Annual Report

2009

CROATIAN NATIONAL BANK

HNB

ANNUAL REPORT 2009

PUBLISHER

CROATIAN NATIONAL BANK
Publishing Department
Trg hrvatskih velikana 3
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www.hnb.hr

Those using data from this publication are requested to cite the source.
Any additional corrections that may be required will be made in the website version.
Printed in 500 copies

ISSN 1331-6567 (print)
ISSN 1334-0107 (online)

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Zagreb, June 2010

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Summary

Due to negative carry-over effects the financial crisis had on the real sector of the economy, real GDP in Croatia, according to the CBS quarterly estimate, decreased by 5.8% in 2009, down for the first time since 1999. An analysis of aggregate demand components shows that the unfavourable developments in the real sector primarily resulted from a sharp decrease in exports of goods and services, caused by a reduced volume of global trade and a decline in foreign demand. Gross fixed capital formation also fell markedly due to a drop in investments by the private and public sectors, and personal consumption contracted annually on account of strong consumer pessimism and worsened conditions for financing household consumption. These negative developments also led to a sharp decrease in imports of goods and services, with the result that net foreign demand made a positive statistical contribution to real GDP trends. Government consumption remained at approximately the same level as in 2008.

Labour market indicators were also adversely affected by the negative economic trends, albeit with a time lag. The number of employed persons fell in 2009, while the number of registered unemployed persons rose in the same period. These trends became even more pronounced towards the end of the year. The registered unemployment rate stood at 16.7% at the end of 2009 and the average annual rate was 14.9% (compared with 13.2% in 2008).

Employers adjusted to recessionary conditions not only by labour force reduction but also by wage cuts. Consequently, high at the beginning of the year, wages slowed down in the remaining part of the year and decreased at the year-end. As the slowdown in wages was sharper than that in inflation, real gross wages also decelerated, while real net wages dropped.

The CNB continued to maintain price stability in 2009, achieving its main, legally prescribed objective. The average annual inflation rate in Croatia declined from 6.1% in 2008 to 2.4% in 2009. An analysis of CPI components shows that an average annual drop in food and energy prices made the largest contribution to the inflation slowdown. The inflation decrease would have been even more pronounced if it had not been for a significant increase in administratively set prices (gas, tobacco products, medical and hospital services).

Other major price indicators in Croatia also confirm the price slowdown. The average annual rate of change in core inflation, which excludes agricultural product prices and administrative prices, stood at 2.8% in 2009, decreasing significantly from 5.7% in 2008. Industrial producer prices showed a similar trend, even recording a negative average annual rate of change of 0.4% due to economic contraction and reduced cost pressures. Real estate prices dropped by 1.4% in 2009, mainly because of a decrease in demand for residential real estate caused by stagnating disposable household income. Tightened lending conditions for home loans and an increase in interest rates produced the same effect.

Price stability was to a great extent achieved due to the stability of the kuna/euro exchange rate, which serves as the main anchor of inflation expectations. The nominal daily kuna/euro exchange rate moved within a narrow range around the average daily exchange rate of HRK 7.34/EUR, down by 1.6% from the previous year.

The exchange rate fluctuated only slightly despite coming under both depreciation and appreciation pressures during the year. The beginning of the year was marked by depreciation pressures, predominantly stemming from government and enterprise demand for foreign exchange, needed for the payment of foreign liabilities, reduced foreign capital inflows and negative household and enterprise expectations regarding future economic developments. Thanks to the high levels of foreign currency reserves created during the period of high capital inflows, the central bank successfully alleviated depreciation pressures on the domestic currency exchange rate and maintained the country's foreign exchange liquidity by implementing changes to monetary policy instruments in late 2008 and continuing this course of action in early 2009. In January 2009, the central bank altered the reserve requirement structure increasing the foreign currency component of reserve requirements allocated in kuna, and in February it cut the minimum required rate of foreign currency claims, releasing considerable amounts of foreign exchange and facilitating the financing of domestic sectors, especially of the government; it backed up these measures by selling foreign exchange in the market and limiting kuna liquidity-creation by repo operations. In addition, the maximum permitted open foreign exchange position was increased in February, which made it easier for banks to use the foreign exchange freed up.

The foreign exchange market stabilised in the remaining part of the year, with appreciation pressures, slightly intensified in the second and fourth quarters, primarily coming from the foreign exchange inflow generated by government borrowing through eurobond and US dollar bond issues. The CNB therefore purchased foreign exchange from the government and banks to prevent the appreciation of the exchange rate and maintain good liquidity in the system; this was coupled with a recovery of gross international reserves. Notwithstanding the considerable volume of foreign exchange transactions with banks, foreign exchange sales and purchases conducted with the central government, with the CNB as net purchaser of foreign exchange, had a more significant monetary effect. The total net amount purchased by the CNB in 2009 through foreign exchange transactions with banks and the MoF was EUR 895.2m, and the amount released was HRK 6.4bn, a considerable increase (HRK 1.2bn) compared with 2008.

The overall economic slowdown in 2009 had a strong impact on developments in monetary and credit aggregates. Bank placements to the private sector decreased annually for the first time since 1999 due both to supply effects and loan demand. Faced with an increase in the non-performing loans to total loans ratio and growing insecurity, banks assumed new risks with increased caution, raised interest rates and tightened other lending conditions. They were also strongly focused on the financing of the central government which was, due to the adverse effect of the crisis, confronted with a drop in budget revenues and tightened financing conditions in foreign capital markets. On the other hand, corporate and household demand for new loans dropped on account of negative trends, unfavourable expectations in the real sector of the economy and the increasing loan repayment burden. Under such conditions, the CNB in November 2009 revoked the Decision on the purchase of compulsory CNB bills, which had restricted the growth of bank loans in the previous three years. In addition, in order to spur the recovery of domestic placements and the overall economy, the central bank maintained a strong level of primary liquidity in the domestic monetary system late in the year.

The halt in bank lending and a decline in overall liquidity in the economy had a great effect on money (M1), which fell by 14.6% in 2009. Total liquid assets (M4) decreased at a much more moderate rate thanks to a growth in foreign currency deposits, the consequence of which was an increase in the level of euroisation of the domestic banking system.

In contrast with the exchange rate, interest rates fluctuated sharply in 2009. The monthly averages of money market interest rates charged on overnight loans ranged between 19.0% in February and 1.0% in November, these being the peak and bottom levels in the previous five years. A drop in liquidity early in the year put upward pressures on interest rates on kuna T-bills and the volume of T-bill issue diminished as a result. Bank interest rates also fluctuated markedly. The growth trend in lending rates and deposit rates on kuna sources of funds continued from 2008 into the first half of 2009, while both bank lending and deposit rates on corporate loans started to drop in the second half of the year. The main causes of the interest rate increase include more expensive financing sources, deterioration in the loan portfolio quality and strong government demand for bank loans, while the drop in some interest rates resulted from the waning effects of the crisis and monetary and fiscal policy activities.

The domestic capital market was strongly influenced by developments in international financial markets in 2009. Pressures stemming from the spillover of the global financial crisis and investor aversion to risky investments marked the beginning of the year. However, optimism rebounded as early as in late March on account of the plans for the rehabilitation of the financial system and incentive measures taken by the major world governments and central banks. Positive developments on world stock exchanges spilled over onto the domestic market and the recovery continued until the last quarter, when concerns over the sustainability of the recovery of world economies and negative macroeconomic indicators for the Croatian economy adversely affected the domestic market. The Croatian share market was marked by a very low level of liquidity so that the annual share turnover declined considerably from the previous year. Nevertheless, the ZSE share index, CROBEX, went up by 16.4% in 2009.

Investor activity on the Croatian debt securities market was also weak in 2009, with the result that the bond turnover fell to the lowest level since 2001. This was partly due to an almost year-long absence of new issues of long-term debt securities, interrupted no sooner than late in the year. Nevertheless, the bond index, CROBIS, increased by 5.8% in 2009 due to a rise in government bond prices. Trends in Croatian eurobond yields stabilised in the first quarter of 2009, and a growing optimism on world stock exchanges led to a drop in required yields on these bonds, continuing until the end of 2009.

Due to a decline in the volume of foreign trade and significantly reduced financing options, the current account deficit contracted sharply from 9.2% of GDP in 2008 to 5.2% of GDP in 2009, completely as a result of the narrowing of the trade in goods deficit, down by almost one third, whereas a decline in the service account surplus and a widening deficit in the factor income account produced an opposite effect on the overall balance of payments. The balance of current transfers remained mostly unchanged from the previous year.

The largest contribution to the decrease in the negative balance in foreign trade came from a steep drop in road vehicle imports, on account of which the balance of trade deficit in this division halved. The deficit in the trade in oil and refined petroleum products, falling by over one third, predominantly due to a decrease in world crude oil prices, also made a significant contribution. Although these two divisions account for a half of the contraction in the overall trade in goods deficit, the negative effects of the crisis were also felt in the trade in most other types of goods, with the decrease in imports mainly sharper than that in exports.

The current account deficit was financed by foreign capital inflows of EUR 4.0bn (net of the change in international reserves), a decrease of almost one third from 2008. The inflows from foreign borrowing fell by the same amount as the inflows from foreign equity investments. The most significant investments were in financial intermediation, oil and natural gas extraction, various trade activities and real estate. Domestic sectors' foreign assets increased in 2009; it is worth noting that investment funds resumed investing after they had withdrawn from foreign capital markets in 2008.

Croatia's gross external debt rose by EUR 3.6bn in 2009, considerably less than in the previous year (EUR 5.9bn), reaching EUR 43.1bn (95.0% of GDP) at the end of December. Not only did the increase in external debt decline from the previous year, but the contributions of individual sectors to the increase also changed noticeably. For example, having declined for several years, direct central government foreign borrowing rebounded, while borrowing by banks and, especially, by enterprises decreased markedly.

Government finance was in 2009 marked by a sharp drop in consolidated general government revenues, resulting from a strong contraction in aggregate demand and its primary consequence – a decline in tax revenues. Social contribution revenues slightly declined in the same period, due to the labour market reacting with a time lag to adverse economic developments. Expenditures grew, albeit at a much lower rate than in the previous few years, while the net acquisition of non-financial assets went down sharply. These developments led to an increase in the consolidated general government deficit. The funds to finance the deficit (and refinance the obligations) were raised by a considerable volume of borrowing, with the result that general government debt went up by HRK 17.4bn in 2009, standing at HRK 115.8bn (35.4% of nominal GDP), which is an increase of 6 percentage points from the previous year.

Deteriorating economic and financial conditions in the country and the environment had an effect on the composition of bank balance sheets and their operating performance. Total bank assets grew by only 2.4% in 2009, with an increase recorded in the shares of foreign currency assets, foreign currency-indexed assets and short-term placements. Loans granted increased by 3.3% in 2009; loans to government units grew markedly, whereas household loans decreased, cash general-purpose loans and car purchase loans dropping the most. Credit risk increased, that is, loan repayment capacity declined, especially that of enterprises. Banks responded to the reduced regularity of the collection of claims by extending collection deadlines and rescheduling loans. In spite of this, the shares of partly recoverable and irrecoverable loans increased sharply, reaching 7.8% of total bank loans (compared with 4.8% in 2008). Even though banks exerted strict control over general operating expenses, an increase in loan loss provisions in the loan portfolio led to a decrease in bank profit in 2009. Return on average assets and return on average equity continued a several year long trend of decline, standing at 1.1% and 6.7% respectively at the end of the year. Despite the fall in profitability, the banking system condition remained stable in 2009 and the capital adequacy ratio stayed at a high 15.8%. It should be pointed out that banks remained well capitalised due solely to the monetary and prudential measures undertaken by the CNB in the previous years, so that in the crisis period none of them encountered difficulties requiring government or central bank intervention.

The CNB harmonised the legal framework in the field of operation of credit institutions (banks, savings banks and housing savings banks) with the EU acquis. The Credit Institutions Act, the fundamental act regulating the establishment and operation of credit institutions, came into effect on 1 January 2009. The Act was amended twice in 2009; the complete subordinate legislation has also been amended and comes into effect on 31 March 2010.

The CNB was also highly effective in the area of on-site supervision in 2009, carrying out 33 on-site examinations in 20 credit institutions, and for the first time carrying out supervision of credit unions (14 on-site examinations). In addition, the CNB conducted an analysis of legally prescribed monthly and quarterly reports submitted by all credit institutions and banking groups and compiled 165 written analyses of credit institution operations, 156 for individual institutions and 9 for groups of credit institutions. During 2009, considerable CNB resources were dedicated to the establishment of contacts with the main international credit rating agencies, to the definition of the methodology and the process for their being acknowledged as external credit assessment institutions (ECAIs), as well as to the operative implementation of this acknowledgement. Cooperation with foreign supervisory authorities regarding the supervision of banking groups comprising domestic credit institutions intensified in 2009.

Macroeconomic developments

1.1 International environment

The profound crisis that started in 2008 left a severe mark on the global economy in the first half of 2009, while the second half of the year saw a gradual recovery and revival of economic activities in the developed countries. Real growth accelerated also in some developing countries, particularly in fast-growing Asian economies. Despite this improvement, the year 2009 saw the biggest economic fall in global GDP since the Second World War (1.3%). A marked slowdown in economic activity and diminished demand led to deflationary pressures which caused negative rates of change in consumer prices in many developed economies, particularly in the middle of the year.

1.1.1 European Union and the Eurozone

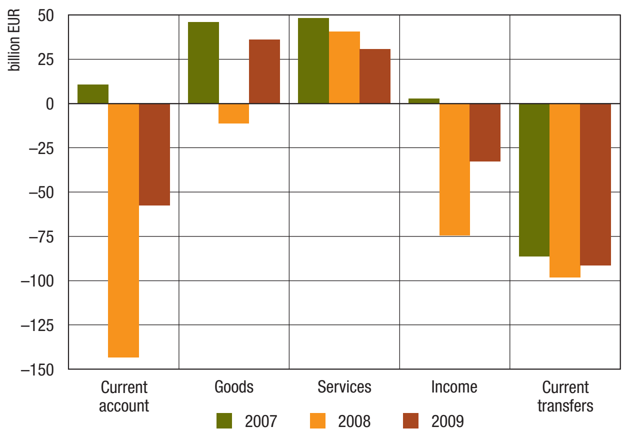
The economy of the European Union fell by 4.2% in real terms in 2009, while that of the eurozone contracted by a slightly lower 4.1%. It should be noted that all eurozone countries were hit by the crisis and that none of them recorded a positive growth rate. The effects of the crisis were very strong at the beginning of the year but subsided later on with the first signs of recovery. They were also not equally distributed among the member states. The largest economies of the eurozone, those of Germany and France, started recording positive developments in GDP on a quarterly level as early as the second quarter. By contrast, in some countries, such as Spain and Greece, the trend of real contraction continued until the end of the year.

While the fall in economic activity in the eurozone was caused by contraction in foreign and domestic demand and additionally driven by the spillover of the effects of the crisis from the financial markets, recovery was mainly related to a large number of comprehensive economic policy incentives and developments in exports following gradual recovery in global demand. Unfavourable real developments led to a significant unemployment growth, with unemployment rate reaching 9.4% (7.5% in 2008). There was mounting concern towards the end of the year relating to unsustainable budget deficits in some countries, most notably Greece, but also Spain, Ireland and Portugal and their possible impact on the stability of the common currency. Budget deficits were largely due to expansive measures taken at the peak of the crisis, and fiscal policy tightening to trim them might halt recovery and lead to further contraction of economic activity.

Smaller foreign demand notwithstanding, positive results were achieved in exports of goods and services. Unlike 2008 and the negative balance of foreign trade, which is unusual for the eurozone, the year 2009 again saw positive net exports of goods, largely owing to developments in the second half of the year. The current account deficit was thus the result of outflows from the current transfers and income accounts, with the latter's outflows being related mainly to income from portfolio investment. Total current account deficit in 2009 amounted to EUR 57.5bn, which is a decline compared to that in 2008 (EUR 143.3bn).

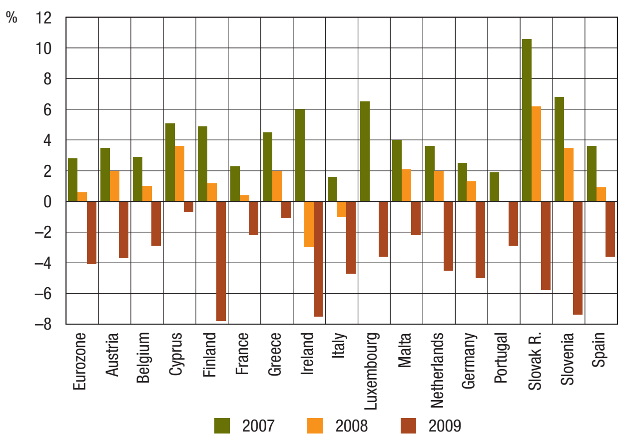
Following strong inflationary pressures in 2008, in 2009 the eurozone was marked by downward pressures on prices, resulting in an annual rate of inflation of only 0.3%. In mid-2009,

1.2 Current account balance in the eurozone



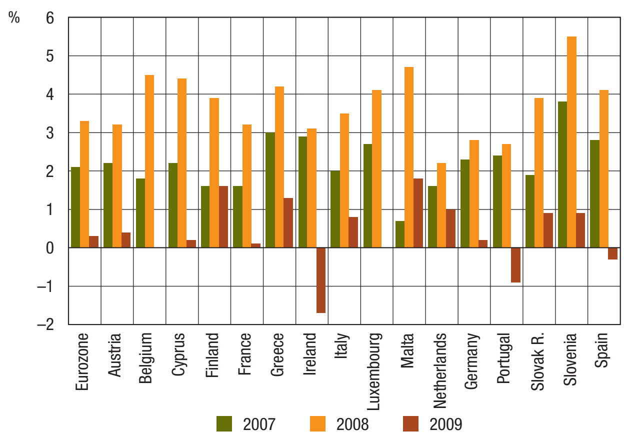
Note: From 2008, data for the eurozone include Malta and Cyprus and from 2009 the Slovak R. as well.
Source: Eurostat.

1.1 Real GDP growth in eurozone countries



Note: From 2008, data for the eurozone include Malta and Cyprus and from 2009 the Slovak R. as well.
Source: Eurostat.

1.3 HICP rates of change in eurozone countries



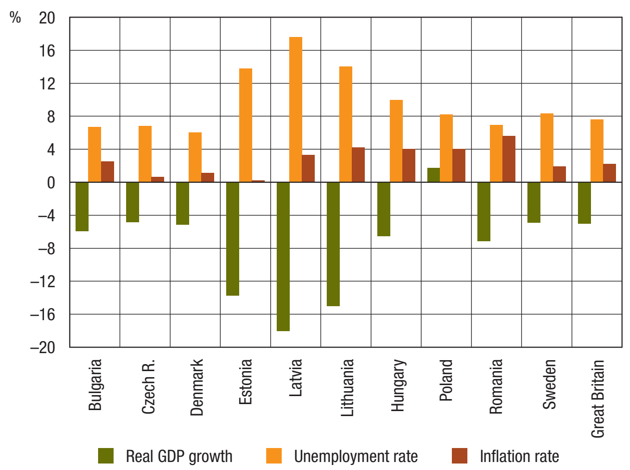
Note: From 2008, data for the eurozone include Malta and Cyprus and from 2009 the Slovak R. as well.
Source: Eurostat.

prices in many of the eurozone countries fell compared to the year before. A large contribution to such developments came from developments in world oil prices which halved compared to mid-2008. To prevent deflationary pressures and boost decelerated economic activity, the European Central Bank continued to cut its key interest rate in the first half of 2009, and it fell from 4.25% in September 2008 to 1.0% in May 2009 and held steady at that level until the end of the year.

Similar or even more unfavourable developments were also seen in other countries of the European Union outside the eurozone. GDP fell in real terms in all of these countries, except Poland, while in some Baltic countries the decline amounted to over 15%. The factors behind these negative developments were similar to those in the eurozone with the exception that the countries of the Central and Eastern Europe were also influenced by a marked fall in capital inflows which had tended to boost economic growth in the previous years. Some of the countries with flexible exchange rate regimes witnessed currency depreciation (most notably the Czech Republic and Poland), with downward pressures on the exchange rate being most pronounced at the beginning of the year. In the same way as in the eurozone, developments differed and some countries started recording positive quarterly growth rates as early as in mid-2009 (such as Poland where no fall in economic activity has taken place and the Czech Republic) while in other countries the real fall was only slightly less severe than in the previous part of the year (the Baltic countries and Hungary).

As regards price developments in this group of countries, contraction in domestic demand had a large effect on inflation weakening, which had in the previous years in general been noticeably higher than in the eurozone. Downward pressures on the prices notwithstanding, the rates of inflation were again on the average higher than in the eurozone in 2009, partly due to the higher weight of food prices in the consumer price index, increased administratively set prices and the effects of the mentioned depreciation. However, the Baltic countries, which registered the most pronounced negative economic developments, saw negative annual rate of change in prices in the second half of 2009. Estonia, for instance, registered the lowest annual rate of inflation (0.2%) while inflation in the remaining new EU member states was noticeably higher, with Romania seeing the fastest growth in consumer prices (5.6%).

1.4 Real GDP growth, unemployment and inflation rates in selected EU countries in 2009



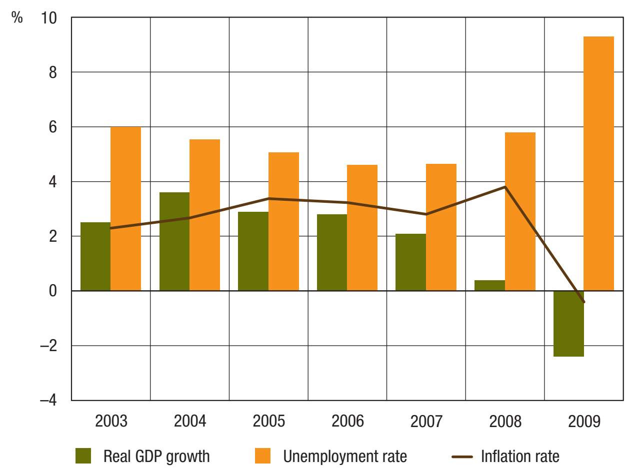
Source: Eurostat.

1.1.2 United States of America

By contrast with the contraction in economic activity in the USA that began in mid-2008 and continued into the first half of 2009, the second half of the year saw positive quarterly real GDP growth rates that were also the highest among all developed economies. As a result, the fall in US GDP was smaller than expected and stood at 2.4%. Weakened economic activity boosted deflationary pressures, which, combined with the effect of the base period, i.e. the fall in the prices of energy products and other raw materials relative to their exceptionally high levels in 2008, led to a fall in consumer prices of 0.4% throughout 2009, compared to the previous year.

Crucial for the beginning of recovery in the middle of the year were exceptionally comprehensive expansive monetary and fiscal policy measures. Personal consumption, which had a positive impact on GDP developments, thus benefited greatly from the motor vehicle purchase incentives programme. At the same time, to kickstart economic activity and the activity in the financial markets, the Fed kept its key interest rate between 0.0% and 0.25%, its lowest level ever. Depreciation of the American dollar against the euro helped exports, and the last quarter of the year saw an increase in investments. However, it took a while until the effects of these improvements could be seen in the real sector. As a result, the unemployment rate continued to rise steadily, reaching 9.3% on an annual 2009 level, the highest level in the past 25 years.

1.5 Real GDP growth, unemployment and inflation rates in the USA

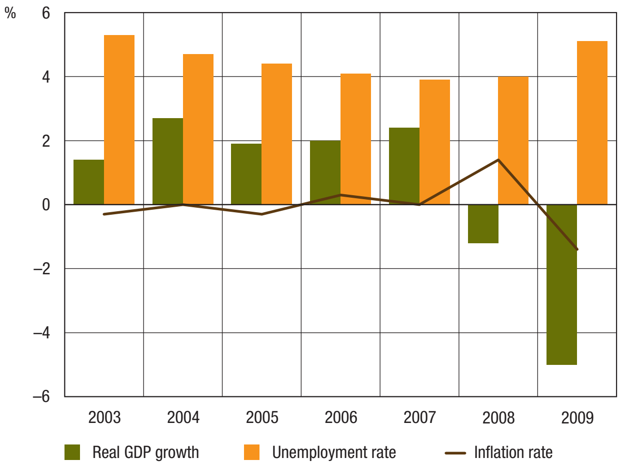


Sources: *Bureau of Economic Analysis* and *Department of Labor.*

1.1.3 Japan

After trending downwards for a full year, the trend of declining GDP was halted in Japan in the second quarter of 2009, mostly under the influence of net exports boosted by the growing dynamics of economic activity, and thus demand, in many Asian countries. In addition, consumption and industrial production rose towards the end of the year, and the last quarter of the year saw a fall in the unemployment rate. However, positive developments in the second half of the year notwithstanding, real GDP contracted by 5.0% at the entire 2009 level. Such real developments also determined price developments, so that the average annual rate of change of consumer prices was negative and stood at –1.4%. The Japanese central bank accordingly kept its key interest rate at its end-2008 level of 0.1%.

1.6 Real GDP growth, unemployment and inflation rates in Japan



Sources: *Statistics Bureau of Japan* and IMF.

1.1.4 Developing and emerging market countries

Real GDP of developing countries and the emerging market countries grew by 2.0%[1] in 2009 (6.1% in 2008), largely as a result of the high growth rates of the Asian economies, which in turn were driven by growing domestic demand and comprehensive incentive economic policy measures. However, there was a visible slowdown compared to the previous year, which may be associated with a fall in the volume of global trade and the prices of individual raw materials that account for a large share of the exports of this group of countries. A break in the inflow of any significant foreign investment also had a great negative influence on the economic activity of some of these countries.

The real GDP of the largest economy in this group of countries, that of China, grew by 8.7%[2] in 2009, a decrease of only 0.9 percentage points compared to 2008. One of the main factors which contributed to this growth was dynamic domestic demand, driven by extremely expansive fiscal policy measures, in particular numerous infrastructure projects. Investment growth was also boosted by private investment in real estate and by personal consumption, both driven by credit expansion. At the same time, however, domestic demand boosted growth in imports while exports fell due to the reduced global demand, so that net exports made a negative contribution to GDP growth. After growing by 7.3% in 2008, India's economy again grew by a fast 5.6%.[3] A stronger effect of the global crisis on GDP growth was avoided due to dynamic domestic demand and a reliance on exports smaller than that in other Asian countries.

Following dynamic real growth of 5.6% in 2008, driven by high crude oil prices in the global market and strong domestic demand, in 2009 the economy of the Russian Federation witnessed a marked economic contraction of a high 9.0%. The value of Russian exports fell considerably due to a fall in global demand and oil prices, while domestic demand was hit by a fall in disposable income and growth in unemployment. Industrial production also fell considerably. To lessen the effects of the crisis, the government took counter-cyclical fiscal policy measures, causing a significant budget deficit (–6.0%[4] of GDP), in contrast with the previous year's surplus.

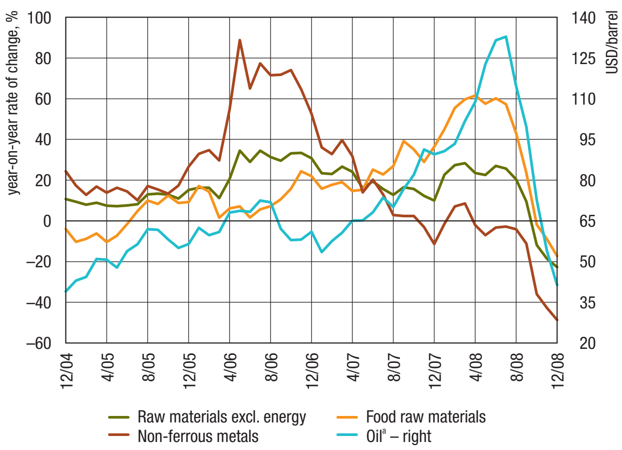
After growing fast in the previous years, the GDP of Southeast European countries[5] fell in real terms in 2009, mostly under the influence of a fall in domestic demand. The only exception is Albania which recorded a slight growth (0.7%), almost entirely attributable to increased public consumption in that country. The whole region witnessed a decrease in foreign capital inflows, and economic activity and consumption were also influenced by the suspension of pronounced credit expansion. The distinct external imbalance, one of the main characteristics of all the countries in this group, was mitigated on the one hand by current account deficit contraction as a result of a fall in imports due to domestic demand contraction. On the other hand, though, external debt in the observed countries continued to grow steadily, mainly due to government borrowing.

The global crisis also considerably hit the countries of Latin America, most of which witnessed a fall in economic activity in 2009. Of the larger economies in this group of countries, the Mexican economy was the hardest hit, mainly owing to its close links to the USA. Given the fact that many of the countries in this region are exporters of raw materials, the fall in the prices of some of the raw materials on the global market and a contraction in global demand had a negative effect on GDP developments in these countries. However, gradual recovery took place towards the end of the year, as shown by renewed industrial production growth in the last quarter of the year in several countries, most notably Brazil.

1.1.5 Trends in raw material prices

Having slumped in the second half of 2008, world crude oil prices stabilised in the first quarter of 2009 and from then on grew at a faster rate. The average crude oil price in December 2009 stood at 74.9 USD per barrel, an increase of 80% compared to December 2008. The growth of crude oil prices during the observed period can largely be explained by indications of global economic recovery, growing investor optimism and a fall in the value of the American dollar. In such circumstances, the International Energy Agency (IEA) on several occasions revised, i.e. improved its forecasts of global demand for oil in 2009 and 2010. Although expectations of rising demand for crude oil normally push up the prices of crude oil, any very major price

1.7 Crude oil price in the world market



[a] The average oil price: Dubai Fateh, UK Brent and West Texas Intermediate.
Sources: Bloomberg and HWWI.

1 Estimate, *WEO Update*, IMF, January 2010.
2 Estimate, *WEO Update*, IMF, January 2010.
3 Estimate, *WEO Update*, IMF, January 2010.
4 *Consensus Forecast*, February 2010.
5 Albania, Bosnia and Herzegovina, Montenegro, Macedonia and Serbia.

growth is still held back by large crude oil reserves and weak demand. On an annual level, the prices of crude oil on the global market in 2009 decreased on average by 36.3%, compared to the previous year, falling from USD 97.0 in 2008 to USD 61.8bn in 2009.

Similar trends were seen in the prices of other raw materials on the global market. The HWWI index, which reflects price trends in raw materials (excluding energy, in US dollar terms) in the world market, rose 30.7% in December 2009, compared to December 2008. Driven by strong demand from China, metal prices increased the most, followed by the prices of food products, especially oilseeds and sugar. However, the prices of most raw materials were down from their highest, mid-2008 levels. The average annual rate of change in the prices of raw materials (excluding energy) stood at –22.0% in 2009, in contrast with 12.9% in 2008.

1.2 Economic activity

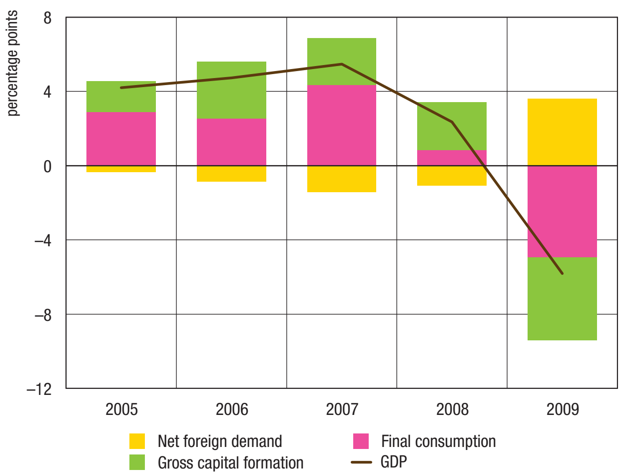
According to preliminary CBS[6] data, Croatia's real GDP declined by 5.8% in 2009. As a result, the annual growth rate was negative for the first time since 1999. The sharpest annual contraction in economic activity was seen in the first quarter of the year, slowing down gradually as the year went by. This was primarily a result of the slight, positive, quarterly growth in real GDP over the last three quarters, as indicated by seasonally adjusted data, and a favourable base effect.

1.2.1 Demand

Broken down by components of aggregate demand, adverse developments in the real sector in 2009 were to a large extent a reflection of the decrease in exports of goods and services, which was in turn a consequence of the reduction in global trade during the world economic crisis. In addition, gross fixed capital formation narrowed, both in the private and the public sector, and personal consumption also decreased under the influence of strong consumer pessimism, negative developments in the labour market and more difficult conditions of household consumption financing. These adverse changes in domestic demand led to a noticeable annual decline in imports of goods and services, resulting in the positive statistical contribution of net foreign demand to real GDP. On the other hand, government spending held at approximately the level attained in 2008.

In 2009, inflationary pressures eased substantially. As a result, the general price level, measured by the implicit GDP deflator, increased by 3.3% during the year under review relative to 6.4% during 2008. The decrease in the annual rate of change of consumer prices of all product categories, except energy, contributed to a decline in the positive rate of change of the personal consumption deflator. The deflator of gross fixed capital formation went down slightly in consequence of price developments in construction and the prices of domestic and imported capital goods. These deflator and real GDP movements resulted in the nominal GDP of HRK 333.1bn.

1.8 Contributions of domestic and foreign demand to real GDP growth



Source: CBS.

Personal consumption decreased by as much as 8.5% in 2009 relative to the year before (in 2008 it went up slightly, by 0.8%), which resulted in a highly negative contribution of this component of aggregate demand to the total economic activity. The causes of such movements should be sought in the fall of consumer optimism, coupled with more difficult borrowing and loan servicing due to the increase in interest rates, as well as with the decrease in the real and financial assets of households. In addition to the pressures on the supply side of bank loans, it seems that during the year households voluntarily cut their new borrowings, which, in addition to the parallel growth of savings deposits, increased the availability of income disposable for consumption. Increasingly unfavourable developments in the labour market and the introduction of a special tax on salaries, pensions and other income were reflected in the real net wage bill, which, paired with the real fall in net transfers from abroad, negatively affected the real household disposable income. The movement of real transfers to households had the opposite effect.

The government consumption dynamics additionally decelerated in 2009. After the real increase of 1.9% in 2008, this final consumption component almost stagnated at the previous year's level, making a neutral contribution to the total change in economic activity. On the one hand, these movements were determined by the reduction in expenditures on the use of goods and services due to the budget revision and changes to financial plans of extrabudgetary users. On the other hand, the slight increase in the number of employees in the public and government sectors brought about a slight annual increase in real expenditures for employee compensation.

Since all institutional sectors reduced their investment activity in 2009, total gross fixed capital formation at an annual level strongly decreased, by 11.8% in real terms, after having increased by 8.2% in 2008. Consequently, the contribution of this aggregate demand component to real GDP movement was also extremely negative. Government investments in non-financial assets, of which almost three fourths relates to construction works on buildings and civil engineering works (primarily road infrastructure) were to the greatest extent postponed due to the lack of finance. Concurrently, low aggregate demand,

6 The CBS data on GDP for 2006, 2007, 2008 and 2009 are based on quarterly GDP estimates and are therefore preliminary.

paired with the high price of long-term borrowing in domestic and foreign financial markets and insecurity as regards future economic developments contributed to a substantial reduction of corporate investments in machinery and equipment, as well as the construction of new plants or offices. In addition, investment activity was unfavourably affected by the reluctance of households to invest in real estate paired with more difficult terms and conditions for financing residential investments, which resulted in a surplus of residential real estate in the market, thus strongly limiting new investments in the construction of residential buildings.

In 2009, foreign trade was marked by a strong slowdown in total exports and imports of goods and services. The global economic crisis was reflected in a strong decline of foreign demand for domestic goods and services, the real annual rate of decline of total exports reaching 16.2%. It is worth noting that during the peak tourist season the average spending per traveller followed a negative trend, which, in addition to the fall in the number of arrivals and tourist overnight stays contributed to a substantial decline in exports of tourist services and thus to the total exports of services in 2009. In the same period, imports of goods and services went down by 20.7% in real terms. The fall in domestic demand negatively contributed to the demand for foreign products, such as durable consumer goods, cars and investment goods. Due to the strong dependence of domestic production on imports, the fall in foreign demand contributed to the fall in imports. These developments resulted in stronger real decline of imports of goods and services relative to total exports, thus leading to a positive statistical contribution of net foreign demand to the total change in GDP.

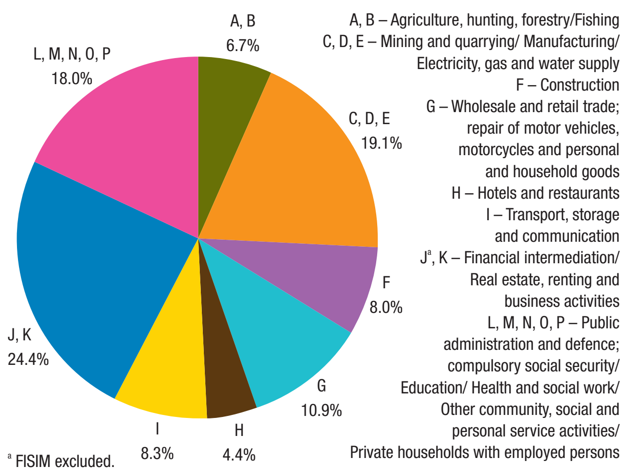
1.2.2 Output

The GDP by production approach shows that GVA[7] in the economy was 4.0% lower in 2009 than in 2008. In comparison to the previous years, GVA went down in almost all economic activities, the largest negative contribution coming from trade and industry. These negative changes were a consequence of the strong weakening of foreign and domestic demand.

A breakdown by individual activity shows that in 2009 relative to the previous year, GVA growth slowed down the most in trade, due to the weak household consumption and reduced tourist consumption. The annual rates of change in GVA in industry and construction were noticeably negative, as was the annual rate of change in GVA in hotels and restaurants, primarily to be attributed to unfavourable developments in real tourist services exports. In contrast, GVA formation in agriculture, financial intermediation and public sector services went up in 2009.

1.9 Gross value added by NCEA categories in 2009

current prices



[a] FISIM excluded.
Source: CBS.

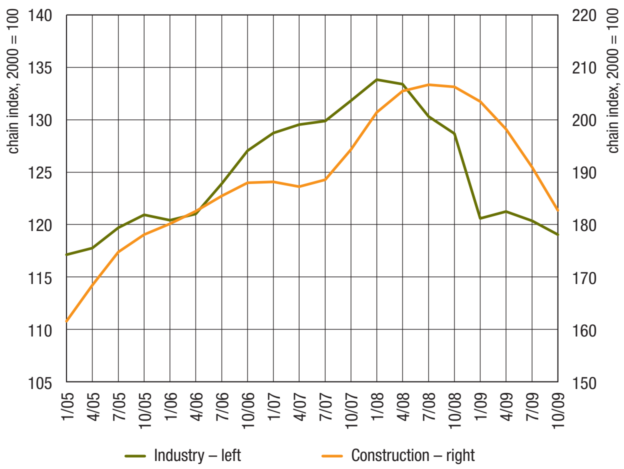
Industry and construction

In 2009, GVA in industry was 8.5% lower than the year before, which negatively affected the GVA for the whole economy. However, as a consequence of the substantial weakening of the domestic and foreign component of demand, negative changes were more intensive during the first half of the year.

The contraction in total industrial production in 2009 is a consequence of the decline in production in all the main industrial groupings, except energy, i.e. negative developments in manufacturing and in mining and quarrying. The decrease in the production of durable and non-durable consumer goods primarily reflected a decline in household consumption but also a decline in exports, while negative developments in the production of intermediate goods and capital goods may be attributed to the weakening of investment activity in the country and abroad.

1.10 Gross value added in industry and construction

trend-cycle



Source: CBS.

Production in manufacturing, which accounts for about four fifths of total industrial production, fell 10.6% in annual terms in 2009. Data on the production of individual industrial products indicate that the largest contribution to unfavourable developments in industrial production came from the manufacture of fabricated metal products, basic pharmaceutical products and preparations, machinery and equipment, other non-metallic mineral products and food products. The decline in mining and quarrying was the main cause of the decline in the production activity in other mining and quarrying, comprising mostly ore and stone quarrying, and may be linked to negative developments in construction. In contrast, production in energy supply alone increased in 2009.

7 In the national accounts, gross value added (GVA) in the economy is expressed in so-called basic prices, whereas gross domestic product (GDP) is expressed in 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 calculation of GDP in previous-year prices, this value can be calculated as a GDP and GVA residual in previous-year prices.

Gross value added in construction declined by 6.1% in 2009 relative to 2008, making a negative contribution to the change in total GVA. The adverse developments in construction additionally intensified in the second half of 2009, as a result of the decline in construction works on buildings and civil engineering works. The downturn in construction was a result of the decrease in private sector investments in residential and non-residential buildings arising from limited financing options for capital projects and a surplus in the supply of residential real estate, as well as the government's weaker investment activity, primarily investments in road infrastructure.

Non-financial services

Negative developments in personal consumption and the decline in average spending per foreign traveller during the peak tourist season reflected negatively on the value added formation in both wholesale and retail trade. Consequently, the GVA in this activity decreased by 14.3% in 2009. Stronger negative developments were seen in the first half of the year, resulting in the largest negative contribution of this activity to the total annual change in GVA.

GVA in hotels and restaurants decreased by 2.9% in 2009, which, given the small share of this activity in total GVA, made a negligible contribution to the real annual economic contraction. These movements were a reflection of the dynamics of volume indicators of demand for tourist services, suggesting a decline in tourist arrivals (2.9%) and tourist nights stayed in commercial accommodation facilities (1.4%). The concurrent fall in real average spending of foreign guests resulted in the fall of tourism revenues in the balance of payments. 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.

In line with the slowdown in foreign trade and adverse movements in industry and trade, GVA in transport, storage and communications went down by 6.4% in 2009. This was caused by the fall in goods transport, measured by tonnes carried and tonne-kilometres, but also by the fall in passenger transport, measured by the number of passengers carried and passenger-kilometres. In telecommunication services, minutes spent in the fixed network continued declining, while the growth of minutes spent in the mobile network was not as strong as in 2008.

1.2.3 Labour market

The labour market was marked by unfavourable developments in 2009. The fall in economic activity and growing employer pessimism had an effect on labour market indicators with a certain time-lag, becoming more evident as the year was coming to a close. The number of unemployed persons registered with the CES was on a constant increase, while employment continued to drop. The negative effects of the recession were also visible in wages; however, their spillover to wages was slower than it was in the case of indicators of employment and unemployment. Thus the beginning of the year recorded an annual growth in wages, which subsequently decelerated considerably, while at the end of the year there was a fall in wages, exacerbated by the introduction of the special tax on salaries, pensions and other income.

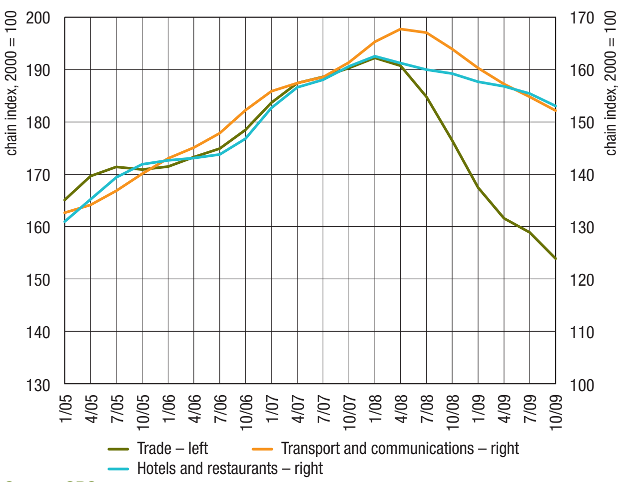
Employment and unemployment

After increasing for eight consecutive years, employment fell throughout 2009. It had actually started dropping in the second half of 2008, halting its long-term upward trend as early as the beginning of 2009. As employment declined over the year, the downward trend became more evident, resulting in a 56,021 (3.6%) fall in employment as compared to 2008. As in the previous periods, the largest negative contribution to such developments came from the employment in legal persons, but the developments in the employment in crafts and trades and freelance occupations, and individual farmers actively insured with the CPIA also had a negative effect on total employment change. The number of persons insured with the CPIA corroborates the negative employment trends. As shown by this short-term employment indicator, the number of insured persons fell by 2.1% or almost 35,000 in 2009.

Looking at the structure of total employment by NCEA activities, employment fell in almost all activities. A fall in economic activity led to a smaller demand for labour. Of the total number of workers who lost their jobs in 2009, almost half of them were employed in trade. Trade was the sector with the largest fall in employment and made the largest negative contribution to total change in employment. Other activities such

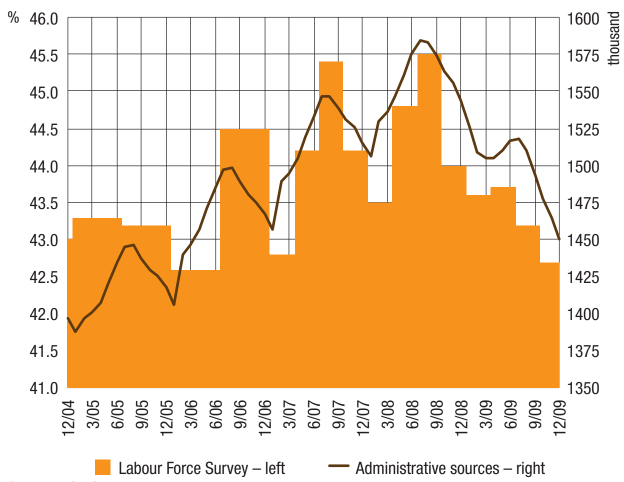
1.11 Gross value added in trade, hotels and restaurants, and transport and communications

trend-cycle



Source: CBS.

1.12 Total employment according to administrative sources and Labour Force Survey employment rate



Source: CBS.

as industry and construction were also influenced by unfavourable developments. Employment in industry declined steadily, making the second biggest negative contribution. Negative developments in the real sector spilled over to the construction activity with a certain time-lag, unlike industry and trade, with rising layoffs intensifying only in the second half of the year. However, employment in the total public administration sector rose (inclusive of public administration, education, health care and social welfare), but this only partly offset the negative contribution of the private sector.

In addition to the mentioned CBS and CPIA data, the CES data for 2009 also point to a fall in outflows from the register, of 7.7% on an annual level, largely due to a decline in the first half of the year. Although a smaller demand for labour was also present later in the year, this was not evident in the annual data, which can be explained by the low level of employment during the second half of 2008. With increasing outflows from the register last year on account of employment and other reasons, CES data records show a significant increase (35.2%) in the number of unemployed persons who registered on the CES register, compared to the year before. According to CES data, the majority of the newly-registered (83.0%) had been employed previously and as many as 86.3% of the newly registered had been laid off, 59.9% due to the termination of temporary employment contracts and 36.9% due to a fall in the volume of business activity.

1.13 Unemployed persons registered with the Croatian Employment Service

Source: CES.

A small increase in outflows from the CES register was not sufficient to offset the effects of the simultaneous increase in the number of registered unemployed persons, which led to an increase in registered unemployment. Unemployment rose steadily throughout 2009, reflecting the ever more noticeable economic recession, the year closing with an exceptionally high level of unemployment or a total of 291,545 unemployed persons, which is an increase of 51,090 or 21.2% compared to the year before. Although the age structure points to an increase in unemployment in almost all age groups, the greatest negative contribution was recorded in the 20 – 24 and 25 – 29 age groups. As a result of these developments, the registered unemployment rate stood at 16.7% at the end of the year, with the average annual unemployment rate in 2009 standing at 14.9% (compared to 13.2% in 2008).

As shown by CBS Survey data on labour market characteristics in 2009, unemployment rose by 7.0% on an annual level, while the number of persons designated in the context of the Survey as employed fell by 1.9%. The average Labour Force unemployment and employment rates stood at 9.1% and 43.3%, respectively. It should be noted that, due to differences in methodological approaches, the Labour Force Survey data on employment and unemployment differ from data based on administrative sources.

Wages and labour costs

Apart from bringing about a fall in employment and growth in unemployment, the weakening of economic activity also affected wages. However, the adjustment of wages to the negative developments in the real sector took place with a certain time-lag compared to the mentioned labour market indicators. The beginning of the year was thus marked by a high annual growth of wages, in line with favourable developments in the previous years. However, wage growth slowed down considerably in the second quarter of the year in most private sector activities as well as in the public sector as a result of the enactment of the decision on the lowering of the wage calculation base for civil servants and other government employees by 6%, on the rollback of the

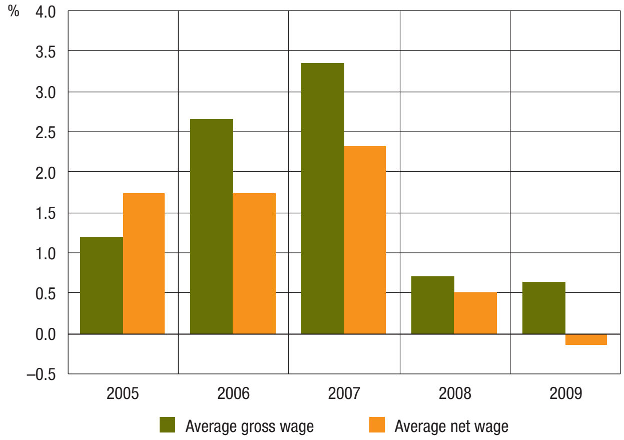
Table 1.1 Inflows into and outflows from the CES register
rate of change over the same period last year, in %

	2008/ 2007	1 – 6/2009 / 1 – 6 2008	7 – 12/2009 / 7 – 12/2008	2009/ 2008	Share in total flow		
					1 – 6/2009	7 – 12/2009	2009
1 Newly registered							
1.1 By type of inflow	–3.1	35.5	35.0	35.2	100.0	100.0	100.0
– Directly from employment	3.3	49.2	44.0	46.2	71.3	68.9	69.9
– From private agriculture or similar works	–25.7	–16.4	34.9	8.5	0.4	0.4	0.4
– Directly from school	–4.6	12.4	13.7	13.4	3.9	11.3	8.2
– From inactivity	–15.5	10.6	21.3	15.9	24.4	19.4	21.5
1.2 By previous work experience	–3.1	35.5	35.0	35.2	100.0	100.0	100.0
– First-time job seekers	–13.0	8.1	12.4	10.8	14.3	18.9	17.0
– Previously employed	–0.1	41.5	41.7	41.6	85.7	81.1	83.0
2 Outflow from the CES register	**–12.7**	**–7.6**	**14.7**	**2.5**	**100.0**	**100.0**	**100.0**
– Outflow from the register to employment	–12.6	–16.0	4.2	–7.7	59.0	48.9	53.9
– Cleared for other reasons	–12.8	7.8	27.0	17.8	41.0	51.1	46.1

Source: CES.

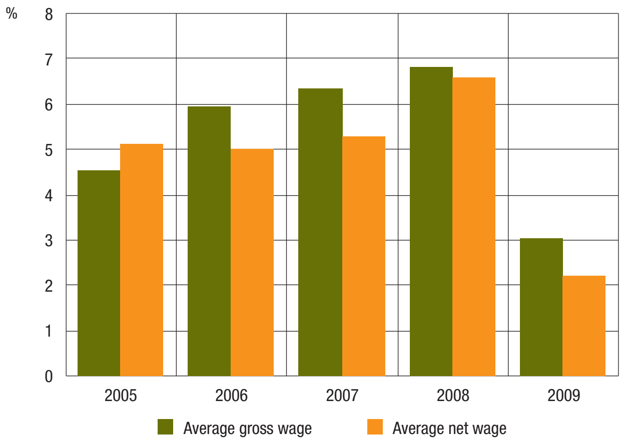
basis for wage calculation to the year 2008 and the enactment of the decision on lowering the wage calculation base for government officials by 10%. A further contribution to the adjustment of wages to the economic recession was provided by the entry into force of the Act on the Special Tax on Salaries, Pensions and Other Income,[8] on 1 August 2009, under which a special tax of 2% is charged on total monthly income higher than HRK 3,000.00 and lower than HRK 6,000.00 and a special tax of 4% is charged on total monthly income exceeding HRK 6,000.00. The negative effect on wages became more and more obvious as the year 2009 came to a close; wages actually fell on an annual level only towards the end of the year, after slowing down steadily throughout the year. Looking at the annual average, nominal wages increased by 3.0% and 3.4% in gross and net terms, respectively. However, if we take into account the effect of the special tax on average monthly net wage, wages started falling in August, but as a result of high wages in the first half of the year, nominal net wages paid last year rose by 2.2% compared to 2008. The largest contribution of the special tax was seen in net wages in mining and quarrying, financial activities and insurance and the smallest in administrative and support service activities.

1.15 Average real wages
year-on-year rate of change



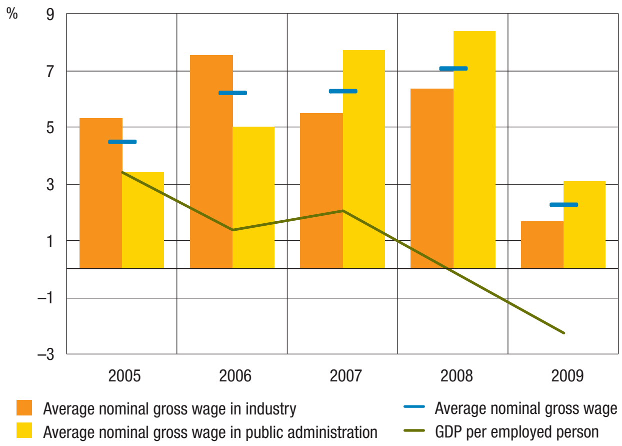
Note: Data relate to wages paid in the current year.
Source: CBS.

1.14 Average nominal wages
year-on-year rate of change



Note: Data relate to wages paid in the current year.
Source: CBS.

1.16 Gross wage and GDP per employed person
year-on-year rate of change



Note: Data relate to wages calculated in the current year.
Source: Calculation based on CBS data.

As the slowdown in the growth of nominal gross and net wages was more significant than the slowdown in inflation measured by the consumer price index, the growth of real gross wages slowed down (0.6%) while real net wages shrank by 0.2% on an annual level.

As noted previously, the public sector adjusted its wages, but due to their high levels at the beginning of the year, their growth in 2009 was faster than the growth of wages in the private sector. In the same way as in employment, the most significant contribution to the big slowdown in wages growth in the private sector came from trade, manufacturing and construction. Wage developments in industry did not differ from those in other economic activities with wages in that sector seeing more unfavourable developments than in 2008. Despite a significant fall in total employment in the economy, the decline in production measured by GDP was more pronounced, resulting in a steady fall in labour productivity in 2009. Coupled with a big slowdown in nominal gross wages growth, it can be concluded that the growth of unit labour costs also slowed down on an annual level last year.

1.2.4 Prices and the exchange rate

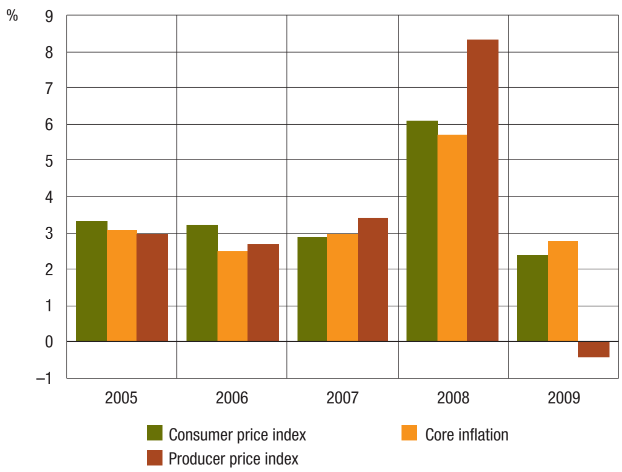
Prices

Economic developments in 2009 were marked by a significant easing of inflationary pressures. The average annual inflation rate in Croatia declined from 6.1% in 2008 to 2.4% in 2009. The slowdown in consumer price inflation occurred under conditions of weak domestic demand, alleviated imported inflation pressures, a slowdown in the growth of unit labour costs and a stable kuna/euro exchange rate. It should also be noted that the effect of inflation carry over from the previous year was very low.[9] The slowdown in consumer price inflation in 2009 would

8 OG 94/2009.
9 Inflation carry over from 2008 to 2009 was only 0.2 percentage points because of a decrease in consumer prices in the second half of 2008, following their quite strong growth in the first half of the year, spurred by a surge in the prices of crude oil and other raw materials on the world market. In contrast, inflation carry over from 2007 to 2008 was noticeably higher, 3.3 percentage points.

1.17 Consumer price index, core inflation and producer price index

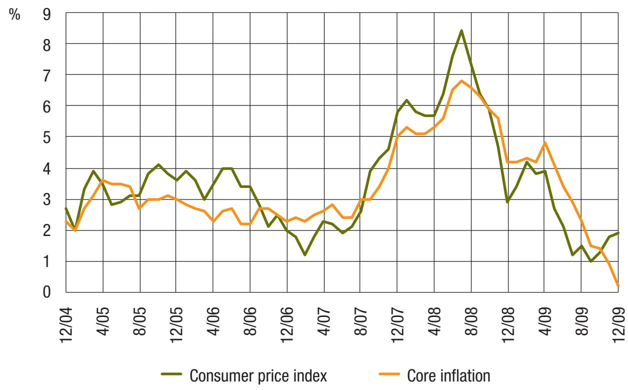
average year-on-year rate of change



Source: CBS.

1.18 Consumer price index and core inflation[a]

year-on-year rate of change



[a] Core inflation is calculated by excluding agricultural product prices and administrative prices (which include electricity and refined petroleum product prices) from the CPI basket of goods and services.

Source: CBS.

have been even more pronounced if it had not been for a significant increase in administratively regulated prices (gas, tobacco products, and medical and hospital services). Core inflation slightly exceeded overall consumer price inflation, albeit its average rate of change of 2.8% in 2009 was still down from 5.7% in 2008. A similar trend was observed in industrial producer prices. However, their decrease was much sharper, the average annual rate of change falling from 8.3% in 2008 to –0.4% in 2009.

Consumer prices

The annual consumer price inflation rate decreased from 2.9% in December 2008 to 1.9% in December 2009 (1.0 percentage points). The annual rate of change in prices dropped for all CPI components except energy. The largest contribution to the drop in the annual inflation rate came from a decrease in the rate of change in the prices of food products and industrial non-food without energy.

The slowdown in consumer price inflation in 2009 was primarily caused by a reduction in domestic inflationary pressures, which was reflected in a marked slump in personal consumption. It should be noted that, under such conditions, the increase in the VAT rate from 22% to 23% in August 2009 failed to produce a considerable effect on consumer prices (for more information see Box 1 in CNB Bulletin No. 152). Labour market indicators also had a positive effect on consumer price inflation as, in an environment of weaker economic activity, compensation per employee decelerated considerably, leading to a slowdown in unit labour costs.[10] The appreciation of the kuna/US dollar exchange rate also played a role in the easing of inflationary pressures in the domestic economy by alleviating the pressures arising from the price increase in imported raw materials and final goods paid for in US dollars.[11] The low inflation was also a result of a stable nominal kuna/euro exchange rate. As already mentioned, the upward pressures on consumer price inflation were in 2009 generated by an increase in world raw material prices, however much lower these were than in 2008.

Core inflation was mainly in line with overall consumer price inflation trends, except that it decelerated at a much faster rate. The annual core inflation rate dropped from 4.2% in December 2008 to a low of 0.2% in December 2009. Due to an increase in energy prices from the same period in the previous year, the overall annual consumer price inflation rate exceeded the annual core inflation rate in the last two months of 2009. The largest contribution to the core inflation slowdown in 2009 came from a decrease in the prices of some food products and industrial products resulting from a marked drop in personal consumption.

Administratively set prices were a component that in 2009 exerted upward pressures on overall consumer price inflation. Household gas prices were administratively raised, tobacco product prices grew due to an increase in excise, while health sector prices increased due to the introduction of user fees for medical and hospital services.

A breakdown of the overall CPI components shows a sharp fall in the annual rate of change in non-processed food products from 3.7% in December 2008 to –1.6% in December 2009, predominantly caused by a decline in the annual rate of change in meat prices, resulting mainly from a favourable base effect related to a marked increase in these prices in 2008, and to a lesser extent from their decrease in 2009.

The prices of processed food products also contributed markedly to the slowdown in the overall consumer price inflation rate, with their annual rate of change down from 4.7% in December 2008 to 1.8% in December 2009, which is lower than the average rate (3.8%) in 2009 and considerably lower than the average rate (10.5%) in 2008. This was for the most part due to a decrease in the annual rate of change in the prices of bread and other bakery products as well as of milk, dairy products and oil. The price increase in tobacco products caused by a rise in excise[12] had an opposite effect, contributing a further 3.5 percentage points to the overall annual rate of change in processed food product prices in 2009.

10 The annual growth in unit labour costs in industry slowed down on average from 5.5% in 2008 to 4.6% in 2009, according to seasonally adjusted data, while the average annual growth of unit labour costs for the whole economy decelerated from 7.4% in 2008 to 4.8% in 2009.

11 The average exchange rate of the kuna versus the US dollar increased by 7.4% in December 2009 from December 2008.

12 With the introduction of a new system of excises, tobacco product prices rose twice in 2009 (by 6.9% in January and by 14.0% in April relative to the previous month).

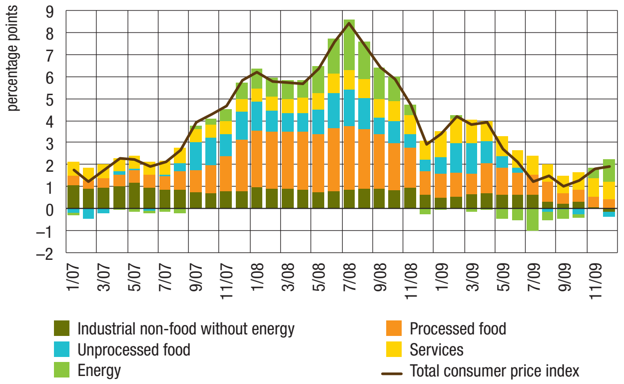
Table 1.2 Consumer price index, the five main categories of products
year-on-year rate of change

	Weight 2009	12/2008	3/2009	6/2009	9/2009	12/2009
Total	**100.0**	**2.9**	**3.8**	**2.1**	**1.0**	**1.9**
Energy	13.0	–1.7	–1.3	–4.1	–3.2	7.9
Unprocessed food	14.7	3.7	9.5	1.4	–0.2	–1.6
Processed food (incl. alcoholic drinks and tobacco)	23.2	4.7	4.2	4.5	2.1	1.8
Industrial non-food without energy	28.3	2.2	2.2	2.2	0.7	–0.5
Services	20.7	4.2	5.0	3.8	3.8	3.9

Source: CBS.

These developments in food product prices point to a considerable alleviation of inflationary pressures on the prices of the products that had in 2008 been affected by the strong growth of world raw material prices. The most important domestic factor contributing to the decrease in domestic food prices (both producer prices and trading margins reduced) is a decline in personal consumption.

1.19 Contribution[a] of consumer price index 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 (certain divergences are possible due to the rounding of data).

Sources: CBS and CNB calculations.

Weak domestic demand and reduced cost pressures also produced an impact on developments in the prices of industrial non-food without energy. The annual rate of change in the prices of the said group of products fell from 2.2% in December 2008 to –0.5% in December 2009, primarily due to a drop in the annual rate of change in the prices of clothing and footwear, as well as of cars, arising from a decline in household consumption related to unfavourable trends in the sources of its financing. Furthermore, consumer confidence was low, mainly because of unfavourable expectations regarding future labour market trends.

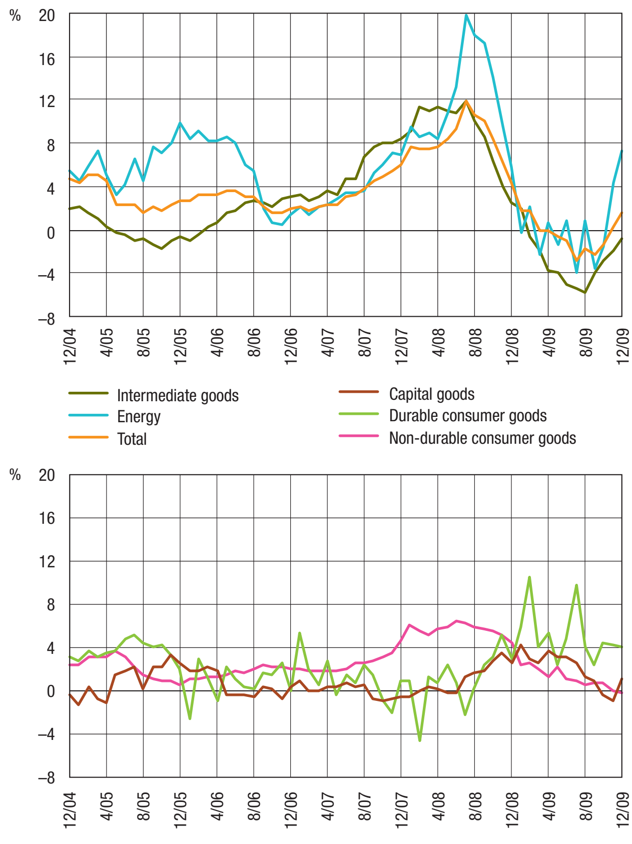
In contrast with other major categories of the CPI, service price inflation decelerated only slightly, the annual rate of change falling from 4.2% in December 2008 to 3.9% in December 2009. The main reason for this was a slowdown in the annual growth rate in the prices of catering services (above all restaurant food and beverages) and a decrease in the annual rate of change in the prices of road passenger traffic. It should be noted that these developments were for the most part a result of a favourable base period relating to an indirect impact of the price hike in world raw materials on the increase in these services' prices in 2008. The mentioned increase in administratively set prices (medical and hospital services) recorded early in the year produced an opposite effect on the service price index.

The only major category of the service price index to increase was the annual rate of change in energy prices, up from –1.7% in December 2008 to 7.9% in December 2009, due predominantly to an increase in the prices of refined petroleum products and gas in 2009 and an unfavourable base effect related to a steep decline in crude oil prices in the last quarter of 2008.

Industrial producer prices

Developments in industrial producer prices were also considerably influenced by the economic slowdown and reduced cost pressures. The annual rate of change in these prices fell from 4.3% in December 2008 to 1.6% in December 2009. The intra-year dynamics shows that it mostly decreased from January to October 2009 and was negative during most of this period. The

1.20 Producer price index by main industrial groupings
year-on-year rate of change



Source: CBS.

annual rate of change in producer prices increased considerably in the last quarter of 2009, primarily on account of a sharp increase in energy prices due to an unfavourable base effect related to world crude oil prices plummeting in the last quarter of 2008.

As concerns the main industrial groupings, the annual rates of change in the prices of non-durable consumer goods and intermediate goods decreased the most in 2009. In the group of non-durable consumer goods, a marked fall was observed in the annual rate of change in the producer prices of food products and clothing. In the group of intermediate goods, metal prices recorded the sharpest decrease, mostly occurring in the first quarter of 2009, which leads to the conclusion that domestic metal prices did not follow the upward trend in world metal prices. On the other hand, the decrease in the annual rate of change in the domestic prices of capital goods was relatively less marked. In contrast with these developments, the annual growth rates in the prices of energy and durable consumer goods increased, with the highest annual increase recorded in the prices of refined petroleum products and electric equipment.

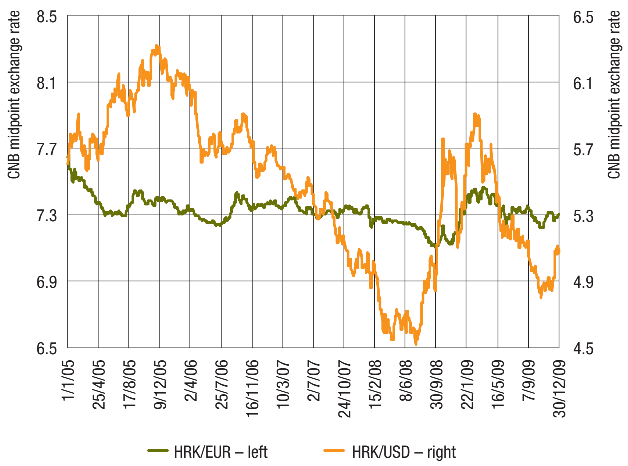
Real estate prices

Real estate prices in Croatia, having slowed down even since the second half of 2007, decreased by 4.1% in 2009 relative to the previous year. The decrease resulted from a drop in demand for residential property, resulting from stagnation in disposable household income and a sharp fall in consumer optimism stemming primarily from expectations of unfavourable labour market developments, especially unemployment growth. The decline in demand for real estate was also due to tightened lending terms and the continued growth of interest rates on home loans. Data on trends in newly extended home loans, which are indicators of trends in real estate demand, confirm the sharp drop in demand for real estate in 2009, as such loans decreased by as much as 41.5% in real terms in relation to the previous year. The supply of real estate, however, remained strong, resulting in a large number of real properties in the market remaining unsold and bringing about downward pressures on their prices. The decrease in demand for residential real estate affected the supply with a time lag, as seen from a marked drop of 30.8% in the number of building permits for flats issued in 2009, which will have an effect on the supply of real estate in the following periods.

stood at HRK 7.31/EUR, increasing only slightly by 0.2% from the end of the previous year, while the average daily exchange rate of the kuna amounted to HRK 7.34/EUR, down only by 1.6% from the previous year. Depreciation pressures prevailed in the first quarter of 2009, driven by strong government and corporate demand for foreign exchange used to pay for foreign liabilities falling due, a decline in foreign capital inflows and depreciation expectations resulting from growing economic insecurity. The remaining part of the year was marked by appreciation pressures, somewhat stronger in the second and fourth quarters, brought about by an expected inflow of foreign exchange generated by the government's foreign market borrowing through eurobond and US dollar bond issues. Depreciation expectations eased early in the second quarter, due among other things to an increase in corporate foreign borrowing. The kuna/euro exchange rate strengthened at the end of the third quarter and in the fourth quarter against a background of high foreign exchange liquidity of banks. The narrowing of the foreign trade deficit led to a decline in demand for foreign exchange required for its financing.

The central bank intervened seven times in the foreign

1.21 Daily nominal exchange rate – HRK vs. EUR and USD



Source: CNB.

Table 1.3 Croatian residential real estate price index
year-on-year rate of change

	Weight	2005	2006	2007	2008	2009	2007		2008		2009	
							1st half	2nd half	1st half	2nd half	1st half	2nd half
Croatia	100.0	8.8	16.6	13.1	5.7	–4.1	17.6	8.9	5.7	5.6	–5.3	–3.0
Zagreb	65.3	10.0	17.0	11.9	2.1	–5.2	14.4	9.4	1.8	2.4	–3.1	–7.4
Adriatic Coast	22.0	17.2	15.9	16.2	10.4	–3.6	23.1	10.1	13.3	7.5	–9.4	2.6

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.

Exchange rate

The kuna/euro exchange rate, a key monetary policy instrument for the preservation of the overall macroeconomic stability, remained relatively stable in 2009. The end-2009 exchange rate

exchange market in 2009; two[13] of the interventions involved the selling of foreign exchange to banks during the period of mounting depreciation pressures early in the year. In an effort to halt the weakening of the kuna versus the euro, the CNB also

13 EUR 328.3m was sold in January and EUR 184.7m in February.

implemented changes to monetary policy instruments in order to boost foreign currency liquidity of banks.[14] The remaining five[15] foreign exchange interventions involved foreign exchange purchases aimed at mitigating the intensity of the kuna's strengthening versus the euro. The central bank purchased foreign exchange in the net amount of EUR 324.8m at the auctions held in 2009, compared with EUR 11.5m net sold to banks through foreign exchange interventions and other foreign exchange transactions in 2008. The volume of foreign exchange transactions between the MoF and CNB was high in 2009; the CNB purchased a net of EUR 570.4m from the government, a considerable increase from EUR 185.9m net in 2008, primarily generated by the purchase of foreign exchange raised by a eurobond issue in early June, and to a lesser extent by the purchase of foreign exchange the government had raised through a US dollar-denominated bond issue in November 2009. The CNB thus purchased a total of EUR 895.2m net through foreign exchange transactions in 2009, releasing HRK 6.4bn, a marked increase from HRK 1.2bn issued in 2008.

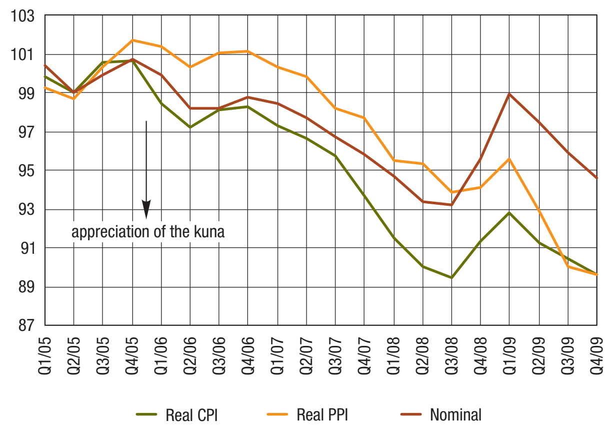
The US dollar strengthened markedly (10.7%) versus the euro on the global foreign exchange market in January and February, primarily due to adverse economic indicators in the eurozone and expectations of further cuts in the key eurozone interest rate. However, the US dollar started to weaken in March and continued to depreciate sharply versus the euro on the global foreign exchange market throughout most of 2009, dropping by a total of 18.7%, from USD 1.27/EUR in early March to USD 1.50/EUR in early December. The weakening of the US dollar against the euro in that period was primarily due to economic indicators suggesting the beginning of the global economic recovery and thus boosting investor optimism and demand for riskier investments, which, in turn, resulted in a drop in demand for the US dollar. The US dollar/euro exchange rate resumed the appreciation trend in December 2009, on the back of favourable US macroeconomic indicators and expectations that the Fed could start raising the benchmark interest rate. The strengthening of the US dollar was also considerably influenced by mounting investor concern over high budget deficits in some eurozone countries (especially in Greece, Portugal and Spain) which led to a decline in their risk appetite. As a result of the developments in the world's foreign exchange market, the kuna/US dollar exchange rate appreciated by 1.3% in 2009, from HRK 5.16/USD at the end of 2008 to HRK 5.09/USD at the end of 2009. The average exchange rate of the kuna versus the US dollar was 7.0% lower in 2009 than in 2008.

Taking into account only the trends in the index of the real effective exchange rate of the kuna deflated by consumer prices, export price competitiveness slightly improved in 2009. The kuna weakened by an average of 2.7% in nominal terms versus the basket of currencies in 2009, mainly on account of a strong depreciation of the average kuna/US dollar exchange rate and, to a lesser extent, due to the depreciation of the kuna versus the euro and Swiss franc. Domestic consumer prices rose at higher rates than foreign prices, as compared to 2008, with the result that the slight depreciation of the real effective exchange rate of the kuna deflated by consumer prices (0.5%) was considerably lower than the mentioned nominal depreciation of the kuna versus the currency basket. The difference between domestic and foreign producer price trends was even more pronounced (domestic producer prices decreased at lower rates than foreign producer prices), so that the real effective exchange rate of the kuna deflated by producer prices appreciated by 2.8%, warning of a deterioration in export price competitiveness in 2009.

According to the available data for the first nine months of 2009, the index of the real effective exchange rate of the kuna deflated by unit labour costs depreciated by an average of 1.0% from the same period in the previous year, looking at the economy as a whole. At the level of industry, the real effective exchange rate of the kuna depreciated by a considerable 8.5%, suggesting a noticeable improvement in the cost competitiveness of Croatian exports in this economic branch. As the kuna depreciated by 3.9% versus the basket of currencies in nominal terms in the first nine months of 2009, the marked depreciation of the index of the real effective exchange rate in industry resulted from a slower growth of unit labour costs in Croatia

1.22 Indices[a] of the nominal and real effective kuna exchange rate deflated by consumer and producer prices

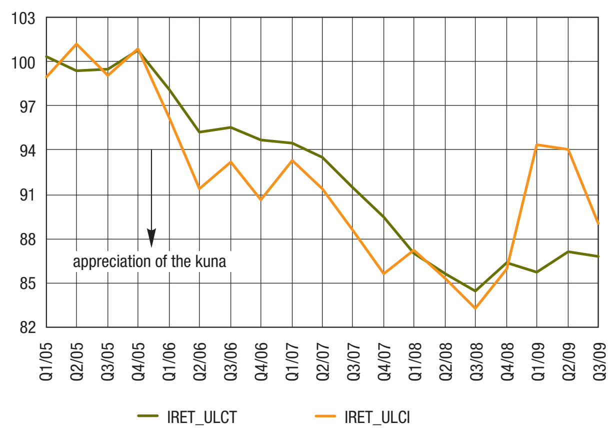
2005 = 100



[a] The fall in the index denotes an appreciation of the kuna.
Source: CNB calculations.

1.23 Index[a] of the real effective kuna exchange rate deflated by unit labour costs

2005 = 100



[a] The fall in the index denotes an appreciation of the kuna.
Source: CNB calculations.

14 At the beginning of 2009, the CNB increased the percentage of the foreign currency reserve requirement that is set aside in kuna from 50% to 75%. In another step to ease depreciation pressures, the central bank released banks' foreign currency reserves by reducing the rate of minimum required foreign exchange claims, first from 28.5% to 25% and then to 20%. At the same time, the maximum permitted open foreign exchange position was raised from 20% to 30% of the regulatory capital. This measure made it easier for banks to use the foreign exchange released by reducing the rate of minimum required foreign exchange claims.

15 EUR 331.2m was purchased through a foreign exchange intervention at the end of February, EUR 1.3m in September, a total of EUR 234.0m through the two interventions in October and EUR 271.3m in December.

than abroad, while the increase in unit labour costs for the whole economy was sharper in Croatia than abroad.

1.2.5 Monetary developments and monetary policy

Monetary policy in 2009 focused mainly on the maintenance of stability of the nominal exchange rate of the kuna against the euro and on ensuring sufficient foreign currency liquidity. In such circumstances, the formation of substantial reserves in previous years of abundant foreign capital inflows proved extremely important. Thanks to this, the central bank managed to ease downward pressures on the kuna and maintain the country's foreign currency liquidity position through the use of and changes in monetary policy measures as early as late 2008. The CNB continued to pursue this policy in early 2009 – it changed the structure of reserve requirements in January by increasing the portion of the foreign currency reserve requirements set aside in kuna from 50% to 75% and lowered the rate of the minimum required foreign currency claims from 28.5% to 20.0% in February. This released considerable foreign currency funds. The changes were also supported by the sale of foreign currency in the market and restricted kuna liquidity creation through repo operations. Furthermore, the maximum permitted open foreign exchange position of banks was increased from 20% to 30% of the regulatory capital in February, which facilitated the management of the foreign currency funds released.

The monetary environment was more stable in the rest of the year. Appreciation pressures on the kuna, which again began to prevail, were mainly due to capital inflows arising from increased government borrowing in the foreign market. In its foreign exchange transactions, the CNB purchased foreign currency and created a substantial amount of kuna liquidity. This prevented exchange rate appreciation and led to the recovery of gross international reserves.

In line with adverse real sector developments, almost all monetary and credit aggregates recorded a decline in 2009. Money (M1) dropped the most, while the growth in domestic bank loans to the private sector came to a standstill. Against this background, in November 2009, the central bank repealed the Decision on the purchase of compulsory CNB bills, which prevented excessive growth in bank loans over the previous three years. Also, in efforts to prompt the recovery of domestic loans and thus of the entire economy, the central bank further improved the kuna liquidity in the domestic monetary system in late 2009.

Monetary policy and flows of creating and withdrawing reserve money

Foreign exchange transactions of the central bank had a major impact on the flows of creating and withdrawing reserve money in 2009. They successfully prevented excessive pressures on the domestic currency – both the downward pressures in early 2009 and the upward pressures that stemmed from larger foreign capital inflows throughout the rest of the year. In the first two months of 2009, the CNB intervened twice in the foreign exchange market by selling foreign exchange to commercial banks. In the remainder of the year, it purchased foreign exchange on five occasions, once in February and four times from September to December. Still, although the volume of foreign exchange transactions with commercial banks was substantial, foreign exchange purchase and sale transactions with the central government had a stronger monetary impact in 2009. In these transactions, the CNB was a net buyer of foreign currency, which was the direct result of government foreign borrowing, i.e. two government international bond issues in May and November.

Apart from foreign exchange interventions and purchase and sale transactions with the government, the CNB also concluded a foreign currency swap contract with banks in the first half of 2009. Under this contract, on the basis of foreign currency (EUR 261.3m) pledged as collateral, banks obtained kuna funds available for lending to the central government. The amount was slightly increased afterward and the contract was extended to June when the government raised funds in the international market to terminate some credit lines with domestic banks.

