	263.8	369.7	406.4
Acquisition	1,439.1	136.3	139.6	116.4	388.4	303.5	337.8	432.0	387.6	427.5
A) Budgetary central government	717.6	76.4	46.8	69.6	323.6	199.1	128.4	252.6	329.4	331.8
B) Extrabudgetary users	721.5	59.8	92.8	46.7	64.8	104.3	209.3	179.4	58.2	95.7
Disposals	66.2	24.9	20.7	45.7	27.0	22.8	24.8	168.2	17.9	21.1
A) Budgetary central government	52.5	22.2	20.6	23.7	25.8	19.7	23.9	29.7	17.8	23.2
B) Extrabudgetary users	13.6	2.6	0.1	22.0	1.2	3.2	0.9	138.5	0.1	-2.1
NET LENDING/BORROWING (1–2–3.1.)	-2,599.8	1,962.8	-282.8	-296.6	1,679.1	-70.0	-35.0	814.8	-139.0	-474.7
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING) (3.3.–3.2.)	2,599.8	-1,962.8	282.8	296.6	-1,679.1	70.0	35.0	-814.8	139.0	474.7
3.2. CHANGE IN NET ACQUISITION OF FINANCIAL ASSETS	-2,488.4	1,163.6	131.5	676.8	1,326.2	-278.0	31.1	1,055.4	-700.6	-465.0
3.2.1. Domestic	-2,493.0	1,163.6	131.5	676.8	1,326.2	-283.3	29.3	1,055.4	-700.6	-465.0
A) Budgetary central government	-3,008.2	1,176.1	-84.8	604.2	1,273.9	-562.3	-52.2	712.4	-780.0	-374.6
B) Extrabudgetary users	515.1	-12.5	216.3	72.6	52.3	279.0	81.5	343.1	79.4	-90.4
3.2.2. Foreign	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A) Budgetary central government	4.7	0.0	0.0	0.0	0.0	5.3	1.8	0.0	0.0	0.0
B) Extrabudgetary users	0.0	0.0	0.0	0.0	0.0	5.3	1.8	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
3.3. CHANGE IN NET INCURRENCE OF LIABILITIES	111.5	-799.2	414.3	973.4	-352.9	-208.0	66.2	240.6	-561.6	9.6
3.3.1. Domestic	-250.7	-326.3	341.7	1,034.1	-320.6	-1,019.9	1,408.1	637.0	-578.1	-75.9
A) Budgetary central government	192.9	-321.1	343.6	1,063.3	-297.2	-1,113.0	1,068.3	392.0	-556.0	-37.1
B) Extrabudgetary users	-443.6	-5.1	-1.9	-29.2	-23.3	93.1	339.8	244.9	-22.1	-38.8
3.3.2. Foreign	362.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A) Budgetary central government	26.6	-472.9	72.6	-60.7	-32.3	811.9	-1,341.9	-396.3	16.5	85.6
B) Extrabudgetary users	335.5	-467.4	0.3	-58.9	-45.2	739.3	-1,339.7	-405.8	16.5	9.4

^a CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

Note: On a cash basis.

The Notes on Methodology can be found in the Ministry of Finance Monthly Statistical Review.

Source: MoF.