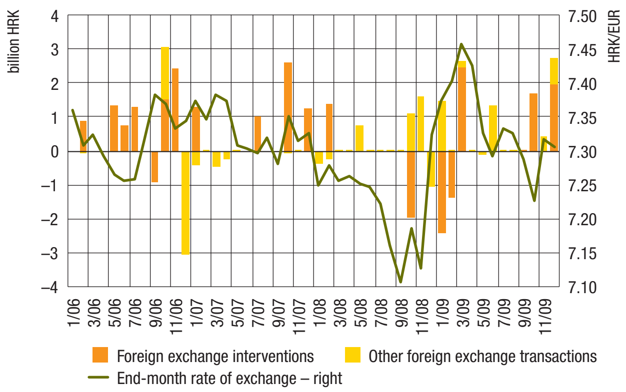
Through these foreign exchange transactions, the central bank purchased a net EUR 895.2m, creating HRK 6.4bn in 2009. Nearly two-thirds of that amount, EUR 570.4m, was purchased from the central government, while EUR 324.8m was purchased from the banks. Creation of this substantial amount of kuna liquidity via foreign exchange transactions largely determined the use of other monetary policy instruments, particularly in the last quarter, when the average kuna liquidity surplus, including bank overnight deposits with the CNB, was exceptionally high, nearly HRK 3.0bn (see Figure 1.26).

Like 2008, 2009 was marked by restrictive use of open market operations. However, in contrast with 2008 when this was the means of an anti-inflationary monetary policy, in 2009, the central bank restricted the amount of funds placed through these operations in response to depreciation pressures early in the year and an exceptionally high level of liquidity created by foreign currency purchases in the remainder of the year.

The average daily amount of funds placed through reverse repo operations stood at HRK 1.9bn in 2009, falling from HRK 3.3bn in the first quarter to a low of HRK 37m in the fourth quarter, when only one auction was held. At the total of 37 reverse repo auctions held, the CNB accepted on average somewhat over 40% of the bids received from banks at a fixed rate of 6.0%.

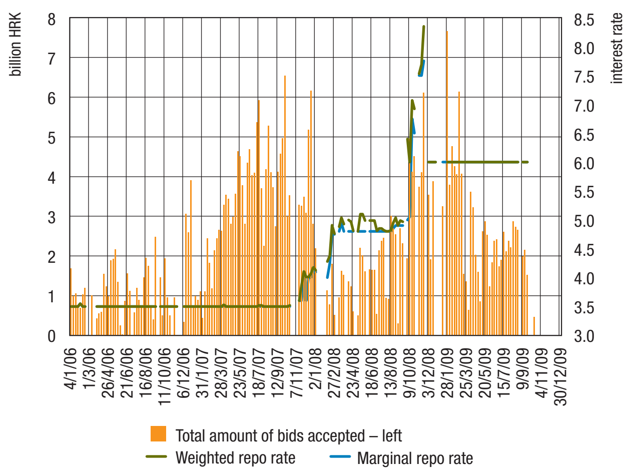
In 2009, banks as usual relied on standing facilities of the CNB as well. Interest-free intraday loans, which are used to increase limits in banks' settlement accounts, were used less than in previous years, for only 18 business days, and their average amount was HRK 0.3bn. Demand for Lombard loans moved in a direction similar to the turnover at reverse repo auctions; it was more pronounced in the first part of the year, while there was no demand in the last four months of 2009. The Lombard facility was used for a total of 79 business days in 2009; the

1.24 Foreign exchange transactions of the Croatian National Bank and midpoint HRK/EUR rate of exchange



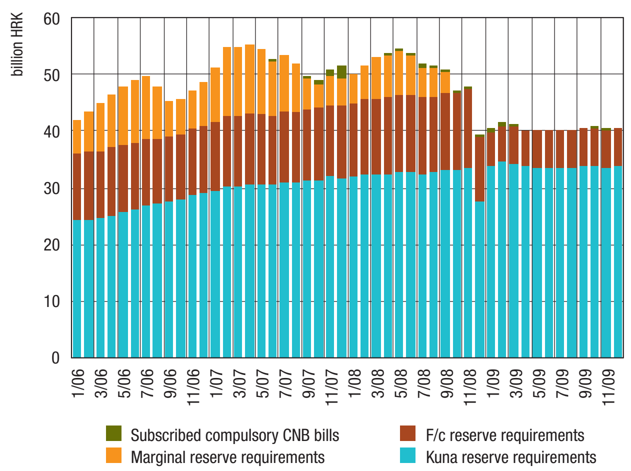
Note: The positive value of foreign exchange interventions and foreign exchange transactions relates to the repurchase of foreign exchange by the CNB. Other foreign exchange transactions include the purchase of foreign exchange from and the sale of foreign exchange to the MoF and foreign currency swaps with banks.
Source: CNB.

1.25 Regular reverse repo operations



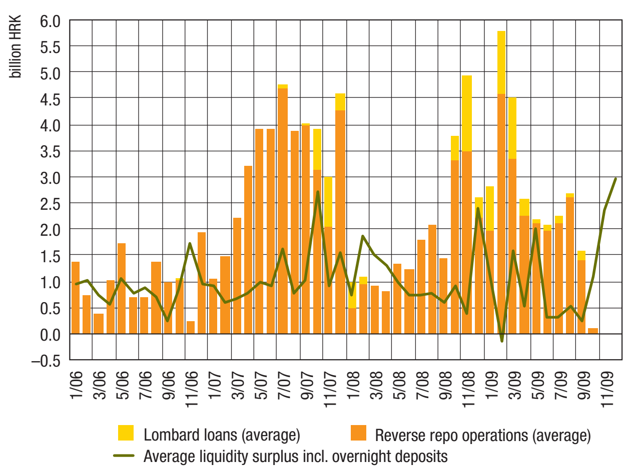
Source: CNB.

1.27 Calculated reserve requirements and subscribed compulsory CNB bills



Source: CNB.

1.26 Reserve money creation through reverse repo operations and Lombard loans



Source: CNB.

average amount used was HRK 1.1bn and the interest rate was kept at 9.00%.

In consequence of the abundant liquidity in the system, banks made use of the overnight deposit facility with the CNB much more than in preceding years. In late 2009, banks made use of this option almost on a daily basis and during the entire reserve maintenance period, while their former practice was to deposit excess liquidity only after they had already met the maintenance obligation, i.e. towards the end of a calculation period. Overnight deposits were used for a total of 83 business days in 2009, and their average amount was HRK 1.9bn.

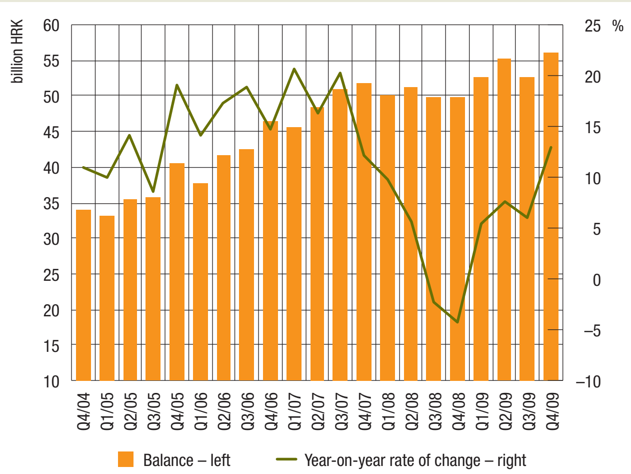
Reserve requirements remained the main instrument to drain liquidity from the system. In late 2009, total assets sterilised through kuna and foreign currency reserve requirements amounted to HRK 40.5bn. In addition to a slight 3.7% annual increase in the total calculated reserve requirements, their structure changed significantly due to the early 2009 changes in the instrument itself. Within the framework of measures to improve foreign currency liquidity of the monetary system and preserve exchange rate stability, the CNB adopted a decision to increase the percentage of the foreign currency reserve requirement that is set aside in kuna from 50% to 75% in January 2009. In consequence, the kuna component of the reserve requirements increased and the foreign currency component decreased. This continued throughout the year; the kuna component grew by 22.8% and the foreign currency component dipped by 41.6% in 2009.

Reserve money and international reserves

Reserve money (M0) expanded by 12.9% in 2009, mostly due to the stated change in the reserve requirement instrument and a very satisfactory level of kuna liquidity towards the year-end. Robust growth in the monetary aggregate M0 was due in part to central bank efforts to maintain primary liquidity at comfortable levels in the context of adverse economic trends and a fall in money, particularly since the high liquidity was no obstacle to the maintenance of stability of the nominal exchange rate of the kuna.

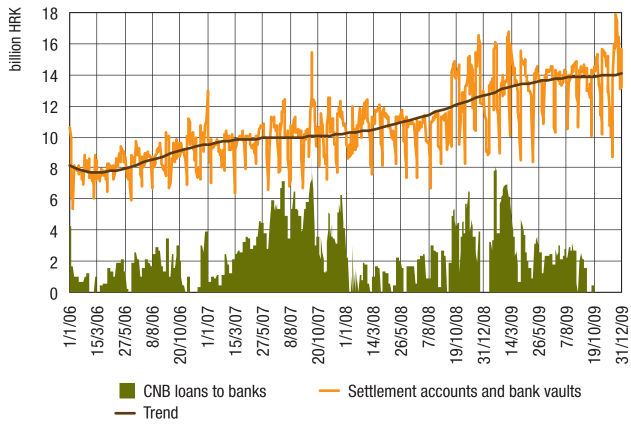
Bank deposits with the CNB were the fastest-growing component of reserve money in 2009 due to the rise in both kuna reserve requirements set aside (HRK 4.4bn) and balances in banks' settlement accounts (HRK 2.5bn). In addition to the

1.28 Reserve money



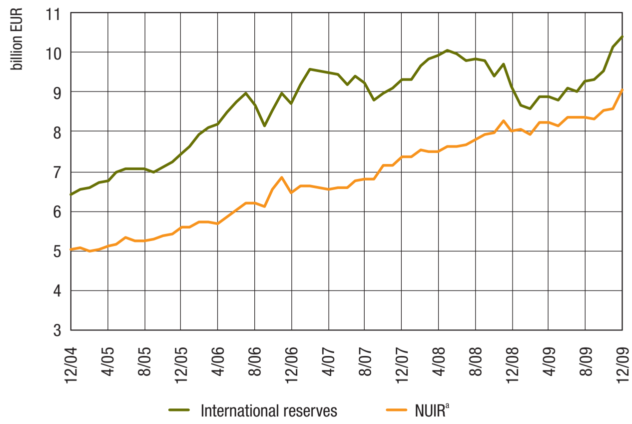
Source: CNB.

1.29 Bank settlement accounts with the CNB and liquidity loans



Note: CNB loans include Lombard loans, regular repo operations and fine-tuning operations.
Source: CNB.

1.30 International reserves of the CNB



[a] NUIR = international reserves – foreign liabilities – reserve requirements in f/c – government foreign currency deposits – SDRs.
Source: CNB.

impact of monetary operations and changes to monetary instruments, the growth in the kuna liquidity of banks was boosted by a fall in currency, which was due to negative economic trends and lower personal and tourist consumption. The other main component of reserve money, currency outside banks, which moved in line with seasonal trends, recorded a sizeable drop of HRK 1.8bn in 2009. Among other components of M0, banks' vault cash slightly increased (by HRK 0.2bn), while the funds allocated on the basis of compulsory CNB bills and special reserve requirements (HRK 0.5bn), were freed up after the abolishment of these two instruments, which also gave a boost to liquidity on an annual basis.

Central government deposits with the CNB recorded a sharp increase in June and the last two months of 2009, associated with government funds deposited temporarily before the repayment of liabilities that fell due soon after. This particularly refers to foreign currency deposits, which temporarily grew to HRK 3.6bn in June and HRK 7.3bn in November on account of the funds raised through the government's international bond issue. The government's foreign currency deposit with the CNB amounted to HRK 2.3bn at the end of the year and was earmarked for the settlement of foreign currency liabilities falling due in early 2010. Government kuna deposits held steady over the year and did not impair the system's kuna liquidity. They surged only in November (HRK 2.6bn) and at the very end of the year (HRK 1.8bn).

After growing for several years, international reserves decreased at the beginning of 2009 due to the depletion of foreign currency liquidity and efforts to ease depreciation pressures. International reserves dipped by EUR 0.5bn in January because of the cut in banks' foreign currency reserve requirements set aside. The fall in reserves was additionally affected by the foreign currency sale of EUR 328.3m in January and EUR 184.7m in February. A foreign currency swap contract concluded in early January, under which EUR 261.3m was purchased from banks, had the opposite effect.

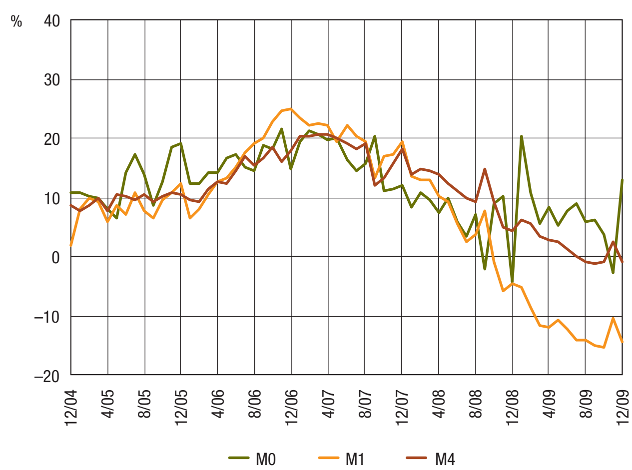
Gross international reserves started recovering in March, after the CNB had purchased EUR 331.2m from the banks. In the second quarter of 2009, gross reserves were given an upward push by the conversion of some EUR 0.5bn purchased from the MoF on the basis of the central government's eurobond issue and a downward push by the termination of the swap contract with banks. Under a general allocation of special drawing rights (SDR), which was to improve global liquidity, Croatia received SDR 270.7m (EUR 297m) from the IMF in August, while another SDR 32.5m (EUR 35m) was received under the special allocation in September 2009. The SDR allocation increased the level of gross international reserves. These funds can be used if the need arises to preserve the country's foreign currency liquidity position. In the last quarter of 2009, EUR 505.3m purchased from the banks and EUR 157.7m net purchased from the government produced a favourable effect on gross reserves.

Gross international reserves stood at EUR 10.4bn at the end of 2009, up 13.8% over the end of 2008. Net usable international reserves also grew, by 12.6%, standing at EUR 9.0bn at the end of 2009.

Developments in monetary and credit aggregates

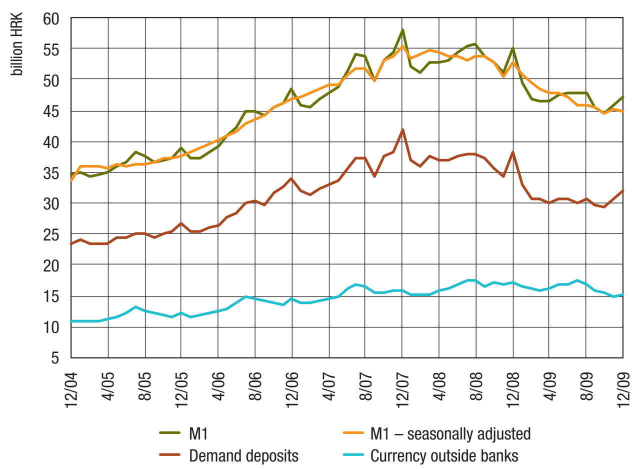
The overall economic slowdown in 2009 had a profound impact on developments in monetary and credit aggregates. For the first time since 1999, bank placements to the private sector dropped on an annual basis. Together with a decrease in total liquidity in the economy, this led to a fall in money (M1). Kuna savings and time deposits plunged, while foreign currency

1.31 Monetary aggregates
year-on-year rate of change



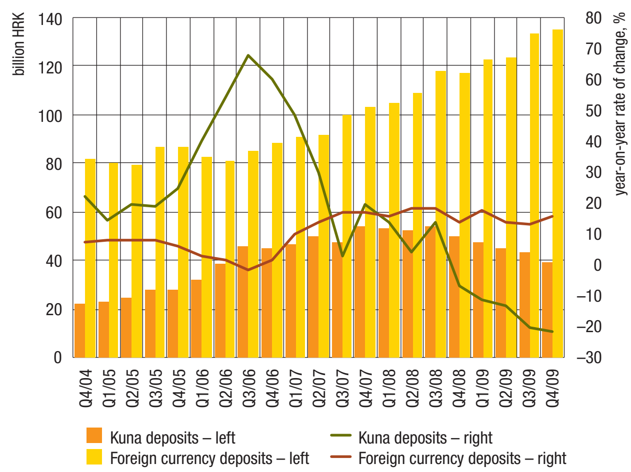
Source: CNB.

1.32 Money (M1)



Source: CNB.

1.33 Kuna and foreign currency deposits



Source: CNB.

deposits were the only monetary aggregate that showed sustained growth. As a result, total liquid assets (M4) decreased in 2009; this broadest monetary aggregate stood at HRK 223.1bn at end-2009, falling by HRK 1.9bn or 0.9% from the end of 2008.

Money (M1) declined by 14.6% (HRK 8.0bn) in 2009, to HRK 47.2bn at the end of the year. Although most of the decrease occurred in the first quarter, this monetary aggregate, moving in line with usual seasonal trends, remained at lower levels throughout the rest of the year.

M1 trends were largely affected by changes in demand deposits, which account for two-thirds of this monetary aggregate. Demand deposits fell by 16.4% (HRK 6.3bn) in 2009 as a result of a sharp drop in balances in the current and giro accounts of the corporate and household sectors. The other component of M1, currency outside banks, also decreased, by 10.4% (HRK 1.8bn). Outflows of demand deposits and weaker demand for currency reflected adverse economic conditions and reduced domestic demand, as evidenced by developments in the real sector.

Kuna and foreign currency non-monetary deposits

The growth in savings and time deposits of the domestic private sector slowed in 2009. Total deposits went up 4.4% (HRK 7.3bn), 2.4 percentage points less than in 2008. This was entirely due to a decline in kuna deposits, of as much as 21.8% on an annual level, while the growth in foreign currency deposits accelerated and was 15.5%. This increased the degree of euroisation of the domestic banking system as the share of foreign currency deposits in total deposits went up to 77.6% at end-2009, 7.5 percentage points more than at end-2008.

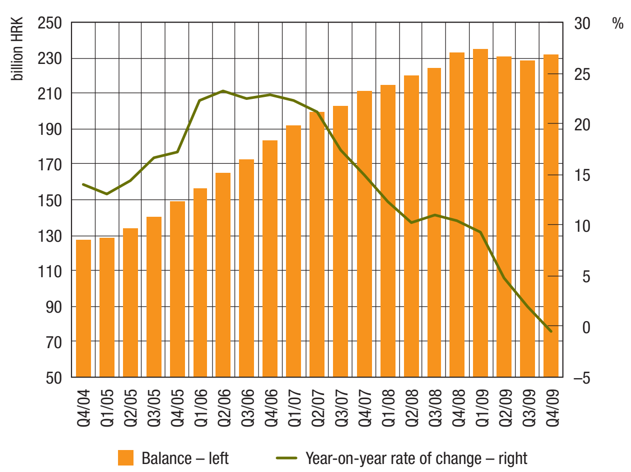
Changes in the amount and structure of deposits were mostly influenced by the higher propensity of households to save in foreign currency and the reduction of the corporate sector's liquidity reserves. Influenced by rising insecurity regarding future economic developments and the kuna exchange rate, households converted a considerable portion of kuna savings deposits into foreign currency deposits. On an annual basis, kuna savings and time deposits of households contracted by 24.4%, while their foreign currency savings deposits grew by an exceptional 15.2%. As access to both domestic and foreign loans was limited, corporates decreased their kuna savings with domestic banks by more than a fourth (HRK 4.6bn or 28.2%), while their foreign currency deposits grew moderately, by HRK 2.2bn (13.6%), but still more than in 2008.

Bank placements

Bank placements to the non-banking sector stood at HRK 231.7bn at the end of 2009, which represents a decrease of HRK 1.3bn or 0.6% relative to the end of 2008. The negative impact of the global financial crisis at the beginning of 2009 and the overall economic slowdown led to a fall in the supply of as well as the demand for loans. Faced with the rise in the ratio of non-performing loans to total loans and a higher degree of uncertainty, banks were more cautious in taking new risks; they raised lending rates and tightened other lending terms. On the other hand, corporate and household demand for new loans slumped under the pressure of negative trends and expectations in the real sector as well as the increased burden of servicing existing loans.[16]

With regard to the sectoral structure of loans, contraction was most pronounced in household loans, which recorded an annual decline of 2.9%. The sharpest drop was recorded in car

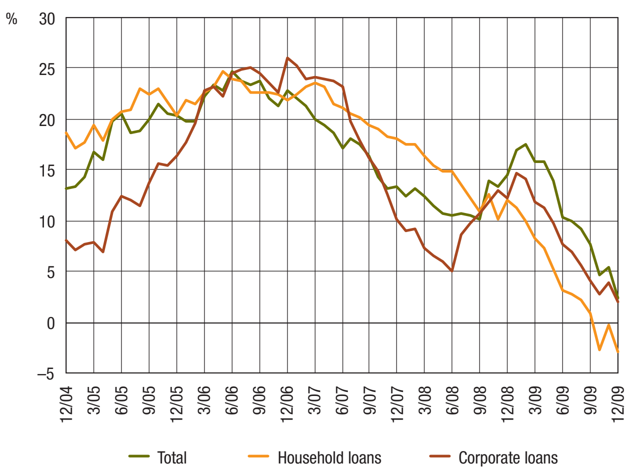
1.34 Bank placements to the non-banking sector



Source: CNB.

16 In contrast, government demand for new loans increased sharply.

1.35 Bank loans
year-on-year rate of change



Source: CNB.

loans (by 19.0%) and credit card loans (9.2%), while other any-purpose loans also suffered a slight decrease. Home loans, which were the main generator of household debt growth over the previous years, remained almost unchanged in 2009.

Although slower than in the preceding year, corporate loan growth was 2.0% in 2009, with the main part of this increase occurring in the last quarter. In view of the large amount of corporate loans that matured in 2009 and the fact that the balance of total loans slightly increased over the year, it may be concluded that corporates refinanced the greater part of their liabilities to domestic banks.

Changes in the currency structure of funding sources prompted the banks to change the currency structure of loans. The share of loans denominated in or indexed to foreign currencies in total loans to the private sector grew to 70.1% by the end of 2009, up 7.0 percentage points on the end of 2008. Banks continued to match the currency structure of their assets and liabilities, but they remained exposed to indirect exchange rate risk through their clients with unmatched currency positions.

Banks' net claims on the central government

The central government raised substantial funds in the domestic banking market in 2009. The strongest growth in bank claims on the government was recorded in the first quarter when, in the midst of the financial crisis, a substantial amount of government foreign liabilities came due, while revenue collection was much weaker. By changing monetary policy instruments, the CNB released a portion of bank funds available for lending to the government, thereby facilitating government financing in that period.

Bank claims decreased only slightly towards the year-end, when the government used a portion of the funds raised in international financial markets to repay short-term loans by domestic banks. As the remaining funds were earmarked for the repayment of liabilities maturing in early 2010, the government temporarily deposited them with commercial banks and the CNB.

On an annual basis, banks' claims on the central government grew by HRK 6.4bn, while government deposits with banks increased by HRK 2.2bn, so that the rise in banks' net claims on the government was more moderate, HRK 4.2bn. Including a HRK 4.0bn increase in deposits with the CNB, the government's net position in relation to banks and the CNB remained almost unchanged over 2009.

Developments in foreign assets and liabilities

The foreign position of banks deteriorated moderately in 2009, largely due to the fall in their foreign assets early in the year. In February, the central bank reduced the prescribed minimum foreign currency liquidity ratio, which put at banks' disposal funds previously deposited abroad. Banks used these funds to finance the central government. In the rest of the year, banks used the seasonal inflow of domestic deposits over the summer months to increase their foreign assets and reduce their foreign liabilities, which improved the banking system's foreign currency liquidity.

A strong temporary increase in both foreign assets and foreign liabilities was recorded at the very end of the year due to the business policy of some banks, which aimed at increasing the balance of their total assets at the end of the business year. In the final analysis, this did not affect the net foreign position of the banking system. At end-2009, the net foreign position of banks was HRK 5.7bn, 22.9% lower than at end-2008, with foreign assets standing at HRK 49.6bn and foreign liabilities at HRK 80.4bn.

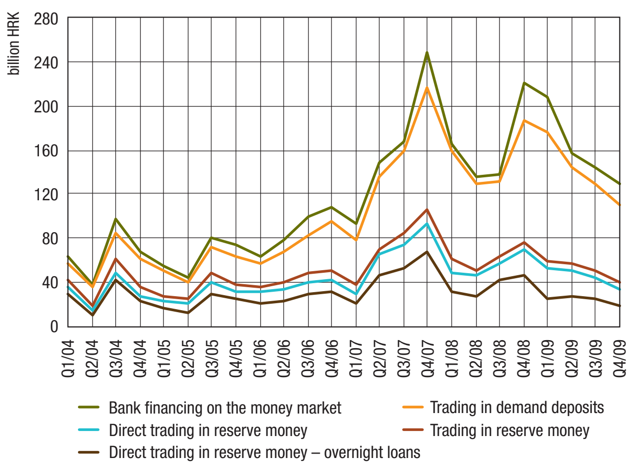
1.2.6 Money market

Last year was marked by large fluctuations in interest rates on the money market, their monthly averages ranging between 19.0% in February and 1.0% in November. The interest rates on the money market were at their highest average monthly level in the last five years at the beginning of the year and at their lowest average monthly level in the last five years towards the end of the year. Euro T-bills at T-bill auctions in 2009 generated relatively large investor interest after the authorities began issuing them regularly in 2009 at attractive interest rates. The stock of total subscribed T-bills rose from HRK 17.4bn at the end of December 2008 to HRK 22.1bn towards the end of December 2009, of which HRK 10.0bn went to euro T-bills. Banks' interest rates also rose compared to 2008, although this trend was more visible in the first half than in the second half of the year when some of the interest rates started falling back to their beginning-of-year levels.

Interest rates on the money market

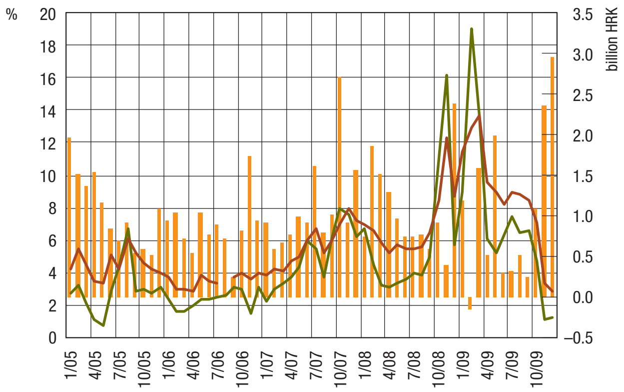
In 2009, banks met their primary liquidity needs by means of secondary sources of liquidity on the money market in the average daily amount of HRK 2.5bn (HRK 637.8bn on an annual

1.36 Money market turnover
quarterly data



Source: CNB.

1.37 Interest rates in direct interbank trading and free reserves



Source: CNB.

As in the previous years, overnight loans were again the most liquid instrument in direct interbank trading in reserve money. Their average daily turnover fell by almost one half in the first quarter of 2009 compared to the year before. At the same time, interest rates rose to their highest levels in the past ten years. Easing of the pressures on the money market and the high liquidity of the banking system led to a gradual fall in interest rates so that towards the end of the year interest rates on overnight loans fell to 1.0%, their lowest level in the past five years.

Interest rates in the short-term securities market

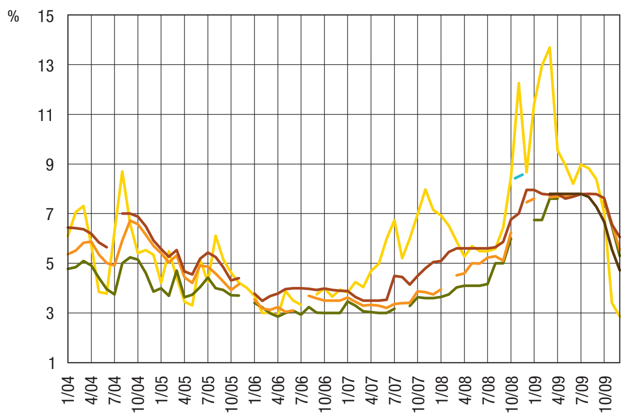
The upward pressure on the interest rates on kuna T-bills increased as a result of worsened liquidity at the beginning of the year, leading to a fall in the volume of issue of kuna T-bills. As a result, the government decided to terminate its domestic bond issues and turned towards euro T-bill issues at attractive interest rates. In March 2009, the authorities started issuing one-year euro T-bills on a regular basis, thus largely facilitating short-term government financing on the domestic market. Gradual improvement in banking system liquidity in the remaining part of the year also led to a fall in interest rates on T-bills.

level), the amount similar to the average daily turnover in 2008. However, a gradual improvement in banking system liquidity reduced the banks' need for money market financing and thus led to a steady decline in turnover on the money market.

Loans in demand deposit trading accounted for the largest share (HRK 560.8bn) of bank financing on the money market in 2009, though their share fell slightly compared to the year before and repo agreements were increasingly gaining in significance (HRK 76.7bn). The remaining funding needs were met by means of securities trading. Trading in demand deposits during that period fell the most in non-banking financial institution lending, which had clearly become more important during the previous two years. Interbank trading also fell during that period and so did trading with other legal persons, which accounted for only one fifth of the total turnover.

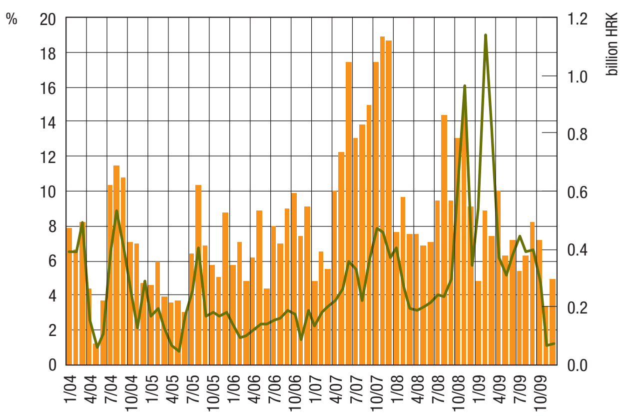
As in the previous years, direct interbank trading dominated interbank trading in reserve money in 2009. Direct interbank trading, which involves only a few banks, accounted for a little less than 90% of the turnover. Bank trading with Zagreb Money Market intermediation accounted for the remaining part of the turnover.

1.39 Interest rates on T-bills and in direct interbank trading
maturity structure



Sources: MoF and CNB.

1.38 Direct interbank trading in overnight loans
monthly data on the basis of daily data

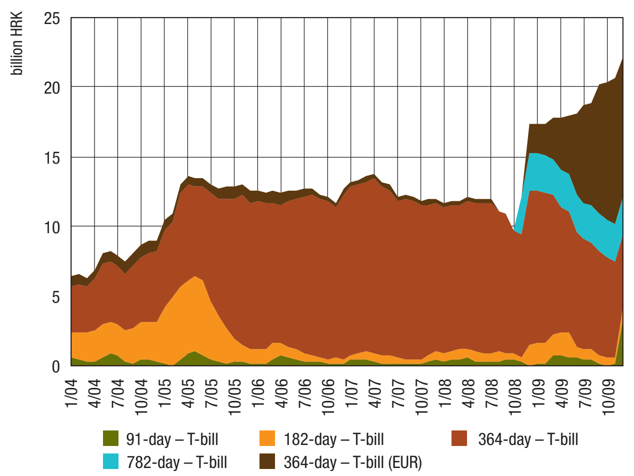


Source: CNB.

At the beginning of 2009, interest rates on different maturity T-bills converged, mainly trending upwards so that by autumn they held steady at around 7.70%. With easing liquidity pressures towards the end of the year and the partial reliance of the private and the government sectors on foreign borrowing, the bids received at auctions started to exceed several times the planned amounts of issued and subscribed T-bills, leading to a sharp decline in the amount of required yields on all maturity T-bills. The interest rates on euro T-bills were the lowest (4.72%), while interest rates on the same maturity kuna T-bills (one-year T-bills) fell the least and stood at 6.06% in December.

A total of 35 T-bill auctions were held in 2009, which raised approximately HRK 22.0bn. As compared to 2008, seven auctions fewer were held in 2009, but they raised HRK 4.4bn more. The amounts of the bids received exceeded the planned amount of the issue much more than they did in 2008, and only one half of the bids received was accepted unlike 2008 when this ratio stood at 90%. This was the result of the introduction of euro T-bills and growing demand for all types of T-bills towards the end of that year. The stock of subscribed T-bills thus rose sharply from HRK 17.4bn at end-December 2008 to HRK 22.1bn at

1.40 T-bill stock
end-month, maturity structure



Sources: MoF and CNB.

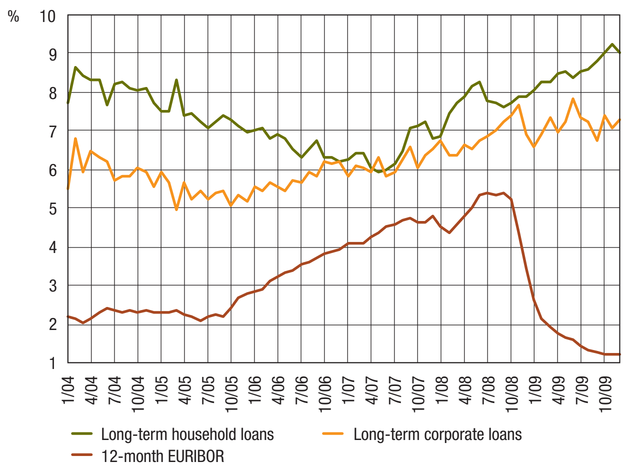
end-December 2009. In the structure of the total subscribed T-bills, the preference for one-year kuna T-bills changed in favour of one-year euro T-bills, which accounted for almost 50% of the total subscribed T-bills, while one-year kuna T-bills accounted for 24.1% of the total. Towards the end of December 2009, 91 and 182-day T-bills accounted for 14.7% and 4.1%, respectively, of the total, while the share of two-year T-bills subscribed towards the end of 2008 stood at 12.0%

Bank interest rates

More expensive sources of bank financing, deterioration of the quality of the loan portfolios of banks and large government demand for bank loans were the main factors which boosted bank interest rate growth in the first half of 2009. At the same time, interest rate growth was mitigated by a reduction in the regulatory cost and improved system liquidity under the influence of CNB measures. At the beginning of the second half of the year, with easing of liquidity pressures and the first signs of recovery in the neighbouring countries, which had a positive impact on investors' risk aversion, sovereign risk premium declined, thus facilitating access to foreign sources of financing and causing a decline in lending interest rates on corporate loans. Deposit interest rates of banks remained relatively stable throughout the first half of the year, owing to developments in interest rates on foreign currency deposits, while weighted interest rates on kuna time deposits not indexed to foreign currency rose considerably. In the second half of the year, deposit interest rates generally moved in line with the developments in the lending interest rates of banks, keeping interest rate spreads relatively stable.

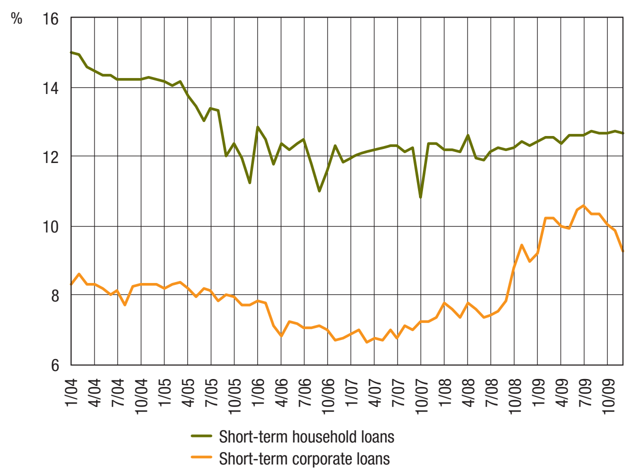
In the segment of short-term loans, after growing steadily throughout the first half of the year, in the same way as in the previous year, interest rates on corporate loans not indexed to foreign currency started falling in July, returning by the end of the year to their beginning of the year level of 9.0%. By contrast, interest rates on short-term household loans not indexed to foreign currency grew steadily throughout 2009, reaching 13.0% in December. The weighted interest rate on long-term corporate loans indexed to foreign currency in general moved in line with the trends in interest rates on short-term corporate loans not indexed to foreign currency, though at lower levels. In December 2009, this interest rate reached 7.3%, an increase of 0.4

1.42 Average bank interest rates on newly granted long-term loans indexed to foreign currency



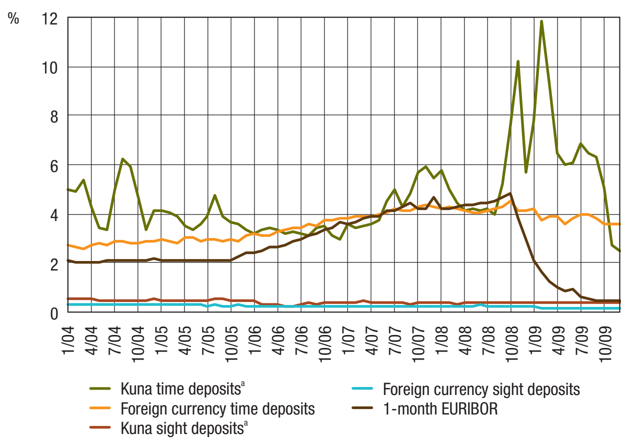
Source: CNB.

1.41 Average bank interest rates on newly granted short-term loans not indexed to foreign currency



Source: CNB.

1.43 Average bank interest rates on newly received deposits



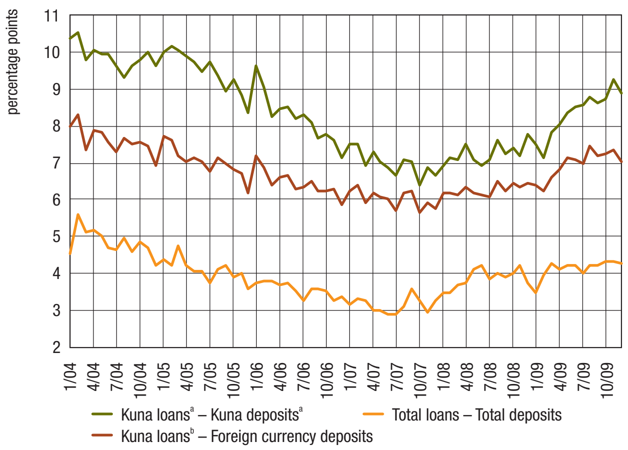
[a] Non-indexed to f/c.
Source: CNB.

percentage from December 2008. The weighted interest rate on long-term household loans indexed to foreign currency rose the most, from 7.9% in December 2008 to 9.0% in December 2009, reaching its highest level since early 2003. Its growth was largely due to the change in the structure of newly granted long-term household loans, particularly in the second part of the year, involving an increase in the share of relatively more expensive other long-term loans at the expense of the cheapest home loans.

The interest rate on kuna time deposits not indexed to foreign currency responded strongly to liquidity changes in 2009 and moved in line with the developments in interest rates on overnight loans in interbank trading. After high values and significant fluctuations marked the end of 2008 and early 2009, these interest rates stabilised in the second quarter and fell to record lows at the end of the year. By contrast, interest rates on foreign currency time deposits and sight deposits remained relatively stable throughout 2009.

Such developments in lending and deposit interest rates led to an increase in the overall interest rate spread in 2009 (from 6.4 percentage points towards the end of 2008 to a little over 7.0 percentage points at the end of 2009), in line with 2008 trends.

1.44 Spread between average bank interest rates on loans and deposits



[a] Non-indexed to f/c. [b] Indexed to f/c.
Source: CNB.

The interest rate spread on so called pure kuna loans and deposits (not indexed to foreign currency) went up much more, reflecting increased perception of the riskiness of placements and the potential losses of banks associated with these placements. This interest rate spread rose from 7.8 percentage points in December 2008 to 8.9 percentage points in December 2009. By contrast, following an increase in the first quarter of the year, interest rate spread on foreign currency-indexed loans and foreign currency deposits remained relatively stable during the remaining part of the year so that the indices of net interest income continued to diverge.

1.2.7 Capital market

In 2009, the domestic capital market was strongly influenced by developments in international financial markets. Recession pressures arising from the spillover of the global financial crisis onto the real economy and investor risk aversion marked the beginning of the year. However, plans for financial system recovery and stimulating measures announced by the world's major governments and central banks spurred the growth of optimism and decreased risk aversion in international investors as early as at the end of March. Positive influences spilled over from the world's stock exchanges onto developments in the domestic capital market, the recovery continuing until the last quarter of 2009, when investor concerns as regards the sustainability of the economic recovery of the world's largest economies and negative macroeconomic indicators for the Croatian economy adversely affected developments in the domestic market. The domestic equity securities market was characterised by very low liquidity in 2009, the annual equity turnover sizeably reducing relative to the previous year (HRK 7.4bn relative to the HRK 16.8bn in 2008). Regardless, the ZSE share index, the CROBEX, went up by 16.4% in 2009, reaching 2004 points late in December.

In addition to the equity securities market, weak investor interest in 2009 also marked the Croatian debt securities market. Thus, bond turnover totalled only HRK 3.4bn in 2009, which was the lowest annual turnover in the debt securities market since 2001. To a degree, this was a consequence of an almost year-long interruption in the issuance of new long-term debt securities in the domestic market[17] that was not reversed until late in 2009, when two new corporate bonds were issued, nominally worth some EUR 29.4m. This is a decrease relative to 2008, when three new bonds and one new tranche of the existing bond were issued, altogether worth EUR 56.4m. As a result, a total of 33 bonds were listed in the domestic capital market at the end of 2009, two fewer than at the end of 2008. The growth of prices of government bonds constituting the CROBIS increased the value of the index by 5.2 points or 5.8% in 2009.

The deepening of the global financial crisis late in 2008 increased the risk aversion of international investors who turned towards safer investments, in particular government bonds of the

Table 1.4 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
2009	1	30.0

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

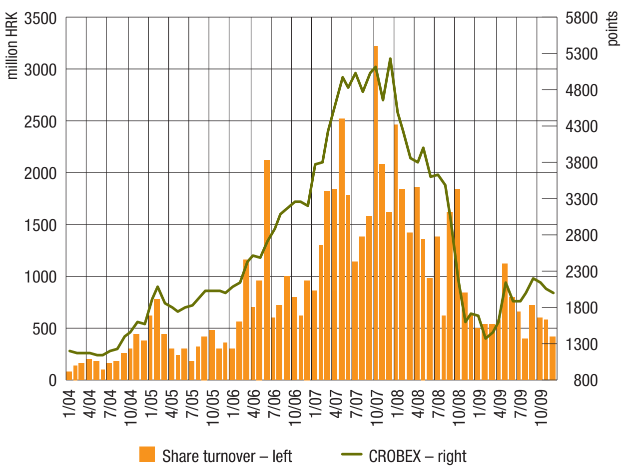
17 At the end of November 2008, the Republic of Croatia issued MoF T-bills in the domestic debt securities market with a maturity over one year (728 days) and a nominal value of some HRK 2.7bn. However, since these T-bills are not listed on the ZSE, they were not included in bond turnover or the calculation of market capitalisation in the domestic stock exchange.

most developed countries, while the required yields on international bonds of almost all emerging market countries drastically increased. The efforts by the governments of the world's largest countries and central banks directed at stabilising the global economy started changing the risk perception of international investors, stabilising the dynamics of required yields on Croatian eurobonds in the first quarter 2009. Growth of optimism on the world's stock exchanges and rising investor appetite for risk in the second quarter of 2009 initiated a decline in required yields on Croatian eurobonds that continued until the end of the year.

Equity securities market

The decline in the annual share turnover[18] on the domestic equity securities market seen in 2008 additionally intensified in 2009. The annual share turnover was thus 55.9% lower than the year before, totalling only HRK 7.4bn, its lowest level since 2005. The number of shares listed on the ZSE declined from 377 to 280 in consequence of new regulations and associated new rules of the Zagreb Stock Exchange.[19] Movements in the domestic capital market in 2009 closely followed global developments. The beginning of the year was marked by increased risk aversion of domestic investors. However, the recovery of the world's markets contributed to the recovery of the ZSE share index, the CROBEX, regardless of the low liquidity, reflecting investor reluctance and insecurity as regards the dynamics and intensity of the spillover of the global financial crisis onto Croatia's real sector. The CROBEX[20] decreased continuously until the beginning of March when it fell to its lowest level in the past four and a half years. After that, the value of most shares on the ZSE started recovering. This trend continued with minor oscillations until the end of 2009. At the end of 2009, the value of the ZSE share index was 2004 points, up 16.4% on the end of 2008. In addition, the new ZSE share index, the CROBEX10,[21] was introduced in September 2009 with a view to improving public notification, transparency and data comparability. The dynamics of the new share index, the CROBEX10, over the following months closely mimicked the movements of the CROBEX.

1.45 ZSE monthly share turnover and end-month CROBEX



Source: ZSE.

Despite the growth of share prices in the domestic capital market, due to very low liquidity[22] of equity securities, the market capitalisation of shares listed on the ZSE at the end of 2009 totalled HRK 135.4bn or 40.6% of GDP for 2009. Compared with its end-2008 balance, the market capitalisation of shares went down by HRK 6.7bn, or 4.7%.

Late in July 2009, new ZSE rules were introduced in the domestic capital market, changing the structure of the securities market. The rules are in line with the new Capital Market Act, which governs trading in financial instruments in the regulated market[23] and via an alternative, less demanding market, the so-called multilateral trading platform[24] (MTP). In addition to the already listed common shares of INA, Istraturist Umag d.d., Medika d.d., Podravka d.d., Viro tvornica šećera d.d., Atlantic grupa d.d., T-HT, Ingra d.d., Magma d.d., Varteks d.d., Genera[25] d.d., Institut IGH d.d., OT-Optima telekom d.d. and eight common and preferential shares of Croatia osiguranje d.d., also listed in the Official Market during the year were the common shares of Belišće d.d., Dalekovod d.d. and Petrokemija d.d., while the common shares of Pliva d.d. were excluded from this market segment. The most traded shares in 2009 were the shares of T-HT, which had a turnover of HRK 1.8bn, accounting for 23.7% of the total annual share turnover. They were followed by the shares Atlantska plovidba d.d. (14.0%), Institut IGH d.d. (7.01%) and Dalekovod d.d. (6.6%).

Debt securities market

There were no new large bond issues in the domestic debt securities market in 2009. Two new corporate bonds were issued late in the year so at the end of 2009 there were 33 bonds[26] listed on the domestic capital market, eight of which were government bonds, one was a CBRD bond, eight were municipal bonds and sixteen corporate bonds. This was two corporate bonds fewer than at the end of December 2008.

There were no new government bond or municipal bond issues in the domestic debt securities market in 2009. In the first six months of 2009, the Republic of Croatia met its financing needs in the domestic financial market, where, in addition to increased borrowing through bank loans, it focused on short-term borrowing through T-bill issue, while in the second half of the year it turned towards foreign capital markets. The two new

18 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. Unified ZSE data have been used since the VSE and ZSE merger in March 2007.
19 The Capital Market Act that entered into force on 1 January 2009 and the new ZSE rules of 20 July that were adjusted accordingly abolished the quotation for public joint stock companies (Quotation JDD). The abolition of the obligatory listing of companies in the Quotation JDD enabled companies to request delisting of their shares from the ZSE instead of continuing trading in a higher quotation, the Regular Market. In addition, the new rules enabled companies whose shares were listed in the lowest quotation, the Regulated Market, to transfer their shares to the MTF or delist them.
20 As of 21 October 2008, the CROBEX comprised 24 shares. As compared to October 2008 the shares of Belišće d.d., Dioki d.d., Hidorelektra niskogradnja d.d. and Konzum d.d. were delisted.
21 The CROBEX10 includes ten CROBEX constituents with the largest free-float capitalisation and turnover.
22 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.
23 The Regulated Market is divided into the Regular Market, the Official Market and the Prime Market.
24 It is a multilateral trading system that matches supply of and demand for financial instruments by multiple interested parties according to prearranged rules and is run by an investment firm or a market operator.
25 As from 16 June 2009, the company Veterina d.d. changed its name to Genera d.d.
26 This figure and the market capitalisation calculations exclude the bonds of the Fund for Compensation of Expropriated Property.

corporate debt issues were listed in the domestic debt securities market in October 2009, at the same time as the year before. Those were the only debt issues listed on the domestic capital market in 2009. Early in October the ZSE listed a four-year corporate bond of Metronet telekomunikacije d.d. nominally valued at EUR 19.8m and having a yield to maturity at issue of 12.1%, while at the end of the same month we saw the listing of a five-year bond of Športski centar Višnjik d.o.o. nominally valued at EUR 9.6m and with a yield to maturity at issue of 8.9%. Three corporate bond issues matured in 2009, while with the entry into force of new rules on the ZSE at the end of July 2009 one corporate bond was excluded from trading.

Bond turnover[27] in 2009 stood at only HRK 3.4bn, down HRK 9.8bn or 74.5% on the previous year. This was the lowest recorded annual bond turnover since 2001. The substantial decrease of activity in the domestic debt securities market was a consequence of the lack of new debt issues in 2009. The most liquid bond in the observed period was the foreign currency indexed kuna bond of the Republic of Croatia, due in 2012, which accounted for 19.6% of the total turnover (HRK 657.2m).

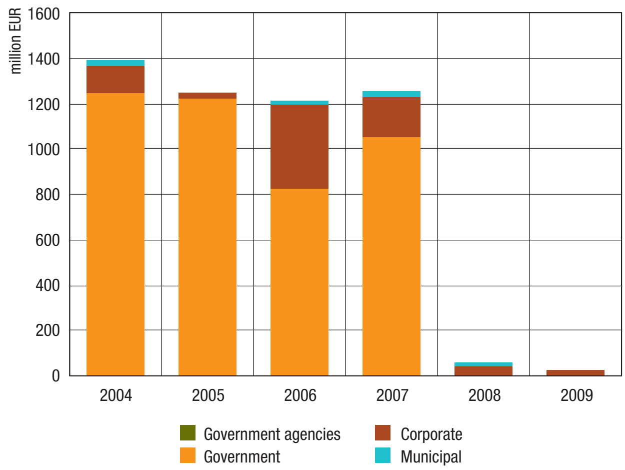
Table 1.5 Bond issues in the domestic market, stock as at end-December 2009

Series	Issuer	Issue date	Maturity	Currency	Issue nominal value	Nominal interest rate	Last price[a]	Current yield 31/12/2009
RHMF-O-125A	Republic of Croatia	23/5/2002	23/5/2012	EUR	500,000,000	6.875%	104.50	6.579%
RHMF-O-142A	Republic of Croatia	10/2/2004	10/2/2014	EUR	650,000,000	5.500%	101.00	5.446%
RHMF-O-19BA	Republic of Croatia	29/11/2004	29/11/2019	EUR	500,000,000	5.375%	89.10	6.033%
RHMF-O-103A	Republic of Croatia	8/3/2005	8/3/2010	HRK	3,000,000,000	6.750%	98.18	6.875%
RHMF-O-157A	Republic of Croatia	14/7/2005	14/7/2015	EUR	350,000,000	4.250%	89.45	4.751%
RHMF-O-15CA	Republic of Croatia	15/12/2005	15/12/2015	HRK	5,500,000,000	5.250%	96.00	5.469%
RHMF-O-137A	Republic of Croatia	11/7/2006	11/7/2013	HRK	4,000,000,000	4.500%	86.95	5.175%
RHMF-O-172A	Republic of Croatia	8/2/2007	8/2/2017	HRK	5,500,000,000	4.750%	91.10	5.214%
GDKC-O-116A	City of Koprivnica	29/6/2004	29/6/2011	HRK	60,000,000	6.500%	93.52	6.950%
GDZD-O-119A	City of Zadar	1/9/2004	1/9/2011	EUR	18,500,000	5.500%	98.10	5.607%
GDRI-O-167A	City of Rijeka	18/7/2006	18/7/2016	EUR	24,574,513	4.125%	–	–
GDST-O-137A	City of Split	24/7/2006	24/7/2013	EUR	8,000,000	4.563%	101.30	4.504%
GRVI-O-17AA	City of Vinkovci	23/10/2007	23/10/2017	HRK	42,000,000	5.500%	–	–
GROS-O-17AA	City of Osijek	30/10/2007	30/10/2017	HRK	25,000,000	5.500%	–	–
GDST-O-15BA	City of Split	27/11/2007	27/11/2015	EUR	8,100,000	4.750%	–	–
GDST-O-177A	City of Split	8/7/2008	8/7/2017	EUR	8,200,000	6.000%	–	–
HBOR-O-112A	CBRD	11/2/2004	11/2/2011	EUR	300,000,000	4.875%	–	–
RBA-O-112A	Raiffeisenbank Austria d.d.	10/2/2006	10/2/2011	HRK	600,000,000	4.125%	97.50	4.231%
PODR-O-115A	Podravka d.d.	17/5/2006	17/5/2011	HRK	375,000,000	5.125%	89.68	5.715%
NEXE-O-116A	Nexe grupa d.d.	14/6/2006	14/6/2011	HRK	750,000,000	5.500%	87.25	6.304%
HEP-O-13BA	Hrvatska elektroprivreda d.d.	29/11/2006	29/11/2013	HRK	500,000,000	5.000%	91.70	5.453%
ATGR-O-11CA	Atlantic grupa d.d.	6/12/2006	6/12/2011	HRK	115,000,000	5.750%	87.82	6.547%
INGR-O-11CA	Ingra d.d.	6/12/2006	6/12/2011	HRK	200,000,000	6.125%	74.99	8.168%
OPTE-O-142A	Optima telekom d.o.o.	1/2/2007	1/2/2014	HRK	250,000,000	9.125%	47.00	19.415%
JDGL-O-126A	Jadran Galenski laboratorij d.d.	11/6/2007	11/6/2012	HRK	125,000,000	5.650%	–	–
JDRA-O-129A	Jadranka d.d.	13/9/2007	13/9/2012	HRK	75,000,000	6.475%	–	–
JRLN-O-12AA	Jadrolinija d.d.	25/10/2007	25/10/2012	HRK	70,000,000	6.500%	100.50	6.468%
OIV-O-14BA	Odašiljači i veze d.o.o.	20/11/2007	20/11/2014	HRK	100,000,000	7.250%	85.00	8.529%
HEP-O-17CA	Hrvatska elektroprivreda d.d.	7/12/2007	7/12/2017	HRK	700,000,000	6.500%	85.10	7.638%
RPRO-O-181A	Rijeka promet d.d.	25/1/2008	25/1/2018	HRK	192,000,000	6.813%	–	–
PLOR-O-133A	Plodine d.d.	4/3/2008	4/3/2013	HRK	100,000,000	9.000%	85.00	10.588%
MTEL-O-137A	Metronet telekomunikacije d.d.	17/7/2009	17/7/2013	EUR	19,800,000	12.000%	–	–
SCVI-O-14CA	Športski centar Višnjik d.o.o.	23/12/2008	23/12/2014	EUR	9,600,000	8.813%	–	–

[a] Regularly traded.
Source: ZSE, monthly report, December 2009.

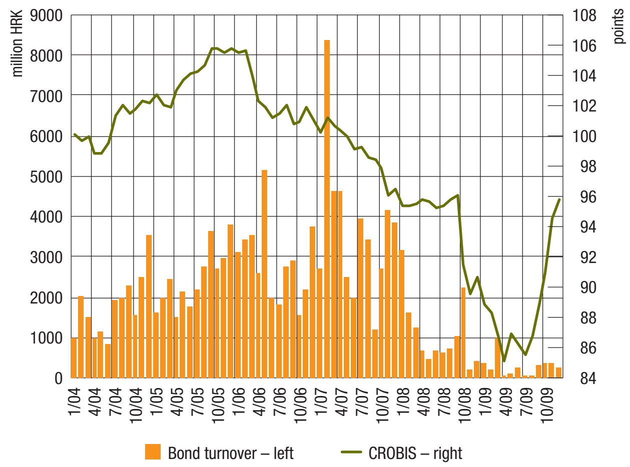
27 The data on the total bond turnover from January 2004 to February 2007 are the sum of the respective bond turnovers on the VSE and ZSE, with the unified ZSE data used since the VSE and ZSE merger in March 2007. It needs emphasizing that the bond turnover on the VSE had been negligible, standing below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

1.46 Bond issues in the domestic market



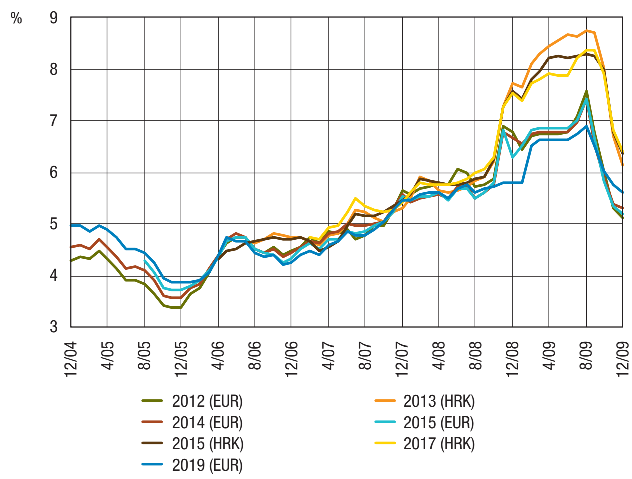
Source: ZSE.

1.47 ZSE monthly bond turnover and end-month CROBIS



Source: ZSE.

1.48 Trends in yields to maturity of government bonds on the domestic market



Source: ZSE.

Relatively large turnover was also registered in trading in the foreign currency indexed kuna government bonds due in 2014 (15.0% or HRK 502.5m) and 2019 (11.8% or HRK 394.1m). Although there were not many newly issued corporate bonds in 2009, their share in total annual bond turnover went up in 2009 over the previous year, accounting for 20.2% of the total annual bond turnover on the ZSE. However, due to weak investor interest in debt securities, the turnovers seen in 2009 were very weak.

The market capitalisation of all bonds[28] on the domestic capital market was HRK 36.0bn (EUR 4.9bn) at the end of December 2009, accounting for 10.7% of GDP for 2009. The market capitalisation of government bonds, municipal bonds and the CBRD bond was HRK 32.1bn (EUR 4.4bn), or 9.6% of GDP, whereas the market capitalisation of corporate bonds amounted to HRK 4.0bn (EUR 521m), i.e. 1.1% of GDP.

The value of the ZSE bond index, the CROBIS,[29] mostly declined during the first half of 2009, while in the second half of the year it went up. This resulted in the annual growth of the CROBIS by 5.8%, to 95.8 points at the end of December. The growth in the prices of RC bonds traded on the ZSE during the period in question reflected itself in the decrease in the yields to maturity of government bonds in 2009 relative to their yields at the end of the previous year.

For the first time in five years, at the end of May 2009 the Republic of Croatia issued a new six-year euro-denominated bond in foreign markets, nominally valued at EUR 750m at the fixed interest rate of 6.5% a year. In addition, at the beginning of November 2009, the Republic of Croatia issued a new ten-year international bond, denominated in US dollars and nominally valued at USD 1.5bn, at a fixed annual interest rate of 6.75%. This was the largest RC international bond issue thus far. Since the euro-denominated bond, nominally valued at EUR 500m matured in February and the Samurai bond nominally valued at JPY 25bn at the end of June, the number of Croatian government bonds listed on foreign capital markets stood at six at the end of December 2009, the same as at the end of 2008. The remaining international bonds of the RC include four euro-denominated bonds and two US dollar-denominated bonds. The total nominal value of all six issues of Croatian bonds in foreign markets was HRK 30.3bn (EUR 4.1bn) at the end of 2009, which was an increase of HRK 7.9bn (EUR 1.1bn) on the end of the previous year.

After growing intensively in 2008, required yields on Croatian eurobonds levelled off in the first quarter of 2009. At the beginning of the second quarter 2009, rising optimism in the world's stock exchanges spurred investor interest in riskier investments. This, paired with the concurrent growth in the supply of government debt due to fiscal stimuli, resulted in the narrowing of yield spreads on bonds of emerging markets and most developed countries that continued until the end of the year. Thus, at the end of December 2009, the spreads between required yields on Croatian eurobonds maturing in 2011 and 2014 and yields on benchmark German bonds totalled 233 and 215 basis points respectively, which was much less than at the end of December 2008, when these spreads stood at 636 and 479 basis points respectively. The required yields on the new Croatian eurobond maturing in 2015 were higher than the required yields on the other two Croatian eurobonds during the period concerned so the yield spread between that international bond and

28 Excluding the bonds of the Fund for Compensation of Expropriated Property.
29 The CROBIS includes seven Republic of Croatia bonds.

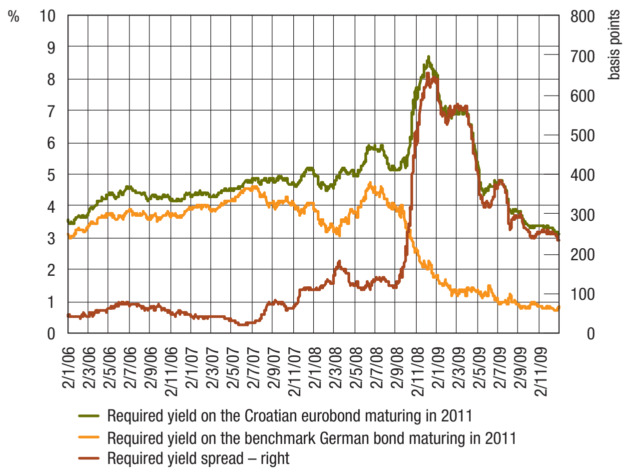
Table 1.6 Republic of Croatia international bond issues, stock as at end-2009

Bond	Issue date	Currency	Amount	Nominal interest rate	Yield on issue day	Spread on issue day	Spread[a] 31/3/2009	Spread[a] 30/6/2009	Spread[a] 30/9/2009	Spread[a] 31/12/2009
London Club Series A, 2010	31.7.1996.	USD	857,796,000	6-month LIBOR + 81.25 b.p.			712	333	234	302
Eurobonds, 2011	14.3.2001.	EUR	750,000,000	6.75%	6.90%	215	571	363	258	233
Eurobonds, 2010	14.2.2003.	EUR	500,000,000	4.625%	4.65%	102	546	306	134	223
Eurobonds, 2014	15.4.2004.	EUR	500,000,000	5.000%	5.11%	101	513	371	226	215
Eurobonds, 2015	27.5.2009.	EUR	750,000,000	6.500%	6.57%	406		470	300	274
Eurobonds, 2019	5.11.2009.	USD	1,500,000,000	6.750%	7.01%	324				239

[a] In relation to benchmark bond.

Source: Bloomberg.

1.49 Required yields on Croatian and benchmark German eurobonds maturing in 2011 and their spread



Source: Bloomberg.

Table 1.7 Current account structure

as % of GDP

	2005	2006	2007[a]	2008[a]	2009[b]
Current account balance	–5.5	–6.9	–7.6	–9.2	–5.2
Goods	–21.0	–21.3	–22.0	–22.8	–16.3
Oil and refined petroleum products	–2.9	–3.2	–3.2	–3.9	–2.5
Other transport equipment	0.8	1.1	0.9	0.5	0.6
Other goods	–20.0	–20.6	–20.7	–20.3	–15.1
Adjustments	1.0	1.3	0.9	0.9	0.7
Services	14.9	14.6	14.6	14.7	12.5
Tourism revenues	16.8	16.1	15.8	15.7	14.0
Income	–2.7	–3.0	–2.6	–3.3	–3.7
Current transfers	3.3	2.8	2.4	2.2	2.3

[a] Revised data.
[b] Preliminary data.

Source: CNB.

the benchmark German eurobond totalled 274 basis points at the end of December 2009. The yield spread between the new Croatian eurobond denominated in US dollars and maturing in 2019 and the benchmark US bond totalled 239 basis points, which was a mild decrease relative to the period immediately after its issuing.

1.2.8 Balance of payments

After increasing for several years, the current account deficit decreased in 2009 due to the effects of the global financial crisis, which contributed to a decline in the volume of foreign trade and affected the financing options. According to the preliminary data, the current account deficit was EUR 2.4bn in 2009, which is a decrease of EUR 2bn (46.0%) from the previous year. Its relative share in GDP decreased from 9.2% to 5.2%. These figures are mostly attributed to the contraction in the goods deficit of EUR 3.4bn (31.5%). The surplus in the account of services also decreased, mainly on account of lower tourism revenues, while the movements in the account of current transfers were the same as in the previous year. In contrast, the factor income deficit increased in the reference year, due to the strong fall in revenues, largely caused by poor operating results of foreign enterprises in resident ownership, and the fall in interest revenues from investment of financial institutions' foreign assets.

Croatia's gross external debt went up by EUR 3.6bn in 2009, a significant decrease compared with 2008 (EUR 5.9bn), and ended the year at EUR 43.1bn (95.0% of GDP). Moreover, the contributions of individual sectors to its overall growth also changed in 2009. Hence, after trending downward for several years, direct foreign borrowing of the central government picked up, and the growth of corporate external debt slowed down substantially compared with several previous years. Apart from borrowing, smaller capital inflows also came from direct and portfolio equity investment.

Current account

The strong contraction of the current account deficit in 2009 (46.0%) was entirely the result of the reduction in the goods deficit caused by an extremely strong fall of imports. Imports of goods, according to the balance of payments data, decreased by 26.8% relative to the previous year, with the fall in domestic demand most strongly affecting the decline in imports of capital goods and road vehicles, while the strong fall in the value of imports of oil and refined petroleum products was the result of price factors. The fall in exports of goods was only somewhat

30 Excluding round tripping transactions which rose by EUR 0.7bn in 2009, ending December at EUR 1.5bn.

Table 1.8 Current account

in million EUR and %

	2007[a]	2008[a]	2009[b]	Rate of change 2009/2008
A CURRENT ACCOUNT	**–3,238**	**–4,371**	**–2,361**	**–46.0**
1 Goods	–9,434	–10,794	–7,398	–31.5
1.1 Credit	9,193	9,814	7,691	–21.6
1.2 Debit	–18,626	–20,608	–15,089	–26.8
2 Services	6,267	6,958	5,667	–18.6
2.1. Credit	9,115	10,091	8,439	–16.4
2.2. Debit	–2,847	–3,133	–2,772	–11.5
3 Income	–1,114	–1,571	–1,664	5.9
3.1 Credit	1,293	1,352	791	–41.5
3.2 Debit	–2,407	–2,923	–2,455	–16.0
4 Current transfers	1,043	1,036	1,035	–0.1
4.1 Credit	1,576	1,684	1,606	–4.6
4.2 Debit	–533	–648	–572	–11.9

[a] Revised data.
[b] Preliminary data.

Source: CNB.

weaker (–21.6%), and negative developments were seen in almost all types of goods, except in agricultural and food and medical and pharmaceutical products. Broken down by individual export markets, exports to old and new EU member states decreased by almost the same amount, with a strong decrease being also observed in exports to the countries in the region, markedly Bosnia and Herzegovina.

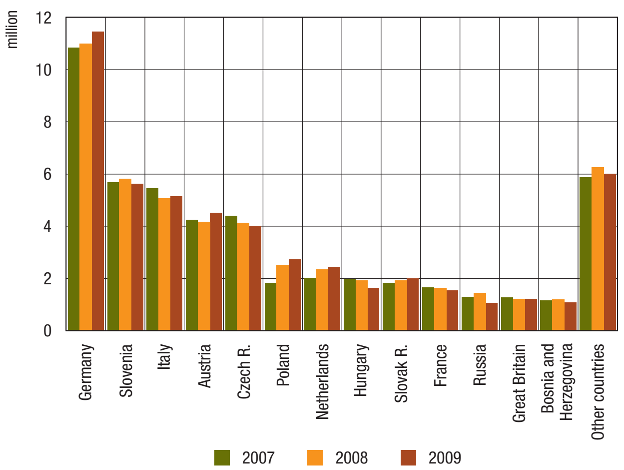
The weakening of foreign demand in 2009 largely contributed to the fall in net service revenues, notably tourism revenues (net tourism revenues went down by 15.6% or EUR 1bn relative to 2008). In relative terms, results weaker than those in tourism were seen in transportation services, which were strongly affected by the fall in the volume of foreign trade and the decrease in tourist spending. The trade surplus in transportation services almost halved, with reductions being observed both in revenues (–37.8%) and expenditures (–29.1%). Viewed by type of transport, the weakest performance was seen in sea cargo transport services and air passenger transport service. The trade in other services was marked by a slight fall in the negative balance, the decrease being observed both in revenues and expenditures. On the revenue side, the largest decrease was seen in revenues from miscellaneous business services (notably architectural services and research and development services) and telecommunication services. In contrast, revenues from agricultural, mining, information and construction services rose mildly. On the expenditure side, the fall in expenditures was mostly accounted for by miscellaneous business and telecommunication services.

The fall in tourism revenues of 14.6% in 2009 was almost entirely the result of the fall in the average spending per traveller; the number of foreign tourist nights and arrivals remained almost the same (according to the CBS data, which cover commercial accommodation capacities, the number of foreign tourist arrivals and nights decreased by 0.9% and 0.2% respectively relative to 2008). Shown by the country of residence, the decrease in the number of nights was primarily due to the smaller number of nights stayed by guests from new EU member states (notably Hungary and Slovenia), Russia and countries in the region, especially Bosnia and Herzegovina. The overall number of nights stayed by guests from old EU member states, notably Austria and Germany, increased relative to 2008.

The overall foreign trade deficit in goods and services decreased by 54.9% year-on-year in 2009. Notwithstanding a fall in the nominal GDP amount, the relative indicator on the trade deficit in goods and services improved from 8.1% of GDP in 2008 to 3.8% of GDP in 2009 and the coverage ratio between imports of goods and services and exports of goods and services increased from 83.8% in 2008 to 90.3% in 2009.

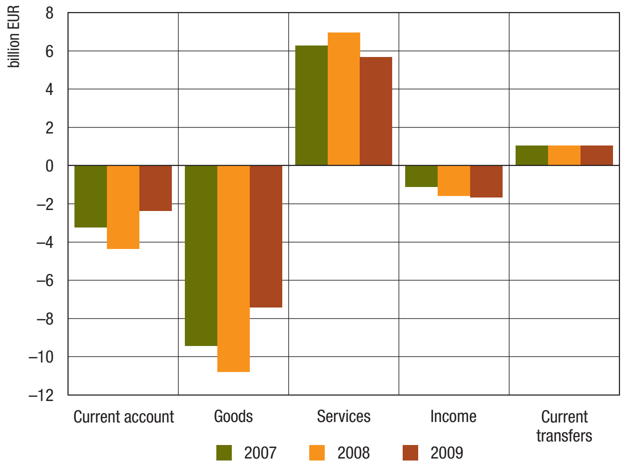
In 2009, the negative balance in the factor income account went up by 5.9% on account of a stronger decrease in revenues than in expenditures. The fall in revenues (by a total of 41.5%) was seen in most revenue items, excluding compensations to employees which rose by 4.1% year-on-year. Owing to weaker performance, resident owners of foreign enterprises, which in previous years reported up to EUR 0.2bn in profit, experienced a loss of EUR 0.1bn on the basis of paid out dividends and re-invested earnings. In addition, banks and the CNB reported substantially lower amounts of revenues from the investment of foreign assets and international reserves. Equity investment-related expenditures (paid out dividends and reinvested earnings of foreign owners of domestic enterprises and banks) decreased

1.50 Foreign tourist nights in commercial accommodation facilities by country of residence



Source: CBS.

1.51 Current account balance



Source: CNB.

the most, by a third. Foreign owners channelled a slightly larger amount of their profit into dividends in 2009, in contrast to previous years when the ratio of paid out dividends to reinvested earnings was roughly equal. Interest on external debt went down, thanks to the fall in interest rates on foreign markets and the slowdown in external debt growth.

The balance in the account of current transfers did not change substantially in 2009 relative to 2008, although a modest decrease was seen in both revenues and expenditures. The decrease in expenditures was somewhat stronger in the government sector, resulting in an overall improvement in its balance of current transfers. However, due to a somewhat stronger decrease in revenues, notably those from worker remittances, the balance of other domestic sectors slightly deteriorated.

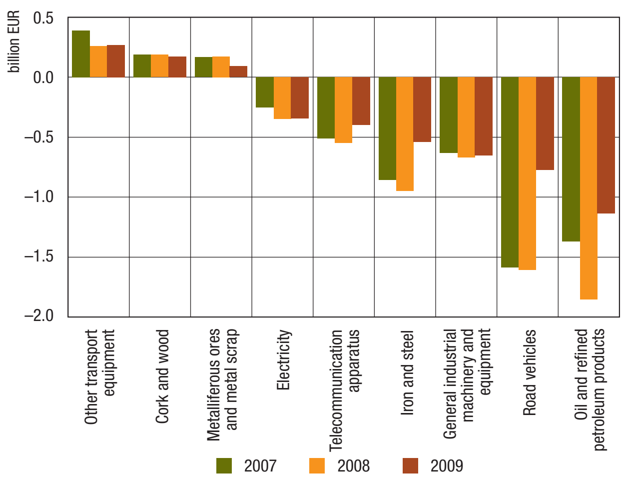
Trade in goods

Trends in the trade in goods, affected by the fall in domestic and foreign demand, were quite different in 2009 from previous years. The volume of trade decreased substantially, with the fall in imports being stronger than the fall in exports. The upward trend in the foreign trade deficit came to a halt, decreasing by a third relative to 2008 and standing at EUR 7.7bn. This contraction was mostly due to the substantial fall in imports of road vehicles, on account of which the trade deficit in this SITC division halved. In addition, as in 2008, the foreign trade deficit was to a large extent determined by the trade in oil and refined petroleum products. However, in 2009 this division contributed to the contraction of the deficit. After reaching a record high in the world market in 2008, oil prices fell on average by a third in 2009. With imports being three times higher, this price fall affected the value of imports of refined petroleum products more than the value of their exports. Almost one half of the contraction of the total trade deficit in goods was the consequence of results recorded in these two divisions.

According to the CBS data, total exports of goods fell by 21.6% in 2009 relative to the previous year and stood at EUR 7.5bn (EUR 9.6bn in 2008). Halved exports of other transport equipment (mostly ships) were the most significant factor contributing to the stated fall. Also significant was the impact of the decrease in exports of oil and refined petroleum products, which almost entirely related to Bosnia and Herzegovina. In addition, a substantial fall was also seen in exports of manufactures of metals and machinery specialised for particular industries, notably to Germany and Italy, and artificial fertilisers, to Bosnia and Herzegovina and Slovenia. A growth of exports was seen in a few SITC divisions, notably the divisions of agricultural products (cereals and cereal preparations) and fish and preparations and meat and meat preparations. Exports of medical and pharmaceutical products increased, especially to Russia.

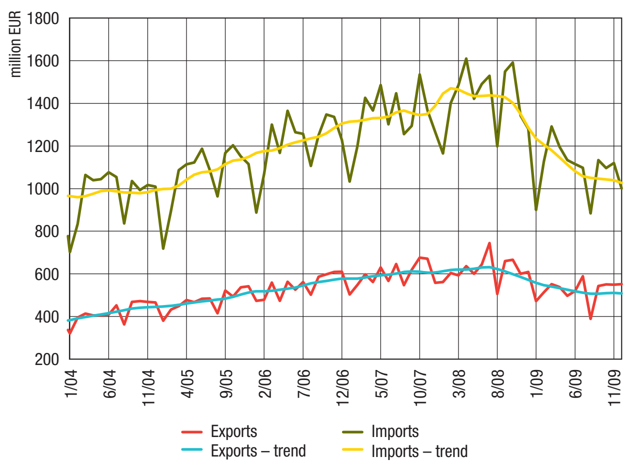
According to the CBS data, total imports of goods stood at EUR 15.2bn in 2009, down 26.9% from the previous year. The negative developments in imports were more pronounced than in exports: a growth of imports was registered only in a small number of SITC divisions, among which there were medical and pharmaceutical products (imports of vaccines from Switzerland) and meat and meat preparations. Among other SITC divisions marked by the fall of imports, the most significant was the fall in imports of oil and refined petroleum products which fell by one third due to the described price factors. Moreover, the fall in domestic demand for road vehicles halved imports in this division, with significant decreases being observed in imports of other transport equipment, iron and steel, and industrial machinery (the fall in the last mentioned being attributed to the weak industrial production in the reference period). These divisions

1.52 Foreign trade balance by selected SITC divisions



Source: CBS.

1.53 Goods exports (f.o.b.) and goods imports (c.i.f.)
other transport equipment, oil and refined petroleum products excluded



Sources: CBS and CNB.

Table 1.9 Exports and imports by economic classification of countries
in %

Economic classification of countries	Exports			Imports		
	2007	2008	2009[a]	2007	2008	2009[a]
Developed countries	**67.7**	**66.8**	**66.0**	**73.2**	**72.6**	**72.2**
EU-25	60.3	60.9	60.5	64.8	64.1	62.7
Slovenia	8.3	7.8	7.4	5.9	5.6	5.7
Hungary	2.2	2.4	1.8	2.9	3.2	3.2
EU-15	43.7	44.2	43.9	48.8	48.5	47.0
Austria	6.1	5.8	5.4	5.3	4.9	5.0
Italy	19.2	19.2	19.1	16.1	17.1	15.4
Germany	10.0	10.7	11.0	14.4	13.4	13.5
EFTA	1.2	1.2	1.7	1.9	1.7	2.6
Developing countries	**32.3**	**33.2**	**34.0**	**26.8**	**27.4**	**27.8**
Bosnia and Herzegovina	14.4	15.3	12.9	2.8	2.7	2.7
Serbia, Montenegro	6.6	6.8	6.9	1.3	1.4	1.6
Russia	1.3	1.3	1.5	10.1	10.3	9.5
China	0.2	0.3	0.4	6.2	6.2	6.8

[a] Preliminary data.
Source: CBS.

accounted for over half of the total decrease in imports in 2009.

Much better insight in the developments in the trade in goods is provided by the analysis based on data excluding individual divisions with high shares and volatility from the total aggregate. Thus, in case of the foreign trade in goods of the Republic of Croatia the analysis of exports and imports excludes other transport equipment, whose value is largely affected by the methodology of reporting of finishing operations, and oil and refined petroleum products, whose value is largely affected by the developments in world market prices. These two divisions excluded, the fall in exports stood at 15.6% in 2009 and the fall in imports at 23.3%, meaning that negative impacts of the crisis on movements in the trade in goods were widespread, especially on the imports side.

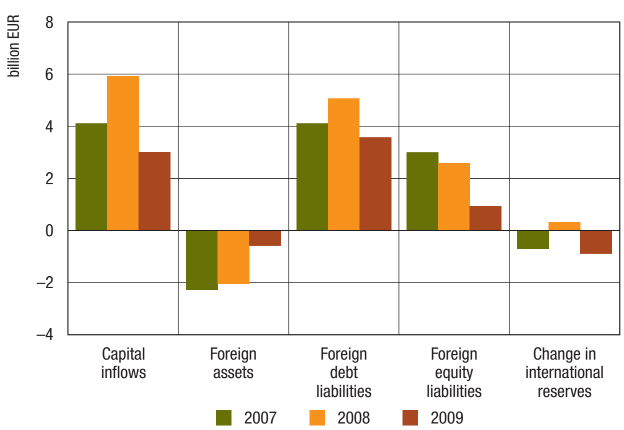
The geographic structure of the trade in goods continued to be marked by a slight growth in the shares of exports to and imports from developing countries. In 2009, this was the result of the fall in trade in goods with developed countries more significant than that with the developing countries. As far as the latter are concerned, the largest decrease was seen in exports to Bosnia and Herzegovina, which accounted for 80% of the total decrease in exports to this group of countries, while on the imports side the largest decrease involved Russia. In both cases, these contractions were the result of the fall in the value of trade in oil and refined petroleum products. However, the fall of exports to Bosnia and Herzegovina and the resultant decrease in the share of this country in total Croatian exports was chiefly offset by larger exports to some Middle East countries and Liberia (ships). The developments in the trade in goods with developed countries were largely determined by the trade with Italy, which was mostly affected by the contraction in the trade in other transport equipment and to a small extent by the fall in imports of oil.

Capital and financial account

The capital and financial account saw much smaller net inflows in 2009 than in 2008; excluding the change in international reserves, they stood at EUR 4.0bn, down by almost one third relative to 2008. Inflows from foreign borrowing and foreign equity investment decreased by roughly the same amount. The growth in foreign assets of domestic sectors also decreased substantially compared with the previous year.