Table I2: Budgetary Central Government Operations^a

million kuna

	2007	2008								
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.
1. REVENUE	9,770.1	9,849.9	8,765.5	8,729.1	11,428.0	9,329.9	9,467.2	11,353.7	8,977.1	9,447.3
1.1. Taxes	4,675.8	5,940.1	5,181.6	5,190.2	7,258.4	5,614.3	5,626.6	7,511.7	5,306.3	5,655.4
1.2. Social contributions	3,209.7	3,385.9	3,177.7	3,202.5	3,274.4	3,323.9	3,424.4	3,504.2	3,388.4	3,446.2
1.3. Grants	102.8	33.4	16.4	38.3	91.6	20.7	20.4	38.5	47.7	33.7
1.4. Other revenue	1,781.8	490.5	389.8	298.1	803.5	371.1	395.9	299.2	234.8	312.0
2. EXPENSE	12,328.1	7,831.1	9,168.1	9,083.4	9,513.9	9,333.7	9,141.6	10,404.6	8,905.9	9,485.6
2.1. Compensation of employees	2,555.0	2,406.9	2,367.2	2,362.8	2,417.2	2,423.6	2,472.8	2,723.9	2,446.4	2,506.7
2.2. Use of goods and services	1,087.7	382.2	449.8	480.2	784.9	580.7	533.4	801.9	528.5	573.7
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
2.4. Interest	319.4	289.1	1,105.8	354.6	277.9	358.3	354.9	296.6	397.2	386.9
2.5. Subsidies	662.7	359.5	636.6	884.3	723.2	574.0	389.7	535.7	328.7	672.1
2.6. Grants	2,429.2	256.8	252.1	314.3	397.4	566.0	425.1	564.6	460.3	419.4
2.7. Social benefits	4,474.2	3,847.0	3,941.1	4,208.3	4,252.0	4,211.3	4,323.6	4,751.8	4,184.1	4,332.3
2.8. Other expense	799.8	289.6	415.4	479.0	661.2	619.8	642.1	730.1	560.8	594.5
3. CHANGE IN NET WORTH: TRANSACTIONS	-2,557.9	2,018.8	-402.5	-354.3	1,914.0	-3.8	325.6	949.1	71.2	-38.3
3.1. Change in net acquisition of non-financial assets	665.1	54.2	26.2	45.9	297.8	179.5	104.6	222.9	311.7	308.6
3.1.1. Fixed assets	650.4	53.0	24.7	42.3	282.3	157.2	87.2	204.0	281.5	300.2
3.1.2. Inventories	-7.2	0.0	-0.2	0.7	-1.1	-0.1	0.0	-0.1	6.0	7.5
3.1.3. Valuables	0.6	0.1	1.2	0.4	0.8	0.8	1.3	0.8	0.5	0.0
3.1.4. Non-produced assets	21.2	1.0	0.5	2.6	15.7	21.6	16.1	18.2	23.7	0.9
3.2. Change in net acquisition of financial assets	-3,003.5	1,176.1	-84.8	604.2	1,273.9	-557.0	-50.4	712.4	-780.0	-374.6
3.2.1. Domestic	-3,008.2	1,176.1	-84.8	604.2	1,273.9	-562.3	-52.2	712.4	-780.0	-374.6
3.2.2. Foreign	4.7	0.0	0.0	0.0	0.0	5.3	1.8	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
3.3. Change in net incurrence of liabilities	219.5	-788.5	343.9	1,004.4	-342.4	-373.7	-271.4	-13.8	-539.5	-27.7
3.3.1. Domestic	192.9	-321.1	343.6	1,063.3	-297.2	-1,113.0	1,068.3	392.0	-556.0	-37.1
3.3.2. Foreign	26.6	-467.4	0.3	-58.9	-45.2	739.3	-1,339.7	-405.8	16.5	9.4

^a CM is reclassified from the subsector central government funds to the subsector public enterprises. The reclassification covers the statistical series from January 2008 onwards.

Note: On a cash basis.

The Notes on Methodology can be found in the Ministry of Finance Monthly Statistical Review.

Source: MoF.