The increase in foreign assets of domestic sectors in 2009 was to a large extent accounted for by resident direct investment abroad in the amount of EUR 0.9bn, the majority of which consisted of round-tripping transactions.[31] Moreover, investment funds, after withdrawing from foreign capital markets in 2008, revived their investment activities in 2009, placing a majority of their funds in debt instruments and somewhat smaller amounts in equity securities. The balance of trade credits granted to non-resident enterprises decreased, which was in line with smaller

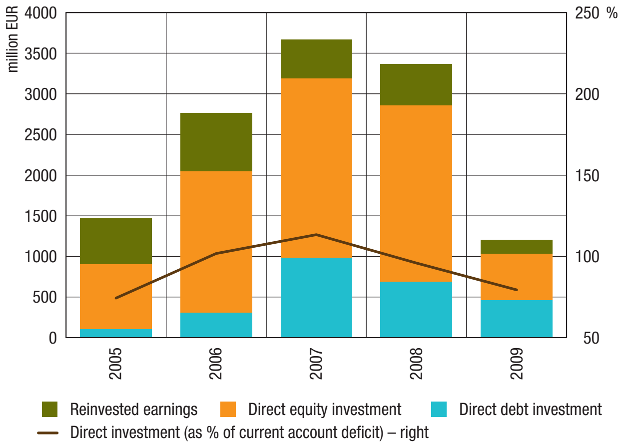
1.54 Financial transactions with foreign countries



Note: A negative change in foreign assets and international reserves denotes their growth. Capital inflows exclude data on round tripping.
Source: CNB.

31 The term 'round tripping' describes an investment made in an enterprise through a legal person set up in another country solely for that purpose (special purpose entity). Round-tripping transactions effected though special purpose entities headquartered in Croatia were reported in the fourth quarter of 2008 (EUR 0.8bn) and the third quarter of 2009 (EUR 0.7bn), increasing the amount of foreign direct investment in Croatia and Croatia's direct investment abroad and producing zero effect on the amount of net direct investment.

1.55 Structure of foreign direct investment in Croatia



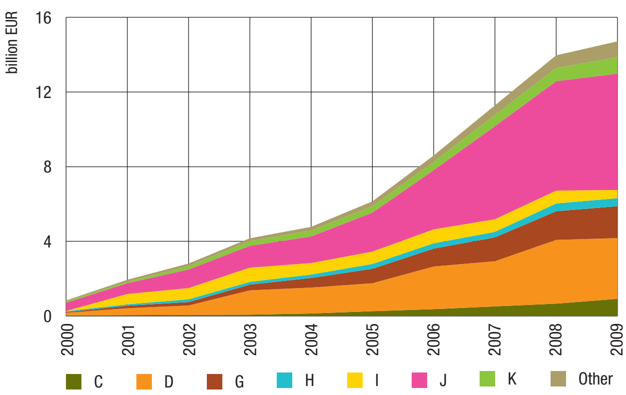
Note: Data on round tripping are not included.
Source: CNB.

volume of foreign trade. In 2009, foreign assets of banks experienced a slight fall, entirely in the first quarter, which was marked by a decrease in the rate of the minimum required foreign currency claims. In the remaining part of the year, this fall was largely offset by the renewed outflow of banks' funds abroad.

In 2009, foreign liabilities of domestic sectors (EUR 5.1bn) were chiefly accounted for by debt liabilities (the rise in foreign borrowing), while only a small amount was accounted for by equity liabilities arising from direct and portfolio equity investment. Enterprises made the largest contribution to the rise in debt liabilities, although the dynamics of their foreign borrowing slowed down considerably. Banks also reported the lower increase in their external debt in 2009 relative to 2008. Only the central government significantly increased its borrowing activities; after decreasing its debt in several previous years, the central government increased its foreign liabilities by EUR 1bn in 2009.

Foreign direct investment in Croatia reached EUR 1.9bn, being more than twice as small in 2009 as in 2008. Direct equity investment decreased the most, standing at EUR 0.6bn. The amount of reinvested earnings was also lower, reflecting weaker

1.56 Structure of direct equity investment and reinvested earnings by NCEA
cumulative data from 2000 to 2009



Note: NCEA (2002) C – Mining and quarrying, D – Manufacturing, G – Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods, H – Hotels and restaurants, I – Transport, storage and communication, J – Financial intermediation, K – Real estate, renting and business activities.
Source: CNB.

business results of enterprises and banks in foreign ownership. Direct debt investment (i.e. the debt to affiliated enterprises abroad) stood at EUR 1.1bn, the major portion being accounted for by a round-tripping transaction (EUR 0.7bn) which had no real effect on the financial account balance since it contributed to an equal rise in resident foreign assets.

Broken down by activities, the bulk of direct equity investment and reinvested earnings in 2009 was generated in financial intermediation (mainly reinvested earnings in the banking sector), oil and natural gas extraction, various trade activities and real estate. Notwithstanding the acquisitions of real estate which became the subject of separate statistical monitoring in 2007, these activities generally generated the largest amount of direct investment in the last decade. As for manufacturing, fairly large shares of total accumulated investment were accounted for by the production of oil and refined petroleum products and the chemical industry.

External debt[32]

The year 2009 was marked by the slowdown of foreign borrowing. Overall, the external debt rose by EUR 3.6bn in 2009, down about 40% from 2008, or by almost the same amount as in 2007. The contributions of individual sectors to new borrowing also changed: having declined for several years, government borrowing in the foreign market rebounded, while borrowing by banks and, especially, by enterprises decreased markedly. Hence, the gross external debt ended December at EUR 43.1bn.

In 2009, as in previous years, the largest increase was seen in the external debt of other sectors (mostly enterprises). However, it should be noted that in the year of restricted access to foreign sources of finance, the corporate debt growth of EUR 1.3bn accounted for only a third of the debt generated in 2008. A slowdown in the growth of foreign liabilities was observed in most entities included in this sector, and was the strongest in the case of enterprises in private ownership and non-banking financial institutions. The latter were marked by the strong growth of borrowing by the CBRD, while other non-banking financial institutions (mostly leasing companies) even reduced their foreign liabilities from 2008.

The direct investment-related debt (i.e. the debt to foreign owners and hybrid and subordinated instruments of banks) was marked by a weaker slowdown of external debt growth, meaning that enterprises borrowed easier from their affiliated enterprises than from other enterprises and banks. As a result, the external debt from this source rose by a total of EUR 0.7bn in 2009, accounting for two thirds of the debt generated in 2008.

Total external debt of enterprises (including the debt related to direct investment in enterprises) rose by almost EUR 2bn in 2009 and accounted for almost two thirds of total gross external debt at year-end. It should be emphasised that despite unfavourable economic trends most enterprises did not experience any difficulties in meeting their liabilities, repaying most of them in timely fashion. They were largely refinanced by foreign creditors, while the repayment of only a small portion of loans was extended in agreement with foreign creditors. However, if we analyse the repayment of due liabilities by sectors, we see that enterprises from the tourist sector and enterprises engaged in construction and related activities have experienced the most problems with their repayments. In 2009, late principal and interest payments rose by EUR 0.4bn, with about one half of this amount being accounted for by only one debtor and the

32 The reported and analysed external debt data do not include the debt arising from round tripping.

Table 1.10 Gross external debt by domestic sectors
end of period, in million EUR and %

	2005	2006	2007	2008	2009	Structure				
						2005	2006	2007	2008	2009
1 Government[a]	6,153	5,670	5,372	4,197	5,191	23.9	19.4	16.3	10.7	12.0
2 Croatian National Bank	3	3	2	2	1	0.0	0.0	0.0	0.0	0.0
3 Banks	8,979	10,223	8,879	10,079	10,680	34.9	34.9	27.0	25.8	24.8
4 Other sectors	8,176	10,500	14,743	19,836	21,393	31.7	35.9	44.8	50.7	49.6
5 Direct investment	2,451	2,878	3,933	5,010	5,826	9.5	9.8	11.9	12.8	13.5
o/w: Hybrid and subordinated instruments	216	169	56	218	378	0.8	0.6	0.2	0.6	0.9
Total (1+2+3+4+5)	**25,761**	**29,274**	**32,929**	**39,125**	**43,092**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[a] Government does not include the CBRD. From early 2008 on, it also excludes CM whose debt at that point stood at EUR 1.2bn. Both CBRD and CM have been reclassified to other sectors.

Source: CNB.

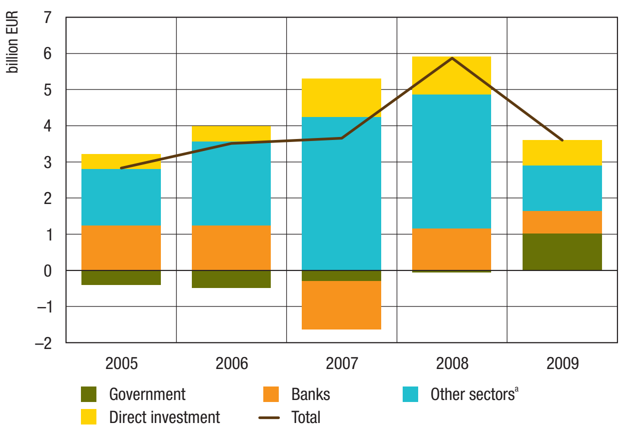
remaining portion by enterprises engaged in the mentioned activities.

The external debt of the government sector (including the central government, central government funds and local government) rose by EUR 1.0bn in 2009, which was the first such increase since 2004. This was due to two international issues of bonds that were mainly purchased by foreign investors and the settlement of due liabilities on previously issued bonds and loans. The government issued eurobonds worth EUR 750m in June and dollar bonds worth USD 1.5bn (EUR 1.1bn) in November. Eurobonds worth EUR 500m and issued in 2002 were repaid in February and Samurai bonds worth JPY 25bn (EUR 185m) in June. The public sector, which, in addition to the government sector, includes the CBRD and enterprises in public and mixed ownership, increased its external debt balance by EUR 1.8bn in 2009 on account of central government borrowing and borrowing by enterprises in public and mixed ownership and the CBRD. The contingent debt of the public sector (i.e. the publicly guaranteed private sector debt) continued its years-long downward trajectory, ending 2009 at EUR 9bn.

Banks increased their foreign liabilities by a total of EUR 0.6bn in 2009 (or EUR 0.8bn if we include hybrid and subordinated instruments), which is nearly half as much as in the previous year. It should be noted that due to the spillover effect of the global financial crisis onto the domestic economy, the end of 2008 was marked by sizeable growth in the external debt of banks, which borrowed abroad (mostly from their parent banks) to compensate for the withdrawal of household foreign currency deposits and to finance the central government in a situation in which access to foreign sources of financing was hindered. After increasing additionally in January 2009, the external debt of banks decreased in February after the CNB lowered the rate of the minimum required foreign currency claims and released the funds which banks partly used for the settlement of increased foreign liabilities. Banks intensified their foreign borrowing again in the second quarter, decelerating it in the middle of the year in line with seasonal trends (due to lower foreign currency inflows in the main tourist season, the reported decrease was significantly lower than in previous years). At the end of 2009, the external debt of banks temporarily increased by a high EUR 0.7bn.

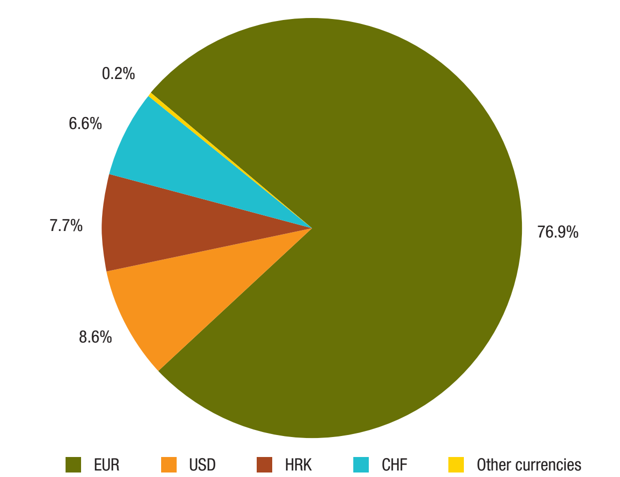
The euro predominated in the currency structure of external debt, keeping its share stable at about three-fourths (76.9%). The US dollar share was almost one tenth. The share of the domestic currency, which is the third largest, slightly declined relative to the previous year, and the share of Swiss franc-denominated debt reduced substantially, due notably to the fall in the gross external debt of enterprises denominated in this currency. With the repayment of Samurai bonds in mid-2009, the yen ceased to be reported in the currency structure of external debt.

1.57 Contributions of domestic sectors to external debt growth



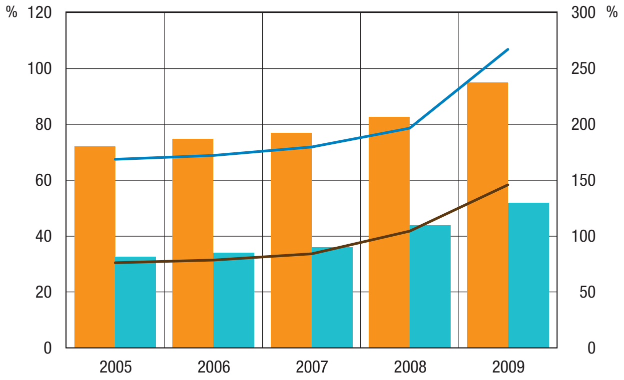
[a] Other sectors include the CBRD and, from 2008 onwards, CM which up to that year was classified in the government sector.
Source: CNB.

1.58 Currency structure of external debt
as at 31 December 2009



Source: CNB.

1.59 External debt indicators



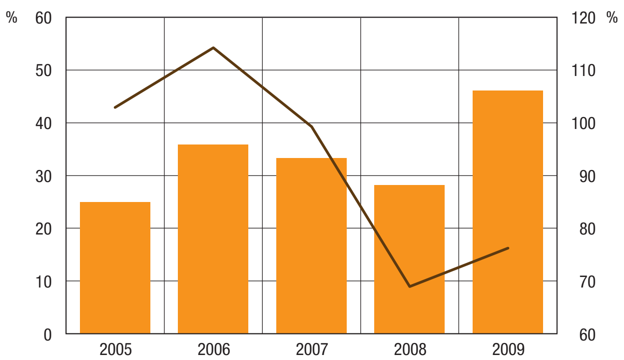
Gross external debt/GDP – left
Gross external debt/Exports of goods and services – right
Net external debt/GDP – left
Net external debt/Exports of goods and services – right

Source: CNB.

According to the maturity structure, the short-term debt declined significantly in 2009 on account of the decrease in short-term foreign liabilities of banks, which, however, rose strongly at the end of 2008. The share of short-term debt in total debt stood at 11.2% at the end of December 2009, decreasing by 2.5 percentage points relative to the end of 2008 and reaching a record low in the past five years.

A significant decrease in absolute external debt growth notwithstanding, the relative indicators of external debt perceptibly deteriorated in 2009, primarily due to the decrease in GDP and the deterioration in exports of goods and services. Hence, the external debt to GDP ratio increased by 12.4 percentage points, reaching 95.0% at the end of 2009. Within this, 8.4 percentage points were accounted for by the growth in absolute debt (only to a small extent was this the result of the use of the improved data processing system) and the remaining percentage by the decline in GDP. Similarly, the ratio of external debt to exports of goods and services worsened by 70 percentage points (from 197% in 2008 to 267% in 2009), the decrease in the export value of goods and services accounting for a full 50 percentage points. The relative indicators of net debt also worsened, although to a somewhat smaller extent (due to the growth in international reserves, net debt grew less than gross debt). As a result, the net external debt rose by EUR 2.8bn in 2009, accounting for 51.9% of GDP and 146.0% of exports of goods and services.

1.60 Relative indicators of external debt burden and international reserves adequacy



External debt payments/Exports of goods and services – left
International reserves/Short-term debt (remaining maturity), end of period – right

Note: External debt payments include principal payments on bonds, long-term trade credits and long-term loans, as well as total interest payments net of interest payments on direct investment.
Source: CNB.

Domestic sectors' burden of external debt servicing increased markedly in 2009, from 28.2% in 2008 to 46.4% in 2009. The rise in this burden, measured by the share of external debt principal and interest payments in exports of goods and services, was the result of the growth in the amount of payments (9.3 percentage points), reported by all sectors, and of the decrease in the absolute amount of exports of goods and services. Notwithstanding the increase in the debt service burden, the ratio of international reserves to matured short-term debt improved thanks to the growth in international reserves in 2009.

1.2.9 Government finance[33]

Fiscal policy features in 2009

The pronounced downturn in consolidated general government revenues that characterised government finance in 2009 was caused by a sharp contraction in aggregate demand. The economic slowdown was mostly reflected in lower tax revenues, while the labour market response to adverse economic trends occurred with a time lag and was less pronounced on an annual level, so that revenues from social contributions decreased only slightly. Tax law amendments, including above all the rise in the basic VAT rate and the introduction of the special tax on salaries, pensions and other income, only mitigated the decline in revenues and ensured the stability of government finance and the regular payment of budgetary obligations. In contrast, expenditures increased, though much slower than in the preceding years, while the net acquisition of non-financial assets was reduced by a fifth. In line with these trends in revenues and expenditures, the consolidated general government deficit (on a cash basis, GFS 2001) grew to HRK 10.7bn or 3.2% of GDP, while it was HRK 2.9bn or 0.8% of GDP in 2008. Nevertheless, actual financing needs (excluding liabilities that fell due) were larger due to activated guarantees, mostly those issued to state-owned shipyards. In line with Croatia's national accounts, these guarantees are classified as transactions in financial assets, while under ESA 95 they are included in the general government deficit.

A fall in revenues and an increase in expenditures halted the four-year downward trend in the deficit, which largely affected the growth in the debt. As there were no major revenues from the disposal of financial assets in 2009, the funds needed for deficit financing (and liabilities refinancing) were obtained through domestic borrowing and two bond issues on foreign capital markets. In the period from January to December 2009, general government debt increased by HRK 17.4bn, standing at HRK 117.8bn at the end of the year. The much stronger growth in debt than in the reported deficit is explained by the increase in funds deposited with the CNB, which were used to pay the obligations falling due in early 2010. Also, the government used substantial funds for the payment of activated guarantees in 2009. It should be noted that the rise in general government liabilities and nominal GDP contraction increased the ratio of general government debt to nominal GDP from 29.3% at end-2008 to 35.4% at end-2009.

33 The text on government finance was written based on preliminary MoF data for 2009.

Consolidated general government revenues and expenditures

Preliminary MoF data on budget execution show that consolidated general government revenues stood at HRK 128.1bn in 2009, down 4.9% on 2008. Actual revenues fell slightly short of the target, mostly on account of the outturn in revenues from social contributions, while tax revenues and other revenues were slightly higher than expected. As these data are presented on a cash basis, the shortfall was due in part to a deterioration in the collection of taxes and contributions, which in turn was due to the economy's mounting illiquidity, as confirmed by the data on the arrears of legal entities arising from taxes and contributions in 2009.

Compared with 2008, the decrease in total revenues was largely driven by the fall in VAT revenues due to a sharp decline in personal consumption and foreign trade. The latter decline also led to a downturn in excise revenues, which was mostly accounted for by revenues from excise on cars, reflecting the fact that car imports were half those in 2008. The reduction in excise revenues was also associated with adverse trends in revenues from excises on alcohol, beer and non-alcoholic beverages due to weaker domestic demand as well as a sharp decrease in foreign tourist spending. Revenues from excises on tobacco products also decreased slightly despite changes in the collection system[34] and an increase in excises on tobacco products (in effect as of January and June 2009), which was made in line with EU practice. Such developments may be explained by a somewhat lower demand for tobacco products due to a decline in real household disposable income and an increase in sale prices caused by the stated tax changes, but it is also likely that the grey market trade in these products increased. Furthermore, the annual downturn in these revenues was also due to the base effect, i.e. a strong increase in revenues from excises on tobacco products in late 2008. At that time, the announced increase in excises with effect from January 2009 spurred both the production and imports of tobacco products so as to put off the increase in sale prices for as long as possible. A slightly negative rate of change was also registered in revenues from excises on refined petroleum products[35] despite the December 2009 collection of arrears on this basis.

Profit tax revenues also contributed to the fall in total revenues. This was mostly the result of increasingly adverse economic trends, which apparently prompted profit tax payers to request a sizeable reduction in their monthly advance tax payments for 2009.[36]

The rising illiquidity in the economy coupled with a stagnant gross wage bill led to a fall in revenues from social contributions and income tax. The latter fall was also due to the unfavourable base period effect, i.e. the July 2008 increase in the basic personal tax exemption. Only revenues from quasi-corporations and other taxes made a sizeable positive contribution to total revenue growth. They were the result of the allocation of a portion of CNB 2008 profit to the government budget and the introduction of the special tax on salaries, pensions and other income.

Consolidated general government expenditures stood at HRK 132.9bn in 2009, growing annually by 2.0%. This increase raised their share in nominal GDP to 39.9%.

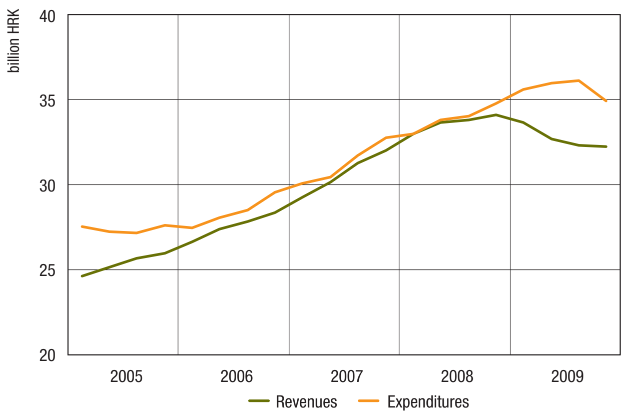
Social benefits, which account for the largest share of expenditures and which were the key contributor to the 2009 rise in total expenditures, grew by 6.8%. To a great extent, this was consequent upon increased expenditures on social security benefits, which include the bulk of pensions and health care expenditures. The latter rise was probably influenced by the health care reform that began in late 2008 as well as the settlement of some health sector arrears. Growth was also recorded by social assistance benefits, comprising Croatian war veterans' pensions, child allowances and expenditures related to various social rights.

The 4.8% growth in expenditures for employees was primarily due to their trends early in the year; in the first four months of 2009 wages paid to civil servants and other government employees went up 6% relative to 2008. However, to make the necessary savings, the wage calculation basis for civil servants and government employees had been rolled back to the level in December 2008 from May 2009 onwards, after which the rise in employee compensations decelerated. These compensations also increased due to the growth of employment in education, health care and social services, to wage increases based on years of service as well as an agreement between the government and the trade unions of education and science sector employees, which provided for a 2.1% wage increase from July 2008 and, from July 2009 onwards, an additional 2.2% increase on top of the increase made in 2008.

General government made a noticeable cut in expenditures for the use of goods and services, comprising, among other things, expenditures for office supplies, energy, military equipment, current and investment maintenance services, etc. In addition, "other expenditures" were much reduced, which in part may be explained by smaller transfers of road fees to Croatian Motorways (CM), smaller investments in railway infrastructure modernisation and construction, and modernisation and acquisition of railway vehicles. A fall, though much smaller, was also recorded in expenditures on subsidies. In contrast, increased short-term borrowing in the domestic market and more expensive funding costs led to a sharp growth in interest expenses.

1.61 Consolidated general government revenues and expenditures

moving averages, the last four quarters



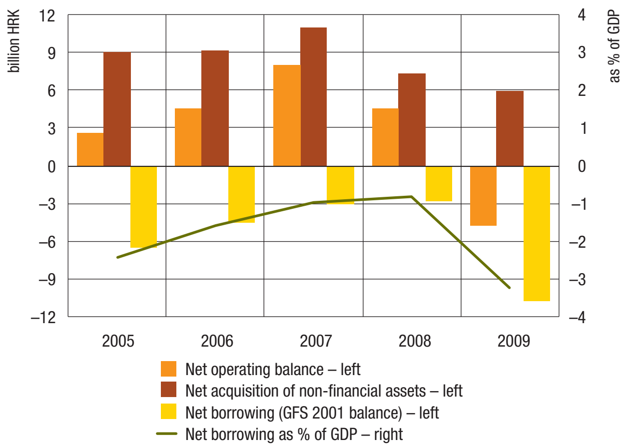
Note: Including revenues from the disposal of and outlays for the acquisition of non-financial assets. Since 2008, CM has been excluded from consolidated general government.
Sources: MoF and CNB calculations.

34 Under the Act on Amendments to the Act on the Special Tax on Tobacco Products (OG 152/2008) with effect from January 2009, in addition to quantity, the special tax on cigarettes is also paid as a proportional special tax calculated as a percentage of the retail price of cigarettes.

35 Including revenues from road fees.

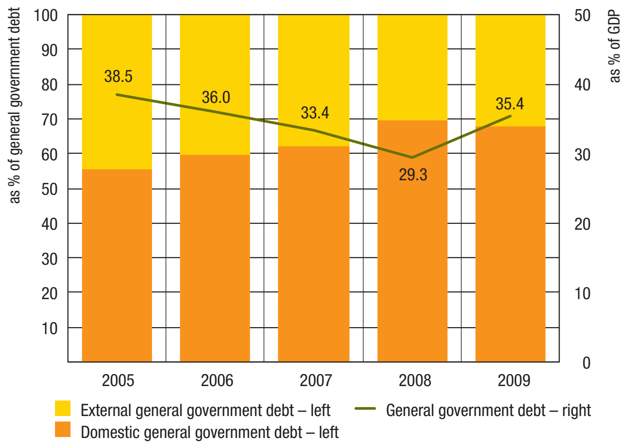
36 Although advance tax on current year profit is paid based on the tax return for the previous period (previous year), under the Profit Tax Act (OG 177/2004), the Tax Administration can, based on the data on a taxpayer's business performance, change the amount of monthly advance payments upon request.

1.62 Net borrowing
GFS 2001, on a cash basis



Note: Since 2008, CM has been excluded from consolidated general government.
Sources: MoF and CNB calculations.

1.63 Consolidated general government debt
end of period



Note: Since 2008, CM debt has been excluded from general government debt.
Source: CNB.

Operating balance of the consolidated general government and transactions in non-financial assets and financial assets and liabilities

In line with the described developments in revenues and expenditures, a HRK 4.8bn negative net operating balance was generated in 2009. Acquisitions of non-financial assets totalled HRK 6.7bn; most funds were spent on the acquisition of buildings and structures, which in accordance with GFS 2001 methodology comprise, among other things, residential and office buildings, schools, hospitals, roads, bridges and tunnels. As the disposal of non-financial assets was noticeably lower than the acquisition in that period, the consolidated general government deficit (on a cash basis, GFS 2001) stood at HRK 10.7bn. The lion's share of the deficit was generated at the state budget level, while the local government deficit and deficit of extrabudgetary funds stood at HRK 0.7bn and HRK 0.5bn respectively. The latter negative balance was almost entirely due to the operations of Croatian Roads (CR), the deficit of which was HRK 1.0bn in 2009 or one fifth less than in 2008. In contrast, Croatian Waters, the Fund for Environmental Protection and Energy Efficiency and the State Agency for Deposit Insurance and Bank Rehabilitation generated a surplus.

As the consolidated general government deficit was financed by borrowing, financial liabilities increased substantially in 2009. In the same period, financial assets grew by HRK 6.7bn as one portion of the borrowed funds was deposited with the CNB and earmarked for the settlement of liabilities falling due in early 2010. Furthermore, about one third of the said increase in financial assets was due to outlays for net loans granted, which can largely be attributed to the payment of activated guarantees.

Government debt

As deficit financing needs and guarantees of consolidated general government that came due in 2009 were substantial, with a portion of the funds borrowed carried over into 2010, general government debt increased by a high HRK 17.4bn in 2009, standing at HRK 117.8bn at the end of December. A large amount was also needed for liabilities refinancing. The government obtained the funds needed in the domestic market as well as by two bond issues in foreign capital markets, which increased the share of external debt in total general government debt from 30.4% at end-2008 to 32.2% at end-2009. Contingent government debt arising from guarantees issued also rose substantially, due in part to foreign borrowings of the CBRD and CM; guarantees issued stood at HRK 49.9bn at the end of the reference period, growing by HRK 5.3bn from the end of 2008.

As general government borrowed most of the funds needed in the domestic market, its domestic debt rose to HRK 10.0bn in 2009. Debt increased mostly on account of new loans, while liabilities arising from T-bills also grew substantially. In contrast, bond-related debt remained almost unchanged due to the absence of major repayments and borrowings. It should be noted that domestic general government debt denominated in or indexed to foreign currencies grew noticeably in 2009 due to a sharp increase in the number of auctions of euro-denominated T-bills and a syndicated foreign currency loan of EUR 750m raised in early 2009. This loan and borrowing through the issue of T-bills also increased general government refinancing needs in 2010. In addition to the debt at the state budget level, the domestic debt of extrabudgetary funds also increased, by HRK 0.8bn, largely due to CR borrowing.

The rise in domestic debt was most pronounced in the first quarter of 2009, when government funding needs were substantial and borrowing on foreign capital markets was limited. Still, the improvement of the global financial situation enabled the government to issue two bonds in the foreign market; EUR 750m worth of bonds maturing in January 2015 was issued in late May and USD 1.5bn worth of ten-year bonds was issued in November. However, this did not increase external debt by the same amount, as the government repaid EUR 500m worth of foreign bonds, JPY 25bn worth of Samurai bonds, and the instalments payable to the London and Paris Clubs in 2009. External debt stood at HRK 37.9bn at the end of 2009, which is an absolute annual rise of HRK 7.4bn.

Monetary policy instruments and international reserves management

2.1 Instruments of monetary policy in 2009

2.1.1 Open market operations

Open market operations serve to correct imbalances in the CNB balance sheet arising from changes in individual items that influence liquidity supply and demand in the banking system. The matching of supply and demand allows a fine management of liquidity and minimises volatility of money market interest rates.

The Croatian National Bank uses the following types of open market operations:

- regular operations,
- fine-tuning operations, and
- structural 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 34.2bn in 2009. Of that amount, the kuna component of reserve requirements averaged HRK 33.9bn, with the average surplus liquidity standing at HRK 0.4bn. The average balance of total demand for liquidity rose 2.1% in 2009 from 2008, due to the increase in the kuna component of reserve requirements. Average surplus liquidity ranged from HRK 0.2bn to HRK 1.1bn during the reserve maintenance periods in 2009. The highest maximum amount of average surplus liquidity was recorded in December.

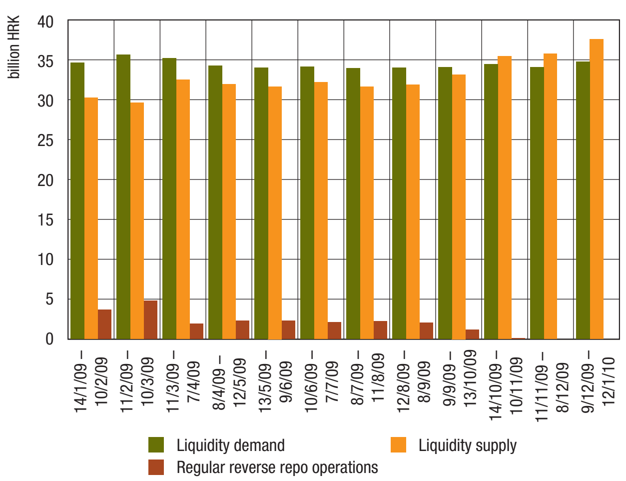
The supply of reserves is determined by autonomous factors, i.e. CNB balance sheet items that affect banking system liquidity and are beyond the direct control of the central bank. The most significant autonomous factors include net foreign assets, currency outside banks, banks' vault cash and government kuna deposits. Autonomous factors averaged HRK 32.6bn in 2009, up 2.4% over 2008. Of the autonomous factors, the average daily balance of banks' vault cash increased the most, by 4.4%. The average daily balance of currency outside banks and net foreign assets decreased by 0.6% and 3.4% respectively in 2009 compared with the previous year. In the same period, the average daily balance of government kuna deposits shrank by 29.5%.

The average balance of demand for liquidity was stable throughout 2009, while the average balance of the autonomous liquidity supply rose sharply over the last four reserve maintenance periods in 2009. The average balance of total autonomous factors in the last maintenance period of 2009 was HRK 7.3bn higher than the average balance in the first maintenance period of 2009. Above all, this was due to a HRK 9.2bn increase in the average balance of net foreign assets and a HRK 1.3bn decrease in the average balance of currency outside banks in the observed period.

As total average demand exceeded total average supply in 2009, the net liquidity created by monetary policy instruments averaged HRK 1.6bn over the year, which is a decrease of 3.8% compared with 2008.

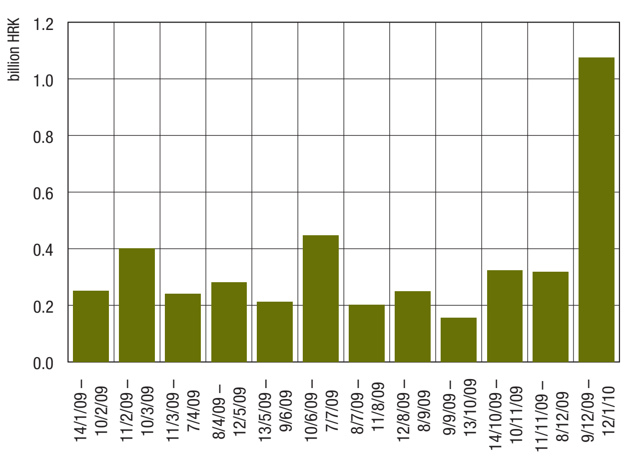
The average level and variability of overnight interest rates in the money market were greater in 2009 than in 2008. The overnight interest rate ranged from 0.52% to 40.21% in 2009, while it ranged from 0.66% to 19.95% in 2008. However, it needs emphasising that overnight interest rates in the money market, which were extremely volatile in the first quarter of 2009, were

2.1 Liquidity demand and supply
average balance in reserve requirement maintenance periods



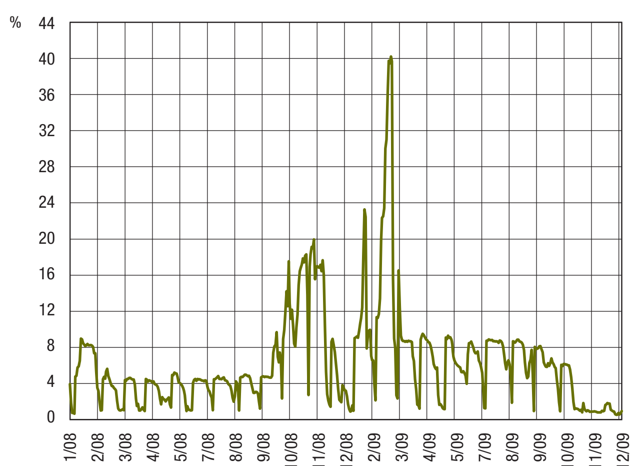
Source: CNB.

2.2 Average liquidity surplus in reserve requirement maintenance periods
by maintenance periods



Source: CNB.

2.3 Overnight interest rates



Source: CNB.

much more stable throughout the rest of the year, particularly in November and December.

The average level and variability of these rates were greater in the first quarter of 2009 than in 2008. As a result, the variation coefficient stood at 81.61% in that period and was higher than in 2008 (79.38%). The variation coefficient was 37.01% from April to October. The average level and variability of overnight interest rates decreased noticeably in November and December 2009, so that the variation coefficient stood at 33.47% and the interest rate did not exceed 1.85%.

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 reverse repo auctions. As a rule, these auctions are held on a weekly basis (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.

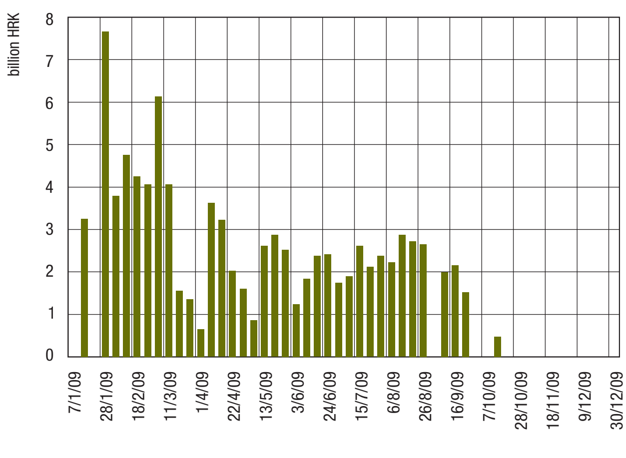
Reverse repo operations of the CNB were the main instrument of liquidity creation in the first nine months of 2009 and banks regularly participated at reverse repo auctions. As the banking system liquidity was high in the last quarter, only one reverse repo auction was held in that period. Thirty seven reverse repo auctions in all were held in 2009; all bank offers were refused at one auction, while 15 scheduled auctions were not held.

Compared with 2008, liquidity creation at regular reverse repo auctions was more evenly distributed over the reserve maintenance periods in 2009. This was due to the fact that the average percentage of bids accepted at reverse repo auctions was lower while banks were encouraged to manage liquidity more rationally.

The total amount of funds thus placed to the banks stood at HRK 96.1bn in 2009, HRK 9.3bn more than in 2008. The amount of funds placed at 2009 auctions ranged from HRK 7.7bn in January to a mere HRK 0.5bn in October. The average daily balance of funds generated through reverse repo auctions was HRK 1.9bn. The largest average daily balance was HRK 4.8bn recorded in the period from 11 February to 10 March 2009. Individual amounts of the funds placed at the four auctions during that period ranged from HRK 4.0bn to HRK 6.1bn.

The central bank held regular reverse repo auctions at a fixed interest rate of 6.0% throughout 2009. All bank offers received

2.4 Regular operations
by auction dates



Source: CNB.

were refused at one auction, while the percentage of bids accepted at other auctions averaged 41.5%. The ratio of bids accepted to total bids received ranged from 10% to 100%, excluding the auction where all offers were refused. In 2009, 14 banks, on average, participated in each auction, while the average amount per bidder was HRK 0.4bn.

Fine-tuning operations

Unlike regular operations, which are used exclusively to improve the system's liquidity, fine-tuning operations are used to decrease or increase the system's liquidity temporarily. 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 and foreign currency denominated T-bills of the Ministry of Finance.

Structural operations

The third type of open market operations is 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 2009.

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 should there be a liquidity shortage or a deposit facility if there is a 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.

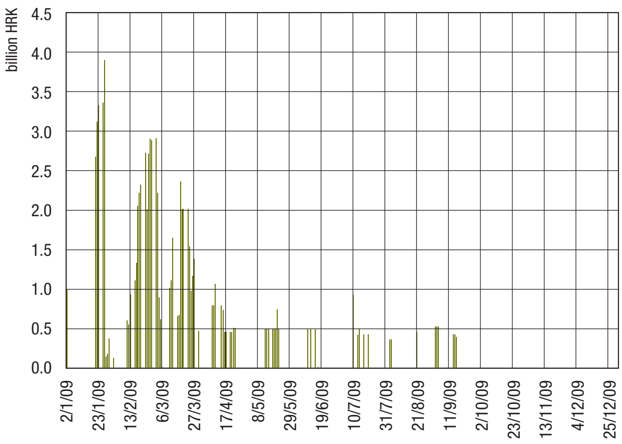
Lombard loan

The Lombard rate provides a ceiling to the interest rate corridor on the money market. In 2009, it was set at 9.0%. The facility is granted against a pledge. Throughout 2009, it could be used on a daily basis up to the amount of 50% of the nominal value of the T-bills pledged. Under the Decision on the terms of granting short-term loans on the basis of pledged securities adopted in March 2009, collateral acceptable for such loans was expanded to include foreign currency denominated T-bills with an original maturity of up to one year.

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 a bank, temporarily or permanently, the use of the Lombard facility.

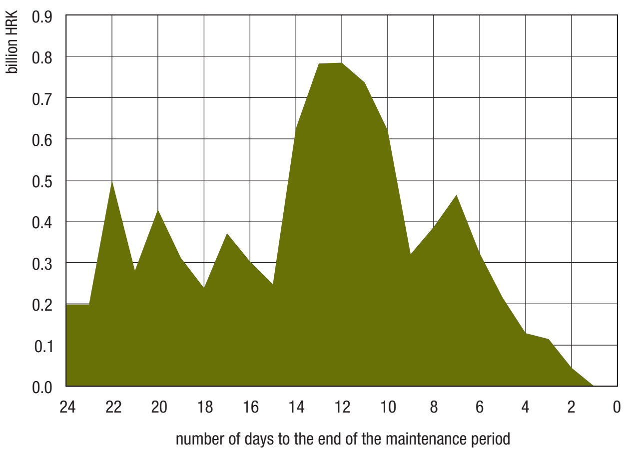
In 2009, the Lombard facility was used only in the first three

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.

quarters. The amounts granted under the Lombard facility in 2009 ranged from HRK 10.0m to HRK 3.9bn, with the average daily amount standing at HRK 1.1bn. The maximum average amount of the Lombard loan during the days of its use was HRK 2.1bn in January, when the largest daily Lombard loan of HRK 3.9bn was granted. The minimum average daily amount of HRK 371.0m was recorded in June 2009. This facility was used for a total of 79 days in 2009, of which 42 days took place in the first quarter. The Lombard facility was used between three and 20 business days within a month, with the largest number of days of its use taking place in March 2009.

Deposit facility

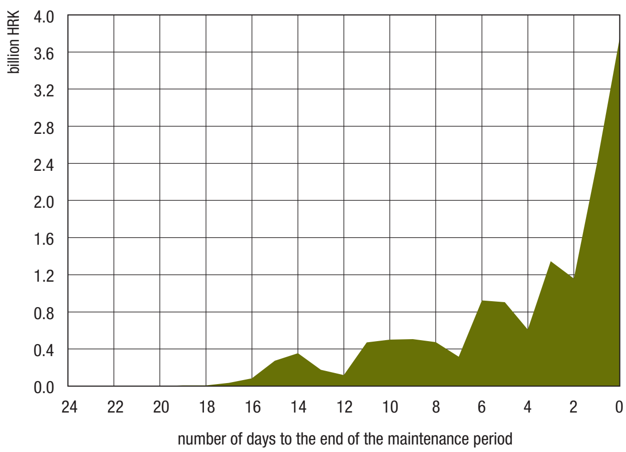
The banks may deposit any end-of-day liquidity surplus with the CNB. It is an overnight deposit that is repayable to the banks at the beginning of the next business day and that is remunerated by the CNB at 0.5% annually, an interest rate that is also the floor of the interest rate corridor on the money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

Throughout 2009, but particularly heavily in the last quarter in terms of numbers of days and the amounts involved, the banks resorted to the overnight deposit facility with the CNB.

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 increase immediately before a new maintenance cycle.

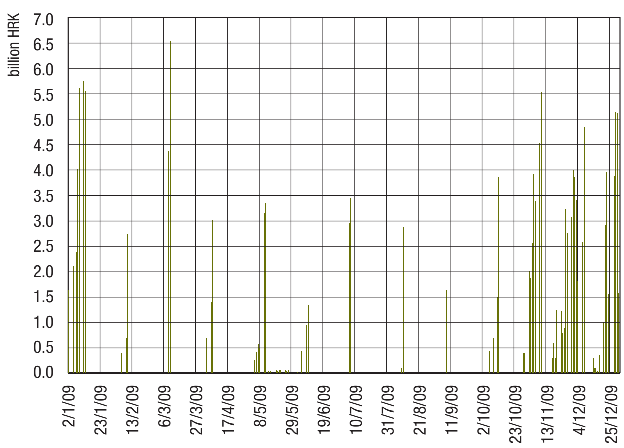
The average daily balance of the deposit facility was HRK 1.9bn in 2009. The largest daily amount of the overnight deposit of HRK 6.5bn was recorded in March 2009. The maximum average amount of the facility during the days of its use, also registered in that month, stood at HRK 5.5bn. Overnight deposits were used for a total of 83 days in 2009, and the banks used this facility between one and 19 business days in a month. The minimum average amount during the days of use was HRK 0.6bn recorded in May 2009. The largest number of days of use of overnight deposits took place in December 2009 when the banks deposited their funds with the central bank for 19 days, with the average deposit standing at HRK 2.5bn.

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 2009, reserve requirements remained the main instrument of sterilising excess liquidity in the banking system. The reserve requirement rate was 14% in 2009. The base for the calculation of reserve requirements consists of the kuna and foreign currency components. Starting from the reserve requirement calculation on 14 January 2009, the percentage of the calculated foreign currency component of reserve requirements that is included in the calculated kuna component of reserve requirements and executed in kuna was raised from 50% to 75%. 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.

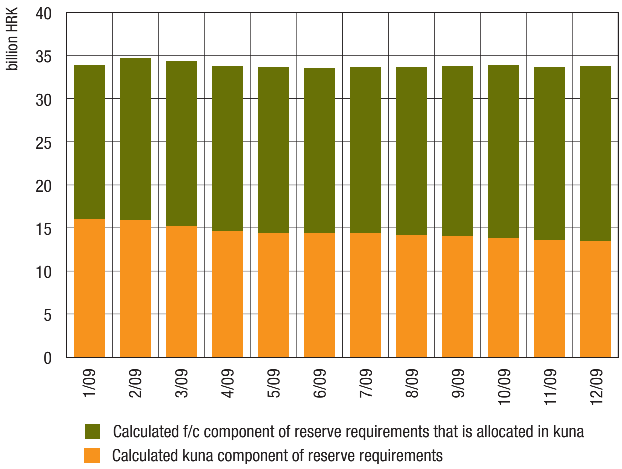
Kuna and foreign currency components of reserve requirements

The kuna component of the base steadily decreased in 2009, with the exception of an increase in June. It peaked at HRK 113.8bn in January and bottomed out at HRK 94.6bn in December. The fall of the kuna component of the base ranged from 0.7% to 4.3% per month in 2009. In the January-December period of 2009, the kuna component of the base decreased by 16.9%.

The kuna component of reserve requirements peaked at HRK 34.7bn in February and bottomed out at HRK 33.6bn in June 2009. It fell by 0.5% from January to December 2009.

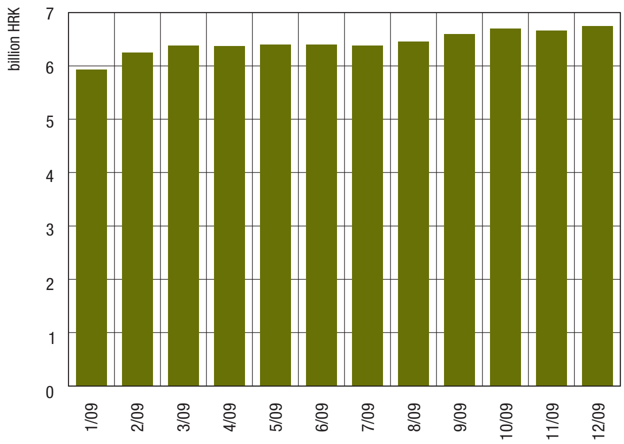
The foreign currency component of the base was HRK 178.5bn in January, which was its lowest level in 2009. It recorded steady growth throughout the year and reached its annual high of HRK 194.3bn in December, growing annually by 8.8%. The foreign currency component of the base recorded the highest monthly increase of 5.3% in January, while the remaining part of 2009, overall, saw a lower monthly growth.

2.9 Total kuna component of reserve requirements
balance in maintenance periods



Source: CNB.

2.10 Total foreign currency component of reserve requirements
balance in maintenance periods



Source: CNB.

The foreign currency component of reserve requirements fluctuated in 2009 in line with the changes in the foreign currency component of the base. The foreign currency component of reserve requirements grew by 13.7%, from HRK 5.9bn in January to HRK 6.8bn in December.

In 2009, 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 the funds set aside in US dollars, 50% of the US Federal Funds Target Rate. Starting from the reserve requirement calculation on 11 November 2009, no remuneration on the foreign currency component of reserve requirements is paid any longer.

2.1.4 Measures to limit placement and external debt growth

Special reserve requirements

In February 2009, the CNB adopted the Decision on the termination of the Decision on the special reserve requirement on banks' liabilities arising from issued securities. This instrument was abolished to facilitate operations of the banking system against the background of the financial markets crisis and the rising kuna and foreign currency liquidity needs of domestic banks. For the same reasons, the CNB abolished the marginal reserve requirement as early as October 2008.

The base for the calculation of special reserve requirements was 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. Special reserve requirements were calculated every second Wednesday in a month, applying a 55% rate to the prescribed base. The CNB paid no remuneration on special reserve requirements set aside.

Special reserve requirements stood at HRK 9.5m in January 2009. This entire amount was returned to banks after the February 2009 entry into force of the Decision on the termination of the Decision on the special reserve requirement on banks' liabilities arising from issued securities.

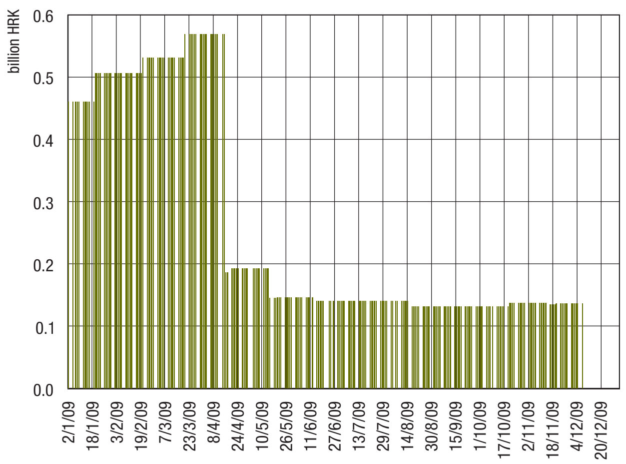
Subscription of compulsory CNB bills

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

In November 2009, the CNB adopted the Decision on the termination of the Decision on the purchase of compulsory CNB bills, revoking the obligation to purchase compulsory CNB bills, which applied to banks whose placement growth was in excess of the permissible limit. Against the backdrop of the financial crisis, annual credit growth at the level of the banking system was below the 12% limit prescribed in the Decision on the compulsory purchase of CNB bills, so it was judged that this CNB measure to limit credit growth was no longer necessary.

The stock of subscribed compulsory CNB bills stood at HRK 460.6m at the beginning of January 2009. It peaked at HRK 569.6m in March 2009. After the entry into force of the Decision on the termination of the Decision on the purchase of compulsory CNB bills in December 2009, compulsory CNB bills worth HRK 136.8m were repurchased from banks.

2.11 Purchased compulsory CNB bills
daily balances



Source: CNB.

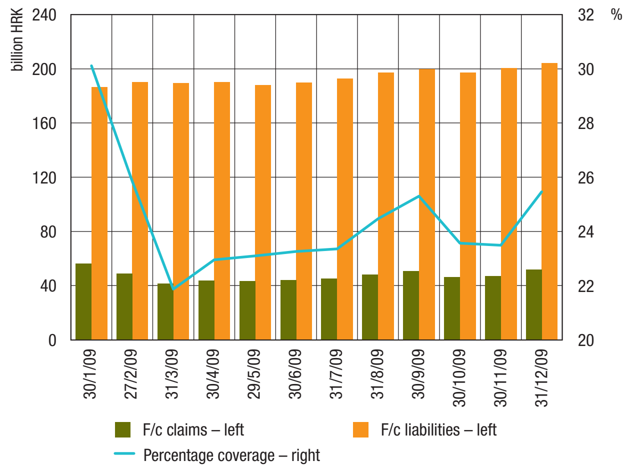
2.1.5 Other instruments

Minimum required foreign currency claims

One instrument used to maintain the foreign currency liquidity of banks is the minimum required foreign currency claims. The minimum required amount of foreign currency claims was set at 20.0% of foreign currency liabilities throughout most of 2009. In early January 2009, the coverage of foreign currency liabilities by foreign currency claims had been 28.5%. But under a new Decision on the minimum required amount of foreign currency claims, which was adopted in late January, this percentage was reduced to 25.0% to facilitate government budget financing under the difficult conditions of the financial crisis. The coverage of foreign currency liabilities by foreign currency claims was further reduced in February 2009, to 20.0%, to preserve exchange rate stability and ease depreciation pressures in the foreign exchange market. Thanks to the cut in the minimum coverage ratio of foreign currency liabilities by foreign currency claims, EUR 2.1bn of foreign currency claims was released.

The banks are obliged to meet the prescribed maintenance

2.12 Minimum foreign currency liquidity
end-month balance



Source: CNB.

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.

The coverage of foreign currency liabilities by foreign currency claims in 2009 was at its annual maximum of 30.11% on 30 January and at its annual minimum of 21.87% on 31 March. This ratio stood at 25.47% 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 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 and Clearing Company serves as a depository for CNB bills. Though constituting a part of the operating monetary policy framework, CNB bills in kuna were not issued in 2009.

Short-term liquidity loans

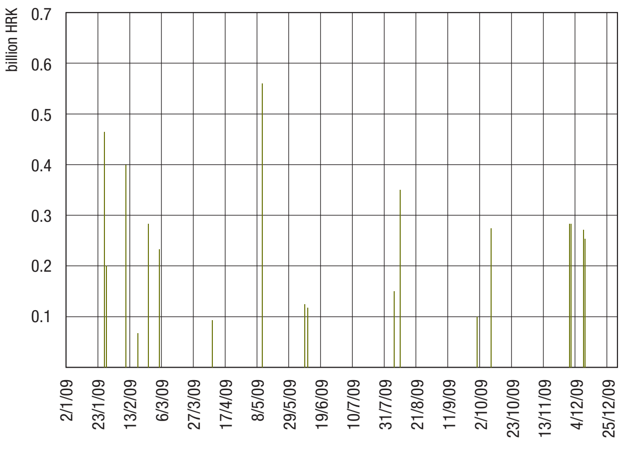
Granted against financial collateral, short-term liquidity loans take the form of repo transactions (repo loans) or collateralised loans. Although there was no need for their use in 2009, under the Decision on amendments to the Decision on short-term liquidity loans of December 2009, eligible collateral for these loans was more broadly defined to include, in addition to securities and other debt instruments, other collateral instruments that have been recognised as eligible by the CNB. This allowed greater flexibility in granting short-term liquidity loans.

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 50% of the nominal value of pledged T-bills in 2009. The Decision on the terms of granting

2.13 Use of intraday loans



Source: CNB.

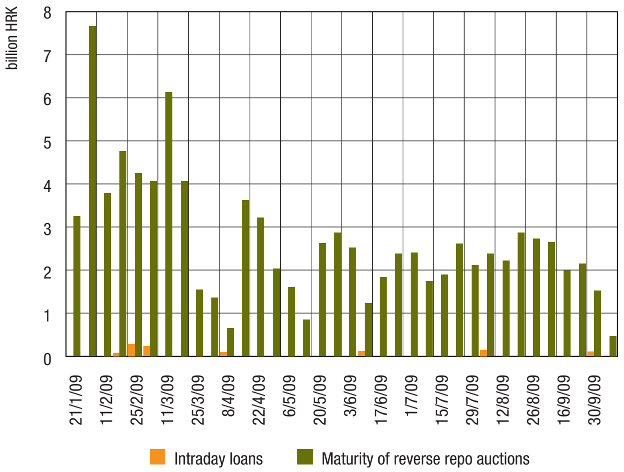
loans on these days averaged HRK 250.4m, with the individual daily amounts granted ranging from HRK 67.5m to HRK 559.9m. The maximum average amount of intraday loans during the days of their use was HRK 559.9m in May and the minimum average amount was HRK 92.5m in April 2009. The banks used this facility for 1.5 days per month on average, while no intraday loan was used in July 2009.

As regards the use of intraday loans on the days of regular operations, of the total of 37 reverse repo auctions held, the loan was used at 7 of them, or at 18.9% of all regular auctions in 2009. Intraday loans on these days averaged HRK 149.1m, with the individual daily amounts granted ranging from HRK 67.5m to HRK 283.3m.

2.1.6 CNB interest rates and remuneration

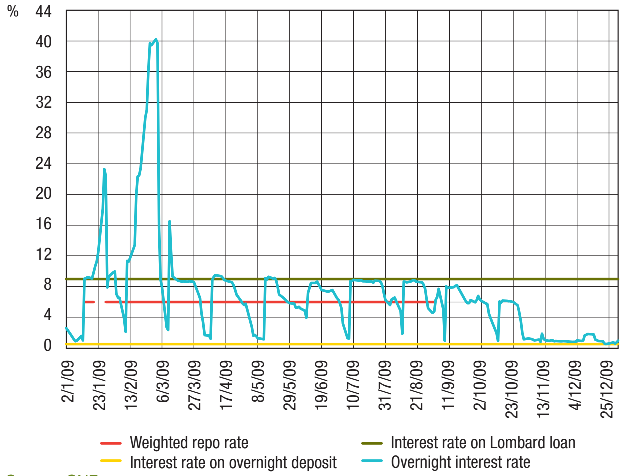
Interest rates on standing facilities form the corridor which should limit the range of fluctuations in overnight money market rates. The ceiling of the corridor is the interest rate on the Lombard loan (9.0% a year) and the floor is the interest rate on overnight deposits with the CNB (0.5% a year).

2.14 Use of intraday loans and maturity of regular operations



Source: CNB.

2.15 Interest rate spread, repo rates and overnight interest rates in 2009



Source: CNB.

intraday loans on the basis of pledged securities was amended in March 2009. Under the amended Decision, in addition to kuna T-bills, eligible collateral for such loans includes foreign currency denominated MoF T-bills with an original maturity of up to one year.

Any unpaid intraday loan at the end of a business day is automatically considered an application for a Lombard loan to the amount of any negative balance in a bank's settlement account. Denial 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 2009, banks used intraday loans for only 18 days. Intraday

In 2009, the CNB held reverse repo auctions at a fixed rate of 6%.

Remuneration paid on the kuna component of reserve requirements was 0.75%. In line with the October 2009 Decision on amendments to the Decision on the interest rates and remunerations of the Croatian National Bank, the CNB no longer pays remuneration on the foreign currency component of reserve requirements set aside. Until then, remuneration 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, being 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.

2.2.1 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 and criteria set by the Council of the CNB and for the adoption of tactical decisions on international reserves management, while taking into account market conditions.

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 and liquidity of investment (Article 19 of the Act on the Croatian National Bank). In this context, it maintains a 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, and collateralised 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. 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 formed through outright purchase of foreign currency from the banks and the Ministry of Finance 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, swap arrangements and special drawing rights (SDR), is managed passively by the CNB, depending on assumed 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 foreign cash.

2.2.2 International reserves in 2009

Total international reserves of the CNB stood at EUR 10.4bn on 31 December 2009, an increase of EUR 1.3bn (13.8%) over the end of 2008, when they stood at EUR 9.1bn. Net international reserves, which do not include foreign currency reserve requirements, special drawing rights in the IMF and funds of the MoF, grew by EUR 1.0bn in 2009, from EUR 8.0bn to EUR 9.0bn.

Table 2.1 Monthly changes in total and net CNB international reserves
end of period, in million EUR

Month	Total reserves	Net reserves
December 2008	9,120.74	8,022.26
January 2009	8,674.49	7,806.95
February 2009	8,557.58	7,670.81
March 2009	8,869.37	7,965.82
April 2009	8,884.88	7,958.99
May 2009	8,788.35	7,862.52
June 2009	9,089.89	8,352.65
July 2009	9,030.69	8,360.60
August 2009	9,292.03	8,343.66
September 2009	9,317.41	8,329.56
October 2009	9,540.68	8,533.51
November 2009	10,145.29	8,597.27
December 2009	10,375.55	9,034.53
Change Dec. 2009 – Dec. 2008	**1,254.81**	**1,012.27**

Source: CNB.

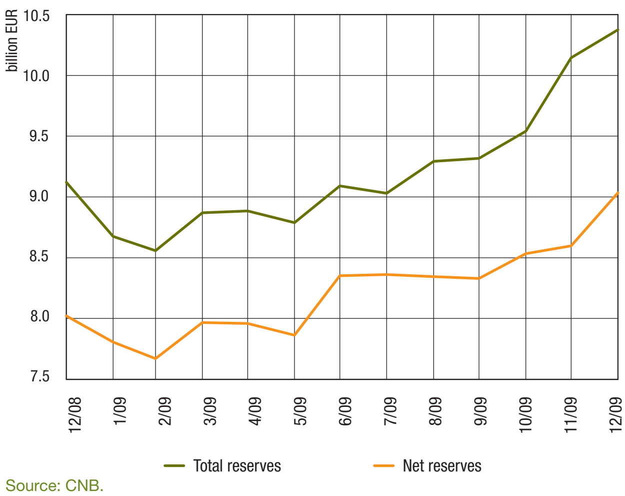
The main factors leading to changes in the level of total international reserves in 2009 on the inflow side were:

- EUR 1.8bn in total inflow for the account of the MoF (of which the CNB purchased from the MoF EUR 669.8m);
- EUR 1.1bn in foreign currency purchases from the banks through interventions (of which EUR 288.0m went to the swap arrangement);
- EUR 332.2m in inflows of funds from the IMF SDR allocation;
- EUR 118.9m in funds earned based on total CNB international reserves investments;

and on the outflow side:

- EUR 801.0m in foreign currency sales to the banks through

2.16 International reserves of the CNB
end of period



Source: CNB.

interventions (of which EUR 288.0m went to the swap arrangement);

- EUR 402.9m fall in total allocated foreign currency reserve requirements; and
- EUR 99.3m sold to the Ministry of Finance and EUR 862.2m in MoF foreign currency liabilities payment.

Total CNB turnover in the foreign exchange market in 2009

In 2009, the central bank engaged in foreign currency purchase and sale transactions with domestic banks, the Ministry of Finance and foreign banks. In these transactions, the CNB purchased a total of EUR 1.8bn on the foreign exchange market and sold a total of EUR 900.4m, thus registering a total net purchase of EUR 895.2m and issuing a total of HRK 6.4bn.

In its foreign exchange interventions with domestic banks, the CNB purchased EUR 1.1bn from the banks, while it sold EUR 801.0m in 2009. These amounts include a foreign currency swap arrangement in January 2009, on the basis of which the CNB initially purchased EUR 261.3m, so the banks obtained HRK 1.9bn. The contracted amount was increased to EUR 288.0m under the March renewal and the whole transaction was completed in June by means of foreign currency sale and purchase of kuna from domestic banks. The amount of foreign currency purchased from banks exceeded the amount sold by EUR 324.8m, which resulted in the creation of HRK 2.3bn in kuna liquidity.

The CNB sold EUR 99.3m to the Ministry of Finance and purchased from it EUR 669.8m in 2009. The effect of purchase and sale transactions with the MoF in 2009 was a net purchase of EUR 570.4m and an issue of HRK 4.1bn.

In 2009, the level of total international reserves increased also due to inflows under a general and special allocation of SDRs, under which Croatia received a total of SDR 303.1m (EUR 332.2m) from the IMF. Given the scale of the global

Table 2.2 Total CNB turnover in the foreign exchange market, 1 January – 31 December 2009
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	1,125.75	8,234.09	800.97	5,946.81	324.78	2,287.27
Ministry of Finance	669.78	4,882.42	99.34	736.37	570.44	4,146.05
Foreign banks	0.00	0.00	0.04	0.30	–0.04	–0.30
Total	**1,795.53**	**13,116.50**	**900.35**	**6,683.48**	**895.18**	**6,433.02**

Source: CNB.

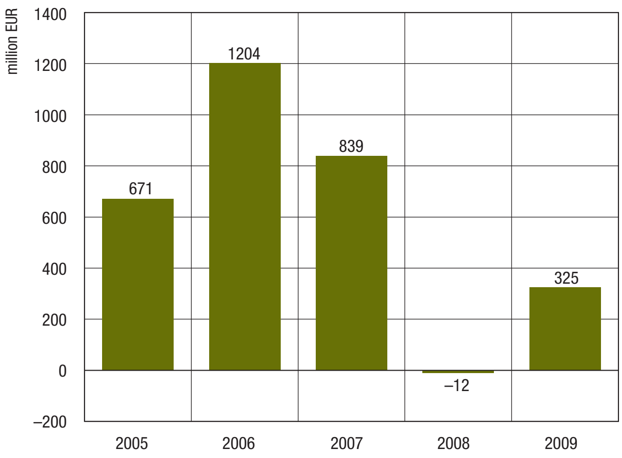
Table 2.3 CNB foreign exchange interventions with domestic banks in 2008 and 2009
in million EUR

Month (number of interventions)	Purchase (1)		Sale (2)		Net (1 – 2)	
	2008	2009	2008	2009	2008	2009
January	0.00	261.25	0.00	328.30	0.00	–67.05
February	189.10	0.00	0.00	184.72	189.10	–184.72
March[a]	0.00	357.90	0.00	0.00	0.00	357.90
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	287.95	0.00	–287.95
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	1.30	0.00	0.00	0.00	1.30
October	0.00	234.00	270.60	0.00	–270.60	234.00
November	220.00	0.00	0.00	0.00	220.00	0.00
December	0.00	271.30	150.00	0.00	–150.00	271.30
Total	**409.10**	**1,125.75**	**420.60**	**800.97**	**–11.50**	**324.78**

[a] In March, a total of EUR 331.2m were purchased from banks and the amount of the swap arrangement increased by EUR 26.7m.

Source: CNB.

2.17 CNB foreign exchange interventions with domestic banks
in net amounts



Source: CNB.

financial crisis, one of the measures which the IMF undertook to provide financial assistance to member countries was to approve a general allocation of special drawing rights in August 2009, worth a total of USD 250.0bn (of which Croatia received SDR 270.6m) and a special allocation of SDR 21.4bn in September (SDR 32.5m went to Croatia). The primary purpose of these allocations was to supplement reserve assets on a global level.

Risks in international reserves management and structure of international reserves investment in 2009

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 only in funds of financial institutions and countries with the highest credit rating. The evaluation of creditworthiness is based on ratings issued by large, internationally recognised rating agencies (Moody's, Standard & Poor's and FitchRatings);
- there are restrictions on investments in individual financial institutions and countries which serve to diversify credit risk; and
- a large share of investments in financial institutions is collateralised, i.e. covered by government bonds whose market value is equal to or higher than the value of the funds placed.

Due to the global financial crisis in 2008, foreign currency portfolios of international reserves underwent a major restructuring. Most non-collateralised investments were redirected to safer instruments, such as government securities and instruments issued by international financial institutions, e.g. the Bank for International Settlements (BIS), and central banks. This structure was maintained throughout 2009.

The structure of total international reserves of the CNB on the last day of 2009 did not change significantly compared to 31 December 2008.

Currency structure of international reserves

On 31 December 2009, the euro accounted for 73.1% and the American dollar for 23.7% of the total international reserves. The share of SDRs increased in 2009, to 3.2% of total international reserves at the year-end, which was due to the general and special allocation of SDRs, under which Croatia received a total of SDR 303.1m from the IMF.

Interest rate risk in international reserves management

Interest rate risk is the risk of a fall in the price of bonds or the value of foreign currency portfolios of international reserves due to unfavourable interest-rate changes in fixed income markets. The interest rate risk of the international reserves of the CNB 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. As safety and liquidity are the basic principles governing international reserves investment, interest rate risk management guidelines aim at ensuring positive rates of return on the CNB net dollar and euro portfolios within a year.

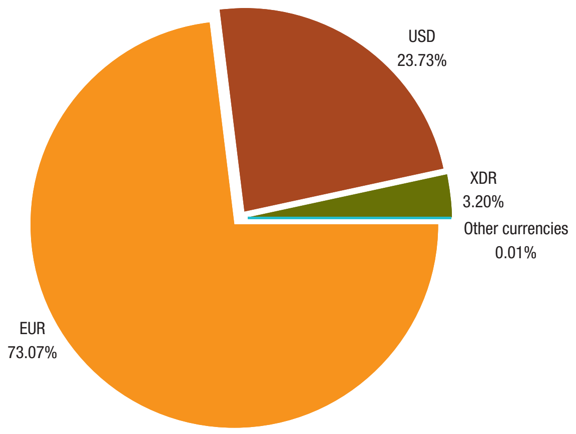
Table 2.4 Structure of international reserves investment according to credit risk as at 31 December 2009
at market value, in million EUR

Investment	Net reserves	Reserve requirements	Marginal reserve requirements	Ministry of Finance	Total reserves	31 December 2009 As % of net reserves	31 December 2009 As % of total reserves	31 December 2008 As % of net reserves	31 December 2008 As % of total reserves
1 Countries									
Government bonds[a]	7,734.88	245.64	–	–	7,980.52	85.61	76.92	80.92	83.09
Central banks	413.55	444.52	–	90.99	949.06	4.58	9.15	10.13	8.91
Bank bonds	180.11	–	–	–	180.11	1.99	1.74	–	–
Covered bonds	32.52	–	–	–	32.52	0.36	0.31	–	–
2 International financial institutions	532.93	–	–	558.73	1,091.66	5.90	10.52	7.65	6.81
3 Banks	140.54	–	–	1.14	141.68	1.56	1.37	1.30	1.19
Total	**9,034.53**	**690.16**	**–**	**650.86**	**10,375.55**	**100.00**	**100.00**	**100.00**	**100.00**

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

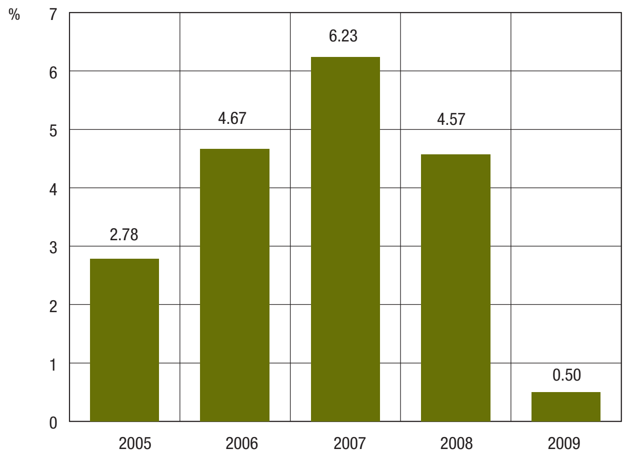
Source: CNB.

2.18 Currency structure of total international reserves as at 31 December 2009



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

2.20 Rates of return on the CNB dollar portfolio



Source: CNB.

Results and analysis of CNB's foreign currency portfolio management in 2009

In 2009, the rate of return on the CNB net euro portfolio stood at 1.73%[1] on an annual level, while the rate of return on the CNB net dollar portfolio during the same period stood at 0.50%.

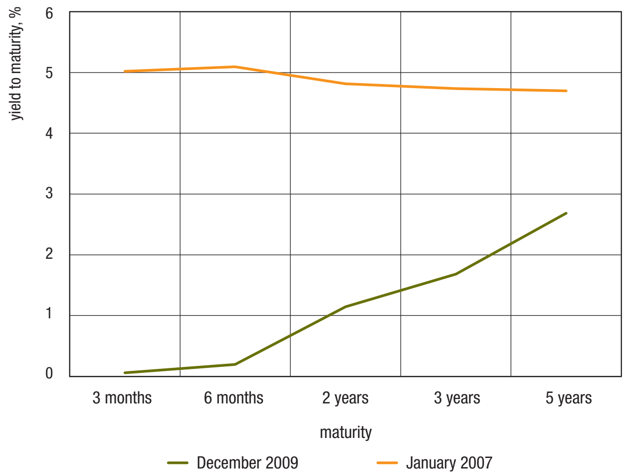
Table 2.5 Realised income in 2009 and average rates of return on the CNB foreign currency portfolios

at market value, in million EUR and USD and %

Portfolio	Realised income	Annual rate of return					
	2009	2004	2005	2006	2007	2008	2009
EUR	110.50	2.71	2.19	2.41	3.94	5.68	1.73
USD	10.63	1.29	2.78	4.67	6.23	4.57	0.50

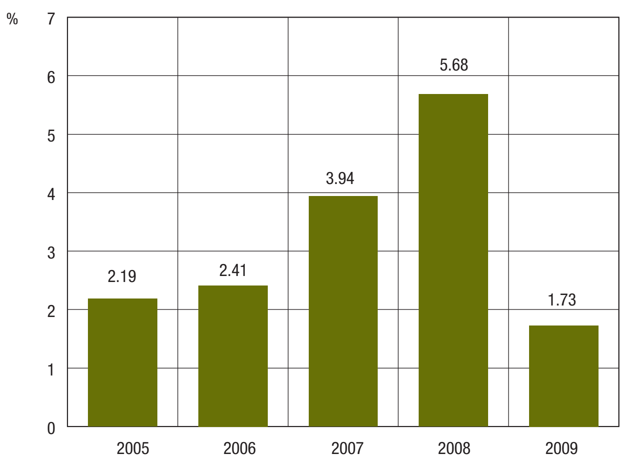
Source: CNB.

2.21 American yield curve level in early 2007 and late 2009



Source: CNB.

2.19 Rates of return on the CNB euro portfolio



Source: CNB.

The net euro portfolio generated an income of EUR 110.5m in 2009, while income from the net USD portfolio was USD 10.6m (EUR 7.2m).

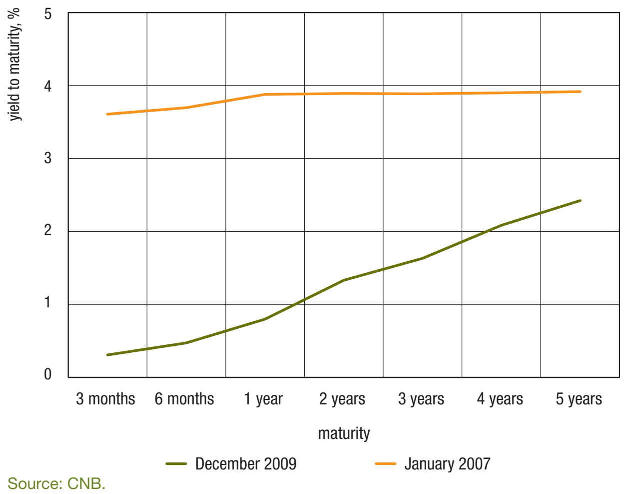
The realised rates of return on the CNB net euro and dollar portfolios in 2009 were primarily the result of low euro and particularly low dollar yield curves caused by a large increase in bond prices in 2008. Such a large price increase and the mentioned fall in the yield curve in recent years leave almost no room for any significant increases in bond prices or higher rates of return in the period to come.

The European Central Bank (ECB) continued to pursue an expansive monetary policy in 2009. It cut its benchmark one-week repo rate on four occasions in the January to May period 2009, from 2.50% to 1.00%, where it remained until end-December.

The Fed did not change its key overnight interest rate throughout 2009, so it ranged between 0% and 0.25%, the level at which it also stood, following ten consecutive cuts, at the end of 2008.

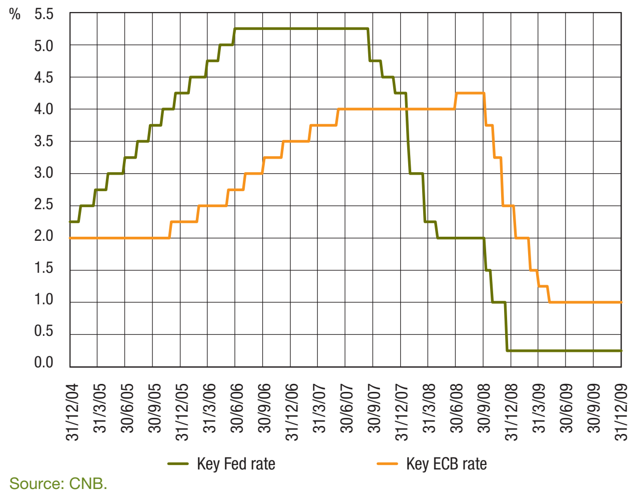
1 Annual rates of return were calculated in accordance with Global Investment Performance Standards (GIPS).

2.22 German yield curve level in early 2007 and late 2009



Source: CNB.

2.23 Changes in key ECB and Fed rates



Source: CNB.

Banking sector[1]

Growing loan portfolio loss provision expenses decreased bank profit in 2009. ROAA and ROAE continued their downward trend from previous years and stood at 1.1% and 6.7% respectively at the end of the year. This fall in profitability notwithstanding, the banking system was stable throughout 2009, and its capital adequacy ratio stood at a high 15.8%.

The worsening of the economic and financial situation in the country and abroad in 2009 influenced the composition of the balance sheets of banks and considerably slowed down their growth and lending activities. Loans granted rose by 3.3% in 2009, mostly to government units, although loans granted to households, particularly cash general-purpose loans and car purchase loans, decreased. The economic condition led to increased credit risk associated with higher probability of default on bank loans, especially on the part of companies. In response to the failure of companies to make their payments as they fell due, the banks increasingly engaged in extending the collection deadlines and loan rescheduling. Nevertheless, the amount of partly recoverable and irrecoverable loans rose sharply and accounted for 7.8% of total bank loans.

Given the only modest growth in domestic sectors' deposits, the support provided by the majority foreign owners was crucial for the growth of sources of funding and bank asset growth. Apart from resulting in a restricted growth of 2.4% in the balance sheets of banks, the conditions in the environment also led to other adjustments in the operations of banks. There was an increase in the share of foreign currency and foreign currency-indexed assets and the share of short-term placements. The banks kept general operating expenses under strict control and used deposits recovery in the second part of the year to strengthen their liquidity reserves.

3.1 Business operations of banks

At the end of 2009, there were 39 credit institutions operating in the Republic of Croatia: 32 banks, two savings banks and five housing savings banks. Relative to the end of 2008, the number of banks had decreased by one due to the merger between Slavonska banka d.d., Osijek and Hypo Alpe-Adria-Bank d.d., Zagreb. As A štedna banka malog poduzetništva d.d. Zagreb started operating, the number of savings banks increased by 1.

The number of medium-sized banks[2] fell from four at the end of 2008 to three at the end of 2009, after Slavonska banka d.d., Osijek merged with Hypo Alpe-Adria-Bank d.d., Zagreb, a large group bank, in the first quarter of 2009. After the newly-established A štedna banka malog poduzetništva d.d. Zagreb started operating in April 2009, the number of small banks rose to 25.

Table 3.1 Number of credit institutions
end of period

Banks	2007	2008	2009
Number of banks at the beginning of the period	33	33	33
Banks that merged with other banks	–	–	1
Number of banks at the end of the period	33	33	32
Savings banks			
Number of savings banks at the beginning of the period	–	–	1[a]
Savings banks that were granted license	–	2	–
Number of savings banks at the end of the period	–	1[a]	2
Housing savings banks			
Number of housing savings banks at the beginning of the period	5	5	5
Housing savings banks that were granted license	–	–	–
Number of housing savings banks at the end of the period	5	5	5

[a] A štedna banka malog poduzetništva d.d. was granted a licence on 9 April 2008 and began operating on 1 April 2009.

Source: CNB.

1 All financial data for 2009 are based on the preliminary unaudited reports of credit institutions, i.e. banks, savings banks and housing savings banks.

2 Depending on the size of the 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.

Compared to the end of 2008, the number of large banks and the total number of credit institutions remained unchanged.

The merger between a medium-sized and a large bank provided the biggest contribution to the increase in the share of total large bank assets in total bank assets, from 79.4% at the end of 2008 to 82.7% at the end of 2009. Total assets of large banks rose by 6.6% and, the effect of the merger-related increase in the assets excluded, total assets of large banks grew by 2.8% annually. The share of total assets of medium-sized banks in total bank assets fell from 12.5% at the end of 2008 to 9.1% at the end of 2009. In addition to the effect of a decrease in the number of medium-sized banks, this change was also due to a decline in the assets of all the remaining banks in that group relative to the end of 2008, so that the annual rate of decline in total assets of medium-sized banks, the effects of the mentioned merger excluded, stood at 2.6%.

The fastest annual growth in total assets relative to the end of 2008 was seen in the group of small banks (3.5%), mainly owing to high growth rates of assets of individual small banks. This led to a slight increase in the share of assets of this group of banks in total assets of all banks; from 8.1% at the end of 2008 to 8.2% at the end of 2009.

Table 3.2 Bank peer groups and their share in total bank assets

end of period

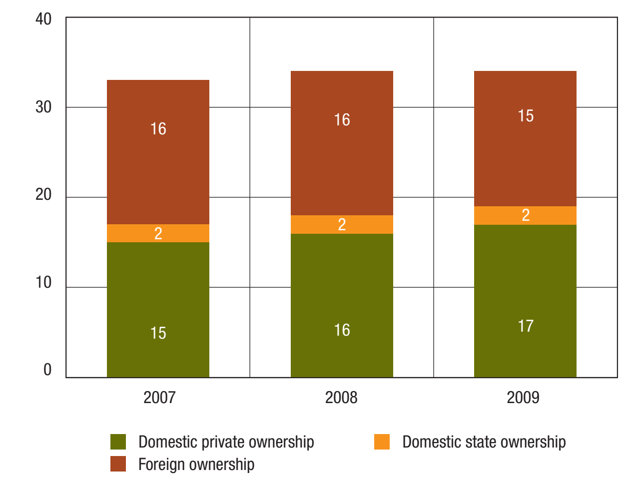
	Number of banks			Share		
	2007	2008	2009	2007	2008	2009
Large banks	6	6	6	79.0	79.4	82.7
Medium-sized banks	4	4	3	12.9	12.5	9.1
Small banks	23	24	25	8.1	8.1	8.2
Total	33	34	34	100.0	100.0	100.0

Source: CNB.

Despite an increase in the number of domestically-owned banks after A štedna banka malog poduzetništva d.d. Zagreb started operating, the share of domestic bank assets in total assets of all banks fell by 0.3 percentage points compared to the end of 2008. This was due to the fall from 4.5% to 4.2% in the share of assets of banks in majority state ownership caused by a 4.2% fall in total assets of these banks compared to end-2008.

3.1 Number of banks by ownership residence and form of ownership

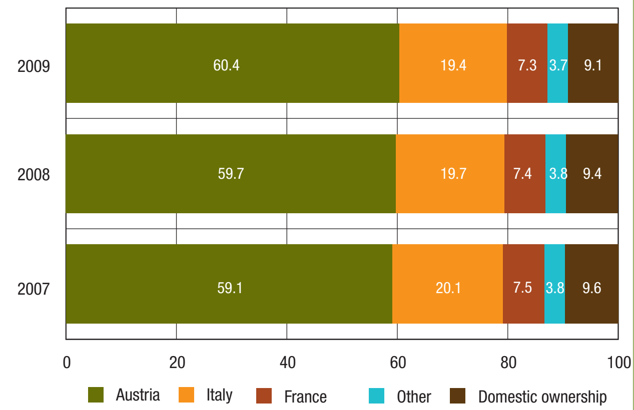
end of period



Source: CNB.

3.2 Bank assets by shareholder domicile

end of period



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

Assets of domestically owned private banks rose by 3.2%, but their share in total assets of all banks remained equal to that at the end of 2008.

Assets of banks in majority ownership of foreign shareholders rose by 2.7% compared to the end of 2008. Assets of these banks accounted for 90.9% of total bank assets at the end of 2009, which is an increase of 0.3 percentage points compared to the end of 2008. A 3.6% increase in total bank assets in the ownership of Austrian shareholders led to an increase in the share of banks in the ownership of foreign shareholders. As a result, these six banks accounted for 60.4% of the total assets of all banks. Assets of five banks in the ownership of Italian shareholders came next and accounted for 19.4% of the total, which is a decrease of 0.3 percentage points compared to the end of 2008. Assets of banks in the ownership of Italian shareholders grew by a below-average 1.1% (as against 2.4%). At the end of 2009, shareholders from France, Hungary, San Marino and Luxembourg were majority owners of one bank each.

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		
	2007	2008	2009
Banks in domestic private ownership	4.9	4.9	4.9
Banks in domestic state ownership	4.7	4.5	4.2
Banks in foreign ownership	90.4	90.6	90.9
Total	**100.0**	**100.0**	**100.0**

Source: CNB.

3.1.1 Bank balance sheet

Structure of bank assets

At the end of 2009, total bank assets stood at HRK 378.9bn, which is an increase of HRK 8.8bn or 2.4% compared to the end of 2008. Bank assets fell by 0.2% in the first half of the year, with its growth in 2009 being mainly the result of an increase in

Table 3.4 Structure of bank assets
end of period, in million HRK and %

	2007			2008			2009		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1 Money assets and deposits with the CNB	51,415.9	14.9	3.6	42,671.2	11.5	–17.0	47,673.1	12.5	11.7
1.1 Money assets	4,551.7	1.3	15.8	5,394.3	1.5	18.5	5,430.9	1.4	0.7
1.2 Deposits with the CNB	46,864.2	13.6	2.6	37,276.9	10.1	–20.5	42,242.2	11.1	13.3
2 Deposits with banking institutions	35,118.0	10.2	35.0	35,592.9	9.6	1.4	32,741.9	8.6	–8.0
3 MoF treasury bills and CNB bills	8,748.7	2.5	8.3	10,062.5	2.7	15.0	9,365.8	2.5	–6.9
4 Securities and other financial instruments held for trading	8,515.5	2.5	10.2	6,840.0	1.8	–19.7	5,522.4	1.5	–19.3
5 Securities and other financial instruments available for sale	11,326.4	3.3	–10.7	12,480.3	3.4	10.2	14,009.7	3.7	12.3
6 Securities and other financial instruments held to maturity	3,536.7	1.0	6.8	4,798.8	1.3	35.7	4,014.5	1.1	–16.3
7 Securities and other financial instruments not traded in active markets but carried at fair value	700.0	0.2	52.1	669.0	0.2	–4.4	1,644.9	0.4	145.9
8 Derivative financial assets	276.0	0.1	–1.8	121.9	0.0	–55.8	212.4	0.1	74.2
9 Loans to financial institutions	6,949.8	2.0	72.2	5,796.7	1.6	–16.6	6,065.1	1.6	4.6
10 Loans to other clients	209,319.6	60.7	13.9	240,808.0	65.1	15.0	246,452.8	65.0	2.3
11 Investments in subsidiaries, associates and joint ventures	1,703.9	0.5	1.7	1,774.1	0.5	4.1	1,959.0	0.5	10.4
12 Foreclosed and repossessed assets	355.7	0.1	–20.2	391.7	0.1	10.1	600.5	0.2	53.3
13 Tangible assets (net of depreciation)	4,510.4	1.3	1.7	4,503.8	1.2	–0.1	4,377.6	1.2	–2.8
14 Interest, fees and other assets	5,471.0	1.6	14.3	6,624.6	1.8	21.1	7,322.0	1.9	10.5
15 Net of: Collectively assessed impairment provisions	–2,866.2	–0.8	7.2	–3,042.4	–0.8	6.1	–3,080.5	–0.8	1.3
Total assets	**345,081.4**	**100.0**	**13.3**	**370,093.0**	**100.0**	**7.2**	**378,881.2**	**100.0**	**2.4**

Source: CNB.

the second half of the year. In the last two quarters of 2009, assets grew at equal rates (1.3%) and in the second half of the year the assets of banks rose by HRK 9.4bn or 2.6%. Assets growth in the second half of 2009 was mainly attributable to the growth in more liquid and less risky types of assets, while loans rose only slightly and their net amount declined due to the increased value adjustments for loan portfolio losses.

In the observed one-year period, assets of most banks (20 banks) rose, while 13 banks witnessed a decline in their assets compared to the end of 2008. Assets shrank in one large bank, in all the three medium-sized banks and in nine small banks. Despite a fall in the assets of a significant number of small banks, it was exactly this group of banks that witnessed the highest annual growth rate of assets (3.5%), owing to a marked growth in the assets of the majority of the remaining 16 banks from this group. Assets of medium-sized banks shrank by 2.6%, while assets of large banks rose by 2.8%.[3]

While in 2009 the change in the amount of total bank assets was small, bigger changes were seen in balance sheet currency structure.[4] The year 2008 saw a reversal of the trend of kuna assets strengthening observed in the preceding two years and an increase in the share of foreign currency assets and kuna assets with a currency clause. Similar developments, albeit somewhat more pronounced, continued into 2009. Foreign currency assets rose by HRK 9.1bn (10.5%), kuna assets with a currency clause by HRK 14.0bn (10.2%), while kuna assets fell by HRK 14.3bn (9.8%). The share of kuna assets fell by 4.7 percentage points and accounted for 34.6% of the total, while the shares of foreign currency assets and kuna assets with a currency clause, owing to an increase of 1.9 and 2.8 percentage points, respectively, accounted for 25.4% and 40.1%, respectively, of total bank assets. The growth of foreign currency assets and kuna assets with a currency clause was primarily due to the growth of loans in foreign currency and of kuna loans with a currency clause granted to government units and enterprises, while kuna loans, particularly kuna loans to enterprises fell considerably. The growth of euro or euro-indexed loans was bigger than the total increase in foreign currency and kuna loans with a currency clause. At the end of 2009, these loans accounted for almost 80.0% of total foreign currency and indexed loans, while the assets in euro or indexed to the euro accounted for 81.8% of total foreign currency assets and kuna assets with a currency clause. The share of loans in Swiss francs (including those indexed to that currency) fell for the second consecutive year and stood at 18.4% at the end of 2009. In 2008 and in the first quarter of 2009, the average quarterly open foreign exchange position of banks was

3 To show all changes across bank groups, in this chapter we have excluded the effect of the merger of Slavonska banka d.d., Osijek with Hypo-Alpe-Adria Bank d.d., Zagreb.

4 In the light of a slight strengthening of the exchange rate of the kuna against the euro and the Swiss franc, exchange rate developments did not have any significant effect on the developments in the amount of assets and its foreign currency (and indexed) component. As at 31 December 2009, the exchange rate of the kuna against the euro appreciated by a slight 0.25% compared to the exchange rate as at the end of 2008 (from HRK 7.32/EUR to HRK 7.31/EUR), while the exchange rate of the kuna against the Swiss franc appreciated by an even slighter 0.03%.

short, while growing insecurity and depreciation expectations caused the position to change from short into long. At the end of 2009, banks had a long open foreign exchange position whose value was much lower than the legally prescribed limit of 30% of regulatory capital.

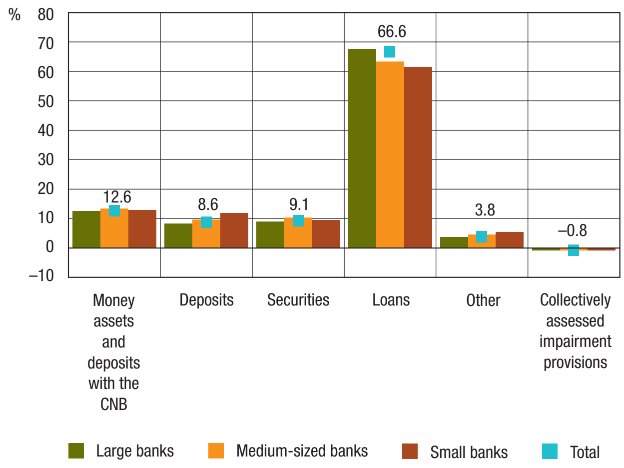
As regards the structure of the balance sheets of banks relative to their end-2008 balances, there were no major changes in the shares of individual instruments. The share of loans granted remained at the same level and the increase in the share of deposits with the CNB of 1.1 percentage point was comparable to the fall in the share of deposits with banking institutions of 1.0 percentage points. The amount of deposits with the CNB rose by almost HRK 5.0bn, mainly due to the increase which took place in the last quarter of the year as a result of a significant increase in the settlement accounts and the amount of other deposits with the CNB (overnight deposits) in the framework of increased efforts towards reserve liquidity creation in the second half of 2009. The banks increased the amount of deposits with the CNB and with banking institutions and increased their investments in securities, most notably securities of foreign central governments. However, the amount of deposits with banking institutions and the amount of investments in securities fell compared to the end of 2008. The fall in deposits with banking institutions can be attributed to their significant fall in the first quarter of 2009, when the minimum required coverage of foreign currency liabilities by foreign currency claims was first cut from 28.5% to 25.0% and then to 20.0%. The fall in securities investments was primarily due to changes in the accounting rules. The amendments to the International Accounting Standards (2008) provide for the reclassification of investments in held-for-trading and available-for-sale portfolios into loans and receivables portfolios, subject to the fulfilment of certain conditions. Since these instruments are carried at amortised cost and not at fair value after the reclassification, gains/losses on these instruments are no longer recognised in the profit and loss account (or in the capital account in the case of available-for-sale portfolios). The rebooking of a large amount of investment (HRK 2.3bn) from the securities position to the position of loans granted resulted in a significant fall in investment in securities and an increase in the amount of loans in the second quarter of 2009, which affected developments in the amount of securities investments and loans granted on an annual level.

In the same way as at the end of 2008, a little over one half of securities investments was recorded in the available-for-sale portfolio. The value of investments held in this portfolio is adjusted to market prices, and realised gains/losses are not directly recognised in the profit and loss account but are carried as unrealised gains/losses in the account of capital. At the end of 2009, banks holding securities in this portfolio reported unrealised losses of HRK 24.8m, a decline of 78.0% relative to losses reported at the end of 2008. Shown by instruments, the structure of debt securities continued to be dominated by bonds (49.8%) and T-bills of the Ministry of Finance (27.6%). More than a half of all bonds (59.0%) were accounted for by non-resident bonds, most notably bonds of foreign countries. A little over one fourth of debt securities went to money market instruments which, due to a sharp increase in foreign countries money market instruments in the last quarter of the year, significantly increased their share in the distribution of securities by type.

Loans granted rose by HRK 5.9bn or 2.4% net in 2009, exclusively as a result of an increase in the first quarter of the year following changes in foreign currency liquidity regulations that resulted in a visible growth in loans to government units. In the next two quarters of 2009, loans to this sector continued to grow, though at a much slower pace. The amount of loans to government units declined in the last quarter of 2009, while loans to enterprises increased. However, the bulk of the growth in loans to enterprises recorded at that time was channelled to state-owned enterprises. Regardless of the last quarter fall, the amount of loans to government units rose sharply on an annual level (46.7%), resulting in a significant increase in the share of these loans in the sectoral distribution of loans during the observed one year period. During the same period, the share of household loans fell sharply to 46.8%.

Large banks had the highest growth rate of net loans granted (3.2%) in 2009, owing to their dominant role in government units lending. As a result, compared to the end of 2008, the share of loans in assets increased solely in this group of banks. Loans of small banks rose by 1.2%, while those of medium-sized banks fell by 4.2%. In the asset structure of large banks, loans accounted for the largest share, or 67.5% of the total. Small banks again accounted for the smallest share of loans in the asset structure (61.5%), while medium-sized banks accounted for 63.2% of the total.

3.3 Structure of bank peer group assets
end-2009



Source: CNB.

Structure of bank liabilities

Received deposits of banks rose by HRK 9.0bn or 3.6% in 2009, ending the year at HRK 256.8bn. Their share in the liabilities of banks rose slightly, reaching 67.8%. In contrast with 2008, when deposits grew by 6.3%, deposits growth slowed down considerably, mainly as a result of a considerable decline in household deposits growth (3.8% compared to 11.7% in 2008).

Compared to the end of 2008, non-resident deposits rose the most (HRK 8.6bn or 22.9%), with deposits of majority foreign owners accounting for HRK 6.8bn. Household deposits rose by HRK 5.2bn (3.8%) and deposits of financial institutions, most notably non-banking financial institutions (insurance companies, pension funds, etc.) rose by HRK 1.5bn (9.5%). Deposits of enterprises fell by HRK 4.3bn or 8.7%, and those of government units by HRK 1.8bn or 29.8%. The share of household deposits in total deposits rose slightly to 55.0%, while deposits of enterprises, which accounted for 17.6% of total deposits of banks at the end of 2009, fell by a considerable 2.4 percentage points. The share of deposits of non-residents in total deposits of banks rose the most (2.8 percentage points), and reached 17.9%, thus exceeding the share of enterprises in total deposits of banks.

The bulk of the increase in deposits took place in the third

Table 3.5 Structure of bank liabilities
end of period, in million HRK and %

	2007			2008			2009		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1 Loans from financial institutions	20,573.0	6.0	36.2	19,270.0	5.2	–6.3	21,180.5	5.6	9.9
1.1 Short-term loans	11,325.6	3.3	55.4	8,314.0	2.2	–26.6	10,163.7	2.7	22.2
1.2 Long-term loans	9,247.4	2.7	18.3	10,956.1	3.0	18.5	11,016.8	2.9	0.6
2 Deposits	233,108.0	67.6	14.9	247,813.9	67.0	6.3	256,810.1	67.8	3.6
2.1 Giro account and current account deposits	45,284.0	13.1	20.1	41,313.1	11.2	–8.8	34,526.9	9.1	–16.4
2.2 Savings deposits	26,859.4	7.8	1.0	25,640.1	6.9	–4.5	24,531.5	6.5	–4.3
2.3 Time deposits	160,964.5	46.6	16.1	180,860.7	48.9	12.4	197,751.7	52.2	9.3
3 Other loans	31,738.8	9.2	–20.2	32,862.6	8.9	3.5	31,787.5	8.4	–3.3
3.1 Short-term loans	5,528.8	1.6	–44.9	7,955.1	2.1	43.9	6,133.5	1.6	–22.9
3.2 Long-term loans	26,210.1	7.6	–11.9	24,907.5	6.7	–5.0	25,654.0	6.8	3.0
4 Derivative financial liabilities and other financial liabilities held for trading	367.5	0.1	65.9	1,578.3	0.4	329.4	417.1	0.1	–73.6
5 Debt securities issued	3,476.7	1.0	–3.0	3,392.3	0.9	–2.4	119.3	0.0	–96.5
5.1 Short-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.2 Long-term debt securities issued	3,476.7	1.0	–3.0	3,392.3	0.9	–2.4	119.3	0.0	–96.5
6 Subordinated instruments issued	225.7	0.1	–70.2	53.3	0.0	–76.4	396.6	0.1	643.6
7 Hybrid instruments issued	636.6	0.2	15.2	2,055.7	0.6	222.9	3,016.4	0.8	46.7
8 Interest, fees and other liabilities	11,781.4	3.4	13.1	13,139.7	3.6	11.5	12,413.9	3.3	–5.5
Total liabilities	**301,907.8**	**87.5**	**10.4**	**320,165.9**	**86.5**	**6.0**	**326,141.5**	**86.1**	**1.9**
Total capital	**43,173.6**	**12.5**	**38.1**	**49,927.1**	**13.5**	**15.6**	**52,739.7**	**13.9**	**5.6**
Total liabilities and capital	**345,081.4**	**100.0**	**13.3**	**370,093.0**	**100.0**	**7.2**	**378,881.2**	**100.0**	**2.4**

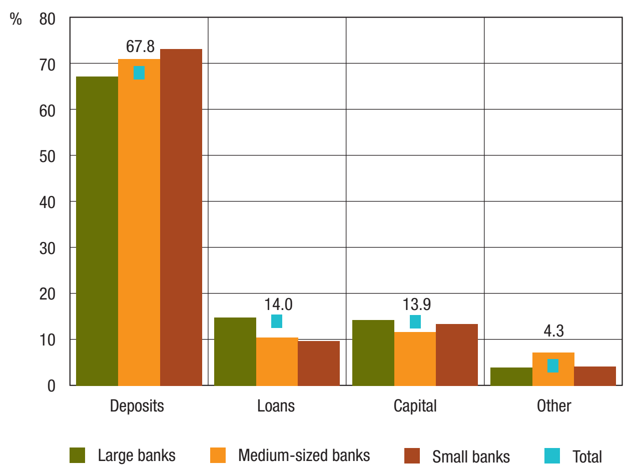
Source: CNB.

quarter, owing to seasonal recovery and an increase in deposits of almost all sectors, in particular deposits of enterprises. Despite a high third quarter increase, the deposits of enterprises fell compared to the end of the previous year, mainly under the influence of a sharp first quarter fall. In 2009, enterprises saw a sharp fall in time deposits and giro and current account deposits, particularly their kuna component. As usual, household deposits rose during the summer months. In the last quarter of the year, household deposits rose nominally at the same rate as in the third quarter of the year but a small increase in the first half of the year (and a small fall in the second quarter), resulted in a growth of household deposits three times smaller than in 2008. Giro and current account deposits of households fell by almost one fourth, in contrast with time deposits of that sector, which rose considerably, though much less than in the previous year. The growth of household time deposits was due exclusively to the growth in foreign currency time deposits, which rose sharply (18.8%), partly due to the substitution of kuna savings by foreign currency savings.

The growth of household and non-resident time deposits resulted in a 9.3% growth in total time deposits, while savings deposits and giro and current account deposits fell by 4.3% and 16.4% respectively. The share of giro and current account deposits was 13.4%, a big decline compared to their average share of 17.6% in the previous five years. The fall in the share of savings deposits was smaller and time deposits accounted for 77.0% of total deposits. A little over 80% of time deposits had remaining maturity of less than one year, compared to 78.8% in the previous year. Almost the entire increase in time deposits was attributable to short-term maturity categories (up to one year).

The fall in kuna time deposits, especially those of enterprises and households and the fall in giro and current account deposits, which are predominantly kuna deposits, resulted in a marked decline in the share of kuna deposits in total deposits of banks. At the end of 2009, they accounted for 32.3% of total deposits, which is a decline of a large 8.0 percentage points from the end of 2008. The share of foreign currency deposits rose by 8.7 percentage points and accounted for 65.6% of total deposits or 67.7% if calculated together with kuna deposits with a currency clause. The growth in foreign currency deposits was the result

3.4 Structure of bank peer group liabilities
end-2009



Source: CNB.

of growth in foreign currency time deposits of all sectors except government units.

Owing to a large increase in deposits of majority foreign owners, large banks recorded the fastest growth in total deposits (4.4%). Deposits in small banks rose by 2.4% as a result of an increase in household deposits, which recorded the fastest growth rate in this group of banks and as a result of a sharp increase in deposits of other non-residents (other than majority foreign owners). Deposits of medium-sized banks fell by 1.5%, mainly due to a fall in deposits of financial institutions and deposits of government units and enterprises. Only small banks saw a fall in the share of deposits in liabilities, though it continued to be the highest in this group of banks (72.9%). Liabilities of small banks saw an increase in the share of loans received as a result of increased use of credit funds provided by the CBRD.

At the end of 2009, the stock of loans received declined by HRK 0.8bn or 1.6% compared to the end of 2008 and stood at HRK 53.0bn or 14.0% of total liabilities of banks. A fall in loans received was mainly the result of a fall in loans received from foreign financial institutions other than majority foreign owners of HRK 1.8bn due to repayment of a foreign loan in one large bank in the second quarter of 2009. In the last quarter of 2009, this bank saw a considerable increase in loans from the CBRD, whose total loans rose by HRK 2.0bn during that period. On an annual level, CBRD loans rose by HRK 2.8bn or 22.0%. At the end of 2009, the loans from the CBRD accounted for 29.5% of total loans received and the largest share of loans received, 44.6% again involved loans from majority foreign owners, which rose by HRK 0.9bn or 4.0% during the year.

The growth of loans received was most evident in small banks (12.1%), which recorded a particularly fast growth of CBRD loans (11.1%); at the end of 2009 these accounted for 67.9% of loans received by small banks. Of all bank groups, small banks had the lowest share of received loans in their liabilities. At the end of 2009, this share amounted to 9.6%. Large banks had the largest share (14.8%) of received loans in their liabilities, the growth of received loans in this group of banks (1.8%) being primarily the result of a large increase in loans from the CBRD (30.0%) and loans from majority foreign owners (4.9%). In medium-sized banks, received loans fell by 8.4% and accounted for 0.4% of liabilities, influenced by the fall in loans from majority foreign owners.

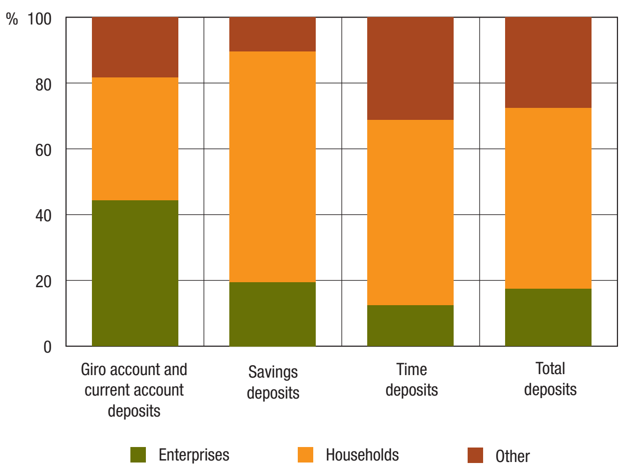
The amount of issued debt securities dropped significantly due to a bond repayment by one large bank. The issuing of subordinated and hybrid instruments by a large number of banks led to their marked relative increase; however their share in liabilities, as well as the share of debt securities, was small. Combined, they accounted for less than 1.0% of bank liabilities.

Bank capital also increased its share in liabilities. At the end of 2009 it stood at 13.9%. Banks distributed a major part of the profit i.e. about three fourths of the profit generated in 2008, into retained earnings and reserves, mitigating the effect of fall in bank profit in 2009 and increasing capital by 5.6%. A high share of capital in the liabilities of banks is the result of significant capital investments by banks' shareholders and the withholding of a major share of the profit generated in the period from 2006 onwards. A range of monetary and prudential measures of the CNB encouraged banks during that period to substitute debt by capital investments and the most important of these measures, that on marginal reserve requirements, was repealed in October 2008.

The share of capital in liabilities rose only in large banks during the observed period and it was also the highest in this group of banks (14.2%). The share of capital in liabilities was the lowest in medium-sized banks (11.6%) due to the effects of losses generated in the current year in one of the banks in the group. The capital of small banks was burdened by current and previous years' losses and its relatively still high value (13.9% of total liabilities of small banks) was due to a high share of capital in liabilities in a number of small banks.

Fast growth in foreign currency deposits (19.5%) led to an increase in total foreign currency liabilities and liabilities with a currency clause of 13.1%, while kuna liabilities decreased by 15.8%. As a result, at the end of 2009 the share of foreign currency liabilities and liabilities with a currency clause rose to 68.0% of total liabilities of banks. Foreign currency liabilities accounted for 63.1%, or the major share of the total, which is an increase of 7.0 percentage points compared to the end of 2008. Given that bank capital is entirely denominated in kuna, the share of the foreign currency and indexed component in liabilities, i.e. in liabilities and capital combined, was smaller and stood at 58.5%. The growth of foreign currency and indexed liabilities was, both in nominal and relative terms, more pronounced than the growth in foreign currency and indexed assets, as a result of a marked fall in assets in Swiss francs (including assets indexed to that currency). At the same time, euro assets grew faster than euro liabilities (assets and liabilities indexed to that currency included) which was the main reason for the extension of the long open foreign exchange position of banks compared to the end of 2008.

3.5 Structure of bank deposits by types and sectors
end-2009



Source: CNB.

3.1.2 Bank capital

Deceleration in the growth of bank capital from the previous year continued into 2009 and its increase of HRK 2.8bn or 5.6% was almost three times slower than the 15.6% in 2008. Given a small increase in the share capital of HRK 0.5bn (1.7%) and a fall in current year profit of one fourth (25.4%), this increase in bank capital is primarily the result of distribution of 2008 profit into retained earnings, which rose by over one third, or by 36.4% (HRK 2.1bn), and into reserves stipulated by the articles of association and other capital reserves (an increase of 12.2% or HRK 1.3bn). These capital items continued to increase their shares in total bank capital; combined, they accounted for over one third, or 37.1% of total bank capital.

Large banks increased their capital by a significant 11.9% and medium-sized banks reduced it by over one third, or 33.9%. Both changes should be viewed in the context of a merger of one medium-sized bank with one large bank. The capital of small banks rose by 2.4%.

Table 3.6 Structure of bank total capital
end of period, in million HRK and %

	2007			2008			2009		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1 Share capital	25,179.3	58.3	51.8	28,287.6	56.7	12.3	28,781.8	54.6	1.7
2 Current year profit/loss	4,067.4	9.4	19.8	4,612.5	9.2	13.4	3,439.5	6.5	–25.4
3 Retained earnings/loss	4,212.0	9.8	13.3	5,694.1	11.4	35.2	7,764.9	14.7	36.4
4 Legal reserves	1,054.3	2.4	19.5	969.4	1.9	–8.1	1,084.1	2.1	11.8
5 Total reserves provided for by the articles of association and other capital reserves	8,644.2	20.0	29.8	10,511.3	21.1	21.6	11,790.2	22.4	12.2
6 Unrealised gains/losses on value adjustments of financial assets available for sale	30.7	0.1	109.9	–112.5	–0.2	–	–24.8	0.0	–78.0
7 Reserves arising from hedging transactions	–0.8	0.0	–	0.0	0.0	–100.0	0.0	0.0	0.0
8 Previous year profit/loss	–13.6	0.0	396.3	–35.3	–0.1	159.9	–96.0	–0.2	171.8
Total capital	**43,173.6**	**100.0**	**38.1**	**49,927.1**	**100.0**	**15.6**	**52,739.7**	**100.0**	**5.6**

Source: CNB.

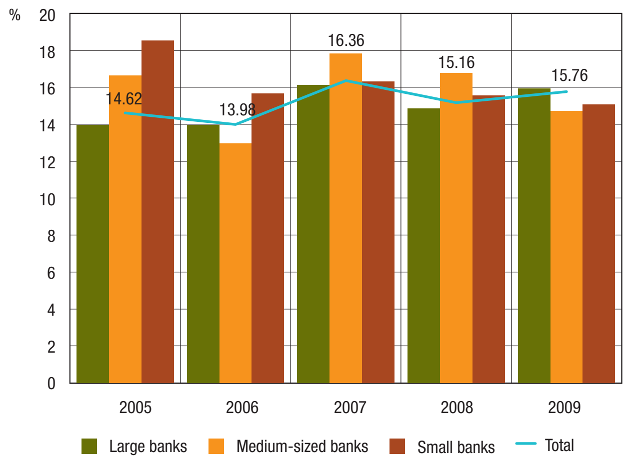
In 2009, bank regulatory capital rose by 3.1% and stood at HRK 50.5bn. This can be attributed to an increase in bank regulatory capital of almost 3.5% in the first two quarters of the year. In the second half of the year, bank regulatory capital fell by 0.4%. The increase in supplementary capital I (61.6% or HRK 1.3bn) made a bigger contribution to regulatory capital increase than the increase in core capital (22.3% or HRK 0.3%). Again, no bank reported supplementary capital II.

At the end of 2009, the capital adequacy ratio rose by 0.6 percentage points compared to the end of the previous year and stood at 15.76%. The increase in the capital adequacy ratio is the result of an increase in regulatory capital of 3.1% and a simultaneous decrease in capital requirements of 0.8%. The decrease in capital requirements was the result of a 0.3% decrease in the part of capital requirements earmarked for credit risk coverage and a 29.5% decrease in the remaining part of capital requirements earmarked for market risk coverage.

For the first time since end-2006, medium-sized banks did not report the highest capital adequacy ratio. The capital adequacy ratio of this group of banks fell by over 2.0 percentage points during the year, largely influenced by the previously mentioned merger of one medium-sized bank with one large bank. The capital adequacy ratio of small banks also fell (0.48 percentage points) so the overall increase in the capital adequacy ratio of all banks can primarily be attributed to the increase in the capital adequacy ratio of large banks of 1.08 percentage points. As a result, for the first time in a considerable period, this group of banks recorded the highest capital adequacy ratio, of 15.94%. As at the end of 2008, two banks reported a capital adequacy ratio below 11% but no bank reported a capital adequacy ratio below the legally prescribed minimum of 10%.

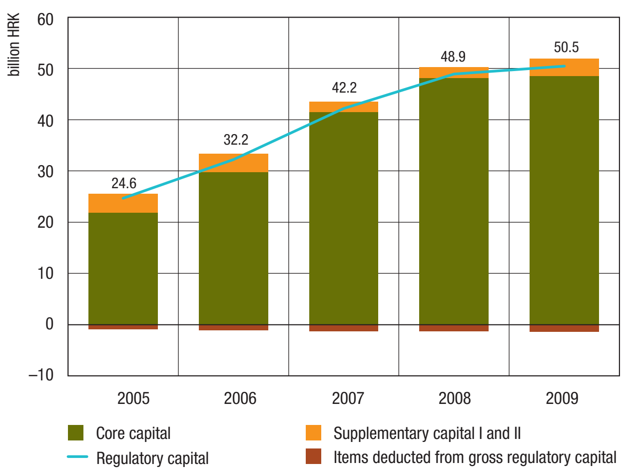
The net value of risk-weighted assets rose by HRK 10.5bn or 2.9% in 2009, or slightly more than total assets (2.4%). However, the increase in the weighted amount of assets was very moderate (HRK 2.5bn or 0.9%) due to a relatively large increase in non-risky part of assets, i.e. those assets which are weighted by a 0% weight[5] and as such do not lead to an increase in the weighted amount. The exposures weighted by a 0% weight

3.7 Capital adequacy ratio by bank peer groups
end of period



Source: CNB.

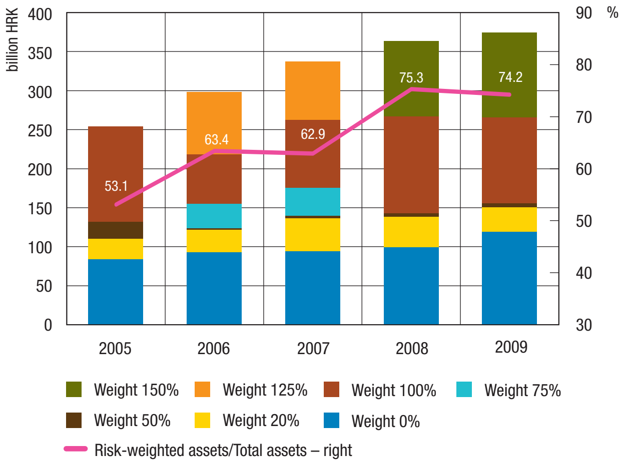
3.6 Structure of bank regulatory capital
end of period



Source: CNB.

5 Claims covered by guarantees/securities of the Government of the Republic of Croatia, the Croatian National Bank, governments or central banks of OECD member states or claims on those institutions.

3.8 Bank assets included in total risk-weighted assets
end of period



Source: CNB.

rose by HRK 19.5bn or 19.5%. The part of assets weighted by a 150% weight[6] also rose considerably (HRK 11.8bn), resulting in an increase in the weighted amount of HRK 17.7bn. At the same time, the amount of exposures weighted by a 100% weight[7] declined by HRK 14.1bn.

The already low share of capital requirements for market risk in total capital requirements continued to decline. Declining by 29.5% in 2009, its share fell by half a percentage point, from 1.8% to 1.3% of total capital requirements. The capital requirement for credit risk remained almost unchanged (a 0.3% fall) and accounted for 98.7% of total capital requirements.

3.1.3 Quality of bank assets

Placements and contingent liabilities[8] of banks rose by a slight 1.1% in 2009, continuing the trend of deceleration in their growth for the third consecutive year. The year 2009 was marked by slow credit activity due to reluctance by banks to increase their credit risk exposure in conditions characterised by negative economic trends and a smaller demand for loans, in particular from households.

At the end of 2009, total placements and contingent liabilities of banks stood at HRK 427.0bn and with a 61.2% share, loans again accounted for the major share of placements and contingent liabilities. The largest nominal and relative change in placements and contingent liabilities items relative to the end of 2008 was seen in contingent liabilities. Due to a decline in all the items, particularly unused credit lines, contingent liabilities dropped by HRK 8.9bn (12.7%), their share falling to 14.2% of total placements and contingent liabilities. Deposits granted rose slightly (HRK 2.2bn or 3.0%) and accounted for 17.5% of total placements and contingent liabilities. Assets available for sale, assets held to maturity, embedded derivatives and other claims accounted for the remaining 7.1% of total placements and contingent liabilities.

Almost the entire increase in placements and contingent liabilities of banks in 2009 of HRK 4.6bn could be attributed to the increase in placements and contingent liabilities of large banks[9] (HRK 4.3bn or 1.2%), while placements and contingent liabilities of small banks rose by HRK 639.9m or 2.0%. Placements and contingent liabilities of medium-sized banks dropped by HRK 425.5m or 1.2%.

Bad placements and contingent liabilities[10] rose 61.0% on an annual basis, thus exceeding total placements growth. Such a large increase in bad placements, further complicated by a 1.0% fall in category A placements and contingent liabilities, led to an increase in the share of bad placements and contingent liabilities from 3.3% to 5.3%. The last time bad placements and contingent liabilities accounted for a bigger share was at the end of 2002 (5.9%).

The bulk of the growth in bad placements and contingent liabilities in 2009 was associated with the growth in partly recoverable placements or B category placements which were up by HRK 7.5bn (75.6%) with subcategory B1 placements, whose loss is estimated to stand between 1% and 30%, accounting for the major share of this growth. Irrecoverable placements (C category placements) rose by HRK 1.1bn (26.7%) during the observed period.

In 2009 all bank groups recorded high growth rates in bad placements and contingent liabilities, with medium-sized banks recording the highest growth rate (125.3%). Bad placements and contingent liabilities of large and small banks grew by 58.0% and 39.0% respectively. The significant increase in bad placements of large banks notwithstanding, this group of banks again

Table 3.7 Classification of bank placements and contingent liabilities by risk categories
end of period, in million HRK and %

	2007		2008		2009	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements and contingent liabilities (category A)	384,204.3	96.9	408,397.9	96.7	404,373.3	94.7
Partly recoverable placements and contingent liabilities (category B)	7,946.5	2.0	9,865.7	2.3	17,328.3	4.1
Irrecoverable placements and contingent liabilities (category C)	4,270.3	1.1	4,214.6	1.0	5,341.3	1.2
Total	**396,421.2**	**100.0**	**422,478.1**	**100.0**	**427,043.0**	**100.0**

Source: CNB.

6 Foreign currency and foreign currency-indexed claims on clients with unmatched currency positions.
7 Kuna claims uncovered by adequate pledged assets.
8 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 74/2006). Under this Decision, placements and contingent liabilities are classified into the following risk categories: A – fully recoverable placements and contingent liabilities, B – partly recoverable placements and contingent liabilities and C – irrecoverable placements and contingent liabilities.
9 To show all changes across bank groups, in this chapter we have excluded the effect of the merger of Slavonska banka d.d., Osijek with Hypo-Alpe-Adria Bank d.d., Zagreb.
10 Placements and contingent liabilities classified in risk categories B and C are considered bad placements and contingent liabilities.

Table 3.8 Bank value adjustments and provisions
end of period, in million HRK and %

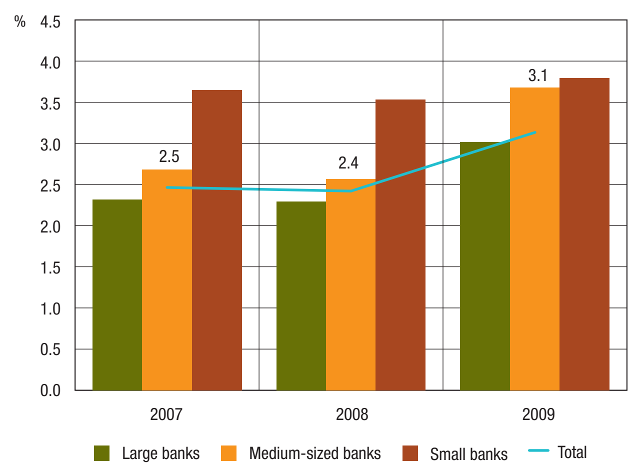
Banks	2007	2008	2009
Total value adjustments against placements and provisions for contingent liabilities	9,774.6	10,230.1	13,379.1
– Value adjustments against placements and provisions for contingent liabilities	6,290.3	6,555.2	9,764.7
– Collectively assessed impairment provisions	3,484.3	3,674.9	3,614.4
Total placements and contingent liabilities	396,421.2	422,478.1	427,043.0
Relative ratio: total value adjustments and provisions/total placements and contingent liabilities	2.5	2.4	3.1

Source: CNB.

had the lowest ratio of bad to total placements and contingent liabilities. At the end of 2009, this ratio stood at 4.8%. In medium-sized banks, whose bad placements rose the most, or 3.1 percentage points, this ratio was 7.5% and in small banks it was over 8.5%.

In 2009, banks increased the total amount of value adjustments and provisions[11] by HRK 3.1bn (30.8%), thus halting and reversing a downward trend present for many years in total placements and contingent liabilities coverage by total value adjustments and provisions. At the end of 2009, this ratio stood at 3.1%. Although the growth in value adjustments and provisions was much faster than in the previous years, the sharp increase in bad placements led to a further reduction in the coverage of these placements by the relevant value adjustments, the ratio falling from 46.6% at the end of 2008 to 43.1% at the end of 2009.

3.9 Ratio of bank peer group value adjustments and provisions to placements and contingent liabilities
end of period



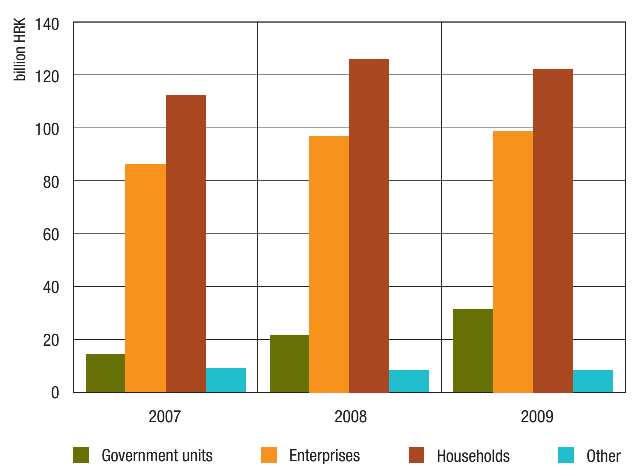
Source: CNB.

The coverage of total placements and contingent liabilities of banks by total value adjustments and provisions at the end of 2009 was again the highest in small banks (3.8%). The coverage of medium-sized and large banks was 3.7% and 3.0% respectively. In contrast, large banks had the highest coverage of bad placements by the relevant value adjustments (45.3%). Medium-sized banks came next with a 38.1% coverage, while small banks had the lowest coverage of bad placements and the largest fall in this coverage of almost 8.0 percentage points (34.5%). Such a sharp fall in the coverage of small banks can be attributed to a more than half as low fall in the growth rate of value adjustments (numerator of the indicator) compared to the growth in bad placements (denominator of the indicator) (12.9% against 39.0%). Large and medium-sized banks also witnessed a slower growth rate in value adjustments compared to the growth rate in bad placements, though the difference was not so large.

Total bank loans (gross) stood at HRK 261.1bn at the end of 2009, which is an increase of HRK 8.5bn (3.3%) compared to the end of 2008. In large banks, loans rose by HRK 8.6bn or 4.1% and in small banks by HRK 323.9m or 1.6%, while in medium-sized banks total loans (gross) fell by HRK 460.2m or 2.0%.

Compared to the previous year, credit activities of banks in all the sectors, except domestic financial and non-profit institutions of relatively small significance, slowed down and loans to non-residents and households fell by 14.7% and 3.0% respectively. For the first time in twelve years, the household sector saw a decline in gross loans in 2009. The decline totalled HRK 3.7bn with the largest fall taking place in cash general-purpose loans, utilised lines of credit and other loans (HRK 2.0bn or 3.6%) and car loans (HRK 1.8bn or 19.0%), which was also the biggest annual relative decline in loans. Home loans were the only loans that rose, albeit more slowly than in the previous year. At the

3.10 Bank loans by type of user
end of period



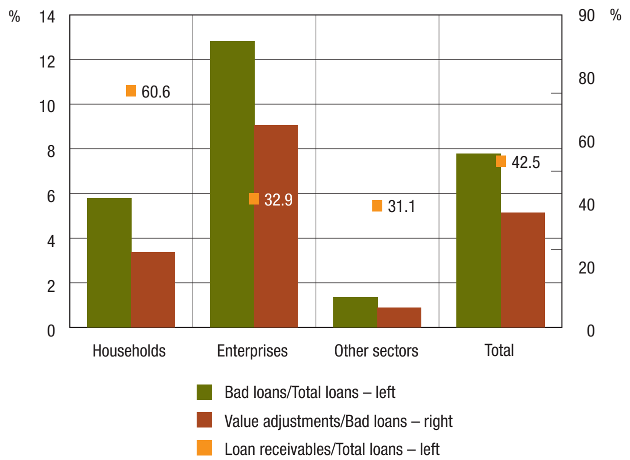
Source: CNB.

11 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.

end of 2009, they rose by HRK 642.0m (1.2%). The growth of corporate loans also slowed down considerably in 2009, from 12.3% in 2008 to 2.7% in 2009. The decline in the growth rate, down to 46.7% in 2009 from 50.1% in 2008, observed in relative terms, was also seen in loans to government units, although the increase in these loans in 2009, which was nominally bigger than that in 2008, led to an increase of HRK 10.0bn (as against the increase of HRK 7.2bn in 2008). This led to changes in the sectoral distribution of gross loans of the largest sectors. The share of household loans thus fell from 49.8% to 46.8%, that of corporate loans fell from 38.3% to 37.9%, while loans to government units rose from 8.5% to 12.1% of total loans.

Almost the entire annual nominal growth in loans to government units took place as early as in the first quarter of 2009 in large banks, which makes this group of banks, with a 95.3% share, the dominant creditor of the government units sector. This growth led to an increase in the share of the government units sector in the sectoral distribution of loans in large banks, which went up from 10.0% to 13.8%. All bank groups, and large banks the most in nominal terms, reduced household lending (HRK 2.9bn or 1.4%). Medium-sized and small banks reduced their household lending by a little over HRK 0.5bn (0.3%) and HRK 351.5m (4.4%) respectively. Small banks increased corporate loans the most, both nominally and in relative terms, by HRK 1.2bn or 11.3%. In large banks, these loans rose by HRK 1.1bn (5.90%), while in medium-sized banks corporate loans fell by a small HRK 131.2m or 0.7%.

3.11 Loan quality
end-2009



Source: CNB.

A marked increase in bad loans in 2009 (HRK 7.8bn or 62.7%) was mainly the result of an increase in bad corporate loans (HRK 5.4bn or 75.3%), followed by bad household loans (HRK 2.1bn or 41.6%) and non-resident loans (HRK 309.6m or 313.3%). Cash general-purpose loans, utilised credit lines and other household loans and home loans accounted for the bulk of the increase in bad loans of the household sector (HRK 1.4bn or 39.7% and HRK 0.6bn or 62.2% respectively). Bad loans to enterprises, due to a growth rate that is higher than the average growth rate of all bad loans, steadily increased their share in the sectoral distribution of bad loans, reaching 62.5%, while the share of bad household loans, due to a slower than average growth dynamics, fell to 34.9%.

The growth of bad loans led to the worsening of the basic indicator of credit quality as seen in an increase in the share of bad loans in total loans from 4.9% to 7.8%. The last time this indicator had a value higher than that was in September 2004. Viewed by sectors, non-residents had the greatest increase in the ratio of bad to total loans (19.0 percentage points), with this indicator reaching the highest level (23.9%) of all sectors. Compared to 2008, in 2009 we saw an increase in the shares of bad loans in total loans granted to enterprises and households (12.8% and 5.8% respectively). In the household sector, mortgage loans and cash, lines of credit and other household loans accounted for a higher than average share of bad loans in total loans (11.9% and 9.0% respectively).

Medium-sized banks saw the largest increase in the share of bad loans in total loans (up from 4.9% to 11.4%). They were followed by small banks, whose share of bad loans in total loans rose from 8.8% to 13.0%, while large banks saw an increase of only 2.3 percentage points in this ratio (up to 6.9%). Medium-sized banks had the highest growth rate of bad loans (126.8% or HRK 1.4bn), mainly due to an increase of HRK 1.1bn in bad loans to enterprises, which was also the main reason for the increase in total bad loans in other bank groups. Bad loans to enterprises accounted for HRK 3.6bn of the total increase of HRK 5.5bn in bad loans of large banks. In small banks, bad loans to enterprises rose by HRK 734.0m and total bad loans rose by HRK 869.4m compared to the end of 2008.

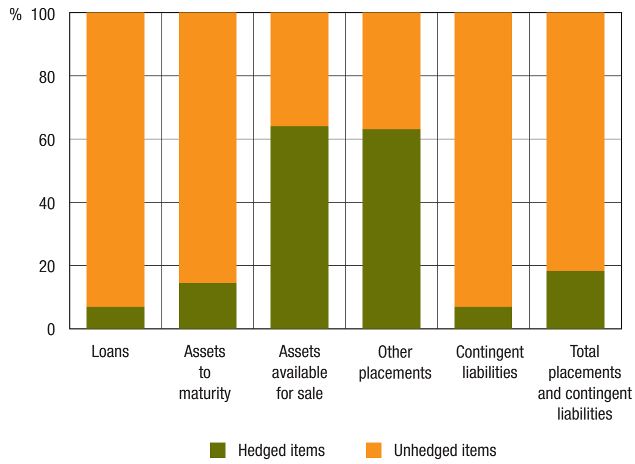
Due but unpaid loan receivables[12] stood at HRK 13.4bn at the end of 2009, which is an increase of HRK 4.1bn or 43.3% compared to the end of 2008. The growth of due but unpaid receivables led to an increase in their share in total loans from 3.7% to 5.1%. Loans granted to enterprises (HRK 3.1bn) accounted for the bulk of the total increase in these receivables, causing a further increase in their share in total loans granted to enterprises, from 6.1% to 9.1%. In the household sector, this indicator rose from 2.5% to 3.4%, with non-residents seeing the largest relative increase, from 8.2% to 12.6%.

The amount of risk category A loans with receivables overdue for over 90 days[13] declined by HRK 375.3m or 7.8% compared to their stock at the end of the previous year, partly as a result of downgrading of these loans into riskier categories and increased efforts towards extending time limits for the payment and loan rescheduling in 2009.

At the end of 2009, the foreign currency part of the balance sheets of banks (expressed in or indexed to a foreign currency) rose by HRK 23.1bn, compared to the end of 2008, while the kuna part of the balance sheets declined by HRK 14.3bn in contrast with deposits with the CNB which were the only major kuna item in the balance sheets of banks that rose. As a result, banks' exposure to currency-induced credit risk (CICR) rose considerably. At the end of 2009, placements and contingent liabilities exposed to CICR accounted for 61.2% of total placements and contingent liabilities, this indicator's highest value since its introduction in mid-2006. The share of placements and contingent liabilities which, although exposed to CICR, were hedged against this risk, fell from the 21.1% of 2008 to 17.7%, i.e. the share of unhedged placements, i.e. placements to clients with unmatched currency positions, rose to 82.3%. Loans again accounted for the largest share of placements unhedged against CICR, accounting for 93.1% of total

12 Only the due part of the receivables, regardless of the number of days in delay.
13 Loans with a payment delay of over 90 days may still be classified as risk category A placements provided the bank has taken legal steps towards collecting its receivables by exercising the instruments of collateral. Where the payment is not effected within the time limit of two years, the bank has to reclassify such loans into lower risk categories and make value adjustments of minimum 30%.

3.12 Structure of net placements exposed to CICR
end-2009



Source: CNB.

placements unhedged against CICR as apposed to 91.5% at the end of 2008.

A decline in the share of kuna loans in total loans which started towards the end of 2008, continued throughout 2009 so that at the end of the year the loans expressed in or indexed in a foreign currency accounted for 72.7% of total loans (as against 65.3% in 2008). The share of kuna loans in total loans thus fell by HRK 16.5bn or 19.3%, with kuna loans accounting for only 27.3% of total loans at the end of the year, a decline compared to 28.3% at the end of 2006. Foreign currency loans grew by HRK 11.7bn or 40.7% annually, driving their share in total loans up from 11.7% to 16.0%. Kuna loans with a currency clause also rose by HRK 10.7bn or 8.1%, their share in total loans increasing by 3.0 percentage points and reaching 56.7%. The growth of loans expressed in or indexed to a foreign currency was solely the result of a HRK 28.5bn or 24.1% growth in euro loans, while loans in all other major foreign currencies, such as the Swiss franc and the American dollar, declined. As a result, loans expressed in or indexed to the euro accounted for almost 80% of all currency loans and 58.1% of all net loans.

The share of placements (contingent liabilities excluded) covered by quality collateral[14] stood at 45.3% of net placements at the end of 2009. The value of collateral covered 88.8% of the value of collateralised placements, a modest decrease relative to the end of 2008. Residential and commercial real estate were again the most important instruments of collateral for placements, despite a slight fall in their share in total quality collateral compared to the previous year (down to 36.9% and 21.2%, respectively, of the amount of claim covered). Other instruments (as defined by banks) accounted for 23.2%. They rose slightly on an annual level, and so did collateral in the form of guarantees and securities.

Large banks boasted the largest share of collateralised placements in total placements (47.5%). In addition to residential and commercial real estate and internally defined instruments of collateral, they also used guarantees and securities. Small banks had 40.1% of collateralised placements and, like medium-sized banks, they used commercial real estate as the main quality instrument of collateral. Medium-sized banks accounted for the smallest share, or 29.8% of collateralised placements in total placements.

3.1.4 Quality of bank earnings

In 2009, pre-tax profits of banks fell by one fourth or HRK 1.4bn compared to the end of 2008 and stood at HRK 4.3bn. Such a financial performance naturally led to a worsening of all indicators of bank returns. The fall in profits of banks can be attributed to the deterioration in the quality of placements and off-balance sheet claims of banks and the associated increase in loss provision expenses totalling HRK 2.3bn.

Nine banks reported operating loss totalling HRK 613.1m, with one medium-sized bank accounting for almost three fourths of this loss. These banks accounted for 5.2% of total bank assets, a considerable increase compared with the end of 2008 when seven then loss-generating banks accounted for 1.2% of total bank assets.

The group of medium-sized banks ended the year 2009 with a loss of HRK 277.3m. The loss was the result of HRK 446.6m in loss generated by one bank from that group, while the remaining two medium-sized banks reported a profit. The profit of large banks fell by 13.3% and that of small banks fell to below one half of the profit made in 2008, or a fall of 50.8%.

All bank groups reported a sharp increase in total loss provision expenses, particularly large banks, whose loss provision expenses increased by a factor of three and a half compared to the end of the previous year, i.e. by 245.5%. Provisions of medium-sized banks increased by a factor of two and a half and those of small banks increased twofold.

The increase in net income of banks of 6.3% and an almost unchanged level of general administrative expenses and depreciation led to an increase in net operating income before loss provisions of 12.9%. However, due to the increase in total loss provision expenses, this increase was not sufficient to prevent a fall in profit. The increase in net income was the result of an increase in net non-interest income, which rose by nearly one third, almost exclusively due to an increase in other net non-interest income, while net income from fees and commissions held steady at its end-2008 level. By contrast, net interest income declined, pointing mainly to the increased cost of banks' funding sources. However, it should be mentioned that the banks managed to offset part of the increased interest expenses by gains on derivative instruments, intended as a hedge against interest rate risk.

Owing to a 4.1% fall, the share of net interest income in net income of banks fell below two thirds. The share of net income from fees and commissions also fell to a little below one fifth of net income. By contrast, the share of net other non-interest income rose by over eight percentage points and accounted for 18.0% of total net income of banks towards the end of 2009.

Interest income grew by 4.9%, or two and a half times slower than interest expenses, reducing net interest income by 4.1% compared to the same period 2008. The 8.7% increase in interest income from loans drove its share in the structure of interest income up by 3.1 percentage points, to 87.1%. Interest income from debt securities also rose slightly, while interest income from deposits fell by as much as two thirds. This fall was the result of a fall in deposits with foreign financial institutions, which took place following amendments to the measure on foreign currency liquidity. At the same time, there was a sharp increase

14 Quality collateral is 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 in internal bank bylaws.

Table 3.9 Bank income statement

in million HRK and %

	2007		2008		2009	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	18,246.9	22.6	21,767.4	19.3	22,830.3	4.9
Total interest expenses	9,690.8	34.6	11,809.2	21.9	13,282.1	12.5
Net interest income	8,556.1	11.3	9,958.2	16.4	9,548.2	–4.1
Total income from fees and commissions	4,207.6	16.9	4,342.8	3.2	4,301.4	–1.0
Total expenses on fees and commissions	1,368.2	–0.4	1,362.0	–0.5	1,319.6	–3.1
Net income from fees and commissions	2,839.4	27.7	2,980.9	5.0	2,981.8	0.0
Other non-interest income	2,077.3	9.5	2,291.7	10.3	3,367.3	46.9
Other non-interest expenses	795.7	–11.5	860.5	8.1	622.1	–27.7
Net other non-interest income	1,281.6	28.4	1,431.3	11.7	2,745.1	91.8
Net non-interest income	4,121.0	27.9	4,412.1	7.1	5,726.9	29.8
General administrative expenses and depreciation	6,607.9	10.2	7,534.8	14.0	7,557.0	0.3
Net operating income before loss provisions	6,069.2	23.4	6,835.5	12.6	7,718.1	12.9
Expenses on value adjustments and provisions for identified losses	530.6	160.2	908.4	71.2	3,474.1	282.5
Expenses on collectively assessed impairment provisions	433.4	–9.1	190.6	–56.0	–60.5	–
Total expenses on loss provisions	964.0	41.7	1,098.9	14.0	3,413.6	210.6
Income/loss before taxes	5,105.1	20.5	5,736.5	12.4	4,304.5	–25.0
Income tax	1,037.7	23.3	1,124.0	8.3	865.0	–23.0
Current year profit/loss	4,067.4	19.8	4,612.5	13.4	3,439.5	–25.4

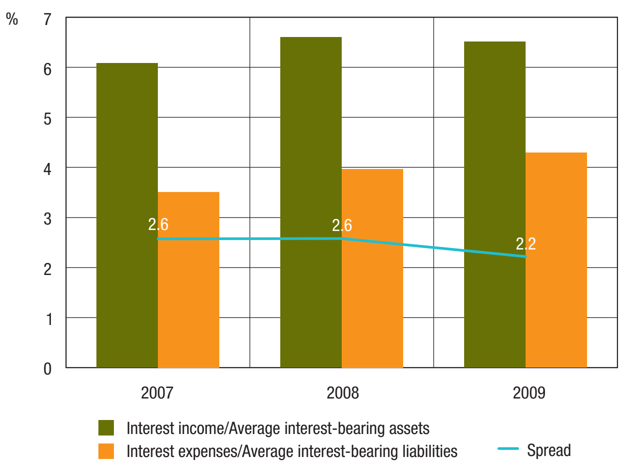
Source: CNB.

in loans to government units, with interest income from loans to that sector rising by 46.1%. Interest expenses rose by 12.5%. Interest expenses on received deposits, the predominant interest expenses, rose by 21.0%. Expenses arising from household deposits received, which were up 25.5%, accounted for over one half of these expenses; this increase accounted for almost three fourths of the increase in total interest expenses.

Large banks recorded a negligible decline (0.1%) in net interest income. Medium-sized banks recorded a significant decline (29.1%) in net interest income, and it should be borne in mind that the number of banks in this group fell compared to the end of 2008. The decline in net interest income in small banks was

3.13 Income from interest-bearing assets and expenses on interest-bearing liabilities

end of period



Source: CNB.

somewhat smaller than in all the banks combined and stood at 3.2%.

Due to a small decline in net interest income on average interest-bearing assets and a somewhat faster increase in interest expenses on interest-bearing liabilities, the spread shrank by 0.4 percentage points.

Total net income from fees and commissions of banks remained almost unchanged compared to the values at the end of 2008. Bank income on this basis fell by less than 1% due to a greater influence of a decline in income from fees for payment services (4.9%) compared to the increase in income from fees for other banking services, which rose by 2.5%. Expenses on fees and commissions declined by 3.1%, mainly as a result of a 7.6% decrease in expenses on fees and commissions for banking services of residents. At the same time, non-resident fees rose by 19.5%.

Net other non-interest income, which almost doubled (a 91.8% increase), rose as a result of a simultaneous increase in income of 46.9% and a decrease in expenses of 27.7%. In 2009, banks achieved much better results in trading activities (trading in derivatives, securities, foreign exchange and kuna monetary assets). Bank profit from trading activities was HRK 2.6bn, in sharp contrast to 2008, when in their trading activities banks generated a negative HRK 2.1bn. Profit from derivatives trading stood at HRK 1.4bn, in contrast with a loss of HRK 2.5bn in 2008, with the bulk of the profit being attributed to hedges against currency and interest rate risks. The full amount of profit from derivatives trading was achieved in the first half of the year, particularly in the second quarter of the year, when the strengthening of the exchange rate of the kuna against the most important foreign currencies resulted in losses on exchange rate differentials and gains on derivative instruments intended as a hedge against currency risk. Profit from foreign exchange trading was HRK 1.2bn, an increase of HRK 397.5m compared to the end of 2008. Profit from securities trading was HRK 85.0m in contrast with the loss generated on this activity in 2008 of HRK 331.8m.

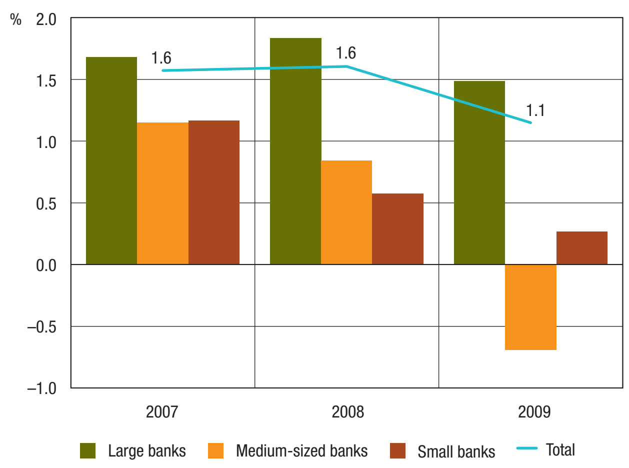
The increase in general administrative expenses and depreciation was negligible (0.3%) and, together with an increase in net income of 6.3%, it had a positive effect on the cost to income ratio, which stood at 49.5%. At the end of 2008, this ratio stood at 52.4%. The effect of the fall in this indicator was important in the group of large banks, the only group which recorded a fall in this indicator (of almost four percentage points). This ratio increased in the remaining two groups of banks, which had a much higher cost to income ratio. It increased the most in medium-sized banks (9.4 percentage points) and much less in small banks (by less than half a percentage point).

The number of employees kept falling throughout 2009 and at the end of the year stood at 21,730, which is a decrease of 335 compared to the number of employees at the end of 2008. The increase in bank assets of 2.4% led to an increase in the amount of assets per employee, which reached its highest value in the past five years (HRK 17.4m). In terms of this ratio, large banks ranked first (HRK 19.8m) and their asset per employee ratio was over two times higher than that of small banks (HRK 8.8m). In medium-sized banks, the amount of assets per employee was HRK 14.3m.

The increase in total loss provision expenses over the year amounted to HRK 2.3bn or 210.6%. Expenses on value adjustments and provisions for identified losses rose by HRK 2.6bn or 282.5%, while the suspension of expenses on collectively assessed impairment provisions in 2009 generated HRK 60.5m in income. Total expenses on loss provisions rose significantly in all bank groups, particularly in large banks (245.5%). Medium-sized banks increased their loss provisions by 150.0% and small banks by 100.3%.

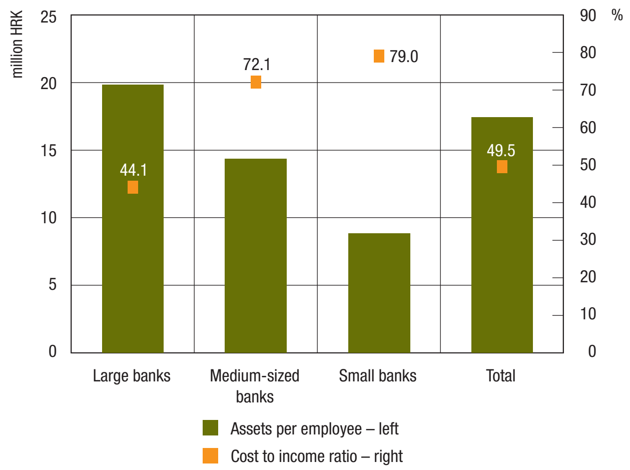
Both key indicators of bank returns, the return on average assets (ROAA) and the return on average equity (ROAE) fell to their lowest levels in the past five years as a result of the previously mentioned fall in bank profit in 2009. Compared to the end of 2008, ROAA fell by 0.5 percentage points, down to 1.1%. In the group of medium-sized banks, this indicator was negative, in small banks it amounted to only 0.3% and in large banks it stood at 1.5%, a decrease of 0.3 percentage points compared to the end of 2008.

3.15 Return on average assets by bank peer groups
end of period



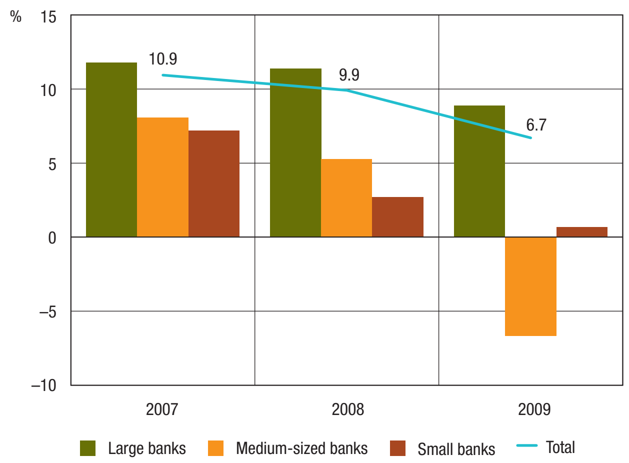
Source: CNB.

3.14 Cost effectiveness by bank peer groups
end-2009



Source: CNB.

3.16 Return on average equity by bank peer groups
end of period



Source: CNB.

ROAE fell by 3.2 percentage points, down to 6.7%. In the group of large banks, this indicator was 8.9%, in small banks only 0.7% and in medium-sized banks it was negative due to losses generated in 2009.

3.1.5 Bank liquidity

The sources of financing were much more scarce and expensive in 2009 than in 2008. Domestic deposits were stagnant at a level almost equal to that at the end of 2008, prompting the banks, particularly large banks, to rely more on their majority foreign owners for sources of financing. The poor liquidity position of banks in the first half of the year, particularly in the first quarter of the year, when the CNB restricted kuna liquidity in an attempt to mitigate depreciation pressures, improved significantly in the second half. Owing primarily to the effect of the seasonal inflow of deposits and risk aversion, banks improved their liquidity reserves by investing in less risky and high-quality forms of assets.

Total received deposits and loans of banks, i.e. the sources of financing, rose by HRK 9.8bn or 3.3% in 2009, with deposits growing by HRK 9.0bn (3.6%) and loans received by HRK 0.8bn (1.6%).

The growth of domestic sources was modest. They rose by HRK 2.3bn or 1.0%, with loans received accounting for the largest share (HRK 1.8bn or 9.5%), while domestic deposits rose by only HRK 0.4bn or 0.2%. A compensation for the poor growth in domestic sources was provided by an increase in loans and deposits from majority foreign owners. In 2009, they rose by HRK 7.7bn (14.9%), with deposits, which rose by HRK 6.8bn or 23.3%, accounting for the bulk of the increase. Other foreign sources of financing fell slightly due to a considerable fall in loans received from foreign financial institutions (other than those received from majority foreign owners), despite a significant increase in other foreign deposits which rose by HRK 1.7bn or 21.5% in 2009. Loans and deposits received from majority foreign owners accounted for 19.3% of total sources of financing at the end of 2009, which is an increase of 2.0 percentage points compared to the end of 2008.[15] With other foreign sources combined, the share of non-resident sources in total sources of financing was 25.1%.

The sources from majority foreign owners rose in all bank groups, particularly in large banks, which accounted for the largest share of these sources of funds of all bank groups (22.3% of total sources). The sources from the majority foreign owners rose by 15.6% in large banks, 5.4% in small and by a very low 0.5% in medium-sized banks.[16] In medium-sized and small banks these sources accounted for 8.4% and 1.3% respectively of total received deposits and loans.

Table 3.10 Bank liquidity ratios
end of period, in %

	2007	2008	2009
Loans granted/Deposits received	92.8	99.5	98.3
Loans received/Total assets	15.2	14.1	14.0
Net interbank position	–1.4	–5.2	–7.0

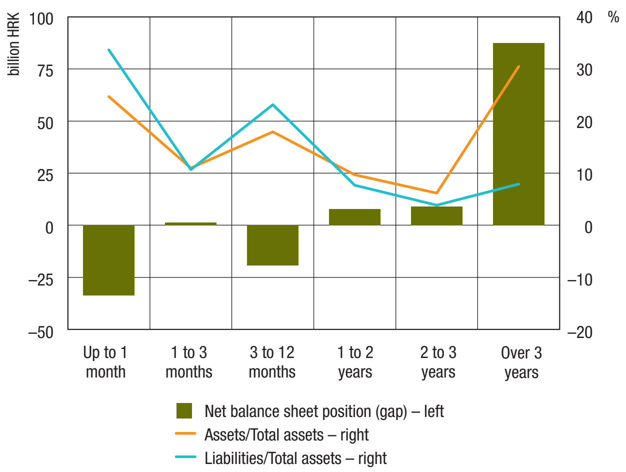
Source: CNB.

The growth of sources from majority foreign owners had a negative effect on the indicator of net interbank position (the difference between the funds placed with financial institutions and the funds received from them relative to total assets), while decelerated credit activities and modest growth in bank borrowing improved the remaining two indicators of liquidity. Compared to its fast growth in the previous year, the loan to deposit ratio decreased slightly in 2009 and stood at little over 100% only in the group of large banks.

In contrast with the very good liquidity position of banks in the second half of 2009, as seen in improved liquidity reserves (see 3.1.1 Structure of bank assets) and maintenance of the level of foreign currency liquid assets in a percentage considerably higher than the prescribed minimum, in the first half of the year, particularly in the first quarter, the liquidity position of banks was under pressure. By releasing some of the foreign currency reserves and restricting kuna liquidity in the first quarter of 2009, the CNB eased depreciation pressures, but interest rates on the money market rose sharply and, in addition to repo auctions, some banks used Lombard loans and swap agreements with the CNB. The pressures on the exchange rate of the kuna eased in the second quarter of the year, and liquidity in the CNB system was mainly ensured through regular repo auctions. The second half of the year saw a seasonal increase in deposits, common in the summer months, and an increase in household deposits also common in the last quarter of the year.

In 2009, there was an increase only in time deposits, almost the entirety of this increase being associated with short-term maturity deposits (up to one year), with the share of deposits

3.17 Asset and liability maturity match or mismatch
end-2009



Source: CNB.

Table 3.11 Structure of received loans
end of period, in million HRK and %

	2007			2008			2009		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans from government units	183.3	0.4	–32.8	125.7	0.2	–31.4	62.2	0.1	–50.6
Loans from financial institutions	20,573.0	39.3	36.2	19,270.0	37.0	–6.3	21,180.5	40.0	9.9
Loans from enterprises	189.4	0.4	–	3.5	0.0	–98.1	4.6	0.0	29.7
Loans from foreign financial institutions	31,117.8	59.5	–21.2	32,603.9	62.5	4.8	31,712.7	59.9	–2.7
Loans from other non-residents	248.3	0.5	–31.1	129.3	0.2	–47.9	8.0	0.0	–93.8
Total loans received	52,311.8	100.0	–4.7	52,132.6	100.0	–0.3	52,968.0	100.0	1.6
Loans from majority foreign owner	17,600.8	33.6	–23.2	22,735.6	43.6	29.2	23,641.7	44.6	4.0

Source: CNB.

15 The share of foreign majority owners, before the crisis erupted in October 2008, which prompted the revocation of the marginal reserve requirements, stood at 12.3%.
16 To show all changes across bank groups, in this chapter we have excluded the effect of the merger of Slavonska banka d.d., Osijek with Hypo-Alpe-Adria Bank d.d., Zagreb.

with remaining maturity of less than one year rising from 84.5 to 85.0% of total deposits over a one year period. Growing insecurity and risk aversion boosted shorter-maturity investment growth. The share of loans with a remaining maturity of less than one year thus rose from 35.4% at the end of 2008 to 40.0% at the end of 2009, while the coverage of short-term liabilities by short-term assets over a one year period rose by 5.6 percentage points and stood at 79.8% at the end of 2009. It should be borne in mind that the reason behind the growth in the share of short-term loans could lie in the heightened activities of banks relating to prolonged time limits for loan repayments.

3.2 Business operations of housing savings banks

At the end of 2009, there were five housing savings banks operating in the territory of the Republic of Croatia. Their assets totalled HRK 6.7bn, a decline of 3.4% compared to the end of 2008. Compared to end-2008, assets fell in three housing savings banks and rose in the remaining two.

The decline in housing savings bank assets compared to the end of 2008 is in line with the downward trend in the share of housing savings bank assets in the total assets of credit institutions that has been a feature for five consecutive years. The share of housing savings bank assets was down to 1.7% at the end of 2009 from 1.9% at the end of 2008.

There were no changes in the ownership structure of housing savings banks compared to the end of 2008. One housing savings bank was in majority state ownership and the remaining four were in the direct or indirect majority ownership of foreign shareholders. Total housing savings bank assets in majority foreign ownership fell by 4.2%, with their share in total assets of all housing savings banks falling by 0.8 percentage points, down to 97.6%. The state-owned housing savings bank increased its assets considerably, with its share in total assets of housing savings banks rising from 1.6% at the end of 2008 to 2.4% at the end of 2009. Three housing savings banks were in the majority ownership of Austrian shareholders and at the end of 2009, their assets accounted for 76.3% of total housing savings bank assets. Assets of one housing savings bank majority owned by Italian shareholders accounted for 21.3% of total assets of all housing savings banks.

At the end of 2009, housing savings banks had 391 employees, 6.0% fewer than at the end of 2008.

3.2.1 Housing savings bank balance sheet

Apart from the year 2008, the annual growth rate of housing saving bank assets has been trending downwards since 2005, and at the end of 2009, total assets of housing savings banks declined for the first time. Housing savings bank assets fell by

Table 3.12 Structure of housing savings bank assets
end of period, in million HRK and %

	2007			2008			2009		
	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	13.3	0.0	0.0	23.5
1.1 Money assets	0.0	0.0	0.0	0.0	0.0	13.3	0.0	0.0	23.5
1.2 Deposits with the CNB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Deposits with banking institutions	47.1	0.7	–57.8	259.7	3.7	451.7	177.8	2.6	–31.6
3 MoF treasury bills and CNB bills	255.5	3.9	–26.5	327.7	4.7	28.2	295.4	4.4	–9.9
4 Securities and other financial instruments held for trading	156.8	2.4	–44.9	76.5	1.1	–51.2	0.0	0.0	–100.0
5 Securities and other financial instruments available for sale	1,246.4	19.0	17.8	1,121.1	16.1	–10.1	71.5	1.1	–93.6
6 Securities and other financial instruments held to maturity	871.2	13.3	–33.2	692.7	9.9	–20.5	794.5	11.8	14.7
7 Securities and other financial instruments not traded in active markets but carried at fair value	528.4	8.1	–58.1	241.4	3.5	–54.3	99.7	1.5	–58.7
8 Derivative financial assets	6.7	0.1	23.3	0.0	0.0	–100.0	0.0	0.0	0.0
9 Loans to financial institutions	106.5	1.6	52.4	273.9	3.9	157.2	117.0	1.7	–57.3
10 Loans to other clients	3,172.3	48.5	85.2	3,780.7	54.3	19.2	4,847.8	72.1	28.2
11 Investments in subsidiaries, associates and joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12 Foreclosed and repossessed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13 Tangible assets (net of depreciation)	8.1	0.1	15.1	8.8	0.1	8.7	7.5	0.1	–14.8
14 Interest, fees and other assets	196.0	3.0	–21.9	240.9	3.5	22.9	371.7	5.5	54.3
15 Net of: Collectively assessed impairment provisions	–50.1	–0.8	23.9	–58.0	–0.8	15.7	–55.9	–0.8	–3.7
Total assets	**6,544.8**	**100.0**	**2.7**	**6,965.5**	**100.0**	**6.4**	**6,726.9**	**100.0**	**–3.4**

Source: CNB.

HRK 238.5m or 3.4% compared to the end of 2008 as a result of a fall in housing savings deposits, which is the basic source of their financing. The fall in the sources of financing notwithstanding, loans granted steadily trended upwards, mainly as a result of placements restructuring, i.e. a fall in securities investments. Net loans accounted for 73.8% of housing savings bank assets at the end of 2009, an increase of 15.6 percentage points compared to the end of 2008. At the same time, as a result of a decline in securities investments, their share in housing savings bank assets fell by 16.6 percentage points and stood at 18.7%. The increase in net loans and a decrease in the securities portfolio were primarily the result of reclassification of a significant amount of securities in the first half of 2009 in one large bank and members of its group, including one housing savings bank. Such a change was made possible by the amendments to the International Accounting Standards (2008), which provided for the reclassification of securities investment portfolios into loans and receivables portfolios, subject to fulfilment of certain conditions.

Securities investments of housing savings banks fell for the third consecutive year. The annual rate of fall in these investments stood at 48.7% at the end of 2009, a fall of almost HRK 1.2bn, which can largely be attributed to the previously mentioned securities reclassification into loans and receivables portfolios in one housing savings bank. However, the effect of this change excluded, the fall in the total amount of these placements was still significant, due to a fall in securities investments in three other housing savings banks. This change had the opposite effect on the amount of net loans, which rose by HRK 910.2m or 22.4% compared to the end of 2008.

The securities portfolio of housing savings banks was again composed of two instruments: MoF T-bills, accounting for 23.4% of investments, and government bonds, accounting for 76.6% of total securities investments. At the end of 2009, housing savings distributed the bulk of securities into the held-to-maturity portfolio (66.2%), with the amount of securities distributed into that portfolio increasing by 5.7% compared to the end of 2008. At the end of 2009, 25.9% of total securities investments of housing savings banks were distributed into the available-for-sale portfolio, a decline of 75.8% compared to the end of 2008. Housing savings banks distributed the smallest part, or 7.9% of securities into the portfolio of securities not traded in active markets and carried at fair value through profit or loss. At the end of 2009, housing savings banks reported no held-for-trading securities.

Net loans of housing savings banks amounted to almost HRK 5.0bn at the end of 2009, of which HRK 3.0bn went to loans to savers of housing savings banks. Although housing savings based loans rose by 4.3% compared to the end of 2008, the share of loans to savers of housing savings banks in total net loans fell from 70.2% at the end of 2008 to 59.8% at the end of 2009. The reason for that lies in more than a double increase in the amount of claims on government units (101.1%), mainly as a result of the previously described reclassification of securities into the loan portfolio. The inclusion of securities into the loan portfolio caused the share of claims on the government units sector to go up from 23.0% at the end of 2008 to 37.8% at the end of 2009. The remaining 2.4% of the total amount of net loans at the end of 2009 went to loans granted to banks.

At the end of 2009, home loans accounted for the entire loan portfolio in one housing savings bank and in one they accounted

Table 3.13 Structure of housing savings bank liabilities
end of period, in million HRK and %

	2007			2008			2009		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1 Loans from financial institutions	0.2	0.0	100.0	0.1	0.0	–18.2	134.6	2.0	90,879.1
1.1 Short-term loans	0.0	0.0	0.0	0.0	0.0	0.0	134.5	2.0	0.0
1.2 Long-term loans	0.2	0.0	100.0	0.1	0.0	–18.2	0.1	0.0	–23.6
2 Deposits	6,038.4	92.3	4.0	6,298.1	90.4	4.3	5,713.3	84.9	–9.3
2.1 Giro account and current account deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2 Savings deposits	0.0	0.0	18.2	0.0	0.0	2.6	0.0	0.0	–95.0
2.3 Time deposits	6,038.3	92.3	4.0	6,298.1	90.4	4.3	5,713.3	84.9	–9.3
3 Other loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.1 Short-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.2 Long-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Derivative financial liabilities and other financial liabilities held for trading	0.0	0.0	0.0	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	0.0	0.0	0.0
5.1 Short-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5.2 Long-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6 Subordinated instruments issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7 Hybrid instruments issued	39.9	0.6	–35.3	91.3	1.3	128.6	96.1	1.4	5.3
8 Interest, fees and other liabilities	223.9	3.4	–28.4	263.4	3.8	17.6	368.5	5.5	39.9
Total liabilities	**6,302.3**	**96.3**	**2.0**	**6,652.9**	**95.5**	**5.6**	**6,312.6**	**93.8**	**–5.1**
Total capital	**242.5**	**3.7**	**25.3**	**312.5**	**4.5**	**28.9**	**414.3**	**6.2**	**32.6**
Total liabilities and capital	**6,544.8**	**100.0**	**2.7**	**6,965.5**	**100.0**	**6.4**	**6,726.9**	**100.0**	**–3.4**

Source: CNB.

for its almost entire loan portfolio. The share of home loans in total net loans was approximately 65.0% in two housing savings banks, while in one housing savings bank these loans accounted for less than 2.0% of its net loans. The higher annual growth rate of home loans in housing savings banks than in banks caused the share of housing savings bank loans in total home loans of credit institutions to go up from 5.2% at the end of 2008 to 5.4% at the end of 2009.

Compared to the end of 2008, housing savings banks significantly reduced their placements to the financial sector. As a result, at the end of 2009 their deposits with banks were down 31.6% and loans to banks were down 57.3%.

The usual increase in household deposits in the last quarter of the year, associated with government incentives paid to savers in housing savings banks, took place in 2009 as well, although these deposits grew by only 0.8%. In the first half of 2009, household deposits kept falling steadily from quarter to quarter, so that their small increase towards the end of the year could not offset the decline which had taken place before. As a result, overall housing savings bank deposits fell in 2009 by HRK 584.8m or 9.3%, compared to their stock at the end of 2008. Even though deposits of housing savings bank savers again accounted for the bulk of total sources of funds of housing savings banks, their share in total liabilities of housing savings banks fell from 90.4% at the end of 2008 to 84.9% at the end of 2009. Compared to end-2008, deposits fell in three housing savings banks.

The received deposits to loans granted ratio in housing savings banks stood at 86.9% at the end of 2009, which is a significant increase from the 64.4% of the end of 2008. The increase in this ratio at the end of 2009 was due to the faster growth of loans than deposits. The received deposits to loans ratio of the household sector also rose. It was up from 45.2% at the end of 2008 to 52.0% at the end of 2009, which means that over one half of the deposits of housing savings bank savers were placed in the form of housing savings bank loans.

Over 87.0% of total assets and 86.3% of total liabilities and capital of housing savings banks at the end of 2009 were indexed to a foreign currency, i.e. exclusively to the euro.