Table I3: Central Government Debt^a

end of period, million kuna

	2007	2008											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1. Domestic debt of central government	62,839.1	58,665.5	59,205.3	60,597.9	60,420.4	59,398.0	60,844.1	61,396.3	60,606.1	60,717.6	61,060.3	63,455.1	67,753.0
1.1 Domestic debt of the Republic of Croatia	56,506.5	55,874.8	56,422.9	57,669.9	57,497.4	56,402.5	57,573.2	57,890.3	57,147.8	57,136.1	57,540.4	59,593.6	63,960.8
Treasury bills	11,975.3	11,665.3	11,825.5	11,874.6	12,140.9	12,030.3	12,038.2	11,913.1	11,136.0	10,906.0	9,748.0	12,119.0	16,775.2
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	10.7
Bonds	38,795.2	38,596.1	38,628.1	38,556.3	38,573.4	37,436.6	37,409.4	37,342.7	37,076.2	37,079.8	37,301.6	37,109.4	36,108.3
Credits from the CNB	1.0	–	–	–	0.0	–	1.0	–	0.9	–	–	–	2.2
Credits from banks	5,735.0	5,613.4	5,969.3	7,239.0	6,783.1	6,935.6	8,124.6	8,634.5	8,934.7	9,150.3	10,490.8	10,365.2	11,064.4
1.2. Domestic debt of central government funds	6,332.6	2,790.7	2,782.4	2,928.0	2,923.0	2,995.5	3,271.0	3,506.0	3,458.3	3,581.5	3,519.9	3,861.5	3,792.3
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Credits from banks	6,332.6	2,790.7	2,782.4	2,928.0	2,923.0	2,995.5	3,271.0	3,506.0	3,458.3	3,581.5	3,519.9	3,861.5	3,792.3
2. External debt of central government	39,610.7	30,299.8	30,108.9	29,580.1	29,441.2	30,376.7	29,061.4	28,690.9	28,776.9	28,819.3	29,732.5	29,684.4	30,477.8
2.1 External debt of the Republic of Croatia	29,424.0	28,925.8	28,652.5	28,123.3	27,993.3	28,853.5	27,559.9	27,257.5	27,344.0	27,340.2	28,165.0	28,123.4	28,651.6
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	20,397.3	20,158.2	19,873.0	19,556.8	19,431.2	19,470.3	18,388.3	18,222.7	18,244.7	18,261.0	18,788.3	18,757.1	19,204.2
Credits	9,026.7	8,767.6	8,779.5	8,566.5	8,562.1	9,383.2	9,171.6	9,034.7	9,099.3	9,079.1	9,376.6	9,366.3	9,447.4
2.2 External debt of central government funds	10,186.7	1,374.0	1,456.4	1,456.8	1,447.8	1,523.2	1,501.5	1,433.5	1,432.8	1,479.1	1,567.5	1,561.0	1,826.2
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Credits	10,186.7	1,374.0	1,456.4	1,456.8	1,447.8	1,523.2	1,501.5	1,433.5	1,432.8	1,479.1	1,567.5	1,561.0	1,826.2
3. Total (1+2)	102,449.8	88,965.3	89,314.2	90,178.0	89,861.6	89,774.7	89,905.5	90,087.2	89,382.9	89,536.9	90,792.8	93,139.5	98,230.8
Supplement: Central government guaranteed debt													
– guarantees for domestic debt	8,110.6	11,395.6	11,408.0	10,947.4	11,431.7	11,271.0	11,579.3	11,033.0	11,300.5	11,340.2	11,601.5	11,623.5	13,276.5
– guarantees for external debt	19,024.2	27,576.1	27,678.7	28,055.3	27,129.6	27,685.5	29,429.0	29,328.4	29,815.9	30,946.4	31,640.3	31,621.9	31,431.1

^a The CBRD is reclassified from the subsector central government funds to the subsector non-banking financial institutions and CM is reclassified from the subsector central government funds to the subsector public enterprises. The debt of the CBRD, presented in this table under headings 2. External debt of central government and 1. Domestic debt of central government, is reclassified from December 1998 and June 1999 onwards respectively, and the debt of CM is reclassified from January 2008 onwards.

Table I3: Central Government Debt

Data on the central government debt are based on the available data and are not reconciled with the Ministry of Finance of the Republic of Croatia. The central government debt comprises the domestic and external debt. The Ministry of Finance Monthly Statistical Review, Monetary Authorities Accounts and Banks' Accounts are the sources of data on the domestic central government debt. The external debt statistics compiled by the CNB is the source of data on the central government external debt. The supplement contains the data on the central government guaranteed debt. Banks are the source of data on domestic debt guarantees, while the external debt statistics compiled by the CNB is the source of data on external debt guarantees.