3.2.2 Housing savings bank capital

Total capital of housing savings banks was HRK 414.3m at the end of 2009, which was an increase of 32.6% since the end of 2008. There were several factors contributing to the increase in the capital of housing savings banks at the end of 2009, the rise in share capital of HRK 37.0m or 8.2% having the greatest influence in nominal terms, thanks to the recapitalisation carried out in one housing savings bank. All housing savings banks reported operating profit in 2009, the amount three and a half times exceeding that realised at the end of 2008. Due to the reclassification of securities in the portfolio of loans and receivables the overall capital trends were positively impacted by the decrease in value adjustment losses on available-for-sale financial assets in the total amount of HRK 20.8m or 22.3%. In 2009, housing savings banks allocated almost their entire 2008 profit to capital, thus increasing reserves and reducing their retained loss.

The rise in total capital made an impact on its share in total housing savings bank liabilities, which at the end of 2009 stood at 6.2%.

Regulatory capital of housing savings banks totalled HRK 470.4m at the end of 2009, increasing by 19.0% over the end of 2008. The core capital of housing savings banks went up by 23.4% relative to the end of 2008, thanks to recapitalisation, higher retained earnings and reduced capital loss on value adjustments of financial assets available for sale. Supplementary capital I went up by 5.3%, primarily as a result of the increase in the amount of issued hybrid instruments in one housing savings bank.

Thanks to the increase in regulatory capital at the end of 2009 relative to the end of 2008, the capital adequacy ratio of housing savings banks went up from 13.15% to 15.45%. A growth of the weighted amount of net assets slower than the growth of regulatory capital made a positive contribution to the rise of the capital adequacy ratio. Although net weighted assets were 3.4% lower due to the decrease in investments in securities and lower amount of loans and deposits with banks, their weighted amount went up by 2.5% at the end of 2009 relative to the end of 2008. The main reason for the growth of the weighted amount was the higher amount of claims exposed to currency-induced credit risk, which have a risk weight of 100%, i.e. collateralised foreign currency-indexed home loans granted to households, that is, to borrowers with predominantly unmatched currency positions. The amount of these claims went up by 9.2% relative to the end of 2008. The riskiest, inadequately collateralised and foreign currency-indexed claims on households with 150% risk weighting were down 2.6% at the end of 2009 relative to the end of 2008.

The structure of housing savings bank net risk-weighted

Table 3.14 Structure of housing savings bank total capital
end of period, in million HRK and %

	2007			2008			2009		
	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
1 Share capital	357.1	147.3	24.2	450.9	144.3	26.3	487.9	117.8	8.2
2 Current year profit/loss	–44.7	–18.4	–17.9	12.9	4.1	–128.9	44.4	10.7	243.9
3 Retained earnings/loss	–15.9	–6.6	–57.1	–61.6	–19.7	286.5	–50.0	–12.1	–18.8
4 Legal reserves	2.5	1.0	8.1	3.4	1.1	37.0	4.8	1.2	39.6
5 Total reserves provided for by the articles of association and other capital reserves	0.0	0.0	–	0.6	0.2	–	0.1	0.0	–77.8
6 Unrealised gains/losses on value adjustments of financial assets available for sale	–56.5	–23.3	330.5	–93.7	–30.0	65.9	–72.9	–17.6	–22.3
7 Reserves arising from hedging transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8 Previous year profit/loss	0.0	0.0	–100.0	0.0	0.0	0.0	0.0	0.0	0.0
Total capital	**242.5**	**100.0**	**25.3**	**312.5**	**100.0**	**28.9**	**414.3**	**100.0**	**32.6**

Source: CNB.

assets was dominated by non-risk claims from government units, which are assigned a 0% risk weighting, their share accounting for 57.7% and declining slightly relative to the end of 2008. Claims that meet the criteria for 100% risk weighting, i.e. that are fully covered by mortgages on residential property, granted to households and indexed to foreign currency, made up 24.1% of net weighted assets at the end of 2009. Claims that are also granted with a currency clause, but are not adequately collateralised and are therefore assigned 150% risk weight, accounted for 11.8% of net weighted assets. The substantial share of non-risk claims in the structure of housing savings bank net assets is reflected in the level of the average weight, i.e. the ratio of the weighted amount to net assets that are being weighted, which totalled 44.1% at the end of 2009. For instance, for banks this ratio was 75.2% at the end of 2009.

The capital requirement for credit risk accounted for the lion's share of the capital requirements of housing savings banks (98.7%) at the end of 2009, while the capital requirement for currency risk accounted for the remaining 1.3%. At the end of 2009, housing savings banks used 64.7% of their regulatory capital to cover their total capital requirement.

3.2.3 Quality of housing savings bank assets

Total placements and contingent liabilities of housing savings banks amounted to HRK 6.4bn at the end of 2009, a decrease of 3.5% since the end of 2008. Balance sheet placements decreased by 2.4% relative to the end of 2008, predominantly under the influence of the decline in investments in securities and placements to banks. Due to the reduction in credit lines and commitments, off-balance sheet placements declined by 69.8% at the end of 2009 relative to the end of 2008. Thus, the already small share of off-balance sheet items in the structure of total gross placements of housing savings banks was additionally reduced to only 0.5%. Three housing savings banks saw their total placements and contingent liabilities decrease relative to the end of 2008.

The reclassification of securities from the available-for-sale portfolio to the loan portfolio brought about major changes in the structure of gross placements relative to the end of 2008. At the end of 2009, loans made up 77.8% of gross placements, which was 16.4 percentage points more than the year before. At the same time, the share of debt securities and assets held for sale was reduced by 15.3 percentage points to 5.1% of gross placements. The shares of other types of placements did not change significantly.

Fully recoverable placements of housing savings banks classified into risk category A fell by 3.4% relative to the end of 2008. The so-called bad placements or partly recoverable and irrecoverable placements classified into B and C risk categories decreased by 26.0% due to a decline in these placements in one housing savings bank. The estimated quality of total placements of housing savings banks went up slightly at the end of 2009 due to the relatively higher decrease in the amount of B and C placements and a decrease in their share in total placements from 0.5% at the end of 2008 to 0.4% at the end of 2009. At the end of 2009, three housing savings banks estimated part of their placements as partly recoverable or irrecoverable, while the remaining two classified their placements into the highest quality category A.

In contrast to banks, where the economic crisis was reflected in the quality of household loans, this was not the impact seen on housing savings banks viewed as a group. The assessed home loan quality of housing savings banks slightly increased at the end of 2009, thanks to the 26.0% reduction in home loans classified into risk categories B and C. The total decline in bad home loans was a result of a fall in the amount of such loans that was reported by one housing savings bank. The share of bad home loans in the total amount of home loans was 0.8%, that is 2 percentage points less than in banks and 0.3 percentage points less than at the end of 2008.

As a result of the decrease in bad placements at the end of 2009, total housing savings bank value adjustments of placements and provisions for contingent liabilities were reduced by

Table 3.15 Classification of housing savings bank placements and contingent liabilities by risk categories
end of period, in million HRK and %

	2007		2008		2009	
	Amount	Share	Amount	Share	Amount	Share
Fully recoverable placements and contingent liabilities (category A)	5,670.3	99.7	6,598.5	99.5	6,372.9	99.6
Partly recoverable placements and contingent liabilities (category B)	14.9	0.3	24.6	0.4	18.8	0.3
Irrecoverable placements and contingent liabilities (category C)	2.9	0.1	6.5	0.1	4.2	0.1
Total	**5,688.1**	**100.0**	**6,629.5**	**100.0**	**6,395.9**	**100.0**

Source: CNB.

Table 3.16 Housing savings bank value adjustments and provisions
end of period, in million HRK and %

Banks	2007	2008	2009
Total value adjustments against placements and provisions for contingent liabilities	57.6	69.8	64.2
– Value adjustments against placements and provisions for contingent liabilities	6.4	10.7	8.1
– Collectively assessed impairment provisions	51.2	59.0	56.2
Total placements and contingent liabilities	5,688.1	6,629.5	6,395.9
Relative ratio: total value adjustments and provisions/total placements and contingent liabilities	1.0	1.1	1.0

Source: CNB.

24.8% relative to the end 2008, with the majority of the decrease relating to value adjustments of household loans. Housing savings banks covered 35.2% of their bad placements with value adjustments and provisions for identified losses on an individual basis at the end of 2009. Due to the structure of total placements and contingent liabilities with fully recoverable placements being predominant, collectively assessed impairment provisions continued to account for the major share of total value adjustments and provisions.

At the end of 2009, 87.2% of net placements and contingent liabilities of housing savings banks were exposed to currency-induced credit risk, i.e. HRK 5.6bn, while 8.9% of the exposed placements were hedged against that risk. This relative low percentage of hedged placements continues to be a consequence of the sectoral distribution of placements, i.e. of regulatory limitations based on which housing savings banks may place their funds with two sectors – households and government units, which usually have unmatched currency positions.

3.2.4 Quality of housing savings bank earnings

For the second year in a row, housing savings banks reported operating profits. Pre-tax profits of housing savings banks totalled HRK 53.8m at the end of 2009, increasing by 167.3% over the end of 2008. Profit was reported by all housing savings banks. The increase in profit was a result of the restructuring of placements and smaller volume of housing savings bank investments in securities paired with the growth in the prices of domestic bonds. Consequently, in 2009 they reported profit from their fair value adjustments and reduced the losses arising from the sale or trading of these bonds.

Net income of housing savings banks was HRK 178.9m at the end of 2009, up 10.7% on the end of 2008. In contrast to previous years, when net income of housing savings banks was affected by substantial losses from investments in securities, at the end of 2009 these losses were reduced. Losses on securities trading were reduced by 28.0% relative to the end of 2008, while losses on securities available for sale decreased by 36.4%. The portfolio of securities not traded in an active market and carried at fair value through profit and loss generated a negligible profit of HRK 29,000.00, in contrast to 2008, when losses from securities in this portfolio totalled over HRK 9.2m.

The overall result of the fair value adjustment and securities trading at the end of 2009 was a loss of HRK 6.0m, which paired with the concurrent interest income from these investments of HRK 123.4m led to a decrease of 10.8% relative to the end of 2008. As a result, the share of income of housing savings banks from investments in government securities in the structure of interest income shrank from the previous year's 40.2% to 36.4% of total interest income at the end of 2009.

At the end of 2009, total interest income was 1.5% lower than at the end of 2008. In contrast to the said decrease of interest income from securities, interest income from loans went up 3.7%, partly softening the decline in total interest income. Interest income from loans to households went up the most, by HRK 24.9m or 18.1%, while in relative terms interest income from deposits (81.9%) and loans to banks (99.6%) went up even more. Interest income from home loans rose 17.5%, accounting for slightly less than a half of total interest income (47.7%), which was an increase in its share relative to the end of 2008 of almost 8 percentage points. Interest expenses were reduced by 3.2% relative to the end of 2008, partly as a result of the decrease in household deposits and the 1.4% decline in interest expenses on these deposits. In connection with this change, insurance premiums for savings deposits dropped by 19.3%, which greatly contributed to the decrease in the interest expenses of housing savings banks.

At the end of 2009, housing savings banks generated 2.4%

Table 3.17 Housing savings bank income statement
in million HRK and %

	2007		2008		2009	
	Amount	Change	Amount	Change	Amount	Change
Total interest income	301.4	13.8	344.2	14.2	339.1	–1.5
Total interest expenses	195.2	4.5	208.3	6.7	201.7	–3.2
Net interest income	106.2	36.1	135.9	27.9	137.4	1.1
Total income from fees and commissions	77.2	–1.8	76.6	–0.7	74.7	–2.4
Total expenses on fees and commissions	11.4	14.2	9.6	–15.9	9.1	–5.0
Net income from fees and commissions	65.8	–4.1	67.0	1.9	65.6	–2.1
Other non-interest income	–43.5	–13.9	–15.2	–65.2	2.6	–
Other non-interest expenses	30.4	–11.5	26.2	–13.9	26.7	1.9
Net other non-interest income	–73.9	–12.9	–41.3	–44.1	–24.1	–41.8
Net non-interest income	–8.1	–50.2	25.7	–	41.6	61.8
General administrative expenses and depreciation	128.4	12.9	127.9	–0.4	128.2	0.2
Net operating income before loss provisions	–30.3	–41.6	33.7	–	50.7	50.6
Expenses on value adjustments and provisions for identified losses	3.4	16.1	5.7	66.7	–0.3	–
Expenses on collectively assessed impairment provisions	10.0	166.1	7.8	–21.7	–2.9	–
Total expenses on loss provisions	13.4	100.2	13.5	0.8	–3.1	–
Income/loss before taxes	–43.7	–25.4	20.1	–	53.8	167.3
Income tax	1.0	–	7.2	617.6	9.4	30.5
Current year profit/loss	–44.7	–17.9	12.9	–	44.4	243.9

Source: CNB.

lower income from fees and commissions, while expenses on fees and commissions went down by 5.0%. General administrative expenses and depreciation remained at the previous year's level, so that a sizable increase in net income of housing savings banks resulted in the reduction of the cost to income ratio, from 79.2% at the end of 2008 to 71.7% at the end of 2009. The decline in total placements of housing savings banks resulted in the cutting of expenses on loss provisions, in particular expenses on collectively assessed impairment provisions, which positively affected pre-tax profit.

The increased profits earned relative to the end of 2008 contributed to the increase in profitability indicators. Thus, the return on average assets (ROAA) went up from 0.3% at the end of 2008 to 0.8% at the end of 2009, while the return on average equity (ROAE) went up from 4.7% to 12.2%.

3.3. Report on prudential regulation and supervision

The Croatian National Bank exercises supervision of credit institutions in order to maintain the stability and safety of their operations and ensure confidence in the banking system, particularly on the part of savers and depositors. The supervisory tasks of the CNB include the adoption of subordinate regulations that prescribe in more detail the rules on the management of risks to which credit institutions are exposed in their operation, and the verification of lawfulness and regularity of operation of credit institutions and credit unions and risk management through on-site supervision and off-site supervision of the prescribed financial statements and other reports submitted by credit institutions to the CNB upon request. Further, there is the issuance and withdrawal of authorisations of the stated institutions, approvals to perform the function of the chairperson or a member of a credit institution's management board, and other authorisations and approvals prescribed by the Credit Institutions Act,[17] public disclosure of data and information on credit institutions' operations with a view to enhancing their transparency, the reporting system and procedures and measures the CNB can take against credit institutions to ensure compliance with regulations and improve risk management methods, procedures and techniques.

3.3.1 New regulations on business operations and supervision of credit institutions and credit unions

The Credit Institutions Act (hereinafter: the Act), constituting the basic act regulating the establishment and operation of credit institutions (banks, savings banks and housing savings banks), entered into force on 1 January 2009. Since the provisions of the Act were new in certain segments, credit institutions were provided with an additional adjustment period until 1 July 2009 to adjust their operation. Amendments to the Act initiated amendments to subordinate legislation so in January 2009 the Official Gazette published a set of twenty-two decisions that (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) were to enter into force on 1 July 2009.

The 2009 also saw large amendments to the EU acquis in the area of financial services in response to the need to amend supervisory rules on credit institutions' operations. As a result of turmoil in the financial market that began in 2007 and culminated in late 2008 and early in 2009, the European Commission put forward an initiative to amend the Capital Requirements Directive[18] (hereinafter CRD). In addition, Directive 2009/14/EC amending Directive 94/19/EC on deposit-guarantee schemes, which was adopted in March 2009, also required changes to the provisions of the Credit Institutions Act. Accordingly, it was necessary to initiate the alignment of regulations already adopted with the latest amendments to the CRD.

Table 3.18 Dynamics of legislative harmonisation and the number of amended legislative acts

Date	Activity	Number	Note
2 January 2009	Publication of subordinate legislation to the Credit Institutions Act	22	Published in OG 1/2009
3 April 2009	Publication of amendments to some subordinate legislation	7	Published in OG 41/2009; reason: amendments of a technical nature
29 June 2009	Amendments to the Credit Institutions Act	1	Published in OG 74/2009; reason: postponement of the application of individual provisions of the Credit Institutions Act
29 June 2009	Amendments to the Act on Electronic Money Institutions	1	Published in OG 74/2009; reason: postponement of the application of the Act on Electronic Money Institutions
30 June 2009	Publication of amendments to subordinate legislation	18	Published in OG 75/2009; reason: postponement of the application of subordinate legislation
30 June 2009	Publication of the Decision on the application of provisions of laws and other regulations within the competence of the Croatian National Bank to credit institutions undergoing winding-up proceedings	1	Published in OG 75/2009
21 December 2009	Publication of the Act on Amendments to the Credit Institutions Act	1	Published in OG 153/2009; reason: implementation of provisions of Directive 2006/48/EC (published on 17 November 2009)
end-December 2009	Preparation of amendments to subordinate legislation due to the amendments made to the Credit Institutions Act	14	Published in OG 2/2010

Source: CNB.

17 OG 117/2008, 74/2009 and 153/2009.
18 Capital requirements directive – CRD (Directive 2006/48/EC and Directive 2006/49/EC).

In line with the amendments to the CRD, the Act and all relevant subordinate legislation underwent the necessary changes. Thus, in addition to the Act, eleven subordinate regulations were amended and, due to comprehensive amendments to the CRD and CEBS (Committee of European Banking Supervisors) recommendations, three subordinate regulations were repealed and three new subordinate regulations were adopted in their place. The entire procedure was completed by the end of 2009. Amendments to the Act were published in Official Gazette 153 of 21 December 2009 and entered into force on 1 January 2010, while the subordinate legislation was published in Official Gazette 2 of 4 January 2010 and is to be applied as of 31 March 2010.

Before drafting the final proposal of the Act and subordinate legislation, there was a public discussion, all the proposals having been published on the CNB website, and the final proposals took into account the comments and recommendations received within the framework of the public discussion.

In addition to drafting the said regulations, the CNB representatives also took part in the working group of the Ministry of Finance for drafting the Consumer Credit Act.

On its website, the CNB has posted all regulations that were published in the Official Gazette, in Croatian and in their English translation.

In 2009, the CNB organised several seminars for credit institutions with a view to familiarising them with new regulations and their successful implementation.

To improve transparency in the application of the provisions of the Credit Institutions Act and subordinate legislation as well as the Act on Electronic Money Institutions, in February 2009 the CNB began publishing on its website answers to and opinions about questions from credit institutions, financial institutions, consumers and other interested parties in efforts to ensure a simple and consistent implementation of these regulations. In 2009, the CNB received a total of 528 queries from credit institutions, answering 413 by the end of the year.

3.3.2 Supervision of credit institutions

Supervision of credit institutions consists of several coordinated activities. It begins with the adoption of supervisory regulations and rules and ends with the imposition of measures on credit institutions.

3.3.2.1 On-site examination of credit institutions

The Croatian National Bank carries out on-site examinations in accordance with the adopted methodology for supervision and the on-site examination plan adopted at the end of each year for the following year. All the planned tasks arising from the CNB strategic guidelines relating to on-site examination were completed in 2009. Emphasis was placed on core tasks that include the on-site examination of credit institutions. A high coverage of the banking system by on-site examinations was achieved within this framework, totalling 93.6%, according to unrevised data, as at 31 December 2009.

A total of 33 on-site examinations were carried out in 20 credit institutions in the course of 2009, adding up to 2964 supervisory days. Two on-site examinations were carried out for

Table 3.19 New legislation workshops

Date	Participants	Theme
6-7 April 2009 27 April 2009	Credit institutions	5th workshop on draft amendments to the Instructions for statistical and prudential reporting
20 April 2009	Credit institutions	COREP reports – Standardised Approach
22-23 April 2009	Credit institutions	Reports on capital requirements, markets risks, liquidity risk and interest rate risk in the non-trading book
21-23 September 2009 12-13 October 2009	Credit institutions	6th workshop on draft amendments to the Instructions for statistical and prudential reporting
9 November 2009	External auditors	Presentation of new reporting system (financial reports of credit institutions)

Source: CNB.

Table 3.20 On-site examinations carried out in 2009

Bank groups	Examined areas								Assets covered by on-site examinations (in thousand HRK, as at 31 December 2009)	The share of assets of institutions covered by on-site examinations in total assets (in %, as at 31 December 2009)
	Internal control systems	IT systems	Implementation of monetary and foreign exchange policy	On-site examinations of entire operations (CAMELS)	Assets and liquidity	Prevalidation	Assessment of AMA framework	Assessment of risk management systems and internal capital		
Large banks	3	1	4	2	1	2	1		313,401,731	100.00%
Medium-sized banks			2	2				1	34,287,151	100.00%
Small banks	2	2	6	2					10,047,674	32.21%
Total (all banks)	**5**	**3**	**12**	**6**	**1**	**2**	**1**	**1**	**357,736,556**	**94.42%**
Housing savings banks	1			1					3,111,655	46.26%
Total (all credit institutions)	**6**	**3**	**12**	**7**	**1**	**2**	**1**	**1**	**360,848,211**	**93.58%**

Source: CNB.

the purpose of prevalidation of the internal ratings based approach (IRB) for credit risk. In one bank, on-site examination was carried out for the purpose of risk and internal capital adequacy assessment (ICCAP). In addition, in one bank an on-site examination was carried out of the advanced measurement approach for the calculation of capital requirements for operational risk. On-site examinations were also carried out in two housing savings banks. The on-site examination at one housing saving bank covered all CAMELS[19] areas, while the on site examination of the other housing savings bank encompassed the system of internal controls in its operating procedures.

In 2009, the on-site examination of medium-sized and large credit institutions was a priority, different specialised on-site examinations covering all banks from these groups. The on-site examination of the operation of small banks covered 32.2% of total group assets. The examined assets of housing savings banks make up 46.3% of total assets of housing savings banks.

In 2009, seven on-site examinations were carried out, covering the entire operations (six CAMELS bank examinations and one CAMELS examination of a housing savings bank), with special emphasis on risk management and adequate value adjustments and provisions for bad placements. Within this framework, a special analysis was made of the risk profile and capacity of credit risk exposure, which included the following areas:

- credit risk exposure to trading and construction sectors;
- analysis of credit risk management adequacy in the segment of project financing and placements with a bullet payment;
- analysis of credit risk exposure to the parent by domestic credit institutions that are members of international banking groups;
- credit risk management in cases of extended collection deadlines, rollover or restructuring of placements and the assessment of the adequacy of value adjustments and provisions; and
- on-site examination of the methodology and the process of value adjustment and provisions in relation to households and legal persons.

By the type and scope, the following on-site examinations were carried out in 2009:

- six examinations of the system of internal controls in the operating procedures of credit institutions;
- twelve examinations of the implementation of monetary and foreign exchange policy;
- three examinations of credit institutions' IT systems; and
- one examination of asset quality and liquidity risk management.

Within the framework of on-site supervision of credit institutions in 2009, on-site examinations of the system of internal controls in the segment of money laundering and terrorist financing were carried out in 11 credit institutions.

Based on on-site examinations carried out in 2009 and violations, irregularities and weaknesses that were established in issued reports, the CNB issued recommendations for the improvement of business processes and IT systems and imposed measures for the elimination of established violations and improvement of the situation. Based on issued reports, seven decisions on supervisory measures were issued, one of which was issued in the course of on-site examination of a credit institution in which violations and irregularities jeopardised the institution's liquidity and solvency. In addition, a memorandum of understanding with supervisory measures was concluded. A total of 68 supervisory measures were ordered via the issued decisions, 57% of which were related to credit risk, 18% to market risk, 14% to the IT system and the remaining 11% to other areas of operation. The issuance of two more decisions and a completion of one more memorandum of understanding are under way as a result of on-site examinations carried out in 2009.

In addition to the regular tasks falling within the scope of on-site examinations, in 2009 the CNB invested large resources in establishing contacts with major international credit rating agencies, defining the methodology and procedure for recognising external credit assessment institutions (ECAIs) as eligible and in the operative implementation of their recognition. Accordingly, in July 2009 the CNB recognised Moody's and Fitch Ratings as eligible ECAIs, thus enabling the implementation of Basel II regulation for the use of standardised approach for the calculation of the capital requirements for credit risk.

Further, in 2009, CNB employees performed tasks relating to the adoption of the new, and improvement of the existing, methodology:

- the creation of the Guidelines for the recognition of credit ratings of external credit assessment institutions;
- creation of the methodology for validation of internal models for risk management in credit institutions; and
- improvement of the existing methodology for the performance of on-site examinations.

The Guidelines for the recognition of credit ratings of external credit assessment institutions were adopted and posted on the CNB website. As for the creation of the methodology for validation of internal models and the improvement of the existing methodology for the performance of on-site examinations, the activity of working groups is proceeding as planned so it is expected that all the tasks will be accomplished within the set time limit, i.e. by 31 December 2010.

3.3.2.2 Off-site examination of credit institutions

The main task of supervision of credit institutions performed by analysing reports, i.e. off-site examination, is to monitor, on an on-going basis, the operation of credit institutions, assess the risk profile of their operations and to verify the lawfulness and regularity of operation of credit institutions, as well as to monitor and impose supervisory measures. These tasks are carried out through analysis of legally prescribed monthly and quarterly reports submitted by credit institutions to the CNB, through on-going communication with credit institutions and additional information submitted upon request.

In 2009, the analysis of additional data and information submitted at the request of the CNB was related, in particular, to liquidity (including the necessary liquid assets), due but unpaid receivables, extension of collection deadlines, placement restructuring and the quality of credit risk management.

In addition to the aforementioned activities, the CNB continued with other regular activities in 2009, such as meeting with management boards of credit institutions, meeting with external auditors of credit institutions, cooperating with the competent supervisory authorities of parent credit institutions located in the EU member states, issuing opinions relating to credit institutions upon requests of other competent authorities (HANFA, violations/criminal offences, etc.) and proposing forms and instructions for the collection of data and information for the purpose of extraordinary analyses.

19 According to CAMELS methodology, each credit institution is assigned a composite rating, based on the assessment and rating of the following six components relating to the financial position and performance of that institution: capital adequacy (C), asset quality (A), management quality (M), earnings (E), liquidity (L) and sensitivity to market risk (S).

Risk assessment of credit institutions in accordance with the CAMELS methodology

In all, 165 written analyses were made in 2009, 156 of which were for individual credit institutions and 9 for groups of credit institutions.

As a rule, written off-site examinations are made for each individual credit institution on a quarterly basis. Possible deviations from the plan are a result of the redirection of resources to detailed specialised off-site examinations of certain areas of credit institutions' operations. Each off-site analysis includes the risk assessment of a credit institution in accordance with the CAMELS methodology, the explanation for the particular assessment, the credit institution's performance indicators, key statistical and supervisory reports, decisions issued for the purpose of eliminating irregularities and violations and monitoring of their implementation, as well as compliance with legal restrictions. In addition, written off-site examinations encompass other information necessary for continued monitoring of the risk profile of an institution, such as the market share of the particular credit institution in the entire system and its market share by individual type of products, a short description of the credit institution's strategy with the number of sub-branches and branches, as well as staff number, recommendations for on-site examinations, if any, with a special emphasis on established problem areas, important decisions of the general meeting and other relevant information. Apart from the off-site examinations, where additional information was necessary, additional analyses were also made of specific operating areas of individual credit institutions in the course of 2009.

In addition to off-site analysis of individual credit institutions, an analysis of consolidated financial statements of groups of credit institutions is made semi-annually. In 2009, the CNB monitored the operation of seven banking groups. It was characteristic of all banking groups that the leading bank in the group accounted for over 90% of the balance sheet and the income statement. Therefore, the conclusions of analyses of consolidated financial statements mostly coincide with the analyses of individual banks.

Analyses of additional data submitted upon CNB request

As mentioned earlier, in 2009 the CNB intensified activities on the analysis of liquidity, of due but unpaid receivables and credit risk quality. Thus, in 2009 it actively monitored system liquidity by receiving and analysing individual ten-day reports of credit institutions. For the purpose of aggregating the said reports, comparable ten-day templates were made (encompassing both planned and realised ten-day balances as well as indicators of the share of currently marketable assets in total assets, the share of liquid in total assets, etc.). For the purpose of obtaining a more comprehensive picture of the manner of managing the liquidity position and alternative financing sources, these reports were amended at the end of 2009 so that for reporting purposes in the planning of the acquisition of the necessary liquid funds the share of assets obtained through repo transactions with the CNB was limited.

Throughout 2009, the CNB received data on due but unpaid receivables of credit institutions in a monthly frequency; from April 2009, the obligation was introduced to deliver data on the extension of collection periods and placement restructuring. Monthly changes are analysed and in cases of larger divergences additional explanations are required from the credit institution. For the purpose of comparable and collective monitoring of due but unpaid receivables, the CNB created a template on the basis of which it is possible to obtain information on individual institutions, the group of large banks, the group of small banks and the system as a whole. The mentioned template contains the data series for the entire 2009, broken down by sectors (government, financial institutions, state enterprises, other enterprises, non-profit institutions, households, non-residents) and by maturity (up to 30 days, 31 to 90 days, more than 90 days).

The analysis of data that credit institutions deliver to the CNB on a quarterly basis established a substantial increase in placements classified into risk category A90 in the third quarter of 2009 (the said group covers placements under which unpaid liabilities are overdue for more than 90 days but in relation to which the bank undertook legal actions for the purpose of activating the collection instruments) and risk category B. As regular quarterly reports do not include all the information necessary for analysis of the adequacy of classifying placements of credit institutions that were not subject to on-site examination in 2009, additional data were required on all credit facilities in which there had been a delay in the payment of due liabilities for more than 90 days, facilities that are classified into risk categories A90 and B.

The analysis of the loan portfolio led to progress in at least two areas. Following large initial problems that arose due to the deficiencies in delivered data (submitted databases did not contain information on the effective interest rate, assessments of collateral, initiated collection activities or data were delivered only after repeated requests by analysts), credit institutions "cleaned up" their data and prepared for further increased loan portfolio monitoring by the CNB. Furthermore, analyses indicated that credit institutions had failed fully to comply with their internal bylaws and legal requirements relating to credit risk management. Banks were acquainted with the findings of the said analyses. Consequently, at the end of 2009 banks improved their practices in this segment of their operation and made additional value adjustments for the purpose of operational fine-tuning.

The CNB requested analytical data on the classification of placements as at 31 December 2009 in order to establish new bank practices in relation to the reclassification of placements. Reports and decisions will be issued in the case of established violations. In this instance the procedure included credit institutions that were subject to on-site examinations in the first half of 2009.

Reports, decisions and written warnings

Following the off-site examination in 2009, the CNB prepared twelve reports on examination findings, nine decisions on the imposition of supervisory measures and seven written warnings to the members of credit institutions management as regards their failure to implement supervisory measures in the manner and within the time limits set in the CNB decisions. The reports on examination findings mostly identified the exceeding of exposure limits to one person, while in the case of two banks only reports on examination findings were drawn up due to a failure to implement measures imposed under previous decisions.

Cooperation with foreign supervisors and other supervisory authorities

Based on signed memoranda of understanding and for the purpose of improving cooperation with external supervisors, the CNB representatives participated in nine workshops and/or colleges of supervisors relating to the supervision of banking groups that include domestic credit institutions which took up 44 supervisory days. Presentations on the general risk profile of an institution or methodology of risk analysis for each individual risk to which a credit institution is exposed were prepared for these colleges of supervisors, as well as presentations on the impact of the financial crisis on the operation of a credit institution together with monetary and/or prudential measures and future development aspects.

In addition, within the framework of cooperation with foreign supervisors the CNB is responsible for the creation of the so-called Supervisory Report, i.e. the (semi)annual assessment of the domestic credit institution which serves as an element for estimating the final risk assessment of a banking group by the authority competent for supervision of the parent credit institution. Five Supervisory Reports were prepared in 2009, with the balance as at the end of 2008 and the said reports were updated with the data for the first half of 2009.

In 2009, the CNB signed a Memorandum of Understanding with the Central Bank of the Republic of San Marino and the Memorandum of Understanding with the Central Bank of Montenegro. The CNB representatives participated at meetings with supervisors with whom memoranda of understanding had been signed. Detailed presentations on banks in majority Austrian ownership were prepared in July 2009 on the occasion of the visit of the FMA representative (Financial Market Authority) to the CNB.

CNB gave its opinion and participated in answers provided to the central banks of Italy, Hungary and Austria, relating to the draft multilateral memoranda of understanding in the field of supervision of groups of credit institutions. After the on-site examination of credit institutions in majority foreign ownership in 2009, the CNB delivered to authorities competent for supervision of the parent credit institution the key findings and conclusions and recommendations of on-site examinations.

As a part of regular cooperation a representative of the central bank of Italy came to Croatia for a working visit, providing the CNB representatives with an insight into the Italian experiences and giving recommendations as regards the delegation of authority in the field of competition policy from the central bank to the competition authority. After that the CNB prepared a draft Memorandum of Understanding between the Croatian Competition Agency and the CNB. The CNB also concluded the Memorandum on Understanding Regarding Financial Crisis Management with the Ministry of Finance and HANFA.

Other regular annual activities

In contrast to 2008, in 2009 meetings were not held with the management boards of all credit institutions but only with those that were identified as having risk management problems/oversights based on the analysis of financial reports and additional information.

In November and December 2009 meetings were held with external bank auditors in order to ensure timely exchange of information on credit institutions' operations. During the meetings, external auditors presented the plans of their pre-audits/audits and preliminary results of pre-audits where they were carried out and were briefed by the CNB on those areas of credit institutions' operations they were expected to control (audit) more closely in order to provide high quality opinions on the financial position of an institution.

In 2009, the CNB cooperated with HANFA and other government authorities (courts, the State Attorney's Office, etc.) within the framework of its competence and in compliance with the banking secrecy requirement. In addition, CNB representatives participated in the work of the Working Committee for cooperation with HANFA and exchanged data on the subjects under supervision.

3.3.2.3 Banking system analysis

As a part of its regular activities, the CNB publishes regular semi-annual and annual publications and regular and *ad hoc* analyses on the situation and trends in the banking system needed by the management of the Prudential Regulation and Bank Supervision Area and by the CNB management.

Of the regular publications, in 2009 Banks Bulletin No. 18 was issued for 2008 and Banks Bulletin No. 19 for the first half of 2009. In addition, regular quarterly reports on the banking system, indicators of banking institutions operations (data on bank operations for the CNB web site), reports relating to the regulation on reporting debtors whose debt exceeds HRK 5m and the SDDS format relating to the banking system were compiled at the end of each quarter.

As over the previous years, the CNB prepared a contribution for the BSCEE (Banking Supervisors from Central and Eastern Europe) which consists of quantitative data and written information on the situation in the banking system and supervisory operations.

A banking system sensitivity analysis was carried out as regards additional provisions set aside for placements classified into risk category A in relation to which there are unpaid receivables more than 90 days overdue. An analysis was made of the impact of the allocation of additional provisions on bank earnings and capital adequacy ratio. In addition, the impact of the existing and new regulations on collectively assessed impairment provisions was analysed in 2009, together with the impact of currency-induced credit risk weights on the capital adequacy ratio, the impact of regulations relating to large exposures and exposures to persons in a special relationship with a bank, etc.

In 2009, the CNB participated in regular meetings with credit rating agencies, as well as meetings with different international and foreign institutions (IMF, FMA, WB, etc.). For the purpose of meetings with the IMF (March and October 2009), FMA (July 2009) and the World Bank (March and October 2009), the CNB prepared and held presentations on the situation and trends in the banking system of the Republic of Croatia.

In 2009, the CNB replied to queries/questionnaires from different international and foreign institutions (OECD, EBRD, WB, etc.) and members of the press, as well as all other queries relating to data on the banking system of the Republic of Croatia. In 2009, 27 queries/questionnaires were processed.

3.3.3 Supervision of credit unions

On-site examinations and off-site analyses of credit unions that fell within the competence of the CNB pursuant to the Credit Unions Act were carried out for the first time in 2009.

3.3.3.1 On-site examination of credit unions

A high coverage of credit unions by on-site examinations was achieved within this framework (40.57%) via fourteen on-site examinations of credit unions.

Considerable human resources were invested in the preparation of supervisory methodology and implementation of the on-site examination of credit unions. Counting the on-site examinations of credit unions that failed to meet the criteria for authorisation as savings banks in 2008, a total of 67.01% of credit unions' assets was examined, in accordance with the latest available data of December 2009.

The on-site examinations of credit unions established great shortcomings in their operation, including the complete ignorance of the regulatory framework, risk management system and inability to ensure minimum technical, personnel and organisational conditions for operation in compliance with legal regulations. In consequence of such findings, by 28 January 2010 five credit unions ceased operations and are currently in the process of winding up, one credit union adopted the decision on winding up and initiated the procedure for the cessation of its operation before the commercial court, while the CNB plans to initiate bankruptcy proceedings against a credit union before the competent court.

In addition, four decisions were issued based on the performed examinations, imposing measures for improvement, i.e. measures for elimination of violations and irregularities.

In 2009, 188 supervisory days were employed for on-site examinations of credit unions.

3.3.3.2 Off-site examination of credit unions

In 2009, the CNB supervised the operation of credit unions by collecting, monitoring and analysing data presented in financial and supervisory reports.

Of 104 savings and loans cooperatives, 30 met the conditions for transformation into credit unions and three new credit unions were established, bringing the number of credit unions entered into the register of companies to 33 at the end of 2009. Of that number, three entered winding-up proceedings. Analyses of financial reports submitted by credit unions were carried out in 2009, with the analysis of data presented in financial and supervisory reports for the second and third quarter of 2009 serving as the basis for written off-site analyses of their operation. Eight analyses were related to June and seven to September 2009.

The mentioned off-site analyses identified oversights and infringement of legal regulations, which led to the issuance of reports on off-site examination findings as at 30 September 2009 for three credit unions.

Considering their insufficient knowledge and understanding of regulations relating to the operation of credit unions, in addition to off-site analyses, in 2009 the CNB replied to written and electronic queries made by credit institutions relating to the application of the law and subordinate legislation. All responses have been posted on the CNB web site.

Following a period of almost three years, during which credit unions operated in line with the Credit Unions Act and subordinate legislation adopted under that Act, and following the examination of their operations, it became evident that amendments to the Act were necessary in order to regulate the operation of credit unions in more detail, taking into account their distinctive features. In 2009, the CNB took up the preparation of the draft amendments to the Credit Unions Act that will be sent to the Ministry of Finance.

3.3.4 Issuance of authorisations and approvals to credit unions

The CNB runs procedures relating to the issuance of authorisations and approvals as laid down under the Credit Institutions Act, the Act on Housing Savings and State Incentives for Housing Savings, the Credit Unions Act and other laws and subordinate legislation, issues decisions relating to licensing (issuing and withdrawing authorisations and approvals) gives opinions on the implementation of relevant regulations and recommends or adopts regulations in the area of licensing.

The aim of licensing as a supervisory tool is the stable and safe operation of credit institutions. Viewing licensing as a special part of supervision, its immediate objective is to act preemptively against decisions and activities that might negatively affect a credit institution's operation.

Through the system of authorisations and approvals, the CNB can control some of the decisions and legal transactions of a credit institution prior to their adoption, execution or realisation, so, as a supervisory tool, licensing can have two functions:

- to detect in advance and prevent decisions and transactions that might have an adverse effect on future operations of a credit institution; and
- make the credit institution implement the imposed supervisory measures.

Under the law, the CNB is currently competent for processing the following applications, i.e. issuing the following authorisations and approvals:

- authorisation of credit institutions and credit unions;
- authorisation to provide banking services;
- authorisation to provide financial services;
- prior approval to acquire a qualifying holding in a credit institution;

Table 3.21 The number and type of decisions issued in the area of licensing in 2009

Banks	51
Approval for the chairperson or member of the management board	32
Approval to acquire a qualifying holding	5
Approval to a credit institution to entrust the carrying out of internal audits to an audit firm or to one or more persons not employed with the credit institution in question	3
Approval to acquire a majority holding in the capital or a majority of the voting rights in another legal person	3
Authorisation to provide financial services	7
Removal from the register of representative offices	1
Savings banks	4
Approval to a savings banks to entrust the carrying out of internal audits to an audit firm or to one or more persons not employed with the credit institution in question	1
Approval for the chairperson or member of the management board	2
Approval to acquire a qualifying holding	1
Housing savings banks	6
Approval for the chairperson or member of the management board	5
Authorisation of general operating conditions	1
Credit unions	7
Approval for the chairperson or member of the management board	1
Authorisation of credit unions	6
Total (all institutions)	**68**

Source: CNB.

- prior approval to acquire further holdings which would exceed 20%, 30% or 50% of shares in a credit institution;
- prior approval for management board members of credit institutions and credit unions;
- authorisation for acquisition of/merger with another credit institution;
- authorisation to divide/split off/transfer a part of assets or liabilities to another credit institution;
- authorisation to establish a branch of a credit institution in another member state or third country;
- authorisation of a branch of a third-country credit institution;
- authorisation to establish a representative office of a third-country credit institution;
- prior approval to the credit institution for acquisition of a 20% share in another undertaking, which exceeds 10% of a credit institution's own funds;
- prior approval to a credit institution to entrust the carrying out of internal audit to a person not employed with the credit institution; and
- authorisation of the general operating conditions of a housing savings bank.

Since the Credit Institutions Act provides for the possibility of withdrawal of authorisation from a credit institution and of approval for a management board member, this falls within the competence of the Croatian National Bank.

In 2009, a total of 48 applications in the area of licensing were received, while 68 decisions were issued (some of the decisions were issued on the basis of applications submitted in 2008, and some of the applications were for approvals for the appointment of several members of the management board, while decisions are issued for each management board member separately).

3.3.5 Market competition

Since the Credit Institutions Act lays down that the CNB is responsible for the protection of market competition in the market of banking and financial services provided by credit institutions until Croatia's accession to the European Union, within the framework of its 2009 activities in the area of market competition the CNB conducted a comprehensive sector-wide analysis of the behaviour of commercial banks in the field of home lending. The objective of the analysis was to establish all the facts and reach a decision as regards the potential intervention in response to the behaviour of commercial banks. The analysis focused on:

- the relationship between the home loan and the current account;
- the conduct of the commercial bank granting the loan at the moment of the valuation of the real estate that is the subject of a home loan, and
- the conduct of the commercial bank granting the loan at the moment of insuring the real estate against the main fire risks.

The findings of that analysis were documented in three separate pieces of information to the management and their summary was posted on the CNB web site. As a constituent part of the analysis, a number of meetings were held with banks in which anti-competitive behaviour was established. At these meetings, the findings of the analysis were explained to the representatives of each bank, as well as the problem that arises from such a practice, and a change was proposed involving neither relaxation of the risk management rules nor breaching of the competition rules. All the banks have accepted and implemented the CNB's proposal. As a part of the aforementioned sector analysis, the CNB also examined individual agreements between certain banks and insurance companies.

In addition to sector analysis in the field of home lending, in 2009 the CNB also launched sector analysis of banks' practice in the field of household loans for motor vehicle purchases. That market segment is marked by high concentration, with five banks accounting for about 95% of the market share (according to data as at 30 June 2009). Furthermore, it is characterised by a network of contracts between banks and car distributors, i.e. a network of claim insurance contracts between banks and insurers. Accordingly, the CNB's approach is different to that in the previous sector analysis, and is focused on the examination of individual contracts, i.e. contractual relationships. The competition issue arising in this market segment is the following: one insurer uses its market power deriving from its dominant position on the claim insurance market in order to diminish the competition to which it is exposed in other segments of the insurance industry where it is exposed to competition pressure: motor hull insurance and motor third-party liability insurance. That spillover of market power for the purpose of squeezing competition out of other market segments (and finally, closing down these segments) is achieved by the insurer through contractual relationships with banks holding the car loan market. In 2009, the CNB included in its work the agreements of the bank with the dominant position on the car loan market, as well as the agreements of two other banks. The amendments of certain provisions of the agreements were proposed to these banks at the individual meetings. Banks accepted these amendments and the agreements were amended or their amendments are in progress.

In formal examination procedures, the CNB examined concentration of two banks and agreements of one housing savings bank with five banks to which an individual exemption for a period of five years was granted in the 2004 examination procedure.

Furthermore, a comparative analysis of the new and still applicable Market Competition Act was prepared, with a special emphasis on the impact of the new departures introduced and amendments on the overall work organisation and performance of the CNB.

As in the previous years, in 2009 the map of dominant positions was continuously developed, the main indicators of sector concentration were monitored, the concentration analysis pattern was improved and on-going monitoring of comparative practice continued.

3.3.6 Consumer protection

Consumer protection encompasses a number of measures aimed at protecting natural persons who are acquiring goods and services for personal, i.e. non-commercial purpose. These measures include providing information about the characteristics and prices of goods and services, providing information to consumers about their rights and obligations and encouraging consumers to organise themselves in order to safeguard their interests.

The primary objective of supervision is to promote and safeguard values in the Croatian banking system in order to protect the value of deposits and to enable the payment system to function. By fulfilling that primary objective, the objective of protecting consumers of banking and financial services is also being met.

3.3.6.1 Legal framework

Consumer protection in the field of banking and financial services is regulated or is certain to be regulated by the following legislation:

- Credit Institutions Act (OG 117/2008, 74/2009 and 153/2009);
- Consumer Protection Act (OG 79/2007, 125/2007, 79/2009 and 89/2009);
- Consumer Credit Act (OG 75/2009);
- Electronic Commerce Act (OG 173/2003, 67/2008 and 36/2009);
- the new Act on Electronic Money Institutions[20]; and
- the new Payment System Act,[21] which enters into force on 1 January 2011 (OG 133/2009).

It is also possible for this field to be regulated by other pieces of legislation that would relate to individual financial services or service providers.

In addition, for the purpose of standardisation of data relating to contracting of banking services, pursuant to Article 307, paragraphs (1) and (3) of the Credit Institutions Act, the Decision on the effective interest rate of credit institutions and credit unions and on service contracts with consumers[22] was adopted, which prescribes the uniform method of calculating and disclosing effective lending rates on loans granted and effective deposit rates on deposits received, as well as the content and form of information to be provided by credit institutions and credit unions to consumers, needed to compare different offers and to take an informed decision about concluding a contract.

In accordance with the aforementioned regulations, the entities regulated and supervised by the CNB in the field of consumer protection include, apart from credit institutions, credit unions, payment system institutions and electronic money institutions.

All the previously indicated regulations define a consumer as a natural person receiving services that do not fall within the sphere of his commercial or professional activity.

At the request of the Ministry of Economy, Labour and Entrepreneurship, and pursuant to Article 123 of the Consumer Protection Act and an initiative of the Government of the Republic of Croatia, the CNB appointed its representatives to the National Consumer Protection Council. By participating in the work of the National Consumer Protection Council the CNB also took part in coordinated work of all the authorities competent for creating the preconditions and implementing higher-quality consumer protection in the Republic of Croatia.

A total of seven meetings of the National Council were held and at the last meeting at end-2009, the National Consumer Protection Programme 2009 – 2012[23] was adopted, which contains a segment planned to be realised by the CNB in the said period, concerning the consumer protection policy (users of services provided by the entities within its field of competence). A member of the National Council from the CNB had an active role in preparing the proposals concerning the CNB's future activities in that field. On the basis of the adopted National Programme, a more detailed plan of the CNB's activities was developed for the 2009-2010 period, where priority areas requiring further improvements are defined.[24]

The CNB regularly replies to inquiries of international institutions (primarily the World Bank and OECD), which are becoming increasingly more frequent and comprehensive (mainly concerning the method of implementing the consumer protection policy, financial education and improvement of financial literacy on the territory of the Republic of Croatia) in the field within the jurisdiction of the competent authority.

The CNB representatives participate in the work of internationally organised conferences and seminars concerning consumer protection and financial education.

3.3.6.2 Measures and actions concerning consumer protection

The consumer protection policy consists of a number of measures enhancing and protecting the interests of consumers acquiring goods and services on the market. These measures include:

- providing information to consumers about characteristics and prices of goods and services;
- education of consumers concerning their rights and obligations;
- promoting and supporting the establishment of associations for the protection of consumers' rights; and
- allowing consumers' representatives to participate in the work of bodies that decide on matters concerning their rights and obligations.

In previous years, apart from significantly improving the legal framework and strengthening the activities aimed at higher-quality protection of consumers (users of banking and financial services), the CNB made considerable efforts to address the complaints of consumers that are not satisfied with the operation of individual institutions within its field of competence. In 2009, the Prudential Regulation and Bank Supervision Area received 164 complaints of consumers and other clients of banking and financial service providers. These complaints were partly received through electronic mail, in cooperation with the CNB's Public Relations Office, and partly directly addressed to the Prudential Regulation and Bank Supervision Area.

The procedure concerning the complaints is mostly carried out in a manner determined by Article 309, paragraph (5) of the Credit Institutions Act, i.e. a credit institution is required to make a statement on the individual complaint and in some cases additional statements are also required, depending on the received statements.

The received complaints (depending on a specific issue) have been used by the CNB as information in implementing its supervisory function with respect to the operation of credit institutions and credit unions.

Most of the described activities are temporarily performed within the Prudential Regulation and Bank Supervision Area. According to the findings of the surveys carried out, the competent bodies in other countries which are, like the CNB, responsible only for supervision of credit institutions do not have, at the moment, as a part of their organisational structure a special organisational unit engaged exclusively in consumer protection. In such cases, consumer protection related tasks are mostly centralised within the public relations department, with bank's other organisational units, including the credit institution supervision unit, providing expert assistance, depending on a specific nature of the consumer's request and complaint.

20 In view of amendments to Directive 2005/60/EC, 2006/48/EC and 2000/46/EC, electronic money institutions will no longer be classified as credit institutions and drafting of the new Act is underway. The current Act is published in OG 117/2008.

21 A large part of the new Payment System Act regulates the rules relating to users of payment services, with a special emphasis on consumer protection. That Act equally applies to both credit institutions and other providers of payment services.

22 OG 1/2009 and 41/2009.

23 The National Consumer Protection Programme 2009 – 2012 was published in OG 30/2010.

24 In defining priority actions, the World Bank recommendations and trends were taken into account, i.e. highly intense activities observed in competent authorities of the EU member states.

In view of more intense activities of competent bodies to strengthen consumer protection within their field of competence, the CNB is also, at the moment, trying to find an optimum method of organising a business process capable of encompassing all the activities within the context of implementing consumer protection policy, which would lead to an improvement of the present status and higher quality protection of the users of banking and financial services in the Republic of Croatia.

3.3.7 Projects related to supervision of credit institutions

In the course of 2009, the following projects were underway in the CNB in the field of supervision:

- transposition of the EU legislation into the legislation of the Republic of Croatia;
- drafting of supervisory reports in accordance with the EU requirements (FINREP);
- reporting (KOKI); and
- methodology for risk assessment of credit institutions (MRKI).

The EU legislation transposition was completed by the publication of the latest amendments to the Credit Institutions Act and by amendments to the subordinate legislation. The CNB will continue to harmonise and improve the legislation governing the area of credit institution operation.

The new reporting of credit institutions is being implemented under two projects. The statistical reports that are used for supervisory purposes, as well as other supervisory reports (that are not a part of capital adequacy reporting), constitute an integral part of the project launched in 2007 under title Drafting of supervisory reports in accordance with the EU requirements (the so-called FINREP). In 2009, as a part of the above project and for the purpose of a better understanding of the new reporting system, two workshops were organised for large banks and two presentations for smaller banks.

Other reports related to prudential regulation – reports related to capital adequacy, liquidity and interest rate risk in the non-trading book – represent a constituent part of Basel II, and in the course of 2009 intense efforts were made to develop the application KOKI (Credit institution control) for the purpose of reporting. A total of 58 forms were envisaged under KOKI, and are defined by three pieces of subordinate legislation. The said reporting is mainly harmonised with the reporting method in the EU (CEBS templates), except partly in the case of market risks for which, in the largest part, the existing form has been retained, since it provides more information than those envisaged by the CEBS templates. The work on that project is permanent and ongoing since, following the implementation of the two test cycles of the reception of forms, all the accompanying documents should further be updated and improved, especially after putting the said application in full operation as the new regulation enters into force.

To provide adequate tools for systematic monitoring and analysis of risks to which credit institutions are exposed in their operations, a project to advance the methodology for assessing risks in credit institutions (the so-called MRKI) was launched early in May 2009.

By end-2009, the analysis of the internal indicators for all the areas covered by CAMELS was performed in order to establish which of the available indicators is most appropriate for assessing the risk of an individual area of a credit institution's operation. Statistical regressions have been performed so far for the area of capital and asset quality and are currently being applied to earnings ratios.

Payment operations

4.1 Interbank payment systems

In 2009, 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 the accounts of participants (the CNB, banks, savings banks and the CBRD) in interbank payment systems.

In 2009, 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, the basic infrastructure of domestic payment operations. The accessibility of the CLVPS to payment system participants was as high as 99.77%, 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 increase in the number and a decrease in the value of payment transactions carried out through the NCS and the CLVPS in 2009 relative to 2008.

Croatian Large Value Payment System

A total of 291,085 payment transactions were settled through the CLVPS in 2009, with the average transaction value standing at HRK 10.5m. The number of payment transactions settled through the CLVPS increased by 5.5% relative to 2008 and the total value of the transactions dropped by 7.4%. The largest value of payment transactions was recorded in March and the largest number in July.

The structure of exchanged payment messages shows that as many as 64.1% of total messages were payment messages (MT103) used by banks to execute client payments. Payment messages used by banks (MT202) and direct transfers accounted for 29.9% and 6.0% 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 technical and communication difficulties.

The concentration index shows that five banks account for 62.0% of the total number and for 45.6% of the total value of payment transactions executed through the CLVPS.

Table 4.2 CLVPS – overview of payment transactions executed

	2008	2009
Payment transaction number	275,844	291,085
Payment transaction value (in million HRK)	3,290,706	3,046,065
Payment transaction average value (in million HRK)	12	10

Source: CNB.

Table 4.3 CLVPS – concentration index in 2009

	Payment transaction number	Payment transaction value (in million HRK)
5 banks[a]	180,465	1,389,951
Share (in %)	62.00	45.63
Total	**291,085**	**3,046,065**

[a] Banks accounting for the largest shares in terms of payment transaction number and value.

Source: CNB.

National Clearing System

A total of 130.8m payment transactions were executed through the NCS in 2009, with an average value of HRK 5,315. The number of payment transactions executed through the NCS increased by 2.4% relative to 2008, while their total value decreased by 13.9%. The largest value of transactions (50.7%) was cleared in the third clearing cycle. In relation to the total number of payment transactions executed through the NCS, as many payment transactions (amounting to 36%) were cleared in the prescribed duration of the second and third clearing cycles. The

Table 4.1 CLVPS – payment transactions executed in 2009

Month	CLVPS	
	Payment transaction number	Payment transaction value (in million HRK)
January	20,554	302,705
February	23,512	307,185
March	26,375	316,257
April	24,142	245,866
May	24,539	231,190
June	23,744	221,109
July	26,480	242,841
August	21,948	210,505
September	25,740	233,732
October	24,685	189,233
November	24,479	232,031
December	24,887	313,412
Total	**291,085**	**3,046,065**

Source: CNB.

Table 4.4 NCS – payment transactions executed in 2009

Month	NCS	
	Payment transaction number	Payment transaction value (in million HRK)
January	9,422,242	52,376
February	9,762,736	51,859
March	11,413,450	73,164
April	11,047,892	59,576
May	10,800,526	54,054
June	11,000,729	56,805
July	11,854,089	62,898
August	10,348,570	54,652
September	11,149,773	58,321
October	11,295,003	54,483
November	11,026,103	52,491
December	11,713,544	64,737
Total	**130,834,657**	**695,415**

Source: FINA.

Table 4.5 NCS – overview of payment transactions executed

	2008	2009
Payment transaction number (in million)	128	131
Payment transaction value (in million HRK)	807,453	695,415
Payment transaction average value (in HRK)	6,319	5,315

Source: FINA.

largest value of payment transactions was recorded in March and the largest number in July.

The concentration index shows that five banks account for 71.9% of the total number and for 63.6% of the total value of payment transactions executed through the NCS.

Table 4.6 NCS – total value and number of payment transactions by clearing cycles in 2009

	I clearing cycle	II clearing cycle	III clearing cycle	Total
Payment transaction number	36,426,406	47,562,462	46,845,789	130,834,657
Share (in %)	28	36	36	100
Payment transaction value (in million HRK)	112,383	230,267	352,766	695,415
Share (in %)	16	33	51	100

Napomena: I clearing cycle – from 18.15 T_{-1} to 8.30 T_0
II clearing cycle – from 8.30 T_0 to 12.30 T_0
III clearing cycle – from 12.30 T_0 to 18.15 T_0

Source: FINA.

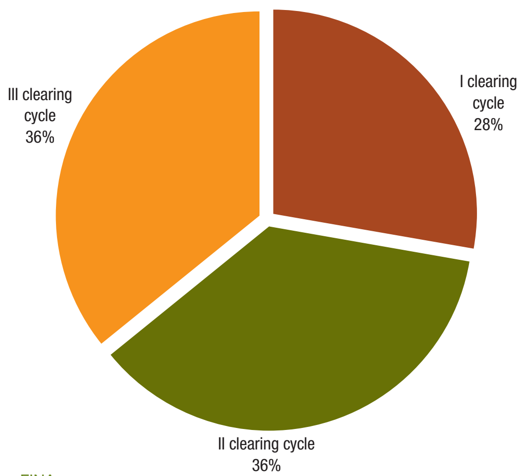
Table 4.7 NCS – concentration index in 2009

	Payment transaction number	Payment transaction value (in million HRK)
5 banks[a]	94,074,018	442,134
Share (in %)	71.90	63.58
Total	**130,834,657**	**695,415**

[a] Banks accounting for the largest shares in terms of payment transaction number and value.

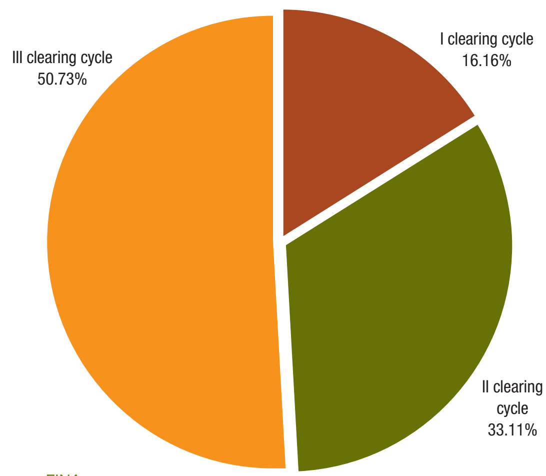
Source: FINA.

4.1 NCS – number of payment transactions by clearing cycles in 2009



Source: FINA.

4.2 NCS – value of payment transactions by clearing cycles in 2009



Source: FINA.

4.2 Interbank/interinstitutional cooperation in the area of payment operations

The National Payment System Committee (NPSC) held two theme meetings in 2009. At the first meeting in March 2009, the representatives of NPSC members (the CNB, MoF, CCE and CBA) were briefed on the drafting procedure for the new Payment System Act and introduced to the draft proposal for this act. NPSC members were also informed of the possibilities offered by Directive 2007/64 on payment services in the internal market to the countries implementing it through their national legislation that allow them to assess, taking into account their own specific features or other regulations, the grounds for the application of some options related to payment services provision. Given that the new Payment System Act will no longer regulate the execution of monetary claims, the discussions also addressed the issue of whether a new regulation on the basis for the execution would be drafted. NPSC members were informed that a regulation of this kind was under preparation and that, upon completion, it should be submitted for opinion to all relevant institutions and bodies in the country.

At the second NPSC meeting in November 2009, the representatives of the MoF presented to NPSC members a draft proposal of an act on the execution of monetary claims and informed them about the proper procedure should an execution debtor's account have been frozen, and about further activities related to the adoption of this act. The need to draft such a regulation has arisen due, among other things, to the fact that certain issues related to the execution of monetary claims are currently defined in different ways in several regulations in effect. This regulatory collision has resulted in a non-uniformity of procedures and, consequently, in the legal insecurity and inefficient performance of these transactions. The MoF's aim has therefore been to regulate this issue in a uniform manner. It was proposed at the meeting that the MoF should set up two working groups (a regulatory working group to draft the act and a technical group for the operational analysis of its implementation) comprising experts from the mentioned institutions, whose advice and expertise would be valuable in the drafting of an act that is as transparent and efficient as possible.

The Council of NCS participants, consisting of the representatives of the CNB, banks and FINA, held one annual theme meeting featuring, among other things, a presentation of NSC operations in 2009. FINA representatives reported on its operation and the second stage of the reengineering project for the NCS, which includes an adjustment to EU technical standards (the implementation of the *SWIFT Net File Act* for the exchange with the NCS, application of IBAN, change of the field format and harmonisation with SEPA standards).

4.3 Payment statistics reports

In line with the Decision on the obligation to submit the report on payment statistics (OG 189/2004 and 127/2009) the CNB received payment statistics from reporting entities (banks, savings banks and credit card issuers) within the prescribed deadlines, processed them and made them publicly available.

Business entities and citizens held 5,413,497 bank accounts. Members of the public had 4,981,056 bank accounts, which made up 92.0% of the total number of accounts. Of this number, 79.3% were current accounts, 18.9% giro accounts and 1.8% "other citizens' accounts". Of the total number of business entities' accounts opened with banks, as many as 91.4% were accounts for regular operations, whereas only 8.6% were business entities' sub-accounts.

As at 31 December 2009, there were 1,299 bank operating units in the Republic of Croatia. Of the total number of ATMs in the country, 83.6% were owned by banks and the remaining

Table 4.8 Number of transaction accounts
as at 31 December 2009

Business entities' accounts	432,441
Business entities' regular operating accounts	395,472
Business entities' sub-accounts	36,969
Citizens' accounts	4,981,056
Giro accounts	943,424
Current accounts	3,948,257
Other citizens' accounts[a]	89,375
Total	**5,413,497**

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

Source: CNB.

Table 4.9 Number of bank operating units, ATMs and POS (EFTPOS) terminals
as at 31 December 2009

	Total
1 Operating units	1,299
2 ATMs	3,601
2.1 ATMs owned by banks	3,012
2.2 ATMs owned by other legal persons	589
3 POS (EFTPOS) terminals	85,804
3.1 POS (EFTPOS) owned by banks	55,113
3.2 POS (EFTPOS) owned by other legal persons	**30,691**

Source: CNB.

Table 4.10 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[b]	
			Number	Value (in HRK)
Credit card	190,328	2.2	1,368,445	453,309,568
Revolving card	737,570	8.5	15,116,797	3,889,256,282
Deferred debit cards	547,978	6.5	14,922,262	5,901,689,176
Charge card	568,745	6.6	15,443,674	4,606,483,803
Debit card	6,489,163	75.1	86,778,384	41,509,790,372
Prepaid card	95,587	1.0	60,672	17,480,704
Other	5,029	0.1	29,395	10,063,788
Total	8,634,400	100.0	133,719,629	56,388,073,693

[a] As at 31 December 2009. [b] In the second half of 2009.

Source: CNB.

16.4% by other legal entities. Of the total of 85,804 POS (EFT-POS) terminals, 64.2% were owned by banks and the rest by other legal entities.

As at 31 December 2009, there were 8,634,400 payment cards in circulation in the Republic of Croatia, 94.6% of which were general payment cards (payment cards issued in the names of citizens) and 5.4% were business payment cards (payment cards issued in the names of business entities). As regards payment card types, debit cards accounted for the largest share in the total number of cards, 75.2%.

Of the total number of cards, as many as 74% have a chip function (payment cards containing one or more chips for data storage, identification or special purpose processing).

4.4 Alignment of domestic payment system regulations with the *acquis communautaire*

As regards the obligations related to the alignment of RC legislation with the EU acquis, the Act on Settlement Finality in Payment and Financial Instruments Settlement Systems came into effect on 1 January 2009. This Act incorporates 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 into Croatian legislation. 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 Croatian legislation on payment services continued to be aligned with the EU acquis by the new Payment System Act, adopted in October 2009, harmonising the national regulations with the provisions of Directive 2007/64/EC on payment services in the internal market. The Act was published in the Official Gazette 133/2009 and it will come into effect on 1 January 2011, with the exception of some provisions that will start to be applied on the day of the RC's accession to the EU. This Act regulates the payment system, including payment services, payment service providers, obligations of payment service providers to inform payment service users about the conditions for the provision and use of payment services, other rights and obligations related to the provision and use of payment services, transaction accounts, the execution of payment transactions among credit institutions, the establishment, operation and supervision of payment institutions and the establishment, operation and supervision of payment systems. The Payment System Act, once it comes into effect, will regulate payment services in the same manner as they are regulated in EU member states, especially by the provisions on prudential requirements, the access of new payment service providers to the market, the disclosure requirement and the rights and obligations of the users and providers of payment services. This will enable the citizens of the RC to use payment services under the same conditions as the citizens of EU member states.

Currency department operations

5.1 Currency outside banks

As at 31 December 2009, currency outside banks amounted to HRK 15.3bn, which is a decrease of 10.4% from the end of 2008.

There were 139.2m banknotes, worth HRK 14.4bn, in circulation, that is, outside the CNB vault and cash centres on 31 December 2009. In comparison with the end of 2008, the number of banknotes outside the CNB declined by 1.4%, while the total value of all banknotes outside the CNB vault and cash centres fell by 12.5%.

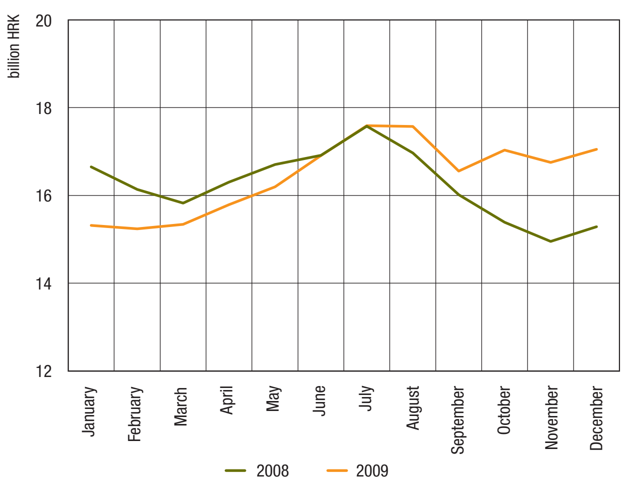
The total number of banknotes in circulation, including the denominations of 1000, 500, 200, 100, 50 and 5 kuna, decreased by 1.8m in 2009 from 2008. Only the number of 20 and 10 kuna banknotes in circulation increased in 2009 relative to 2008, by 2.3m (11.8%).

Of banknotes in circulation, 200 kuna banknotes, with a share of 28%, and 100 kuna banknotes, with a share of 19%, were the most numerous, accounting for HRK 10.5bn or 57.9% of the total value of banknotes in circulation in 2009. 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 2009, there were 1.57bn coins outside the CNB vault, worth a total of HRK 0.87bn. The number of coins outside the vault rose by 5.3% at the end of 2009 relative to 2008, while their total value increased by 5.4%. The total number of coins in circulation increased by 80 million in 2009, with the coin denomination of 10 lipa accounting for the largest share of the increase (25.1%), up by 21.0 million coins in 2009 from 2008.

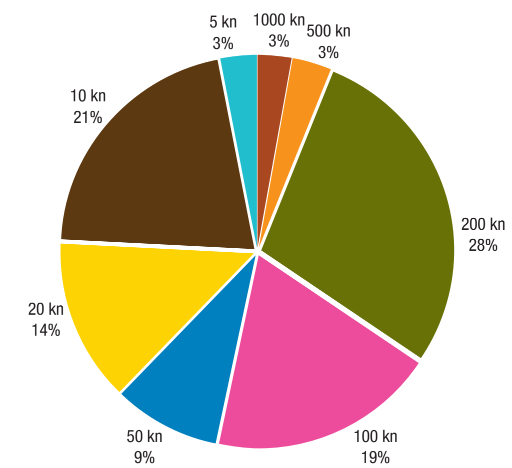
Of coins in circulation, the most numerous in 2009 were 10 lipa coins (373 million items or 23.7% of the total number of

5.1 Currency outside banks
end of period



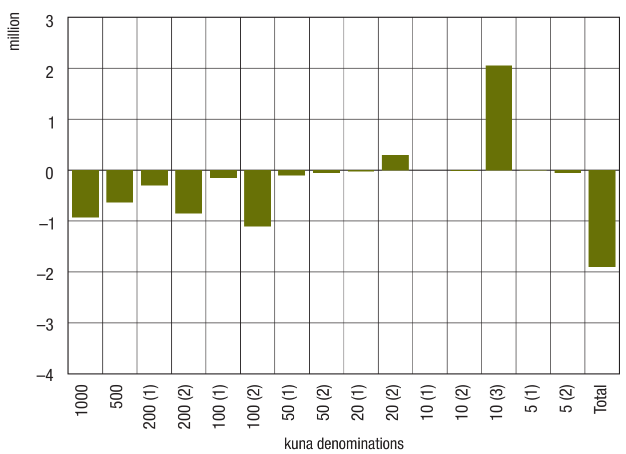
Source: CNB.

5.3 Structure of total volume of banknotes in circulation by denomination
end-2009



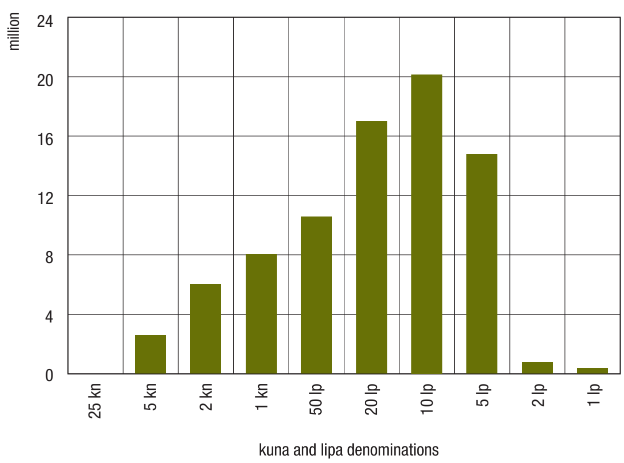
Source: CNB.

5.2 Change in the number of banknotes in circulation in 2009 as compared to 2008



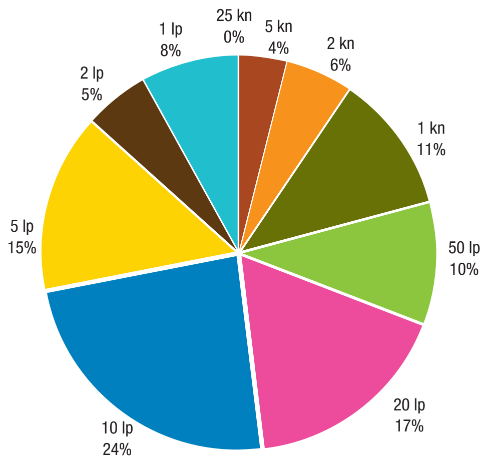
Note: 1, 2, and 3 in the brackets mark the series of issuance.
Source: CNB.

5.4 Change in the number of coins in circulation in 2009 as compared to 2008



Source: CNB.

5.5 Structure of total volume of coins in circulation by denomination
end-2009



Source: CNB.

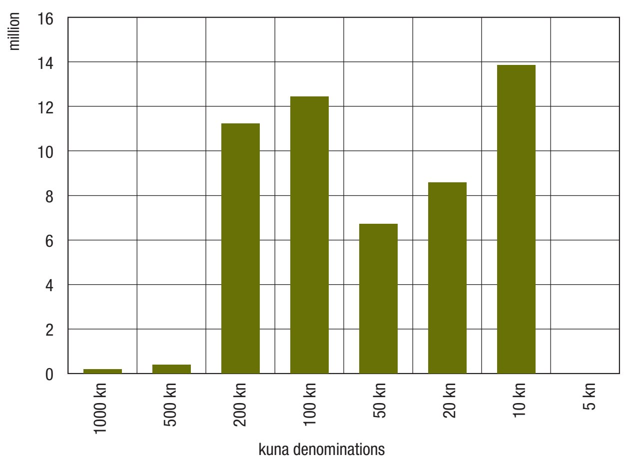
coins in circulation). In terms of value, 5 kuna coins accounted for the largest share, HRK 301.3m or 34.7% of the total value of coins in circulation.

5.2 Cash supply

A total of 4.5bn worth of kuna banknotes (53.3 million pieces) and 50.0m worth of coins (83.0 million pieces) was issued from the CNB vault to cash centres in 2009 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 decreased by HRK 2.0bn (45.3%) from 2008, while the number decreased by 3.7m or 6.9%. However, the total value and total number of issued coins were reduced by 29.1% and 34.9% respectively.

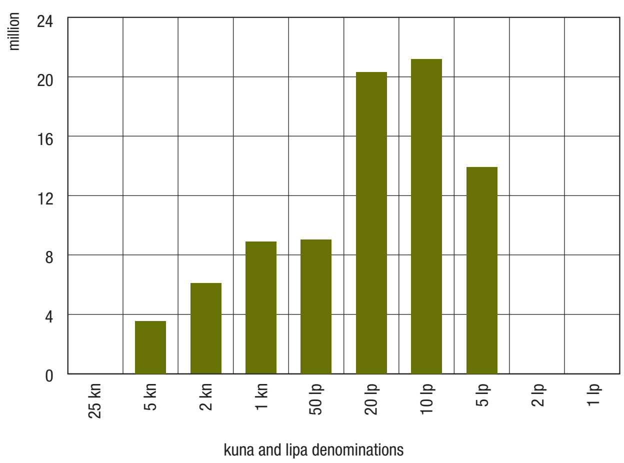
As the requirements of cash supply centres for coins were partly covered by the transfer of the excess number of coins from one cash supply centre to another, 7.7 million coins (worth HRK 14.0m) were transferred among cash supply centres in 2009.

5.6 Banknotes issued to cash supply centres in 2009



Source: CNB.

5.7 Coins issued to cash supply centres in 2009



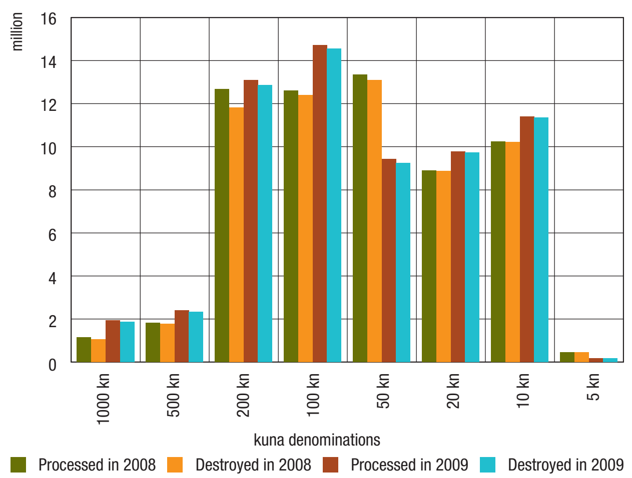
Source: CNB.

5.3 Withdrawal and processing of worn-out banknotes

In 2009, the Currency Department withdrew a total of 50.6 million banknotes, worth a total of HRK 6.9bn, from cash centres. The banknote processing system processed a total of 55.0 million banknotes (4.4 million banknotes was withdrawn in 2008), of which 98.6% or 54.3m banknotes, worth HRK 6.8bn were destroyed as the banknotes failed to meet the quality standards set for circulation banknotes.

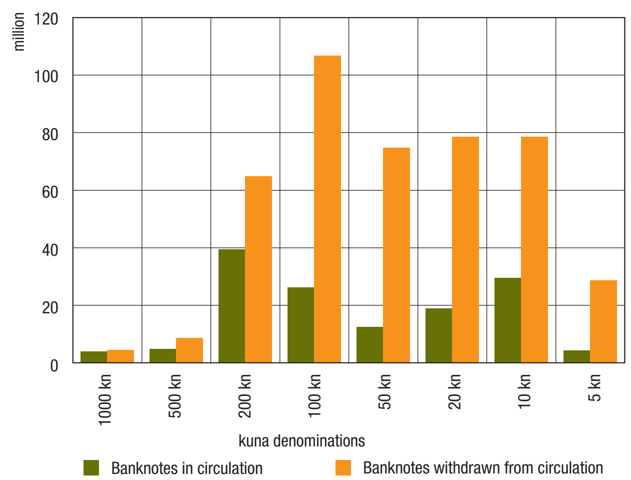
The renewal index in 2009 was 39 (destroyed banknotes/

5.8 Processed and destroyed banknotes



Source: CNB.

5.9 Ratio of withdrawn banknotes and banknotes in circulation in 2009



Source: CNB.

banknotes in circulation × 100), with the number of banknotes in circulation and the number of destroyed banknotes totalling 139.2 million and 54.3 million respectively on 31 December 2009.

5.4 Banknote authentication

In 2009, 597 counterfeit banknotes, worth a total of HRK 132,840, were registered in banknote authentication procedures. Compared with 2008, the number of registered counterfeits fell by 120. As shown by the relevant indicators, 4 counterfeits were detected per 1 million banknotes in circulation in 2009.

The National Counterfeit Centre, National Analysis Centre and Coin National Analysis Centre became operational at the CNB on 1 March 2009. The start of the operation of these centres enabled the CNB to assume the obligation of authenticating foreign banknotes and coins.

The National Analysis Centre received 1,143 suspect counterfeit foreign banknotes in the period from 1 March 2009 until the end of the year, and 1,053 were found to be counterfeit in the authentication. Of 1,053 counterfeits, 888 items (84.3%) were euro banknotes, while 135 items (12.8%) were US dollar banknotes. The remaining 30 items (2.9%) consisted of six different types of foreign currency.

In the same period, the Coin National Analysis Centre received 750 suspect counterfeit foreign coins and 629 coins were proved to be counterfeit. Of the 629 counterfeit coins, 628 were euro coins.

The National Counterfeit Centre in May 2009 launched the National Programme of Training Courses on Banknote and Coin Authentication for Bank and Financial Institution Employees. Twenty five specialist whole-day courses were organised for the employees of banks and institutions specialised in cash transactions. Expert training was received by 347 employees of these institutions.

Table 5.1 Registered counterfeit banknotes in 2009

Denomination	1000	500	200	100	50	20	10	5	Total
Number	31	79	249	80	57	68	33	0	597
Percent (in %)	5.2	13.2	41.7	13.4	9.5	11.4	5.5	0.0	100.0

Source: CNB.

5.5 Commemorative coin issues

In 2009, the CNB issued 1,000 numismatic sets of kuna and lipa circulation coins, with the year of issue 2009.

Publicness

The Croatian National Bank continued to devote special attention to all structures of the public interested in central bank activities. This is proved by the large number and variety of inquiries the CNB received in 2009, both from the country and from abroad, which the public relations staff, in cooperation with other central bank organisational units, strove to answer as fast, clearly and fully as possible.

All relevant primary and subordinate legislation, and central bank instruments and measures related to monetary policy and banking system operation were published, in Croatian and English, at the CNB website www.hnb.hr. Press releases on the decisions of the CNB Council, the central bank's governing body, were published immediately upon their adoption, as well as information on foreign exchange interventions, open market operations, etc.

The CNB website has increasingly been used for educational purposes to upgrade the financial literacy and level of information of the general public. With this aim in view, in addition to interpretations of regulations, facilitating the performance of financial tasks by the banking system, payment system and service sector employees, the website also features all regular and occasional CNB publications and analyses, as well as significant public statements made by the CNB Governor and other officials. The most important publications are available in hard copy, in Croatian and English.

Especially important for informing the domestic and international public about Croatia's monetary policy and banking system is the CNB's regular cooperation with public media representatives. Press conferences, short briefings and presentations on regulations, either under preparation or newly introduced, are organised when it is especially important to provide as complete as possible information on central bank policies and measures to the widest public. Public and media interest in central bank activities and measures increased during the international financial crisis and foreign media showed special interest in the award for the most successful central bank policy management made to the CNB Governor by the Banker monthly.

The appearances of the highest CNB officials and other employees at conferences in the country and abroad also contributed to providing a better insight in CNB operations and overall economic and financial conditions in the Republic of Croatia.

An increasingly large number of secondary schools and institutions of higher education, some of them foreign, showed an interest in group visits to the CNB. These visits included the presentations of CNB tasks and mechanism for their implementation, as well as of the impact of the wider domestic and international environment on central bank activities. Central bank employees held lectures for secondary school pupils and students, enhancing their knowledge of finance and banking.

In addition, the central bank's communication with the public to a large extent involved individual contacts – providing explanations and responses to the inquiries of citizens, companies, banks, government institutions and diplomatic representative offices (Croatian representative offices abroad and foreign representative offices in Croatia). It should be noted that only in a small number of the inquiries received by e-mail, fax, phone or mail was any reference made to the right of access to information in the area of activity of public authorities. Nevertheless, each party requiring an explanation, figure, statement or any other information was provided with a reply in the shortest possible time, unless the disclosure of such information was prohibited by law. In line with this, about 400 media inquiries and over 2,500 inquiries from various structures of the domestic and international public were answered in 2009.

International relations

7.1 CNB activities connected with the relations between the Republic of Croatia and the European Union

In 2009, further progress was achieved in accession negotiations between the European Union and the Republic of Croatia, particularly in terms of the opening and closing a number of negotiation chapters in autumn 2009. 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.

In addition to the negotiations on Chapter 17 – Economic and monetary policy, which were provisionally closed as early as December 2008, the negotiations on Chapter 9 – Financial services were also provisionally closed at the Intergovernmental Conference on 27 November 2009. The latter chapter sets five 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 securities market.