Table J1: Consumer Price and Producer Price Indices

Year	Month	Basic indices, 2005 = 100			Chain indices				Monthly year-on-year indices			
		Consumer price indices			Consumer price indices			Producer prices	Consumer price indices			Producer prices
		Total	Goods	Services	Total	Goods	Services		Total	Goods	Services	
1999	December	85.3	87.2	78.5	100.6	100.8	100.0	100.3	103.9	103.1	106.5	105.9
2000	December	90.0	92.0	82.8	100.4	100.4	100.1	100.2	105.5	105.5	105.5	111.2
2001	December	92.1	93.2	88.5	100.4	100.4	100.5	99.0	102.4	101.3	106.8	96.9
2002	December	93.8	94.2	92.6	100.4	100.6	99.6	99.9	101.8	101.1	104.6	102.3
2003	December	95.4	95.7	94.6	100.3	100.2	100.5	100.0	101.7	101.6	102.2	101.0
2004	December	98.0	98.0	98.0	100.7	100.9	100.2	99.3	102.7	102.5	103.6	104.8
2005	December	101.6	101.4	102.0	100.5	100.5	100.5	99.7	103.6	103.5	104.1	102.7
2006	December	103.7	102.8	106.4	100.0	100.0	100.2	100.0	102.0	101.4	104.2	101.9
2007	December	109.7	109.5	110.0	101.2	101.2	101.3	100.4	105.8	106.6	103.4	105.8
2008	January	110.4	109.9	111.9	100.7	100.4	101.7	102.3	106.2	107.0	103.7	107.4
	February	110.3	109.5	112.6	99.9	99.6	100.7	100.3	105.8	106.4	103.8	107.5
	March	110.9	110.4	112.4	100.6	100.8	99.8	100.8	105.7	106.4	103.5	107.6
	April	111.7	111.4	112.5	100.7	100.9	100.1	100.4	105.7	106.2	104.0	107.7
	May	113.0	113.0	112.5	101.1	101.4	100.0	101.3	106.4	107.1	104.1	108.7
	June	113.8	113.8	113.4	100.7	100.7	100.8	101.3	107.6	108.5	104.7	109.6
	July	113.9	113.7	114.3	100.1	99.9	100.8	102.4	108.4	109.6	104.6	112.0
	August	113.6	113.1	114.7	99.7	99.5	100.3	99.9	107.4	108.3	104.4	111.0
	September	113.8	113.8	113.5	100.2	100.6	98.9	99.9	106.4	107.0	104.4	110.3
	October	113.7	113.8	112.9	99.9	100.0	99.5	98.9	105.9	106.4	104.3	108.8
	November	113.5	113.2	114.2	99.9	99.5	101.1	98.5	104.7	104.6	105.1	106.5
	December	112.8	112.2	114.7	99.4	99.1	100.5	98.7	102.9	102.4	104.3	104.7

Source: CBS.

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 ceased to publish 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 features of the CPI are described in the CNB Bulletin No. 91 (see Box 1). 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, 2005 = 100 ^a			Chain indices			Monthly year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
1999	December	89.8	91.1	82.3	100.1	100.1	100.1	102.9	102.9	103.0
2000	December	92.8	93.9	86.5	100.4	100.4	100.2	103.3	103.0	105.0
2001	December	93.9	94.6	89.8	99.8	99.7	100.3	101.2	100.8	103.8
2002	December	95.0	95.6	91.9	100.0	100.1	99.4	101.2	101.0	102.4
2003	December	96.2	96.4	94.7	100.2	100.1	101.0	101.2	100.9	103.0
2004	December	98.4	98.5	97.4	100.1	100.1	100.4	102.3	102.2	102.9
2005	December	101.3	101.4	101.0	100.1	100.0	100.5	103.0	102.9	103.7
2006	December	103.6	103.6	103.6	99.8	99.7	100.3	102.3	102.2	102.5
2007	December	108.8	109.1	107.2	100.8	100.8	100.4	105.0	105.3	103.5
2008	January	108.7	108.8	108.2	99.9	99.7	101.0	105.3	105.6	103.8
	February	108.7	108.7	108.8	100.0	99.9	100.5	105.1	105.3	103.7
	March	109.3	109.3	109.1	100.5	100.6	100.3	105.1	105.4	103.8
	April	110.1	110.3	109.2	100.7	100.8	100.1	105.3	105.5	104.0
	May	111.3	111.4	110.3	101.0	101.1	101.0	105.6	105.8	104.3
	June	112.4	112.2	112.8	101.0	100.7	102.3	106.5	106.7	105.7
	July	112.1	111.6	115.2	99.8	99.4	102.1	106.8	107.0	105.8
	August	112.5	111.9	116.0	100.4	100.3	100.7	106.6	106.8	105.3
	September	113.1	113.0	113.2	100.5	101.0	97.6	106.3	106.6	105.2
	October	113.5	113.7	112.0	100.3	100.6	99.0	105.9	106.0	105.3
	November	114.0	114.3	112.3	100.5	100.5	100.2	105.6	105.6	105.2
	December	113.3	113.5	112.5	99.4	99.3	100.2	104.2	104.0	105.0

^a Since January 2007, the CPI has been calculated and published by the CBS on the new base 2005 = 100.

Source: CBS.

Table J2: Core Consumer Price Indices

The core consumer price index is calculated by the Central Bureau of Statistics (CBS) 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 total index. These two groups of products accounted for a total of 30.06% in the basket in 2005 (agricultural products 6.93 percentage points, and administrative products 23.13 percentage points). A total of 111 goods and services are excluded from the coverage of the CPI basket and assigned a zero weight.

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
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	December	4,473.0	97.3	103.7	104.9
2006	December	4,735.0	97.0	105.9	105.2
2007	December	4,958.0	96.6	104.7	105.2
2008	January	5,019.0	101.2	105.9	105.9
	February	4,993.0	99.5	107.4	106.7
	March	5,042.0	101.0	105.3	106.2
	April	5,036.0	99.9	106.0	106.2
	May	5,174.0	102.7	106.1	106.2
	June	5,167.0	99.9	106.6	106.2
	July	5,234.0	101.3	107.8	106.5
	August	5,184.0	99.0	106.5	106.5
	September	5,203.0	100.4	109.7	106.8
	October	5,263.0	101.2	108.1	107.0
	November	5,397.0	102.5	105.2	106.8
	December	5,410.0	100.3	109.1	107.0

Source: CBS.

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	December	-33.7	-14.9	-46.3	-38.4	-12.1	-49.9	-17.6	35.5	-50.7	-69.7
2000	December	-20.9	3.5	-32.2	-26.2	1.2	-22.0	5.7	26.9	-48.3	-63.6
2001	December	-27.0	-11.4	-35.6	-29.6	-10.0	-35.9	-12.7	22.9	-41.3	-62.3
2002	December	-25.2	-8.3	-29.3	-22.6	-5.1	-31.2	-11.5	20.1	-34.1	-64.0
2003	December	-22.2	-4.5	-25.0	-21.5	-2.6	-26.5	-6.4	14.7	-27.1	-65.2
2004	December	-23.9	-7.9	-22.0	-19.1	-4.1	-30.5	-11.6	22.5	-16.5	-57.3
2005	December	-26.4	-13.7	-25.6	-16.4	-5.9	-34.4	-21.5	27.6	-25.9	-50.6
2006	December	-18.9	-4.7	-15.4	-10.9	1.1	-22.4	-10.5	16.9	-12.9	-49.4
2007	December	-24.7	-15.5	-24.5	-16.8	-9.8	-31.8	-21.2	12.8	-25.0	-54.8
2008	January	-21.0	-12.4	-22.8	-15.5	-6.9	-29.8	-17.9	9.1	-23.1	-50.0
	February	-24.2	-16.1	-28.1	-21.1	-8.0	-35.7	-24.2	10.0	-27.5	-54.4
	March	-24.1	-13.7	-27.2	-21.9	-6.4	-38.4	-20.9	14.9	-21.2	-54.2
	April	-20.5	-11.4	-24.7	-21.5	-6.3	-30.7	-16.4	6.4	-21.8	-53.0
	May	-26.8	-18.9	-29.4	-22.5	-10.7	-40.6	-27.0	12.1	-25.1	-57.3
	June	-34.7	-32.0	-34.9	-28.6	-23.8	-49.4	-40.1	17.6	-26.7	-57.4
	July	-30.5	-26.3	-35.0	-29.1	-17.4	-48.2	-35.1	13.5	-27.8	-56.0
	August	-29.5	-24.7	-34.4	-25.8	-17.5	-45.6	-31.8	15.6	-31.8	-53.2
	September	-29.3	-22.8	-36.4	-30.2	-17.3	-48.5	-28.2	15.1	-30.6	-56.7
	October	-28.0	-19.5	-33.7	-25.9	-10.9	-44.3	-28.1	20.0	-30.8	-53.1
	November	-32.4	-24.3	-30.9	-25.5	-17.6	-45.8	-30.9	28.0	-21.5	-53.0
	December	-42.0	-33.3	-40.9	-30.7	-25.9	-51.8	-40.6	43.4	-40.3	-57.9