Although the benchmarks that had to be met for the opening of Chapter 4 – Free movement of capital were formally fulfilled in early 2008 and Croatia's negotiating position was submitted in mid-2008 to the EU Council Presidency, negotiations on this chapter were not opened until the Intergovernmental Conference on 2 October 2009. Three benchmarks set for the provisional closure of this chapter related to the complete alignment of legislation with the acquis in the area of capital and payments, acquisition of real property by EU member state citizens and the prevention of money laundering.

One of the five benchmarks for the closure of 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, as early as 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 on 1 March 2009.

In 2009, CNB experts participated in the drafting of the sixth Pre-accession Economic Programme 2010-2012 as well as the 2010 Annual action plan for the transposition and implementation of the acquis. 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. CNB experts also prepared relevant materials for the meetings of the Stabilisation and Association Council and the Stabilisation and Association Committee. In 2009, the CNB adopted all the implementation measures within its competence as laid down by the National Programme for the Integration of the Republic of Croatia into the European Union.

With a view to exchanging experiences, the CNB continued contacts with the representatives of EU member states' central banks, the European Central Bank and other EU institutions in 2009. Particularly noteworthy were a regular annual pre-accession dialogue with representatives of the Executive Board of the European Central Bank and the fourth annual dialogue with representatives of the Austrian National Bank.

In 2009, an agreement was reached on modalities of technical cooperation between the European Central Bank and 13 national central banks of the Eurosystem in the area of macroprudential and microprudential supervision in eight EU candidate and potential candidate countries. The program was designed as part of a broader technical assistance program entitled Crisis Response Program. The program aims at strengthening the resilience of financial systems of candidate and potential candidate countries to the impact of financial crises in the medium term, above all by aligning macroprudential and microprudential supervision with the newly established international and EU standards. This type of technical assistance may be seen as a useful tool to encourage a stronger dialogue between authorities competent for supervision and prudential policy. It also provides for the exchange of experience and knowledge for the further improvement of bank supervision. As a recipient of technical assistance under this program, the CNB appointed 17 experts (divided into seven working groups) to participate in workshops organised within the program. It should be noted that, in view of the experience and knowledge of CNB experts related to the adjustment of the national financial legislation to EU standards, the CNB is also a provider of technical assistance in one part of the program. In this connection, it is of interest that the CNB will host one of the 20 workshops under the program.

7.2 International Monetary Fund (IMF)

The Republic of Croatia's quota in the IMF remained unchanged in 2009 (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, which makes it the seventh strongest constituency out of the total 24 constituencies. The Constituency is headed by Age F. P. Bakker, the Dutch representative acting as Executive Director of the Constituency.

The regular annual Article IV consultations with the Republic of Croatia were concluded on 2 June 2009. Based on the report of the IMF Mission that visited the RC in late March and early April 2009, the IMF Executive Board noted that, along with other countries in the region, Croatia had been severely affected by the global economic downturn and the continuing strains in financial markets. However, Directors commended the authorities for the timely and well-targeted policy response, which had helped to maintain market confidence and mitigate the initial impact of the crisis. In view of the dynamic changes after the conclusion of the Article IV consultation for 2009, IMF experts visited Croatia again in October 2009 to update their projections. The cooperation and exchange of opinions with IMF experts continued in 2009, the main occasion being the visit of the

CNB delegation to the IMF during the spring and autumn meetings of the International Monetary and Financial Committee and the Annual Meeting of the IMF Board of Governors in Istanbul in October 2009. Furthermore, at the Constituency meetings, CNB representatives had the opportunity to learn more about current activities of the IMF as an institution. Particularly noteworthy was the visit to Croatia of Deputy Managing Director Murilo Portugal within the 15th Dubrovnik Economic Conference at which he delivered a speech entitled *The International Financial Crisis and the Reform of the IMF.*

The global financial crisis, which turned into a global economic crisis in 2009, prompted a number of actions at the international level aimed at finding common solutions to mitigate the crisis impact and spur economic recovery. It also emphasised the IMF's central role in the international financial system, as well as the need for its modernisation. The reform of IMF lending facilities, implemented already in early 2009, eased conditionality for obtaining access to funds so as to ensure both an adequate response to the needs of IMF member countries and a prompt response to crisis situations. The international community's expectations from the IMF were confirmed by a number of agreements reached at meetings of the G-20 countries in 2009. At the meetings, the IMF's role of a global economic analyst and forecaster as well as its advisory role were again emphasised. The IMF's tasks stemming from its status of the main supervisor of the global and financial system were expanded, while its role of a major lender was reconfirmed. The need to reform IMF management and to continue the process of revising the quotas of IMF members was also stressed. All these agreements were supported by a large increase in the financial resources at the IMF's disposal.

Among the measures to enhance the financial potential of the IMF and provide timely financial assistance to its members was a new general allocation of special drawing rights equivalent to about USD 250bn. On 7 August 2009, the IMF Board of Governors approved the Resolution on Allocation of Special Drawing Rights for the Ninth Basic Period. Accordingly, each member was allocated 74.13% of its quota. The Republic of Croatia received SDR 270.6m.

In addition, a special allocation was also implemented in 2009, under which the Republic of Croatia received an additional SDR 32.5m from the IMF. A proposal for a special one-time allocation for an amount of SDR 21.4bn was approved by the IMF Board of Governors in 1997 through the proposed Fourth Amendment of the IMF's Articles of Agreement. Unlike the two previously approved general allocations, which were based on a long-term global need to supplement existing reserve assets and which totalled SDR 21.4bn, this special one-time allocation was to enable all members of the IMF to participate in the SDR system on an equitable basis and correct for the fact that a large number of IMF member countries had never received an SDR allocation. The Republic of Croatia accepted the Fourth Amendment of the IMF's Articles of Agreement by the government decision in 1998. The main issues related to these two allocations, through which international reserves of the RC increased by a total of SDR 303.1m, were regulated by the Decision to accept a general and special allocation of IMF Special Drawing Rights, which the Croatian government adopted on 27 August 2009.

It is interesting to note that several years previously, the IMF had also broadened its activities by preparing presentations of economic analyses and projections for individual regions. The CNB hosted a presentation of the IMF publication *Regional Economic Outlook: Europe* on 6 October 2009, at which it was announced that such presentations would continue in the future.

The Republic of Croatia continued to use the IMF's technical assistance in 2009. In this regard, note should be taken of the technical assistance provided to CNB experts in the area of macroeconomic modelling and forecasting.

7.3 Bank for International Settlements (BIS)

At its Annual General Meeting, held on 29 June 2009, 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. In response to the events associated with the global financial crisis and agreements reached by the G-20 leaders, the new Financial Stability Board was established by the BIS in April 2009 to strengthen financial supervision and regulation. With its expanded mandate and membership, this Board is the successor of the former Financial Stability Forum. Among its tasks is to cooperate with the IMF in the creation of an early warning system for macroeconomic and financial risks.

A separate and 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 2009 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.

In 2009, the CNB also cooperated with many other international financial institutions and organisations, such as the Institute for International Finance and the Japan Center for International Finance.

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 level of restrictions on the 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, the Republic of Croatia has undertaken to abolish restrictions on payments and transfers of funds associated with current transactions and gradually to abolish restrictions on capital transactions. The Act on Amendments to the Foreign Exchange Act,[2] which came into effect in December 2006, provided for the elimination of the remaining restrictions as of 1 January 2009. However, this was successively postponed in order to protect Croatian citizens from the undesired consequences of capital flows under the conditions of the global financial and economic crisis. The postponed liberalisation of the remaining restrictions on payments and transfers of funds between residents and non-residents was set by three Government regulations on amendments to the Foreign Exchange Act,[3] two of which were adopted in 2009. The Regulation of December 2009[4] abolished restrictions on transfers of funds related to gifts and grants abroad, payments and collections in foreign cash and checks between residents and non-residents, taking foreign cash, checks and materialised securities in and out of the country, and participation of residents in foreign exchange markets abroad. However, some restrictions on capital transactions remained in force. Residents are still not allowed to open accounts with foreign credit institutions without approval of the Croatian National Bank or grant loans to non-residents with a maturity of less than three months. The Regulation of December 2009 provided for the repeal of restrictions on the granting of short-term loans to non-residents and on the opening of accounts abroad as of 1 July 2010 and 1 January 2011 respectively.

Against a background of the existing restrictions of capital transactions, based on the subordinate legislation on foreign exchange policy measures, 432 approvals for the opening of accounts and keeping funds in accounts abroad were issued to residents in 2009, with the total balance of these accounts standing at EUR 30.6m on 31 December 2009. Domestic banks were granted 779 approvals for cross-border transfers of kuna cash for purchase and sale transactions with foreign banks. In 2009, 12 approvals were granted to resident natural persons for taking foreign cash out of the Republic of Croatia. 67 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.

7.5.2 Authorised exchange offices

Pursuant to the Foreign Exchange Act, the CNB issues authorisations to legal persons and small businesses to conduct exchange transactions. In 2009, exchange offices were issued 64 authorisations to conduct exchange transactions and the total number of active authorisations stood at 1,278 at the end of 2009. As concerns their legal form, 62% of authorised exchange offices are limited liability companies, 27% are tradesmen, 9% are joint stock companies and 2% are other legal persons. Also in 2009, nine authorisations to conduct exchange transactions were withdrawn from authorised exchange offices.

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. Five certificates were issued in 2009.

According to the data on the turnover of authorised exchange offices, received and processed by the CNB, their total turnover in transactions with natural persons was around HRK 27bn in 2009. Of that amount, HRK 17.4bn went to the purchase of foreign cash and checks denominated in foreign currency and HRK 9.6bn went to the sale of foreign cash. Most of authorised exchange offices' transactions (92%) were in euro.

7.5.3 Activities related to anti-money laundering and terrorist financing

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

1 OG 96/2003, 140/2005, 132/2006, 150/2008, 92/2009 and 153/2009.
2 OG 132/2006.
3 OG 150/2008, 92/2009 and 153/2009.
4 OG 153/2009.

suppression of terrorism, both including a CNB representative.

One of the more demanding tasks of the Committee in 2009 was the preparation of a Progress Report, made in line with the proposals contained in the Third Evaluation Round Report on Croatia. The Progress Report on Croatia was considered at the 29th plenary session of the special committee of the Council of Europe – MONEYVAL, held in Strasbourg in March 2009.

In 2009, the Committee prepared new Guidelines for the analysis and assessment of money laundering and terrorist financing risks for credit institutions and credit unions, which the CNB Governor issued on 10 July 2009.

Financial statements of the Croatian National Bank

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Croatian National Bank ("the Bank") which comprise the balance sheet as at 31 December 2009 and statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank for the year ended 31 December 2008 were audited by another auditor whose report, dated 11 March 2009, expressed an unqualified opinion on those statements.

Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting legislation in the Republic of Croatia and 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to 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 Bank'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 a 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 at 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements in the Republic of Croatia and the Act on the Croatian National Bank.

Branislav Vrtačnik

Certified Auditor and member of the Board
Deloitte d.o.o.
Radnička cesta 80

Zagreb, Republika Hrvatska
12 February 2010

Deloitte

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Nile House
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Prague, Czech Republic
12 February 2010

Statement of income

(All amounts are expressed in thousands of kunas)

	Notes	2009	2008
Interest and similar income	3	793,483	2,084,696
Interest and similar expense	4	(209,053)	(568,102)
Net interest income		**584,430**	**1,516,594**
Fee and commission income		5,433	6,104
Fee and commission expense		(5,274)	(4,641)
Net fee and commission income		**159**	**1,463**
Dividend income		5,170	4,852
Net investment result – equity method		136	1,758
Net securities trading result	5	261,531	1,723,143
Net effect on revaluation of precious metals	5	1,204	(338)
		262,735	**1,722,805**
Net foreign exchange differences	6	(15,542)	451,185
Other income	7	5,018	17,823
Operating income		**842,106**	**3,716,480**
Operating expenses	8	(330,447)	(330,565)
Decrease/(Increase) in provisions	9	41,568	1,105
Operating surplus		**553,227**	**3,387,020**
– Allocated to general reserves		(234,853)	(2,044,525)
– Allocated to the State Budget		(318,374)	(1,342,495)

Notes on pages 118 to 137 form an integral part of these financial statements.

Balance sheet

(All amounts are expressed in thousands of kunas)

	Notes	31 December 2009	31 December 2008
Assets			
Cash and current accounts with other banks	10	1,764,619	1,473,516
Due from other banks	11	17,544,652	13,186,457
Trading securities	12	54,084,538	52,136,879
Loans	13	103	111
Balances with the International Monetary Fund	14	5,335,647	2,904,533
Equity investments	15	57,764	57,441
Accrued interest and other assets	16	180,608	174,046
Tangible and intangible assets	17	590,554	581,531
TOTAL ASSETS		**79,558,485**	**70,514,514**
Liabilities			
Banknotes and coins in circulation	18	18,941,723	20,479,274
Due to banks and other financial institutions	19	42,265,598	37,298,672
Due to the State and State institutions	20	4,205,200	249,323
Due to the International Monetary Fund	21	5,330,233	2,897,961
Accrued interest and other liabilities	22	469,238	1,477,831
Total liabilities		**71,211,992**	**62,403,061**
Equity			
Initial capital	23	2,500,000	2,500,000
Reserves	23	5,846,493	5,611,453
Total equity		**8,346,493**	**8,111,453**
TOTAL EQUITY AND LIABILITIES		**79,558,485**	**70,514,514**

The financial statements set out on pages 114 to 137 were approved by:

Director of the Accounting Department:

Ivan Branimir Jurković

Governor:

Željko Rohatinski, DSc

Notes on pages 118 to 137 form an integral part of these financial statements.

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 2008	**2,500,000**	**3,199,309**	**371,103**			**6,066,617**
Exchange differences on available-for-sale financial assets	–	–	–	311	–	311
Transferred to general reserves from unrealised gains	–	6,252	(6,252)	–	–	–
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 2008/1 January 2009	**2,500,000**	**5,250,086**	**364,851**	**(3,484)**	**–**	**8,111,453**
Exchange differences on available-for-sale financial assets	–	–	–	187	–	187
Transferred to general reserves from revaluation reserves	–	6,253	(6,253)	–	–	–
Operating surplus	–	–	–	–	553,227	553,227
Operating surplus transferred to general reserves	–	234,853	–	–	(234,853)	–
Operating surplus allocated to the State Budget	–	–	–	–	(318,374)	(318,374)
Balance at 31 December 2009	**2,500,000**	**5,491,192**	**358,598**	**(3,297)**	**–**	**8,346,493**

Notes on pages 118 to 137 form an integral part of these financial statements.

Statement of cash flows

(All amounts are expressed in thousands of kunas)

	2009	2008
Cash flows from operating activities		
Interest received	882,376	2,164,805
Interest paid	(211,984)	(585,716)
Fees and commissions received	5,411	6,029
Fees and commissions paid	(4,950)	(4,209)
Dividends received	5,170	4,855
Other receipts	8,545	16,086
Expenses paid	(282,888)	(255,632)
	401,680	1,346,218
Changes in operating assets and liabilities		
(Increase)/decrease in deposits with other banks	(4,541,353)	19,688,136
Decrease in loans	59,812	4,163,608
(Purchases) of trading securities	(1,484,748)	(14,431,815)
Decrease/(increase) in other assets	2,764	(56,220)
Increase in other liabilities	11,468	9,934
Increase/(decrease) in amounts due to the International Monetary Fund	2,423,894	(24)
(Decrease)/increase of currency in circulation	(1,537,551)	1,166,098
Increase/(decrease) in amounts due to banks and other financial institutions	5,314,045	(8,373,863)
Increase in amounts due to the State	3,849,261	37,065
	4,097,592	2,202,919
Net cash from operating activities	**4,499,272**	**3,549,137**
Cash flows from investing activities		
Purchases of property and equipment	(53,546)	(60,817)
Net cash from investing activities	**(53,546)**	**(60,817)**
Cash flows from financing activities		
Net issuance of CNB bills	(460,604)	(1,530,514)
Payments to the State Budget	(1,342,652)	(484,935)
Net cash from financing activities	**(1,803,256)**	**(2,015,449)**
Exchange rate effect – positive / (negative) exchange differences	**66,030**	**(7,816)**
Net increase in cash	**2,708,500**	**1,465,055**
Cash at beginning of year	**1,478,843**	**13,788**
Cash at end of year (Note 25)	**4,187,343**	**1,478,843**

Notes on pages 118 to 137 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2009

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 the economic policy of the Republic of Croatia and, without compromising the achievement of its objective, acts in accordance with the principles of open market economy and free competition.

The Croatian National Bank reports to the Croatian Parliament on the financial condition, degree 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 the Act include:
- 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 operators;
- Performing supervision in accordance with laws regulating the 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, and receiving deposit funds from credit institutions;
- Regulating and improving the payment system;
- Performing tasks on behalf of the Republic of Croatia as defined by law;
- Promulgating regulations from its area of competence; and
- Performing other tasks specified by law.

Bodies of the Croatian National Bank are the Council of the Croatian National Bank and the Governor of the Croatian National Bank.

The Council of the Croatian National Bank comprises the Governor, Deputy Governor and Vicegovernors of the Croatian National Bank by virtue of their office and eight external members. The Council of the Croatian National Bank is competent and responsible for the achievement of the objective and for the carrying out of the tasks of the Croatian National Bank and defines policies with respect to the activities of the Croatian National Bank.

Members of the Council of the Croatian National Bank are:
- Željko Rohatinski, D.Sc., Governor
- Boris Vujčić, D.Sc., Deputy Governor
- Davor Holjevac, Vicegovernor
- Relja Martić, Vicegovernor
- Tomislav Presečan, M.Sc., Vicegovernor
- Adolf Matejka, M.Sc., Vicegovernor
- Boris Cota, D.Sc.,
- Vlado Leko, D.Sc.,
- Branimir Lokin, D.Sc.
- Željko Lovrinčević, D.Sc.
- Silvije Orsag, D.Sc.
- Jure Šimović, D.Sc.
- Sandra Švaljek, D.Sc.
- Mladen Vedriš, D.Sc.

1.2 Accounting standards

The financial statements of the Croatian National Bank have been prepared in accordance with the Act on the Croatian National Bank, the Accounting Act and the International Financial Reporting Standards, which comprise International Accounting Standards ('IASs'), together with the related amendments and Interpretations, and International Financial Reporting Standards ('IFRSs'), together with the related amendments and Interpretations, as determined by the Financial Reporting Standards Board and published in the Official Gazette of the Republic of Croatia.

In 2009, the Croatian Financial Reporting Standards Board issued the following decision:
- The Decision on the Promulgation of International Financial Reporting Standard 8 – Operating Segments (Official Gazette No. 150 of 6 March 2009).

The promulgation has not lead to any changes in the accounting policies of the Croatian National Bank or had any impact on the financial statements for the current and prior periods.

In addition, the Board adopted the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 136 of 12 November 2009) that pertains to the preparation and presentation of annual financial statements for periods beginning on 1 January 2010, promulgating the following International Financial Reporting Standards and interpretations:
- International Accounting Standard 1 – Presentation of Financial Statements
- International Accounting Standard 2 – Inventories
- International Accounting Standard 7 – Statement of Cash Flows
- International Accounting Standard 8 – Accounting Policies, Changes in Accounting Estimates and Errors
- International Accounting Standard 10 – Events After the Reporting Period
- International Accounting Standard 11 – Construction Contracts
- International Accounting Standard 12 – Income Taxes
- International Accounting Standard 16 – Property, Plant and Equipment
- International Accounting Standard 17 – Leases
- International Accounting Standard 18 – Revenue
- International Accounting Standard 19 – Employee Benefits
- International Accounting Standard 20 – Accounting for Government Grants and Disclosure of Government Assistance
- International Accounting Standard 21 – The Effects of Changes in Foreign Exchange Rates
- International Accounting Standard 23 – Borrowing Costs
- International Accounting Standard 24 – Related Party Disclosures
- International Accounting Standard 26 – Accounting and Reporting by Retirement Benefit Plans
- International Accounting Standard 27 – Consolidated and Separate Financial Statements
- International Accounting Standard 28 – Investments in Associates
- International Accounting Standard 29 – Financial Reporting in Hyperinflationary Economies
- International Accounting Standard 31 – Interests in Joint Ventures
- International Accounting Standard 32 – Financial Instruments: Presentation
- International Accounting Standard 33 – Earnings per Share
- International Accounting Standard 34 – Interim Financial Reporting
- International Accounting Standard 36 – Impairment of Assets
- International Accounting Standard 37 – Provisions, Contingent Liabilities and Contingent Assets
- International Accounting Standard 38 – Intangible Assets
- International Accounting Standard 39 – Financial instruments: Recognition and Measurement
- International Accounting Standard 40 – Investment Properties
- International Accounting Standard 41- Agriculture
- International Financial Reporting Standard 1 – First-time Adoption of International Financial Reporting Standards
- International Financial Reporting Standard 2 – Share-based Payment
- International Financial Reporting Standard 3 – Business Combination
- International Financial Reporting Standard 4 – Insurance Contracts
- International Financial Reporting Standard 5 – Non-current Assets Held for Sale and Discontinued Operations
- International Financial Reporting Standard 6 – Exploration for and Evaluation of Mineral Assets
- International Financial Reporting Standard 7 – Financial Instruments: Disclosures
- International Financial Reporting Standard 8 – Operating Segments
- IFRIC 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 2 – Members' Shares in Co-operative Entities and Similar Instruments
- IFRIC 4 – Determining Whether an Arrangement Contains a Lease
- IFRIC 5 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 – Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- IFRIC 7 – Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies
- IFRIC 8 – Scope of IFRS 2
- IFRIC 9 – Reassessment of Embedded Derivatives
- IFRIC 10 – Interim Financial Reporting and Impairment
- IFRIC 11 – Group and Treasury Share Transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 13 – Customer Loyalty Programmes
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- SIC 7 – Introduction of the Euro
- SIC 10 – Government Assistance – No Specific Relation to Operating Activities
- SIC 12 – Consolidation – Special Purpose Entities

- SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers
- SIC 15 – Operating Leases – Incentives
- SIC 21 – Income Taxes – Recovery of Revalued Non-Depreciable Assets
- SIC 25 – Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
- SIC 27 – Evaluating the Substance of Transactions in the Legal Form of a Lease
- SIC 29 – Disclosure – Service Concession Arrangements
- SIC 31 – Revenue – Barter Transactions Involving Advertising Services
- SIC 32 – Intangible Assets – Web Site Costs

It is anticipated that the adoption of the Decision will have no material impact on the accounting policies and financial statements of the Croatian National Bank in the future periods.

The financial statements have been prepared under the accrual basis of accounting and using the historical cost convention, except for certain financial assets and liabilities, and tangible assets, which are carried at revalued amounts.

The financial statements have been expressed in thousands of Croatian kunas.

The preparation of the financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements, and of income and expenses for the reporting period. The estimates are based on the management's best estimate of current events and operations, actual results may differ from those estimates.

Note 2 – Summary of significant accounting policies

2.1 Interest income and expense

Interest income and expense are recognised in the statement of income on an accruals basis.

Interest income includes coupons earned on fixed income financial instruments and accrued discount on purchased securities.

2.2 Fee and commission income and expense

Fee and commission income from services provided by the Croatian National Bank is recognised when the service is provided.

Fee and commission expense is included in the statement of income for the period in which 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 Croatian kunas at the exchange rate in effect at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates in effect on that date. Gains and losses on translation are included in the statement of income for the period in which they arise using 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 reported in the statement of income as unrealised gains or losses in the period in which 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 and expenses in the period in which they occur.

The exchange rates of major foreign currencies at 31 December 2009 were as follows:
- USD 1 = HRK 5.089300 (2008: HRK 5.155504)
- EUR 1 = HRK 7.306199 (2008: HRK 7.324425)
- XDR 1 = HRK 7.978445 (2008: HRK 7.940868).

2.5 Provision charge and reversal

Provisions based on value adjustments for identified losses are recognised in the statement of income at the end of the related reporting period. The provisions are reversed to the extent of the amounts recovered, and the reversal is credited to income for the period in which the amounts are recovered. Financial assets carried at fair value are not provided against.

Provisions are also recognised for contingent liabilities. The Croatian National Bank recognises a provision when it has a present legal or constructive 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 it manages, for the purpose of generating profit from interest 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 investments of the Croatian National Bank in equity securities.

2.6.2 Recognition and derecognition

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

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, trading securities 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 trading securities are recognised in the statement of income within “Net securities trading result”. Foreign exchange gains and losses are presented within “Net foreign exchange differences”.

Financial instruments with no fixed maturities and prices not 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. Impairment is assessed primarily by reference to the past due status of the amount receivable.

2.8 Repurchase and reverse repurchase agreements

The Croatian National Bank enters into securities purchase/sale agreements under which it agrees to resell/repurchase the same instrument on a specific future date at a fixed price. Securities purchased with the obligation to resell them in the future are not recognised on the balance sheet.

Payments arising from those agreements are recognised as amounts due from other banks or financial institutions, and are collateralised by securities underlying the repurchase agreement. Securities sold under repurchase agreements are not removed from the balance sheet but are reported in accordance with the accounting policy applicable to such financial assets. Receipts from sales of securities are recognised as amounts due to banks and other financial institutions. The difference between the sale and the repurchase price is included in interest income or expense and accrued over the period of the transaction.

2.9 Amounts due from other banks

Amounts due from domestic and foreign banks represent balances on non-transactional accounts and are recognised at nominal value.

2.10 Balances with the International Monetary Fund

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

2.11 Gold and other precious metals

Gold and other precious metals are recognised at values prevailing at world market. Gains and losses arising from a change in the fair value are recognised in the statement of income in the period in which they occur.

2.12 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.

2.13 Cash and cash equivalents

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

2.14 Taxation

In accordance with relevant legislation the Croatian National Bank is not subject to Croatian income tax.

2.15 Tangible and intangible assets

Tangible and intangible assets are stated in the balance sheet at cost, except for buildings, which are 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 charged to the revaluation reserve account to the extent of the previously recognised revaluation surplus. Losses in excess of the previously recognised revaluation surplus are charged to the statement of income for the reporting period.

The following annual depreciation rates are used:
in %

Depreciable asset class		2009	2008
Business buildings		2.5	2.5
Apartments		5.0	5.0
Garages		2.5	2.5
Mobile phones		50.0	50.0
Fixed-line switchboard and phones		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
Vehicles		25.0	25.0
Servers and other hardware		25.0	25.0
Software and PCs		33.33	33.33
Intangible assets		25.0	25.0
Systems (2009)	Combined air-conditioning and heating system (2008)	10.0	20.0
	Fire alarm system (2008)	10.0	20.0
	Security system and video surveillance equipment (2008)	10.0	25.0

For the purpose of a fair presentation of the depreciation charge, the annual depreciation rates for three classes of depreciable assets, now combined to form a single class, have been revised (on the basis of a useful life longer than originally estimated).

New depreciable asset class	Old depreciable asset class	Annual depreciation rate	
		2009	2008
Systems	Combined air-conditioning and heating system	10.0	20.0
Systems	Fire alarm system	10.0	20.0
Systems	Security system and video surveillance equipment	10.0	25.0

2.16 Appropriation

Operating surplus is allocated 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)

	2009	2008
Deposits	103,786	1,320,364
Trading securities	546,818	643,154
International Monetary Fund	2	47
Loans to domestic banks	142,505	120,577
Other	372	554
	793,483	**2,084,696**

Note 4 – Interest and similar expenses

(All amounts are expressed in thousands of kunas)

	2009	2008
Kuna reserve requirements	176,489	169,721
Foreign currency reserve requirements	15,906	148,806
Compulsory kuna-denominated CNB bills	608	803
Repurchase transactions	12,639	247,442
Other	3,411	1,330
	209,053	**568,102**

Note 5 – Net trading result and precious metal revaluation

(All amounts are expressed in thousands of kunas)

	2009	2008
Net securities trading result, including net changes in fair value of trading securities	261,531	1,723,143
Net effect on revaluation of precious metals	1,204	(338)
	262,735	**1,722,805**

Note 6 – Net foreign exchange differences

(All amounts are expressed in thousands of kunas)

	2009	2008
Net foreign exchange differences	(15,542)	451,185
	(15,542)	**451,185**

Note 7 – Other income

(All amounts are expressed in thousands of kunas)

	2009	2008
Gains on sales of numismatics	862	1,164
Other income	4,156	16,659
	5,018	**17,823**

Note 8 – Operating expenses

(All amounts are expressed in thousands of kunas)

	2009	2008
Staff costs (Note 8.1)	164,107	164,229
Materials, services and administrative expenses	95,722	86,353
Costs of production of banknotes and coins in Croatian kunas	30,784	48,153
Depreciation and amortisation	39,834	31,830
	330,447	**330,565**

Operating expenses include staff costs in the amount of HRK 164,107 thousand (2008: HRK 164,229 thousand), out of which HRK 5.500 thousand relate to the Croatian National Bank management (2008: HRK 5,397 thousand). Materials, services and administrative expenses include compensations to the members of the Croatian National Bank Council which amount to HRK 3.193 thousand (2008: HRK 3,146 thousand).

Changes in estimates: Based on an on-going review of the useful life of kuna banknotes, and of kuna and lipa coins, and past experience, and for the purpose of a fair presentation, new estimation of banknotes and coins useful life has been performed.

Designation	Useful life used in 2009	Useful life used in 2008
Banknotes	3 years	2 years
Coins	7 years	5 years

As a result, amount recognized as cost of production of banknotes and coins in 2009 was HRK 20,050 thousand lower than it would have been if old useful lives were used.

As a result of adoption of new depreciation rates of certain classes of tangible assets (see Note 2.15) depreciation expense recognized in 2009 was HRK 5,347 thousand lower than it would have been if old depreciation rates were used.

Note 8.1 – Staff costs

(All amounts are expressed in thousands of kunas)

	2009	2008
Net salaries	69,684	68,770
Contributions from and on salaries	41,076	40,950
Taxes and local taxes	19,590	20,461
Other staff costs	33,757	34,048
	164,107	**164,229**

The average number of staff during the year was 619 (2008: 601).

Note 9 – (Decrease)/Increase in provisions

(All amounts are expressed in thousands of kunas)

	2009	2008
a) Loans		
Amounts collected	(59,804)	–
b) Accrued interest and receivables		
Amounts collected	(7,639)	–
c) Provisions for risks and charges		
New provisions made	30,182	5,567
Provisions released	(4,307)	(6,672)
	(41,568)	**(1,105)**

Note 10 – Cash and current accounts with other banks

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Cash on hand	838	823
Foreign currency cash in the CNB treasury vault	1,463,453	1,467,845
Current accounts with foreign banks	300,328	4,848
	1,764,619	**1,473,516**

Note 11 – Due from other banks

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Deposits with foreign central banks	5,179,758	4,475,949
Deposits with foreign commercial banks	12,351,737	8,696,933
Deposits with domestic commercial banks	13,157	13,575
	17,544,652	**13,186,457**

Geographical concentration of deposits with other banks:
(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Croatia	13,157	13,575
Europe	14,896,764	12,916,653
USA	2,634,731	256,229
Other countries	–	–
	17,544,652	**13,186,457**

At 31 December 2009, the largest individual credit risk exposure was to a central bank rated “Aaa” and amounted to HRK 4,306,701 thousand (31 December 2008: HRK 3,932,368 thousand). Those deposits are not covered by collateral.

Note 12 – Trading securities

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
EUR-denominated securities	43,041,330	37,839,659
USD-denominated securities	11,043,208	14,297,220
	54,084,538	**52,136,879**

Note 13 – Loans

a) By type of loan

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Loans to domestic banks		
– Repo loans	–	–
– Lombard loans	–	–
– Intervention loans	–	59,804
Other loans	784	792
Gross loans	**784**	**60,596**
Less: provisions for loan impairment	(681)	(60,485)
	103	**111**

b) Movements in provisions for loan impairment

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Balance at 1 January	(60,485)	(63,909)
Amount collected	59,804	–
Amount written-off	–	3,424
Balance at 31 December	**(681)**	**(60,485)**

At the reporting date, the Croatian National Bank did not have any past due but not impaired loans. The loan impairment provision was formed in previous periods against receivables from banks in bankruptcy or liquidation.

Collection of HRK 59,804 thousand relates to a recovery from bankruptcy procedure.

Note 14 – Balances with the International Monetary Fund

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Membership quota	2,912,923	2,899,206
Special Drawing Rights (XDR) and deposits	2,422,724	5,327
	5,335,647	**2,904,533**

The most significant balance included within Special Drawing Rights (XDR) and deposits are XDR funds received on the basis of the allocation of Special Drawing Rights in the amount of HRK 2,418,561 thousand.

Note 15 – Equity investments

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Membership in other international institutions	39,733	39,546
Investments in domestic companies	18,031	17,895
	57,764	**57,441**

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 42.6% 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 Dec. 2009	31 Dec. 2008
Accrued interest	11,264	33,575
Prepaid expenses	119,807	102,968
Numismatics	11,841	12,302
Gold and other precious metals	4,700	3,345
Other assets	91,897	88,396
	239,509	**240,586**
Impairment allowance	(58,901)	(66,540)
	180,608	**174,046**

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Movements in impairment allowance		
Balance at 1 January	(66,540)	(66,754)
Increase in impairment allowance	–	–
Amounts collected	7,639	–
Write-offs	–	214
Balance at 31 December	**(58,901)**	**(66,540)**

The major portion of prepaid expenses in the amount of HRK 113,965 thousand (2008: HRK 99,363 thousand) relates to the prepaid expenses 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 2007								
Cost or revaluation	403,921	73,992	43,717	9,798	3,751	110,391	25,160	670,730
Accumulated depreciation/amortisation	(2,956)	(59,696)	(30,091)	(5,475)	–	–	(14,986)	(113,204)
Net book value **Year ended 31 December 2008**	**400,965**	**14,296**	**13,626**	**4,323**	**3,751**	**110,391**	**10,174**	**557,526**
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	–
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/amortisation	(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**

(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 2008								
Cost or revaluation	410,880	91,969	74,757	10,967	3,928	96,101	36,059	724,661
Accumulated depreciation/amortisation	(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**
Year ended 31 December 2009								
Opening net book amount	400,625	23,879	39,435	3,897	3,928	96,101	13,666	581,531
Additions	–	–	–	–	345	48,685	–	49,030
Assets brought into use	28	15,525	9,985	–	–	46,012	20,474	–
Net write-offs	–	(3)	(169)	–	(1)	–	–	(173)
Charge for the year	(7,314)	(12,021)	(7,775)	(1,661)	–	–	(11,063)	(39,834)
Closing net book amount	**393,339**	**27,380**	**41,476**	**2,236**	**4,272**	**98,774**	**23,077**	**590,554**
Balance at 31 December 2009								
Cost or revaluation	410,908	87,813	83,854	10,225	4,272	98,774	56,533	752,379
Accumulated depreciation/amortisation	(17,569)	(60,433)	(42,378)	(7,989)	–	–	(33,456)	(161,825)
Net book value	**393,339**	**27,380**	**41,476**	**2,236**	**4,272**	**98,774**	**23,077**	**590,554**

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 2009 would be HRK 34,740 thousand. The tangible fixed assets of the Croatian National 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)

	2009	2008
Banknotes and coins put into circulation as of January 1	20,479,274	19,313,241
Increase / (decrease) in circulation during the year	(1,537,551)	1,166,033
Banknotes and coins put into circulation – total as of December 31	**18,941,723**	**20,479,274**

Type	Nominal value	31 December 2009		31 December 2008	
		Pieces	Value in thousands of kunas	Pieces	Value in thousands of kunas
Coins	0.01	125,661,790	1,257	125,312,129	1,253
Coins	0.02	83,892,014	1,678	83,118,680	1,662
Coins	0.05	231,506,310	11,575	216,729,762	10,836
Coins	0.10	373,023,166	37,302	352,870,548	35,287
Coins	0.20	272,406,734	54,481	255,419,423	51,084
Coins	0.50	157,260,840	78,631	146,703,782	73,352
Coins	1	176,703,639	176,704	168,676,952	168,677
Coins	2	88,405,666	176,811	82,390,927	164,782
Coins	5	60,240,142	301,201	57,647,532	288,238
Coins	25	1,114,249	27,856	1,117,556	27,939
Banknotes	5	4,213,202	21,066	4,281,755	21,409
Banknotes	10	29,420,327	294,203	27,391,199	273,912
Banknotes	20	18,855,237	377,105	18,582,564	371,651
Banknotes	50	12,423,641	621,182	12,590,842	629,542
Banknotes	100	26,222,094	2,622,209	27,477,540	2,747,754
Banknotes	200	39,449,647	7,889,930	40,604,879	8,120,976
Banknotes	500	4,876,318	2,438,159	5,510,439	2,755,220
Banknotes	1000	3,810,373	3,810,373	4,735,700	4,735,700
TOTAL		**1,709,485,389**	**18,941,723**	**1,631,162,209**	**20,479,274**

Note 19 – Due to banks and other financial institutions

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Kuna reserve requirements	23,600,572	19,222,748
Foreign currency reserve requirements	5,041,745	8,005,097
Other deposits from domestic banks	13,611,596	9,590,210
Deposits from foreign banks and other financial institutions	8,083	16,622
Court-mandated deposits	3,602	3,391
Compulsory kuna-denominated CNB bills	–	460,604
	42,265,598	**37,298,672**

Note 20 – Due to the state and state institutions

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Domestic currency account balances	1,872,967	213,552
Foreign currency account balances	2,332,233	35,771
	4,205,200	**249,323**

Note 21 – Due to the International Monetary Fund

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Kuna-denominated bills of exchange	2,904,372	2,890,695
Net cumulative allocations	2,418,561	–
Other IMF's accounts	7,300	7,266
	5,330,233	**2,897,961**

The bills of exchange denominated in 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 Dec. 2009	31 Dec. 2008
Accrued interest	17,189	17,040
Due to employees	5,451	6,519
Taxes and contributions	6,186	6,141
Due to the Ministry of Finance	323,963	1,347,661
Amounts due to suppliers	11,576	15,563
Other liabilities	104,873	84,907
	469,238	**1,477,831**

Included in other liabilities are long-term provisions for risks and charges, out of which HRK 41,780 thousand (2008: HRK 19,110 thousand) are in respect of legal actions and HRK 17,480 thousand (2008: HRK 14,275 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 solely 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 2009 resulted from the transfer of operating surplus in the amount of HRK 234,853 thousand.

Note 24 – Contingent liabilities and commitments and treasury inventory system

Legal actions: As at 31 December 2009, there were several legal actions outstanding against the Croatian National 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 41,780 thousand (see Note 22).

Capital commitments: As at 31 December 2009, the Croatian National Bank had capital commitments in the amount of HRK 2,887 thousand (2008: HRK 27,124 thousand).

Treasury inventory system:

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Non-issued banknotes and coins	79,137,270	85,606,614
Tax stamps and bill of exchange forms	522,119	406,879
	79,659,389	**86,013,493**

Note 25 – Cash and cash equivalents

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Cash on hand at CNB	838	823
Foreign currency cash in the CNB treasury vault	1,463,453	1,467,845
Current accounts with foreign banks	300,328	4,848
Special Drawing Rights (XDR) and deposits with the IMF	2,422,724	5,327
	4,187,343	**1,478,843**

Note 26 – Appropriations

(All amounts are expressed in thousands of kunas)

	31 Dec. 2009	31 Dec. 2008
Operating surplus	553,227	3,387,020
Transfer of surplus to general reserves	(234,853)	(2,044,525)
Transfer of surplus to the State Budget	(318,374)	(1,342,495)
	–	**–**

Note 27 – Fair value of financial assets and liabilities

The fair values of assets and liabilities of the Croatian National Bank approximate their carrying amounts due to the short-term nature of those instruments, except for financial instruments held for trading, which are accounted for at quoted market prices and therefore their book values correspond with their fair values.

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 exposures, and seeks to achieve a favourable return on its investments within the defined limits.

Risks inherent to managing international reserves consist primarily of financial risks such as credit risk, interest rate risk and foreign exchange risk. However, attention is given also to liquidity and operating risks.

Note 28.1 – Credit risk

Credit risk is the risk that the counterparty will not settle its liability i.e. that invested funds will not be fully recovered or will not be recovered in planned timing.

The Croatian National Bank manages its credit risk exposure by investing its foreign currency reserves into high quality instruments with least risk associated, such as government bonds, bonds of international financial institutions with government guarantee, secured bonds, international financial institutions bonds with high credit ranking and in both collateralised and non-collateralised deposits made exclusively with high-credibility banks. Collateralised deposits represent deposits secured by government bonds in the amount equal to, or in excess of the value of the deposit.

Its assessment of counterparties' creditworthiness is based on ratings of major internationally recognized rating agencies (Moody's, Standard & Poor's and Fitch).

Placements with individual financial institutions and countries are subject to limits, which diversifies the credit risk.

The Croatian National Bank invests the international reserve funds 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 may invest the international reserve funds into commercial banks whose short-term obligations received one of two highest ratings from at least two rating agencies.

28.1.1 Credit risk concentration by type of asset

(All amounts are expressed in thousands of kunas)

	2009	2008
Government securities	52,456,800	52,136,879
Bank bonds with government guarantee	1,315,947	–
Guaranteed bonds (public sector collateral)	237,588	–
Securities of international financial institutions	74,203	–
Total securities	**54,084,538**	**52,136,879**
Reverse repo agreements	6,724,297	3,885,855
Deposits	5,631,930	5,024,580
Deposits with international financial institutions	7,902,286	4,289,046
Total deposits	**20,258,513**	**13,199,481**
Loans (to banks in Croatia)	–	2,204
Total loans	**–**	**2,204**
TOTAL	**74,343,051**	**65,338,564**

28.1.2 Credit risk by counterparty credit rating

(All amounts are expressed in thousands of kunas)

	31 December 2009	31 December 2008
Rating (Moody's)		
	Government securities	Government securities
Aaa	49,080,773	50,565,847
Aa1	1,204,797	695,192
Aa2	2,171,230	875,840
Total	**52,456,800**	**52,136,879**
	Bank bonds	Bank bonds
Aaa	329,885	–
Aa1	986,062	–
Total	**1,315,947**	**–**

	31 December 2009	31 December 2008
	Guaranteed bonds	Guaranteed bonds
Aaa	237,588	–
Total	**237,588**	**–**
	Securities of int. fin. inst.	Securities of int. fin. inst.
Aaa	74,203	–
Total	**74,203**	**–**
TOTAL SECURITIES	**54,084,538**	**52,136,879**
	Reverse repo agreements	Reverse repo agreements
Aaa	873,833	953,083
Aa1	3,110,139	2,932,772
Aa3	2,740,325	–
Total	**6,724,297**	**3,885,855**
	Deposits	Deposits
Aaa	4,596,793	4,226,505
Aa1	5,356	3,680
Aa2	441,144	794,319
Aa3	588,443	60
A1	47	–
Not rated	147	16
Total	**5,631,930**	**5,024,580**
	Deposits with int. fin. inst.	Deposits with int. fin. inst.
Not rated	7,902,286	4,289,046
Total	**7,902,286**	**4,289,046**
TOTAL DEPOSITS	**20,258,513**	**13,199,481**
	Loans (to banks in Croatia)	Loans (to banks in Croatia)
Not rated	–	2,204
TOTAL LOANS	**–**	**2,204**
TOTAL	**74,343,051**	**65,338,564**

28.1.3. Geographical concentration of credit risk

(All amounts are expressed in thousands of kunas)

Instrument	Eurozone	Other	Total
Balance at 31 December 2009			
Government securities	44,260,350	8,196,450	52,456,800
Bank bonds	1,315,947	–	1,315,947
Guaranteed bonds	237,588	–	237,588
Securities of international financial institutions	74,203	–	74,203
Total securities	**45,888,088**	**8,196,450**	**54,084,538**
Reverse repo agreements	5,192,706	1,531,591	6,724,297
Deposits	5,626,781	5,149	5,631,930
Deposits with international financial institutions	–	7,902,286	7,976,489
Total deposits	**10,819,487**	**9,439,026**	**20,258,513**
Loans (to banks in Croatia)	–	–	–
Total loans	**–**	**–**	**–**
TOTAL at 31 December 2009	**56,707,575**	**17,635,476**	**74,343,051**
Balance at 31 December 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 Croatia)	–	2,204	2,204
Total loans	**–**	**2,204**	**2,204**
TOTAL at 31 December 2008	**56,547,240**	**8,791,324**	**65,338,564**

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 fluctuations in the exchange rates of the kuna against the euro and the US dollar which affect the statement of income and, consequently, the financial performance of the Croatian National Bank.

International reserves formed out of the allocated foreign exchange reserve requirement and marginal reserve requirement, Ministry of Finance funds, repo liabilities and funds in Special Drawing Rights (XDRs) are managed passively, based on the currency structure of foreign currency obligations.

The Croatian National Bank takes on exposure to foreign exchange risk only in respect of the net international reserves, while other foreign currency reserves are invested in the same currency in which the funding is received; hence, no exposure to foreign exchange risk arises on that basis.

28.2.1 Sensitivity analysis – impact of percentage fluctuations in exchange rates on the statement of income

2009 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2009	USD	EUR
	±5%	±1%
Impact of fluctuations in exchange rates on the result for the year	621,000 (621,000)	536,000 (536,000)

The table above shows the sensitivity of the financial result for the year of the CNB in case of increase/decrease in the EUR/HRK exchange rate by ± 1% and in case of increase/decrease in the USD/HRK exchange rate by ± 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 result for the year where the Croatian kuna depreciates against the relevant currency by the percentages specified above, while in case of the Croatian kuna appreciation against the relevant currencies, the balances would be negative, and the result of the Croatian National Bank for the year would decrease.

In case of a decrease in the EUR/HRK exchange rate of 1% as at 31 December 2009, the financial result for the year of the CNB would be lower by approximately HRK 536,000 thousand, while in case of a 5% decrease in the USD/HRK exchange rate, the result would be lower by approximately HRK 621,000 thousand.

Calculation methodology:

The amount of net euro and net US dollar international reserves as at balance sheet date is multiplied by the difference between the EUR/HRK exchange rate or the USD/HRK exchange rate valid at that date and those rates increased/decreased by a certain percentage.

2008 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2008	USD	EUR
	±5%	±1%
Impact of fluctuations in exchange rates on the result for the year	537,000/(537,000)	465,000/(465,000)

28.2.2 CNB exposure to foreign exchange risk – analysis of assets and liabilities by currency:

(All amounts are expressed in thousands of kunas)

	EUR	USD	XDR	Other foreign currencies	HRK	Total
At 31 December 2009						
Assets						
Cash and current accounts with other banks	1,757,992	1,784	–	4,823	20	1,764,619
Due from other banks	10,590,840	6,940,655	–	–	13,157	17,544,652
Trading securities	43,041,330	11,043,208	–	–	–	54,084,538
Loans	–	–	–	–	103	103
Balances with the IMF	–	–	5,335,647	–	–	5,335,647
Equity investments	77	–	39,656	–	18,031	57,764
Accrued interest and other assets	2,188	796	1,967	–	175,657	180,608
Tangible and intangible assets	–	–	–	–	590,554	590,554
Total assets	**55,392,427**	**17,986,443**	**5,377,270**	**4,823**	**797,522**	**79,558,485**
Liabilities						
Banknotes and coins in circulation	–	–	–	–	18,941,723	18,941,723
Due to banks and other financial institutions	1,794,395	3,247,350	–	–	37,223,853	42,265,598
Due to the State and State institutions	5,282	2,323,884	–	3,067	1,872,967	4,205,200
Due to the IMF	–	–	5,330,233	–	–	5,330,233
Accrued interest and other liabilities	59	8	1,967	–	467,204	469,238
Total liabilities	**1,799,736**	**5,571,242**	**5,332,200**	**3,067**	**58,505,747**	**71,211,992**
Net position	**53,592,691**	**12,415,201**	**45,070**	**1,756**	**(57,708,225)**	**8,346,493**
At 31 December 2008						
Assets						
Cash and current accounts with other banks	1,467,479	1,699	–	4,300	38	1,473,516
Due from 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 IMF	–	–	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 IMF	–	–	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**

Note 28.3 – Interest rate risk

Interest rate risk is the risk of decline in the value of foreign currency portfolios of international reserves of the CNB due to adverse changes in interest rates on the fixed-yield instrument markets. Interest rate risk of international reserves of the CNB is managed by applying precisely defined reference portfolios. Reference portfolios meet the required risk/reward ratio and reflect the long-term reserve investment strategy.

As with foreign exchange risk, the CNB has an open interest rate position only on net international reserves due to the fact that other assets are managed based on the maturities of obligations.

Interest rate risk of net international reserves of the CNB is limited by setting the strategic modified average remaining term to maturity (strategic duration) to less than one year.

28.3.1 Sensitivity analysis – exposure of the CNB's net international reserves to fluctuations in interest rates

2009 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2009	USD	EUR
Yield curve increase/decrease	±50 b. p.	±50 b. p.
Effect of a change in the level of the yield curve on the financial result	(52,000)/52,000	(217,000)/217,000

Should as at 31 December 2009 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 52,000 thousand, while in the case of the EUR yield curve increasing by 50 basis points, the result would be lower by approximately HRK 217,000 thousand.

For a 50 b.p. decrease of the yield curve, the result would be higher by approximately the same amounts.

Calculation methodology:

The net amount of dollar and euro reserves as at 31 December 2009 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.

2008 Sensitivity analysis

(All amounts are expressed in thousands of kunas)

2008	USD	EUR
Yield curve increase/decrease	±50 b. p.	±50 b. p.
Effect of a change in the level of the yield curve on the financial result	(45,000)/45,000	(194,000)/194,000

28.3.2 Interest rate risk analysis

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Non-interest bearing	Total
At 31 December 2009						
Assets						
Cash and current accounts with other banks	–	–	–	–	1,764,619	1,764,619
Due from other banks	14,491,593	2,759,990	279,912	–	13,157	17,544,652
Trading securities	54,084,538	–	–	–	–	54,084,538
Loans	103	–	–	–	–	103
Balances with the IMF	2,418,581	–	–	–	2,917,066	5,335,647
Equity investments	–	–	–	–	57,764	57,764
Accrued interest and other assets	–	–	–	–	180,608	180,608
Tangible and intangible assets	–	–	–	–	590,554	590,554
Total assets	**70,994,815**	**2,759,990**	**279,912**	**–**	**5,523,768**	**79,558,485**
Liabilities						
Banknotes and coins in circulation	–	–	–	–	18,941,723	18,941,723
Due to banks and other financial institutions	30,217,317	–	–	–	12,048,281	42,265,598
Due to the State and State institutions	1,710,159	–	–	–	2,495,041	4,205,200
Due to the IMF	2,418,561	–	–	–	2,911,672	5,330,233
Accrued interest and other liabilities	–	–	–	–	469,238	469,238
Total liabilities	**34,346,037**	**–**	**–**	**–**	**36,865,955**	**71,211,992**
Net position	**36,648,778**	**2,759,990**	**279,912**	**–**	**(31,342,187)**	**8,346,493**
At 31 December 2008						
Assets						
Cash and current accounts with other banks	–	–	–	–	1,473,516	1,473,516
Due from 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 IMF	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 IMF	–	–	–	–	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**

Note 28.4 – Liquidity risk

Liquidity risk is the risk of inability to settle all the liabilities and obligations arising from the operations of the Croatian National Bank as they fall due. Hence, the Croatian National Bank has to ensure, through its strategy, sufficient liquid funds on a daily basis to settle all of its liabilities and commitments.

Liquidity risk is controlled by investing international reserves into readily marketable bonds and partly in deposit instruments with short maturities.

Liquid funds include all assets that are convertible into cash within a period of 1 to 3 days. The CNB invests total international reserves into deposits with maturities of up to 1 month and into securities with maturities less than 5 years, provided that those securities are readily convertible into cash at any time.

During 2009, on average 89% of net international reserves were liquid.

As at 31 December 2009, the share of liquid funds in net international reserves of the CNB was as follows:

1) Securities	79.03%
2) Daily-basis maturity of deposits	1.92%
3) FIXBIS and FRIBIS deposits	5.58%
4) Cash in vault	2.14%
5) Repo pool with the Fed	0.31%.

In the following tables, the financial liabilities of the Croatian National Bank are analysed into relevant groupings by the remaining contractual maturity from the balance sheet date. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on the earliest date on which payment could be required and include both interest and principal cash flows.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2009						
Liabilities						
Banknotes and coins in circulation	18,941,723	–	–	–	–	18,941,723
Due to banks and other financial institutions	42,257,515	–	–	–	8,083	42,265,598
Due to the State and State institutions	4,205,200	–	–	–	–	4,205,200
Due to the IMF	–	–	–	–	5,330,233	5,330,233
Accrued interest and other liabilities	53,839	322,692	59,260	38,126	2,190	476,107
Total liabilities	**65,458,277**	**322,692**	**59,260**	**38,126**	**5,340,506**	**71,218,861**
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 IMF	–	–	–	–	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
Total liabilities	**57,609,155**	**1,353,389**	**494,789**	**38,126**	**2,916,929**	**62,412,388**

Conclusion

The contraction of the global economy and international trade, and deteriorated financing conditions, marked 2009 on a global level. Unfavourable movements in the broader environment had a negative impact on Central and Eastern European countries. A strong inflow of foreign capital in the private sector had spurred real economic growth in that group of countries in previous years, whereas in 2009 the capital inflow decelerated considerably, declining in some countries to such an extent that they had to request foreign financial assistance.

Like almost all other Central and Eastern European countries, Croatia recorded a sharp contraction of economic activity in 2009, with real GDP falling from 2.4% in 2008 to –5.8% in 2009. Unfavourable global developments led to a sharp fall in Croatian exports and an upsurge in the cost of foreign borrowing. The private sector adjusted to new conditions by reducing demand, which resulted in a strong contraction of personal consumption and investments. Consequently, the budget deficit deepened, while increased government borrowing contributed to the growth of domestic interest rates. As a result of the revisions of the budget a moderate increase in expenditures was recorded and a decline in tax revenues was mitigated by introducing new taxes and increasing the VAT rate. Thanks to these measures, room was created for new government borrowing on international financial markets.

Although the inflow of foreign capital in the private sector was considerably lower than in the previous years, capital inflows outstripped the current account deficit, due to stronger foreign borrowing by both the government and public enterprises, resulting in appreciation pressures on the kuna/euro exchange rate in the second half of 2009. Monetary policy mitigated the pressures by foreign exchange interventions (by purchasing foreign exchange), which led to an increase in international reserves relative to the end of 2008. The exchange rate stability contributed to the achievement of the CNB's primary objective – maintenance of price stability and prevented any stronger deterioration of banks' placement quality from their clients' exposure to currency risk. It should also be noted that at the time when pressures in the financial market were strongest, the CNB released a substantial amount of foreign currency, amounting in total to approximately EUR 3.9bn, by changing its monetary policy instruments (marginal reserve requirements were abolished, the reserve requirement rate was reduced, the portion of foreign currency reserve requirement that is set aside in kuna was raised and the banks' minimum rate of foreign currency liquidity reduced) and intervening in the foreign exchange market. Half of these funds were channelled to the government for settling domestic liabilities and repaying external debt, which facilitated government financing in the domestic market and provided support to the economic policy of the Republic of Croatia. In addition, owing to monetary and prudential measures taken by the CNB in the previous years and adequate capitalisation of banks, banking sector stability was maintained and in the period of crisis, none of the commercial banks faced difficulties requiring special assistance from the government or the central bank.

Although the spillover effects of the global crisis were strongest in the first quarter of 2009, the crisis also exerted a negative impact, direct or indirect, in the remaining part of the year. The trend was not reversed in late 2009; on the contrary, bad news continued, showing a gloomy picture concerning revenues and a fall in the profitability of enterprises, growing unemployment, increased non-performing loans of banks and a decline in their profitability.

Measures to overcome the crisis thus represent the main challenge in pursuing economic policy in 2010. A return to the old pattern of economic growth, based on an increase in domestic consumption financed through borrowing unsustainable in the long run and resulting in the widening of external imbalances, is not an acceptable solution. It would be more advisable to implement structural reforms capable of stimulating economic growth potentials in the long run.

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
Planning, Controlling 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

- COUNCIL OF THE CROATIAN NATIONAL BANK
  - Governor
  - Deputy Governor
  - Vicegovernor
  - Vicegovernor
  - Vicegovernor
  - Vicegovernor
  - Office of the Governor
  - Internal Audit Office
  - Public Relations Office
  - Security Office

Research and Statistics Area
- Research Department
  - Monetary Analysis Division
  - Balance of Payments and Exchange Rate Analysis Division
  - Real Sector and Budget Analysis Division
- Statistics Department
  - Monetary and Financial Statistics Division
  - Balance of Payments and International Investment Position Statistics Division
  - External Debt Statistics Division
- Financial Stability Department
- Econometric Modelling Department

Central Banking Operations Area
- Monetary Operations Department
  - Liquidity Forecasts Division
  - Open Market Operations Division
  - Transactions Processing Division
  - Monetary Policy Instruments Reporting Division
- International Reserves and Foreign Exchange Liquidity Department
  - Foreign Exchange Trading and Investment Division (*front office*)
  - Foreign Exchange Settlement Division (*back office*)
  - Investment Research and Performance Evaluation Division (*middle office*)

Prudential Regulation and Bank Supervision Area
- Prudential Regulation and Banking System Analysis Department
  - Prudential Regulation Division
  - Banking System Analysis Division
- Off-Site Supervision Department
- On-Site Risk Management Supervision Department
  - Market and Liquidity Risk Management Supervision Division
  - Credit Risk Management Supervision Division
- Specialised On-Site Supervision Department
  - Internal Control Systems Supervision Division
  - Information Systems Supervision Division
  - Monetary and Foreign Exchange Policy Measures Implementation Supervision Division
- Licensing and Market Competition Department

Payment Operations Area
- Cashless Payment Operations Department
  - Payment Operations Regulation, Analysis and Development Division
  - Payment Systems Operations Division
  - Client Services Division
- Currency Department
  - Issue and Handling Operations Division
  - Custody Services Division
  - National Counterfeit, National Analysis and Coin National Analysis Centres

Foreign Exchange Operations Area
- Foreign Exchange Policy Department
  - Foreign Exchange System and Measures Division
  - Foreign Exchange Measures Implementation Division
- International Banking Department
  - International Payments Division
  - Correspondent Banking Division
  - SWIFT Division

International Relations Area
- European Relations Department
  - EU Economic Division
  - EU Institutions Administrative Operations Division
- International Financial Institutions Department
  - International Financial Institutions Economic Division
  - International Financial Institutions Administrative and Financial Operations Division

Planning, Controlling and Accounting Area
- Planning and Controlling Department
- Accounting Department
  - Central Accounting Division
  - Domestic Currency Analytical Bookkeeping Division
  - Foreign Exchange Analytical Bookkeeping Division
  - Internal Accounting Operations Division
  - Finance and Administrative Accounting Division

Information Technology Area
- Application Systems Development Department
  - Design Division
  - Programming Division
  - Quality Assurance Division
- IT Operations Department
  - System and Database Administration Division
  - User Support Division
  - Information System Security and Protection Division
  - Library and Documentation Centre

Support Services Area
- Legal Department
- Human Resources Department
- Technical Services Department
  - Technical Support Services Division
  - Maintenance Division
- General Services Department
  - General Support Services Division
  - Mail Services Division
  - Supply and Property Division
  - Restaurant
- Procurement Department
- Publishing Department
  - Publishing Division
  - Translating and Language-Editing Division

List of banking institutions
31 December 2009

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

BKS BANK d.d.
Mljekarski trg 3
51000 Rijeka
Phone: + 385 51/353-555
Fax: + 385 51/353-566
SWIFT: BFKKHR22

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

ERSTE & STEIERMÄRKISCHE BANK d.d.
Jadranski trg 3a
51000 Rijeka
Phone: + 385 51/208-211
Fax: + 385 51/330-525
SWIFT: ESBCHR22

HRVATSKA POŠTANSKA BANKA d.d.
Jurišićeva 4
10000 Zagreb
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SWIFT: HPBZHR2X

HYPO ALPE-ADRIA-BANK d.d.
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10000 Zagreb
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Fax: + 385 1/6035-100
SWIFT: HAABHR22

IMEX BANKA d.d.
Tolstojeva 6
21000 Split
Phone: + 385 21/406-100
Fax: + 385 21/348-453
SWIFT: IMXXHR22

ISTARSKA KREDITNA BANKA UMAG d.d.
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52470 Umag
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SWIFT: ISKBHR2X

JADRANSKA BANKA d.d.
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22000 Šibenik
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Fax: + 385 22/335-881
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47000 Karlovac
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Fax: + 385 47/614-206
SWIFT: KALCHR2X

KREDITNA BANKA ZAGREB d.d.
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NAVA BANKA d.d.
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SWIFT: NAVBHR22

OTP BANKA HRVATSKA d.d.
Domovinskog rata 3
23000 Zadar
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PARTNER BANKA d.d.
Vončinina 2
10000 Zagreb
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SWIFT: PAZGHR2X

PODRAVSKA BANKA d.d.
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PRIMORSKA BANKA d.d.
Scarpina 7
51000 Rijeka
Phone: + 385 51/355-704
Fax: +385 51/332-762
SWIFT: SPRMHR22

PRIVREDNA BANKA ZAGREB d.d.
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10000 Zagreb
Phone: + 385 1 /4723-344
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SLATINSKA BANKA d.d.
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Fax: + 358 33/551-138
SWIFT: SBSLHR2X

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Phone: + 385 21/304-304
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SWIFT: SOGEHR22

ŠTEDBANKA d.d.
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10000 Zagreb
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10000 Zagreb
Phone: + 385 1/4802-666
Fax: + 385 1/4802-685
SWIFT: CCBZHR2X

VOLKSBANK d.d.
Varšavska 9
10000 Zagreb
Phone: + 385 1/4801-300
Fax: + 385 1/4801-365
SWIFT: VBCRHR22

ZAGREBAČKA BANKA d.d.
Paromlinska 2
10000 Zagreb
Phone: + 385 1/6104-000
Fax: + 385 1/6110-555
SWIFT: ZABAHR2X

Licensed savings banks

OBRTNIČKA ŠTEDNA BANKA d.d.
Ilica 49/I
10000 Zagreb
Phone: +385 1/6401-800
Fax: +385 1/6401-819
SWIFT: OBANHR22

A ŠTEDNA BANKA MALOG PODUZETNIŠTVA d.d.
Radnička cesta 45
10000 Zagreb
Phone: +385 1/2226-522
Fax: +385 1/2226-523
SWIFT: ASBZHR22

Representative offices of foreign banks

BANK FÜR KÄRNTEN UND STEIERMARK AG, Zagreb

COMMERZBANK AKTIENGESELLSCHAFT, Zagreb

DEUTSCHE BANK AG, Zagreb

LHB INTERNATIONALE HANDELSBANK AG, Zagreb

UNION DE BANQUES ARABES ET FRANÇAISES – UBAF, Zagreb

Licensed housing savings banks

HPB – STAMBENA ŠTEDIONICA d.d.
Praška 5
10000 Zagreb
Phone: + 385 1/4805-008
Fax: + 385 1/4888-164

PBZ STAMBENA ŠTEDIONICA d.d.
Radnička cesta 44
10000 Zagreb
Phone: + 385 1/6363-730
Fax: + 385 1/6363-731

PRVA STAMBENA ŠTEDIONICA d.d.
Savska 60
10000 Zagreb
Phone: + 385 1/6065-111
Fax: + 385 1/6065-120

RAIFFEISEN STAMBENA ŠTEDIONICA d.d.
Radnička cesta 47
10000 Zagreb
Phone: + 385 1/6006-100
Fax: +385 1/6006-199

WÜSTENROT STAMBENA ŠTEDIONICA d.d.
Heinzelova 33a
10000 Zagreb
Phone: + 385 1/4803-788
Fax: + 385 1/4803-798

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 2003, 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.

A Monetary and credit aggregates

Table A1 Monetary and credit aggregates

end of period, in million HRK 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
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	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
2009	January	56,966.4	49,573.0	50,271.0	221,452.2	183,953.4	234,476.2	14.52	–10.23	–10.30	–1.58	0.37	0.64
	February	54,449.0	46,762.1	47,344.2	221,445.7	190,333.8	235,352.0	–4.42	–5.67	–5.82	0.00	3.47	0.37
	March	52,693.8	46,636.5	47,203.8	218,626.7	192,083.0	234,856.8	–3.22	–0.27	–0.30	–1.27	0.92	–0.21
	April	53,075.1	46,419.2	46,877.0	218,797.6	192,003.3	234,342.1	0.68	–0.47	–0.69	0.08	–0.04	–0.22
	May	53,900.4	47,447.0	47,941.0	218,112.8	193,128.0	232,234.6	1.55	2.21	2.27	–0.31	0.59	–0.90
	June	55,100.6	47,698.9	48,149.7	218,416.2	188,300.5	230,767.0	2.23	0.53	0.44	0.14	–2.50	–0.63
	July	55,147.1	47,664.7	48,169.2	221,354.8	189,639.5	231,193.3	0.08	–0.07	0.04	1.35	0.71	0.18
	August	55,346.9	47,815.0	48,297.2	224,444.3	186,660.7	230,228.9	0.36	0.32	0.27	1.40	–1.57	–0.42
	September	52,791.1	45,559.4	46,011.5	224,086.6	184,717.4	228,759.2	–4.62	–4.72	–4.73	–0.16	–1.04	–0.64
	October	54,446.1	44,657.2	45,158.6	221,147.8	183,289.0	227,891.2	3.13	–1.98	–1.85	–1.31	–0.77	–0.38
	November	53,699.8	45,748.0	46,255.6	223,600.6	179,711.1	231,436.6	–1.37	2.44	2.43	1.11	–1.95	1.56
	December	56,141.9	47,181.7	47,760.5	223,094.6	178,083.2	231,661.9	4.55	3.13	3.25	–0.23	–0.91	0.10

Table A1 Monetary and credit aggregates • The table shows data on some basic monetary and credit aggregates, including their monthly growth rates. 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.

B Monetary institutions

Table B1 Monetary survey

end of period, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Foreign assets (net)	41,739.4	37,498.7	31,112.0	26,543.7	26,794.3	24,984.8	30,115.8	31,715.3	37,783.6	39,369.2	37,858.8	43,889.5	45,011.4
2 Domestic credit	254,569.8	256,355.2	263,135.2	264,320.2	263,730.3	262,974.0	258,820.4	261,106.7	260,570.1	259,043.6	257,186.1	255,295.6	253,523.6
2.1 Claims on central government and funds (net)	21,587.7	21,879.0	27,783.2	29,463.4	29,388.3	30,739.4	28,053.5	29,913.3	30,341.2	30,284.4	29,294.9	23,859.0	21,861.7
2.2 Claims on other domestic sectors	231,472.7	232,901.3	233,812.9	233,363.2	232,839.0	230,622.7	228,967.9	229,473.3	228,593.2	227,098.7	226,138.1	229,515.7	229,870.2
2.3 Claims on other banking institutions	441.9	498.2	421.5	417.3	431.5	552.5	565.6	601.9	541.7	537.9	670.6	798.1	681.7
2.4 Claims on non-banking financial institutions	1,067.4	1,076.7	1,117.6	1,076.3	1,071.5	1,059.5	1,233.5	1,118.1	1,094.0	1,122.6	1,082.5	1,122.7	1,109.9
Total (1+2)	**296,309.2**	**293,854.0**	**294,247.2**	**290,863.9**	**290,524.7**	**287,958.8**	**288,936.2**	**292,821.9**	**298,353.8**	**298,412.8**	**295,044.9**	**299,185.1**	**298,534.9**
LIABILITIES													
1 Money	55,222.3	49,573.0	46,762.1	46,636.5	46,419.2	47,447.0	47,698.9	47,664.7	47,815.0	45,559.4	44,657.2	45,748.0	47,181.7
2 Savings and time deposits	50,070.3	50,497.7	49,427.2	47,233.4	46,622.8	45,683.3	45,005.5	44,444.1	43,254.5	43,089.9	42,417.0	40,454.9	39,139.4
3 Foreign currency deposits	117,194.8	119,323.2	123,327.6	122,865.0	123,882.8	123,072.1	123,889.1	127,325.1	131,314.7	133,426.0	132,162.1	135,781.7	135,410.6
4 Bonds and money market instruments	2,531.1	2,058.2	1,928.8	1,891.8	1,872.8	1,910.3	1,822.7	1,920.9	2,060.0	2,011.2	1,911.4	1,616.1	1,362.8
5 Restricted and blocked deposits	3,094.2	2,955.5	2,690.3	2,913.1	2,599.4	2,563.9	3,113.2	2,871.3	2,930.6	2,931.3	2,844.4	2,948.4	2,598.3
6 Other items (net)	68,196.5	69,446.4	70,111.2	69,324.1	69,127.6	67,282.1	67,406.7	68,595.9	70,978.8	71,394.9	71,052.7	72,636.1	72,842.0
Total (1+2+3+4+5+6)	**296,309.2**	**293,854.0**	**294,247.2**	**290,863.9**	**290,524.7**	**287,958.8**	**288,936.2**	**292,821.9**	**298,353.8**	**298,412.8**	**295,044.9**	**299,185.1**	**298,534.9**

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
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	December	36	2	7	1	11	6	9	2	1	1	–
2009	January	36	2	7	1	10	7	9	2	1	1	–
	February	36	2	7	1	11	6	9	2	1	1	–
	March	35	2	7	1	10	7	8	2	1	1	–
	April	36	3	7	1	10	7	8	2	1	1	–
	May	36	3	6	2	10	7	8	2	1	1	–
	June	36	3	6	2	10	7	8	2	1	1	–
	July	36	3	6	2	10	7	8	2	1	1	–
	August	36	3	6	2	10	7	8	2	1	1	–
	September	36	3	6	2	10	7	8	2	1	1	–
	October	36	3	6	2	10	7	8	2	1	1	–
	November	36	3	5	3	10	7	8	2	1	1	–
	December	36	3	5	3	10	7	8	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.

The table also shows the classification of reporting banks and savings banks according to their total assets.

C Monetary authorities

Table C1 Monetary authorities accounts

end of period, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Foreign assets	66,805.5	63,961.0	63,360.8	66,142.5	65,972.7	64,389.1	66,285.1	66,224.7	68,081.9	67,909.8	68,940.7	74,240.3	75,807.8
1.1 Gold	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2 Holdings of SDRs	5.3	5.7	4.8	4.7	5.1	4.5	4.5	4.8	2,169.4	2,406.1	2,366.0	2,398.7	2,423.7
1.3 Reserve position in the IMF	1.3	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.3	1.3
1.4 Currency and demand deposits with foreign banks	1,472.7	1,483.6	1,489.3	1,499.7	1,577.7	1,473.3	1,465.9	1,473.7	1,766.7	1,756.8	1,795.3	1,766.7	1,763.8
1.5 Time deposits with foreign banks	13,189.3	13,276.9	15,716.1	14,013.6	15,381.8	15,370.7	14,427.3	12,456.0	12,268.6	10,323.5	14,574.4	18,382.0	17,534.5
1.6 Securities in f/c	52,136.9	49,193.4	46,149.2	50,623.0	49,006.7	47,539.1	50,386.1	52,289.0	51,876.0	53,422.1	50,203.7	51,691.6	54,084.5
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	2.2	1.2	0.7	0.8	1.4	1.6	1.2	1.0	2.1	–	0.8	0.2	2.9
2.1 Claims in kuna	2.2	1.2	0.7	0.8	1.4	1.6	1.2	1.0	2.1	–	0.8	0.2	2.9
2.2 Claims in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
3 Claims on other domestic sectors	64.2	64.2	64.2	64.2	4.4	4.3	4.3	4.3	4.3	4.3	4.2	4.2	4.2
4 Claims on banks	13.9	8,053.2	6,963.7	1,396.7	1,614.7	2,542.4	2,425.5	2,394.5	2,668.0	13.5	13.4	13.5	13.5
4.1 Credits to banks	13.9	8,053.2	6,963.7	1,372.8	1,614.7	2,542.4	2,425.5	2,394.5	2,668.0	13.5	13.4	13.5	13.5
Lombard credits	–	378.8	2,887.8	–	–	–	–	–	–	–	–	–	–
Short-term liquidity credits	–	–	–	–	–	–	–	–	–	–	–	–	–
Other credits	13.9	13.9	13.9	14.0	13.9	13.7	13.6	13.7	13.6	13.5	13.4	13.5	13.5
Reverse repo transactions	–	7,660.6	4,062.0	1,358.8	1,600.8	2,528.8	2,412.0	2,380.8	2,654.3	–	–	–	–
4.2 Overdue claims	–	–	–	23.9	–	–	–	–	–	–	–	–	–
5 Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	**66,885.8**	**72,079.5**	**70,389.4**	**67,604.1**	**67,593.1**	**66,937.4**	**68,716.2**	**68,624.6**	**70,756.2**	**67,927.6**	**68,959.2**	**74,258.3**	**75,828.3**
LIABILITIES													
1 Reserve money	49,743.0	56,966.4	54,449.0	52,717.7	53,075.1	53,900.4	55,100.6	55,147.1	55,346.9	52,791.1	54,446.1	53,699.8	56,141.9
1.1 Currency outside banks	17,051.0	16,648.0	16,135.3	15,826.2	16,302.6	16,702.9	16,914.7	17,579.6	16,967.7	16,012.8	15,389.3	14,950.8	15,282.1
1.2 Banks' cash in vaults	3,428.3	3,089.6	2,924.7	2,934.4	3,113.9	2,897.5	3,454.5	3,492.9	3,579.5	3,294.7	3,183.0	3,226.0	3,659.6
1.3 Banks' deposits	29,263.7	37,228.8	35,389.0	33,957.1	33,658.6	34,299.9	34,731.5	34,074.3	34,799.8	33,483.5	35,873.8	35,522.7	37,200.1
Settlement accounts	9,520.3	12,993.7	10,587.0	9,307.6	9,864.1	10,573.1	11,097.6	10,399.8	11,130.5	9,689.3	11,569.1	8,768.3	12,024.6
Statutory reserves	19,222.7	23,728.6	24,270.1	24,079.9	23,601.4	23,564.1	23,493.4	23,534.3	23,537.7	23,662.4	23,767.3	23,542.6	23,600.6
CNB bills on obligatory basis	460.6	506.5	531.8	569.6	193.1	145.7	140.4	140.1	131.6	131.8	137.3	136.8	–
Overnight deposits	60.0	–	–	–	–	17.0	–	–	–	–	400.0	3,075.0	1,575.0
1.4 Deposits of other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
1.5 Deposits of other domestic sectors	–	–	–	–	–	–	–	0.4	0.0	0.0	0.0	0.3	–
2 Restricted and blocked deposits	8,064.1	4,485.0	4,683.8	4,634.8	4,723.1	4,662.1	4,722.0	4,741.5	4,768.9	4,828.6	4,911.1	4,944.4	5,091.6
2.1 Statutory reserve in f/c	8,008.3	4,431.7	4,623.8	4,581.7	4,666.9	4,603.7	4,668.9	4,683.3	4,715.2	4,777.8	4,859.2	4,892.0	5,041.7
2.2 Restricted deposits	55.8	53.4	60.0	53.1	56.2	58.4	53.1	58.2	53.7	50.8	51.9	52.4	49.9
2.3 Escrow deposits	–	–	–	–	–	–	–	–	–	–	–	–	–
3 Foreign liabilities	16.6	16.3	15.2	14.9	14.8	14.2	8.3	8.3	8.1	7.9	7.8	7.8	8.1
3.1 Use of IMF credit	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2 Liabilities to international organisations	16.6	16.3	15.2	14.9	14.8	14.2	8.3	8.3	8.1	7.9	7.8	7.8	8.1
3.3 Liabilities to foreign banks	–	0.0	–	0.0	0.0	0.0	–	–	0.0	–	–	–	–
4 Central government and funds' deposits	206.9	131.2	200.0	383.4	260.3	278.7	962.3	430.5	395.6	277.7	349.8	5,523.8	4,171.4
4.1 Demand deposits	171.1	95.0	194.4	376.2	192.0	210.4	255.7	200.8	327.6	257.7	293.2	1,483.4	1,839.2
Central government demand deposits	43.0	79.4	150.6	338.4	116.3	177.2	118.7	96.8	279.9	212.6	262.8	1,301.8	1,772.9
Central government funds' demand deposits	128.2	15.6	43.9	37.7	75.7	33.2	137.0	104.0	47.7	45.0	30.5	181.6	66.2
4.2 Central government f/c deposits	35.8	36.2	5.6	7.2	68.3	68.3	706.7	229.7	67.9	20.0	56.6	4,040.4	2,332.2

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
4.3 CNB bills	–	–	–	–	–	–	–	–	–	–	–	–	–
5 CNB bills	–	–	–	–	–	–	–	–	–	–	–	–	–
5.1 CNB bills in kuna	–	–	–	–	–	–	–	–	–	–	–	–	–
5.2 CNB bills in f/c	–	–	–	–	–	–	–	–	–	–	–	–	–
6 Capital accounts	9,562.4	11,210.2	11,773.1	10,579.2	10,229.7	8,786.8	8,639.5	9,029.9	10,970.6	10,759.7	9,992.4	10,827.3	11,151.3
7 Other items (net)	–707.1	–729.5	–731.7	–725.9	–709.9	–704.8	–716.5	–732.7	–733.9	–737.4	–747.9	–744.9	–735.9
Total (1+2+3+4+5+6+7)	**66,885.8**	**72,079.5**	**70,389.4**	**67,604.1**	**67,593.1**	**66,937.4**	**68,716.2**	**68,624.6**	**70,756.2**	**67,927.6**	**68,959.2**	**74,258.3**	**75,828.3**

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 to October 2008) 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.