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 cooperation 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:

$$I_i = \sum_{z=1}^k r_z \cdot w_z$$

where: r is the value of the response, w is the share of respondents opting for a particular response (weight), i question from the questionnaire, 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, I7 × (-1), I11

CEI: I2, I4

CSI: I1, I3, I8.

Abbreviations and Symbols

Abbreviations

bn	– billion	HANFA	– Croatian Financial Services Supervisory Agency
b.p.	– basis points	HICP	– harmonised index of consumer prices
BIS	– Bank for International Settlements	IAS	– International Accounting Standards
c.i.f.	– cost, insurance and freight	IASB	– International Accounting Standards Board
CBRD	– Croatian Bank for Reconstruction and Development	IBRD	– International Bank for Reconstruction and Development
CBS	– Central Bureau of Statistics	IDB	– Inter-American Development Bank
CEE	– Central and Eastern European	IEMP	– index of exchange market pressure
CES	– Croatian Employment Service	IFRS	– International Financial Reporting Standards
CICR	– currency-induced credit risk	ILO	– International Labour Organization
CIHI	– Croatian Institute for Health Insurance	IPO	– initial public offering
CLVPS	– Croatian Large Value Payment System	IMF	– International Monetary Fund
CPI	– consumer price index	incl.	– including
CPIA	– Croatian Pension Insurance Administration	m	– million
CPF	– Croatian Privatisation Fund	MIGs	– main industrial groupings
CM	– Croatian Motorways	MM	– monthly maturity
CNB	– Croatian National Bank	MoF	– Ministry of Finance
CR	– Croatian Roads	MRR	– marginal reserve requirement
EBRD	– European Bank for Reconstruction and Development	NCEA	– National Classification of Economic Activities
EC	– European Commission	NCS	– National Clearing System
ECB	– European Central Bank	n.e.c.	– not elsewhere classified
EFTA	– European Free Trade Association	NPSC	– National Payment System Committee
EMU	– Economic and Monetary Union	NUIR	– net usable international reserves
EU	– European Union	OG	– Official Gazette
excl.	– excluding	OECD	– Organisation for Economic Co-Operation and Development
f/c	– foreign currency	OPEC	– Organization of the Petroleum Exporting Countries
FDI	– foreign direct investment	o/w	– of which
Fed	– Federal Reserve System	PPI	– producer price index
FINA	– Financial Agency	R	– Republic
FISIM	– financial intermediation services indirectly measured	RR	– reserve requirement
f.o.b.	– free on board	ROAA	– return on average assets
GDP	– gross domestic product	ROAE	– return on average equity
GFS	– Government Finance Statistics	Q	– quarter
GVA	– gross value added		

SDR	– special drawing rights
SITC	– Standard International Trade Classification
VAT	– value added tax
ZMM	– Zagreb Money Market
ZSE	– Zagreb Stock Exchange

ITL	– Italian lira
JPY	– Japanese yen
USD	– US dollar
XDR	– Special Drawing Rights

Three-letter currency codes

ATS	– Austrian schilling
CHF	– Swiss franc
DEM	– German mark
EUR	– euro
FRF	– French franc
GBP	– pound sterling
HRK	– Croatian kuna

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
()	– incomplete or insufficiently verified data