D Banks

Table D1 Banks' accounts

end of period, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Reserves with the CNB	40,705.6	44,756.6	42,944.0	41,454.4	41,444.7	41,806.2	42,860.4	42,254.0	43,100.3	41,560.4	43,916.9	43,643.8	45,902.1
1.1 In kuna	32,700.5	40,325.7	38,321.0	36,873.4	36,778.4	37,202.9	38,192.0	37,571.4	38,385.6	36,783.4	39,058.2	38,751.8	40,860.4
1.2 In f/c	8,005.1	4,430.9	4,623.0	4,581.0	4,666.3	4,603.2	4,668.5	4,682.6	4,714.7	4,777.1	4,858.6	4,892.0	5,041.7
2 Foreign assets	50,246.6	52,057.7	43,501.0	36,959.4	39,077.0	39,046.7	41,619.5	42,593.8	45,983.4	48,050.2	43,799.0	44,273.0	49,577.0
3 Claims on central government and funds	37,801.1	40,045.8	44,229.7	46,657.2	47,999.8	47,512.9	46,391.7	46,884.4	47,239.6	47,758.1	47,154.6	45,679.7	44,249.5
4 Claims on other domestic sectors	231,408.6	232,837.1	233,748.7	233,299.0	232,834.7	230,618.4	228,963.5	229,469.1	228,588.9	227,094.5	226,133.9	229,511.6	229,866.1
4.1 Claims on local government	2,077.4	2,099.6	2,107.8	1,994.4	1,903.6	1,888.0	1,843.0	1,848.3	1,837.2	1,826.6	1,839.0	1,848.9	2,074.2
4.2 Claims on enterprises	102,779.8	103,954.8	104,866.0	104,546.1	104,683.7	103,947.7	103,335.9	103,861.8	103,335.4	102,550.2	102,356.6	104,639.2	104,898.1
4.3 Claims on households	126,551.4	126,782.8	126,775.0	126,758.5	126,247.4	124,782.6	123,784.6	123,758.9	123,416.3	122,717.6	121,938.3	123,023.5	122,893.7
5 Claims on other banking institutions	441.9	498.2	421.5	417.3	431.5	552.5	565.6	601.9	541.7	537.9	670.6	798.1	681.7
6 Claims on non-banking financial instituions	1,067.4	1,076.7	1,117.6	1,076.3	1,071.5	1,059.5	1,233.5	1,118.1	1,094.0	1,122.6	1,082.5	1,122.7	1,109.9
Total (1+2+3+4+5+6)	**361,671.2**	**371,272.1**	**365,962.6**	**359,863.6**	**362,859.1**	**360,596.0**	**361,634.2**	**362,921.2**	**366,547.9**	**366,123.7**	**362,757.6**	**365,028.9**	**371,386.3**
LIABILITIES													
1 Demand deposits	38,171.2	32,925.1	30,626.9	30,810.3	30,116.6	30,744.1	30,784.2	30,084.7	30,847.3	29,546.5	29,267.9	30,796.9	31,899.6
2 Savings and time deposits	50,070.3	50,497.7	49,427.2	47,233.4	46,622.8	45,683.3	45,005.5	44,444.1	43,254.5	43,089.9	42,417.0	40,454.9	39,139.4
3 Foreign currency deposits	117,194.8	119,323.2	123,327.6	122,865.0	123,882.8	123,072.1	123,889.1	127,325.1	131,314.7	133,426.0	132,162.1	135,781.7	135,410.6
4 Bonds and money market instruments	2,531.1	2,058.2	1,928.8	1,891.8	1,872.8	1,910.3	1,822.7	1,920.9	2,060.0	2,011.2	1,911.4	1,616.1	1,362.8
5 Foreign liabilities	75,296.1	78,503.6	75,734.7	76,543.2	78,240.5	78,436.7	77,780.5	77,095.0	76,273.5	76,582.9	74,873.3	74,615.9	80,365.3
6 Central government and funds' deposits	16,007.5	18,036.7	16,247.2	16,811.2	18,352.6	16,496.4	17,377.1	16,541.6	16,504.9	17,196.0	17,510.8	16,297.1	18,219.3
7 Credit from central bank	14.0	8,053.3	6,963.7	1,372.8	1,614.6	2,542.4	2,425.5	2,394.5	2,667.9	13.5	13.4	13.5	13.5
8 Restricted and blocked deposits	3,038.4	2,902.1	2,630.3	2,860.0	2,543.2	2,505.6	3,060.1	2,813.1	2,877.0	2,880.5	2,792.5	2,896.0	2,548.4
9 Capital accounts	60,317.4	60,878.2	61,071.3	61,848.5	62,207.0	62,373.1	62,875.9	63,571.7	64,059.8	64,473.8	65,029.2	65,679.0	66,306.4
10 Other items (net)	–969.7	–1,905.9	–1,995.0	–2,372.6	–2,593.9	–3,168.0	–3,386.5	–3,269.4	–3,311.8	–3,096.7	–3,219.9	–3,122.2	–3,879.1
Total (1+2+3+4+5+6+7+8+9+10)	**361,671.2**	**371,272.1**	**365,962.6**	**359,863.6**	**362,859.1**	**360,596.0**	**361,634.2**	**362,921.2**	**366,547.9**	**366,123.7**	**362,757.6**	**365,028.9**	**371,386.3**

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, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Foreign assets in f/c	49,705.1	51,440.6	42,805.4	36,418.8	38,538.3	38,410.4	40,873.9	41,753.7	44,970.5	47,284.3	43,115.9	43,695.0	49,230.3
1.1 Claims on foreign financial institutions	38,038.3	39,845.8	32,243.1	25,953.3	28,424.6	28,539.3	31,059.3	31,960.8	34,458.2	35,483.3	31,465.1	32,038.6	34,186.6
Foreign currencies	1,973.2	1,348.0	1,354.5	1,432.4	1,630.8	1,651.4	1,992.5	1,790.7	1,941.9	1,693.4	1,582.7	1,516.2	1,772.6
Demand deposits	2,109.8	1,106.4	1,063.7	1,122.9	1,005.4	887.0	1,224.5	1,229.6	1,310.2	1,400.0	1,224.2	1,186.3	1,338.7
Time and notice deposits	31,444.5	34,746.9	27,155.7	20,865.3	23,334.7	23,604.6	25,559.9	26,852.5	29,117.9	30,471.1	26,775.1	27,518.2	29,254.5
Securities	2,307.1	2,431.3	2,428.4	2,302.2	2,228.3	2,178.9	2,000.0	1,879.4	1,882.9	1,724.4	1,701.7	1,633.9	1,629.0
Loans and advances	166.3	174.9	201.1	192.6	182.3	168.1	234.6	158.7	147.0	137.7	122.1	122.2	117.6
Shares and participations	37.4	38.3	39.7	37.9	43.1	49.4	47.8	50.0	58.2	56.6	59.2	61.9	74.2
1.2 Claims on foreign non-banks	11,666.8	11,594.8	10,562.3	10,465.5	10,113.7	9,871.0	9,814.6	9,792.9	10,512.3	11,801.0	11,650.8	11,656.4	15,043.7
Claims on foreign governments	9,976.8	9,893.8	8,865.6	8,801.9	8,472.2	8,279.4	8,441.8	8,337.0	9,014.7	10,322.7	10,192.9	10,166.5	13,477.2
Claims on other non-residents	1,613.5	1,618.8	1,605.8	1,575.1	1,546.8	1,534.3	1,340.7	1,416.5	1,462.6	1,443.2	1,431.0	1,459.4	1,534.5
Securities	235.1	239.0	228.1	227.9	220.4	226.1	222.3	227.1	217.3	198.5	197.7	215.1	205.4
Loans and advances	1,378.4	1,379.8	1,377.6	1,347.3	1,326.4	1,308.3	1,118.4	1,189.4	1,245.3	1,244.7	1,233.3	1,244.4	1,329.1
Shares and participations	76.5	82.2	90.9	88.4	94.8	57.3	32.2	39.4	34.9	35.2	26.9	30.5	32.0
2 Foreign assets in kuna	541.5	617.1	695.6	540.6	538.6	636.3	745.5	840.1	1,012.9	765.9	683.2	578.0	346.7
2.1 Claims on foreign financial institutions	144.1	207.7	286.0	133.3	153.3	257.3	379.4	489.8	662.8	424.1	443.2	336.1	86.3
2.2 Claims on foreign non-banks	397.4	409.4	409.6	407.3	385.3	379.0	366.2	350.3	350.1	341.8	240.0	241.9	260.3
o/w: Loans and advances	396.8	408.8	409.0	406.7	384.7	378.6	365.8	350.0	349.8	341.5	239.7	241.6	260.0
Total (1+2)	**50,246.6**	**52,057.7**	**43,501.0**	**36,959.4**	**39,077.0**	**39,046.7**	**41,619.5**	**42,593.8**	**45,983.4**	**48,050.2**	**43,799.0**	**44,273.0**	**49,577.0**

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, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 In kuna	24,901.6	27,161.3	27,309.5	27,318.0	28,624.5	28,471.7	27,133.0	27,621.1	27,705.7	28,358.3	27,952.1	25,607.6	24,461.9
1.1 Claims on central government	19,899.5	21,838.4	21,654.6	21,952.4	23,645.5	23,553.4	21,892.3	22,411.4	22,484.8	23,208.5	22,864.9	20,437.7	19,230.6
Securities	16,969.0	16,622.8	16,683.7	16,923.2	16,817.9	16,808.6	16,824.1	16,949.4	16,642.3	17,399.3	17,106.1	17,217.2	16,305.4
o/w: Bonds (c'part to f/c savings deposits)	6.1	5.9	5.7	5.6	6.1	5.8	5.5	5.2	5.1	5.6	5.4	5.3	5.2
Loans and advances	2,930.4	5,215.6	4,970.9	5,029.2	6,827.6	6,744.8	5,068.2	5,462.0	5,842.5	5,809.3	5,758.7	3,220.5	2,925.1
1.2 Claims on central government funds	5,002.1	5,322.8	5,655.0	5,365.6	4,979.0	4,918.3	5,240.8	5,209.7	5,220.9	5,149.7	5,087.3	5,169.9	5,231.3
Securities	6.1	6.1	0.0	–	–	–	–	–	–	6.3	6.3	6.3	–
Loans and advances	4,996.1	5,316.7	5,654.9	5,365.6	4,979.0	4,918.3	5,240.8	5,209.7	5,220.9	5,143.4	5,081.0	5,163.6	5,231.3
2 In f/c	12,899.5	12,884.5	16,920.1	19,339.2	19,375.2	19,041.1	19,258.6	19,263.2	19,533.9	19,399.9	19,202.5	20,072.1	19,787.7
2.1 Claims on central government	9,843.6	9,901.4	13,942.2	15,170.3	15,075.6	14,872.3	15,123.0	15,123.7	14,897.0	14,785.2	14,627.2	14,828.0	14,793.1
Securities	300.7	317.3	264.7	197.3	200.8	197.6	517.1	470.2	267.1	232.6	229.0	247.0	234.7
Loans and advances	9,542.9	9,584.1	13,677.5	14,973.1	14,874.8	14,674.7	14,605.9	14,653.5	14,629.9	14,552.7	14,398.2	14,581.1	14,558.4
2.2 Claims on central government funds	3,055.9	2,983.1	2,978.0	4,168.8	4,299.6	4,168.9	4,135.6	4,139.6	4,636.9	4,614.6	4,575.3	5,244.0	4,994.6
Securities	50.9	51.2	51.5	51.5	51.8	51.3	51.1	51.5	51.6	52.0	52.0	52.6	52.0
Loans and advances	3,005.1	2,931.9	2,926.5	4,117.4	4,247.9	4,117.6	4,084.5	4,088.1	4,585.3	4,562.6	4,523.3	5,191.4	4,942.6
Total (1+2)	**37,801.1**	**40,045.8**	**44,229.7**	**46,657.2**	**47,999.8**	**47,512.9**	**46,391.7**	**46,884.4**	**47,239.6**	**47,758.1**	**47,154.6**	**45,679.7**	**44,249.5**

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, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Claims in kuna	216,530.8	217,368.3	217,803.9	216,871.5	216,279.6	214,211.0	212,352.8	212,725.3	211,783.2	210,030.5	209,269.7	211,360.0	211,273.4
1.1 Money market instruments	2,674.5	2,586.8	2,578.2	2,488.9	2,427.1	2,432.6	2,369.5	2,189.7	2,137.1	2,098.0	2,083.7	2,049.0	2,040.2
1.2 Bonds	1,341.4	1,320.5	1,424.5	1,457.9	1,621.6	1,635.6	1,634.4	1,677.2	1,676.6	1,640.0	1,606.4	1,641.6	1,691.0
1.3 Loans and advances	210,424.0	211,378.3	211,737.6	210,733.2	210,047.3	207,896.2	206,151.3	206,636.9	205,721.5	204,034.7	203,324.1	205,415.4	205,279.3
1.4 Shares and participations	2,090.8	2,082.7	2,063.6	2,191.5	2,183.5	2,246.6	2,197.5	2,221.6	2,248.0	2,257.8	2,255.5	2,254.0	2,262.9
2 Claims in f/c	14,877.8	15,468.8	15,944.8	16,427.6	16,555.1	16,407.4	16,610.8	16,743.8	16,805.7	17,063.9	16,864.2	18,151.6	18,592.7
2.1 Securities	109.3	84.7	93.7	97.3	104.4	117.2	122.1	117.2	113.2	114.8	111.0	95.5	441.1
2.2 Loans and advances	14,768.5	15,384.1	15,851.1	16,330.3	16,450.7	16,290.2	16,488.6	16,626.6	16,692.6	16,949.1	16,753.2	18,056.0	18,151.7
Total (1+2)	**231,408.6**	**232,837.1**	**233,748.7**	**233,299.0**	**232,834.7**	**230,618.4**	**228,963.5**	**229,469.1**	**228,588.9**	**227,094.5**	**226,133.9**	**229,511.6**	**229,866.1**

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, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
LOANS IN KUNA													
1 Loans to central government and funds	7,926.5	10,532.3	10,625.8	10,394.8	11,806.6	11,663.1	10,309.0	10,671.8	11,063.4	10,952.7	10,839.7	8,384.1	8,156.4
1.1 Loans to central government	2,930.4	5,215.6	4,970.9	5,029.2	6,827.6	6,744.8	5,068.2	5,462.0	5,842.5	5,809.3	5,758.7	3,220.5	2,925.1
1.2 Loans to central government funds	4,996.1	5,316.7	5,654.9	5,365.6	4,979.0	4,918.3	5,240.8	5,209.7	5,220.9	5,143.4	5,081.0	5,163.6	5,231.3
2 Loans to local government	1,786.9	1,808.6	1,817.1	1,699.7	1,625.2	1,612.4	1,565.7	1,567.9	1,556.3	1,545.4	1,563.6	1,565.5	1,795.4
3 Loans to enterprises	82,431.7	83,110.4	83,469.4	82,614.9	82,512.6	81,831.6	81,123.7	81,636.2	81,074.0	80,088.3	80,133.0	81,154.1	80,913.1
4 Loans to households	126,205.3	126,459.2	126,451.1	126,418.6	125,909.5	124,452.1	123,461.8	123,432.7	123,091.1	122,401.0	121,627.4	122,695.8	122,570.8
o/w: Housing loans	52,305.5	52,731.3	52,998.3	52,988.7	53,018.0	52,371.3	52,028.6	52,366.5	52,523.6	52,388.1	52,022.7	52,688.5	52,949.4
5 Loans to other banking institutions	36.1	104.4	71.3	34.2	68.1	149.4	141.1	178.5	130.4	127.5	217.9	304.2	236.5
6 Loans to non-banking financial institutions	741.4	731.5	786.7	692.8	676.1	685.7	772.4	704.9	681.7	709.3	670.7	716.3	689.0
A Total (1+2+3+4+5+6)	219,128.0	222,746.5	223,221.6	221,855.1	222,598.1	220,394.4	217,373.8	218,192.0	217,597.0	215,824.2	215,052.4	214,819.9	214,361.3
LOANS IN F/C													
1 Loans to central government and funds	12,548.0	12,516.0	16,603.9	19,090.4	19,122.6	18,792.3	18,690.4	18,741.6	19,215.2	19,115.3	18,921.5	19,772.5	19,501.0
1.1 Loans to central government	9,542.9	9,584.1	13,677.5	14,973.1	14,874.8	14,674.7	14,605.9	14,653.5	14,629.9	14,552.7	14,398.2	14,581.1	14,558.4
1.2 Loans to central government funds	3,005.1	2,931.9	2,926.5	4,117.4	4,247.9	4,117.6	4,084.5	4,088.1	4,585.3	4,562.6	4,523.3	5,191.4	4,942.6
2 Loans to local government	5.5	5.5	5.5	5.6	5.5	5.5	4.3	3.0	3.0	3.0	3.0	3.0	3.0
3 Loans to enterprises	14,416.8	15,055.0	15,521.7	15,984.8	16,107.3	15,954.3	16,161.5	16,297.3	16,364.3	16,629.5	16,439.4	17,725.4	17,825.7
4 Loans to households	346.1	323.6	323.8	339.9	337.8	330.5	322.8	326.2	325.2	316.6	310.9	327.6	323.0
5 Loans to other banking institutions	1.2	27.3	5.2	22.4	–	–	30.3	30.6	18.5	8.6	54.0	64.8	31.0
6 Loans to non-banking financial institutions	143.5	144.5	137.7	211.6	223.6	194.5	283.1	255.6	255.1	253.7	251.7	255.0	269.4
B Total (1+2+3+4+5+6)	27,461.1	28,071.9	32,597.9	35,654.7	35,797.0	35,277.0	35,492.4	35,654.4	36,181.4	36,326.6	35,980.4	38,148.3	37,953.0
TOTAL (A+B)	**246,589.1**	**250,818.4**	**255,819.5**	**257,509.8**	**258,395.1**	**255,671.5**	**252,866.1**	**253,846.5**	**253,778.3**	**252,150.9**	**251,032.8**	**252,968.3**	**252,314.3**

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 forfeiting.

Table D6 Demand deposits with banks

end of period, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Local government	2,441.1	1,900.6	1,846.9	1,599.9	1,447.4	1,245.8	1,192.9	1,160.8	1,263.1	1,242.2	1,229.0	1,307.5	1,377.7
2 Enterprises	16,896.1	13,661.8	12,395.1	13,061.2	12,384.3	12,942.2	13,122.8	12,698.7	13,723.2	13,022.5	13,159.3	13,931.8	14,893.1
3 Households	17,620.1	16,473.7	15,633.9	15,318.0	15,390.8	15,592.0	15,565.9	15,544.0	15,016.2	14,526.1	13,941.2	13,822.7	14,218.6
4 Other banking institutions	293.6	155.7	148.3	152.9	208.4	165.0	151.0	135.4	217.5	154.8	186.5	554.0	517.1
5 Non-banking financial institutions	921.1	733.9	603.3	678.7	686.1	799.5	752.1	546.2	627.6	601.3	752.2	1,181.1	893.4
6 Less: Checks of other banks and checks in collection	–0.7	–0.5	–0.6	–0.4	–0.4	–0.4	–0.5	–0.4	–0.3	–0.3	–0.4	–0.4	–0.3
Total (1+2+3+4+5+6)	**38,171.2**	**32,925.1**	**30,626.9**	**30,810.3**	**30,116.6**	**30,744.1**	**30,784.2**	**30,084.7**	**30,847.3**	**29,546.5**	**29,267.9**	**30,796.9**	**31,899.6**

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, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Savings deposits	2,770.3	2,713.2	2,647.8	2,558.4	2,599.3	2,620.5	2,623.7	2,525.6	2,498.4	2,498.7	2,458.6	2,480.8	2,523.1
1.1 Local government	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0
1.2 Enterprises	108.8	116.7	109.3	110.4	121.1	158.4	169.5	136.8	150.0	139.5	159.8	195.9	203.7
1.3 Households	2,657.7	2,587.5	2,535.9	2,447.0	2,476.1	2,461.2	2,443.7	2,371.0	2,340.8	2,348.9	2,286.4	2,268.8	2,268.9
1.4 Other banking institutions	–	–	–	–	–	–	–	5.0	5.0	5.0	5.0	5.0	5.0
1.5 Non-banking financial institutions	3.7	8.9	2.5	0.9	1.9	0.8	10.4	12.5	2.5	5.1	7.2	10.8	45.5
2 Time and notice deposits	47,300.1	47,784.5	46,779.4	44,675.0	44,023.5	43,062.8	42,381.8	41,918.6	40,756.1	40,591.2	39,958.5	37,974.1	36,616.3
2.1 Local government	726.0	1,236.2	1,295.9	1,340.8	1,276.9	1,173.7	1,101.6	1,150.0	1,167.3	1,210.3	1,183.5	1,107.3	498.8
2.2 Enterprises	16,268.0	15,555.1	15,551.0	13,849.9	13,664.6	12,746.9	12,278.4	13,393.3	13,486.3	13,819.0	13,154.7	11,473.2	11,559.0
2.3 Households	22,721.6	22,784.8	21,595.1	20,976.3	20,420.1	20,132.2	19,849.5	18,678.0	17,581.5	17,077.8	17,053.2	16,958.9	16,910.7
2.4 Other banking institutions	2,563.4	2,385.7	2,359.3	2,774.3	3,304.3	3,547.2	3,776.8	3,332.1	3,041.7	3,235.9	3,546.4	3,750.7	3,039.8
2.5 Non-banking financial institutions	5,021.1	5,822.7	5,978.1	5,733.8	5,357.6	5,462.9	5,375.5	5,365.2	5,479.3	5,248.2	5,020.7	4,684.0	4,608.1
Total (1+2)	**50,070.3**	**50,497.7**	**49,427.2**	**47,233.4**	**46,622.8**	**45,683.3**	**45,005.5**	**44,444.1**	**43,254.5**	**43,089.9**	**42,417.0**	**40,454.9**	**39,139.4**

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, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Savings deposits	21,262.2	21,656.6	21,166.8	20,815.2	20,441.3	20,245.2	20,791.9	20,883.4	22,072.0	22,266.5	20,873.7	21,516.8	20,781.0
1.1 Local government	22.1	9.8	9.5	9.9	9.5	9.3	21.5	9.4	9.5	9.5	9.4	9.6	25.5
1.2 Enterprises	5,132.0	4,837.1	4,603.2	4,497.2	4,592.7	4,368.3	5,135.4	4,823.6	5,146.3	5,755.5	4,898.8	5,527.9	5,053.6
1.3 Households	15,682.8	15,694.6	15,930.4	15,584.0	15,416.7	15,183.9	15,260.8	15,596.6	16,278.3	15,845.5	15,503.5	15,250.9	15,148.7
1.4 Other banking institutions	121.4	154.5	109.2	77.6	118.2	225.3	86.9	141.3	172.0	155.3	135.7	200.0	150.4
1.5 Non-banking financial institutions	303.9	960.6	514.5	646.5	304.2	458.4	287.2	312.4	466.0	500.7	326.2	528.3	402.9
2 Time deposits	95,932.6	97,666.6	102,160.8	102,049.7	103,441.6	102,826.9	103,097.2	106,441.8	109,242.7	111,159.5	111,288.4	114,264.9	114,629.6
2.1 Local government	2.3	12.1	2.7	2.6	2.7	2.5	2.5	2.5	2.4	8.5	2.4	2.4	2.5
2.2 Enterprises	11,215.5	11,109.7	11,717.2	10,815.2	11,267.5	11,035.2	10,910.4	11,207.6	11,736.1	12,914.5	13,142.9	12,939.7	13,516.9
2.3 Households	80,419.6	82,986.3	85,347.4	86,495.8	86,874.7	85,962.4	86,353.9	88,677.9	90,637.6	92,165.0	92,316.6	94,458.6	95,598.0
2.4 Other banking institutions	808.2	820.7	747.1	590.7	517.1	613.0	628.4	743.3	708.5	650.7	577.3	827.5	663.0
2.5 Non-banking financial institutions	3,487.0	2,738.0	4,346.5	4,145.4	4,779.6	5,213.8	5,202.1	5,810.5	6,157.9	5,420.8	5,249.2	6,036.7	4,849.1
Total (1+2)	**117,194.8**	**119,323.2**	**123,327.6**	**122,865.0**	**123,882.8**	**123,072.1**	**123,889.1**	**127,325.1**	**131,314.7**	**133,426.0**	**132,162.1**	**135,781.7**	**135,410.6**

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, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Money market instruments (net)	0.8	0.6	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)	609.5	606.6	607.7	601.8	602.5	592.8	606.4	607.5	608.4	619.9	620.6	648.9	765.3
3 Other domestic borrowing	1,920.8	1,451.0	1,320.3	1,289.3	1,269.5	1,316.7	1,215.5	1,312.6	1,450.9	1,390.5	1,290.0	966.4	596.7
3.1 Local government	–	–	–	–	–	–	–	–	–	–	–	–	–
3.2 Enterprises	3.5	3.5	3.9	3.8	4.5	4.2	4.1	4.3	4.1	5.3	5.0	4.8	4.6
3.3 Other banking institutions	1,719.2	1,333.4	1,161.0	1,285.5	1,265.0	1,312.5	1,206.4	1,308.3	1,446.7	1,383.1	1,280.4	961.6	551.8
3.4 Non-banking financial institutions	198.0	114.1	155.4	–	–	–	5.0	–	–	2.1	4.5	–	40.4
Total (1+2+3)	**2,531.1**	**2,058.2**	**1,928.8**	**1,891.8**	**1,872.8**	**1,910.3**	**1,822.7**	**1,920.9**	**2,060.0**	**2,011.2**	**1,911.4**	**1,616.1**	**1,362.8**

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, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Foreign liabilities in f/c	54,726.8	57,711.1	56,531.3	56,979.1	57,872.7	56,225.1	56,174.0	56,076.0	56,395.6	57,000.3	55,891.6	55,848.0	60,046.7
1.1 Liabilities to foreign financial institutions	47,878.5	50,524.9	49,266.6	49,858.0	50,517.9	48,970.3	48,661.7	48,081.2	48,475.1	48,976.3	47,812.5	47,561.4	51,702.3
Demand deposits	176.6	214.6	168.3	171.0	177.1	187.2	196.2	231.5	248.3	296.3	200.8	227.6	221.0
Time and notice deposits	14,016.4	16,364.4	16,155.1	17,744.1	18,595.2	18,684.4	18,245.9	21,556.8	22,004.0	20,913.8	20,206.7	19,161.9	21,945.8
Loans and advances	30,408.3	30,646.3	29,628.8	28,603.7	28,576.5	26,971.4	27,106.3	26,292.9	26,222.8	27,766.3	27,405.1	28,171.9	29,535.4
o/w: Subordinated and hybrid instruments	1,585.1	1,942.8	1,951.0	1,958.3	1,952.2	1,934.6	1,922.4	1,932.6	1,933.7	1,925.1	1,909.0	1,999.5	2,000.7
Bonds	3,277.1	3,299.6	3,314.5	3,339.2	3,169.2	3,127.4	3,113.2	–	–	–	–	–	–
1.2 Liabilities to foreign non-banks	6,848.4	7,186.2	7,264.7	7,121.1	7,354.8	7,254.8	7,512.4	7,994.7	7,920.4	8,024.0	8,079.1	8,286.7	8,344.4
Savings and time deposits	6,719.0	7,112.0	7,190.1	7,047.4	7,281.4	7,182.6	7,440.4	7,985.5	7,911.2	8,015.4	8,071.0	8,278.6	8,336.3
Sight deposits	1,374.5	1,465.1	1,443.8	1,420.1	1,373.2	1,323.3	1,494.8	1,394.9	1,265.5	1,262.8	1,348.3	1,353.4	1,267.8
Time and notice deposits	5,344.6	5,646.9	5,746.2	5,627.4	5,908.2	5,859.3	5,945.6	6,590.6	6,645.7	6,752.6	6,722.7	6,925.3	7,068.6
Loans and advances	129.3	74.1	74.7	73.7	73.4	72.2	72.0	9.2	9.2	8.6	8.0	8.0	8.0
o/w: Subordinated and hybrid instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
2 Foreign liabilities in kuna	20,569.2	20,792.5	19,203.4	19,564.2	20,367.8	22,211.6	21,606.5	21,019.0	19,877.9	19,582.6	18,981.7	18,767.9	20,318.6
2.1 Liabilities to foreign financial institutions	20,061.0	20,273.4	18,711.0	19,087.8	19,894.9	21,750.8	21,175.9	20,584.9	19,487.0	19,191.8	18,597.7	18,398.8	19,943.0
Demand deposits	898.1	732.6	743.7	426.2	266.3	267.2	315.7	339.9	308.5	215.8	365.3	463.6	359.1
Time and notice deposits	15,014.2	15,392.0	13,818.5	14,512.8	15,448.1	16,569.4	15,956.1	15,338.2	14,266.3	14,059.3	13,321.1	13,013.7	14,654.3
Loans and advances	4,148.8	4,148.8	4,148.8	4,148.8	4,180.4	4,914.3	4,904.1	4,906.8	4,912.2	4,916.7	4,911.3	4,921.4	4,929.6
o/w: Subordinated and hybrid instruments	–	–	–	–	–	733.9	723.7	726.4	731.8	736.3	730.9	741.0	749.2
2.2 Liabilities to foreign non-banks	508.2	519.1	492.3	476.4	472.9	460.8	430.6	434.1	390.9	390.8	384.0	369.1	375.7
Demand deposits	257.0	269.3	252.1	237.6	228.8	238.0	217.7	232.9	205.2	208.0	204.6	215.0	222.8
Time and notice deposits	245.7	244.3	234.8	233.2	238.6	217.2	204.4	192.7	177.2	174.2	170.8	145.6	144.4
Loans and advances	5.5	5.5	5.5	5.5	5.5	5.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
o/w: Subordinated and hybrid instruments	5.5	5.5	5.5	5.5	5.5	5.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Total (1+2)	**75,296.1**	**78,503.6**	**75,734.7**	**76,543.2**	**78,240.5**	**78,436.7**	**77,780.5**	**77,095.0**	**76,273.5**	**76,582.9**	**74,873.3**	**74,615.9**	**80,365.3**

Table D10 Banks' foreign liabilities • The table shows banks' total foreign currency and kuna liabilities to foreign legal and natural persons, with the exception of restricted kuna and foreign currency deposits by foreign legal and natural persons.

Banks' foreign liabilities comprise foreign currency liabilities and foreign kuna liabilities.

Within foreign kuna and foreign currency liabilities, liabilities to foreign banks are reported separately from liabilities to foreign non-banks (total and by financial instruments). Loans and advances also include issued subordinated and hybrid instruments purchased by foreign investors.

Table D11 Central government and funds' deposits with banks
end of period, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 In kuna	14,185.1	15,903.7	14,746.8	14,752.1	16,010.6	14,352.5	15,003.4	15,080.1	15,100.7	15,720.0	16,075.4	14,930.9	15,124.1
1.1 Central government deposits	429.5	1,882.5	460.4	378.2	1,975.1	418.6	1,021.7	971.9	958.5	1,353.8	1,735.2	390.1	356.6
Demand deposits	176.7	214.6	196.6	154.4	159.7	171.2	174.2	238.2	174.3	169.3	172.1	166.7	189.3
Savings deposits	1.1	0.9	11.0	0.7	0.7	0.6	0.8	0.7	0.7	0.7	0.7	6.6	0.6
Time and notice deposits	251.6	1,667.0	252.7	223.1	1,814.7	246.8	846.7	732.9	783.4	1,183.8	1,562.5	216.8	166.7
Loans and advances	–	–	–	–	–	–	–	–	–	–	–	–	–
1.2 Central government funds' deposits	13,755.5	14,021.2	14,286.3	14,373.9	14,035.5	13,933.8	13,981.7	14,108.2	14,142.3	14,366.2	14,340.1	14,540.7	14,767.5
Demand deposits	645.6	483.4	385.4	412.9	298.1	322.7	276.6	266.6	307.9	282.8	329.2	341.2	389.5
Savings 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	0.3
Time and notice deposits	385.8	486.4	376.9	584.7	686.5	582.3	719.0	466.9	549.5	451.3	404.9	405.5	410.8
Loans and advances	12,724.1	13,051.5	13,524.0	13,376.4	13,050.9	13,028.8	12,986.2	13,374.6	13,284.8	13,632.1	13,606.0	13,793.9	13,966.9
2 In f/c	1,822.5	2,133.0	1,500.4	2,059.1	2,342.0	2,143.9	2,373.7	1,461.5	1,404.2	1,476.0	1,435.5	1,366.3	3,095.2
2.1 Central government deposits	1,122.5	986.4	935.9	1,286.6	997.5	970.3	1,144.3	1,063.3	1,025.6	1,004.3	1,064.5	1,079.9	1,088.3
Savings deposits	666.8	542.0	479.0	754.6	385.8	306.0	522.2	307.4	331.8	469.2	576.6	501.0	716.8
Time and notice deposits	330.0	339.6	350.0	428.5	509.0	569.1	526.9	692.3	631.4	474.0	428.4	519.0	309.4
Refinanced loans and advances	125.7	104.8	106.9	103.6	102.7	95.2	95.3	63.6	62.4	61.1	59.5	59.9	62.2
2.2 Central government funds' deposits	699.9	1,146.6	564.6	772.4	1,344.6	1,173.6	1,229.4	398.1	378.6	471.7	371.0	286.4	2,006.9
Savings deposits	107.1	69.4	264.1	59.5	47.6	70.6	86.3	63.9	113.1	94.3	78.6	93.1	106.6
Time and notice deposits	519.6	561.1	248.6	563.8	325.8	439.2	482.4	238.9	265.5	377.4	292.4	193.3	256.4
Loans and advances	73.2	516.1	51.8	149.1	971.2	663.8	660.7	95.3	–	–	–	–	1,643.9
Total (1+2)	**16,007.5**	**18,036.7**	**16,247.2**	**16,811.2**	**18,352.6**	**16,496.4**	**17,377.1**	**16,541.6**	**16,504.9**	**17,196.0**	**17,510.8**	**16,297.1**	**18,219.3**

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, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Restricted deposits	3,038.4	2,902.1	2,630.3	2,860.0	2,543.2	2,505.6	3,060.1	2,813.1	2,877.0	2,880.5	2,792.5	2,896.0	2,548.4
1.1 In kuna	1,478.8	1,539.2	1,495.6	1,430.7	1,417.5	1,462.9	1,546.5	1,471.8	1,468.8	1,444.8	1,428.5	1,554.4	1,366.0
1.2 In f/c	1,559.6	1,362.9	1,134.7	1,429.3	1,125.7	1,042.7	1,513.6	1,341.3	1,408.2	1,435.7	1,364.0	1,341.6	1,182.5
2 Blocked f/c deposits of housholds	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2)	**3,038.4**	**2,902.1**	**2,630.3**	**2,860.0**	**2,543.2**	**2,505.6**	**3,060.1**	**2,813.1**	**2,877.0**	**2,880.5**	**2,792.5**	**2,896.0**	**2,548.4**

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.

E Housing savings banks

Table E1 Housing savings banks' accounts

end of period, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
ASSETS													
1 Reserves with the CNB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Claims on central government and funds	3,395.5	3,389.1	3,342.7	3,257.2	3,211.2	3,167.7	3,173.7	3,165.9	3,158.9	3,118.7	3,118.2	3,173.7	3,137.9
3 Claims on other domestic sectors	2,857.9	2,902.2	2,919.9	2,962.7	2,958.5	2,921.1	2,938.4	2,961.1	2,954.1	2,958.4	2,936.9	2,969.5	2,979.1
o/w: Claims on households	2,857.9	2,902.2	2,919.9	2,962.7	2,958.5	2,921.1	2,938.4	2,961.1	2,954.1	2,958.4	2,936.9	2,969.5	2,979.1
4 Claims on banks	533.7	294.7	222.4	232.9	217.0	276.4	257.6	252.7	260.4	286.6	255.0	254.7	294.8
5 Claims on other banking institutions	–	–	–	–	–	–	–	–	–	–	–	–	–
Total (1+2+3+4+5)	**6,787.1**	**6,586.0**	**6,485.0**	**6,452.8**	**6,386.8**	**6,365.3**	**6,369.7**	**6,379.8**	**6,373.3**	**6,363.7**	**6,310.0**	**6,397.9**	**6,411.7**
LIABILITIES													
1 Time deposits	6,297.6	6,068.3	5,952.9	5,939.5	5,865.3	5,767.0	5,733.5	5,746.7	5,728.0	5,669.9	5,573.5	5,595.1	5,711.8
2 Bonds and money market instruments	91.5	120.8	133.1	102.3	128.6	140.7	156.4	151.8	140.7	179.7	222.9	262.3	230.8
3 Capital accounts	390.6	390.4	385.2	391.9	398.2	440.8	446.1	450.7	457.3	464.0	472.6	479.0	478.1
4 Other items (net)	7.4	6.5	13.9	19.0	–5.4	16.7	33.8	30.6	47.3	50.1	41.0	61.6	–8.9
Total (1+2+3+4)	**6,787.1**	**6,586.0**	**6,485.0**	**6,452.8**	**6,386.8**	**6,365.3**	**6,369.7**	**6,379.8**	**6,373.3**	**6,363.7**	**6,310.0**	**6,397.9**	**6,411.7**

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 collectively assessed impairment provisions. Other items (net) are unclassified liabilities decreased by unclassified assets.

F Monetary policy instruments and liquidity

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
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	December	9.00	6.00	9.00	–	–	10.00	15.00	15.00
2009	January	9.00	6.00	9.00	–	–	10.00	15.00	15.00
	February	9.00	6.00	9.00	–	–	10.00	15.00	15.00
	March	9.00	6.00	9.00	–	–	10.00	15.00	15.00
	April	9.00	6.00	9.00	–	–	10.00	15.00	15.00
	May	9.00	6.00	9.00	–	–	10.00	15.00	15.00
	June	9.00	6.00	9.00	–	–	10.00	15.00	15.00
	July	9.00	6.00	9.00	–	–	10.00	15.00	15.00
	August	9.00	6.00	9.00	–	–	10.00	15.00	15.00
	September	9.00	6.00	9.00	–	–	10.00	15.00	15.00
	October	9.00	6.00	9.00	–	–	10.00	15.00	15.00
	November	9.00	–	9.00	–	–	10.00	15.00	15.00
	December	9.00	–	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 on 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[a]	Interest rates on CNB bills on an obligatory basis	Interest rates on CNB bills on a voluntary basis[a]				Interest rates on f/c CNB bills on a voluntary basis					Interest rates on overnight deposits
				Due in 7 days	Due in 35 days	Due in 70 days	Due in 105 days	Due in 35 days	Due in 63 days	Due in 91 days	Due in 182 days	Due in 364 days	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
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	December	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
2009	January	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
	February	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
	March	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
	April	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
	May	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
	June	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
	July	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
	August	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
	September	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
	October	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
	November	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50
	December	0.75	0.25	–	–	–	–	–	–	–	–	–	0.50

[a] Breaks in the series of data are explained in notes on 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, in million HRK 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
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	December	14.87	41,474.4	29,179.7	12,294.7	461.9	20,425.8	8,807.0	0.52	0.81
2009	January	14.00	39,484.4	31,185.1	8,299.3	487.8	21,829.6	5,987.4	0.52	0.91
	February	14.00	40,527.5	34,390.5	6,137.0	520.7	24,073.3	4,489.8	0.52	0.48
	March	14.00	40,827.0	34,487.6	6,339.4	546.4	24,125.1	4,648.0	0.52	0.39
	April	14.00	40,250.8	33,875.8	6,375.0	380.4	23,707.5	4,667.4	0.52	0.31
	May	14.00	40,074.1	33,683.7	6,390.5	167.1	23,578.5	4,691.6	0.52	0.30
	June	14.00	39,992.9	33,592.4	6,400.5	144.0	23,514.6	4,711.6	0.52	0.25
	July	14.00	39,996.9	33,607.3	6,389.6	140.2	23,525.1	4,703.7	0.52	0.22
	August	14.00	40,057.0	33,623.7	6,433.2	136.0	23,536.5	4,726.5	0.52	0.30
	September	14.00	40,316.3	33,756.0	6,560.3	131.7	23,629.1	4,801.0	0.52	0.26
	October	14.00	40,547.6	33,890.5	6,657.1	134.0	23,723.3	4,859.0	0.52	0.35
	November	14.00	40,416.4	33,739.3	6,677.1	136.8	23,617.5	4,857.6	0.52	0.16
	December	14.00	40,423.5	33,693.7	6,729.8	30.9	23,585.6	4,898.0	0.52	–

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 to February 2009, statutory reserves on f/c deposits, f/c credits from foreign banks and guarantees for such credits and marginal reserve requirement (from August 2004 to October 2008).

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 to October 2008). From November 2009 on, the CNB does not pay remuneration on the allocated foreign currency component of reserve requirements.

Table F4 Banks' liquidity indicators

daily averages and percentages, in million HRK 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
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	–	4,316.0	3,073.2
2004	December	1,495.5	26,126.1	2.64	0.0	–	–	4,581.7
2005	December	672.5	20,493.4	0.96	0.2	–	–	4,163.3
2006	December	840.8	20,239.1	0.83	–	–	–	5,993.7
2007	December	1,161.5	30,412.6	1.03	330.4	–	–	4,449.4
2008	December	1,168.7	28,101.4	1.03	289.1	–	–	6,171.2
2009	January	737.9	30,126.4	0.65	778.7	–	–	7,020.9
	February	347.9	29,085.6	0.30	1,224.6	–	–	5,099.0
	March	293.1	25,644.7	0.27	1,266.3	–	–	6,156.5
	April	266.5	25,096.0	0.25	377.8	–	–	5,244.3
	May	239.3	22,005.5	0.23	200.4	–	–	4,976.8
	June	377.0	21,308.8	0.37	98.5	–	–	4,899.3
	July	257.7	22,619.0	0.25	174.1	–	–	4,513.3
	August	233.3	24,161.5	0.23	79.8	–	–	3,770.8
	September	181.5	24,897.9	0.18	129.7	–	–	4,529.6
	October	253.8	24,146.7	0.26	–	–	–	5,406.8
	November	320.1	24,082.1	0.33	–	–	–	5,101.7
	December	880.0	24,885.6	0.91	–	–	–	4,776.6

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 a difference between the average balance in the settlement account and the average balance in the vault (until October 2008). From November 2008 on, they are defined as a difference between the average balance in the settlement account in the kuna reserve requirement maintenance period and the minimal average settlement account balance prescribed by the kuna reserve requirement calculation methodology.

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.

G Financial markets

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	Interest rates on interbank demand deposit trading		Interest rates on kuna credits not indexed to foreign currency								
				Total average	On short-term credits					On long-term credits		
		On overnight credits	On other credits		Total average	Enterprises	Households			Total average	Enterprises	House-holds
							Total average	Credit lines	Other			
1	2	3	4	5	6	7	8	9	10	11	12	13
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	1.03	1.59	10.91	11.24	7.44	15.16	15.28	9.84	7.32	6.48	7.88
2003	December	6.54	6.36	11.45	11.80	8.02	14.89	15.01	12.38	8.51	6.14	10.69
2004	December	4.87	4.74	11.44	11.71	8.33	14.19	14.27	12.29	9.31	6.90	11.16
2005	December	3.08	3.91	9.91	9.99	7.71	11.26	13.18	5.35	8.75	6.48	10.35
2006	December	3.14	2.52	9.07	9.37	6.75	11.84	13.21	4.67	7.53	5.86	9.44
2007	December	6.23	7.33	9.32	9.74	7.39	12.34	13.19	4.95	7.50	6.66	8.01
2008	December	5.77	6.77	10.71	10.89	8.98	12.33	12.97	4.96	9.05	8.10	10.35
2009	January	8.95	9.72	11.02	11.09	9.24	12.44	13.03	4.45	9.60	7.84	11.06
	February	18.97	16.43	11.53	11.59	10.24	12.54	13.10	4.52	10.38	9.57	11.08
	March	13.67	14.57	11.61	11.69	10.25	12.53	13.15	4.48	10.29	9.26	10.97
	April	6.13	7.55	11.38	11.44	9.96	12.36	12.93	4.48	10.43	9.63	11.03
	May	5.20	6.28	11.52	11.58	9.93	12.58	13.17	4.29	10.56	9.84	11.24
	June	6.30	6.89	11.66	11.78	10.46	12.61	13.17	4.67	10.02	8.88	11.31
	July	7.41	8.22	11.81	11.86	10.58	12.60	13.17	4.34	10.94	10.16	11.44
	August	6.47	7.92	11.88	11.93	10.34	12.70	13.22	3.58	10.83	9.99	11.30
	September	6.58	7.48	11.82	11.89	10.32	12.68	13.22	4.08	10.59	9.20	11.46
	October	4.66	5.80	11.70	11.74	10.03	12.68	13.24	4.20	10.93	10.16	11.29
	November	1.09	2.18	11.60	11.65	9.85	12.73	13.24	4.09	10.66	9.25	11.28
	December	1.20	1.50	11.12	11.22	9.29	12.68	13.24	4.89	9.77	8.27	11.33
Relative significance[a]		–	–	**67.16**	**62.84**	**27.16**	**35.68**	**33.29**	**2.39**	**4.32**	**2.21**	**2.12**

[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 to August 2002, interest rates on the money market were 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.

As from Bulletin No. 157 columns 3 and 4 contain the revised data for the period from September 2002 onward. From September 2002 on, interest rates on overnight credits and other credits are calculated as the weighted monthly averages of the weighted daily interest rates on interbank demand deposit trading.

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	Enter-prises	Housholds	Total average	Enter-prises	Households					
								Total average	Housing credits	Other			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
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	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
2009	January	7.48	7.59	7.54	8.59	7.39	6.61	8.07	6.18	9.33	6.49	6.69	5.84
	February	7.88	8.05	7.96	9.24	7.73	6.93	8.25	6.21	9.33	6.39	6.52	6.20
	March	8.20	8.56	8.53	9.12	7.91	7.37	8.25	6.19	9.25	6.98	7.08	6.81
	April	8.08	8.44	8.36	9.44	7.82	6.95	8.47	6.27	9.53	7.04	7.42	5.70
	May	8.08	8.11	8.01	9.55	8.05	7.24	8.55	6.33	9.68	7.56	7.72	7.28
	June	8.21	8.36	8.29	9.43	8.10	7.85	8.36	6.28	9.59	7.65	7.82	7.24
	July	8.06	8.36	8.23	10.44	7.88	7.34	8.56	6.49	9.73	7.69	7.82	7.50
	August	8.19	8.47	8.41	9.43	8.00	7.21	8.61	6.45	9.87	7.77	8.08	7.43
	September	8.25	8.76	8.69	9.80	7.86	6.76	8.82	6.55	9.83	7.48	7.93	7.06
	October	8.30	8.33	8.28	9.64	8.27	7.42	9.01	6.41	9.94	7.32	7.38	7.21
	November	8.34	8.22	8.16	9.06	8.44	7.08	9.24	6.50	10.07	8.55	7.48	8.90
	December	8.28	8.48	8.41	10.23	8.11	7.31	9.02	6.45	9.96	6.98	7.35	6.49
Relative significance[a]		**27.20**	**12.16**	**11.66**	**0.50**	**15.04**	**8.04**	**7.00**	**1.88**	**5.13**	**5.63**	**3.25**	**2.38**

[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
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	December	2.92	0.43	5.65	5.60	5.34	5.64	6.58	5.88	6.85
2009	January	3.50	0.43	7.81	7.75	5.26	8.18	8.97	5.70	9.80
	February	4.41	0.47	11.83	11.96	5.68	12.73	9.67	5.67	10.24
	March	3.77	0.46	9.30	9.28	5.51	9.69	9.82	5.89	10.56
	April	3.32	0.44	6.49	6.41	5.30	6.56	8.12	6.17	8.46
	May	3.19	0.44	6.01	5.87	5.38	5.94	8.17	6.21	8.53
	June	3.13	0.45	6.05	5.93	5.38	6.01	7.93	6.27	8.22
	July	3.27	0.45	6.83	6.69	5.23	6.86	8.80	6.12	9.13
	August	3.12	0.46	6.48	6.34	5.12	6.45	8.46	6.18	8.70
	September	3.20	0.46	6.32	6.19	5.25	6.28	8.09	6.13	8.32
	October	2.95	0.45	5.05	4.96	5.30	4.92	6.26	6.14	6.27
	November	2.36	0.43	2.69	2.72	5.04	2.34	2.53	6.28	2.10
	December	2.22	0.43	2.52	2.49	4.89	2.04	2.76	6.12	2.07
Relative significance[a]		**51.98**	**28.88**	**20.55**	**18.35**	**2.94**	**15.41**	**2.20**	**0.37**	**1.83**

[a] Relative significance is calculated as a percentage of corresponding deposit category in total deposits received in the reporting month (according to data for the last period included in the table).

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
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	December	4.09	4.05	4.42	3.97	0.21	0.20	0.15	0.26	0.13
2009	January	4.25	3.87	4.55	3.99	0.24	0.20	0.15	0.41	0.31
	February	4.23	3.74	4.55	3.90	0.19	0.20	0.15	0.20	0.09
	March	3.52	3.72	4.83	3.92	0.19	0.21	0.16	0.16	0.12
	April	3.94	3.75	2.67	3.96	0.19	0.21	0.17	0.14	0.11
	May	3.70	3.66	4.25	3.88	0.19	0.21	0.16	0.14	0.09
	June	3.99	3.59	4.21	3.96	0.18	0.21	0.16	0.11	0.08
	July	4.24	3.68	4.82	4.03	0.18	0.20	0.16	0.12	0.08
	August	3.95	3.27	4.01	3.98	0.18	0.20	0.16	0.11	0.07
	September	4.06	3.15	4.48	4.01	0.18	0.21	0.15	0.11	0.06
	October	3.40	3.08	3.37	3.99	0.18	0.21	0.15	0.10	0.07
	November	3.39	3.16	4.08	3.99	0.18	0.21	0.15	0.11	0.08
	December	3.01[b]	3.12	3.31	3.98	0.18	0.22	0.16	0.10	0.07
Relative significance[b]		**0.74**	**0.69**	**0.05**	**47.28**	**19.35**	**13.10**	**1.57**	**4.27**	**0.41**

[a] Of the total amount of deposits to which this interest rate refers, 37.55% refers to enterprises.
[b] 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).

Tables G4a – G4b 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.

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

Table G4b Banks' interest rates on kuna deposits indexed to foreign currency and on foreign currency deposits

weighted averages of monthly interest rates, in % on annual basis

Year	Month	Interest rates on foreign currency deposits										
		On time deposits										
		Total average	On short-term deposits					On long-term deposits				
			Total average	Households		Enterprises		Total average	Households		Enterprises	
				EUR	USD	EUR	USD		EUR	USD	EUR	USD
1	2	12	13	14	15	16	17	18	19	20	21	22
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	December	4.15	3.95	4.33	2.69	4.13	1.84	5.51	5.57	3.58	5.52	2.38
2009	January	4.18	4.02	4.38	2.70	4.04	2.33	5.38	5.47	3.95	4.82	3.13
	February	3.74	3.52	4.18	2.72	3.62	1.85	5.48	5.57	3.68	5.11	2.00
	March	3.88	3.71	4.11	2.67	3.68	2.18	5.17	5.44	3.78	4.59	–
	April	3.91	3.72	4.16	2.69	3.49	2.44	5.44	5.57	3.69	5.13	3.50
	May	3.60	3.43	4.10	2.67	2.97	2.07	5.18	5.42	3.85	3.25	–
	June	3.85	3.71	4.25	2.69	3.42	2.59	5.29	5.55	3.99	3.54	2.27
	July	3.95	3.80	4.39	2.72	3.51	2.54	5.54	5.60	3.86	5.57	3.04
	August	3.95	3.83	4.48	2.77	3.45	2.38	5.37	5.40	3.99	5.71	–
	September	3.86	3.76	4.58	2.73	3.34	2.52	5.18	5.25	3.73	5.39	3.50
	October	3.61	3.46	4.27	2.79	3.08	1.73	5.36	5.42	3.81	5.41	0.00
	November	3.58	3.40	4.25	2.70	2.73	2.15	5.28	5.37	3.86	5.19	1.50
	December	3.58	3.40	4.33	2.73	2.64	1.77	5.13	5.43	3.86	2.85	0.13
Relative significance[a]		**27.93**	**25.02**	**11.61**	**0.59**	**12.01**	**0.81**	**2.91**	**2.54**	**0.10**	**0.27**	**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).

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

in million EUR, current exchange rate

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
A Purchase of foreign exchange													
1 Legal persons	2,720.4	1,459.0	955.2	1,435.6	1,049.4	1,339.8	1,410.9	1,640.7	1,170.7	1,800.8	1,743.4	2,511.4	3,422.9
2 Natural persons	373.9	254.3	246.7	337.0	547.5	559.0	461.8	575.8	483.3	384.0	367.6	333.6	369.6
2.1 Residents	350.6	241.5	236.9	316.9	507.5	511.2	395.3	490.0	376.3	335.7	332.4	303.6	342.3
2.2 Non-residents	23.4	12.8	9.9	20.1	40.0	47.8	66.5	85.8	107.0	48.4	35.2	30.0	27.4
3 Domestic banks	2,024.1	1,280.2	436.4	425.9	823.4	1,205.8	1,208.8	1,067.7	886.5	1,163.3	637.9	878.4	950.2
4 Foreign banks	952.5	512.0	377.4	381.6	366.5	630.7	643.8	594.3	487.1	439.4	382.9	411.9	454.2
5 Croatian National Bank	150.0	328.3	446.0	261.3	288.0	288.0	288.0	–	–	–	–	–	–
Total (1+2+3+4)	**6,220.9**	**3,833.8**	**2,461.8**	**2,841.4**	**3,074.8**	**4,023.3**	**4,013.3**	**3,878.5**	**3,027.6**	**3,787.5**	**3,131.8**	**4,135.3**	**5,196.9**
B Sale of foreign exchange													
1 Legal persons	1,351.2	1,792.4	1,351.2	1,360.2	1,256.4	1,513.7	1,790.6	1,907.7	1,486.6	1,961.2	1,822.9	2,294.8	3,169.4
2 Natural persons	487.8	271.7	487.8	268.4	241.3	195.2	178.3	458.9	362.5	230.7	161.8	151.6	197.2
2.1 Residents	321.5	270.2	486.4	267.3	240.0	193.5	176.9	456.0	360.2	229.0	160.5	150.0	196.0
2.2 Non-residents	3.1	1.5	1.4	1.1	1.3	1.7	1.4	2.9	2.3	1.7	1.3	1.6	1.2
3 Domestic banks	2,024.1	1,280.2	436.4	425.9	823.4	1,205.8	1,208.8	1,067.7	886.5	1,163.3	637.9	878.4	950.2
4 Foreign banks	783.7	581.5	289.7	450.3	365.6	581.3	662.1	519.0	468.7	395.1	272.7	342.3	353.1
5 Croatian National Bank	–	261.3	261.3	619.2	288.0	288.0	–	–	–	1.3	234.0	–	271.3
Total (1+2+3+4)	**5,917.1**	**4,187.1**	**2,826.3**	**3,124.0**	**2,974.5**	**3,784.0**	**3,839.8**	**3,953.3**	**3,204.3**	**3,751.7**	**3,129.4**	**3,667.1**	**4,941.2**
C Net purchase (A-B)													
1 Legal persons	–64.3	–333.5	–396.0	75.4	–207.0	–173.9	–379.7	–267.0	–315.9	–160.4	–79.5	216.6	253.4
2 Natural persons	49.3	–17.4	–241.0	68.6	306.3	363.8	283.5	116.9	120.8	153.3	205.7	182.1	172.4
2.1 Residents	29.0	–28.7	–249.5	49.6	267.5	317.7	218.4	34.0	16.0	106.7	171.9	153.6	146.3
2.2 Non-residents	20.2	11.3	8.4	19.0	38.7	46.1	65.1	82.8	104.7	46.6	33.9	28.4	26.1
3 Foreign banks	168.8	–69.5	87.8	–68.7	0.9	49.4	–18.2	75.3	18.4	44.2	110.2	69.6	101.1
4 Croatian National Bank	150.0	67.1	184.7	–357.9	–	–	288.0	–	–	–1.3	–234.0	–	–271.3
Total (1+2+3)	**303.8**	**–353.4**	**–364.5**	**–282.6**	**100.2**	**239.3**	**173.5**	**–74.8**	**–176.7**	**35.8**	**2.4**	**468.3**	**255.7**
Memo items: Other Croatian National Bank transactions													
Purchase of foreign exchange	0.3	0.3	4.5	0.2	0.2	0.2	473.2	0.2	3.3	0.2	2.5	60.6	119.1
Sale of foreign exchange	–	59.7	–	–	–	12.7	–	–	–	1.6	8.7	4.1	11.6

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.

H International economic relations

Table H1 Balance of payments – summary[a,b]

in million EUR

	2005	2006	2007	2008	2009[c]	2009			
						Q1	Q2	Q3	Q4[c]
A CURRENT ACCOUNT (1+6)	**–1,975.6**	**–2,717.1**	**–3,237.7**	**–4,371.0**	**–2,361.1**	**–1,845.7**	**–868.2**	**1,794.4**	**–1,441.7**
1 Goods, services, and income (2+5)	–3,159.5	–3,824.5	–4,280.7	–5,406.9	–3,395.6	–2,052.5	–1,162.7	1,553.3	–1,733.8
1.1 Credit	15,990.2	17,883.1	19,600.2	21,256.5	16,920.6	2,916.7	4,224.5	6,579.8	3,199.5
1.2 Debit	–19,149.7	–21,707.6	–23,880.9	–26,663.5	–20,316.3	–4,969.2	–5,387.3	–5,026.5	–4,933.3
2 Goods and services (3+4)	–2,200.2	–2,641.6	–3,166.6	–3,835.9	–1,731.2	–1,597.0	–609.7	1,903.4	–1,428.0
2.1 Credit	15,272.9	16,990.4	18,307.2	19,904.6	16,129.7	2,701.9	4,023.0	6,374.7	3,030.0
2.2 Debit	–17,473.2	–19,632.0	–21,473.8	–23,740.5	–17,860.9	–4,298.9	–4,632.7	–4,471.3	–4,458.0
3 Goods	–7,518.0	–8,344.2	–9,434.0	–10,793.8	–7,398.0	–1,731.8	–2,011.7	–1,836.7	–1,817.8
3.1 Credit	7,220.3	8,463.6	9,192.5	9,814.0	7,690.5	1,928.5	1,901.6	1,888.6	1,971.7
3.2 Debit	–14,738.3	–16,807.8	–18,626.5	–20,607.8	–15,088.5	–3,660.3	–3,913.4	–3,725.4	–3,789.5
4 Services	5,317.7	5,702.7	6,267.4	6,957.9	5,666.8	134.8	1,402.1	3,740.2	389.8
4.1 Credit	8,052.6	8,526.8	9,114.7	10,090.6	8,439.1	773.3	2,121.4	4,486.1	1,058.3
4.2 Debit	–2,734.9	–2,824.2	–2,847.3	–3,132.7	–2,772.4	–638.6	–719.3	–745.9	–668.5
5 Income	–959.2	–1,182.9	–1,114.1	–1,571.1	–1,664.4	–455.4	–553.1	–350.1	–305.8
5.1 Credit	717.3	892.7	1,293.0	1,351.9	791.0	214.8	201.5	205.1	169.5
5.2 Debit	–1,676.5	–2,075.6	–2,407.1	–2,922.9	–2,455.4	–670.3	–754.6	–555.2	–475.3
6 Current transfers	1,183.8	1,107.4	1,043.0	1,035.9	1,034.5	206.8	294.6	241.1	292.1
6.1 Credit	1,628.4	1,639.5	1,576.1	1,684.4	1,606.1	348.7	431.0	388.3	438.2
6.2 Debit	–444.6	–532.1	–533.1	–648.5	–571.6	–141.9	–136.4	–147.2	–146.1
B CAPITAL AND FINANCIAL ACCOUNT	**3,014.3**	**3,670.2**	**4,141.9**	**5,951.4**	**3,058.8**	**2,301.2**	**532.9**	**–248.4**	**473.2**
B1 Capital account	53.8	–134.0	29.6	15.3	39.4	–3.4	5.3	5.8	31.7
B2 Financial account, excl. reserves	3,782.3	5,216.4	4,833.9	5,605.7	3,915.8	1,893.8	859.0	–281.4	1,444.4
1 Direct investment	1,276.1	2,556.6	3,490.0	3,226.5	963.2	416.2	467.1	–34.1	114.1
1.1 Abroad	–191.8	–208.2	–180.2	–965.2	–912.0	–35.1	–28.5	–743.4	–105.0
1.2 In Croatia	1,467.9	2,764.8	3,670.2	4,191.7	1,875.2	451.2	495.6	709.2	219.1
2 Portfolio investment	–1,177.9	–542.3	–2.9	–627.2	274.7	–425.3	369.8	–399.6	729.8
2.1 Assets	–571.2	–472.5	–413.7	–273.3	–761.5	146.3	–65.1	–248.9	–593.7
2.2 Liabilities	–606.6	–69.8	410.8	–353.9	1,036.2	–571.6	435.0	–150.7	1,323.5
3 Financial derivatives	–88.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Other investment	3,772.5	3,202.1	1,346.8	3,006.4	2,677.9	1,903.0	22.1	152.3	600.5
4.1 Assets	982.2	–692.3	–1,653.3	–1,620.9	681.8	1,938.5	–947.4	–616.3	307.1
4.2 Liabilities	2,790.3	3,894.4	3,000.1	4,627.3	1,996.1	–35.5	969.5	768.6	293.4
B3 Reserve assets	–821.8	–1,412.2	–721.6	330.4	–896.4	410.7	–331.3	27.2	–1,003.0
C NET ERRORS AND OMISSIONS	**–1,038.6**	**–953.1**	**–904.2**	**–1,580.4**	**–697.7**	**–455.5**	**335.3**	**–1,546.0**	**968.6**

[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] Data also include the round tripping which increases direct investment in Croatia and direct investment abroad by the same amount. This type of direct investment was recorded in December 2008 (EUR 825.7m) and August 2009 (EUR 666.5m). [c] 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.

Tables H1 – H6 Balance of payments • The balance of payments of the Republic of Croatia represents a systematic overview of the value of economic transactions performed by the Croatian residents with foreign countries within a particular period. It is compiled in accordance with the recommendations of the International Monetary Fund (Balance of Payments Manual, Fifth Edition, 1993). Data sources include: 1) reports of the government institutions (Central Bureau of Statistics and Croatian Institute for Health Insurance), 2) special reports of the Croatian National Bank (International Transaction Reporting System (ITRS), external debt relations, monetary statistics and reserve assets) and 3) estimates and statistical research carried out by the Croatian National Bank.

Balance of payments of the Republic of Croatia data are reported in three currencies: in euros (EUR), US dollars (USD) and domestic currency (HRK). In all cases, the same data sources are used and the same principles regarding the scope of transactions and the procedures for compiling particular items are applied. Since the original data are reported in different currencies, the transaction values are converted from the original currency into the reporting currency by applying the exchange rate from the CNB exchange rate list in one of the following manners:

- by applying the midpoint exchange rate on the date of the transaction;
- by applying the average monthly or quarterly midpoint exchange rate in the case the transaction date is not available;
- by applying the end-of-period exchange rate for the calculation of a change in the transaction value between the two periods; the end-of-period balances reported in the original currency serve as a basis for calculating the change in the original currency value, which is converted, by applying the average

Table H2 Balance of payments – goods and services
in million EUR

	2005	2006	2007	2008	2009[a]	2009			
						Q1	Q2	Q3	Q4[a]
Goods	**–7,518.0**	**–8,344.2**	**–9,434.0**	**–10,793.8**	**–7,398.0**	**–1,731.8**	**–2,011.7**	**–1,836.7**	**–1,817.8**
1 Credit	7,220.3	8,463.6	9,192.5	9,814.0	7,690.5	1,928.5	1,901.6	1,888.6	1,971.7
1.1 Exports (f.o.b.) in trade statistics	7,069.4	8,251.6	9,001.6	9,585.1	7,516.7	1,892.7	1,864.6	1,835.2	1,924.2
1.2 Adjustments for coverage	150.9	212.0	191.0	228.9	173.8	35.8	37.0	53.4	47.5
2 Debit	–14,738.3	–16,807.8	–18,626.5	–20,607.8	–15,088.5	–3,660.3	–3,913.4	–3,725.4	–3,789.5
2.1 Imports (c.i.f.) in trade statistics	–14,949.5	–17,104.7	–18,826.6	–20,817.1	–15,218.5	–3,706.9	–3,951.6	–3,738.0	–3,822.0
2.2 Adjustments for coverage	–346.4	–341.1	–370.4	–421.4	–331.1	–65.7	–81.5	–100.6	–83.3
2.3 Adjustments for classification	557.6	638.0	570.4	630.8	461.1	112.3	119.7	113.3	115.8
Services	**5,317.7**	**5,702.7**	**6,267.4**	**6,957.9**	**5,666.8**	**134.8**	**1,402.1**	**3,740.2**	**389.8**
1 Transportation	376.1	474.2	542.1	508.5	255.0	51.2	72.4	90.8	40.5
1.1 Credit	880.3	1,037.5	1,165.4	1,209.4	752.0	173.9	197.2	220.6	160.3
1.2 Debit	–504.2	–563.2	–623.3	–700.9	–497.1	–122.7	–124.8	–129.8	–119.8
2 Travel	5,394.9	5,708.7	6,035.2	6,694.0	5,648.6	171.9	1,399.9	3,660.9	415.9
2.1 Credit	5,998.9	6,293.3	6,752.6	7,459.4	6,366.8	300.7	1,590.1	3,897.0	579.0
2.1.1 Business	504.0	388.4	389.2	386.4	255.7	40.0	94.3	65.7	55.8
2.1.2 Personal	5,494.9	5,904.9	6,363.4	7,073.1	6,111.0	260.7	1,495.8	3,831.3	523.2
2.2 Debit	–604.1	–584.6	–717.3	–765.5	–718.2	–128.8	–190.2	–236.1	–163.0
2.2.1 Business	–267.4	–229.5	–266.9	–261.3	–240.8	–40.2	–70.1	–63.9	–66.6
2.2.2 Personal	–336.7	–355.1	–450.4	–504.2	–477.3	–88.7	–120.0	–172.2	–96.4
2.3 Other services	–453.3	–480.3	–310.0	–244.6	–236.8	–88.4	–70.2	–11.6	–66.7
2.3.1 Credit	1,173.4	1,196.0	1,196.8	1,421.8	1,320.4	298.7	334.1	368.5	319.1
2.3.2 Debit	–1,626.6	–1,676.3	–1,506.7	–1,666.4	–1,557.2	–387.1	–404.3	–380.0	–385.7

[a] Preliminary data.

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 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.

Table H3 Balance of payments – income and current transfers

in million EUR

	2005	2006	2007	2008	2009[a]	2009 Q1	2009 Q2	2009 Q3	2009 Q4[a]
Income	**–959.2**	**–1,182.9**	**–1,114.1**	**–1,571.1**	**–1,664.4**	**–455.4**	**–553.1**	**–350.1**	**–305.8**
1 Compensation of employees	259.7	373.2	494.2	564.1	586.5	146.0	149.3	141.8	149.5
1.1 Credit	289.2	404.3	527.8	599.7	624.2	154.9	159.1	151.1	159.1
1.2 Debit	–29.5	–31.1	–33.6	–35.5	–37.6	–8.9	–9.8	–9.3	–9.7
2 Direct investment income	–739.0	–1,002.0	–923.3	–1,138.1	–1,002.6	–271.7	–387.8	–181.7	–161.4
2.1 Credit	112.7	80.7	174.5	194.6	–59.2	–6.7	–9.9	8.9	–51.5
o/w: Reinvested earnings	63.8	64.0	123.3	118.6	–97.6	–15.2	–19.1	–5.0	–58.2
2.2 Debit	–851.8	–1,082.7	–1,097.8	–1,332.6	–943.4	–264.9	–377.9	–190.6	–109.9
o/w: Reinvested earnings	–570.5	–717.5	–483.3	–508.5	–171.3	109.3	–101.3	–120.7	–58.6
3 Portfolio investment income	–217.6	–175.9	–162.9	–145.8	–150.5	–29.7	–33.8	–43.3	–43.7
3.1 Credit	46.2	57.4	74.5	74.6	70.2	17.8	15.3	12.0	25.2
3.2 Debit	–263.8	–233.3	–237.4	–220.4	–220.7	–47.5	–49.0	–55.3	–68.9
4 Other investment income	–262.3	–378.2	–522.2	–851.3	–1,097.8	–300.0	–280.7	–266.9	–250.1
4.1 Credit	269.1	350.3	516.2	483.0	155.8	48.9	37.1	33.1	36.7
4.2 Debit	–531.4	–728.6	–1,038.4	–1,334.3	–1,253.6	–348.9	–317.9	–300.0	–286.8
Current transfers	**1,183.8**	**1,107.4**	**1,043.0**	**1,035.9**	**1,034.5**	**206.8**	**294.6**	**241.1**	**292.1**
1 General government	9.7	–8.6	–16.7	–54.6	–30.7	–31.5	20.4	–30.5	10.9
1.1 Credit	219.6	255.7	260.2	342.6	308.4	52.2	100.7	59.9	95.5
1.2 Debit	–209.9	–264.4	–276.8	–397.3	–339.0	–83.7	–80.3	–90.4	–84.6
2 Other sectors	1,174.1	1,116.0	1,059.6	1,090.5	1,065.2	238.3	274.1	271.6	281.1
2.1 Credit	1,408.8	1,383.8	1,316.0	1,341.7	1,297.8	296.5	330.2	328.4	342.7
2.2 Debit	–234.6	–267.7	–256.3	–251.2	–232.6	–58.2	–56.1	–56.8	–61.5

[a] Preliminary data.

Other services position is complied 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. From the first quarter of 2009 on, international standards are applied in the statistical monitoring of reinvested earnings, meaning that reinvested earnings are reported on a quarterly basis, i.e. in the period in which the profit is actually earned. Previously, reinvested earnings were reported in the month in which the decision on the distribution of the previous year's profit was adopted, meaning that they were based on the profit earned in the preceding year. 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 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

Table H4 Balance of payments – direct and portfolio investments[a,b]

in million EUR

	2005	2006	2007	2008	2009[c]	2009			
						Q1	Q2	Q3	Q4[c]
Direct investment	**1,276.1**	**2,556.6**	**3,490.0**	**3,226.5**	**963.2**	**416.2**	**467.1**	**–34.1**	**114.1**
1 Abroad	–191.8	–208.2	–180.2	–965.2	–912.0	–35.1	–28.5	–743.4	–105.0
1.1 Equity capital and reinvested earnings	–121.0	–211.9	–234.3	–1,071.0	–905.1	–103.7	–43.1	–715.7	–42.6
1.1.1 Claims	–122.2	–211.9	–237.4	–1,071.0	–1,002.7	–119.0	–62.2	–720.7	–100.8
1.1.2 Liabilities	1.3	0.0	3.1	0.0	97.6	15.2	19.1	5.0	58.2
1.2 Other capital	–70.9	3.7	54.1	105.7	–6.9	68.6	14.5	–27.7	–62.4
1.1.1 Claims	–59.8	–13.9	20.2	106.8	–43.2	47.3	–13.9	–42.4	–34.1
1.2.2 Liabilities	–11.1	17.6	33.9	–1.1	36.3	21.4	28.4	14.8	–28.3
2 In Croatia	1,467.9	2,764.8	3,670.2	4,191.7	1,875.2	451.2	495.6	709.2	219.1
2.1 Equity capital and reinvested earnings	1,363.5	2,460.9	2,685.8	2,680.6	743.8	38.3	266.5	353.3	85.7
2.1.1 Claims	0.0	–0.1	0.0	–6.9	–109.3	–109.3	0.0	0.0	0.0
2.1.2 Liabilities	1,363.5	2,461.0	2,685.8	2,687.4	853.1	147.6	266.5	353.3	85.7
2.2 Other capital	104.4	303.8	984.5	1,511.1	1,131.4	412.9	229.1	355.9	133.4
2.2.1 Claims	0.0	16.6	–2.7	–26.3	–31.2	–13.1	8.4	0.7	–27.3
2.2.2 Liabilities	104.4	287.3	987.2	1,537.4	1,162.6	426.0	220.7	355.2	160.7
Portfolio investment	**–1,177.9**	**–542.3**	**–2.9**	**–627.2**	**274.7**	**–425.3**	**369.8**	**–399.6**	**729.8**
1 Assets	–571.2	–472.5	–413.7	–273.3	–761.5	146.3	–65.1	–248.9	–593.7
1.1 Equity securities	–193.0	–320.5	–843.5	147.3	–108.3	12.2	–56.1	–16.4	–48.1
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 Banks	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.1.2 Other sectors	–193.0	–323.1	–843.5	147.3	–108.3	12.2	–56.1	–16.4	–48.1
1.2 Debt securities	–378.2	–152.0	429.7	–420.6	–653.1	134.0	–9.1	–232.5	–545.6
1.2.1 Bonds	–396.5	98.7	323.0	–322.6	–320.5	133.9	–64.9	–109.4	–280.0
1.2.1.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.2 Banks	–360.2	142.4	261.1	–221.0	–53.8	189.7	0.8	–98.1	–146.3
1.2.1.3 Other sectors	–36.3	–43.7	61.9	–101.6	–266.7	–55.8	–65.7	–11.4	–133.8
1.2.2 Money market instruments	18.3	–250.6	106.7	–98.1	–332.7	0.1	55.9	–123.1	–265.6
1.2.2.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.2.2 Banks	18.3	–250.6	106.7	–98.1	–332.7	0.1	55.9	–123.1	–265.6
1.2.2.3 Other sectors	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
2 Liabilities	–606.6	–69.8	410.8	–353.9	1,036.2	–571.6	435.0	–150.7	1,323.5
2.1 Equity securities	89.2	325.7	315.7	–87.1	–15.9	–0.3	–22.2	–12.0	18.7
2.1.1 Banks	–12.8	41.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.1.2 Other sectors	102.0	284.0	315.7	–87.1	–15.9	–0.3	–22.2	–12.0	18.7
2.2 Debt securities	–695.8	–395.6	95.1	–266.8	1,052.1	–571.3	457.2	–138.7	1,304.8
2.2.1 Bonds	–695.8	–395.6	95.1	–266.8	1,052.1	–571.3	457.2	–138.7	1,304.8
2.2.1.1 General government	–705.9	–463.7	–276.4	–208.0	1,008.4	–572.4	460.0	58.4	1,062.4
2.2.1.2 Banks	3.2	1.2	1.0	–1.6	–446.5	2.8	3.3	–452.6	0.0
2.2.1.3 Other sectors	6.9	66.9	370.5	–57.3	490.1	–1.7	–6.1	255.5	242.4
2.2.2 Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.2 Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.3 Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	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 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] Data also include the round tripping which increases direct investment in Croatia and direct investment abroad by the same amount. This type of direct investment was recorded in December 2008 (EUR 825.7m) and August 2009 (EUR 666.5m). [c] Preliminary data.

in equity capital of a company, regardless of whether a resident invests abroad or a non-resident invests in Croatian residents. The CNB Research on foreign direct investments started in 1997 when companies included in the survey also delivered data on direct investments for the 1993-1996 period. For the same period, no data are available on reinvested earnings and other capital under direct investment position, where all debt relations between related residents and non-residents are classified (excluding the banking sector). Such data actually became available only after the stated research has been launched. Since 1999, data on debt relations within direct investments have been collected on the basis of external debt relations statistics. 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.

Table H5 Balance of payments – other investment[a]

in million EUR

	2005	2006	2007	2008	2009[b]	2009			
						Q1	Q2	Q3	Q4[b]
Other investment (net)	**3,772.5**	**3,202.1**	**1,346.8**	**3,006.4**	**2,677.9**	**1,903.0**	**22.1**	**152.3**	**600.5**
1 Assets	982.2	–692.3	–1,653.3	–1,620.9	681.8	1,938.5	–947.4	–616.3	307.1
1.1 Trade credits	–134.8	–33.3	–99.4	–126.5	148.9	12.3	–38.4	129.3	45.7
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 Long-term	0.0	0.0	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	–134.8	–33.3	–99.4	–126.5	148.9	12.3	–38.4	129.3	45.7
1.1.2.1 Long-term	10.4	–4.9	–63.5	26.7	58.0	16.2	11.6	11.1	19.1
1.1.2.2 Short-term	–145.3	–28.4	–35.9	–153.2	90.9	–3.9	–50.0	118.2	26.6
1.2 Loans	–116.8	–153.1	–4.5	–107.5	41.5	18.6	35.2	1.2	–13.5
1.2.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2.1.1 Long-term	0.0	0.0	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	–28.5	–80.4	–32.6	–66.7	20.5	–1.7	28.3	–9.7	3.6
1.2.2.1 Long-term	–20.5	–58.9	–25.4	–26.8	–28.7	–0.8	4.8	–23.1	–9.5
1.2.2.2 Short-term	–8.0	–21.5	–7.3	–39.9	49.2	–0.8	23.5	13.4	13.1
1.2.3 Other sectors	–88.3	–72.7	28.1	–40.8	21.0	20.3	6.9	10.8	–17.0
1.2.3.1 Long-term	–89.2	–73.0	28.1	–37.6	20.9	20.3	9.2	8.7	–17.4
1.2.3.2 Short-term	1.0	0.3	0.0	–3.2	0.1	0.0	–2.3	2.1	0.3
1.3 Currency and deposits	1,233.8	–505.9	–1,549.4	–1,386.8	491.4	1,907.6	–944.3	–746.8	274.9
1.3.1 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.3.2 Banks	1,313.7	–462.1	–1,317.1	–136.4	425.8	1,752.9	–855.5	–693.6	221.9
1.3.3 Other sectors	–79.8	–43.8	–232.3	–1,250.5	65.7	154.7	–88.8	–53.2	53.0
1.4 Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Liabilities	2,790.3	3,894.4	3,000.1	4,627.3	1,996.1	–35.5	969.5	768.6	293.4
2.1 Trade credits	15.1	18.5	313.5	32.0	–143.5	–250.5	68.6	51.5	–13.0
2.1.1 General government	0.4	–0.7	–0.6	–0.5	0.0	0.0	0.0	0.0	0.0
2.1.1.1 Long-term	0.4	–0.7	–0.6	–0.5	0.0	0.0	0.0	0.0	0.0
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	14.7	19.2	314.2	32.5	–143.5	–250.5	68.6	51.5	–13.0
2.1.2.1 Long-term	27.4	–3.7	165.0	34.9	–58.0	–1.9	–33.8	7.9	–30.2
2.1.2.2 Short-term	–12.7	22.9	149.2	–2.4	–85.5	–248.6	102.4	43.6	17.1
2.2 Loans	2,405.7	3,059.2	2,890.3	3,703.9	969.3	–131.9	506.8	537.6	56.8
2.2.1 Croatian National Bank	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2 General government	97.2	165.0	161.0	96.7	–7.4	36.0	17.3	–33.0	–27.8
2.2.2.1 Long-term	97.2	165.0	161.0	65.0	24.3	44.7	26.0	–24.4	–22.0
2.2.2.1.1 Drawings	342.0	477.8	523.5	330.1	306.0	106.9	106.9	38.0	54.1
2.2.2.1.2 Repayments	–244.8	–312.8	–362.5	–265.2	–281.7	–62.3	–80.9	–62.4	–76.1
2.2.2.2 Short-term	0.0	0.0	0.0	31.7	–31.7	–8.6	–8.6	–8.6	–5.8
2.2.3 Banks	826.0	541.2	–1,065.0	115.2	–166.5	–341.1	–111.5	76.3	209.9
2.2.3.1 Long-term	281.1	419.5	–630.8	–276.1	158.1	18.0	–118.3	–27.9	286.3
2.2.3.1.1 Drawings	1,236.1	2,833.6	1,216.2	609.4	1,219.2	140.6	511.2	183.8	383.6
2.2.3.1.2 Repayments	–955.0	–2,414.1	–1,847.0	–885.4	–1,061.1	–122.6	–629.4	–211.7	–97.3
2.2.3.2 Short-term	544.9	121.7	–434.2	391.3	–324.6	–359.1	6.7	104.2	–76.4
2.2.4 Other sectors	1,482.6	2,353.0	3,794.4	3,492.0	1,143.2	173.1	601.1	494.3	–125.3
2.2.4.1 Long-term	1,428.1	2,264.1	3,184.9	3,175.7	866.9	141.3	404.0	425.2	–103.6
2.2.4.1.1 Drawings	2,934.5	4,266.4	5,960.8	6,700.9	4,804.5	834.9	1,665.9	1,184.4	1,119.3

	2005	2006	2007	2008	2009[b]	2009			
						Q1	Q2	Q3	Q4[b]
2.2.4.1.2 Repayments	–1,506.4	–2,002.3	–2,775.9	–3,525.2	–3,937.5	–693.6	–1,261.9	–759.1	–1,222.9
2.2.4.2 Short-term	54.5	88.9	609.5	316.2	276.2	31.9	197.0	69.1	–21.7
2.3 Currency and deposits	366.7	814.0	–206.4	890.2	1,168.3	346.6	393.6	179.2	248.9
2.3.1 General government	0.1	0.1	–0.1	–0.1	–1.2	–0.3	–0.8	0.0	0.0
2.3.2 Banks	366.6	813.9	–206.4	881.6	1,180.0	351.8	398.4	181.0	248.9
2.3.3 Other sectors	–0.1	0.1	0.1	8.7	–10.6	–4.9	–3.9	–1.8	0.0
2.4 Other liabilities	2.8	2.7	2.7	1.3	2.0	0.3	0.5	0.4	0.8

[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 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]

in million HRK

	2005	2006	2007	2008	2009[b]	2009			
						Q1	Q2	Q3	Q4[b]
A CURRENT ACCOUNT (1+6)	**–14,828.7**	**–20,064.6**	**–23,886.5**	**–31,677.7**	**–17,497.1**	**–13,685.8**	**–6,415.4**	**13,142.1**	**–10,538.0**
1 Goods, services, and income (2+5)	–23,586.8	–28,173.7	–31,537.4	–39,153.4	–25,036.7	–15,221.0	–8,583.7	11,378.6	–12,610.6
1.1 Credit	117,994.9	130,756.5	143,640.8	153,418.7	124,109.1	21,610.8	31,070.1	48,161.4	23,266.9
1.2 Debit	–141,581.7	–158,930.2	–175,178.2	–192,572.1	–149,145.7	–36,831.8	–39,653.7	–36,782.7	–35,877.4
2 Goods and services (3+4)	–16,508.1	–19,535.2	–23,342.4	–27,771.7	–12,797.3	–11,843.9	–4,510.9	13,941.9	–10,384.3
2.1 Credit	112,693.7	124,216.9	134,156.6	143,655.7	118,300.6	20,018.2	29,586.9	46,660.8	22,034.8
2.2 Debit	–129,201.8	–143,752.1	–157,499.0	–171,427.5	–131,098.0	–31,862.1	–34,097.8	–32,718.9	–32,419.1
3 Goods	–55,568.1	–61,083.9	–69,218.6	–77,984.3	–54,329.4	–12,848.0	–14,811.4	–13,444.2	–13,225.8
3.1 Credit	53,397.7	61,988.6	67,424.8	70,856.8	56,453.8	14,291.5	14,000.4	13,823.2	14,338.7
3.2 Debit	–108,965.8	–123,072.5	–136,643.4	–148,841.1	–110,783.2	–27,139.5	–28,811.8	–27,267.4	–27,564.5
4 Services	39,060.0	41,548.7	45,876.2	50,212.6	41,532.0	1,004.1	10,300.4	27,386.1	2,841.5
4.1 Credit	59,296.0	62,228.3	66,731.8	72,798.9	61,846.8	5,726.7	15,586.4	32,837.6	7,696.1
4.2 Debit	–20,236.0	–20,679.6	–20,855.6	–22,586.3	–20,314.7	–4,722.6	–5,286.0	–5,451.5	–4,854.6
5 Income	–7,078.7	–8,638.5	–8,195.0	–11,381.7	–12,239.3	–3,377.1	–4,072.7	–2,563.2	–2,226.3
5.1 Credit	5,301.2	6,539.7	9,484.1	9,762.9	5,808.5	1,592.6	1,483.2	1,500.6	1,232.1
5.2 Debit	–12,379.9	–15,178.1	–17,679.1	–21,144.6	–18,047.8	–4,969.7	–5,555.9	–4,063.8	–3,458.3
6 Current transfers	8,758.1	8,109.0	7,650.9	7,475.7	7,539.5	1,535.3	2,168.2	1,763.5	2,072.6
6.1 Credit	12,047.2	12,005.6	11,562.1	12,159.5	11,697.6	2,586.1	3,170.7	2,841.0	3,099.7
6.2 Debit	–3,289.1	–3,896.5	–3,911.1	–4,683.7	–4,158.0	–1,050.8	–1,002.5	–1,077.6	–1,027.2
B CAPITAL AND FINANCIAL ACCOUNT	**22,085.4**	**26,918.4**	**30,269.7**	**42,648.4**	**22,521.3**	**17,037.4**	**3,910.8**	**–1,821.5**	**3,394.6**
B1 Capital account	396.8	–981.8	217.3	111.2	325.5	–19.0	39.0	51.2	254.3
B2 Financial account, excl. reserves	27,764.0	38,213.6	35,367.4	40,229.2	28,707.1	14,046.8	6,295.2	–2,071.7	10,436.7
1 Direct investment	9,093.0	18,726.0	25,643.9	22,897.2	7,113.4	3,086.9	3,440.6	–248.6	834.6
1.1 Abroad	–1,415.4	–1,525.6	–1,325.3	–6,945.8	–6,679.7	–261.5	–212.2	–5,443.2	–762.8
1.2 In Croatia	10,508.5	20,251.6	26,969.2	29,843.0	13,793.1	3,348.4	3,652.7	5,194.5	1,597.4
2 Portfolio investment	–8,713.6	–4,008.6	–29.7	–4,436.3	1,901.4	–3,144.6	2,701.6	–2,924.0	5,268.3
2.1 Assets	–4,195.8	–3,483.3	–3,050.8	–1,913.9	–5,566.0	1,101.9	–473.4	–1,820.2	–4,374.4
2.2 Liabilities	–4,517.8	–525.3	3,021.2	–2,522.4	7,467.4	–4,246.5	3,175.0	–1,103.8	9,642.7
3 Financial derivatives	–659.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Other investment	28,044.0	23,496.2	9,753.1	21,768.3	19,692.2	14,104.5	153.1	1,100.9	4,333.8
4.1 Assets	7,421.4	–5,121.6	–12,078.3	–11,587.5	5,116.4	14,406.7	–6,979.0	–4,509.8	2,198.5
4.2 Liabilities	20,622.6	28,617.9	21,831.4	33,355.8	14,575.9	–302.2	7,132.0	5,610.8	2,135.3
B3 Reserve assets (CNB)	–6,075.4	–10,313.4	–5,315.0	2,308.1	–6,511.3	3,009.5	–2,423.4	199.1	–7,296.4
C NET ERRORS AND OMISSIONS	**–7,256.7**	**–6,853.8**	**–6,383.3**	**–10,970.7**	**–5,024.2**	**–3,351.6**	**2,504.6**	**–11,320.7**	**7,143.4**

[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.
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.

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, in million EUR

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	
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	December	9,120.9	0.7	0.2	–	9,120.0	2,001.8	7,118.2	4,644.5
2009	January	8,674.7	0.8	0.2	–	8,673.7	2,001.9	6,671.8	4,859.2
	February	8,557.8	0.6	0.2	–	8,556.9	2,323.8	6,233.1	3,855.4
	March	8,869.5	0.6	0.2	–	8,868.7	2,080.3	6,788.4	3,002.2
	April	8,885.1	0.7	0.2	–	8,884.2	2,284.1	6,600.1	3,408.6
	May	8,788.5	0.6	0.2	–	8,787.7	2,299.1	6,488.7	3,428.8
	June	9,090.1	0.6	0.2	–	9,089.3	2,179.5	6,909.7	3,802.7
	July	9,030.9	0.7	0.2	–	9,030.1	1,899.5	7,130.5	3,942.3
	August	9,292.2	296.1	0.2	–	8,995.9	1,915.6	7,080.3	4,279.8
	September	9,317.6	330.1	0.2	–	8,987.3	1,657.5	7,329.8	4,463.1
	October	9,540.9	327.4	0.2	–	9,213.3	2,265.4	6,947.8	3,963.6
	November	10,145.5	327.9	0.2	–	9,817.5	2,753.5	7,064.0	3,963.9
	December	10,375.8	331.7	0.2	–	10,043.9	2,641.4	7,402.6	4,293.9

[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, in million EUR

		2008	2009											
		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		9,120.9	8,674.7	8,557.8	8,869.5	8,885.1	8,788.5	9,090.1	9,030.9	9,292.2	9,317.6	9,540.9	10,145.5	10,375.8
(1) Foreign currency reserves (in convertible f/c)		8,625.0	8,074.9	7,829.9	8,319.2	7,977.1	7,861.4	8,437.3	8,765.1	8,690.9	8,697.3	8,683.3	9,034.3	9,243.3
(a) Securities		7,118.2	6,671.8	6,233.1	6,788.4	6,600.1	6,488.7	6,909.7	7,130.5	7,080.3	7,329.8	6,947.8	7,064.0	7,402.6
o/w: Issuer headquartered in reporting country but located abroad		–	–	–	–	–	–	–	–	–	–	–	–	–
(b) Total currency and deposits with:		1,506.7	1,403.1	1,596.8	1,530.8	1,377.0	1,372.7	1,527.5	1,634.5	1,610.6	1,367.5	1,735.4	1,970.3	1,840.8
(i) Other national central banks, BIS and IMF		1,397.3	1,307.5	1,513.6	1,468.7	1,288.8	1,288.9	1,329.4	1,263.0	1,262.9	942.4	1,265.5	1,871.7	1,698.9
(ii) Banks headquartered in the reporting country		–	–	–	–	–	–	–	–	–	–	–	–	–
o/w: Located abroad		–	–	–	–	–	–	–	–	–	–	–	–	–
(iii) Banks headquartered outside the reporting country		109.5	95.6	83.2	62.1	88.2	83.9	198.1	371.5	347.7	425.1	470.0	98.6	141.8
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		0.7	0.8	0.6	0.6	0.7	0.6	0.6	0.7	296.1	330.1	327.4	327.9	331.7
(4) Gold		–	–	–	–	–	–	–	–	–	–	–	–	–
(5) Other reserve assets		495.0	598.8	727.0	549.5	907.1	926.3	652.0	265.0	305.0	290.0	530.0	783.2	800.6
– Reverse repo		495.0	598.8	727.0	549.5	907.1	926.3	652.0	265.0	305.0	290.0	530.0	783.2	800.6
B Other foreign currency assets (specify)		–	–	–	–	–	–	–	–	–	–	–	–	–
– Time deposits		–	–	–	–	–	–	–	–	–	–	–	–	–
C Total (A+B)		**9,120.9**	**8,674.7**	**8,557.8**	**8,869.5**	**8,885.1**	**8,788.5**	**9,090.1**	**9,030.9**	**9,292.2**	**9,317.6**	**9,540.9**	**10,145.5**	**10,375.8**
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)		–1,084.1	–1,100.4	–1,050.6	–1,039.0	–1,038.0	–1,024.9	–864.9	–849.7	–860.5	–896.2	–935.2	–974.6	–989.3
(a) Croatian National Bank		–0.9	–0.2	–0.2	–0.2	–0.2	–0.1	–0.1	–0.2	–0.1	–0.2	–0.2	–	–
Up to 1 month	Principal	–	–	–	–	–	–	–	–	–	–	–	–	–
	Interest	–0.9	–0.2	–0.2	–0.2	–0.2	–0.1	–0.1	–0.2	–0.1	–0.2	–0.2	–	–
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)		–1,083.2	–1,100.2	–1,050.4	–1,038.8	–1,037.9	–1,024.7	–864.8	–849.5	–860.3	–896.1	–935.0	–974.6	–989.3
Up to 1 month	Principal	–50.8	–492.3	–6.3	–13.9	–5.9	–210.0	–55.2	–3.7	–5.2	–8.2	–8.5	–28.7	–39.9
	Interest	–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months	Principal	–616.8	–149.6	–105.9	–273.2	–301.3	–91.2	–49.8	–73.5	–93.9	–119.7	–160.6	–642.4	–625.3
	Interest	–	–11.4	–3.9	–	–	–	–	–	–	–	–	–	–
More than 3 months and up to 1 year	Principal	–348.3	–405.4	–878.1	–647.8	–604.6	–610.3	–630.5	–657.2	–660.3	–677.3	–650.3	–170.3	–207.1
	Interest	–67.4	–41.5	–56.2	–103.9	–126.1	–113.2	–129.4	–115.1	–100.9	–90.8	–115.6	–133.1	–117.0
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	–	–	–	–	–	–	–	–	–	–	–	–	–

		2008	2009											
		Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
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)		**–1,084.1**	**–1,100.4**	**–1,050.6**	**–1,039.0**	**–1,038.0**	**–1,024.9**	**–864.9**	**–849.7**	**–860.5**	**–896.2**	**–935.2**	**–974.6**	**–989.3**
III Contingent short-term net drains on f/c assets (nominal value)														
1 Contingent liabilities in foreign currency		–1,896.1	–1,401.3	–1,354.0	–1,399.0	–1,373.1	–1,409.6	–1,445.4	–1,400.5	–1,378.4	–1,459.0	–1,456.8	–1,424.8	–1,351.6
(a) Collateral guarantees on debt falling due within 1 year		–803.2	–800.3	–729.6	–784.7	–744.7	–781.3	–805.1	–761.9	–734.9	–803.6	–784.4	–756.3	–661.5
– Croatian National Bank		–	–	–	–	–	–	–	–	–	–	–	–	–
– Central government (excl. central government funds)		–803.2	–800.3	–729.6	–784.7	–744.7	–781.3	–805.1	–761.9	–734.9	–803.6	–784.4	–756.3	–661.5
Up to 1 month		–91.8	–7.0	–42.6	–31.3	–22.0	–120.4	–45.0	–19.6	–30.0	–34.3	–41.3	–197.6	–30.3
More than 1 and up to 3 months		–58.4	–90.5	–76.5	–252.0	–225.9	–113.6	–70.0	–76.8	–120.7	–306.0	–309.2	–108.3	–101.3
More than 3 months and up to 1 year		–652.9	–702.8	–610.5	–501.4	–496.7	–547.3	–690.1	–665.4	–584.2	–463.3	–433.9	–450.5	–529.8
(b) Other contingent liabilities		–1,092.9	–600.9	–624.4	–614.3	–628.4	–628.3	–640.2	–638.6	–643.5	–655.4	–672.4	–668.5	–690.1
– Croatian National Bank		–1,092.9	–600.9	–624.4	–614.3	–628.4	–628.3	–640.2	–638.6	–643.5	–655.4	–672.4	–668.5	–690.1
Up to 1 month		–	–	–	–	–	–	–	–	–	–	–	–	–
More than 1 and up to 3 months		–1,092.9	–600.9	–624.4	–614.3	–628.4	–628.3	–640.2	–638.6	–643.5	–655.4	–672.4	–668.5	–690.1
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)		**–1,896.1**	**–1,401.3**	**–1,354.0**	**–1,399.0**	**–1,373.1**	**–1,409.6**	**–1,445.4**	**–1,400.5**	**–1,378.4**	**–1,459.0**	**–1,456.8**	**–1,424.8**	**–1,351.6**
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		–6.1	–0.5	–0.8	–2.5	–0.5	–	–3.5	–1.5	–	–	–	–1.0	–
– 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		478.6	568.5	707.2	528.2	847.3	866.2	623.0	267.7	301.0	275.6	512.4	743.4	766.5
(e) Financial derivative assets (net, marked to market)		–	–	–	–	–	–	–	–	–	–	–	–	–
(f) Currency composition of official reserves assets														
– Currencies in SDR basket		9,120.8	8,674.6	8,557.7	8,869.5	8,885.0	8,788.5	9,090.0	9,030.9	9,292.2	9,317.6	9,540.8	10,145.4	10,375.7
– Currencies not in SDR basket		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1
– By individual currencies	USD	2,064.6	1,861.8	1,814.3	1,842.2	1,816.6	1,759.1	1,932.0	1,870.1	1,855.7	1,801.0	1,845.4	2,516.2	2,461.8
	EUR	7,054.9	6,811.3	6,742.0	7,025.9	7,066.9	7,028.0	7,156.7	7,159.4	7,139.6	7,185.7	7,367.2	7,300.6	7,581.5
	Other	1.5	1.6	1.4	1.4	1.5	1.4	1.4	1.4	296.9	330.9	328.3	328.7	332.5

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 (IA) 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 (II1) 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 (II2) include future collections (+) or payments (–) arising from currency swaps between the CNB and domestic banks (temporary sale or purchase of foreign currency). Item Other (II3) 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 (III1) 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 IB 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
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	
2009		7.339554				4.861337	8.233112	5.280370	
2009	January	7.362986				4.930391	7.982449	5.529454	
	February	7.431246				4.983357	8.365523	5.802756	
	March	7.426911				4.936146	8.096949	5.710075	
	April	7.417872				4.893342	8.243502	5.624643	
	May	7.358491				4.867836	8.305715	5.408127	
	June	7.303089				4.825087	8.502475	5.208034	
	July	7.319051				4.815732	8.499728	5.197322	
	August	7.322721				4.802812	8.497132	5.140614	
	September	7.314846				4.828248	8.215257	5.030900	
	October	7.244857				4.786519	7.906241	4.890609	
	November	7.283676				4.822430	8.110227	4.885203	
	December	7.292240				4.850202	8.096641	4.979623	

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
2000		7.598334	0.552192	1.158359	0.392421	4.989712	12.176817	8.155344	3.884966
2001		7.370030	0.535601	1.123554	0.380630	4.977396	12.101856	8.356043	3.768237
2002		7.442292				5.120256	11.451442	7.145744	
2003		7.646909				4.901551	10.860544	6.118506	
2004		7.671234				4.971314	10.824374	5.636883	
2005		7.375626				4.744388	10.753209	6.233626	
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	
2009		7.306199				4.909420	8.074040	5.089300	
2009	January	7.373294				4.958837	8.179825	5.724163	
	February	7.403887				4.980416	8.286387	5.838567	
	March	7.457249				4.920977	8.015100	5.660151	
	April	7.425124				4.932326	8.283271	5.610218	
	May	7.326488				4.841398	8.388468	5.204211	
	June	7.292035				4.774461	8.596057	5.204507	
	July	7.333135				4.792272	8.592846	5.209672	
	August	7.326773				4.827550	8.326825	5.107545	
	September	7.288341				4.824479	7.922110	4.999548	
	October	7.225837				4.788811	8.049278	4.867522	
	November	7.317610				4.855747	8.055493	4.905880	
	December	7.306199				4.909420	8.074040	5.089300	

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 2005 = 100

Year	Month	Nominal effective exchange rate of the kuna	Real effective exchange rate of the kuna; deflator	
			Consumer price index	Producer price index
2000	December	109.87	110.36	106.71
2001	December	107.12	107.17	105.38
2002	December	104.68	105.19	102.47
2003	December	104.01	104.83	102.55
2004	December	100.45	101.04	98.72
2005	December	100.86	100.37	101.96
2006	December	98.14	97.62	100.58
2007	December	95.59	92.77	97.41
2008	December	95.57	91.37	93.42
2009	January	97.88	91.90	94.91
	February	99.62	93.36	95.83
	March	99.21	93.05	95.88
	April	98.81	92.36	94.54
	May	97.41	91.14	92.78
	June	96.10	90.14	91.31
	July	96.22	90.38	90.27
	August	96.04	90.57	90.04
	September	95.51	90.25	89.82
	October	94.21	89.13	89.08
	November	94.60	89.22	89.67
	December	95.07	90.39	90.20

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 versus the euro, US dollar, Swiss franc and pound sterling. The basic CNB methodology for the calculation of both the nominal and real effective exchange rates of the kuna is described in Box 2 in the CNB Bulletin No. 64 (October 2001) and was first modified in 2004 (see the CNB Bulletin No. 94, June 2004). Starting with the CNB Bulletin No. 157 (March 2010), the presented time series of indices of the effective exchange rates of the kuna have been calculated based on the weights reflecting the structure of the current account (ITRS data) in the period from January 2006 to December 2009. The euro was assigned a 77.6% weight, the US dollar a 20.6% weight, the pound sterling a 0.9% weight and the Swiss franc a weight of 0.8%. The time series of basic indices were recalculated on the basis of 2005.

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 prices (the ratio of price indices in partner countries and domestic prices). Producer price indices, 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 for the period until and including December 1997 and consumer price indices for the period 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

in million EUR

	2008	2009											
	Dec.[a,b]	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.[b]	Sep.	Oct.	Nov.	Dec.
1 Government	4,167.3	4,183.2	3,658.4	3,666.6	3,664.9	3,630.0	4,108.6	4,067.1	4,103.5	4,121.9	4,124.8	5,151.0	5,190.9
Short-term	32.1	29.8	26.4	23.6	22.7	17.7	14.6	14.6	8.8	6.0	3.1	0.1	0.1
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	31.7	28.8	25.9	23.1	20.2	17.3	14.4	11.5	8.7	5.8	2.9	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	0.4	0.9	0.4	0.6	2.5	0.4	0.2	3.1	0.2	0.2	0.2	0.1	0.1
Principal arrears	0.0	0.5	0.0	0.1	0.5	0.0	0.0	2.9	0.0	0.1	0.1	0.1	0.1
Interest arrears	0.4	0.4	0.4	0.5	2.0	0.4	0.2	0.2	0.2	0.2	0.2	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	4,135.2	4,153.5	3,632.0	3,643.0	3,642.2	3,612.2	4,094.0	4,052.5	4,094.6	4,116.0	4,121.7	5,151.0	5,190.8
Bonds	2,562.4	2,566.4	2,021.5	2,000.4	1,982.9	1,975.0	2,444.4	2,434.4	2,473.3	2,501.1	2,511.7	3,533.5	3,594.6
Credits	1,572.0	1,586.3	1,609.8	1,641.8	1,658.6	1,636.5	1,649.0	1,617.4	1,620.6	1,614.1	1,609.3	1,616.8	1,595.6
Trade credits	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	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	2.1	2.0	2.0	1.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Short-term	2.3	2.2	2.1	2.0	2.0	1.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1
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	2.3	2.2	2.1	2.0	2.0	1.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	10,063.9	10,430.0	10,018.0	10,053.1	10,346.3	10,422.3	10,376.9	10,203.8	10,109.9	10,205.6	10,061.7	9,889.5	10,680.3
Short-term	3,793.1	4,045.2	3,654.4	2,975.3	3,103.4	3,318.2	3,150.3	3,195.0	3,149.6	2,907.2	2,643.1	2,598.4	3,098.8
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	1,121.1	1,173.9	922.2	777.9	794.8	915.4	786.1	662.5	653.6	890.4	672.3	698.8	813.8
Currency and deposits	2,670.3	2,865.3	2,731.1	2,196.3	2,307.5	2,400.7	2,362.9	2,531.4	2,494.9	2,015.4	1,969.9	1,898.8	2,283.9
Other debt liabilities	1.7	6.0	1.2	1.1	1.1	2.1	1.4	1.1	1.1	1.5	0.9	0.8	1.2
Principal arrears	0.0	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	1.7	1.7	1.2	1.1	1.1	2.1	1.4	1.1	1.1	1.5	0.9	0.8	1.2
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	6,270.8	6,384.8	6,363.5	7,077.7	7,242.9	7,104.1	7,226.5	7,008.7	6,960.3	7,298.3	7,418.6	7,291.0	7,581.5
Bonds	440.8	442.4	443.6	442.7	444.0	445.2	445.5	0.0	0.0	0.0	0.0	0.0	0.0
Credits	3,375.0	3,308.1	3,409.0	3,381.4	3,380.6	3,102.5	3,266.0	3,243.1	3,249.1	3,243.3	3,455.0	3,470.6	3,538.8
Currency and deposits	2,455.0	2,634.3	2,510.9	3,253.6	3,418.3	3,556.4	3,515.0	3,765.6	3,711.3	4,055.0	3,963.6	3,820.5	4,042.7
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
4 Other sectors	20,133.0	20,267.4	20,382.0	20,378.2	20,599.0	20,686.0	20,834.6	20,873.1	20,937.8	21,497.3	21,562.8	21,534.3	21,393.4
Short-term	984.0	1,012.3	994.9	995.2	981.2	1,012.3	1,185.2	1,104.4	1,095.9	1,130.8	1,090.8	1,153.0	1,284.6
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	724.3	707.8	686.5	686.1	662.7	668.8	831.4	738.4	736.9	741.3	685.9	696.6	593.5
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	37.0	36.6	39.0	39.2	42.7	42.3	42.1	32.3	32.3	36.8	39.0	35.6	27.9
Other debt liabilities	222.7	267.9	269.3	269.9	275.7	301.2	311.7	333.6	326.7	352.7	365.9	420.9	663.2
Principal arrears	172.5	205.9	209.2	208.5	212.4	237.3	242.3	259.9	258.9	279.5	289.9	338.7	538.7

	2008	2009											
	Dec.[a,b]	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.[b]	Sep.	Oct.	Nov.	Dec.
Interest arrears	50.2	62.0	60.2	61.4	63.3	64.0	69.5	73.8	67.8	73.2	76.1	82.1	124.5
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	19,149.0	19,255.1	19,387.1	19,383.0	19,617.8	19,673.7	19,649.4	19,768.7	19,841.8	20,366.5	20,472.0	20,381.2	20,108.8
Bonds	1,195.1	1,203.7	1,194.3	1,194.1	1,200.8	1,200.3	1,187.7	1,172.4	1,178.2	1,444.0	1,450.8	1,353.7	1,689.9
Credits	17,603.9	17,657.3	17,830.2	17,835.4	18,065.7	18,165.0	18,150.6	18,250.7	18,330.6	18,607.5	18,689.4	18,708.0	18,137.4
Currency and deposits	10.6	5.8	5.9	5.7	5.7	1.8	1.8	1.8	1.7	0.0	0.0	0.0	0.0
Trade credits	339.4	388.3	356.7	347.9	345.6	306.7	309.3	343.8	331.4	314.9	331.9	319.5	281.5
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
5 Direct investment	5,949.8	6,116.4	6,265.2	6,208.4	6,365.5	6,459.4	6,501.5	6,519.4	7,209.1	7,026.0	7,042.0	7,009.8	7,324.8
Short-term	1,318.2	1,373.9	1,326.5	1,286.8	1,249.5	1,223.1	1,242.4	1,311.3	1,325.3	1,325.8	1,281.6	1,309.9	446.0
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	1,227.4	1,286.9	1,245.6	1,204.8	1,166.6	1,139.1	1,155.4	1,220.9	1,235.0	1,240.1	1,198.7	1,225.5	344.1
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	90.9	87.0	80.9	82.0	82.9	84.0	87.0	90.4	90.3	85.7	82.9	84.4	101.9
Principal arrears	69.0	66.8	60.8	58.2	61.6	62.7	64.4	68.3	68.6	64.0	62.0	63.4	78.7
Interest arrears	21.9	20.2	20.1	23.8	21.2	21.3	22.7	22.1	21.7	21.6	20.9	21.0	23.2
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	4,631.6	4,742.6	4,938.7	4,921.6	5,116.0	5,236.3	5,259.1	5,208.1	5,883.9	5,700.2	5,760.4	5,699.9	6,878.8
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	4,630.1	4,741.1	4,933.1	4,916.0	5,110.4	5,230.7	5,253.6	5,202.6	5,878.4	5,694.7	5,754.9	5,694.5	6,877.8
Trade credits	1.5	1.5	5.6	5.6	5.6	5.5	5.5	5.5	5.5	5.5	5.5	5.5	1.0
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
Total (1+2+3+4+5)	**40,316.3**	**40,999.3**	**40,325.6**	**40,308.3**	**40,977.7**	**41,199.7**	**41,822.7**	**41,664.4**	**42,361.4**	**42,851.9**	**42,792.3**	**43,585.6**	**44,590.5**

[a] From January 2009 on, the data of non-banking financial institutions and non-financial enterprises are processed with the help of the new reporting system (INOK) which uses market interest rates to calculate the balance and the schedule of interest payments. The comparable balance as at 31 December 2008 has been calculated by applying the same methodology.
[b] Data include the growth in the direct investment debt which comprises the round tripping and which in turn increased the external debt of the Republic of Croatia. The stated investments in the Republic of Croatia were realised through the conclusion of credit transactions in December 2008 (EUR 825.7m) and August 2009 (EUR 666.5m).

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 accrued 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

in million EUR

	2008	2009											
	Dec.[a,b]	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.[b]	Sep.	Oct.	Nov.	Dec.
1 Public sector	10,425.2	10,627.5	10,169.3	10,134.6	10,225.7	10,167.6	10,659.8	10,694.3	10,760.1	11,237.8	11,237.2	12,160.5	12,231.6
Short-term	237.0	227.1	254.9	205.4	222.4	217.3	239.7	240.1	219.9	215.2	218.1	214.3	135.5
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	215.8	205.2	233.3	183.8	199.9	177.5	200.5	197.0	180.2	176.8	173.5	170.7	90.9
Currency and deposits	2.3	2.2	2.1	2.0	2.0	1.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1
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	19.7	19.6	19.6	20.5	37.9	38.1	42.0	38.6	37.4	43.5	42.5	43.5
Principal arrears	14.8	15.4	15.0	15.2	15.2	34.2	34.6	38.3	34.9	33.9	39.8	39.0	39.8
Interest arrears	4.1	4.3	4.6	4.4	5.3	3.7	3.5	3.7	3.7	3.5	3.8	3.5	3.8
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	10,186.5	10,398.7	9,912.7	9,927.5	10,001.6	9,948.6	10,418.4	10,452.5	10,538.5	11,020.9	11,017.5	11,921.1	11,922.6
Bonds	3,656.3	3,666.7	3,111.5	3,094.8	3,083.6	3,076.3	3,539.6	3,513.6	3,557.7	3,841.6	3,859.0	4,887.2	4,930.8
Credits	6,232.2	6,396.9	6,497.7	6,536.8	6,617.9	6,611.9	6,614.0	6,639.5	6,693.1	6,909.2	6,871.2	6,757.4	6,731.3
Currency and deposits	10.6	5.8	5.9	5.7	5.7	1.8	1.8	1.8	1.7	0.0	0.0	0.0	0.0
Trade credits	287.4	329.4	297.7	290.3	294.4	258.7	263.0	297.7	286.0	270.2	287.3	276.6	260.4
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	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.6	25.1	173.5
2 Publicly guaranteed private sector	64.1	44.5	39.7	38.0	38.2	37.8	38.0	10.3	10.3	9.1	9.2	9.2	9.2
Short-term	0.0	4.5	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
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	4.5	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	4.3	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	0.2	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	64.1	40.0	39.7	38.0	38.2	37.8	38.0	10.3	10.3	9.1	9.2	9.2	9.2
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	64.1	40.0	39.7	38.0	38.2	37.8	38.0	10.3	10.3	9.1	9.2	9.2	9.2
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	29,827.0	30,327.3	30,116.6	30,135.7	30,713.8	30,994.3	31,125.0	30,959.9	31,590.9	31,605.0	31,546.0	31,415.9	32,349.7
Short-term	4,574.5	4,857.8	4,422.8	3,790.8	3,886.8	4,132.9	4,111.6	4,075.0	4,035.5	3,829.9	3,520.0	3,538.3	4,249.1
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	1,661.3	1,705.3	1,401.4	1,303.3	1,277.7	1,424.0	1,431.4	1,215.5	1,219.0	1,460.7	1,187.6	1,224.7	1,316.4
Currency and deposits	2,670.3	2,865.3	2,731.1	2,196.3	2,307.5	2,400.7	2,362.9	2,531.4	2,494.9	2,015.4	1,969.9	1,898.8	2,283.9
Trade credits	37.0	36.6	39.0	39.2	42.7	42.3	42.1	32.3	32.3	36.8	39.0	35.6	27.9
Other debt liabilities	205.9	250.6	251.4	252.0	258.8	265.9	275.2	295.8	289.4	317.0	323.5	379.2	621.0
Principal arrears	157.7	190.9	194.2	193.4	197.7	203.1	207.8	224.5	224.0	245.7	250.2	299.8	499.1
Interest arrears	48.2	59.7	57.1	58.6	61.1	62.8	67.4	71.3	65.3	71.3	73.3	79.4	121.9
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	19,304.4	19,354.7	19,430.3	20,138.2	20,463.2	20,403.7	20,513.6	20,367.2	20,348.0	20,750.8	20,985.6	20,892.9	20,949.3
Bonds	542.0	545.9	548.0	542.4	544.1	544.2	537.9	93.3	93.8	103.6	103.4	0.0	353.6
Credits	16,254.6	16,114.9	16,311.6	16,283.8	16,448.9	16,254.3	16,413.6	16,461.5	16,496.9	16,546.7	16,873.3	17,028.8	16,531.3
Currency and deposits	2,455.0	2,634.3	2,510.9	3,253.6	3,418.3	3,556.4	3,515.0	3,765.6	3,711.3	4,055.0	3,963.6	3,820.5	4,042.7
Trade credits	52.8	59.7	59.8	58.3	51.9	48.7	47.1	46.8	46.1	45.5	45.3	43.6	21.8
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	5,948.1	6,114.7	6,263.5	6,206.7	6,363.8	6,457.7	6,499.8	6,517.7	7,207.4	7,024.3	7,040.4	6,984.7	7,151.3
Total (1+2+3)	**40,316.3**	**40,999.3**	**40,325.6**	**40,308.3**	**40,977.7**	**41,199.7**	**41,822.7**	**41,664.4**	**42,361.4**	**42,851.9**	**42,792.3**	**43,585.6**	**44,590.5**

[a] From January 2009 on, the data of non-banking financial institutions and non-financial enterprises are processed with the help of the new reporting system (INOK) which uses market interest rates to calculate the balance and the schedule of interest payments. The comparable balance as at 31 December 2008 has been calculated by applying the same methodology.
[b] Data include the growth in the direct investment debt which comprises the round tripping and which in turn increased the external debt of the Republic of Croatia. The stated investments in the Republic of Croatia were realised through the conclusion of credit transactions in December 2008 (EUR 825.7m) and August 2009 (EUR 666.5m).

Table H14 Gross external debt by domestic sectors and projected future payments

in million EUR

	Gross external debt 31/12/2009	Immediate	Projected future principal payments											
			Q1/2010	Q2/2010	Q3/2010	Q4/2010	2010	2011	2012	2013	2014	2015	2016	2017	Other
1 Government	5,190.9	0.1	667.3	56.7	99.8	64.2	887.9	921.6	155.4	140.4	603.9	931.6	90.1	70.9	1,389.0
Short-term	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
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	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
Principal 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
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	5,190.8	0.0	667.3	56.7	99.8	64.2	887.9	921.6	155.4	140.4	603.9	931.6	90.1	70.9	1,389.0
Bonds	3,594.6	0.0	632.2	0.0	26.0	0.0	658.2	729.2	0.0	0.0	483.5	679.6	0.0	0.0	1,044.1
Credits	1,595.6	0.0	35.1	56.6	73.8	64.1	229.6	192.3	155.3	140.3	120.4	251.9	89.9	70.9	344.9
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	0.0	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
2 Croatian National Bank	1.1	0.0	1.1	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	1.1	0.0	1.1	0.0	0.0	0.0	1.1	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	1.1	0.0	1.1	0.0	0.0	0.0	1.1	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	10,680.3	1.2	2,856.7	576.3	838.6	664.7	4,936.4	2,459.3	1,329.2	464.4	475.2	45.3	290.9	41.3	637.1
Short-term	3,098.8	1.2	2,552.4	238.8	155.7	150.7	3,097.7	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	813.8	0.0	720.7	88.1	5.0	0.0	813.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	2,283.9	0.0	1,831.7	150.7	150.7	150.7	2,283.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	1.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	0.0	0.0	0.0	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	1.2	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
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	7,581.5	0.0	304.3	337.6	682.9	514.0	1,838.8	2,459.3	1,329.2	464.4	475.2	45.3	290.9	41.3	637.1
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	3,538.8	0.0	44.8	83.2	428.6	263.4	820.0	883.0	483.3	464.4	475.2	45.3	290.9	41.3	35.5
Currency and deposits	4,042.7	0.0	259.5	254.3	254.3	250.6	1,018.8	1,576.3	845.9	0.0	0.0	0.0	0.0	0.0	601.6
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Other sectors	21,393.4	663.2	1,348.3	1,521.9	994.5	1,054.9	4,919.5	3,373.5	2,054.4	2,250.3	1,008.4	871.3	1,306.0	1,342.8	3,603.9

	Gross external debt 31/12/2009	Immediate	Projected future principal payments											
			Q1/2010	Q2/2010	Q3/2010	Q4/2010	2010	2011	2012	2013	2014	2015	2016	2017	Other
Short-term	1,284.6	663.2	180.9	300.7	101.6	35.1	618.4	3.0	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	593.5	0.0	180.9	300.7	73.7	35.1	590.5	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	27.9	0.0	0.0	0.0	27.9	0.0	27.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt liabilities	663.2	663.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal arrears	538.7	538.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	124.5	124.5	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	20,108.8	0.0	1,167.4	1,221.1	892.8	1,019.8	4,301.1	3,370.5	2,054.4	2,250.3	1,008.4	871.3	1,306.0	1,342.8	3,603.9
Bonds	1,689.9	0.0	39.0	0.0	0.0	18.3	57.3	318.3	296.6	29.9	29.9	29.9	380.6	547.3	0.0
Credits	18,137.4	0.0	1,055.1	1,173.0	820.1	965.4	4,013.7	3,006.5	1,756.4	2,216.3	978.4	841.4	925.4	795.5	3,603.9
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	0.0	0.0
Trade credits	281.5	0.0	73.3	48.1	72.7	36.0	230.2	45.7	1.5	4.1	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
5 Direct investment	7,324.8	101.9	552.1	439.2	188.6	1,515.8	2,695.6	1,247.0	653.9	317.3	257.0	153.0	240.5	122.3	1,536.3
Short-term	446.0	101.9	105.6	156.4	19.4	60.6	342.1	2.0	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	344.1	0.0	105.6	156.4	19.4	60.6	342.1	2.0	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	101.9	101.9	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	78.7	78.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest arrears	23.2	23.2	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
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	6,878.8	0.0	446.5	282.8	169.2	1,455.1	2,353.5	1,245.0	653.9	317.3	257.0	153.0	240.5	122.3	1,536.3
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	6,877.8	0.0	446.2	282.8	169.2	1,454.9	2,353.0	1,244.8	653.7	317.1	257.0	153.0	240.5	122.3	1,536.3
Trade credits	1.0	0.0	0.3	0.0	0.0	0.2	0.5	0.2	0.2	0.2	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
Total (1+2+3+4+5)	**44,590.5**	**766.4**	**5,425.5**	**2,594.1**	**2,121.4**	**3,299.6**	**13,440.6**	**8,001.3**	**4,192.9**	**3,172.4**	**2,344.5**	**2,001.2**	**1,927.4**	**1,577.3**	**7,166.4**
Supplement: Projected interest payments			121.1	262.1	197.8	293.4	874.4	877.5	668.9	584.3	484.3	378.1	298.1	223.9	648.4

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 accrued 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

in million EUR

	2008	2009											
	Dec.[a]	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Other sectors	**20,133.0**	**20,267.4**	**20,382.0**	**20,378.2**	**20,599.0**	**20,686.0**	**20,834.6**	**20,873.1**	**20,937.8**	**21,497.3**	**21,562.8**	**21,534.3**	**21,393.4**
Short-term	984.0	1,012.3	994.9	995.2	981.2	1,012.3	1,185.2	1,104.4	1,095.9	1,130.8	1,090.8	1,153.0	1,284.6
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	724.3	707.8	686.5	686.1	662.7	668.8	831.4	738.4	736.9	741.3	685.9	696.6	593.5
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	37.0	36.6	39.0	39.2	42.7	42.3	42.1	32.3	32.3	36.8	39.0	35.6	27.9
Other debt liabilities	222.7	267.9	269.3	269.9	275.7	301.2	311.7	333.6	326.7	352.7	365.9	420.9	663.2
Principal arrears	172.5	205.9	209.2	208.5	212.4	237.3	242.3	259.9	258.9	279.5	289.9	338.7	538.7
Interest arrears	50.2	62.0	60.2	61.4	63.3	64.0	69.5	73.8	67.8	73.2	76.1	82.1	124.5
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	19,149.0	19,255.1	19,387.1	19,383.0	19,617.8	19,673.7	19,649.4	19,768.7	19,841.8	20,366.5	20,472.0	20,381.2	20,108.8
Bonds	1,195.1	1,203.7	1,194.3	1,194.1	1,200.8	1,200.3	1,187.7	1,172.4	1,178.2	1,444.0	1,450.8	1,353.7	1,689.9
Credits	17,603.9	17,657.3	17,830.2	17,835.4	18,065.7	18,165.0	18,150.6	18,250.7	18,330.6	18,607.5	18,689.4	18,708.0	18,137.4
Currency and deposits	10.6	5.8	5.9	5.7	5.7	1.8	1.8	1.8	1.7	0.0	0.0	0.0	0.0
Trade credits	339.4	388.3	356.7	347.9	345.6	306.7	309.3	343.8	331.4	314.9	331.9	319.5	281.5
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
1.1 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	5,222.4	5,149.9	5,169.9	5,175.8	5,253.9	5,272.5	5,247.1	5,219.5	5,253.5	5,566.4	5,598.6	5,582.7	5,406.8
Short-term	176.7	168.1	184.8	183.1	157.4	141.3	268.4	272.4	286.7	305.0	299.3	319.4	311.7
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	171.4	162.9	179.5	178.4	152.2	136.3	263.3	267.3	282.1	300.6	294.6	309.1	307.0
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	5.3	5.2	5.3	4.8	5.2	5.1	5.1	5.1	4.6	4.3	4.7	10.4	4.7
Principal arrears	1.4	1.3	1.3	1.3	1.6	1.6	1.5	1.5	1.2	1.2	1.3	6.5	1.3
Interest arrears	3.9	4.0	4.0	3.4	3.6	3.5	3.5	3.7	3.4	3.2	3.4	3.8	3.3
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	5,045.8	4,981.8	4,985.2	4,992.6	5,096.5	5,131.2	4,978.7	4,947.0	4,966.8	5,261.5	5,299.3	5,263.3	5,095.1
Bonds	796.3	800.0	788.2	791.5	795.8	797.9	788.7	784.8	788.0	1,042.5	1,047.2	1,051.9	1,032.1
Credits	4,238.9	4,176.0	4,191.0	4,195.4	4,295.0	4,331.5	4,188.3	4,160.5	4,177.0	4,219.0	4,252.1	4,211.4	4,063.0
Currency and deposits	10.6	5.8	5.9	5.7	5.7	1.8	1.8	1.8	1.7	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
1.3 Public enterprises	4,870.6	5,055.1	5,103.6	5,062.5	5,050.2	5,010.7	5,037.0	5,113.8	5,108.6	5,320.5	5,312.4	5,188.6	5,170.4
Short-term	202.6	195.2	196.0	149.5	167.4	167.2	167.7	168.0	154.1	152.5	158.0	157.1	78.3
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	184.1	176.4	177.2	130.5	149.4	129.7	129.9	129.1	115.8	115.3	114.7	114.7	34.8

	2008	2009											
	Dec.[a]	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
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	18.6	18.7	18.8	19.0	18.0	37.5	37.8	38.8	38.3	37.2	43.3	42.5	43.4
Principal arrears	14.8	14.9	14.9	15.1	14.8	34.2	34.5	35.4	34.8	33.8	39.7	38.9	39.7
Interest arrears	3.7	3.8	3.9	3.9	3.3	3.3	3.3	3.5	3.5	3.3	3.6	3.5	3.8
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	4,667.9	4,860.0	4,907.6	4,913.0	4,882.8	4,843.5	4,869.4	4,945.8	4,954.5	5,168.1	5,154.4	5,031.4	5,092.2
Bonds	297.6	300.2	301.7	302.8	304.8	303.4	306.6	294.4	296.3	297.9	300.1	301.8	304.2
Credits	4,083.8	4,231.1	4,308.9	4,320.6	4,284.2	4,282.2	4,300.5	4,354.4	4,372.9	4,600.7	4,567.7	4,453.8	4,528.3
Trade credits	286.6	328.6	296.9	289.6	293.7	257.9	262.2	297.0	285.3	269.4	286.6	275.9	259.7
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
1.4 Mixed enterprises	0.0	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
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
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
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
1.5 Other enterprises	9,774.4	9,793.4	9,838.9	9,871.4	10,026.0	10,134.6	10,272.5	10,264.5	10,292.8	10,329.4	10,378.1	10,490.6	10,541.9
Short-term	600.3	644.6	610.5	657.7	651.4	696.7	723.2	637.8	621.0	638.1	599.0	641.9	860.1
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	366.7	366.4	328.5	374.6	358.4	397.9	414.8	318.5	307.4	292.7	244.8	240.9	219.6
Trade credits	37.0	36.6	39.0	39.2	42.7	42.3	42.1	32.3	32.3	36.8	39.0	35.6	27.9
Other debt liabilities	196.7	241.7	243.0	243.9	250.3	256.4	266.3	287.1	281.3	308.6	315.3	365.4	612.5
Principal arrears	154.1	187.5	190.8	189.9	193.9	199.3	203.7	220.4	220.3	242.0	246.2	290.7	495.1
Interest arrears	42.5	54.2	52.2	54.1	56.4	57.1	62.6	66.6	61.0	66.6	69.1	74.7	117.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	9,174.1	9,148.8	9,228.4	9,213.6	9,374.5	9,438.0	9,549.4	9,626.6	9,671.8	9,691.3	9,779.0	9,848.7	9,681.9
Bonds	101.2	103.5	104.4	99.7	100.1	99.0	92.4	93.3	93.8	103.6	103.4	0.0	353.6
Credits	9,023.3	8,988.9	9,067.2	9,058.5	9,225.3	9,292.9	9,412.4	9,488.9	9,534.1	9,544.2	9,632.2	9,806.9	9,308.3
Trade credits	49.5	56.5	56.8	55.4	49.1	46.1	44.6	44.5	43.9	43.4	43.4	41.8	20.0
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
1.6 Non-profit institutions	2.8	2.8	2.8	2.6	2.6	2.6	2.5	2.5	2.6	2.4	2.4	2.5	2.3
1.7 Craftsmen and sole traders	17.1	16.7	16.4	15.8	15.3	14.8	14.3	13.9	13.5	13.0	12.6	12.3	11.4
1.8 Households	245.8	249.5	250.4	250.2	251.0	250.7	261.0	259.0	266.9	265.6	258.7	257.7	260.5

[a] From January 2009 on, the data of non-banking financial institutions and non-financial enterprises are processed with the help of the new reporting system (INOK) which uses market interest rates to calculate the balance and the schedule of interest payments. The comparable balance as at 31 December 2008 has been calculated by applying the same methodology.

Table H16 International investment position – summary[a,b]

in million EUR

	2005	2006	2007	2008	2009[c]	2009			
						Q1	Q2	Q3	Q4[c]
1 International investment position (net)	–20,227.6	–30,060.0	–39,698.8	–35,295.5	–39,216.8	–36,948.7	–38,518.3	–39,077.7	–39,216.8
2 Assets	16,061.4	18,154.2	21,433.8	22,263.6	24,122.0	19,780.6	21,022.7	23,094.7	24,122.0
2.1 Direct investment abroad	1,729.8	1,833.3	2,365.1	3,513.8	4,059.9	3,518.8	3,474.8	4,100.8	4,059.9
2.2 Portfolio investment	2,155.7	2,487.0	3,257.1	2,643.3	3,360.2	2,251.8	2,533.7	2,729.8	3,360.2
2.2.1 Equity securities	379.6	559.4	1,756.7	660.8	773.4	494.1	616.7	719.3	773.4
2.2.2 Debt securities	1,776.1	1,927.6	1,500.4	1,982.5	2,586.8	1,757.7	1,917.0	2,010.5	2,586.8
Bonds	1,628.9	1,536.2	1,220.0	1,600.1	1,878.2	1,392.5	1,608.5	1,579.0	1,878.2
Money market instruments	147.1	391.4	280.4	382.4	708.6	365.1	308.5	431.6	708.6
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	4,737.6	5,108.5	6,504.2	6,985.5	6,326.1	5,140.6	5,924.2	6,946.5	6,326.1
2.4.1 Trade credits	262.9	230.5	248.9	224.7	122.2	156.6	154.0	143.9	122.2
2.4.2 Loans	146.2	239.5	296.4	435.9	373.4	404.9	362.8	359.8	373.4
2.4.3 Currency and deposits	4,328.5	4,638.3	5,958.9	6,324.9	5,830.6	4,579.1	5,407.4	6,442.9	5,830.6
2.4.4 Other assets	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.5 Reserve assets (CNB)	7,438.4	8,725.3	9,307.4	9,120.9	10,375.8	8,869.5	9,090.1	9,317.7	10,375.8
3 Liabilities	36,289.0	48,214.2	61,132.7	57,559.1	63,338.8	56,729.3	59,541.1	62,172.4	63,338.8
3.1 Direct investment in Croatia	12,332.0	20,782.0	30,611.5	22,827.3	25,407.7	22,062.1	23,624.9	25,682.3	25,407.7
3.2 Portfolio investment	5,530.4	5,441.6	5,949.1	4,882.6	5,949.8	4,204.6	4,672.5	4,609.4	5,949.8
3.2.1 Equity securities	646.5	1,036.8	1,524.9	617.4	665.4	567.3	594.9	664.2	665.4
3.2.2 Debt securities	4,883.8	4,404.8	4,424.2	4,265.2	5,284.4	3,637.2	4,077.6	3,945.2	5,284.4
Bonds	4,883.8	4,404.8	4,424.2	4,265.2	5,284.4	3,637.2	4,077.6	3,945.2	5,284.4
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3 Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.4 Other investment	18,426.6	21,990.6	24,572.1	29,849.2	31,981.3	30,462.7	31,243.7	31,880.7	31,981.3
3.4.1 Trade credits	249.5	244.9	337.8	367.5	333.8	388.5	372.9	371.8	333.8
3.4.2 Loans	14,541.4	17,347.4	20,088.8	24,343.4	25,319.5	24,616.2	24,989.6	25,437.2	25,319.5
3.4.3 Currency and deposits	3,635.6	4,398.4	4,145.5	5,138.3	6,328.1	5,457.9	5,881.1	6,071.8	6,328.1
3.4.4 Other assets	0.0	0.0	0.0	0.0	0.0	0.0	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] Data also include the round tripping which increases direct investment in Croatia and direct investment abroad by the same amount. This type of direct investment was recorded in December 2008 (EUR 825.7m) and August 2009 (EUR 666.5m). Accordingly, they impact the stock of direct investment in Croatia and direct investment abroad from these months onwards. [c] 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[a]
in million EUR

	2005	2006	2007	2008	2009[b]	2009			
						Q1	Q2	Q3	Q4[b]
Direct investment (net)	**–10,602.2**	**–18,948.7**	**–28,246.4**	**–19,313.6**	**–21,347.8**	**–18,543.3**	**–20,150.1**	**–21,581.5**	**–21,347.8**
1 Abroad	1,729.8	1,833.3	2,365.1	3,513.8	4,059.9	3,518.8	3,474.8	4,100.8	4,059.9
1.1 Equity capital and reinvested earnings	1,610.5	1,725.2	2,264.1	3,324.0	3,964.7	3,405.4	3,386.9	4,028.9	3,964.7
1.1.1 Claims	1,610.5	1,725.2	2,264.1	3,324.0	3,964.7	3,405.4	3,386.9	4,028.9	3,964.7
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	119.3	108.2	101.0	189.7	95.1	113.4	87.9	71.9	95.1
1.1.1 Claims	138.0	144.8	175.4	220.2	217.0	218.9	221.4	221.0	217.0
1.2.2 Liabilities	18.7	36.6	74.4	30.5	121.9	105.6	133.4	149.1	121.9
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	12,332.0	20,782.0	30,611.5	22,827.3	25,407.7	22,062.1	23,624.9	25,682.3	25,407.7
2.1 Equity capital and reinvested earnings	9,920.2	17,961.2	26,777.2	17,046.2	18,249.1	15,991.3	17,277.5	18,822.6	18,249.1
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	9,920.2	17,961.2	26,777.2	17,046.2	18,249.1	15,991.3	17,277.5	18,822.6	18,249.1
2.2 Other capital	2,411.8	2,820.7	3,834.3	5,781.1	7,158.5	6,070.8	6,347.4	6,859.7	7,158.5
2.2.1 Claims	20.1	21.1	24.2	24.3	44.4	32.0	20.7	17.3	44.4
2.2.2 Liabilities	2,431.9	2,841.8	3,858.5	5,805.4	7,202.9	6,102.8	6,368.1	6,876.9	7,202.9
2.3 Financial derivatives (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

[a] Data also include the round tripping which increases direct investment in Croatia and direct investment abroad by the same amount. This type of direct investment was recorded in December 2008 (EUR 825.7m) and August 2009 (EUR 666.5m). Accordingly, they impact the stock of direct investment in Croatia and direct investment abroad from these months onwards. [b] Preliminary data.

Table H18 International investment position – portfolio investment[a]
in million EUR

	2005	2006	2007	2008	2009[b]	2009			
						Q1	Q2	Q3	Q4[b]
Portfolio investment (net)	**–3,374.7**	**–2,954.6**	**–2,692.0**	**–2,239.3**	**–2,589.7**	**–1,952.8**	**–2,138.8**	**–1,879.6**	**–2,589.7**
1 Assets	2,155.7	2,487.0	3,257.1	2,643.3	3,360.2	2,251.8	2,533.7	2,729.8	3,360.2
1.1 Equity securities	379.6	559.4	1,756.7	660.8	773.4	494.1	616.7	719.3	773.4
1.1.1 Banks	5.9	6.7	8.3	11.6	12.8	12.9	10.2	11.9	12.8
1.1.2 Other sectors	373.7	552.7	1,748.4	649.2	760.6	481.1	606.5	707.4	760.6
1.2 Debt securities	1,776.1	1,927.6	1,500.4	1,982.5	2,586.8	1,757.7	1,917.0	2,010.5	2,586.8
2 Liabilities	5,530.4	5,441.6	5,949.1	4,882.6	5,949.8	4,204.6	4,672.5	4,609.4	5,949.8
2.1 Equity securities	646.5	1,036.8	1,524.9	617.4	665.4	567.3	594.9	664.2	665.4
2.1.1 Banks	84.0	145.0	164.6	70.5	66.3	64.5	63.7	74.6	66.3
2.1.2 Other sectors	562.6	891.8	1,360.3	547.0	599.1	502.8	531.2	589.6	599.1
2.2 Debt securities	4,883.8	4,404.8	4,424.2	4,265.2	5,284.4	3,637.2	4,077.6	3,945.2	5,284.4
2.2.1 Bonds	4,883.8	4,404.8	4,424.2	4,265.2	5,284.4	3,637.2	4,077.6	3,945.2	5,284.4
2.2.1.1 General government	3,663.4	3,109.1	2,756.9	2,621.9	3,594.6	2,000.4	2,444.4	2,501.1	3,594.6
2.2.1.2 Banks	456.6	457.9	459.0	456.8	0.0	442.7	445.5	0.0	0.0
2.2.1.3 Other sectors	763.9	837.8	1,208.3	1,186.4	1,689.9	1,194.1	1,187.7	1,444.0	1,689.9
2.2.2 Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2.2.1 Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	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]

in million EUR

	2005	2006	2007	2008	2009[b]	2009			
						Q1	Q2	Q3	Q4[b]
Other investment (net)	**–13,689.0**	**–16,882.1**	**–18,067.8**	**–22,863.7**	**–25,655.1**	**–25,322.1**	**–25,319.5**	**–24,934.2**	**–25,655.1**
1 Assets	4,737.6	5,108.5	6,504.2	6,985.5	6,326.1	5,140.6	5,924.2	6,946.5	6,326.1
1.1 Trade credits	262.9	230.5	248.9	224.7	122.2	156.6	154.0	143.9	122.2
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	262.9	230.5	248.9	224.7	122.2	156.6	154.0	143.9	122.2
Long-term	190.9	177.5	228.8	202.6	98.7	142.0	130.7	118.3	98.7
Short-term	72.0	53.0	20.1	22.1	23.4	14.6	23.3	25.6	23.4
1.2 Loans	146.2	239.5	296.4	435.9	373.4	404.9	362.8	359.8	373.4
1.2.1 Croatian National Bank	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Long-term	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
1.2.2 General government	0.0	0.0	0.0	0.0	0.4	0.4	0.4	0.4	0.4
Long-term	0.0	0.0	0.0	0.0	0.4	0.4	0.4	0.4	0.4
1.2.3 Banks	113.2	188.5	214.8	285.3	267.2	292.8	262.0	270.8	267.2
Long-term	85.3	140.0	160.0	193.6	230.8	206.0	199.2	221.4	230.8
Short-term	27.9	48.5	54.8	91.7	36.4	86.8	62.9	49.4	36.4
1.2.4 Other sectors	32.3	50.4	81.1	150.0	105.2	111.1	99.9	88.0	105.2
Long-term	32.0	50.2	81.0	146.8	105.0	110.1	97.0	87.2	105.0
Short-term	0.3	0.2	0.1	3.3	0.3	1.0	2.9	0.7	0.3
1.3 Currency and deposits	4,328.5	4,638.3	5,958.9	6,324.9	5,830.6	4,579.1	5,407.4	6,442.9	5,830.6
1.3.2 General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.3.3 Banks	3,112.2	3,499.9	4,715.1	4,863.6	4,442.9	3,156.8	3,984.1	4,655.0	4,442.9
1.3.4 Other sectors	1,216.3	1,138.3	1,243.8	1,461.3	1,387.7	1,422.3	1,423.3	1,787.8	1,387.7
1.4 Other assets	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Liabilities	18,426.6	21,990.6	24,572.1	29,849.2	31,981.3	30,462.7	31,243.7	31,880.7	31,981.3
2.1 Trade credits	249.5	244.9	337.8	367.5	333.8	388.5	372.9	371.8	333.8
2.1.1 General government	2.6	1.9	1.2	0.7	0.7	0.7	0.7	0.7	0.7
Long-term	2.6	1.9	1.2	0.7	0.7	0.7	0.7	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	246.9	243.0	336.6	366.7	333.1	387.8	372.2	371.0	333.1
Long-term	219.1	207.0	305.5	327.2	305.2	348.6	330.1	334.2	305.2
Short-term	27.8	35.9	31.1	39.5	27.9	39.2	42.1	36.8	27.9
2.2 Loans	14,541.4	17,347.4	20,088.8	24,343.4	25,319.5	24,616.2	24,989.6	25,437.2	25,319.5
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	2,486.7	2,559.0	2,613.7	1,574.6	1,595.7	1,665.5	1,663.6	1,620.1	1,595.7
Long-term	2,486.7	2,559.0	2,613.7	1,542.9	1,595.7	1,642.4	1,649.2	1,614.3	1,595.7
Short-term	0.0	0.0	0.0	31.7	0.0	23.1	14.4	5.8	0.0
2.2.3 Banks	4,889.2	5,368.9	4,276.8	4,496.7	4,353.4	4,160.1	4,053.1	4,134.8	4,353.4
Long-term	3,822.9	4,217.4	3,565.2	3,374.7	3,538.8	3,381.4	3,266.2	3,243.5	3,538.8
Short-term	1,066.3	1,151.6	711.7	1,122.0	814.6	778.7	786.9	891.3	814.6
2.2.4 Other sectors	7,165.5	9,419.4	13,198.2	18,272.0	19,370.4	18,790.7	19,272.9	19,682.3	19,370.4
Long-term	6,964.8	9,187.2	12,371.2	17,589.5	18,716.1	18,048.2	18,383.7	18,882.8	18,716.1
Short-term	200.8	232.2	827.1	682.5	654.3	742.5	889.3	799.4	654.3
2.3 Currency and deposits	3,635.6	4,398.4	4,145.5	5,138.3	6,328.1	5,457.9	5,881.1	6,071.8	6,328.1
2.3.1 Croatian National Bank	2.6	2.6	2.3	2.3	1.1	2.0	1.1	1.1	1.1
2.3.2 Banks	3,633.0	4,395.8	4,143.2	5,125.5	6,327.0	5,450.2	5,878.2	6,070.7	6,327.0
2.3.3 Other sectors	0.0	0.0	0.0	10.6	0.0	5.7	1.8	0.0	0.0
2.4 Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	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.

I Government finance

Table I1 Consolidated central government according to the government level[a]

in million HRK

	2008	2009										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
1 REVENUE (A+B)	10,507.1	8,177.2	8,458.8	10,185.6	10,633.6	7,875.3	9,003.7	10,024.2	9,536.9	9,860.2	9,874.4	9,459.5
A) Budgetary central government	9,754.2	7,978.4	8,146.9	9,894.4	10,258.5	7,616.7	8,723.2	9,604.4	9,219.0	9,551.5	9,427.5	9,186.7
B) Extrabudgetary users	752.9	198.8	311.8	291.3	375.0	258.6	280.6	419.7	317.9	308.7	446.9	272.8
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	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	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	0.0	0.0
4 Croatian Waters	264.8	122.3	114.0	176.7	154.5	129.9	149.4	204.0	205.3	175.4	220.5	126.5
5 Fund for Environmental Protection and Energy Efficiency	140.8	63.9	88.5	97.5	63.1	118.6	102.5	86.2	108.0	98.5	91.0	131.0
6 Croatian Motorways Ltd.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7 Croatian Roads Ltd.	13.1	3.4	5.0	11.0	9.9	4.3	6.2	9.4	3.1	9.5	21.2	5.3
8 State Agency for Deposit Insurance and Bank Rehabilitation	330.0	7.6	103.7	4.9	146.6	0.3	15.5	115.7	0.5	18.8	113.3	9.8
9 Croatian Privatisation Fund	4.2	1.7	0.8	1.3	0.8	5.6	7.1	4.3	1.0	6.5	1.0	0.2
2 EXPENSE (A+B)	14,868.8	8,905.8	9,731.3	10,927.8	10,923.8	9,394.4	10,038.3	10,271.8	9,655.9	10,424.5	9,276.9	9,900.1
A) Budgetary central government	13,821.6	8,653.8	9,519.8	10,448.4	10,575.2	9,032.6	9,600.5	9,818.3	9,206.0	10,002.4	8,892.9	9,570.8
B) Extrabudgetary users	1,047.2	252.0	211.4	479.4	348.7	361.8	437.8	453.5	449.9	422.1	384.0	329.3
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	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	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	0.0	0.0
4 Croatian Waters	337.2	80.8	62.1	128.5	174.2	145.4	218.6	177.1	183.4	183.3	127.9	109.8
5 Fund for Environmental Protection and Energy Efficiency	191.2	39.0	63.1	96.1	61.5	106.6	81.9	125.4	65.1	123.1	152.3	92.8
6 Croatian Motorways Ltd.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7 Croatian Roads Ltd.	293.0	103.1	59.0	223.4	84.0	79.9	104.1	122.9	173.4	86.0	74.8	97.4
8 State Agency for Deposit Insurance and Bank Rehabilitation	214.5	22.7	22.1	22.6	23.8	24.0	23.9	22.2	22.4	22.6	22.0	22.0
9 Croatian Privatisation Fund	11.2	6.4	5.2	8.8	5.2	6.0	9.3	5.9	5.7	7.2	7.0	7.2
NET/GROSS OPERATING BALANCE (1–2)	–4,361.7	–728.5	–1,272.5	–742.2	–290.3	–1,519.1	–1,034.5	–247.7	–119.0	–564.3	597.5	–440.6
3 CHANGE IN NET WORTH: TRANSACTIONS (3.1+3.2-3.3)	–4,361.7	–728.5	–1,272.5	–742.2	–290.3	–1,519.1	–1,034.5	–247.7	–119.0	–564.3	597.5	–440.6
3.1 CHANGE IN NET ACQUISITION OF NON-FINANCIAL ASSETS	1,176.2	90.3	145.7	422.0	152.7	182.5	232.4	330.4	334.9	254.6	240.8	228.8
Acquisition	1,230.6	116.9	163.7	457.6	184.0	206.7	258.3	351.3	364.1	290.2	266.7	249.5
A) Budgetary central government	946.9	85.6	124.0	265.5	135.1	123.4	184.3	257.5	179.2	198.3	174.8	178.0
B) Extrabudgetary users	283.7	31.3	39.8	192.1	48.9	83.2	74.0	93.8	184.9	91.9	91.9	71.5
Disposals	54.4	26.6	18.0	35.5	31.3	24.1	25.8	20.9	29.1	35.6	25.9	20.6
A) Budgetary central government	41.6	24.7	17.9	28.9	23.4	22.9	25.4	20.6	27.1	35.1	25.8	20.4
B) Extrabudgetary users	12.8	1.9	0.2	6.7	7.9	1.2	0.5	0.3	2.0	0.5	0.1	0.2
NET LENDING/BORROWING (1-2–3.1)	–5,537.9	–818.8	–1,418.2	–1,164.2	–443.0	–1,701.6	–1,267.0	–578.1	–453.9	–818.9	356.8	–669.5
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING) (3.3–3.2)	5,537.9	818.8	1,418.2	1,164.2	443.0	1,701.6	1,267.0	578.1	453.9	818.9	–356.8	669.5
3.2 CHANGE IN NET ACQUISITION OF FINANCIAL ASSETS	–1,762.8	1,598.7	–1,253.6	1,101.3	1,425.8	–1,664.9	1,414.4	–342.1	162.7	242.0	563.3	4,228.6
3.2.1 Domestic	–1,762.8	1,598.7	–1,253.6	1,101.3	1,425.8	–1,664.9	1,413.5	–342.1	162.7	242.0	563.3	4,228.7
A) Budgetary central government	–1,806.7	1,550.1	–1,395.4	829.3	1,309.8	–1,572.5	1,495.1	–323.7	71.7	329.3	447.0	4,197.4
B) Extrabudgetary users	43.9	48.6	141.8	272.1	116.0	–92.3	–81.6	–18.4	91.0	–87.3	116.3	31.3
3.2.2 Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A) Budgetary central government	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0

	2008	2009										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
B) Extrabudgetary users	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
3.2.3 Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3 CHANGE IN NET INCURRENCE OF LIABILITIES	3,775.1	2,417.5	164.6	2,265.5	1,868.8	36.7	2,681.4	236.0	616.6	1,060.9	206.6	4,898.1
3.3.1 Domestic	3,701.8	2,780.5	3,837.4	2,222.4	1,671.9	61.3	–1,615.9	703.7	564.4	1,041.6	172.2	–2,538.0
A) Budgetary central government	3,289.9	2,787.3	3,839.3	1,677.5	1,687.3	65.3	–1,589.7	737.6	365.6	1,073.9	190.3	–2,534.0
B) Extrabudgetary users	411.8	–6.8	–2.0	545.0	–15.4	–4.0	–26.2	–33.9	198.8	–32.3	–18.1	–4.0
3.3.2 Foreign	73.3	–363.0	–3,672.8	43.1	196.9	–24.5	4,297.3	–467.8	52.3	19.2	34.4	7,436.1
A) Budgetary central government	83.7	–439.8	–3,684.1	27.7	115.5	–29.1	4,243.1	–494.3	8.6	4.7	12.4	7,376.6
B) Extrabudgetary users	–10.4	76.8	11.3	15.4	81.4	4.6	54.1	26.5	43.7	14.5	22.0	59.5

[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]

in million HRK

	2008	2009										
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
1 REVENUE	9,757.8	7,979.6	8,146.9	9,894.4	10,258.5	7,616.7	8,723.2	9,604.4	9,220.2	9,551.5	9,430.0	9,186.7
1.1 Taxes	5,353.5	4,301.0	4,502.4	4,743.6	6,275.5	4,169.5	4,944.5	5,680.7	5,567.2	5,732.0	5,716.8	5,509.4
1.2 Social contributions	3,713.9	3,333.1	3,250.8	3,329.5	3,378.7	3,257.6	3,353.4	3,526.9	3,296.4	3,285.7	3,283.7	3,230.2
1.3 Grants	52.7	86.4	57.1	44.0	82.2	47.1	8.1	29.4	51.9	21.9	22.4	35.4
1.4 Other revenue	637.7	259.0	336.6	1,777.2	522.1	142.5	417.3	367.5	304.8	511.9	407.1	411.7
2 EXPENSE	14,032.8	8,716.1	9,591.5	10,533.6	10,639.8	9,124.9	9,721.6	9,934.6	9,370.6	10,137.6	9,036.7	9,674.4
2.1 Compensation of employees	2,828.2	2,644.3	2,672.5	2,625.1	2,640.6	2,551.0	2,547.0	2,810.9	2,498.8	2,553.6	2,525.5	2,518.0
2.2 Use of goods and services	1,666.3	518.8	480.4	857.8	666.2	594.3	638.2	671.9	535.4	560.8	483.6	553.8
2.3 Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4 Interest	484.2	257.8	752.8	856.4	416.9	334.3	369.4	201.4	355.8	624.4	104.5	314.2
2.5 Subsidies	1,012.2	304.7	509.8	728.4	1,076.9	507.7	528.3	510.5	353.4	710.1	316.3	735.6
2.6 Grants	976.0	290.1	315.9	396.2	533.4	389.7	454.3	523.1	486.9	563.7	455.6	438.6
2.7 Social benefits	5,827.6	4,464.1	4,365.6	4,690.5	4,813.4	4,306.3	4,752.9	4,715.0	4,634.7	4,694.6	4,713.3	4,728.2
2.8 Other expense	1,238.3	236.3	494.5	379.3	492.4	441.6	431.5	501.8	505.6	430.4	437.9	386.1
3 CHANGE IN NET WORTH: TRANSACTIONS	–4,275.1	–736.5	–1,444.6	–639.3	–381.3	–1,508.2	–998.5	–330.2	–150.4	–586.1	393.3	–487.7
3.1 Change in net acquisition of non-financial assets	905.3	60.9	106.1	236.6	111.7	100.5	158.9	236.9	152.1	163.2	149.0	157.6
3.1.1 Fixed assets	799.3	56.3	91.1	228.9	104.0	94.7	148.2	203.4	135.9	148.8	149.0	156.2
3.1.2 Inventories	67.1	0.0	0.0	1.4	–0.1	–0.4	4.0	11.7	19.0	0.0	0.0	0.0
3.1.3 Valuables	0.5	0.6	0.2	0.6	3.0	1.0	0.4	0.6	0.0	0.6	0.9	1.0
3.1.4 Non-produced assets	38.4	4.0	14.8	5.7	4.9	5.2	6.4	21.2	–2.8	13.8	–0.9	0.3
3.2 Change in net acquisition of financial assets	–1,806.7	1,550.1	–1,395.4	829.3	1,309.8	–1,572.5	1,496.0	–323.7	71.7	329.3	447.0	4,197.4
3.2.1 Domestic	–1,806.7	1,550.1	–1,395.4	829.3	1,309.8	–1,572.5	1,495.1	–323.7	71.7	329.3	447.0	4,197.4
3.2.2 Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
3.2.3 Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.3 Change in net incurrence of liabilities	3,373.6	2,347.5	155.3	1,705.2	1,802.8	36.2	2,653.4	243.3	374.2	1,078.6	202.7	4,842.6
3.3.1 Domestic	3,289.9	2,787.3	3,839.3	1,677.5	1,687.3	65.3	–1,589.7	737.6	365.6	1,073.9	190.3	–2,534.0
3.3.2 Foreign	83.7	–439.8	–3,684.1	27.7	115.5	–29.1	4,243.1	–494.3	8.6	4.7	12.4	7,376.6

[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, in million HRK

	2008	2009											
	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1 Domestic debt of central government	67,996.8	70,549.1	74,464.9	76,932.6	77,921.0	77,630.5	77,433.9	77,712.5	78,138.2	78,828.7	78,843.5	77,119.1	78,170.0
1.1 Domestic debt of the Republic of Croatia	64,961.8	67,204.9	70,770.4	72,876.9	74,233.0	73,941.7	73,517.0	74,146.2	74,372.1	75,075.8	75,184.1	73,286.7	74,375.6
Treasury bills	14,440.7	14,156.1	14,161.6	15,066.2	14,593.8	14,809.9	15,390.5	15,465.6	15,663.3	16,912.8	17,158.0	17,421.8	18,802.5
Money market instruments	10.7	10.7	7.0	7.0	7.0	7.0	7.0	7.0	20.7	19.2	19.2	19.2	19.3
Bonds	39,306.7	39,478.1	39,142.8	39,079.7	39,168.1	38,903.6	39,608.9	39,670.6	39,262.9	39,112.4	39,140.6	39,286.2	39,271.2
Credits from the CNB	2.2	1.2	0.7	0.8	1.4	1.6	1.2	1.0	2.1	–	0.8	0.2	2.9
Credits from banks	11,201.5	13,558.8	17,458.2	18,723.2	20,462.6	20,219.6	18,509.4	19,002.0	19,423.2	19,031.4	18,865.4	16,559.2	16,279.8
1.2 Domestic debt of central government funds	3,035.0	3,344.2	3,694.5	4,055.7	3,688.1	3,688.8	3,916.8	3,566.3	3,766.1	3,752.9	3,659.5	3,832.4	3,794.4
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Credits from banks	3,035.0	3,344.2	3,694.5	4,055.7	3,688.1	3,688.8	3,916.8	3,566.3	3,766.1	3,752.9	3,659.5	3,832.4	3,794.4
2 External debt of central government	30,259.7	30,568.4	26,808.6	27,066.8	26,936.8	26,322.3	29,692.0	29,581.3	29,821.8	29,803.5	29,568.4	37,453.3	37,615.8
2.1 External debt of the Republic of Croatia	28,459.4	28,783.1	25,031.4	25,287.0	25,049.7	24,495.3	27,917.8	27,838.7	28,089.3	28,104.7	27,898.6	35,741.1	35,898.6
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	18,768.2	18,922.9	14,967.2	14,917.8	14,723.2	14,469.7	17,824.4	17,851.4	18,121.5	18,229.2	18,148.9	25,856.7	26,189.4
Credits	9,691.2	9,860.2	10,064.3	10,369.2	10,326.5	10,025.6	10,093.4	9,987.3	9,967.8	9,875.5	9,749.7	9,884.4	9,709.1
2.2 External debt of central government funds	1,800.3	1,785.4	1,777.2	1,779.7	1,887.1	1,827.0	1,774.2	1,742.6	1,732.5	1,698.8	1,669.7	1,712.2	1,717.2
Money market instruments	–	–	–	–	–	–	–	–	–	–	–	–	–
Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Credits	1,800.3	1,785.4	1,777.2	1,779.7	1,887.1	1,827.0	1,774.2	1,742.6	1,732.5	1,698.8	1,669.7	1,712.2	1,717.2
3 Total (1+2)	**98,256.5**	**101,117.5**	**101,273.5**	**103,999.4**	**104,857.8**	**103,952.8**	**107,125.9**	**107,293.7**	**107,960.0**	**108,632.2**	**108,411.9**	**114,572.4**	**115,785.8**
Supplement: Central government guaranteed debt													
– guarantees for domestic debt	13,299.2	13,518.7	13,570.9	13,983.7	13,772.7	13,920.8	13,863.7	13,799.6	14,414.2	14,285.9	14,364.0	16,063.1	15,692.5
– guarantees for external debt	31,406.6	32,157.8	32,268.5	32,158.3	32,892.9	32,804.8	32,673.6	33,139.4	33,269.3	36,595.5	36,245.9	35,795.7	35,002.0

[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 • The central government debt comprises the domestic and external debt.

The domestic debt of the central government is compiled from the MoF data on T-bills and bonds and the CNB data on money market instruments, credits from banks and credits from the CNB.

The stock of T-bills includes MoF T-bills denominated in kuna, eurobills and T-bills indexed to the euro with a maturity of up to one year. The stock of eurobills includes accrued interest. The difference between the nominal value and the issue value of T-bills denominated in kuna and of T-bills indexed to the euro is the accrued interest which is distributed over the life of instruments using the simple interest calculation method (i.e. in a linear manner) and the method of calculating the number of days where the actual number of days is divided by 360.

The stock of bonds includes central government bonds issued in the domestic market, MoF T-bills with a maturity of over one year and a share of total central government bonds issued in the foreign market which is held by resident institutional units at the end of the reporting period. The difference between the nominal value and the issue value of T-bills with a maturity of over one year is the accrued interest which is distributed over the life of instruments using the compound interest calculation method.

The stock of central government bonds includes accrued interest.

From January 2004 onwards, the stock of credits from banks includes both outstanding principal and accrued interest.

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. Bank statistical reports 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.

Irrespective of the notes under the heading “Classification and presentation of data on claims and liabilities”, the debt of the Croatian Roads, the Croatian Motorways and the State Agency for Deposit Insurance and Bank Rehabilitation, presented in this table under headings 2 External debt of central government and 1 Domestic debt of central government, has been reclassified from the subsector Republic of Croatia to the subsector central government funds from December 1998 and December 2002 onwards respectively.

J Non-financial statistics

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	
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	105.9
2008	December	112.8	112.2	114.7	99.4	99.1	100.5	98.7	102.9	102.4	104.3	104.3
2009	January	114.2	114.1	115.3	101.2	101.0	102.2	99.9	103.4	102.9	105.6	101.8
	February	114.9	114.9	115.7	100.6	100.7	100.3	100.2	104.2	103.9	105.4	101.8
	March	115.2	115.2	115.6	100.2	100.3	99.9	98.8	103.8	103.5	105.0	99.9
	April	116.0	116.4	115.3	100.8	101.0	99.8	100.5	103.9	103.7	104.4	99.9
	May	116.0	116.3	115.7	100.0	99.9	100.3	100.6	102.7	102.4	104.2	99.3
	June	116.1	116.1	116.9	100.1	99.8	101.0	100.9	102.1	101.6	103.8	99.0
	July	115.3	114.7	118.4	99.3	98.7	101.3	100.6	101.2	100.5	104.0	97.2
	August	115.2	114.5	118.9	99.9	99.8	100.4	100.8	101.5	100.8	103.9	98.2
	September	115.0	114.5	117.3	99.8	100.1	98.7	99.3	101.0	100.3	103.8	97.7
	October	115.1	114.8	116.9	100.1	100.2	99.6	99.8	101.3	100.5	104.0	98.6
	November	115.6	115.4	117.1	100.4	100.5	100.2	100.1	101.8	101.3	104.0	100.2
	December	114.9	114.5	117.3	99.4	99.3	100.2	100.0	101.9	101.3	103.9	101.6

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			Year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
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	December	113.3	113.5	112.5	99.4	99.3	100.2	104.2	104.0	105.0
2009	January	113.2	113.3	112.9	99.9	99.8	100.4	104.2	104.1	104.3
	February	113.4	113.4	113.6	100.2	100.1	100.6	104.3	104.3	104.4

Year	Month	Basic indices, 2005 = 100[a]			Chain indices			Year-on-year indices		
		Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
	March	113.9	114.1	113.0	100.5	100.6	99.5	104.2	104.4	103.6
	April	115.4	115.9	112.7	101.3	101.6	99.7	104.8	105.1	103.2
	May	115.8	116.3	113.3	100.4	100.3	100.6	104.1	104.4	102.8
	June	116.2	116.3	115.4	100.3	100.0	101.8	103.4	103.6	102.3
	July	115.4	114.9	117.9	99.3	98.8	102.2	102.9	103.0	102.4
	August	115.1	114.4	118.6	99.7	99.5	100.6	102.3	102.3	102.3
	September	114.8	114.6	115.7	99.7	100.1	97.5	101.5	101.4	102.2
	October	115.1	115.1	114.7	100.3	100.5	99.1	101.4	101.2	102.3
	November	115.0	115.0	114.9	99.9	99.8	100.3	100.9	100.6	102.4
	December	113.6	113.3	115.2	98.8	98.6	100.2	100.2	99.8	102.4

[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
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	December	5,410.0	100.3	109.1	107.0
2009	January	5,307.0	98.1	105.7	105.7
	February	5,230.0	98.6	104.8	105.3
	March	5,367.0	102.6	106.5	105.6
	April	5,295.0	98.7	105.1	105.5
	May	5,326.0	100.6	102.9	105.0
	June	5,370.0	100.8	103.9	104.8
	July	5,308.0	98.8	101.4	104.3
	August	5,267.0	99.2	101.6	103.9
	September	5,236.0	99.4	100.6	103.6
	October	5,279.0	100.8	100.3	103.2
	November	5,385.0	102.0	99.8	102.9
	December	5,362.0	99.6	99.1	102.6

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
2000	October	–20.9	3.5	–32.2	–26.2	1.2	–22.0	5.7	26.9	–48.3	–63.6
2001	October	–27.0	–11.4	–35.6	–29.6	–10.0	–35.9	–12.7	22.9	–41.3	–62.3
2002	October	–25.2	–8.3	–29.3	–22.6	–5.1	–31.2	–11.5	20.1	–34.1	–64.0
2003	October	–22.2	–4.5	–25.0	–21.5	–2.6	–26.5	–6.4	14.7	–27.1	–65.2
2004	October	–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	December	–42.0	–33.3	–40.9	–30.7	–25.9	–51.8	–40.6	43.4	–40.3	–57.9
2009	January	–40.8	–31.3	–35.8	–23.1	–18.5	–50.0	–44.0	49.1	–34.4	–51.7
	February	–44.1	–31.3	–41.7	–30.4	–20.8	–55.8	–41.7	56.6	–38.9	–57.4
	March	–45.3	–35.0	–41.7	–31.1	–23.8	–57.7	–46.1	59.6	–36.4	–51.6
	April	–44.3	–32.2	–43.6	–32.0	–20.7	–58.3	–43.6	54.3	–40.6	–58.6
	May	–38.9	–26.5	–39.2	–31.5	–16.6	–54.4	–36.4	47.8	–31.7	–54.6
	June	–45.0	–32.4	–42.4	–33.4	–21.7	–60.3	–43.1	55.5	–33.6	–59.7
	July	–47.7	–39.2	–46.0	–38.0	–30.2	–62.2	–48.2	56.4	–37.7	–56.0
	August	–52.3	–44.5	–50.0	–39.9	–34.8	–65.5	–54.2	61.5	–44.7	–58.5
	September	–40.8	–27.6	–44.7	–36.3	–20.4	–59.7	–34.7	48.0	–38.2	–60.1
	October	–41.0	–25.1	–46.8	–35.8	–18.2	–62.3	–31.9	57.1	–42.2	–56.9
	November	–40.2	–24.6	–42.3	–35.2	–18.0	–52.7	–31.2	53.8	–39.1	–57.8
	December	–46.8	–32.7	–47.6	–35.7	–22.6	–64.5	–42.8	63.9	–42.5	–58.0

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:

$$I_i = \sum_{z}^{k} r_i \cdot w_i$$

where: r is the value of the response, w is the share of respondents opting for a particular response (weight), i question from the 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
b.p. – basis points
BIS – Bank for International Settlements
c.i.f. – cost, insurance and freight
CBRD – Croatian Bank for Reconstruction and Development
CBA – Croatian Banking Association
CBS – Central Bureau of Statistics
CCE – Croatian Chamber of Economy
CEE – Central and Eastern European
CES – Croatian Employment Service
CICR – currency-induced credit risk
CIHI – Croatian Institute for Health Insurance
CLVPS – Croatian Large Value Payment System
CPI – consumer price index
CPIA – Croatian Pension Insurance Administration
CPF – Croatian Privatisation Fund
CM – Croatian Motorways
CNB – Croatian National Bank
CR – Croatian Roads
EBRD – European Bank for Reconstruction and Development
EC – European Commission
ECB – European Central Bank
EFTA – European Free Trade Association
EMU – Economic and Monetary Union
EU – European Union
excl. – excluding
f/c – foreign currency
FDI – foreign direct investment
Fed – Federal Reserve System
FINA – Financial Agency
FISIM – financial intermediation services indirectly measured
f.o.b. – free on board
GDP – gross domestic product
GFS – Government Finance Statistics
GVA – gross value added
HANFA – Croatian Financial Services Supervisory Agency
HICP – harmonised index of consumer prices
IAS – International Accounting Standards
IASB – International Accounting Standards Board
IBRD – International Bank for Reconstruction and Development
IDB – Inter-American Development Bank
IFRS – International Financial Reporting Standards
ILO – International Labour Organization
IPO – initial public offering
IMF – International Monetary Fund
incl. – including
m – million
MIGs – main industrial groupings
MoF – Ministry of Finance
MRR – marginal reserve requirement
NCEA – National Classification of Economic Activities
NCS – National Clearing System
n.e.c. – not elsewhere classified
NPSC – National Payment System Committee
NUIR – net usable international reserves
OG – Official Gazette
OECD – Organisation for Economic Co-Operation and Development
OPEC – Organization of the Petroleum Exporting Countries
o/w – of which
PPI – producer price index
R – Republic
RC – Republic of Croatia
RR – reserve requirement
ROAA – return on average assets
ROAE – return on average equity
Q – quarter
SDR – special drawing rights
SITC – Standard International Trade Classification
VAT – value added tax
ZMM – Zagreb Money Market
ZSE – Zagreb Stock Exchange

Three-letter currency codes

ATS – Austrian schilling
CHF – Swiss franc
DEM – German mark
EUR – euro
FRF – French franc
GBP – pound sterling
HRK – Croatian kuna
ITL – Italian lira
JPY – Japanese yen
USD – US dollar
XDR – Special Drawing Rights

Symbols

– – no entry
.... – data not available
0 – value is less than 0.5 of the unit of measure being used
ø – average
a, b, c,... – indicates a note beneath the table and figure
( ) – incomplete or insufficiently verified data

ISSN 1331-6567 (print)
ISSN 1334-0107 (online)